gfr
Government Finance Review

Best Practices in Action

How the 2020 winners of GFOA's **Award for Excellence in Government Finance** are showcasing GFOA Best Practices to strengthen their communities and exemplify outstanding financial management.

+

Could public funds be better used if there were less local government fragmentation?

The "S" in ESG and the role of public pension funds

How two national treasurers used Business Process Improvement to drive results

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contents

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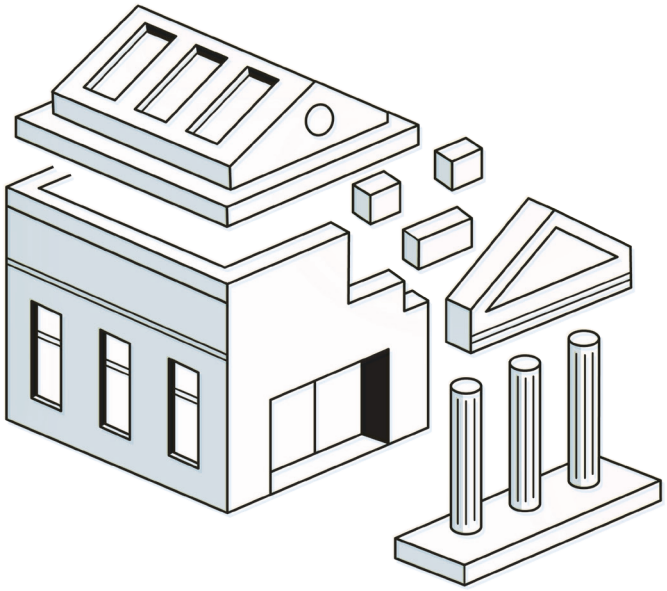
The 2020 winners of GFOA's Awards for Excellence in Government Finance exemplify outstanding financial management. Winners showcase work that goes above and beyond in overcoming challenges, implementing best practices, and developing innovative solutions. Here are this year's awardees—and their stories.



contents

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Jacqueline Dunn was appointed acting city treasurer for Philadelphia, Pennsylvania, in September 2020. Before that, she was the city's deputy city treasurer, overseeing the issuance of all notes and bonds on behalf of the city's general fund and enterprise funds used to finance capital projects. Dunn also serves as the director of finance's designee on the Philadelphia Board of Pensions and Retirement. In 2014, she joined the city as an assistant finance director in the Finance Department, and in 2016, she was appointed chief of staff to the director of finance.

Hagen Gurley is a Master of Accountancy candidate at the J.M. Tull School of Accounting, specializing in Advisory, at the University of Georgia. Hagen has spent the summer constructing Tableau dashboards visualizing local government revenues and expenditures at the city and county levels. In addition to interning with GFOA, Hagen has interned at the Lafayette Oxford Foundation for Tomorrow, where he was responsible for the annual grant processing for community nonprofit organizations and the Night for Non-Profits event where winners were showcased; and at the Tax Policy Group at Deloitte and the Monroe County Chamber of Commerce.

Catherine Jackson developed her expertise through nearly two decades of leading global sustainable ownership activities at PGGM, a Dutch pension fund manager, and before that at the Ontario Teachers' Pension Plan in Canada. At both organizations, she pioneered new practices and policies, influencing the global pension community. She has represented and furthered these funds' interests through industry organizations, including as Chair of the Investor Advisory Council to the Council for Institutional Investors in the US, and Chair of the Global Institutional Governance Network, and as chair of various committees at the International Corporate Governance Network (UK).

Shayne Kavanagh is the Senior Manager of Research for GFOA's Research and Consulting Center. He's been a leader in developing the practice and technique of long-term financial planning and policies for local government. Shayne's financial planning experience also drives his research at GFOA. He's written a number of influential publications on financial planning and a number of articles on long-term financial planning, financial policies, budget reform, using technology to improve efficiency, and related topics for magazines including *Government Finance Review*, *Public Management*, *School Business Affairs*, and *Public CIO*. Before joining GFOA, Shayne was the assistant village manager for the Village of Palos Park, Illinois.

Amy McDuffee founded Mosaic Governance Advisors. She specializes in strategic planning, policy development, board self-assessments, executive and consultant evaluations, benchmarking reviews, program assessments, trustee education and other related matters. Over her 20-year career, she has worked with over 40 public funds in 20 states, including public retirement systems, state investment boards, and state treasuries. She also works with nonprofit entities that provide health care and other post-employment benefits to state and local workers. Before founding Mosaic, Amy was a lead governance consultant within the Fiduciary Services Practice of Aon Hewitt Investment Consulting.

Francisco Ordaz' career extends for over 25 years in cash management, budget development, business process improvement, strategic planning and group facilitation. He has served in Florida, Utah, Texas, Virginia, and overseas within service areas with populations that range from 14,000 to 1.8 million, and consist of budgets ranging from $17 million to $5 billion. Francisco earned a Masters' Degree in Public Administration from Brigham Young University, a Master's Degree in Justice Policy and Management and a Master's Degree in Urban and Regional Planning from Florida Atlantic University.

Jamie Porter is an Ethan Allen, Harry Nalbandian, and Bob and Linda Livingston Fellow at the School of Public Affairs and Administration at the University of Kansas. During his undergraduate studies at the University of Iowa, Jamie was a management intern with the Iowa City Manager's Office, where he assisted with projects in urban development and the ADA compliance of Iowa City's parks. Jamie was also the policy and government affairs intern with the Iowa City Area Chamber of Commerce, where he researched and crafted policy for transportation, economic growth, and the local business community.

Isabella Romano is a graduate student at the University of Illinois Chicago College of Urban Planning and Public Administration. Before working with GFOA, she was a communications specialist for the Civic Federation; an assistant teacher at Miniapple International Montessori; and an A&E reporter for the Minnesota Daily.

Alexie Schwarz is pursuing a master's degree in Public Affairs at Indiana University's O'Neill School of Public and Environmental Affairs, with anticipated concentrations in Policy Analysis and Community and Economic Development. She is a graduate of New York University. Before working with GFOA, Schwarz was a public affairs fellow at the City of Bloomington Department of Public Works; a teacher assistant for the O'Neill School of Public and Environmental Affairs; and a student analyst at the NYU *Journal of Politics and International Affairs*.

Contribute

GFOA welcomes original content from members on topics relevant to government finance. If you are a finance officer, scholar, private consultant, or subject matter expert, consider sharing your expertise with us for use in a future issue.

Manuscripts should conform to the Editorial Policy and Guidelines for Authors, which are available online at **gfoa.org/gfr**.

Christopher P. Morrill
Executive Director/CEO

Looking Back at 2020

As we enter December, a time when we traditionally look back on the past year, there's no way to avoid the fact that 2020 was a period of unprecedented challenge, uncertainty, and loss. The COVID-19 pandemic has claimed hundreds of thousands of lives and millions of jobs, upended budgets, and threatened the financial stability of many organizations, both public and private. This year has also shined a light on some of our ugliest and most divisive tendencies. We have many things to confront in the year ahead—including polarized political ideology, over-politicization of science and evidenced-based public health recommendations, and a near constant attack on trust in our government—as we work to return to "normal," whenever that occurs.

Through it all, though, state and local government employees did what they do best—serve their communities. Emergency responders, medical workers, and public health professionals worked on the front lines to help fight a new and deadly disease. At the same time, as offices closed and many of us focused on working from home, we were reminded just how essential local governments are. Utility engineers, sanitation workers, transit operators, permit reviewers, maintenance workers, social service program coordinators, IT specialists, and more went to work and performed essential tasks. Others, like school administrators and teachers, quickly developed alternative strategies for remote learning programs and meeting the many other needs of at-risk children. And within the finance office, accountants, treasurers, budget analysts, buyers, and payroll managers reworked budget scenarios to prioritize limited resources, develop strategies for using CARES Act funding, find suppliers for personal protective equipment, manage cash flow, continue to provide timely financial reports, and provide leadership through this public health and financial crisis.

As CEO of an organization that represents more than 21,000 finance officers, I am proud of the way our members confronted this challenge. By being strategic, learning from each other, and employing best-practice approaches, governments have served their constituents through everything 2020 has thrown at us.

We at GFOA are proud of the ways in which we've been able to help governments be their best. Over the past year, for example, GFOA's award programs have continued to grow. More and more governments are meeting standards set by our Certificate of Achievement for Excellence in Financial Reporting, Distinguished Budget Presentation Award, and Popular Annual Financial Reporting Award than ever before.

Through it all, state and local government employees did what they do best—**serve their communities.**

GFOA also recognized eight entities with our Award for Excellence in Financial Management. These governments, which are profiled in this issue of *GFR*, provide model examples of GFOA Best Practices in action. And many other states and local governments continued working to create more effective and efficient operations, improve budget processes, modernize technologies, and find ways to better engage the public. At an individual level, more people will participate in GFOA training this year than ever before, demonstrating an impressive commitment to professional development.

Moving into the next year and those that follow, GFOA will continue to help our members confront new challenges and take advantage of new opportunities to lead, to restore our economy, and to build critical infrastructure for the future.

We look forward to helping our members prioritize resources in a way that values equity and supports the most vulnerable members of our society. And we look forward to helping our members with a strong focus on ethics, accountability, and transparency to help build trust. In short, we look forward to 2021 and the opportunities it brings.

All my best,

Chris

As the COVID-19 pandemic disrupted and claimed lives across the nation, first responders and essential state and local government employees worked on the front lines to keep our communities running during the crisis.

JUSTIN SULLIVAN/GETTY IMAGES; ALEXI ROSENFELD/GETTY IMAGES; JOE RAEDLE/GETTY IMAGES

rewind

A look back at *GFR* in **December 2007**

The December 2007 issue of *Government Finance Review* was dedicated to resiliency and disaster management. It was full of lessons to help local governments through bad times of all sorts, all of which remain useful. And who couldn't use an added dose of resiliency today?

The lead article, "Rebuilding a Resilient Nation" by Stephen E. Flynn, is a call to action. Flynn stated the obvious (keeping in mind that we need to be reminded frequently about such things) when he wrote that "we should make building technical, economic, social, and organizational resilience a top public policy priority at all levels of government." His piece specifically addressed natural and manmade disasters like Hurricane Katrina and 9/11—although he could have been talking about, for example, 2020's California wildfires—but the article made a nod to other types of disasters, noting the need to "bolster public-sector capacities including the professionals working in the areas of public safety, emergency management, public health, and public works." He added that "to achieve this, we must be willing to think large and act with dispatch." For his 2020 readers in the midst of the COVID-19 pandemic, truer words were (still) never spoken.

Flynn's explanation still gives us something to think about: "At the heart of the problem is that Americans and their elected leaders have been viewing the resilience imperative the wrong way. Some are fatalistic about catastrophic events and dismiss as futile any serious effort to anticipate and cope with disasters. Others see preparing for adversity as a trade-off between using limited resources to deal with pressing current needs, on the one hand, and buying down risk on contingencies that may never actually materialize on the other. Then there are those reflexive optimists who are averse to dedicating any time or energy to contemplating what can and should be done to prepare for future bumps in the road."

In the same issue of *GFR*, Shayne Kavanagh reviewed Flynn's book, *The Edge of Disaster: Rebuilding a Resilient Nation*, and noted that its essential message is that the United States has become a "brittle superpower" and that "lack of investment in our infrastructure and public services has made the country increasingly vulnerable to both man-made and natural disasters. This vulnerability is compounded by the interconnectedness of the modern economy, where a loss in capacity in one area of the country can send shockwaves through the rest of the nation." Add the word "pandemic" and you have something that very much addresses our situation in late 2020.

And Flynn did address the future spread of COVID-19, writing that "local public safety and health functions have become dangerously under-funded to the point here they would collapse under the weight of a major disaster... Public health systems are... frayed. For instance, hospitals in more than 40 percent of states do not have sufficient backup supplies of medical equipment to meet surge capacity needs during a pandemic flu or other major infectious disease outbreaks."

The article also provided some advice about how local officials can help make their communities more resilient. They can: "work with citizens and businesses to create awareness of the need for resiliency, making them aware of how they can contribute to resiliency, and actively including appropriate constituencies in local preparedness planning and training." They can "coordinate with other governments to develop a joint plan for responding to regional disasters and more effectively sharing resources." They can "advocate with state and local officials to address regional weaknesses." And they can "take direct action to strengthen infrastructure that is under local control."

In Brief

ETHICS ADVISORY GROUP

GFOA Develops Model Employment Agreement for Finance Officers

BY SHAYNE C. KAVANAGH

One of the focuses of the GFOA Ethics Advisory Group is making it easier for finance officers to resist pressure to act unethically. Research has shown that direction from authority figures can have a powerful influence over one's behavior, including pushing people into behaviors they know are wrong.[1] One strategy to counteract this is popularizing employment contracts for finance officers. A contract can provide protections like severance pay and guard against capricious termination. With these protections in place, finance officers may feel better supported in resisting suggestions to behave unethically from people in positions of power.

GFOA's Model Employment Agreement can help provide protection to finance officers who may be pressured to act unethically

The GFOA model employment contract will probably be most relevant to finance directors, chief financial officers, and other executive-level finance staff.

Therefore, GFOA has developed a model employment contract for finance officers. The contract is based on the International City/County Management Association (ICMA) model agreement for city managers. We worked with a professional

recruiter—Heidi Voorhees from GovHR, who has extensive experience with public finance officers—to customize the ICMA agreement to offer realistic provisions for finance officers. Some of the most salient features of this agreement include:

- Definitions of how the employee can be terminated
- Provision of severance pay for termination, other than for illegal conduct
- Recognizing the employee's commitment and requirement to uphold the GFOA Code of Ethics

Employment agreements are not common among public finance offers—yet. But GFOA believes the concept has great potential for CFOs, finance directors, and other executive-level finance staff for the following reasons:

- Employment agreements are not uncommon among finance officers in some segments of GFOA members. For example, it is not unusual for the CFOs of school districts to have employment agreements. GFOA sees no reason why finance officials for other types of local governments, like cities and counties, shouldn't have the same support for ethical behavior.
- Some GFOA members who work for general purpose governments have these agreements and have found them beneficial. For example, one such finance officer told GFOA: "It is extremely unusual for finance officers in my state to have an employment agreement, but I do. It has definitely given me a higher level of comfort, since I report to the elected mayor and city council."
- These agreements benefit the government board of local governments. Finance officers must give governing boards their best professional advice. An employment contract gives finance officers additional support for providing that advice.

As our profession seeks to make these agreements more commonplace, Voorhees shared some astute advice.

First, it is easier to secure an employment agreement in some situations than in others. These positions can be the starting point for making employment agreements more widespread:

- Finance officers moving long distances to take a job: "I am being asked to move my family and completely change my life—I need some assurances."
- Finance officers entering a position that historically has had a lot of turnover: "A history of high turnover in this position makes me hesitant to take the job, but an employment contract would ease those concerns."
- Finance officers hired directly by elected officials will probably find it easier to argue for an employment contract.

Second, the actual agreement the finance officer secures may not include everything in the GFOA model agreement, but the model provides candidates with prepared language to start with on topics like severance, etc. What hiring authorities do not want to have to do is pay out a contract—for example if a finance director has a three-year agreement and the government wants to fire them in 18 months, the government will not want to be tied to a situation where the director leaves with another 18 months of pay. A more acceptable provision would be a severance provision, which still provides some protection. The GFOA agreement is intended to be reasonable and realistic, and to avoid overreaching into the kind of provisions the recruiter warned against.

Finally, Voorhees reminded GFOA that finance directors are in high demand, so they are in a unique position to negotiate. We believe we should use this opportunity to strengthen our profession and build even stronger support for ethical behavior.

Download the Employment Agreement at **gfoa.org/materials/model-employment-agreement**

Shayne Kavanagh *is Senior Manager of Research for GFOA's Research and Consulting Center.*

1 The most well-known research is the Milgram experiments on obedience. See: en.wikipedia.org/wiki/Milgram_experiment.

GFOA COMMITTEES

Committee Update 2020

BY EMILY S. BROCK

Although 2020 has been tumultuous, we are happy to note that the process of applying for and selecting new committee members continued this year. GFOA President Marion Gee selected new committee members in September and charged them with creating and enhancing best practices and advisories to make sure they're applicable even in our new normal. We are excited to welcome the new cohort of committee members, and we encourage everyone who is interested in applying to keep an eye out in June for the application process to begin again.

We are also excited that the spirit of our Winter Meeting will continue. Each January, the GFOA's Federal Liaison Center is delighted to welcome standing committee members to the Washington Meeting. It is a great time for all the committee members to meet one another, accomplish the work of the committee, and mobilize as a "fly-in" to members of Congress and the administration. The purpose of being in Washington is having our stories heard to strengthen the federal-state-local partnerships and advocate for real federal policy change.

Because this year is different—in a million different ways—we will have a different type of Washington Meeting, as well. This year we will "zoom-in" to many of the same meetings which will likely include meetings with staff of FEMA, the United States Treasury, Homeland Security, and the US Secret Service (to name a few). Committee members continue to play a pivotal role in our relationship with our federal partners, and we will continue to provide those opportunities to our committee members in 2021.

GFOA COMMITTEES

Debt Committee Updates

BY EMILY S. BROCK

Throughout the pandemic, GFOA's Debt Committee has been meeting each Wednesday to discuss major federal initiatives as well as debt issuances happening at the local level. Even though this year is different, the committee was motivated to meet more frequently than usual to share information about happenings in Washington, D.C., and debt issuance at the local level. Regarding federal activity and advocacy, the committee's main focus is on the CARES Act's Coronavirus Relief Fund and the Federal Reserve's Municipal Liquidity Facility. Considering the broader market impacts of the pandemic and the necessity of continuity in providing public services, despite federal intervention, the Debt Committee has decided to focus on industry outreach to augment GFOA's efforts in several topic areas.

First, the committee has consistently identified key disclosure considerations for issuers in making public disclosures throughout our suite of best practices. In order to extend the application of our best practices, the debt committee founded the Disclosure Industry Workgroup (DIG for short). DIG brings together GFOA Debt Committee members and members of the National Federation of Municipal Analysts, National Association of Municipal Advisors, National Association of State Treasurers, and the National Association of Bond Lawyers. While DIG's initial intention was to create industry principles for disclosures (as opposed to regulation), the COVID-19 pandemic offered a secondary opportunity to extend its considerations to issuers making disclosures during the pandemic. After a significant and deliberate discussion across all represented organizations, GFOA Debt Committee representatives inserted several key elements of our best practices and advisories into the industry principles recommended by DIG. The workgroup's continued efforts include principles for ESG disclosures as well as cyber disclosure considerations. Both are on the debt committee's workplan for best practice consideration.

Additionally, the Debt Committee has prioritized communication about the cessation of LIBOR as a global benchmark interest rate and the necessity of transitioning to an alternative in financial contracts. In November, GFOA distributed a Member Alert about the Federal Reserve Bank's work to transition away from LIBOR as a reference rate in

many financial transactions. For state and local governments, this could mean financial contracts including swaps, floating rate notes, bank loans, and direct placements. As was noted in the Alert and Debt Committee advisories, governments should review their outstanding financial contracts to see where they may have LIBOR exposure. This is especially true regarding swap transactions (therefore, governments' existing swap contracts will need to be revised in order to reflect the new protocols, or governments should determine if other actions are needed). Swap transactions mostly adhere to the International Swaps and Derivatives Association protocols, which were updated in November to address the transition away from LIBOR.

GFOA participates in the Federal Reserve's Alternative Reference Rates Committee and, because of this representation, the Debt Committee determined that another industry workgroup could stand as an echo chamber for the alerts, advisories, and best practices created to prepare issuers for the transition. The LIBOR Public Sector Industry Working Group consists of members from the National Association of Municipal Advisors, the National Association of Bond Layers, the Bond Dealers of America, the American Bankers Association, and the Securities Industry and Financial Markets Association. The mission of this group is to educate governments and governmental entities about the discontinued use of LIBOR and the transition to other replacement rates, namely the Secured Overnight Financing Rate (SOFR). The GFOA Debt Committee will inform this industry workgroup and create important industry principles to enhance continuity in our communication.

The Debt Committee's continued interest in bringing industry together to find solutions—over federally imposed mandates—remains a priority. We look forward to creating principles founded on GFOA best practices to mitigate risk and enhance the excellent practice of finance officers across the country.

Finally, we are happy to welcome our newest members and new leadership to the Debt Committee:

Chair: **Kathy Kardell**, debt officer, Hennepin County, Minnesota

Vice Chair: **Tim Ewell**, deputy county manager, Contra Costa County, California

New members:

Lunda Asmani, chief finance officer, Town of New Canaan, Connecticut

Angela Pierce, assistant finance director, Oklahoma City, Oklahoma

John Strahlman, assistant secretary-treasurer, Metropolitan St. Louis Sewer District, Missouri

Joellen Lucas, state debt manager, State of West Virginia

Michael Imhoff, managing director, Stifel, Nicolaus and Co., Inc.

Resources:

- Federal Update: Industry Focus on Disclosure: **gfoa.org/materials/federal-update-industry-focus-disclosure-gfr**
- Member Alert about the Federal Reserve Bank's work to transition away from LIBOR: **gfoa.org/materials/the-transition-out-of-libor--what-state-and-local**
- The Federal Reserve Bank's work to transition away from LIBOR as a reference rate in many financial transactions: **gfoa.org/materials/the-transition-out-of-libor--what-state-and-local**
- ISDA protocols, which were updated last month to address the transition away from LIBOR: **isda.org/2020/05/11/benchmark-reform-and-transition-from-libor/**
- The Federal Reserve's Alternative Reference Rates Committee: **newyorkfed.org/arrc**

GFOA COMMITTEES

Committee on Retirement and Benefits Administration

BY MICHAEL BELARMINO

The beginning of fall each year marks the beginning of the term year for GFOA standing committees. The Committee on Retirement and Benefits Administration (CORBA) welcomed several new members eager to lend their expertise and learn from fellow colleagues on pension and benefit related issues. In October, the committee had an organizing call where Sandy Matheson, Executive Director of the Maine Public Employees Retirement System, welcomed the new committee members:

Michael Gossman, assistant city manager/director of finance, City of Oceanside, California

Noreen Jones, chief finance officer, New York State Teachers' Retirement System

Kenneth Oliven, finance director and treasurer, Village of Niles, Illinois

Rafiu Ighile, director of finance, Howard County, Maryland, Ex-Officio

Before the 2020-21 term began in September, the committee held a virtual meeting in lieu of the in-person meeting typically held at the GFOA Annual Conference. Despite not being able to meet in person, CORBA updated two documents: the best practice on Securities Class Action Litigation, updated to reflect current securities law and industry practice; and the advisory on Deferred Retirement Option Plans (DROP), updated to recommend a stronger stance on the use of DROPs.

Best Practice on Securities Class Action Litigation

Originally adopted in 2006, GFOA's fundamental recommendation and objective with the best practice has not changed. The best practice remains a resource for the governing bodies and chief administrative officers of public pension plans, which have a fiduciary obligation to recover funds lost through investments in public securities as the result of corporate mismanagement and/or fraud. Generally, the process of recovering those investment losses is through class action litigation or individual securities litigation.

GFOA recommends that public pension plans develop and adopt a policy setting forth procedures for monitoring and participating in class action securities litigation. The best practice goes on to discuss the components a policy should contain, including: a set of objectives the plan would pursue through participating in class action litigation, procedures for monitoring class action litigation and settlements, loss recovery procedures for settled claims, reporting requirements that would keep the plan's Board of Trustees informed of the status of all eligible claims and recoveries, a description of the roles and responsibilities of legal advisors and the selection process if external legal advisors will be utilized.

Advisory on Deferred Retirement Option Plans (DROP)

Last approved by the GFOA Executive Board in 2005, this advisory originally recommended that governments exercise extreme caution in considering DROPs, and before approving such plans, officials should conduct a structured decision making process. Before the advisory was issued, many governments implemented DROPs as a way to achieve a variety of financial and human resource management goals, but concerns over the use of these plans grew, as some governments experienced costs that were substantially higher than anticipated because of factors like unfavorable plan design and faulty investment return assumptions.

While DROP features can vary significantly, the plans generally result in a lump-sum payout that supplements an employee's pension. DROPs allow employees who would otherwise retire in a defined benefit plan to continue working with a certain sum credited to a separate account under the government's retirement plan, rather than continuing to accrue credit for service and compensation. Typically, the employee participating in the DROP receives the money in the account, including an agreed-upon interest amount, in a lump sum when they retire.

The updated advisory now recommends that governments with defined benefit pension plans should not include DROPs for the following reasons: the cost impact of is difficult to assess, DROPs may conflict with goals of pension design, employee choice to participate in a DROP frequently increases employer cost, and specific DROP characteristics and features often add additional cost. The advisory went before the GFOA Executive Board at its September meeting, since the update involved changing the recommendation to adopt a stronger stance and was unanimously approved.

Both updated documents are currently available on GFOA's website at gfoa.org.

CORBA members remain attuned to the effects of current recession, the impacts on state and local revenues, and covered payroll, as well as the constantly evolving pandemic and its impact on health care and the current work environment for many public employees. The committee will develop resources for GFOA members on these evolving issues. Meanwhile, the committee plans to forge ahead with ongoing work, including drafting an advisory on in-kind asset transfers to pension plans. Keep an eye out for more from CORBA in the coming year.

FEDERAL UPDATE

The Future of Congressional Outreach

BY MEHREEN HAROON

Before the COVID-19 pandemic, you'd have occasional opportunities to engage your member of Congress during one of their visits back home, sometimes even through in-person gatherings and meetings. But now, those opportunities are significantly limited, and engaging in congressional outreach requires alternative mechanisms mixed with a little creativity.

GET STARTED

One thing hasn't changed. The first step is to know who your members of Congress are and who would be the appropriate point of contact for your jurisdiction's needs. Do you want to contact your district's representative, your state's senators, or all the above? This information is available at congress.gov. The right-hand side of the homepage will lead you to the directory of members of Congress that includes access to their contact information, such as their phone number, email addresses, and physical office addresses for both Washington, D.C., and their home districts. Moving into 2021 brings a new session of Congress, so there is a good chance many of you will need to get to know new delegation members.

While the past few months have created myriad complications in moving from conventional contacts to virtual communication, many opportunities have stemmed from this change. This article explores some ways you can still successfully advocate to Congress and ensure your senators and representative continue to hear from constituents in their home districts.

Keep in mind that the "how" you engage does not change the "why"—federal policymakers are constantly evaluating proposals that can impact your job as a finance officer. Communicating how proposed or enacted legislation affects your ability to ensure thriving local communities will always be important.

SET UP A VIDEO CALL

Establishing virtual communication can be difficult, especially if it's an introductory meeting. Since first impressions are so important, a face-to-face online meeting is better than a simple phone call as far as establishing that human connection. Before the meeting starts, provide ample information about your key priorities through an email or a coordinated call with staff—this allows your senators or representative to prepare. Focus on a specific initiative so they can work out any questions or concerns before the meeting.

As for making a lasting impression during a short meeting, the challenges remain the same online as they are in person. Be enthusiastic about your jurisdiction's projects and priorities and promote a strong positive relationship between your community and your federal partners. Be clear, direct, and informative in your delivery. If you are using a PowerPoint presentation during the meeting, make sure it is easy to understand, data-driven, and visually appealing. It should illustrate the bigger picture about your project and priorities and detail the ways in which the initiative is relevant to your member of Congress by specifying ways in which they can be helpful. Be prepared to provide answers to their questions.

If your government's operations have largely moved online, you might want to use this to help your member of Congress and their staff better understand how your government works, creating further engagement. For example, invite them to join online budget meetings to help them see how local budgeting processes work.

ORGANIZE A VIRTUAL TOUR

You might have invited members of Congress to visit project sites in-person before the pandemic, but for the time being, that isn't a good option. A virtual tour can serve as an excellent alternative, though, and it can be done in a variety of ways.

Live. Showcase the project by doing a walk-through while your senators or representative are watching through your phone, computer, or tablet—which should have high-definition video quality. You'll obviously need to have the project site set up with the necessities, such as strong Internet to ensure the connection doesn't drop.

Pre-recorded. You might want to avoid taking chances with unstable Internet connections or other issues by creating a pre-recorded tour of the project site, which you could present as a video during a live virtual meeting. This option also eases the difficulty of narrating a live tour and dealing with any unplanned interruptions, as you'd have the option of editing the footage.

PowerPoint. Include high-quality pictures of the project in your presentation, which you can use to help explain the initiative during the virtual meeting. The challenge here might be effectively exhibiting the highlights of your jurisdiction's project, so make a real effort to capture the most important points.

HARNESS THE POWER OF SOCIAL MEDIA

Social media has become the new norm of communication in both the public and private sectors, and your jurisdiction can benefit from strengthening its social media platforms. Twitter, Facebook, Instagram, and so on are resources for engaging with your senators and representative. You can reach a wider audience and involve your community in building a stronger group and further encouraging your jurisdiction's priorities. This can raise awareness through the increased public support of your initiatives and provide more traction by enhancing community relationships. Social media is not only an excellent resource to communicate with your congressional representation, but also to expand your network—which could simultaneously catch their attention, as members of Congress are likely to be attracted to initiatives that could make a difference for their communities.

Expanding your network through social media could also mean collaborating with other jurisdictions, sharing similar priorities and building more support for collective goals. This could include sharing useful information and exclusive internal details that could further develop the initiatives of everyone involved. Different perspectives can create new opportunities, which can be achieved through collaborative efforts via social media.

SEND A LETTER

You can always request congressional support on your issues by sending a letter that outlines the key priorities. While this is a fairly traditional route for congressional outreach, don't phone it in—because it's lacking in personal contact, written communication requires strategic execution to be effective. Explain the issue thoroughly, including any materials needed to provide more information, and be clear about what you are asking for assistance with. The fewer questions your member of Congress has after reviewing the details, the stronger your case will be. Think about your project from the perspective of an outsider who doesn't know anything about it and try to address details they should know.

USE GFOA'S ADVOCACY TOOLS

GFOA's Federal Liaison Center is consistently advocating for the needs of state and local governments, based on our policy platform. Our website (gfoa.org/federal-advocacy) provides access to a variety of tools and information you can use to help your jurisdiction in your outreach to your members of Congress, including template letters and talking points you can use to reflect your jurisdiction's priorities and further your efforts. You can help shape the federal legislative agenda through effective communication with your members of Congress. Additionally, you can contact the Federal Liaison Center for further assistance in providing follow-up with member offices in Washington, D.C.

LOOKING AHEAD

We have found ourselves in a new environment where the future of advocacy will need to be reconsidered. Outreach may never be the same as it was before the COVID-19 pandemic, but public finance officials can remain productive by seizing the new opportunities virtual platforms have provided. You can still conduct effective outreach on key priorities and initiatives for your jurisdiction.

Mehreen Haroon *is a federal policy associate in GFOA's Federal Liaison Center.*

GFOA's Awards for Excellence in Government Finance

GFOA Awards for Excellence recognize innovative programs that exemplify outstanding financial management. These winners, selected from entries representing a diverse set of governments, provide inspiration, model examples, and implementation guidance for others looking to adopt GFOA's Best Practices or to develop creative and innovative solutions to improve government transparency, accountability, or outcomes.

2020 WINNERS FOR AN EXCEPTIONALLY WELL-IMPLEMENTED BEST PRACTICE

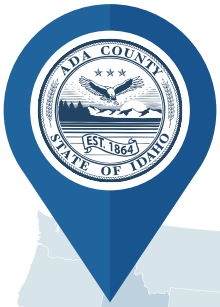
2020 WINNERS FOR A CREATIVE SOLUTION TO A COMMON CHALLENGE

EXCEPTIONALLY WELL-IMPLEMENTED BEST PRACTICE:
PUBLIC ENGAGEMENT IN THE BUDGET PROCESS

Ada County, Idaho

The Ada County Budget Explorer

BY HAGEN GURLEY



About Ada County, Idaho

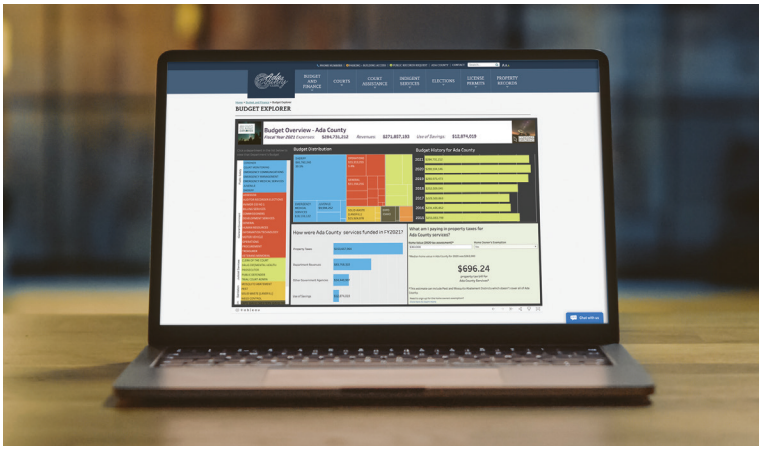
Ada County, located in southwest Idaho, has a population of 481,600 and is home to the capital city of Boise. The county is home to nearly 25 percent of the state's residents.

Ada County, Idaho, has made a new commitment to building trust within the community and giving the public open access to financial data in an interesting and intuitive format. To further this mission, the county developed an interactive tool, the Ada County Budget Explorer, to help citizens explore the fiscal 2020 budget. The tool helps citizens understand the budgeting process, demonstrates how the budget is distributed among service areas within the county, and illustrates the impact of these services on individual residents' taxes. Phil McGrane, Ada County's newly elected county clerk, explains, "The tool allows the user to access and analyze the budget on a broad level and hone in on information as specific as a line item."

"There is an enormous amount of data. How do you help an average user navigate the tool and find what they are looking for? The strength of the Budget Explorer lies in the narrative pieces that describe the budget processes," says McGrane. Wading through financial information isn't always easy or exciting, and Ada County's Budget Explorer has made the process more user-friendly, including incorporating interactive Tableau Dashboards to tell the story of Ada County's financial situation. McGrane credits his team—Chelsea Carattini, communications specialist; Kathleen Graves, controller; Daisy Lewis, administrative specialist; and Anthony Lock-Smith, data analyst and the architect of the Tableau Dashboards—with the success of the Budget Explorer. "Anthony really deserves so much credit, perfecting the tool after each round of feedback."

McGrane encourages other governments to do something similar. "Empowering citizens with information builds trust," he said. "Better access to information brings about increased transparency. The government gets fewer questions from residents, and citizens have a greater understanding for how they contribute to government services."

> Local governments grapple with issues of **transparency, public education, and public engagement**, particularly with regard to financial information. It is difficult to make complex financial information accessible, digestible, and engaging for the general public."
>
> —PHIL McGRANE, ADA COUNTY CLERK



The Ada County Budget Explorer gives citizens access to the county's entire budgeting process using interactive Tableau Dashboards.

THREE MAIN TENETS

Ada County's Budget Explorer follows three main tenets to improve public engagement and transparency in the budget process.

1. **Encourage public engagement.** As part of its commitment to transparency, Ada County has encouraged a broad array of perspectives. Central to this idea is communicating information to the public in a format that they can understand easily. The interactive Budget Explorer is easy to navigate as it details the steps of the budget process. It also provides more detailed information for users who want a better understanding of revenue sources and what expenditures are used for.

2. **Provide the engagement medium.** The Budget Explorer provides all residents with online access to information about how every dollar of the annual budget is spent, along with detailed explanations for users who don't understand technical terminology. Hovering over each element of the budget process provides pop-ups that supply additional information to contextualize the budget elements. For instance, the county spends more than $123 million on public safety each year. This number is tangible, but it makes a lot more sense when users realize that it constitutes nearly 43 percent of the annual budget.

3. **Propose opportunities for future engagement.** Beyond engaging with the data provided through the Budget Explorer, Ada County citizens can also voice their concerns, ask probing questions, seek clarification, and suggest solutions to current budget issues, proposed budget items, and future resource requirements. County officials encourage participation at monthly board meetings, along with special meetings that primarily focus on the budget.

Ada County has improved the transparency of its budget process, along with citizen engagement, by publishing timely, relevant budget data in an easily understood format. Residents can use the tiles on the home page to quickly navigate to the county's budget process, drill down to specific revenues, learn about expenditure needs, and even meet the county budget team. The Budget Explorer has been hailed as a great stride forward.

GFOA BEST PRACTICE

Ada County made use of GFOA's *Public Engagement in the Budget Process* Best Practice in creating its Budget Explorer. In the best practice, GFOA recommends that governments encourage effective and well-implemented public engagement budget processes, enabling the public to work with their government to help make beneficial budget decisions. Governments are encouraged to decide the purpose of public engagement, encourage people to engage, provide an engagement medium, and provide opportunities for future engagements.

TOOLS AND RESOURCES

- The Budget Explorer is available at **adacounty.id.gov/clerk/budget-finance/budget-explorer**.
- You can see a video demonstration of the Budget Explorer at **youtu.be/LZvQLDeaVrw**.

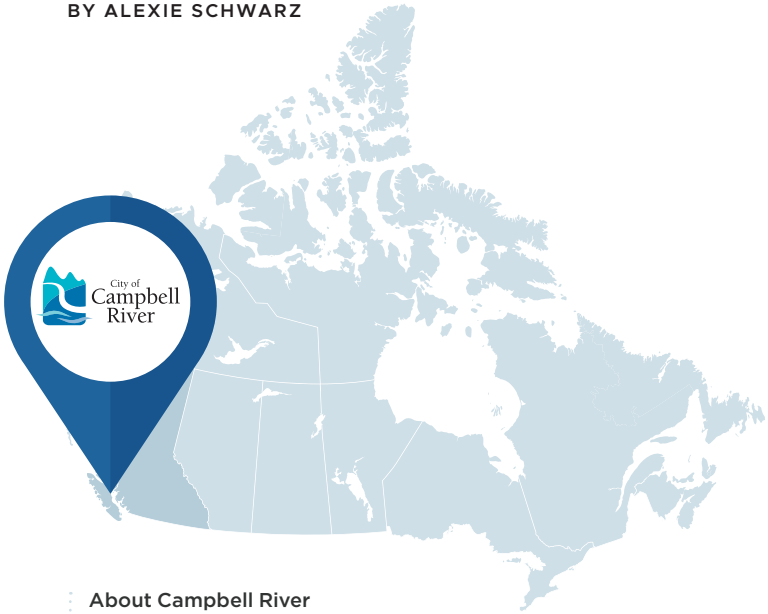
Hagen Gurley *is a graduate student at the J.M School of Accounting at the University of Georgia. He is also an intern working in GFOA's Research and Consulting Center.*

EXCEPTIONALLY WELL-IMPLEMENTED BEST PRACTICES: **ADOPTING FINANCIAL POLICIES** AND **LONG-TERM FINANCIAL PLANNING**

City of Campbell River

Financial Stability and Resiliency Policy

BY ALEXIE SCHWARZ



About Campbell River

The City of Campbell River, British Columbia, sits on the east coast of Vancouver Island at the south end of Discovery Passage, which lies along the important Inside Passage shipping route. Campbell River has a population of 35,138 and is known as the Salmon Capital of the World.

Looking at the results of a 2015 survey, the City of Campbell River, British Columbia, council saw a need to move past the city's previous financial challenges. Campbell River is primarily a forestry community, so losing a significant taxpayer when the local pulp and paper mill closed down had a significant impact on the city's revenues. Alaina Maher, Campbell River's deputy chief financial officer, noted that the city's reserves had begun to dwindle, and there weren't many contributions to pump them up. Volatile tax rates then became a problem, ranging from 1.7 to 13.6 percent from 2010 to 2015. (See Exhibit 1.)

The instability of those rates made it difficult for the city to plan for the future or to fund community needs. To promote responsible fiscal management, the city introduced its Financial Stability and Resiliency program and formalized it into policy in 2019. "City Council was very focused on keeping taxes low and stable, and to meet this goal we had to develop a strategy that could accomplish this as well as be able to meet the needs of our own community, which has been growing significantly," Maher said.

The overall policy has two objectives:

1. Develop guiding principles so that residents can look forward to predictable and stable tax rate increases.
2. Support and guide decision-making, continuity, and assurance in the city's financial management.

HOW IT WORKS

To maintain stability, Campbell River instituted parameters ensuring that annual tax increases don't exceed two to 3.5 percent. (See Exhibit 2.) These relatively small rate increases are maintained through several sub-policies that encourage responsible budgeting, including a stipulation that the city will not produce a budget with a horizon of less than 10 years—ensuring forward-thinking and long-term planning. Maher sees this aspect of the policy as essential.

EXHIBIT 1: ANNUAL TAX INCREASES FROM 2009 TO 2019

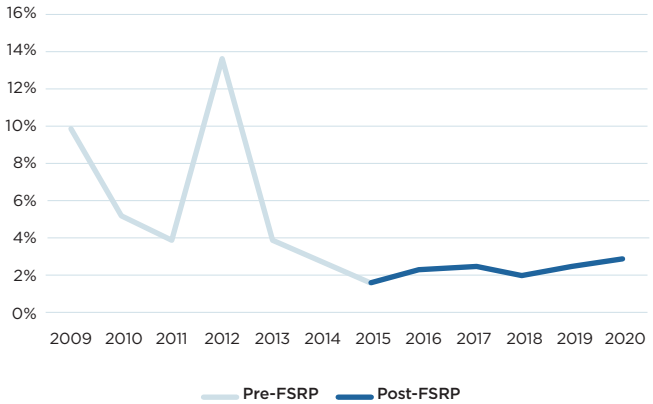


EXHIBIT 2: PARAMETERS FOR TAX INCREASES

Budget Component	Low (%)	High (%)
Base Budget	1.5	2.0
Capital Budget	0.5	1.0
Ongoing New Services	0.0	0.5
All Services	**2.0%**	**3.5%**
Total Utility Fee Increase (includes sewer, water, solid waste and storm water parcel tax)	**3.5%**	**5.0%**

Also included are parameters for each budget component that aim to maintain service levels, provide opportunities to enhance services, and encourage investment in critical infrastructure. For example, the policy indicates that one-time operating projects will be funded by reserves in order to stabilize and smooth out tax increases.

The policy prioritizes continued investment in critical infrastructure because of its role in ensuring that service levels are maintained. The capital budget parameter—an annual 0.5 to 1 percent tax increase—will be invested in the city's capital program. Rather than allowing the condition of the city's aging infrastructure to worsen, the policy has allowed the city to increase taxes a little more each year so it can accumulate funds that can be invested back into critical asset management. Similar policies cover non-market changes, operating budget increases, and the city's waterfall system for reserve balances.

The city is now able to strategically plan for stable tax increases and base service levels on those changes. Its Financial Stability and Resiliency program provides more certainty about the city's ability to maintain services, fund ongoing cost increases, and plan for service enhancements. The program has also helped make the city more resilient in dealing with the past few months of uncertainty relating to COVID-19. "We've really seen the effectiveness of this in action throughout the current public health crisis," Maher said. "We have solid financial foundations that help to mitigate fairly significant revenue losses."

THE POLICY JOURNEY

The program creates a framework that prioritizes affordability and continuous improvement. Maher emphasizes the necessity of long-term thinking when crafting financial policies like Campbell River's. "Small tax increases can be restrictive, so there has to be a focus on stability in the long-term," she said. While the parameters may feel restrictive, Maher notes that council and city staff all agreed to an overall goal. "Having to work within that structure and make tough decisions is difficult in the short-term but pays dividends in the long term."

Even though the financial policies at the city have a horizon of ten years, they are always open to addition and refinement. "It is definitely a journey," Maher said. "Continuous improvement is important here at Campbell River." In the coming years, Campbell River hopes to emphasize community outreach in order to educate residents about the city's financial policies.

GFOA BEST PRACTICES

Campbell River primarily made use of two GFOA Best Practices in creating its Financial Stability and Resiliency program: *Adopting Financial Policies* and *Long-Term Financial Planning*.

In *Adopting Financial Policies*, GFOA recommends that governments should formally adopt financial policies. Steps to consider when making effective financial policies include (1) scope, (2) development, (3) design, (4) presentation, and (5) review.

In *Long-Term Financial Planning*, GFOA recommends that all governments regularly engage in long-term financial planning that encompasses the following elements and essential steps. A long-term financial plan should include these elements: time horizon, scope, frequency, content, and visibility. A long-term financial plan should include a mobilization phase, including alignment of resources, preliminary analysis, identification of service policies and priorities, validation and promulgation of financial policies, and definition of purpose and scope of planning; and an analysis phase.

Alexie Schwarz *is a graduate student at the School of Public and Environmental Affairs at Indiana University. She worked as a 2020 summer intern in GFOA's Research and Consulting Center.*

EXCEPTIONALLY WELL-IMPLEMENTED BEST PRACTICE:
PUBLIC ENGAGEMENT IN THE BUDGET PROCESS

Mecklenburg County, North Carolina

Budget Public Engagement Initiative

BY ALEXIE SCHWARZ

About Mecklenburg County

Mecklenburg County is home to 1,110,356 people, making it the second-largest county in North Carolina. The Mecklenburg Office of Management and Budget also received the GFOA Award for Excellence in 2018 for its Budget Monitoring Reports.

Mecklenburg County, North Carolina, started its Budget Public Engagement Initiative in 2019 to encourage public participation in the annual budget process while also increasing fiscal transparency and accessibility.

Seeing a need to improve the community's engagement with the decisions being made about the county budget, the Mecklenburg Board of County Commissioners asked the county's Office of Management and Budget (OMB) to develop a strategy. The OMB went on to develop a robust and sustainable program that would provide access to residents who wanted to be involved with the county's budget process. The resulting Budget Public Engagement Initiative gives residents transparent access to county budget information and a say in budget priorities.

SETTING GOALS AND BRINGING PEOPLE TOGETHER

When the OMB started gathering information about public participation in mid-2019, it had five goals in mind:

- **Inform:** Provide residents with the information and tools they would need to understand the budget process.
- **Consult:** Gather public feedback on decisions and alternatives.
- **Involve:** Get residents directly involved via workshops and random, representative polling.
- **Collaborate:** Include residents in a partnership where they were considered equals in important budget decisions.
- **Empower:** Put the final decision-making power in the hands of residents.

In line with GFOA's Best Practice on *Public Engagement in the Budget Process*, the county made use of technology, social media, community partners, and local news media outlets to ensure broad

> The more you can bring people together to work through the challenging aspects of budgeting, the better results you'll get."
>
> — ADRIAN COX, MECKLENBURG COUNTY ACTING MANAGEMENT AND BUDGET DIRECTOR

Above left: Residents can use the county's online Balancing Act Budget Simulator to create a budget that aligns with their priorities.

Above right: Acting Management and Budget Director Adrian Cox stands with team members Sam Sparger (left) and Brandon Juhais (right).

reach and to maximize participation. Town Hall meetings and virtual Facebook Live events were also employed to answer questions, gather feedback, and address concerns from residents who were interested in the budget process. And although state statute only requires one budget public hearing each year, Mecklenburg County authorized an additional public hearing in fiscal 2020, before the budget was formulated, to reach a larger and more diverse group of residents.

Adrian Cox, the county's acting management and budget director, emphasized that the county wanted to make sure it was targeting the right audience. To that end, it distributed a budget priority survey (in both English and Spanish) to help gauge public priorities and promoted it via social media (Instagram, Twitter, and Facebook) and appearances on local television and radio media outlets.

The collaboration that took place at the public meetings was a big reason for the initiative's success, according to Cox. "The more you can bring people together to work through the challenging aspects of budgeting, the better results you'll get," he said, adding that other governments that might be working on improving public engagement should strongly consider including their public information department and leaders from both teams in public meetings. "It creates an environment where residents are not afraid to ask questions and can learn from a variety of voices."

ONGOING EFFORTS

The Budget Public Engagement Initiative includes broad plans for community outreach in coming years, many aspects of which have already been implemented. These plans include a budget priority survey and a Balancing Act Budget Simulator, which were particularly important in gathering feedback for the fiscal 2021 operating budget. The county also held community budget workshops in early 2020 to educate residents about important budgeting terms and processes.

The Balancing Act Budget Simulator allows residents to adjust the county's budget according to their priorities through an online tool. They can either change the way money is spent or change the way money is brought in. Throughout the exercise, the deficit and surplus amounts are visible to the user, helping them understand how a budget is balanced. This simulation is helpful for residents who want to know more about the budget process and have ideas about how public funds should be spent.

Using a resident budget priority survey, the county was able to gauge public opinion about how county funds are allocated. The results of this survey were made available online via an interactive dashboard where survey results can be sorted by respondent race/ethnicity, income, age group, or living situation. Viewers can also explore different responses.

Community budget workshops were another important part of disseminating information about the county's budget process. In these workshops, a county representative taught residents the basics about county government and the budget. They led budget prioritization exercises and took questions from the audience about terms, processes, and outcomes.

Cox recommends that governments considering a similar project make use of different modes of communication to provide information. "Leverage online platforms, host meetings, and go out into the communities that you wish to involve," he suggested.

GFOA BEST PRACTICE

GFOA's *Budget Public Engagement Initiative* Best Practice recommends that governments encourage an effective and well-implemented public engagement budget process, enabling the public to work with their government to help make beneficial budget decisions. This includes deciding the purpose of public engagement, encouraging people to engage, providing the engagement medium, and providing opportunities for future engagement.

Alexie Schwarz *is a graduate student at the School of Public and Environmental Affairs at Indiana University. She worked as a 2020 summer intern in GFOA's Research and Consulting Center.*

EXCEPTIONALLY WELL-IMPLEMENTED BEST PRACTICE:
ESTABLISHMENT OF STRATEGIC PLANS

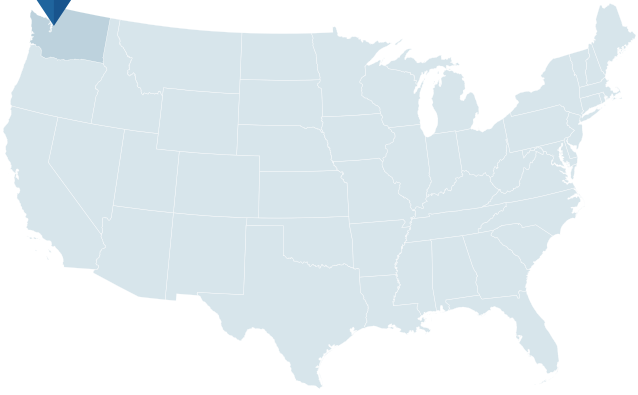
City of Redmond, Washington

Community Strategic Plan

BY ISABELLA ROMANO

About Redmond, Washington

Redmond is the 16th most populous city in the State of Washington, located approximately 20 miles east of downtown Seattle at the north end of Lake Sammamish. The city has a population of 71,929, up from 54,144 in 2010. Several companies in the high-tech industry are based in Redmond, including Microsoft and Nintendo of America.



In 2018, the City of Redmond, Washington, decided that it needed a work plan to make sure it was doing the things that were most important to the city council and to the community; in short, it was time to start setting goals in a more purposeful way. "We realized that we needed a work plan to make sure that we were doing the things that were most important to the council and the community," said Malisa Files, director of finance. "The Community Strategic Plan gave us that guidance."

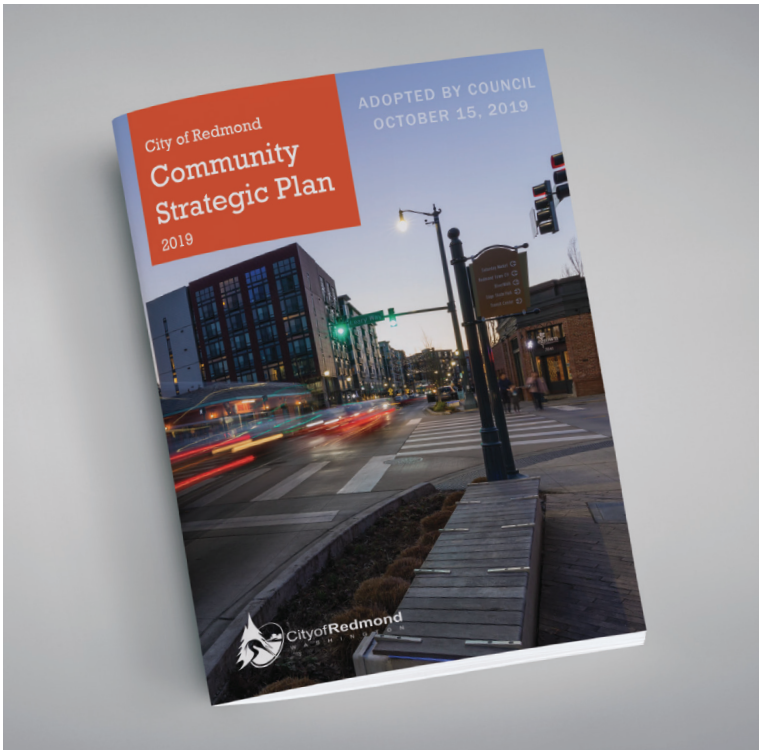
CREATING THE PLAN

The City of Redmond had a long-range financial plan that defined its strategy for financial integrity, but policy decisions at the city council level were still somewhat ad hoc. "When I became council president, one of my goals was to have more predictability about what we would be seeing as a council and how the community could track what our priorities were and what we were working on," said Redmond's mayor, Angela Birney.

The city already had a long-range financial plan, and the community strategic plan was written as a complement to this document.

Next, Redmond sought community input directly through an online open house, allowing digital comments on the document. It also asked for comments from community partners, encouraged public comment at city council meetings and study sessions, and sought additional input through the annual community survey, which was already in place, and through the city's priority budgeting processes.

Birney noted that the city is lucky to have an engaged constituency. "People are really bought-into our community and they want to make it better, so as a city it is really important for us to continue on that long-term vision of making sure we are the best city that we can be," she said.



The City of Redmond's Community Strategic Plan followed GFOA's *Establishment of Strategic Plans* Best Practice.

> People are really bought-into our community and they want to make it better, so as a city it is really important for us to continue on that long-term vision of making sure we are the best city that we can be."
>
> —ANGELA BIRNEY, MAYOR OF REDMOND

The project got underway with a city council retreat to discuss council members' goals, after which it created a working draft of priorities. A draft of the plan was made public during an online open house, which allowed digital comments on the document. The plan that the city council adopted, roughly a year and a half after its first retreat, is an iterative document that will be revisited and updated periodically.

GETTING IN SYNC

Redmond's Community Strategic Plan is a 24-page document that focuses on housing affordability, environmental sustainability, technology and information services infrastructure, cultural inclusion, and infrastructure. The plan is not all-encompassing. For instance, public safety does not appear as its own priority. "Safety is always a high priority for our community, but we know that safety is taken care of," Files said. "The items in the Community Strategic Plan are things we need to focus on because we need them to be better than what they are right now."

Central to the plan's success is its alignment with the city's comprehensive plan, budgeting process, and departmental plans. "It takes discipline," Files said. "You want to make sure that your community strategic plan and all the other plans in your city are in sync. The Community Strategic Plan speaks to our comprehensive plan, which speaks to our departmental plan. It takes the entire city pulling the same way."

SEEING THE BENEFITS

Birney listed continuity as one of the plan's numerous benefits. "It keeps the focus on the good of the city and the nonpartisan issues that are truly important to a city structure," she said. "It does remove a lot of the politicizing of the issues, keeps you on a longer-term target, and helps you develop a work plan for accomplishing goals."

The plan has also provided a vision for city staff and given them an understanding of what the community is looking for. "I think it's really helpful in order to focus staff. For instance, take a person who works with utility billing and show them how their work contributes to a welcoming government or affordable housing initiatives, to show how their day-to-day tasks connect with what we are trying to do in the community," Files said.

"I think it came at a really good time for our city, when people were really clamoring to have more interaction with local government," Birney added.

"A community strategic plan creates an opportunity for conversation and transparency about what is really important," Birney said. If your jurisdiction is considering creating a similar plan, "The advice I would give is to start out with a general structure and keep in mind what the long-term goal is," Birney said.

GFOA BEST PRACTICE

Redmond followed GFOA's *Establishment of Strategic Plans* Best Practice in creating its Community Strategic Plan. In the best practice, GFOA recommends that all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting, thereby establishing logical links between authorized spending and broad organizational goals.

Isabella Romano *is a graduate student at the College of Urban Planning and Public Administration at the University of Illinois at Chicago. She worked as a 2020 summer intern in GFOA's Research and Consulting Center.*

EXCEPTIONALLY WELL-IMPLEMENTED BEST PRACTICE:
INTERNAL CONTROL NETWORK

State of South Dakota

Statewide Internal Control Framework

BY JAMIE PORTER

About South Dakota

South Dakota is a large, sparsely populated state where rolling prairie gives way to the dramatic Badlands and Black Hills. It has 884,659 residents distributed between rural areas and a few smaller cities.

The State of South Dakota's Statewide Internal Control Framework allows the state and its agencies to implement an adaptive, effective internal control system. The framework's standards provide guidance for establishing, maintaining, assessing, and reporting effective internal controls across the state government. The purpose of this project is to provide a greater level of assurance to state leadership that the state is accomplishing its operational, reporting, and compliance outcomes.

The idea for the framework came about because of an instance of fraud committed by vendors that received funding from the state. As Mark Quasney, former statewide internal control officer and current state economist, explained, "The investigations into the incident made state officials realize agencies weren't following guidance consistently. A standardized form of internal control across state government was needed to avoid running from issue to issue. The framework would give agencies the tools they needed to be able to identify issues before problems occurred and to put measures in place to mitigate those risks."

The State of South Dakota was looking for a way to implement a system of internal control that went beyond what was already in place, Quasney explained. The state wanted to ensure that it was being proactive, not just reacting to instances of fraud as they occurred but actually preventing fraud from occurring.

CREATING THE FRAMEWORK

The state worked with consultants to create the initial draft of the Statewide Internal Control Framework. To begin this process, a joint team worked with leaders and professionals across the state's agencies. A multi-agency Internal Control Framework Steering Committee was created to gain more insight into the operation of each part of the state. The Statewide Internal Control Officer Framework then formally developed the framework in 2018, in collaboration with the Framework Steering Committee, and the framework was implemented over a 10- to 16-week period that included different levels of training. Agencies conduct their own risk identification, risk prioritization, control identification and documentation. Also, a State Board of Internal Control was created to build in accountability; agencies are required to report to the board twice a year about their internal controls.

The framework is closely aligned with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) principles. COSO language is usually used by the private sector, but South Dakota adapted it for state government. As Quasney explained, "We understood that the public and private sectors don't align perfectly and that there are some nuances in how governance occurs between government and private sector. We knew we couldn't just take COSO and say, 'OK, now the state is using COSO.'" South Dakota worked with its consultants to create something that was COSO-based but catered to a governmental setting.

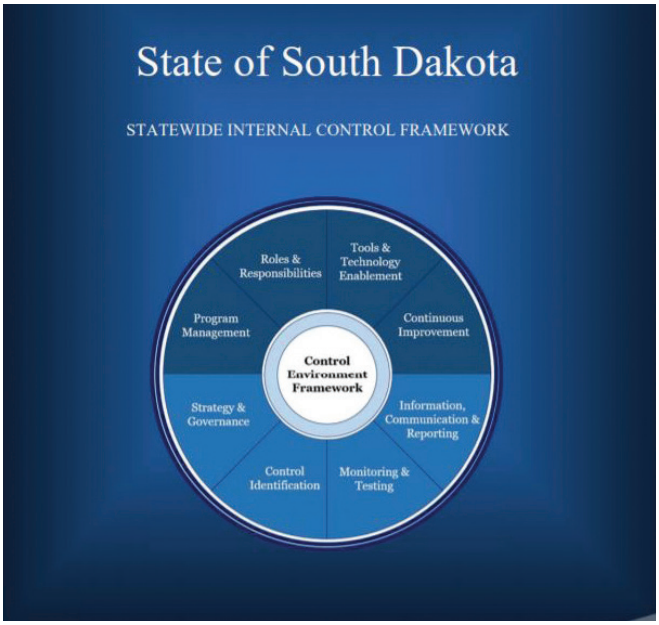
Taking inspiration from COSO, the framework is made up of eight elements:

- Program Management
- Roles and Responsibilities
- Tools and Technology Enablement
- Continuous Improvement
- Information, Communication, and Reporting
- Monitoring and Testing
- Control Identification
- Strategy and Governance

The elements are laid out in a wheel structure to build in continuous improvement as part of the process. The idea is that once an agency goes through the framework and all eight elements, the agency "starts back over, constantly getting better, constantly improving the framework, constantly improving the state of internal control in state government," Quasney said.

GETTING CONTINUOUS IMPROVEMENT UNDERWAY

The framework was designed to help agencies get this system of continuous improvement underway, after which each agency would be the owner of their own framework. Allysen Kerr, the current statewide internal control officer, explained that



the guidance has to be put into operation at the agency level, not centrally by the state government. Quasney agreed, noting that the key is for agencies to own their respective frameworks. The framework is meant to be a tool to help agency leadership manage their agencies and to cover all categories of risk, not just to focus narrowly on something such as fraud, he explained.

As of May 2019, the Statewide Internal Control Framework had been implemented in two agencies, the Bureau of Finance and Management and the Department of Revenue. The two agencies identified a total of 165 controls and 514 risks, and 100 percent of self-assessments were completed on time. Kerr and the state are now focused on contracting with a technology company to bring everything online and expanding to work with more agencies. They are working with one agency per quarter, implementing and setting up the framework. "We sit down with one agency at a time and help identify risks and see if they have any controls implemented for those risks," Kerr said.

CHALLENGES AND LESSONS LEARNED

Quasney and Kerr point out a number of challenges encountered in creating and implementing the framework. The main challenge, as mentioned above, was adapting the COSO framework to a public setting like the State of South Dakota. Quasney noted that the initial challenge was that other states haven't addressed control by adapting something normally used in the private sector for government. "Balancing a very strong system of internal control and also understanding that agencies have their independence was a critical part of this challenge," he explained. The state created the steering committee, held

State Of South Dakota Internal Control Program Snapshot

KEY ACCOMPLISHMENTS TO DATE

Metric	Current Period	Prior Period
Number of Overall Findings	**3**	n/a
Number of Remediation Plans in Progress	**30**	n/a
Number of Issues Related to IT	**n/a**	n/a
% High/Critical Risks	**35.2%**	n/a
% High/Critical Risks with Deficiencies	**17.1%**	n/a
Number of New Risks Identified	**514**	n/a
% Certifications Completed on Time	**100%**	n/a
Number of New Controls Identified	**165**	n/a

2 Agencies Onboarded

1 3rd Party Assessment Performed

100% of Self Assessments Completed On Time

514 Risks Identified

165 Controls Identified

question and answer sessions, developed the framework, and bounced ideas off the steering committee to find what would work and what would need some revision.

Other challenges included creating buy-in for the framework among state agencies. "Overcoming everyone's preconceived notions about what the process and framework was going to be was—and remains—a challenge," Quasney said. "A lot of agencies are short-staffed as is, so finding dedicated time is also a hurdle," Kerr added. And this situation has only been compounded by COVID-19.

It was also difficult to find software partners that understood what the government would need, because "a lot of software providers out there primarily have experience in the private sector," Quasney said. Kerr pointed out that one of the biggest challenges is that software partners are more tailored to the public companies. "The timeframe they gave was not going to work in the government setting, so it took a lot longer to get it tailored to what would make sense for the State of South Dakota and state agencies. The extra time that this took was a considerable hurdle," she said.

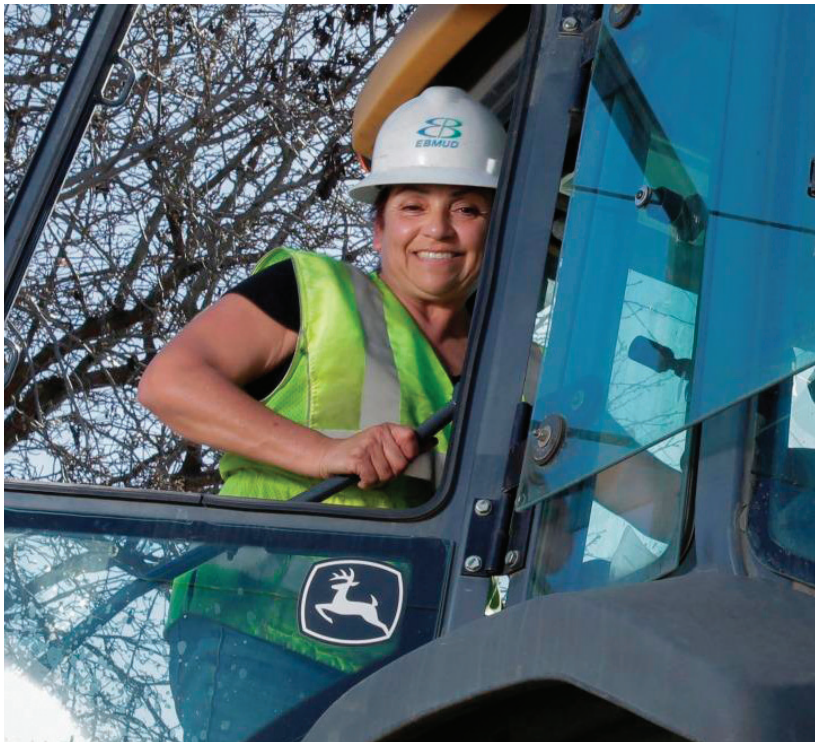
Having a framework, they learned, provided "guidance and something to start and work from," Kerr said. It also kept the process consistent across agencies. Kerr also noted the importance of having a state board of internal control, focused on overseeing the framework, and having agencies report semi-annually, as this kept the agencies accountable in terms of implementing and following the framework.

Another crucial step is securing buy-in and support from the very top, right from the beginning. Leadership was instrumental in setting the tone that this framework was "something that needs to be done," Quasney said. Support from leadership meant that the State of South Dakota implemented a law formalizing the framework. Implementing and following the framework became "something that was a requirement by law" rather than "something that we ask be done," Mark explained.

GFOA BEST PRACTICE

The state followed GFOA's *Internal Control Network* Best Practice in creating its Statewide Internal Control Framework. In the Best Practice, GFOA recommends a series of steps that governments should follow to establish a strong internal control environment. These include steps to ensure that: all levels of the government and staff throughout the organization demonstrate a commitment to the framework; the governing body assumes responsibility for overseeing internal control; management develops organizational structures and ensures staff accountability; governments commit to attracting and retaining competent employees; and governments hold individuals accountable for their internal control responsibilities.

Jamie Porter *is a program associate in GFOA's Research and Consulting Center.*

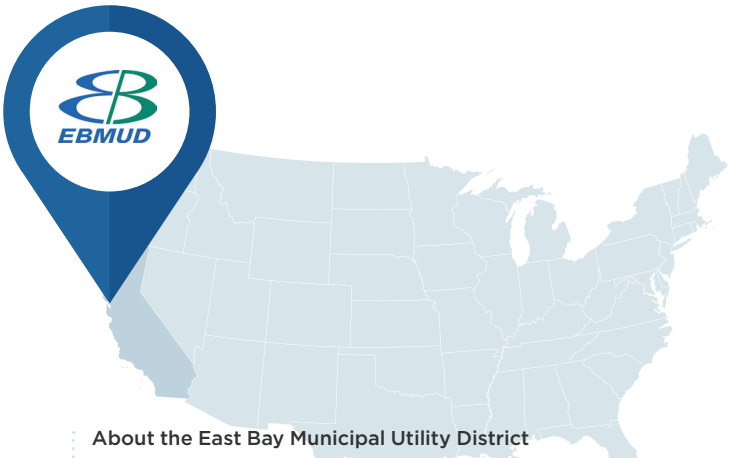


CREATIVE SOLUTION TO A COMMON CHALLENGE

East Bay Municipal Utility District

Budget-in-Brief Initiative

BY ISABELLA ROMANO



About the East Bay Municipal Utility District

East Bay Municipal Utility District provides high-quality drinking water for 1.4 million customers in Alameda and Contra Costa counties, both in California. The district's award-winning wastewater treatment protects San Francisco Bay and serves 685,000 customers. The organization's mission is to manage the natural resources with which the district is entrusted; to provide reliable, high-quality water and wastewater services at fair and reasonable rates for the people of the East Bay; and to preserve and protect the environment for future generations.

Like many other public agencies, the East Bay Municipal Utility District (East Bay MUD) is experiencing increasing pressure for financial data transparency. Although the biennial budget document presents an extensive amount of budgetary and financial data, non-financial readers can find it difficult to understand rate increases. Field staff also indicated that they are often approached by members of the public who have questions about the budget and billing rates, but they find themselves unable to provide informative answers. To address this situation, budget staff designed and developed a biennial budget summary in brochure format—known as the Budget-in-Brief—to promote transparency, better inform the public, and draw direct connections between the district's charges and the services it provides.

GETTING STARTED

Jeanne Chase, East Bay MUD manager of budget, and David Mercado, the district's principal management analyst, were working on a data visualization effort when a consultant recommended that East Bay MUD should develop a two-page summary of its annual budget. Chase and Mercado agreed and began working on the district's first Budget-in-Brief as part of the fiscal 2020 to 2021 budget process.

"We thought that in addition to being able to communicate information about our budget in a concise manner, it would also be a good opportunity to offer some background information about the district," Mercado said. "Most people think you turn on the tap, you get water, and that's the end of it. But there's a lot more to it."

Staff looked at examples from other governmental bodies for inspiration and guidance and found that cities were more likely to publish a budget-in-brief than utility districts. "They range from a couple of pages to something much longer," Mercado said. "But the general idea was that it should have visuals; it should not have a lot of text; it should be something easy to read."

Chase and Mercado created a rough draft for Michael Bergstrom, the district's senior graphic designer, who turned the rough concept into a final product.

"This whole budget-in-brief concept was new to me," said Bergstrom. "It was interesting to see what other agencies are doing and where it was most effective."

HIGHLIGHTING THE UTILITY'S WORK

At the same time, Water Distribution Crew Foreman Deelorean Johnson pointed out that work crews are often approached by customers who have questions about rates, but they didn't have any information to offer. Johnson and Chase worked together to develop roadshows and set up front-line workers with Budget-in-Brief pamphlets for these situations.

"The Budget-in-Brief has been a great help out in the field," Johnson said, adding that customers often come out while he is onsite and ask about their charges. "They just know that it's part of the financial package they have to pay to get water from the district. Having that booklet available and being able to open it up and show where all of their dollars go has been a great help."

Chase agreed that the pamphlet helps highlight East Bay MUD's work. "In the Bay Area, our customers are very knowledgeable and engaged," she said. "We make a concerted effort to explain what our services cost. For example, most people don't realize that we run a fish hatchery or that we have 57,000 acres of watershed land, which is about 2.5 times the size of San Francisco. We want people to understand that. We want people to understand what they pay for."

In addition, work crews are available for maintenance 24 hours a day, 7 days a week, 365 days a year. "If there's a leak, they're there," Chase said. "It costs money to have that level of availability. We want customers to understand this."

Mercado added that the visibility of the district is affected by its status as a utility, rather than a general government. "When you live in a city, I think you are a little more in tune with who your representatives are. In general, it probably gets more coverage than our utility does."

In the future, the district hopes to translate the Budget-in-Brief document into two of the main languages spoken in the service area and to explore new avenues for distribution.

ADVICE FROM THE DISTRICT

The staff at East Bay MUD had some advice for other jurisdictions that want to create a budget-in-brief: The hard work of boiling down a huge budget document to only its most crucial components was worth the effort. But keep it brief. "You have to be very selective about what information you're going to put in there," Mercado advises. "Most people probably don't read the 300-page budget document, so now if there is an interest—even if it's a slight interest—they are much more likely to open this budget-in-brief and read it."

Also, involving Bergstrom as the designer at an early stage was crucial, as this allowed him to shape the document into something that would be pleasant to look at and easy to follow.

And finally, "The document would be nothing if we didn't have people like Deelorean Johnson who embrace it. There's the bridge to the customer right there. You need to look at the entity as a whole and ask how you're going to get the end product into the hands of the people who want it," Chase said.

GFOA BEST PRACTICE

East Bay MUD followed GFOA's *Making the Budget Document Easier to Understand* Best Practice in creating its Budget-in-Brief. In this Best Practice, GFOA recommends that governments incorporate guidelines to encourage more people to read the budget document and to help them understand it better. The guidelines GFOA provides concern organization, to lessen redundancy and provide a better flow of information; limiting of excessive details such as financial schedules, text, and supplemental data; design, making the budget document simple, easy to use, and attractive; consistency in presenting information; highlighting of major points; and the observation of formatting conventions.

Isabella Romano *is a graduate student at the College of Urban Planning and Public Administration at the University of Illinois at Chicago. She worked as a 2020 summer intern in GFOA's Research and Consulting Center.*

- Staff began the biennial budget process with the end goal of a Budget-in-Brief in mind.
- Budget staff created a rough draft of the document, including a graphic design specialist early on. They focused on using as few words as possible, incorporating vibrant graphics, and keeping the writing at a 10th grade reading level.

View the Budget-in-Brief brochure: **gfoa.org/EBMUD-budget-in-brief**

- The designer created a brochure on legal-size paper that was tri-folded to form a document that was easy to carry in the field.
- Budget staff held presentations with field staff to help them become familiar with the brochure. For example, budget staff worked with a water distribution operator to build a strong network with public-facing employees.
- Field staff started carrying the brochures in their work vehicles and distributing them to the public when approached by customers.
- Other channels of distribution include outreach events and display at public watershed locations.

CREATIVE SOLUTION TO A COMMON CHALLENGE

City of Philadelphia, Pennsylvania

Philadelphia's Road to Pension Recovery

BY JACQUELINE DUNN

About Philadelphia

The City of Philadelphia, the economic and cultural anchor of the greater Delaware Valley, is the largest city in Pennsylvania and the sixth most populous city in the United States.

In 2018, Philadelphia adopted a comprehensive plan to improve the long-term health of its pension system by paying down its unfunded liability more quickly while also reducing the rate at which future liabilities will grow. Its funding ratio has historically been below average compared to peer cities, and the funded level dropped 10 points from 2008 to 2009, to 45 percent. When reform discussions began in 2016, the fund was still only 44.8 percent funded, with just $4.9 billion available to cover $11 billion in liabilities.

To combat the underfunding, the city employed a bilateral approach, focusing on reforms that foster effective decision-making and fiscal discipline and wide-ranging partnerships that engage elected officials, union officials, and pension board members. These changes were made to improve the health of the pension fund and to reach full funding by 2033.

STRATEGY

The city's plan will improve the pension system's funded level to 80 percent by 2029 and 100 percent by 2033 by:

- Dedicating additional assets to the fund.
- Reducing the rate at which future liabilities grow.
- Reducing the plan's risk profile.

Additional funding comes from dedicated city sales tax revenue, additional employee contributions negotiated through collective bargaining, and payment of the full actuarially required contribution every year. The city created a revenue recognition policy to dedicate these revenues to the city's pension liabilities.

Using the additional money *in addition* to the city's full annual actuarially required contribution will improve the city's funded status more quickly than using money *as part* of the payment would have. The policy of making additional payments toward the unfunded liability will also help insulate the plan's funding level and the city's contribution amount from annual market fluctuations. By fiscal 2019, Philadelphia's total contribution was $752 million, up from $431 million in 2008. The rapidly increasing costs were not sustainable and crowded out spending on other critical priorities. But the city's funding plan includes continuing dedicating revenues/assets to the pension; pension costs as a share of the budget will remain elevated until the city reaches full funding and is only paying the normal cost.

To reduce the rate at which future liabilities grow, the city administration and union negotiators agreed to create a new mandatory "stacked hybrid" plan for new, non-uniformed hires. The new plan combined elements of a traditional defined benefit plan, which is capped at $65,000, and a 401(k) plan, in which participation is voluntary. By fiscal 2029, the flat cap is projected to reduce future plan liabilities by more than $100 million. Total annual employee contributions have increased from $58.6 million to $83.3 million between fiscal 2015 and 2018. By offering a stacked hybrid plan, Philadelphia is able to continue providing a defined benefit for its new non-uniformed employees while better managing the rate of growth in future pension costs to ensure the long-term financial health of the system and city.

To reduce the plan's risk profile, the pension board has voted to make some changes in the way the assets are managed. They gradually reduced the assumed rate of return, which affects investment decisions and the amount of the city's contribution, from an all-time high of nine percent ten years ago to 7.55 percent. Lowering the assumed rate of return is fiscally prudent, but because any reductions result in an immediate increase in the city's pension costs, city leadership and the pension board also consider the size of future reductions each year to make gradual but consistent progress. They also shifted assets into passive investments with lower management fees and transferred assets from expensive and often volatile hedge funds into more stable real estate funds. The board also adopted changes to other actuarial assumptions including mortality rate and salary growth to ensure that projections match actual experience. These changes will reduce the likelihood of adding to the unfunded liability in any given year.

Combined, these changes have resulted in two consecutive years of net positive cash flows, meaning the fund is receiving more assets than it is paying out in benefits. The level of total city contributions is unique among public pension plans: The Philadelphia pension system falls in the 95th percentile among plans in the Public Pension Plan Database (established by the Center for Retirement Research at Boston College and the Center for State and Local Government Excellence, and supported by the National Association of State Retirement Administrators). The plan is 49.7 percent funded as of fiscal 2020.

BENEFITS

Taking a comprehensive approach involving all stakeholders has enabled Philadelphia to address the root cause of the underfunding and to achieve the buy-in needed to sustain funding progress over time. Additionally, developing a funding policy that requires additional payments toward the unfunded liability helps improve the funding status more quickly than otherwise, and it insulates Philadelphia from the impact of periodic market fluctuations on its annual contributions.

The city's approach has improved the health of its chronically underfunded pension fund and, in turn, improved the city's overall financial condition. Pension costs had grown to consume increasingly larger shares of the city's budget, meaning fewer resources were available for other critical priorities. In 2002, seven percent of the city's budget was allocated to pension contributions. Currently, about 15 percent of the city's budget is dedicated to pension costs. The reforms the city put in place have stopped this ever-increasing rate of growth. As the city's reform plan dedicates additional assets to the pension fund beyond the required contribution, the share of the budget dedicated to pensions is projected to remain constant at 14 to 15 percent over the next five years. The city has more predictability around future pension costs, and the continued practice of providing more than the actuarially required contribution will help the city reduce the unfunded liability over time.

LESSONS LEARNED

Philadelphia successfully engaged critical stakeholders in a collaborative process to implement and ensure a long-term solution. Philadelphia Mayor James Kenney was clear coming into office that improving the health of the pension fund was a top fiscal priority. During negotiations and arbitration, the city analyzed alternate proposals for employee contribution levels and benefit structures, ultimately modifying the reform plan to respond to stakeholder concerns while still reaching its stated funding targets. Where possible, the city also codified components of reforms in legislation and its union contracts. The city is required to use the additional employee contributions to reduce the unfunded liability, limiting the ability of future stakeholders to deviate from the funding plan.

GFOA BEST PRACTICES

The city looked to several GFOA Best Practices in implementing its pension strategy.

Defined Benefit Retirement Plan Design

This Best Practice defines the appropriate elements of a defined benefit (DB) plan, which provides employees with a predictable retirement benefit for life. DB plans are based on an established formula and are defined by a legal plan document. These plans may be funded by employee and employer contributions and investment returns. The investment-related risks are typically borne by the plan sponsor. The benefits formula is calculated by multiplying the benefit percentage based on the years of service times the final average compensation.

Defined Contribution Retirement Plan Design

This Best Practice defines the appropriate elements of a defined contribution (DC) plan as the primary retirement vehicle. A DC plan provides funds for retirement based solely on the assets available in an employee's individual account, and all investment-related risk is borne by the employee. Defined contribution plans can be offered as the primary retirement plan or as a supplemental retirement plan.

Hybrid Retirement Plan Design

GFOA recommends that governments that choose to provide a hybrid retirement benefit plan, address key points related to plan design, funding policies, board governance, plan conversion, and participant education. The fundamental goal of retirement plan design is to adequately meet the needs of employees, consistent with the plan sponsor's available resources.

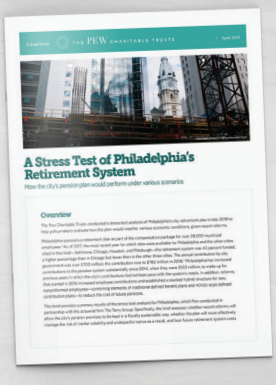
Sustainable Pension Benefit Tiers

Jurisdictions that are considering new benefit tiers should examine the following issues: A government's authority to revise its pension benefits, the overall goals it wants to accomplish by doing so, and the effect of such changes on the workforce; and the financial impacts resulting from changes to pension plan design, as well as the effects on employees. GFOA further recommends that as governments consider new benefit tiers they solicit input from actuaries during the analysis, design, and implementation related to forecasting benefit costs, determining funding adequacy, and making decisions regarding employer and employee contribution rates.

CONCLUSION

Many cities and states have pension funding challenges that place a strain on their operating budgets and threaten to jeopardize retirement security for beneficiaries. Improving the health of the pension fund requires budgetary tradeoffs and support from a wide-ranging group of stakeholders. Elected officials, union officials and pension board members were all willing to make sacrifices today to improve the future health of the fund. The breadth of that partnership will help ensure that the pension changes stay in place in the future.

Jacqueline Dunn *is first deputy city treasurer for the City of Philadelphia, Pennsylvania.*



TOOLS AND RESOURCES

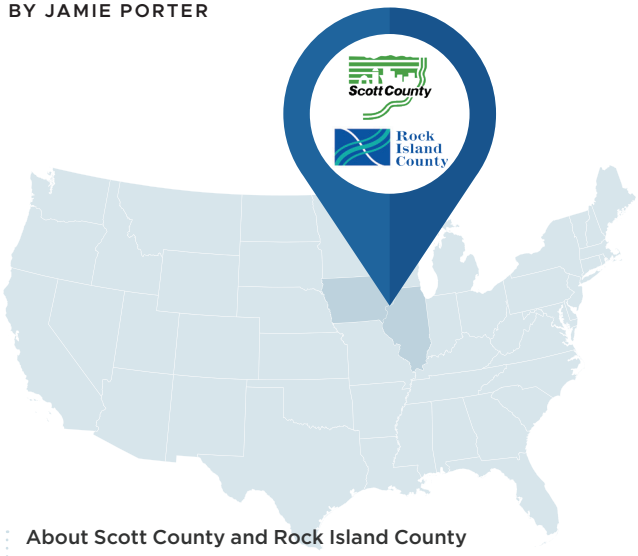
The Pew Charitable Trust published information about its independent stress test of the city's reform package. Read the report at pewtrusts.org/en/research-and-analysis/issue-briefs/2019/04/a-stress-test-of-philadelphias-retirement-system.

CREATIVE SOLUTION TO A COMMON CHALLENGE

Scott County and Rock Island County

Quad-City P25 Radio Project

BY JAMIE PORTER



About Scott County and Rock Island County

Scott County, Iowa, is located on the border of eastern Iowa, and Rock Island County is on the border of western Illinois, in an area commonly known as the Quad Cities. The metropolitan area has a population of 316,000, comprising 917 square miles, separated by the Mississippi River.

The communication infrastructure in Scott County, Iowa, and Rock Island County, Illinois—which are part of one metropolitan area that is separated by the Mississippi River— needed upgrading because it didn't meet modern federal interoperability standards. The communities' systems weren't capable of communicating with one another, within the overall area (known as the Quad Cities), or with other agencies across the state line. The infrastructure was also aging and obsolete, potentially jeopardizing the critical lifesaving role of 911 and emergency communications throughout the region. So, these two communities came together to solve a problem that affected them both: aging emergency radio infrastructure.

Darren Hart, captain and operations commander of the Rock Island County Sheriff's Office and Rock Island's project manager, said the project came about because both counties wanted to address this critical issue as well as maintain their working relationship. "We wanted to know what it would look like to build out a public safety communication network for first responders. And with the two counties already operating closely together, it was important that our collaboration continue," Hart said. "For many years, Rock Island County has been an island of sorts, where we would have agencies from other jurisdictions drive right by our squad cars and never have an opportunity to communicate with them."

It was a problem that the two counties tackled together. David Farmer, director of budget and administrative services for Scott County and the lead financial professional on the project for Scott County, points out that although this concept had been talked about for some time, it officially got underway in 2017. The counties formed a steering committee made up of interested individuals

> This project is a model for creativity in the future for counties that may struggle by themselves to do an infrastructure project."

—DARREN HART, CAPTAIN AND OPERATIONS COMMANDER OF THE ROCK ISLAND COUNTY SHERRIF'S OFFICE

from both governments—including police chiefs, city managers, and county financial officials—to begin looking at the project and determining the needs of both counties. A consultant was also brought on to help assess current and future needs, what the counties needed to do to replace the aging communication system, and what the bottom line for cost expenditures would be.

The joint project the steering committee came up with is the Quad-City P25 Radio Project. The initiative consists of an innovative digital emergency radio system that shares lines and frequencies and allows for first responder communication in Scott and Rock Island counties and throughout the Quad City area. There will be 12 total towers installed across the two counties, with seven of 12 towers based in Scott County and the remaining five in Rock Island County.

Hart noted that this project is a unique collaboration between two counties, each in a different state. When it's finished, "first responder activity can easily move across state lines from one county into the other," he added. The project is nearing its final months, and infrastructure installation is expected to be completed in 2021. As Hart explains, "it has been a great collaboration thus far. We are now at the exciting part."

FINANCING AND OWNERSHIP

The most innovative aspect of the project is how it has been, and will continue to be, funded across the two counties, along with the ownership of the infrastructure. Instead of the typical leasing model, the counties wanted to own the infrastructure themselves. While RACOM Technologies, the vendor of the new system, will run and operate it for the two counties, Scott County and Rock Island County will own the emergency communications system. This arrangement provides a number of benefits, including an ownership approach that is specifically tailored for the two counties that will provide long-term stability.

Funding for the Quad-City P25 Radio Project is shared by Scott and Rock Island Counties, who will jointly own the infrastructure.

The major funding components of the project include funding for the infrastructure itself—radio towers, transmitting equipment, switches and servers, and the software and computers located at local dispatch centers—as well as funding for new radios for first responders. Although the counties are working together to build the system, the costs are still separated out by county. Each county pays for the infrastructure within its borders, and the counties have opted for different funding mechanisms.

Since Scott County has seven of the 12 towers, it will cover approximately 60 percent of the total costs. To pay for the project, Scott County has issued bonds that it will be paying through fiscal 2028, and it has also issued debt for essential purpose bonds for the entire county. Funding across the county is based on property taxes. As Farmer explains, "we normally like to divvy up costs by residents, but in this case, a business or manufacturer may be calling 911 for support, not a resident." Therefore, the main funding mechanism Scott County is employing is property taxes.

Rock Island County, which will cover approximately 40 percent of all costs, has not taken out bonds or levied a dollar amount for the infrastructure. Instead, the county is employing what Hart describes as a "pay-as-you-go" mechanism that is based on served population to determine the percentage of total price of what the project would be. This total cost is then broken down for each covered municipality, which will pay its share however it sees fit primarily using general fund revenues. Rock Island County created a payment schedule for each municipality that was sorted into significant milestones, with municipalities paying into a dedicated fund overseen by the county, "to build out this as we go," as Hart explains.

MEG MCLAUGHLIN/MOLINE DISPATCH

THE ROAD TO SUCCESS

Both counties have learned a number of important lessons throughout this process. Farmer and Hart both emphasize the importance of having legal counsel involved early on in the project. Since the project was structured with multiple intergovernmental agreements, each state and county needs to abide by its own laws and regulations, which is why having legal counsel early on is imperative. Otherwise, the legal counsel will be "playing catch up for years of discussion," Hart said.

It is also necessary to have the "willingness to try new things and the vision to have a joint system that can work within multiple jurisdictions," Farmer said. Hart added that "if someone looked at this project, they would initially say there's just no way, but you need to be creative. This project is a model for creativity in the future for counties that may struggle by themselves to do an infrastructure project." Similarly, both governments should have the determination to see the project through. "It's critical not to take no for an answer and to continue to push along, especially for a project that can be very beneficial to both counties involved," Hart said.

The final takeaway is how important it is to get elected official support for the project. As Hart explains, "Getting elected official support is huge. Without their support, the project would not happen." Hart and others on his team put a lot of time and effort into getting everyone to sign onto the project, going to each municipality in the county and speaking to city councils to communicate the importance of the project. And these efforts to get support from elected officials have paid off with "100 percent support and buy-in" from officials," Hart said, adding that municipalities have even offered up their land as locations for the towers. "We want to make sure the product at the end is something we can all be proud of and that will support public safety and first responders."

Although the project has been very successful, Farmer and Hart pointed out that there were challenges along the way, and they anticipate more in the future. Many of the issues arose from the complexity of negotiations, because the project involved two counties and two states with different sets of laws. Figuring out the funding models and mechanisms for allocating who is going to pay for what portions of a common infrastructure took some work. The process also took longer than anticipated, although the end product will be better because of that extra time spent.

WHAT'S NEXT

"As for the future, we are still having to develop a maintenance policy and what that will look like, as well as future financing costs," Farmer said. He also emphasized the importance of making sure community members feel that they are getting good value as the project advances. This means the two counties need to ask value-focused questions upfront, so they can focus on that value when presenting future facets of the project to community stakeholders to keep them onboard.

The Scott County, Iowa, and Rock Island County, Illinois, Joint 911 Radio Project is starting its next phase. In late June 2020, an Iowa-Illinois joint advisory group met to start discussions about policies and protocols that will govern the project when it's up and running. As Hart said, "the working partnership between Scott and Rock Island County has been fantastic to this point. Everyone who is a part of it understands how critical it is that it gets finished." The project is expected to be completed in June 2021.

Jamie Porter *is a program associate in GFOA's Research and Consulting Center.*

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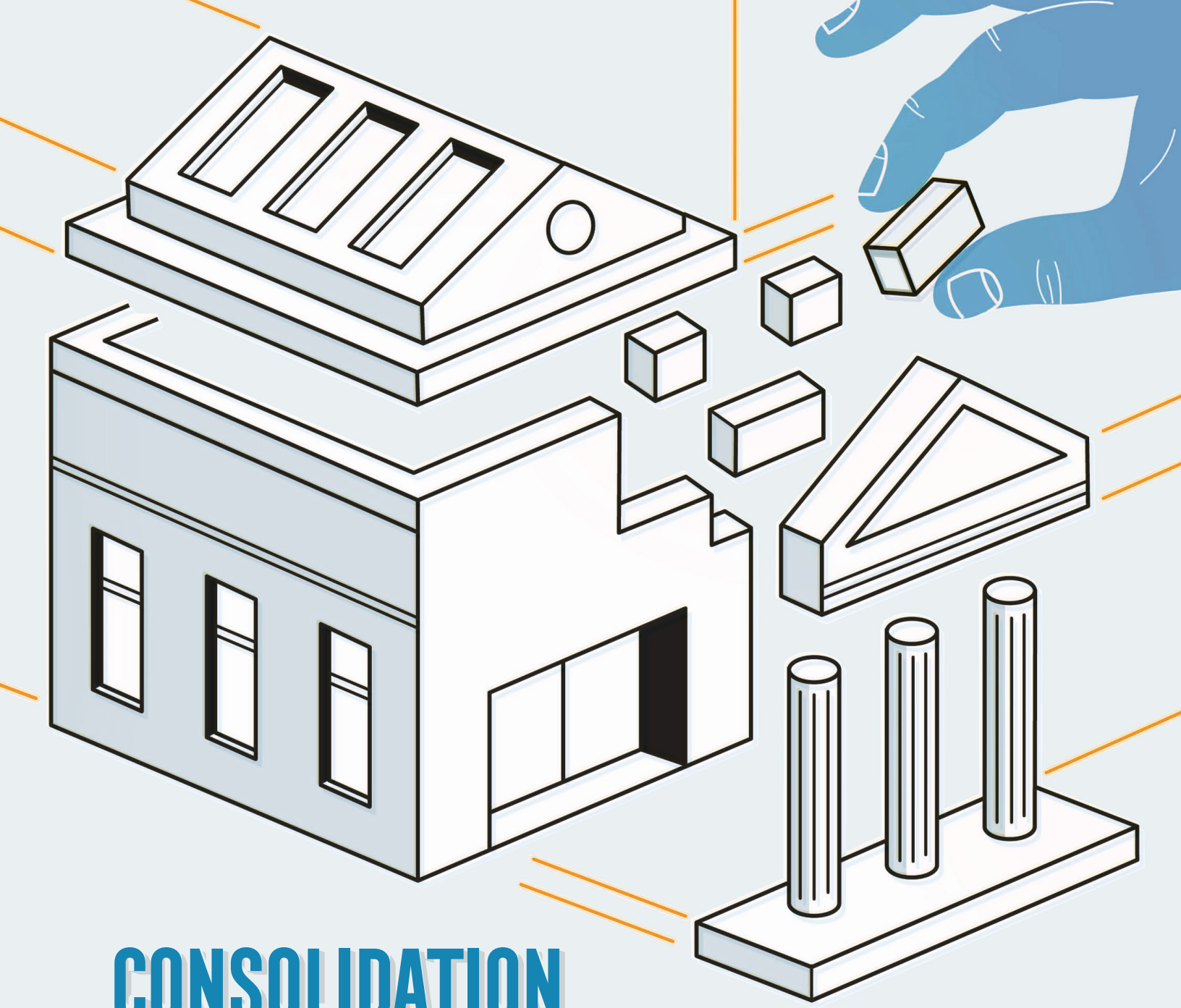


CONSOLIDATION DOESN'T ALWAYS SAVE MONEY

BY SHAYNE C. KAVANAGH

Local governments spent a combined $1.9 trillion in 2017, according to the U.S. Census Bureau. This was more than all 50 states together, when we remove money passed through to local governments. While this might seem surprising, it might be less so when you consider that there are more than 90,000 units of local government in the United States providing services such as education, public safety, public health, utilities, transportation, recreational opportunities, vital record keeping, natural resource conservation, and more.

Given the vast sums of money and the number of governments involved, it is reasonable to ask: Is there too much fragmentation— referring to the number of local governments and how power is diffused among them—in local government? Could public funds be better used if there were less fragmentation?

Consolidation—that is, combining multiple local governments into a single, larger unit—is intended as a direct solution to government fragmentation. But there are two types of fragmentation, each of which might respond differently to consolidation:

- **Horizontal fragmentation.** This is when multiple governments in the same region provide a similar service—when a region has multiple, separate municipal governments, for example. The implication is that horizontally fragmented governments do not usually occupy the same geographic space, although this is not always the case. Cities and their overlapping county government do sometimes provide similar services.
- **Vertical fragmentation.** This is when local governments provide different services, such as when several special districts serve the same community (e.g., library district, park district) as well as a general purpose municipal government. Vertical fragmentation implies some overlap in jurisdictional boundaries.

GIVEN THE VAST SUMS OF MONEY AND THE NUMBER OF GOVERNMENTS INVOLVED, IT IS REASONABLE TO ASK: IS THERE TOO MUCH FRAGMENTATION IN LOCAL GOVERNMENT?

Frequently cited in discussions about fragmented government, St. Louis (pictured above) is one of the 41 independent cities in the U.S. that does not legally belong to any county. St. Louis operates as both a city and a county and is the only city in Missouri which operates its own "county" offices.

HORIZONTAL FRAGMENTATION

The impacts of local government horizontal fragmentation have been well researched by academics, and a key finding is that "Increased horizontal fragmentation, particularly among general purpose local governments, is associated with *decreased* per capita public spending and public revenues."[1] This implies that the consolidation of horizontally fragmented governments could be counterproductive.

This may be surprising, but there is evidence that horizontal fragmentation economizes public spending. Unfortunately, the research is not as clear about why horizontal fragmentation decreases public spending and tax levels. There are several plausible explanations, and we will focus on two that have the best support in the research:

- Economies of scale are realized at a relatively small scale; and
- Regional norms hold costs down.

With 1,550 local governments, the Chicago metropolitan area (below) is the most fragmented in the nation, relative to population and land area.

Economies of Scale Realized at a Relatively Small Scale

Relatively small governments can achieve economies of scale. For example, in the United States, studies by the Advisory Commission on intergovernmental relations in the 1970s concluded that as the population of a city increases, per capita costs generally fall for municipalities with populations of up to 25,000; remain fairly constant for those cities with more than 25,000 but fewer than 250,000; and then rise significantly. But these studies did account for the structure of production or the responsibilities of the local governments. A 2002 review of the research into economies of scale in local government concluded that:[2]

- **Only 8 percent** of studies found economies of scale
- **29 percent** found U-shaped cost curves (cost declines with size for a time, but then increases)
- **39 percent** found no relationship size and cost
- **24 percent** found evidence of diseconomies of scale

THIS MAY BE SURPRISING, BUT THERE IS EVIDENCE THAT HORIZONTAL FRAGMENTATION ECONOMIZES PUBLIC SPENDING.

On the whole, there seem to be few economies of scale for most (but not all) services, in municipalities with a population of 20,000 to 40,000 people.[3] This would mean that local governments don't have much potential for efficiency gains from scale past a relatively small population.

To understand why consolidating local governments doesn't lead to greater economies of scale, let's consider some sources of savings created by economies of scale in the private sector:

- **Spreading fixed costs over a larger production volume.** The classic example of a fixed cost is a capital asset. For instance, a machine that can be used to produce 100 units or 1,000 units will have a lower per-unit cost if it produces 1,000.
- **Purchasing in bulk.** More favorable prices can be negotiated with suppliers when purchasing in volume.
- **Having a greater ability to specialize labor.** Employees can specialize in tasks that add value and a competitive advantage for the business.
- **Branding and marketing.** For instance, it is easier to stand out in a global and hypercompetitive marketplace with a recognized name. Larger companies tend to be more widely recognized.

Many advantages that private-sector firms can realize from scale don't translate well to local government for a few reasons.

Reason #1: Local government services are often labor intensive. Local government services are delivered mainly by people (public employees or contractors). The role of fixed costs (e.g., capital assets such as machinery) is less important than it is in many private industries. This works against economies of scale in two ways.

First, in local government, labor is often a variable cost (in the long term, at least) that scales upward with the amount of service provided. Fixed costs are less important in many government services, so there is less benefit from spreading the fixed costs over a larger population. For example, imagine two neighboring cities of 40,000 people, and each is merged to create one larger city of 80,000. The new, larger police department would have to patrol the same area. There might be an opportunity to make adjustments in patrol routes, but the new department would probably need the same number of officers, cars, etc., as before. The new department would need only one police chief, but the cost of a chief would be a fraction of the total department. Further, the salary of the new chief might need to be higher to attract applicants with the skills needed to manage the larger, more complex department. The new department might also have to add a deputy chief or middle manager. And while the department might need just one police headquarters building, it would need to be large, and/or need substations to supplement the headquarters.

Compare our hypothetical police department with companies like Amazon, Google, or Facebook. The low cost of adding a customer for these companies is close to zero. By contrast, the low cost of serving more residents is nowhere near zero for municipal governments.

In addition, purchased supplies are not as important to the local government production process as they are for many private-sector activities. For example, there are few "raw materials" associated with police or fire protection, the two largest areas of spending for most municipal governments. Hence, driving down the cost of purchasing supplies would have more limited financial benefit than for a large industrial manufacturer or large retailer, like Amazon or Walmart.

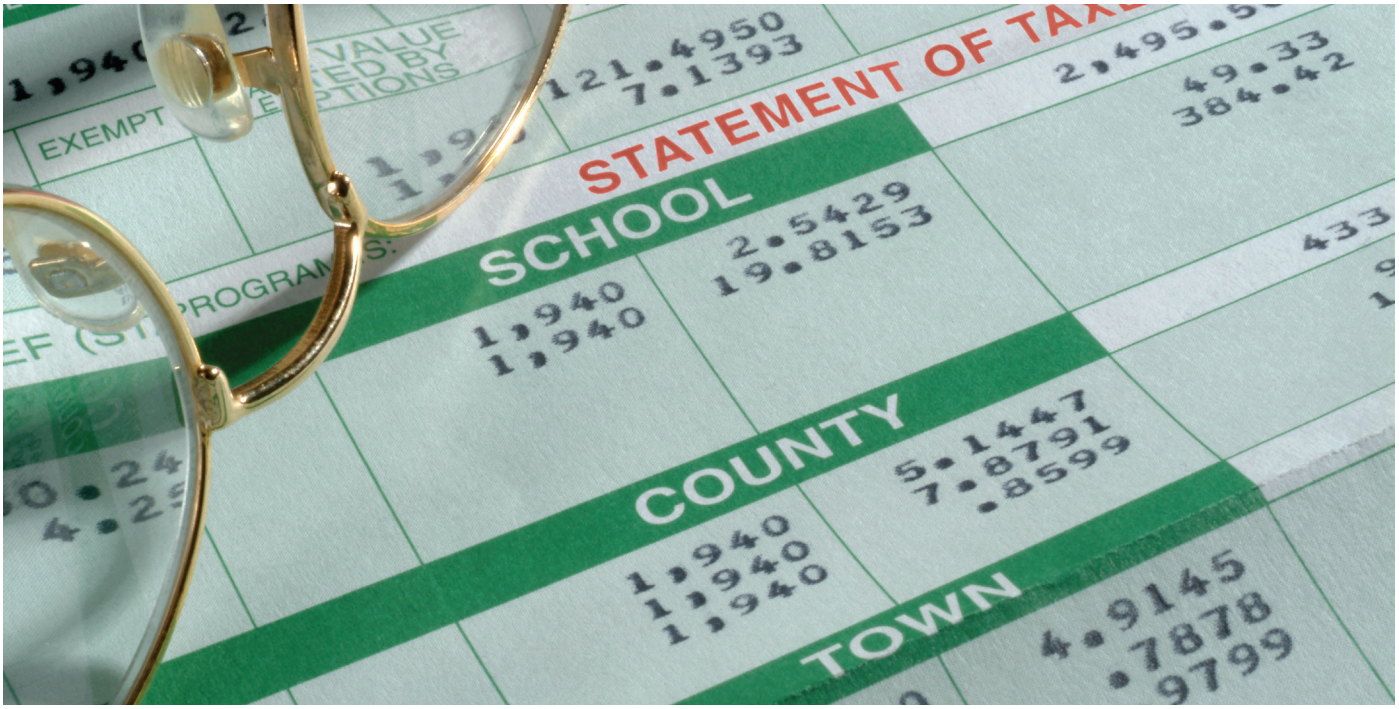
Reason #2: Local governments have a greater potential for cooperation. The day-to-day operations of local government are often characterized by significant cooperation between neighboring entities. For example, the State of Iowa requires local governments to file formal agreements for intergovernmental cooperation with the state. There are approximately 2,000 units of local government in Iowa, and they filed more than 10,000 agreements in 10 service categories between 1993 and 2007.

Labor intensive local government services like police and fire protection, the two largest areas of spending for most municipal governments, do not experience cost savings from economies of scale.

This proclivity for cooperation is a significant difference from the private sector. For example, it would be unusual for local firms in a similar line of business to collectively negotiate prices with suppliers—but this is commonplace in local government, for products as diverse as office supplies, road salt, and insurance policies. It allows local governments to achieve the purchasing power of scale without consolidating.

Local cooperation among governments can achieve some benefits of specialization that are associated with scale. Local governments often set up agreements to share specialized public works or firefighting equipment, or to cooperate on technical services like 911 dispatch.

This level of cooperation may reduce or eliminate the value of specialization. In the private sector, specialization



often confers a competitive advantage or differentiator from other firms. For example, venture capitalist Peter Thiel described proprietary technology as "the most substantive advantage a company can have."[4] Local governments, however, have no trade secrets to protect and gain little or nothing from having differentiated work processes or technologies. For instance, in *The Nation City: Why Mayors Are Now Running the World*, former Chicago Mayor Rahm Emanuel describes how he and other mayors regularly shared their most innovative ideas with mayors of other cities.[5]

This willingness to share and the absence of benefit from trade secrets mean local governments can outsource specialized technical tasks to a contractor without worrying about the implications for competitive advantage. Many consultants work for several local governments at the same time, so the consultant becomes the specialist, and each local government buys the consultant's services in the amount needed. Collectively, all local governments form a market large enough for consultants to develop expertise that local governments find valuable and large enough to sustain competition among consultants, which keeps prices down.

Reason #3: Local governments are local monopolies. Local governments are basically monopolies within their own borders. This means marketing and branding are not as important as they would be for private firms. It also means that differentiation from potential competitors is not as important, further reducing the benefits of gaining a distinctive specialization.

Regional Norms Hold Costs Down

Earlier, we described local governments as local monopolies. "Monopolies" are typically not associated with lower prices or improved service, but while horizontally fragmented local governments are local monopolies, they are not monopolies within their region. Though local governments do not "compete" with others in the region in the same sense that private firms do, there are other forces in play that serve to hold down the price of government.[6]

Members of the public and elected officials generally agree that higher taxes are undesirable. Public approval is often a key motivator for elected officials. Elected officials can show that they are being responsible with taxpayer money by keeping tax rates and spending in their community in line with that of other local governments in the region. The willingness of local governments to cooperate with each other and the existence of legal standards for transparency in public finance mean that local governments are able to access information about the taxes, fees, and service levels in nearby communities.

Regional norms often influence the average levels of taxing and spending amongst local governments in a given region. Consolidation could theoretically contribute to an increase in tax rates by eliminating these norms.

The average levels of taxing and spending across local governments in the region may then create a "norm" that local officials are hesitant to stray from. The power of shared norms to enforce standards is associated with the Nobel Prize-winning work on which GFOA's *Financial Foundations for Thriving Communities* is based.[7] A larger, consolidated local government might start to become a regional monopoly as well as a local monopoly. In this case, norms to keep taxes in line with other nearby local governments may start to lose their power.

VERTICAL FRAGMENTATION

There isn't as much research on vertical fragmentation as there is on horizontal fragmentation, so the conclusions we can reach are not as strong. But the balance of evidence suggests that vertical fragmentation leads to greater inefficiency in local government.[8] Again, because the research is not as rich on this topic, it is harder to say why this might be. There are some plausible explanations, though.

The role of regional norms for taxes and service levels in holding down the cost of local government might arise more easily and be stronger among general purpose local governments (e.g., cities), which are more closely associated with horizontal fragmentation. For example, the public thinks of the mayor as being "in charge" of the city and thinks of city hall as the seat of local government. Therefore, municipal officials can expect more public attention, and we might expect municipal officials to be more interested in benchmarking their taxes, fees, and service levels against other municipalities to avoid getting out of line with their neighbors.

Special districts, which are more closely associated with vertical fragmentation, are usually not subject to the same level of public scrutiny as municipal governments. For instance, if we were to compare citizens' knowledge of their city government with what they know about their special districts, it's pretty likely that far fewer citizens know who the lead officials are for the special districts or where the districts' main offices are. Many citizens probably don't even know that the district is a separate legal entity from city government. Because the operations of special districts get less attention, we might assume that, in general, officials in special districts would take less interest in benchmarking taxes and fees and be less concerned with keeping taxes and fees in line with those of other districts. This is also consistent with research suggesting that special purpose governments are more easily dominated by special interest groups, which leads to cost increases that benefit the special interest at the expense of the general public.[9]

A second explanation might be found in how local government services are budgeted. By definition, special districts offer one type of service, so this service does not need to compete with any other service in the budget process. For example, imagine that a community is served by a city government, a special district for recreation, and a special district for libraries, and each has its own tax rate. At no point during the normal budgeting process would the public have the chance to give input into how much library versus recreation versus police/fire services they want. Rather, the amounts of money dedicated to recreation, the library, and the city government are largely treated as a given. If a member of the public wanted their voice heard regarding the budget for local services, they would need to participate in three separate budget processes. This kind of fragmentation would work against public influence on the budget and the public ability to decide to spend less on one service than another.[10] This explanation aligns with the aforementioned research that special purpose governments are more easily dominated by special interest groups.

Finally, we saw earlier that economies of scale may not hold as much potential for local governments as they do for private sector firms. The same limitations of scale are probably not much different for vertically fragmented governments (e.g., special districts). Nevertheless, there could be some costs such as duplication of "back office" services like payroll, accounting, etc. It could also be that special districts are less motivated to participate in local agreements that duplicate the benefits of scale, perhaps because of the lesser motivations to hold down costs.

These explanations concern efficiency but not economization. There is evidence that vertical fragmentation increases total local government spending[11]—however, if the services provided by special districts are demanded by the public, then it would be hard to say that public spending is too high. There is some evidence that special districts proliferate when municipal governments with functional autonomy have their fiscal autonomy limited by the state.[12] Local political actors may encourage the formation of special districts to get around the restrictions.

THE BALANCE OF EVIDENCE SUGGESTS THAT VERTICAL FRAGMENTATION LEADS TO GREATER INEFFICIENCY IN LOCAL GOVERNMENT.

Ranging from school districts to transit authorities, there are over 50,000 special districts in the United States, making them the most common type of local government.

CITIZEN OF THE PLANET/EDUCATION IMAGES/UNIVERSAL IMAGES GROUP VIA GETTY IMAGES

THE EFFECT OF CONSOLIDATION ON PUBLIC FINANCE

To conclude, let's summarize the effects of consolidation as a model for positively influencing efficiency, economies, and value in local government.

Consolidation of horizontally fragmented governments probably offers little net economization or efficiency benefits. The research suggests that consolidation of horizontally fragmented local governments has little potential to reduce costs. Horizontally fragmented governments are associated with lower total spending (economization). We also saw that the benefits of economies of scale are probably achieved at a relatively small size for local government, so there is little opportunity to reduce costs per unit (increase efficiency) with consolidation.

To illustrate, consider city-county consolidations. Cities and counties offer similar services but also serve the same geographic area. One might think that this would offer potential for efficiencies from consolidation. One study examined the history of city-county consolidations and all prior studies on the subject. The study found little support for the argument that these consolidations improved efficiency and found that gains fell short of the initial promises.[13]

When considering the potential for consolidation, one must consider the costs. The technical costs to perform a consolidation are considerable. For example, there are legal fees and the time required of public managers to merge organizational structures and practices. Also, some research suggests that the wage scales of public employees in merged organizations tend to be at the higher wage scales from old organizations (no one wants a pay cut).[14]

The political and opportunity costs might be even greater than the technical costs. Consolidations are often controversial. Local residents are often not willing to give up local control, the distinction of having their own community, etc. For example, the City of Toronto, in Ontario, was amalgamated from six smaller cities in 1997. The effort was contentious and resisted "tooth and nail" by groups from across the region[15] who saw the move as potentially anti-democratic. One might question if the political capital used to push through a consolidation could be better spent on opportunities to make local government more cost-effective (which we will describe in the subsequent parts of this series). In fact, Toronto was part of a larger effort of local government consolidation in Ontario. A study by the Fraser Institute suggests that these consolidations, in general, created higher local government costs, higher property taxes, and deeper debt loads.[16]

Finally, we should note that our research should *not* be interpreted as consolidation *never* has efficiency or economization benefits. For example, very small governments might realize gains from consolidation because they would be below the threshold for economies of scale for many services. Or a government might simply face a unique set of conditions where consolidation could deliver benefits in that particular case.

The effect of consolidation on value is not clear. The research provides no clear answers as to whether consolidation produces more benefit per dollar. Working against value is that a larger, consolidated government might be less responsive to the needs of the communities within its borders. For example, special interest groups are more likely to dominate public participation in larger governments.[17] In favor of value is that greater, consolidated government might be able to provide more equitable services to the different populations within its borders. For example, if governments are consolidated, then a small local government couldn't capture a relatively "lucrative" commercial land use in its border and use the revenues to subsidize public services for its residents if the costs of commerce (traffic, etc.) affect the wider region. The bottom line is that there is no conclusive evidence that improved value would be a persuasive argument in favor of consolidation.

THE BOTTOM LINE IS THAT THERE IS NO CONCLUSIVE EVIDENCE THAT IMPROVED VALUE WOULD BE A PERSUASIVE ARGUMENT IN FAVOR OF CONSOLIDATION.

Accentuate what works in horizontal fragmentation. Earlier, we reviewed the reasons why horizontal fragmentation holds down costs. Rather than incurring the costs of horizontal consolidation for dubious gains, policymakers would be better off accentuating the conditions associated with horizontal fragmentation that help hold down costs. For example, we have seen that local governments commonly develop local agreements to share resources. There is a lot more potential for local governments to engage in this kind of service sharing.

Beware of the real cost of horizontal fragmentation. Horizontal fragmentation is not free of problems. A real cost is urban sprawl. Urban planning policies are beyond the scope of this paper, but policymakers should recognize that spreading population out over a wider area increases the cost of public services.[18]

Remove the conditions that encourage vertical fragmentation. Though vertical fragmentation seems inefficient, it is difficult to recommend the consolidation of vertically fragmented governments as a cost-beneficial strategy because there isn't much research on the effects of this kind of consolidation. This isn't to say that it could not work, but that the research is not conclusive. It seems safe to say that increasing numbers of vertically fragmented governments is not good for the overall efficiency of local government.

But local officials are often encouraged to create special districts to meet local demand for public services that can't be met by the municipal government. This is because taxing, spending, or debt limitations imposed by state government inspire municipal officials to encourage the creation of special districts to get around the limitations. These state limits merely have the effect of shifting spending to vertically fragmented local governments that are not subject to the same forces that favor restraint in spending in municipal governments.[19] These one-size-fits-all taxing and/or spending limitations are, in many ways, contrary to GFOA's *Financial Foundations for Thriving Communities* recommendation that local communities have sufficient autonomy to determine the tax and spending strategies that best fit local conditions.

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Financial Foundations for Thriving Communities

This article looks for solutions to the problem of fragmentation through the lens of GFOA's *Financial Foundations for Thriving Communities*, which is based on a Nobel Prize-winning body of work about how to solve shared resource problems—like local government budgets.* One of the insights from this work is that, in general, the local users of a commonly owned resource are in the best position to decide how to allocate the responsibilities for maintaining and then allocating the resource among its users. This is because local users have a sense of what their needs are and who is best positioned to take on the responsibilities to meet those needs. The implication is that because local government is closest to the citizen, it will be positioned to allocate public resources with the greatest efficiency, accountability, and responsiveness (it doesn't imply that doing so is easy, of course.) This will be especially true when there are local differences in citizens' demand for public services and the willingness to pay for them.

This insight is sometimes called the "principle of subsidiary." It suggests that strategies like centralizing services with a larger central government, for example, would not provide better outcomes. However, *Financial Foundations for Thriving Communities* does not call for atomization either. It shows that there are substantial gains available from wide-scale cooperation and that coordination is in fact needed for the best use of shared resources.

In examining consolidation—defined here as combining multiple local governments into a single, larger unit—as a way to improve coordination of resources among local government, we need to define our goals. If we are interested in using these models to improve the use of resources, this improvement could happen along three dimensions:

- **Economize:** Spending less money in total (assuming that too much was being spent before).
- **Efficiency:** Bringing down the "per unit" cost of public services.
- **Value:** Increasing the benefit created by each dollar of public money.

1 Christopher B. Goodman, "Local Government Fragmentation: What Do We Know?" *State and Local Government Review* 51 (2).

2 Joel Byrnes and Brian Dollery, "Do economies of scale exist in Australian local government? A review of the research evidence," *Urban Policy and Research* 20 (4).

3 Enid Slack and Richard Bird, "Merging Municipalities: Is Bigger Better?" Part of Institute of Municipal Finance and Governance series of papers on municipal finance and governance, co-published with the Munk School of Global Affairs. No 14, 2003. Examples of services where economies of scale continue to exist at higher population include water supply and certain types of public works and transportation services.

4 Peter Thiel, *Zero to One: Notes on Startups, or How to Build the Future* (Crown Business, 2014).

5 Rahm Emanuel, *The Nation City: Why Mayors Are Now Running the World* (Alfred. A. Knopf. 2020).

6 It has been theorized that local governments actually do compete with each other in a manner akin to private firms, where the "perfectly mobile consumer voter" will choose the municipality that best matches his or her preferences for taxes and services. This argument is called "tiebout competition" and was first articulated in the 1950s. However, we have chosen to omit this argument because more recent, evidence-based economic research renders the assumption of "perfect mobility" implausible. For example, one of the primary arguments made by 2019 Nobel Prize winners Abhijit Banerjee and Esther Duflo is that economies are "sticky" and that labor, capital, etc., are not very mobile.

7 2019 Nobel Prize winners Abhijit Banerjee and Esther Duflo give a modern take on this phenomenon and relates it to Ostrom's work in: Abhijit V. Banerjee and Esther Duflo, *Good Economics for Hard Times* (Public Affairs, 2019). An Ostrom-inspired perspective on this issue in local government is available in: Spencer T. Brien, "Strategic Interaction Among Overlapping Local Jurisdictions," *American Review of Public Administration*, Vol 48 (6).

8 Goodman, "Local Government Fragmentation: What Do We Know?"

9 Christopher R. Berry, *Imperfect Union: Representation and Taxation in Multilevel Governments* (Cambridge University Press, 2009).

10 Ibid

11 Ibid

12 Christopher B. Goodman and Suzanne M. Leland, "Do Cities and Counties Attempt to Circumvent Changes in the Autonomy by Creating Special Districts?" *American Review of Public Administration*, 2018.

13 Lawrence L. Martin and Jeannie Hock Schiff, "City-County Consolidations: Promise Versus Performance," *State and Local Government Review.* Vol 43, No 2 (August 2011).

14 Slack and Bird.

15 Mike Lapointe, "Sizing Up Amalgamation, 20 Years On," Torontist, January 2, 2018.

16 Lydia Miljan and Zachary Spicer, "Municipal Amalgamation in Ontario," Fraser Institute, May 2015.

17 Robert Bish, "Local Government Amalgamations: Discredited 19th Century Ideals Alive in the 21st" (C.D. Howe Institute. 2001).

18 Christopher B. Goodman, "The Fiscal Impacts of Urban Sprawl: Evidence from U.S. County Areas," *Public Budgeting and Finance*, summer 2019.

19 The research suggests that proliferation of special districts is related to fiscal constraints imposed on functionally autonomous city government, but not county government. See: Christopher B. Goodman and Suzanne M. Leland. "Do Cities and Counties Attempt to Circumvent Changes in the Autonomy by Creating Special Districts?" *American Review of Public Administration.* 2018.

20 Shayne Kavanagh and Vincent Reitano, *Financial Foundations for Thriving Communities* (GFOA, 2019).


THE
RISE
OF THE
S
IN ESG
AND THE
ROLE OF PUBLIC
PENSION FUNDS

BY CATHERINE JACKSON
AND AMY McDUFFEE

This article explores ways in which public pension funds can respond to the broader environmental, social, and governance (ESG) concept in their investment portfolios—particularly the social, or "S," part.

The COVID-19 pandemic has demonstrated that global health and global financial well-being are not independent; policy responses to the pandemic have had a profound impact on how we live and how businesses and societies function. In turn, global and local economies have been halted or restricted, threatening revenues and returns.

WHAT IS "S"?

Early pension fund investors that focused on "S"—or social investing—were concerned with human rights abuses in emerging markets, including sweatshops in the garment and shoe industry, and child miners in the Democratic Republic of Congo. These types of social issues usually manifested themselves as reputational risks for the corporations in the funds' investment portfolios.

Since then, S risks have become more complex and systemic. They are no longer limited to human rights or emerging markets, and they are affecting organizations with strong positive cultures in developed markets, as these firms face difficult decisions regarding workforce management and capital allocation. Some current "S" risks include the following categories:

Human Rights

- Anti-slavery legislation
- Availability of clean drinking water and adequate food
- Access to health care

Human Capital Management

- Workers' rights
- Diversity, equity, and inclusion
- Enforcement of harassment policies
- Compensation practices including fair pay and income inequality

Other

- Responsible firearms
- Customer service
- Supply chain transparency
- Anti-corruption
- Product quality
- Data security and digital rights
- Equitable taxes

Examples of investor value experiencing a profoundly negative impact include Volkswagen's emissions scandal, Uber's culture of sexism, Wells Fargo's fake account scandal, and Equifax's data breach, to name a few from what is now a lengthy list. For both active and passive investors, these companies' returns were affected by "S" risks.

JULIAN STRATENSCHULTE/DPA/AFP VIA GETTY IMAGES

As institutional investors, all pension funds have investments in companies that have been affected by COVID-19 or are now facing uncertain operating environments. The COVID-19 pandemic itself has given rise to new "S" risks. For example, some companies have chosen to use funding from the federal Paycheck Protection Program to continue their share buyback programs. Others have laid off employees while at the same time rewarding executives with incentives that are significantly out of alignment with the experience of current and former employees. Investors need to be mindful about meeting their obligations while balancing the human impacts of the pandemic both in their own operations and those of their investment portfolios.

There are several ways in which public pensions can address the "S" risks in their investment portfolios. None of these activities should begin without first having a clear understanding of who the stakeholders are within the fund's operating ecosystem, and where stakeholder interests lie. (This concept is very similar to the "know your customer" suitability requirements for financial service providers.)

Know your stakeholder

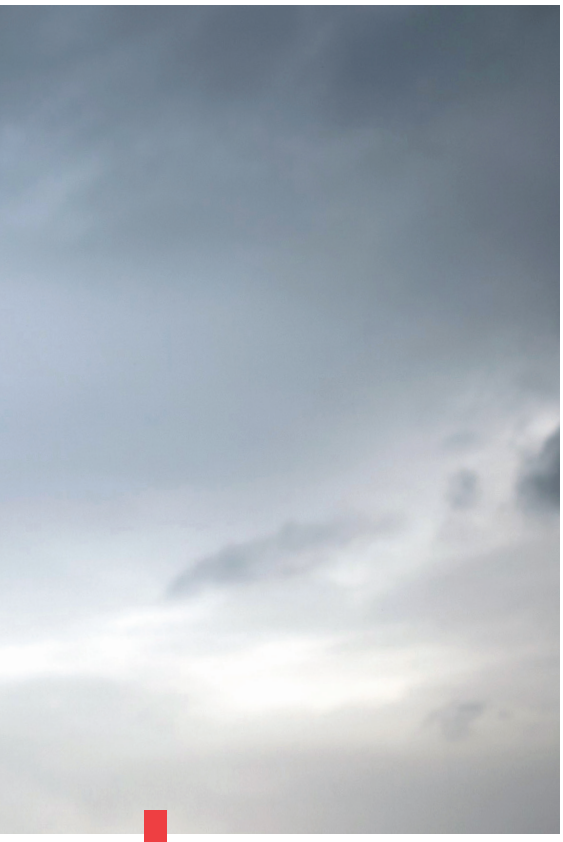
For pension funds, the concept of stakeholder suitability has traditionally been defined through actuarial demographics and metrics, and the risk profile set by the pension board. But external pressures are pushing to broaden this long-standing concept. Members and beneficiaries are more than just an age cohort—they have an important voice in optimizing the delivery of the pension fund's mission. We first observed this in the early 2000s, when more funds began using customer satisfaction surveys to invite member opinions about the quality of the service they were receiving. The concept of infusing the voice of the customer to create better alignment with pension fund activities is being newly tested in an environment of social unrest.

Before attempting to align their goals and activities with stakeholder interests, public pension funds need to be clear about who they perceive their stakeholders to be. At first glance this may appear to be an obvious exercise, but the picture can become rather complicated. Public pension fund stakeholders should at least include members, retirees, and beneficiaries. Some will also include those who participate in the funding of the pension fund, such as the sponsoring government or employers. Pension fund staff is another important stakeholder group that should not be overlooked, because staff members are often members of the plan, too.

Once the fund has defined who its stakeholders are, it should build capacity to interact with its stakeholders to understand their sentiment on ESG concepts, "S" in particular. While this can be done through surveys and interviews, some non-U.S. pension funds hold roundtables with their stakeholders to enable two-way communication. There is an education component to the interaction, as well as a listening component, which helps ensure that the pension fund receives informed feedback that reflects its stakeholders' views.

It may be the case that stakeholders have no interest in ESG concepts, or they have conflicting interests. Pension funds need to follow an appropriate process to ensure that they've gained sufficient clarity about their stakeholders' concerns to move forward in identifying a strategy to address these risks. A lack of clarity is not a good enough reason to do nothing.

Once stakeholder views are known, some pension funds use advisory groups to incorporate expert views on wider ESG issues and their implementation. This is one way



Five years after Volkswagen AG admitted that 11 million of its vehicles were rigged with software that cheated on emissions tests, the company has lost more than $30 billion dollars and stock is still 35% below its pre-scandal price. Beyond the financial repercussions, the scandal damaged the public's trust and caused incalculable harm to the brand's reputation.

to introduce the diversity of views and expertise that the pension fund staff itself might lack. Others might participate in coalitions formed by peer pension funds such as the Human Capital Management Coalition.

Once the process is underway, the pension fund should build a competency in communicating ESG issues to inform stakeholders about the fund's progress against its pre-established definition of success. It can take years for the outcomes of these initiatives to become apparent. While this timeframe is appropriate for public pension funds as long-horizon investors, it is not necessarily convenient for the immediacy of the modern-day news cycle. Failure to communicate proactively creates the opportunity for others with different interests to take advantage of that void in a way that may not reflect the pension fund's progress or consideration of the issues. In a worst-case scenario, it can create misinformation that will take the pension's time, effort, and resources to correct.

Ongoing communication about these issues will ensure that pension funds can manage their stakeholders more effectively, providing a continuous source of diverse feedback to inform policymakers as fiduciaries.

Develop a "house view"

ESG issues present both financial risks and financial opportunities. Since situations can change rapidly, as we have seen this year, pension funds need a thoughtful approach to identifying the issues that: resonate with stakeholders; share a nexus with the pension fund's investment objectives and the risks it faces; and can realistically be addressed in the investment process, given available resources. Developing a "house view" that includes the pension fund's investment beliefs, along with an implementation plan, can help build an organized approach to addressing ESG issues.

Progressive pension funds have developed investment beliefs that serve as the foundational framing for all investment activity, including ESG. These investment beliefs have historically been referred to in a fund's investment policy statement as its investment philosophy and have captured the agreed-to sentiment about how the portfolio would be invested. Whether beliefs are expressly stated or not, they drive daily decision-making, which means they should be aligned with the long-term vision of the investment program. This includes identifying focus and resource allocation priorities. The expansive list of "S" issues alone can be daunting in any prioritization exercise, let alone the broader suite of ESG issues.

Long-term performance outcomes are being affected by today's actions or lack thereof.

The pension fund's implementation plan aligns its investment staff and external investment parties such as investment managers and consultants, around activities in support of the stated investment beliefs. It provides common definitions and expectations, including roles, authority, and activities in the investment process. Specific examples of activities include responding to stakeholder inquiries, gathering data during manager due diligence, implementing new terms as contracts are initiated or renewed, and getting the types of reporting that will be provided to help with ongoing oversight.

Above, activists gather outside the New York State Supreme Court on October 22, 2019, the first day of the Exxon Mobil trial. The oil giant was accused of misleading investors on the financial risks of climate change. A New York state judge ruled in Exxon Mobil's favor, but the lawsuit was one of many the company faces involving corporate responsibility for global warming.

Know your portfolio

Pension funds often use a bottom-up approach to determine which "E," "S," or "G" issues to which an investor will allocate resources in the implementation and risk management process. This typically occurs when staff determines which issues and risks they will dedicate resources toward without being informed by the input of stakeholders or direction from the board. While the bottom-up approach can have the advantage of expediency, the problem is that stakeholder views are not taken into consideration, and boards are only peripherally mindful of the efforts being undertaken.

In some situations, pension board trustees have been surprised to learn the extent of ESG activities, even risk management, being undertaken on their fund's behalf. This most often occurs when pension assets are managed by external investment managers. The pension fund may already be receiving some level of ESG-related service from its investment managers, having offered limited or no policy guidance as to how they wish to vote their proxies, for example. Because many external investment management firms have developed their own firmwide ESG policies and activities, there has been limited visibility or routine reporting to help the fund oversee these activities in light of its own policies.

Every pension fund is responsible for setting standards of expectations for how its assets will be managed, including how their proxies, which are considered to be assets of the plan, will be voted in respect of ESG matters. ESG should not be an exception to this or an afterthought. Indeed, any ESG activities that a pension fund's external investment managers undertake should be consistent with pension board policies and appropriately overseen by management. Just as it is important to know your stakeholder, it is critical to know your portfolio.

Conclusion

It is increasingly important that "S" issues be taken into consideration by public pensions. The processes, tools, and strategies that are available to effect consideration of "S" risks and opportunities are becoming more sophisticated and mainstream. Long-term performance outcomes are being affected by today's actions or lack thereof. Waiting on the sidelines is no longer a prudent option for pension governance, given the nexus between financial and "S" considerations.

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ANGELA WEISS / AFP VIA GETTY IMAGES

Anything that affects returns, be it a global health crisis or citizens' inability to buy goods and services, are financial concerns. Investors need to consider the effects, if any, of these risks when making investment decisions.

An Issue of Good Governance

The U.S. Department of Labor recently reaffirmed that ERISA plans—pension plans that are subject to the Employee Retirement Income Security Act, or ERISA—are not vehicles for furthering social goals or policy objectives that aren't in the financial interests of the plan. While public plans are not subject to the provisions of ERISA, the act is an influential reference point for policymakers. All investors, including public pensions, should have a plan that strategically addresses the nexus of global health and the financial well-being of the fund.

In addition, political governance should not be confused with sound pension governance. The oversight responsibilities related to paying pensions are fiduciary and not political. Anything that affects returns, be it a global health crisis or citizens' inability to buy goods and services, are financial concerns. Investors need to consider the effects, if any, of these risks when making investment decisions. Failing to do so is a failure of pension governance.

SOMYOT TECHAPUWAPAT / EYEEM VIA GETTY IMAGES

Process Makes Perfect

Paraguay and El Salvador treasuries achieve real results using business process improvement

BY FRANCISCO ORDAZ

Business process improvement (BPI) can streamline functional processes by eliminating non-value-added steps and automating critical value-added manual steps. This approach—which involves identifying, analyzing and improving existing business processes to optimize performance, meet best practice standards, etc.—works best when senior management supports cross-functional teams that are tasked with mapping and analyzing business processes step by step and identifying opportunities for improvement. When done right, BPI drives results, as in the case of projects headed by the national treasurers of the Republics of Paraguay and El Salvador.

The Projects

The objective of these projects was to streamline and automate critical business processes. In the case of Paraguay, the project automated the resource transfer request review process in the general directorate of Public Treasury, making a manual, cumbersome, and time-consuming process paper-free. The process was replaced with an e-document to realize savings in costs and time.

In addition, to guarantee that the e-document would be tamper-proof, the project replaced holographic signatures with digital signatures that would allow resource transfer requests to be approved securely and guarantee the identity of the holder. The digital signature is created from a module provided by the Ministry of Finance that uses a USB token. To access the digital signature module, authorized signers must request their user access from the Information Technology (IT) Customer Service Department and register their user account in the Module of Signatory Managers.

Best practices in process reengineering and IT technologies deployment recommend automating the resource transfer request review process and requiring digital signatures from national government agencies authorities.

The objective of these projects was to streamline and automate critical business processes.

In the case of El Salvador, the general directorate of Treasury faced difficulties in reconciling manual payment processing and tax account balances using a legacy system that resulted in customer complaints and long lines on tax payment due dates. The barcode tax receipting system the office deployed eliminated manual tasks, improved data integrity, reduced customer wait times, and cut bank transaction costs by using a single payment order that updated taxpayers' accounts seamlessly when tellers of 16 banks processed payments for more than 1.8 million tax declarations.

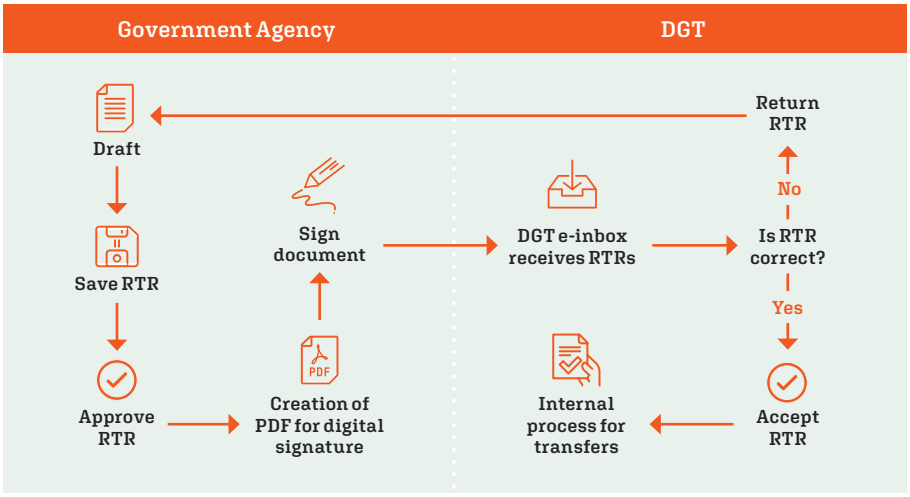
Paraguay

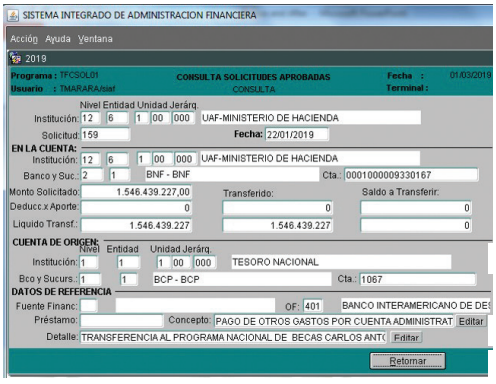
The general directorate of Public Treasury of the Ministry of Finance of the Republic of Paraguay streamlined the resource transfer request process by eliminating redundant steps, automating key manual steps, and requiring digital signatures from 140 national government agencies to certify 180,000 payment request batches annually.

Through the collective efforts of a highly committed cross-functional team and engaged senior management, the resource transfer request process is fully automated and paperless, starting from the creation of the resource transfer request and ending in the electronic transfer to providers and employees.

In 2018, Marco Elizeche, the general director of Public Treasury of the Republic of Paraguay, was invited to Buenos Aires, Argentina, to make a presentation about this project to the General Directors of Treasury from Latin America and the Caribbean, as part of the 9th Annual Latin American Seminar of Public Treasury Management.

RESOURCE TRANSFER REQUEST WORKFLOW





Review of RTRs before (left) and after (right) automation improvements

The improved resource transfer request process produced the following results:

- Staff processing time savings of **19,378 hours**, the equivalent of 9.3 FTEs.
- Staff transportation time savings of **4,903 hours**, the equivalent of 2.4 FTEs (staff used government-owned vehicles to hand-deliver payment requests to the general directorate of Public Treasury).
- Rework decreased from 40 percent to **0.3 percent** (previously, 6 out of 10 payment requests were correct on the first try, and now, 9.7 out of 10 payment requests are correct on the first try).
- Fuel cost savings of **$34,903**.
- Reduced non-added value steps by **35 percent**, from 17 to 11.
- Improved security by replacing holographic signatures with **digital signatures**.

El Salvador

The directorate general of Treasury of the Ministry of Finance of the Republic of El Salvador collaborated with the directorate general of Customs, the directorate general of Internal Taxes, and the National Directorate of Financial Administration and Innovation to barcode tax receipts for the Revenue Collection Department and the 16 banks that scan tax bills when processing payments from businesses and individuals.

The Office of the President of El Salvador recognized the Ministry of Finance of El Salvador with a service quality award in 2018 for the success of this project, and Juan Murillo, the general director of Treasury of the Republic of El Salvador, was also invited to make a presentation about this project at the 9th Annual Latin American Seminar of Public Treasury Management in 2018.

Tax payment lines before (top) and after (bottom) the barcode receipting system

The improved tax receipting process produced the following results:

- Reduced bank cost by **82 percent**, from $0.56 to $0.10 per transaction.
- Decreased processing time by **67 percent**, from approximately three minutes to one minute per transaction.
- Decreased data reconciliation time from 20 workdays to **three workdays**.
- Realized **50 percent** savings in overtime because collection windows now close on time.
- Reduced the need for cashier staff from **65 to 12**.
- Eliminated manual tasks and improved data integrity for more than **1.8 million** tax declarations.

Resource Transfer Request Process Project Team

Front row (left to right): Jorge Delgado, Marco Elizeche and Claudio Vázquez

Back row (left to right): Luz Esquivel, Nélida González, Marcelo Rodríguez, Martha Riquelme, Cesar Chena, Roque González, Adán García and Patricio Almirón

Barcoded Tax Receipting Project Team

Front row (left to right): Victor Manuel Ortega, Luisa Cristela Amaya Turcios, Juan Neftalí Murillo, Argentina Lucia Miranda Escobar and Francisco Alfonso Ramirez

Back row (left to right): Marco Martinez, Abraham Gálvez Peña, Edgar Wilfredo Obando, Cesar Gomez Surio, Ronal Alberto Aguilar and Pedro Vicente Fogelbach Zavala

The BPI approach works best when senior management supports cross-functional teams that are tasked with mapping and analyzing business processes step by step and identifying opportunities for improvement.

Conclusion

The national treasurers of Paraguay and El Salvador used the tenets of BPI to drive results by streamlining and automating functional processes. In both cases, the key to their success was twofold: 1) the unwavering commitment of the national treasurer as the single most important project champion; and 2) a highly skilled cross-functional team that was put in charge of identifying opportunities for improvement.

Francisco Ordaz *is a business process improvement facilitator. He worked with both Treasuries on improving a variety of business processes, including those described above.*

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In Practice

FINANCE

Collaboration leads the Anoka County Finance Team to Success

BY KATIE LUDWIG

As Cory Kampf describes it, he and his financial leadership team in Anoka County, Minnesota, have been on a "journey of change together" since he joined the county as Finance and Central Services Division manager in October 2014. The team's focus on creating an organizational culture of collaboration and empowerment in order to develop better, more efficient ways of doing things is showing great signs of success and has enabled it to adapt to the changes brought about by the COVID-19 pandemic.

Anoka County's financial leadership team, led by Cory, also includes Accounting Directors Paula Bownik and Brenda Pavelich-Beck. Paula has been with the county for 16 years and oversees grants, accounts receivable, and cash receipting, along with the technical operations staff for the Financial and Central Services Division. Brenda has been with Anoka County for 23 years and manages payroll, the general ledger, accounts payable, debt services, fixed assets, and the development of the comprehensive annual financial report. Rounding out the team is Budget Manager Yvonne Kirkeide, who has 15 years of government experience as well as experience in the nonprofit industry. She is responsible for developing the operations budget, the capital improvement budget, and the capital equipment budget, as well as internal and external reporting and managing contracts.

Before she worked for the county, Brenda worked in private industry and

said that it was a "real change" coming to the public sector. "One of the things that I've always liked about working here is I've never been bored," she said. "And I can tell you the last six years since Cory has been here, we haven't had the chance to be bored, for sure."

"I've got four things on my board that I wrote in 2015 that have stayed there since then," Cory said. They are:

1. Streamline processes
2. Engage within our department
3. Engage with others outside our department
4. Collaborative team environment

These four priority areas are at the core of the work the Finance and Central Services Division does, and they have helped inform the development of its mission, vision, and values. Cory explained that shortly before he started with the county, the Financial Services and Central Services departments had been combined. "My goal was to sit down and listen to everybody, understand where they're coming from, understand how we can put this together and what this team did," he said.

One of his first goals was to work with the leadership team to develop a mission, vision, and set of values for the new department. "We found after a couple meetings that we were horrible at trying to come up with a decision on how to do it as a group," he said. "So, I told everybody, 'Go back, find a staff member, somebody who's not in the leadership team.'" The leadership team appointed seven staff members to develop the mission, vision, and values for the new department. The group met over eight weeks and with feedback from the leadership team developed the mission, vision, and values for the department. (See Exhibit 1.)

The group agreed that the exercise of developing the mission, vision, and values played a big role in bringing people together and creating a more collaborative work environment.

"If you look into the values statement, one of them is empowerment," Cory said. "I think empowerment is a key part of collaboration, where we listen, but we also empower people to become leaders and to do good work, and to just grow and become whatever they can be, whatever they want to be."

Cory explained that another thing that has reinforced the collaborative culture in the Finance and Central Services Division is the Moomba Committee. "Moomba is an Australian Aboriginal term that means to get together and have fun," he said, adding that anyone can join the committee, which plans fun activities to help staff connect. This includes regular staff luncheons, quarterly birthday celebrations, an annual picnic, and holiday charity drives. Cory acknowledged that the committee can't use county dollars for these purposes. He explained that the leadership team contributed start-up funds for the committee and that the committee members have found ways to make money, including bake sales or popcorn sales.

> "Empowerment is a key part of collaboration. We listen, but we also help people to do good work, grow, become whatever they can be and want to be. **We empower people to become leaders."**
>
> – Cory Kampf, Anoka County Finance and Central Services Division Manager

The Moomba Committee's activities have continued despite the COVID-19 pandemic and social distancing, though they have changed somewhat. Staff enjoyed playing bingo via email, and since they can't get together for birthdays, the committee has done "birthday trivia." For example, one month the committee created a game that required players to match the staff celebrating a birthday that month to their first car.

"These are some of the things that have been done in COVID to help keep people engaged. The whole purpose of that was to create this engagement, which I think helps drive us toward collaboration," said Cory.

As the ongoing work of the Moomba Committee demonstrates, having fun and engaging with colleagues socially is definitely a priority for the Finance and Central Services Division—but as Brenda explained, leadership team members have also taken steps to encourage more interaction and collaboration in their everyday work. This is keeping in line with the #2 priority on Cory's whiteboard: "Engage within our department."

"When we were merging these two departments together...we had a lot of duplication of efforts," she said. "As we were working through that, and trying to get everybody to play together, for lack of a better term right now, we started holding some meetings." She explained that each of the teams had their own meetings, but an important step was to start holding meetings for all of the accounting staff in finance, regardless of which specific team they work on. Brenda believes this relatively simple change has had a positive impact on the staff.

"They know that they can go talk to other people instead of just coming to directors or managers to ask for the answers. They're working with each other, and that continues, and it has blossomed lately," she said.

Brenda acknowledged that sometimes employees need a bit of nudging to work together. "I will sometimes assign two people on something so that they have to work together. If they're extremely quiet, then it kind of gets them to start working together, and they have different skill sets, so they can help one another in how they're approaching it."

In order to collaborate better with other departments, the team has developed what it calls "the accountant model" for the Finance and Central Services Division.

"We were two separate departments; we merged together, and then Cory came on board, so there were a lot of things that had happened in a short amount of time," Paula said. "And so we had to figure out how we wanted our organization to look and what we wanted our accountants to do."

Paula further explained that the department has 12 accountants, and after the merger, she, Brenda, and Cory got together to take a closer look at what those accountants were doing. "They had something in common, but they were also doing different things. And so we came up with a model that they're all relatively consistent in what they do. One of the key aspects of that expectation or the job description is really engaging with our departments. Every single accountant has departments that they work with, and so we're trying as a finance division to be a partner with the department."

This approach seems to be working. "Department staff are more likely to reach out to us, to either the AP department or to their accountant directly to say, 'Hey, can you help me out? Can we figure this out together?' I think that's been successful, and we continue to make progress with the departments and really assert ourselves as a partner with those departments."

Cory further explained that this "accountant model" benefits both the finance division and the departments because "as the accountant gets to know their departments, they're going to understand how to advocate for their departments and how to help their departments through financial situations, and then even help message where they need to go as they're making changes or having questions."

He said the hope is that this collaborative approach also starts to break down silos between the departments.

Exhibit 1 | Anoka County Finance & Central Services Division Mission, Vision and Values

"We're not the 'Department of No'; we're the department of 'yes, we want to work with you.' Maybe it's not going to be the way you think it should be, but maybe there's another path through and we'll help you find that," he explained.

Keeping in line with the idea of engaging more with the departments, Yvonne described one way the Finance and Central Services Division has adapted its budget practices over time. "One of the things that we realized is that we go through and we have the departments put these budgets together and everything, but then we don't follow back up with them," she said. "We didn't follow back up with them and tell them what the results were or what the commissioners said or give them feedback on where we are ending up. In the springtime, we always were good about kicking off a budget process, so now we do a budget wrap-up meeting in the fall."

At the wrap-up meeting, Finance debriefs the department on the plan for their budget for the upcoming year and answers any questions they may have. Yvonne explained that the budget team decided this was an important step to strengthen engagement with the departments. "The departments have been very pleased with it and appreciative of that communication back and forth," she said.

Finance instituted another change to the budget process in recent years, Cory said, explaining that each department would go before its committee to present its budget. (The county has committees that oversee different areas of operations—for example, the Finance Committee, the Property Tax Committee, the Human Services Committee—and county board members sit on the various committees.)

"One of the things we noticed is that there was never a common way of approaching the budget," Cory said. "So, we created a themed PowerPoint over a couple of years ago, and we use it so we have the same approach to the commissioners. The commissioners have really appreciated this because I think it helps them frame a better understanding of our overall budget and what's going on throughout each department."

The Anoka County financial leadership team, from left: Cory Kampf, Paula Bownik, Yvonne Kirkeide and Brenda Pavelich-Beck.

"We've done a lot of projects...a lot of process improvement, a lot of technology upgrades, technology enhancements," Paula said. One example is automating the procurement card and employee expense reimbursement process. "That's all electronic now. We're not shuffling paper back and forth," she said, and the authorization and payment process is much easier as a result. "That really involved, obviously, engaging with the departments to figure out what they were doing, standardizing what they were doing, messaging and communication with our IT department up to county admin, and all the way around the county."

The team identified several projects and initiatives that were put on a fast track as a result of the COVID-19 pandemic.

"One of the things that we had started working on is trying to find a more efficient way to handle the accounts payable, the invoices coming in," Brenda said, explaining that they were piloting the new process with one department when the COVID-19 pandemic began. Before that, the department had reached out to the Accounts Payable (AP) team because its courier position had been eliminated. This courier would shuttle invoices and other mail back and forth to the Finance and Central Services Division's offices. Once the department reached out, they sat down with the AP team and brainstormed together to design a new process that works for everyone.

"We did a fast forward to make sure all of the invoices are now being scanned and emailed to the AP department... They've got all the necessary coding and signatures on there," she said. The AP staff receive the scanned invoices via email, enter them into the enterprise resource planning (ERP) system, and attach the scanned image to the record in the ERP system.

"It was something that we had started. We were hoping to move in that direction...but COVID just accelerated the implementation," Brenda said. She believes the new process is working well for everyone. "We don't have to worry about courier services. We don't have to worry about things getting lost on somebody's desk."

Cory explained that the General Operations team within the Finance and Central Services Division has also stepped up its collaboration efforts during the pandemic. Because this team has to be onsite to answer phones and maintain front desk operations, members have helped with other onsite roles so that more people can work remotely. As an example, they have started scanning invoices, which allows the AP team to work remotely.

Paula said another project that is in fast-forward mode because of the pandemic is the transition away from printing checks in-house. She said this was something that Cory had been pushing since he came on board and that the county had made steps in this direction but didn't move to outsourcing check printing fully until the pandemic hit.

She pointed out that this is another project where collaboration with the departments is key because many of them have very specific expectations about how and when payments are made. As a result, this project has involved in-depth discussions to reeducate colleagues and arrive at a compromise that will work for all stakeholders.

Paula explained that collaboration has also been a key to the County's success in managing its Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. Finance developed a form that a department must fill out to request CARES Act funding, sometimes asking their accountant for help. A multi-disciplinary team, known as the "CARES Act Team," reviews the requests to determine if the request is an appropriate use of funds and to ensure that federal procurement rules are being followed. "I think that's a really good example of why collaboration works. If we were doing that in a vacuum, we'd be in a lot of trouble," she said.

"The CARES Act team meets once a week, and all these requests that came through on the forms get looked at and approved by this multi-jurisdictional team," Cory added. "We have two county board

liaisons that feed into the team. The county administrator talks with them to make sure there are no political issues."

Cory explained how this process forms the basis for reporting back to the county board. "Based on this, we have a one-page sheet that has our CARES budget and just where we're at in the budget process, and we update that weekly. I actually provided it to all of the commissioners at a budget workshop this morning. They loved it, they loved seeing it, and so we're going to continue to provide that because it gives them a snapshot," he said.

"COVID has really changed the way that we collaborate," Paula said. "I think we were fortunate, as an organization. We all had laptops. We bought headphones and some monitors for people to have them work more effectively at home, but for me, personally, collaborating is much more intentional now than it has been in the past." She explained that she used to be able to drop by a colleague's desk to ask a quick question, or she might run into someone in the lunchroom and have a quick conversation about a project they are working on. With so many staff members working remotely now, these unplanned interactions don't happen anymore. "We're fortunate that we have tools to be able to see each other, engage that way, and have group meetings and that kind of thing. But I think remote work has made collaboration difficult. Now, ask me in a year and a half, and I might say, 'Oh, it's not difficult. It's just the way it is.' But for me right now, it's still not normal."

"We're looking at changing our service models, and I think it's a little bit unnerving in some cases, but it's really given us a chance to grow," Cory said. He believes local governments will face continuing pressure to innovate in order to serve their constituents better, and support departments like his need to be a part of that innovation. "How can we in accounting be innovative to help meet customer needs, and in finance, how are we supporting our departments to head toward that innovation?"

"I think there are a lot of people mourning the loss of what was, and people are at different places on whether they're mourning still, or whether they're embracing some of the new challenges or opportunities that might be laid before them," Cory said. "I think there are a number of our staff that are really liking the work from home—it's creating a little more work-life balance, where they can spend more time with their family, and what we've noticed is we're not losing productivity necessarily. They feel like they can actually get more stuff done because they're not as interrupted."

> "We really do have a unique culture here within our division... **we respect one another and what knowledge they have** and what they can bring to the table—we've worked at that."
>
> – Brenda Pavelich-Beck, Anoka County Accounting Director

Yvonne believes the focus on empowering staff definitely helps in times like this. "One of the things that I think has been very helpful in order for staff to cope with some of this change is to have that empowerment," she said. "Being able to have leadership and management empower us to think outside the box and to come up with some really great ideas on how to make this process different, and to really look at things and being challenged to relook at things and to find those new ways of doing things and knowing that you're not going to just get the answer, 'No, we've always done it that way'—that is also I think, very empowering for staff."

The focus on questioning the current state of things, combined with the focus on collaboration, results in better outcomes for the Finance and Central Services Division, Cory said. He explained how sometimes when he presents a new idea to Brenda, Paula, or Yvonne, their initial reaction might be less than enthusiastic, but they are willing to mull it over and give him honest feedback.

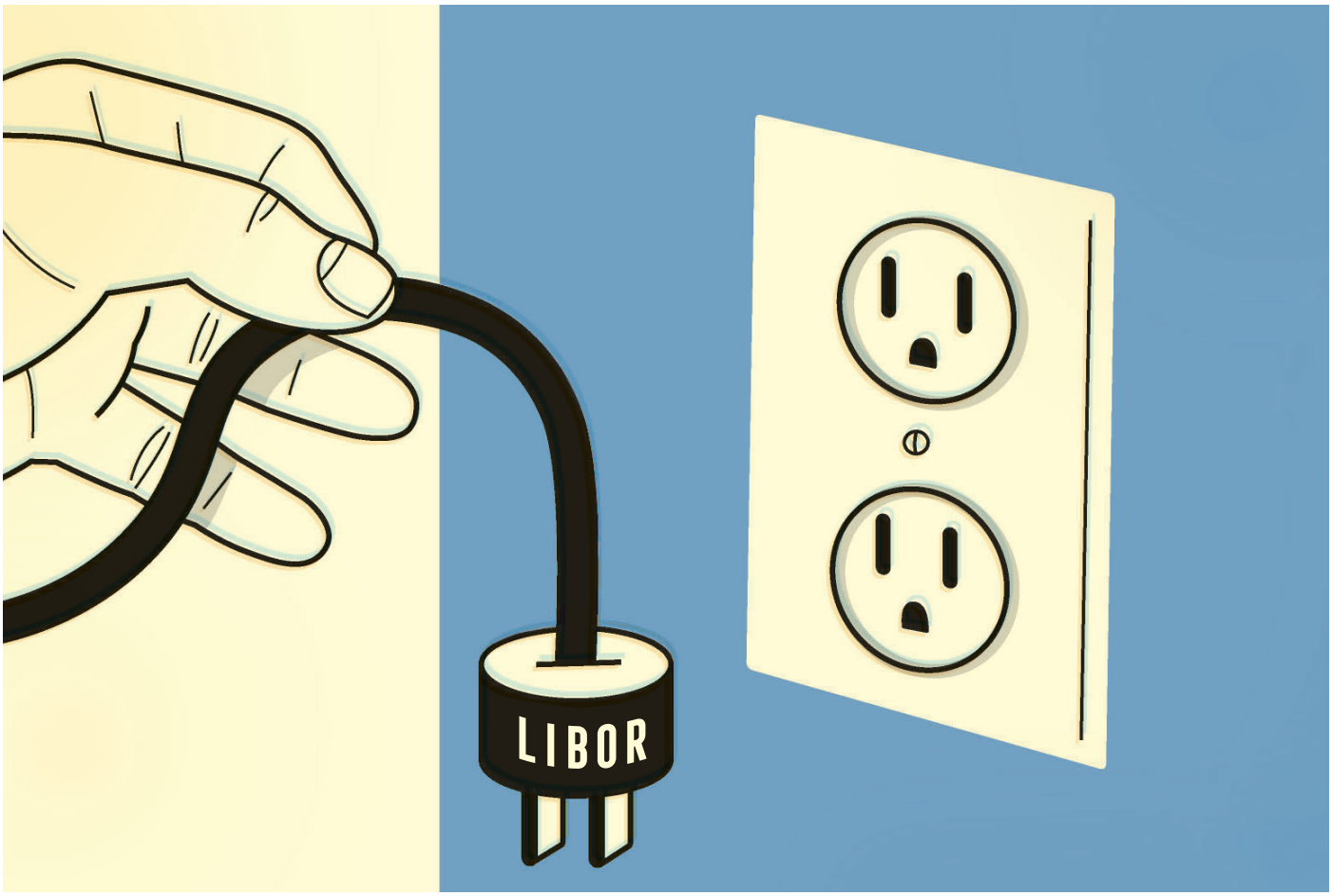
"He's been thinking about it for two days, and then he comes and drops it on me, and I'm supposed to say, 'Hey, that sounds really fun, right?'" Brenda mused. "You need to back off a little bit and think about it, and think it through, and then we can reach something that works for everybody."

"It's fun to drop a bomb on them, but of course, they have permission to throw darts back and look at it differently," Cory said. "So, I don't always get my way, so to speak, but we get different lenses looking at it, which means, I think, it's the better product at the end of the day."

Brenda agreed and explained that this is by design, not by accident. "We really do have a unique culture here within our division, and we do have a lot of fun, as Cory mentioned with Moomba. But we respect one another and what knowledge they have and what they can bring to the table—we've worked at that. We've worked at making that culture for both employees and the leadership team, and we're starting to see real benefits," Brenda said.

Cory also explained that this focus on innovation and collaboration has influenced the Finance and Central Services Division's approach to recruiting staff. He described how many government finance departments require a certain number of years of experience in government service and specific knowledge of government accounting. But rather than focusing on these somewhat arbitrary requirements, he prefers to focus on finding someone who has the basic technical knowledge and who also is a good fit with the stated mission, vision, and values of the department. "We're looking for people who are curious and like to ask why," he said.

Katie Ludwig *is a Senior Manager in GFOA's Research and Consulting Center.*



LIBOR's Coming Extinction

BY TODD BUIKEMA

It is not uncommon for governments to have investments, debt, and/or other obligations (e.g., bonds, loans, and leases) that have a variable interest rate. To avoid the potential cash flow or market-value volatility that could result from fluctuations in interest rates, governments sometimes enter into hedging agreements in order to offset the interest rate fluctuations. Many governments use the London Interbank Offered Rate (LIBOR) or another interbank offered rate (IBOR) as a reference rate for determining payments to be made or received for hedging derivative instruments and for leases. In response to evidence that it may be subject to manipulation, LIBOR will no longer be maintained and published in its current form after the end of 2021. As a result, many kinds of contracts that reference LIBOR will need to be amended, replaced, or simply terminated.

The Governmental Accounting Standards Board's (GASB) authoritative accounting and financial reporting literature, including statements and implementation guides, reference LIBOR as an acceptable reference and benchmark interest rate.[1] To replace LIBOR with another reference rate, governments will have to amend or replace hedging derivative instruments (HDIs) or lease agreements that use LIBOR. Moreover, the authoritative guidance contains certain exceptions that allow governments to avoid treating the transition from LIBOR to another reference rate as a hedge accounting termination event—which would result in the immediate recognition of deferred accumulated gains and losses from HDI market value fluctuations—or a lease modification, which would cause the remeasuring of the lease.

MAINTAIN HEDGE ACCOUNTING

Amended or replacement hedging derivative instruments. Authoritative accounting and financial reporting standards prescribe that hedge accounting should not be terminated if the replacement HDI is (1) effective at reducing the risk the HDI was intended to hedge as of the end of the reporting period, and (2) replaces an HDI that had an IBOR, or an IBOR multiplied by a constant coefficient or an adjusted[2]

IBOR reference rate, if all of the following conditions are met:

- The HDI is amended or replaced to change the IBOR reference rate, or to change fallback provisions for the reference rate that is used to calculate the HDI's variable payments.
- The reference rate of the amended or replacement HDI *essentially equates* the replacement rate and the original rate, which may be achieved by either or a combination of the following:
  - » An adjustment, limited to what is necessary to essentially equate the replacement rate and the original rate, is made to the replacement rate.
  - » An upfront payment, limited to what is necessary to essentially equate the replacement rate and the original rate, is made between the parties.
- If the replacement of the reference rate is brought about by ending the original HDI and entering into a new replacement HDI, these transactions occur on the same date.
- Other terms in the original and replacement HDIs are identical, except for when and how the replacement rate resets. Specifically, term changes are limited to: 1) frequency of rate resets; 2) dates of rate resets; 3) methodology of rate resets; and 4) dates on which periodic payments are made.[3]

Upfront payments between parties. If a government makes a one-time upfront payment to a counterparty, the upfront payment is to be reported as an asset (a prepayment); if the government receives the upfront payment from the counterparty, it should be reported as a liability (an advance).[4] The upfront payment, whether it is an asset or a liability, is amortized over the life of the HDI using the effective interest method[5] and should be considered a cash flow over the duration of the related HDI for the quantitative methods used to determine effectiveness.[6]

Two-step transitions. Governments may have previously replaced an IBOR reference rate through an amendment or replacement of an HDI but subsequently decided to make a transition to using a Secured Overnight Financing Rate (SOFR) as the reference rate to hedge their interest rate exposure. The authoritative accounting and reporting literature also permit an exception to the termination of hedge accounting for a second transition, if certain additional requirements are met. Hedge accounting can continue for these two-step transitions if (1) the reference rate of the original HDI was an IBOR, or an IBOR multiplied by a constant coefficient, or an adjusted IBOR; and (2) the replacement rate in the second transition is a SOFR, or a SOFR multiplied by a constant coefficient, or an adjusted SOFR, and all four of the exception criteria listed above are met.[7]

Modifications to hedged items. Authoritative standards require governments to terminate hedge accounting when the hedged item, an asset or liability, is sold, retired, or defeased through a current or advance refunding (e.g., variable rate debt).[8] If a government has to amend the hedged item to replace the reference rate by changing the reference rate that is an IBOR, or an IBOR multiplied by a constant coefficient, or an adjusted IBOR, *with another rate that is essentially equal to the original IBOR, or an IBOR multiplied by a constant coefficient, or adjusted IBOR rate* that does not constitute a termination event, the government should continue to use hedge accounting. The reference rate can be replaced by either changing the reference rate or adding or changing any fallback provisions associated with the reference rate.[9]

Probability of expected transactions. An *expected* transaction can be a hedgeable item if the transaction will probably occur. For example, governments often enter into a derivative arrangement to hedge against an increase in interest rates occurring between the time a decision is made to finance a project and the time when bonds are issued. If the expected transaction is based on an IBOR, the probability of the transaction occurring is not affected by the sustainability or replacement of the IBOR.[10]

Appropriate benchmark interest rates. Authoritative standards provide guidance in determining the effectiveness of hedgeable items. If a government is trying to hedge its interest rate risk, current authoritative standards allow governments to use LIBOR as an appropriate benchmark rate for a derivative instrument that hedges the interest rate risk of taxable debt for determining the effectiveness of the hedge. For fiscal years ending after December 31, 2021, LIBOR will no longer be an appropriate benchmark interest rate for derivative instruments that hedge the interest rate risk of taxable debt.[11] The appropriate benchmark rates for determining effectiveness are an interest rate on direct Treasury obligations of the U.S. government, the Effective Federal Funds Rate (EFFR), and a SOFR.

LEASE MODIFICATIONS

Lessees and lessors need to remeasure their lease liabilities and receivables, respectively, if there is a lease modification, including a change in the interest rate used to determine variable payments. If the change to the lease agreement is to replace an IBOR *with another rate that is essentially equal to the original IBOR* that does not constitute a lease modification, and the lessee or lessor do not have to remeasure the lease payable or receivable, respectively, the reference rate can be replaced by either changing the reference rate or adding or changing any fallback provisions associated with the reference rate.[12]

Todd Buikema *is the assistant director for publications in GFOA's Technical Services Center.*

[1] For periods ending after December 31, 2021, LIBOR will no longer be acceptable for these purposes. (GASB Statement No. 93, Replacement of Interbank Offering Rates [GASB 93], paragraph 15.)

[2] An adjusted reference rate is one to or from which a constant dollar value is added or subtracted (GASB Cod. Sec. D40.118.d(2)).

[3] Ibid. and GASB Cod. Sec. D40.119.

[4] GASB Cod. Sec. D40.120.

[5] Ibid.

[6] GASB Cod. Sec. D40.121.

[7] GASB Cod. Sec. D40.118.d(3).

[8] GASB Cod. Sec. D40.118.c.

[9] GASB Cod. Sec. D40.123

[10] GASB Cod. Sec. D40.129

[11] GASB 93, paragraph 15.

[12] GASB 93, paragraphs 13 and 14.

Keeping Nonprofits Strong

Katherine Barrett & Richard Greene

An ongoing challenge of the pandemic and the related economic downturn is keeping the partnership between governments and nonprofits strong. Teryn Zmuda, chief economist with the National Association of Counties, laid out the problem succinctly. While prioritizing health and well-being is critical for local governments, many face the untenable combination of increased costs and a shortfall in revenues. "The strong relationship between local governments and community nonprofits is critical right now," she said.

The stresses have a dramatic ripple effect beyond services provided directly by government employees. "Nonprofits face especially troubling times," wrote George L. Head, special advisor to the Nonprofit Risk Management Center and coauthor of *Enlightened Risk Taking: A Guide to Strategic Risk Management for Nonprofits*.

Difficulties emanate from decreasing nonprofit income and declining private donations, said Elizabeth Boris, a fellow at the Urban Institute. This is particularly true among middle-income donors—people for whom the wolf may not be at the door, but who can hear the howls coming from a block away.

The drop in small giving is particularly difficult for local community-based organizations. These are the food banks, job training programs, and shelters that local government depends on to carry out policies and programs. While pandemic-related needs have escalated, so have the challenges of operating in a socially distanced environment. Child-care programs, for example, can only accommodate a limited number of children. Shelters and group homes have had to adjust to providing full-time services during stay-at-home lockdown periods. Mental health and substance abuse programs are needed now more than ever.

Stresses are apparent throughout the United States. "Nonprofits in New York are getting slammed. They're getting big hits across the board," said Lili Elkind, chief strategy officer of Roca, a nonprofit that aims to help lead high-risk young people toward productive lives.

In Mobile County, Alabama, county commissioner Merceria Ludgood also pointed to the problems of nonprofits that are simply not receiving the same level of donations. "They are not able to raise as much as they have in the past and the needs have not diminished but are increasing," she said.

Many nonprofits faced strains well before the pandemic and its attendant recession. Community-based organizations have always run on very tight margins. A 2018 report from the American Public Human Services Association and the Alliance for Strong Families and Communities outlined the management problems nonprofits face. These include staff turnover, limited data sharing, minimal technological investment, low levels of collaboration, and a lack of cash liquidity.

"They are not able to raise as much as they have in the past and **the needs have not diminished but are increasing.**"

–**Merceria Ludgood**, Commissioner, Mobile County, Alabama

In 2013, the Urban Institute released a national study of nonprofit government contracts and grants and the impact experienced by the 2007 to 2009 recession. While the experience of individual governments and nonprofits varied tremendously, the study documented the dire effects the recession had on nonprofit funding, both from government and private sources. In addition to simple cuts in contracted services, multiple nonprofits noted that delayed government payments exacerbated financial strain.

Ruth McCambridge, editor-in-chief of *Nonprofit Quarterly*, recounted the impact of those delays. "Then nonprofits have to start laying people off and closing down programs," she said.

At the end of this unprecedented, crisis-filled year, making sure that doesn't happen is a paramount concern of local governments.

What can be done? Thad Calabrese, an associate professor at New York University who has studied the contracting relationship between governments and non-profits over the past decade, suggests that some strains of the past could be alleviated by providing more flexibility in government/nonprofit contracts.

He said that nonprofits, overwhelmed with pandemic-related service needs, can be stymied by inflexible contracts that dictate how money is spent to the line item level. "You'd like these contracts to be focused more on measuring outputs and outcomes instead of focusing on the inputs," he said. While direct services are crucial, he said it is also important for governments to allocate some funding to administrative needs, which are often restricted. "It's not like overhead (spending) is wasted. That's the infrastructure that makes an organization more efficient and effective," Calabrese said.

Other experts who have studied the government/nonprofit relationship noted that better communication and collaboration among governments could alleviate administrative headaches that come from following different rules and processes in municipalities, counties, states, and the federal government. "A lot of nonprofit providers are caught up in trying to navigate different systems, whether it's about applying for grants, managing contracts, or keeping track of policy," said Elizabeth Searing, who has studied nonprofits in New York, Georgia, and Illinois, and is now assistant professor of Public and Nonprofit Management at University of Texas at Dallas. "Harmonization between different levels of government would be really useful and allow nonprofits to spend less of their resources on administration and more on delivering services."

During the pandemic, one of the most obvious ways that local governments have helped support nonprofits is in locating and qualifying for federal funding and grants. In Jackson County, Missouri, County Administrator Troy Schulte cited the county's work with the United Way to generate $1.5 million of funding from the federal Coronavirus Aid, Relief, and Economic Security Act, generally known as the CARES Act. The money was combined with $700,000 in philanthropic support for eviction and foreclosure prevention, with money going to nonprofits such as Legal Aid of Western Missouri, the Mid-America Assistance Coalition, and the Homeless Service Coalition.

ERIN CLARK FOR THE BOSTON GLOBE VIA GETTY IMAGES

Above, people line up for a food bank organized by Healthy Waltham in Waltham, Massachusetts. Healthy Waltham is one of the region's many nonprofits that are responding to increasing demand in food donations during the Covid-19 crisis.

Similarly, in Adams County, Colorado, the human services department was able to tap CARES Act funding to create community food hubs to provide free meals, according to its director, Katie Griego. The food hubs, modeled after free and reduced lunch programs, were first located in high-poverty areas and are expanding to involve all interested school districts in a free meal program in which three food banks and other nonprofit agencies join in delivering services.

There are multiple other ways in which local governments have supported and sustained nonprofit work during the pandemic.

Helping nonprofits find and use volunteers can be as straightforward as running public service announcements or posting opportunities on the city or county website. Some governments have even provided opportunities for their own employees to use a small amount of city or county worktime to provide volunteer help connected to needs outside of their own department.

For example, in Memphis, Tennessee, city workers in good standing can utilize five hours each pay period for volunteer activities, an employee benefit that has also proven highly useful in city efforts to attract and retain young employees.

Similarly, in Adams County, a professional development program in the Department of Human Services includes a training component that gives staffers the chance to use up to eight hours a year of paid work time to volunteer to help with nonprofit services that the county funds. For example, some staff volunteers helped to package meals for the county's meal program or sorted clothing and school supplies for individuals and families in need.

Governments also can assist nonprofits with a wide range of technical expertise, such as help with budgeting, strategic planning, human resources, information technology, and accounting. The cost is staff time, which is difficult to squeeze out but can provide important benefits. "These tend to be the things nonprofits underinvest in because they're not program spending," Calabrese said. "Different, very specific types of technical assistance could have fairly significant payoffs with no real financial cost to the local government."

For example, in Mobile County, Alabama, three nonprofits lacked the technological and operational capability to support staffers working from home. The county provided grants ranging from $5,000 to $14,000 to allow workers to work from home and have contact with potential recipients remotely, according to Merceria Ludgood, county commissioner.

In the past, local governments have often been able to provide low-cost space to nonprofits within under-used government facilities. Both the need for space and the availability of open space may be even more pronounced in this time period. "When cities are cutting back, they may even have more space in their facilities because of decreased staffing or because they have ended certain programs," said David Renz, director of the Midwest Center for Nonprofit Leadership.

Adams County, Colorado, offers staffers up to 8 hours of paid work time each year to volunteer with nonprofit services funded by the county.

For example, Renz recently worked with a workforce development nonprofit and helped them connect with the Kansas City Parks Department, which sometimes has underutilized spaces in community facilities.

Another important support for nonprofits in Adams County has been a two-year-old human services building that provided enough room both for county staffers and for 21 nonprofits, which pay a minimal yearly amount for the use of this office space. While many of the nonprofits also maintain outside offices, the county building has helped to reduce the need for other secondary locations or further expansion.

Having multiple nonprofits and county staff in one building creates a one-stop-shop atmosphere for families and eliminates a major transportation barrier for low-income families. It provides a significant support to community nonprofits, according to director Griego. Similarly, there is currently a motion by the Los Angeles County Board of Supervisors to explore the feasibility of leveraging county libraries and park locations for childcare during the pandemic.

Finally, good communications between governments and nonprofits is critical. Not all of Adams County social service nonprofits share space in the human services building. For those that don't, Griego emphasized the importance of ongoing contact between government and nonprofit staff. Her office, in partnership with nonprofits, holds a community partners meeting each month. These meetings are cochaired on a rotating basis by one of her three deputies with a nonprofit partner. She emphasized the importance of the collaborative nature of the meetings, which provide a venue for nonprofits to share problems and get solutions from each other. "It's not about us, the big government, taking the floor. It's truly about the amazing work they do and the supports they need," said Griego. "We all work together."

Katherine Barrett *and* ***Richard Greene*** *are principals of Barrett and Greene, Inc. and are co-authors of the recently released* Making Government Work: The Promises and Pitfalls of Performance-Informed Management. *They are: columnists for the Government Finance Officers Association; columnists and senior advisors at Route Fifty; senior advisors at the Government Finance Research Center at the University of Illinois in Chicago; consultants to the National Association of State Personnel Executives; special projects consultants for the Volcker Alliance; columnists for IPMA-HR; and fellows in the National Academy of Public Administration. Greene has been named chair of The Center for Accountability and Performance at the American Society for Public Administration. Their website is greenebarrett.com*

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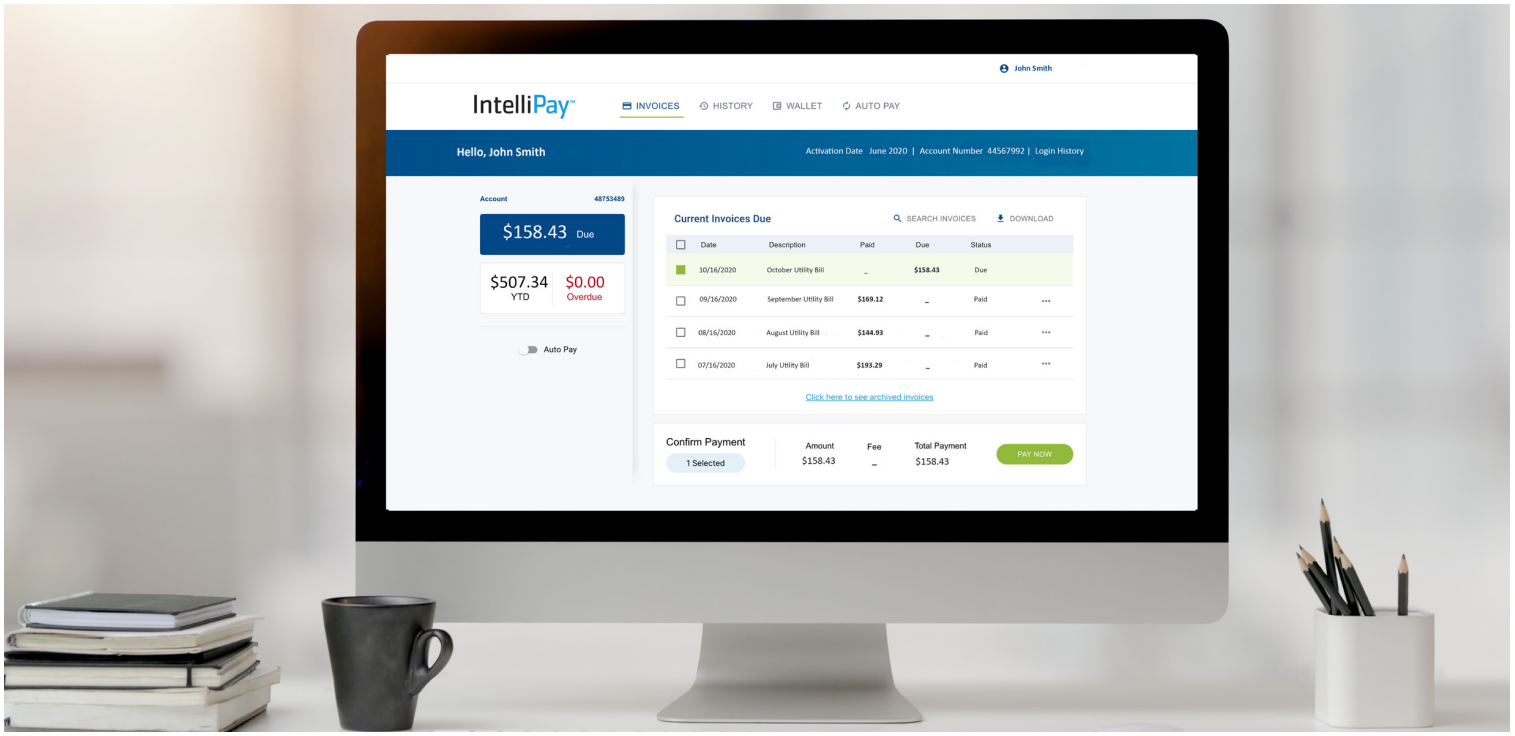

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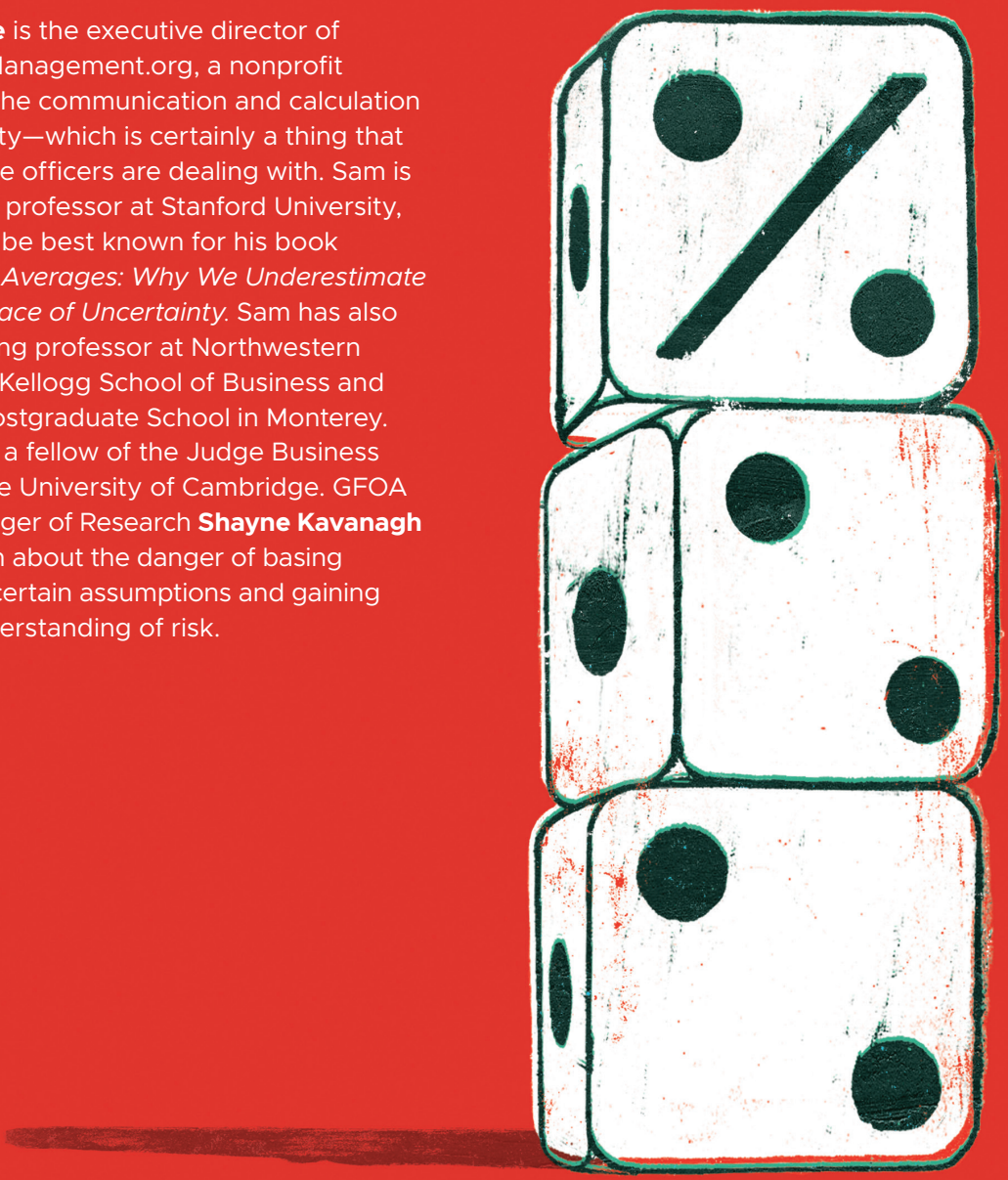
Q&A WITH SAM SAVAGE

Sam Savage is the executive director of ProbabilityManagement.org, a nonprofit devoted to the communication and calculation of uncertainty—which is certainly a thing that many finance officers are dealing with. Sam is a consulting professor at Stanford University, and he may be best known for his book *The Flaw of Averages: Why We Underestimate Risk in the Face of Uncertainty*. Sam has also been a visiting professor at Northwestern University's Kellogg School of Business and the Naval Postgraduate School in Monterey. He was also a fellow of the Judge Business School at the University of Cambridge. GFOA Senior Manager of Research **Shayne Kavanagh** spoke to him about the danger of basing plans on uncertain assumptions and gaining a better understanding of risk.



Your book is called *The Flaw of Averages*. Can you explain to our readers what the "flaw of averages" is?

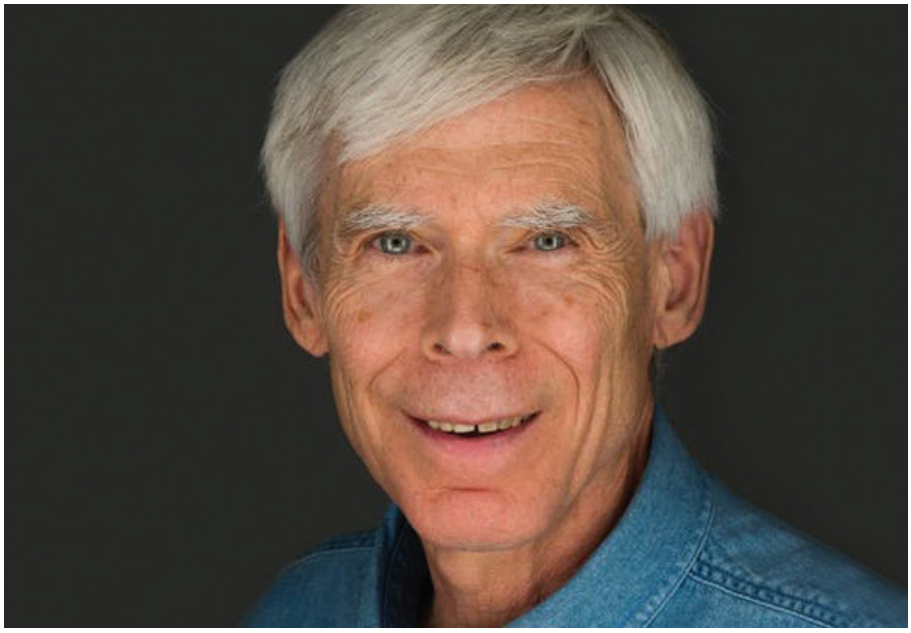
Sam Savage: Put simply, plans that are based on averages are, on average, wrong. We deal with statistical uncertainties every day and try to replace that uncertainty with a number—an average—to help us make our decisions. We plug that number into a spreadsheet to represent an uncertain future outcome, and doing that causes us to make systematic errors. For example, if you were in a room with Bill Gates and eight others, on average you would all be billionaires. But if you were to select one person at random, there is 90 percent chance that that person is *not* a billionaire. This is the flaw of averages, and it explains why forecasts can easily be wrong.

There's a joke about a statistician who drowns while fording a river that he calculated to be, on *average*, only three feet deep. The point is that you can't really represent an uncertainty by its average.

You've talked about projects being over budget and behind schedule, and I think it's in your rule of thumb that a typical project will succeed 20 percent of the time. Can you say a bit more about that rule of thumb and where it comes from?

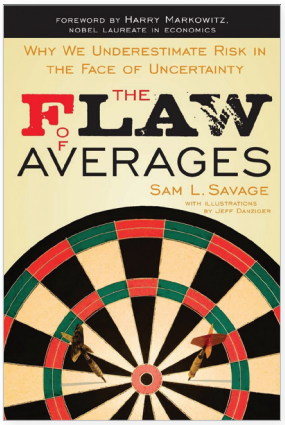
SS: If you have to give an estimate, start out assuming that there's one chance in five that it'll work.

Let's assume that a public-private partnership development requires a developer to get 10 permits by a certain date to keep the project on time and on budget, and each permit takes six weeks, on average, to process. Construction is scheduled to start in six weeks, and your boss wants to know if there will be any problems with that. You don't want to be the project manager who says, "On average, these permits will be done in six weeks, so there shouldn't be any problems." Looking at things differently, there is really only one chance in a thousand that you're actually going to start construction in six weeks.



Why? If we assume that on average, a permit takes six weeks, there's a 50 percent chance that any single permit will take less than 6 weeks, and a 50 percent chance it will take longer than six weeks. It's like flipping a coin ten times—it's a new flip of the coin each time. Getting each one of your permits in less than six weeks would be like flipping a coin and getting heads ten times in a row, and the odds of that are roughly one in a thousand.

READ MORE by Sam Savage



The Flaw of Averages: Why We Underestimate Risk in the Face of Uncertainty describes common avoidable mistakes in assessing risk in the face of uncertainty.

To learn more, visit flawofaverages.com

I have another example that seems to come up often with local government budgeting. Departments build slack into their operating budgets in case something bad happens. Let's say the government has 10 departments, and each department has a 10 percent chance of incurring unexpected costs of $1 million, so each department builds $1 million of padding into its budget, for a total of $10 million. The chance that all ten will experience $1 million in the extra costs in a given year is very low, so the government has built in much more padding than it actually needs.

So, if $10 million is too much padding, what is the right amount? Based on your earlier point, I'm assuming that using an average of $1 million isn't the right answer either.

SS: Yes. To determine how much money to budget as padding, a government has to determine what kind of risk it's comfortable with. By running a simulation of the ten departments, each with a 10 percent chance of incurring additional costs of $1 million, we can calculate the probability that we would need $1 million, $2 million, $3 million, or any other dollar amount in padding. In this example, keeping $1 million in reserve would give you a 73 percent chance of covering all your losses; $2 million would give you a 93 percent chance; and $3 million would give you a 99 percent chance.

Exactly. This shows how we can manage that risk across multiple departments and help the overall budget of the government. GFOA has seen local governments save a lot of money by coming to this realization and essentially pooling the risk across these departments in a centralized, but smaller, contingency that the departments have access to. So there are definitely real-life implications to the flaw of averages within public finance.

Your book, *The Flaw of Averages*, is about how to make better decisions under uncertainty and recognizing risk—it requires us to see the world differently. In your view, what skills or practices separate the risk-aware managers from everybody else?

SS: First of all, the concept of risk is usually very poorly defined and misunderstood. You need to be able to differentiate risk, which is the chance that certain outcomes will occur, from uncertainty, which is not knowing or having data on what outcomes are likely to occur. Once you understand risk, you can quantify what outcomes are likely and make decisions based on your level of confidence in the outcome. Risk-aware managers are able to determine risks and make appropriate decisions based on appropriate tolerances. The real world is complex, and many factors might influence an outcome. The key is determining the most influential factors, looking at the probability of various outcomes, and quickly identifying a model to support decision making that describes the situation.

That's a good point. So to discuss risk properly, we need to get into probability. Risk is specific and involves more than just identifying success vs. failure. You need to be able to describe likely outcomes and the chance that each will occur. Can you say a bit more about that?

SS: This is what I call the arithmetic of uncertainty. Basic arithmetic tells us that X plus Y equals Z. However, given that X and Y are both unknown and can change, the arithmetic of uncertainty asks, "What are the chances that Z is above or below a certain number? We can then analyze the "risks" associated with X and Y to better understand the uncertainty of Z and answer the question. We can then use computers to simulate that uncertainty many times, record the results, and arrive at the probability of certain outcomes.

We've been using some of these same concepts at GFOA in our consulting work to help governments model risk associated with establishing financial policies or look at uncertainty in budgeting. It has been a very powerful tool and really provides some great insights into the cities that we've worked with.

For example, let's consider the scenario where a government is looking to budget for the replacement of vehicles and needs to determine how much money to set aside for capital vehicle

"THE CONCEPT OF RISK IS USUALLY VERY POORLY DEFINED AND MISUNDERSTOOD. YOU NEED TO BE ABLE TO DIFFERENTIATE RISK, WHICH IS THE CHANCE THAT CERTAIN OUTCOMES WILL OCCUR, FROM UNCERTAINTY, WHICH IS NOT KNOWING OR HAVING DATA ON WHAT OUTCOMES ARE LIKELY TO OCCUR."

purchases. The department plans to use each vehicle until it reaches the end of its useful life and needs to identify a savings rate so it will have enough to purchase a new vehicle when the time comes. Of course, not every vehicle lasts exactly the same as this predetermined lifespan. Wear and tear on the vehicle would vary, accidents happen, and the replacement price may be different, as well. If the finance officer is thinking in terms of probabilities, they'd realize they could easily prepare a risk model that quantifies the chances that the vehicle will be used more or less than expected, the chance of wrecking the vehicle, and a range of future replacement costs.

SS: I'm an Excel user, so I like to view everything from the point of view of Excel. It's easy to write a model in Excel that shows potential scenarios for usage, risk of crash, and expectations on inflation. This model then gets simulated many times in the spreadsheet, creating thousands of parallel universes and different scenarios for the required savings rate necessary to be able to replace the government's vehicle fleet. We can then use a "COUNTIF" function to calculate the overall probability that our vehicle replacement budget will have sufficient funds. If we calculate how much is contributed each year, and the amount we spend on new vehicles based on our simulated model, we can count the simulations where the fund would go below zero based on different rates of contribution.

I think many GFOA members are familiar with the idea of having an Excel model that shows the baseline situation, a pessimistic view, and an optimistic view—three scenarios. Looking at 1,000 or more scenarios simultaneously provides much more perspective on what could possibly happen and your chances are of success or failure.

SS: With thousands of scenarios and the results combining the impact from several variables, it allows us to look at outcomes in a way that is closer to the real world. For example, instead of pessimistic versus optimistic, we can look at different assumptions on interest rates, stock market changes, tax revenues, operating costs, and more that potentially would behave differently.

This is a very useful approach, but it has to be communicated, particularly to elected officials, who may not be used to thinking that way and might not really be able to grasp it initially. What are some of the best ways explain uncertainty and use an approach like this for decision making?

SS: The best way is to put a spreadsheet model into their hands and have them adjust things. Have them look at different scenarios. I would also suggest that elected officials learn how to ask questions that best incorporate a risk-based approach. If someone says "Give me a number," you want to flip that on its head. That person should be giving you a number, and you can then tell them the chances of hitting it.

One of our GFOA members successfully communicated this kind of uncertainty to her board. In her case, it was tax revenues. She was asked what the revenues would be for the next year. She had calculated a whole range of possible revenues, and rather than saying, "Here's 1,000 different outcomes, city council—chew on that," she said, "Here's my best guess, and here's a picture of that range." She then pointed out a few different points on this range and focused the council on those particular points, saying things like, "If you want a 90 percent chance of meeting the budget projection, you pick this point. If you pick this higher level of budgeted revenue, you should know your chances of meeting it go down to 60 percent." By showing just a few points on this along the continuum of possibilities, she was able to engage council members in the conversation in a productive way, while also taking into account this full range of possibility.

SS: This takes you back to the notion that acceptable risk is in the eye of the beholder, and everyone has a different attitude. She told the council that the expenditure chosen implied a 60 percent chance that the city would fail to meet the target budget and asked if they were comfortable with that. And they were not. Then at a 90 percent probability, they were much more comfortable.

Before we finish, let's get specific on the topic of computer simulation and using the computerized tools you've alluded to so far. Can we take a look at some of these opensource, free tools you use?

SS: Until very recently, it took specialized software to do this, but now native Excel can do wonderful simulations. It's available at ProbabilityManagement.org, including a bunch of Excel models you can play with.

That's great. Well, Sam, I appreciate you taking the time here to chat with us today.

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An Interview

with Phil Bertolini

BY SHAYNE C. KAVANAGH

Phil Bertolini is the codirector of the Center for Digital Government, a national research and advisory institute on information technology policies and best practices in state government. Before that he was the deputy county executive and chief information officer for Oakland County, Michigan. Phil was named one of *Governing* magazine's public officials of the year and one of *Government Technology* magazine's Top 25 Doers, Dreamers, and Drivers. GFOA Senior Manager of Research **Shayne Kavanagh** spoke to him about cybersecurity and technical debt.

DAVID KIDD/GOVERNING

Phil Bertolini has had an interesting career. He started his 31 years with Oakland County as an appraiser in the property tax area—"We call it the equalization division," Phil said—and worked his way up to becoming director of information technology in 2001. In 2005 he was promoted to deputy county executive and chief information officer. In moving on to e.Republic, his main focus is on cybersecurity.

Cybersecurity has been a headline topic lately, and Bertolini said the headlines are far from overblown. "The attacks that are happening on a daily basis—people just don't realize sometimes how many attacks are really, truly happening out there. And government is a prime target." But government is getting more up to speed. "I just don't think we can be concerned enough. This is the top priority for most government officials," he said.

The most common type of cyberattack we hear about is ransomware, where attackers lock up a government's ability to use its computing power and hold the organization's data and ability to compute for ransom. If the government doesn't pay, the attackers delete everything.

They find a way in by getting some credentials or exploiting a security hole, Phil explained, and when they get in, they search for the right permissions and right credentials to take control of the overall environment and technology. One of the most common ways for attackers to gain access to a computer system is through phishing. An example, Phil said, would be sending emails that read, "We need to update your credentials for Office 365. Please provide your credentials so we can make sure we have the right information." If one person gives up their credentials, that opens a doorway into the system. Or the attackers can exploit pieces of technology that might be less protected than others. "And in some cases, they'll sit in that environment for many, many days," Phil said, adding that he heard about someone waiting for 240 days before striking.

"People just don't realize sometimes how many attacks are really, truly happening out there. And government is a prime target."

A major vector for this kind of attack is people clicking on email links when they shouldn't—which makes this more of a people problem than a technology problem, in some ways. "Upwards of 80 to 90 percent of all attacks have some human interaction that has taken place to make it happen. And the best thing you can do is educate, educate, educate. You need to make sure that the right cybersecurity training is in place. Make that training mandatory, make sure all of the people that are accessing your network, using any of your technologies, have the right training," Phil said.

Bertolini notes that there are two "people" issues at play: the issue of training for all employees, and the issue of having employees with the right skills to actually guard the door. "And then, do you have the right skills after it happens to fight? Do you have the right skills to kick the bad actor out and then block the doors to make sure they don't come back in?" he said.

The question, of course, is how to get that done. "Make sure that you have somebody who understands the business side of this and not just the technology side," Phil advised. "I personally believe that cybersecurity should have a very strong foothold in the technology department. And the reason is that when you build technologies, you should build them securely. When you implement technologies, you should implement them securely. And when you consume technologies in the cloud, you should be able to do that in a secure way. Organizationally, cybersecurity needs to have the right amount of authority. They have to be able to walk in and say, 'Pull that computer out of the wall.'"

To pay or not to pay?

Circling back to ransomware, one of the biggest questions is whether a government that's been hacked should pay the ransom. It is literally the million-dollar question in some cases. "I hate to do this," Phil said, "but I'm going to hedge and say it depends. I don't like paying criminals. But if you don't have the backups or the disaster recovery and the ability to recover your systems, you may want to consider paying the ransom to get you out of the immediate problem." He stressed that paying the ransom doesn't ensure that the government won't have this problem again, however. "There has to be a strategy in place to make sure you're going to close all the holes that they came through the first time, and that you don't have other holes that they're going to exploit so they can come back and do it to you again. And there's been some very high-profile cases where governments didn't pay the ransom. They paid a great

Phil Bertolini speaks at Beyond the Beltway, The Center for Digital Government's annual market briefing event on the state and local government IT market.

deal of money to recover their systems, and then they got held for ransom again. Then there's others that did pay the ransom but didn't close all the holes, and they got ransomed again."

The goal is to make sure that the government can get back what it needs to keep going, Phil noted, which requires a lot of pre-work. "You should make sure you have good, solid backups that are tested, and that you'll only lose a day or a couple of days' data, based on your period of backing up," he said. "Then it might be okay to say, 'We're not going to pay the ransom. We're just going to reload everything we have now.' What I mean by that is data and the systems themselves, because when they ransom you, they could also take down your ability to use the technology. So, you need to cover both in the disaster recovery plan."

If the government does decide to pay the ransom, it doesn't necessarily have to pay the amount that's demanded. "A negotiation can take place, and there are a number of private-sector partners out there that will negotiate with the criminal," Phil advised. "What's the right fee to pay? Some started out at $50,000 and ended up at $2,000." A mid-sized to small government might have a hard time paying $50,000, but if the ransom is $2,000, that's a much different equation, and the government has to ask itself if it's going to pay that amount, get its IT back, and then improve its security, Phil pointed out. Of course, "you don't know what else they put in there to come back later. Did they lay Trojan horses into your environment that they're going to come back for?"

Another aspect of all this is cyber insurance. "Be careful when you do that," Phil advised. "Make sure you understand what they're going to cover and what they won't, or what you were supposed to have in place before they even give you the insurance." If the government does have cyber insurance, it will work with the insurer to handle a ransomware attack. "Sometimes when you alert your cyber insurance provider, they work with organizations that will help you fight through the problem. And some will say, 'We're not going to pay at all if you don't use us or use our ability to recover.'"

While ransomware is a technical problem, figuring out how to deal with it isn't just the CIO's concern, Bertolini emphasized: "This problem is everybody's issue." Therefore, when a government is deciding whether to pay the ransom or fight the attack, "the finance people need to be in the room to help make that business decision."

One might wonder if paying a ransom makes a government a more tempting target for future attacks, but Bertolini said this isn't really the case. "What we've seen out there is that they're not just hand-picking governments to attack. Much of this is machines, or automated attacks. They're just pounding against everybody's infrastructure and environment to find holes." So, if a government pays the ransom and then does everything needed to block future attacks, it shouldn't be more vulnerable than it would be if it didn't pay the ransom. "If they do keep coming back and hitting you, that's your own fault because you didn't take the responsibility to close all the holes you needed to close," Phil said. He brought up the adage about camping with your friends and being attacked by a bear. Do you have to run faster than the bear? No. You just have to run faster than the slowest person in the group. This applies to cybersecurity because attackers are looking for easy ways in. "If you're not the easy way in," he said, "they move on to the next one."

What about COVID?

Another issue at the top of people's minds is, of course, COVID-19. When asked if the pandemic has had any effect on cybercrime, Phil pointed out that everyone is working from home, using instant messaging, email, and texts to do business, and criminals obviously know this.

Before the pandemic, hackers were trying to impersonate people to get things done. A common example is whaling, where the criminal masquerades as a senior executive and contacts an employee via a legitimate-looking email, asking them to, for example, change the executive's paycheck direct deposit information or a direct deposit for a bank account.

Another popular approach has been to impersonate a vendor—for example, a construction contractor—and ask for a large payment to be sent to a new bank.

Well, now, Phil said, "Take all that and put it on steroids."

If an attacker has been sitting inside a government's IT environment, waiting to attack, "they've probably been watching your finance officer move money around, or they've been watching communications between your accounts payable and vendors," Bertolini said, adding that this is something a government needs to be especially vigilant about. "Are those home computers secure enough? Are the doorways secure? Do these computers use virtual private networks (VPNs)? Do we have multifactor authentication to get into technologies now that all these people are at home?"

"If employees are using sensitive data on their own personal devices, could those devices be hacked, and could the government lose that data? I think this is where everything's going to start heading now, especially while people are at home. Bad actors are going to impersonate you. They're going to try to get people to do things on their behalf. They're going to try to steal data." To protect that sensitive data, Bertolini recommends that governments enact policies forbidding employees from downloading sensitive data to a home device and requiring that employees use a secure VPN to access the technology. "Governments have opened up their ability to compute remotely without necessarily having all the right resources in place, technologically and people-wise, to make sure that the bad actors don't get in at the same time."

Technical debt

There are some who say that the cybercrime epidemic means that we're using too much technology, but Phil disagrees. "Governments do tons of services and deal with millions of pieces of data for millions of people," he said. "They're going to need technology—there's no way around it. I think the real issue that we're going to look at longer term is automation and digital transformation in the management of technical debt and legacy systems. And finance officers are keenly aware that older technologies can cost more over time."

Technical debt is the cost of legacy technologies as they age, and what happens as they become out of date, their functionality wanes, and they expose the government to potential security risks. Aging technology becomes a debt. The costs of maintenance begin to rise, and eventually the government needs to update its technology to reduce that debt. Phil offered an example. "If you buy a car, you drive it off a lot and of course it immediately depreciates. But you own that car, and it has a warranty. You drive it for a number of years, and you hold onto it because it keeps your out-of-pocket costs low. But it gets older and older, and all of a sudden, things start to go wrong.

> "Do the pre-work and make the investments you need to make. That work needs to happen, **and it needs to happen before the next crisis comes along."**

The transmission needs to be replaced. It starts to leak oil. The drive train might need to be replaced. That's what's happening to government technologies. They're becoming a debt because they're getting so old that the cost of managing them is starting to grow. And then another one of the big pieces of this debt is that you may not have the skill sets to manage an old technology because they're not training people any longer on old technology programs and languages."

"If you look at an ERP system," Phil said, "you'll hold onto that for 10 years. Now what do you do with it as it's 12, 14, 18 years old? You have to replace it. Otherwise you just can't afford to keep it alive anymore. And it might not be doing the things you need it to do to efficiently run the government. So I think the issue of automation and what's going to happen is that you're going to see a repositioning of people's priorities. And I think the COVID-19 pandemic has pushed people to say, 'Hey, we better make sure our technologies are up to date. We should make sure we have the right technologies for the next time this happens, and people have to all work from home again."

Phil suggested that there's a middle ground. "The cost of making or automating some things may be more than it's worth. So sometimes it's not bad to push the same piece of paper—but if you don't have the people to push the paper, then you can't do the function. So how essential is it? How critical is it, and how important is it that it have technology wrapped around it?"

Making sure you're on the right track

Closing out the conversation, Phil shared his thoughts about what governments should do to make sure they're on the right track when it comes to cybersecurity.

The first thing, he said, is to "do the pre-work and make the investments you need to make. That work needs to happen, and it needs to happen before the next crisis comes along. So, invest in modernizing technologies, and make sure you have the right policies and technologies in place for remote work. Those things need to happen right away."

"The second thing, when it comes to cybersecurity, is to modernize those technologies, which actually makes them more secure because the more recent versions of technology have different cybersecurity doorways and platforms built into them. So, as you shed your older technologies, you're actually making yourself more secure."

"And the third thing is to be vigilant. You need to make sure that you have the right people watching the right things. Make sure that the people who are responsible for your cybersecurity, whether that be internal or external, have the right skill sets, have the right knowledge, and are able to do what you need them to do, because in the end, it's really about people, policy, and technology. Have the right people, have the right policies in place, and modernize and invest in the right technologies so you can get the job done."

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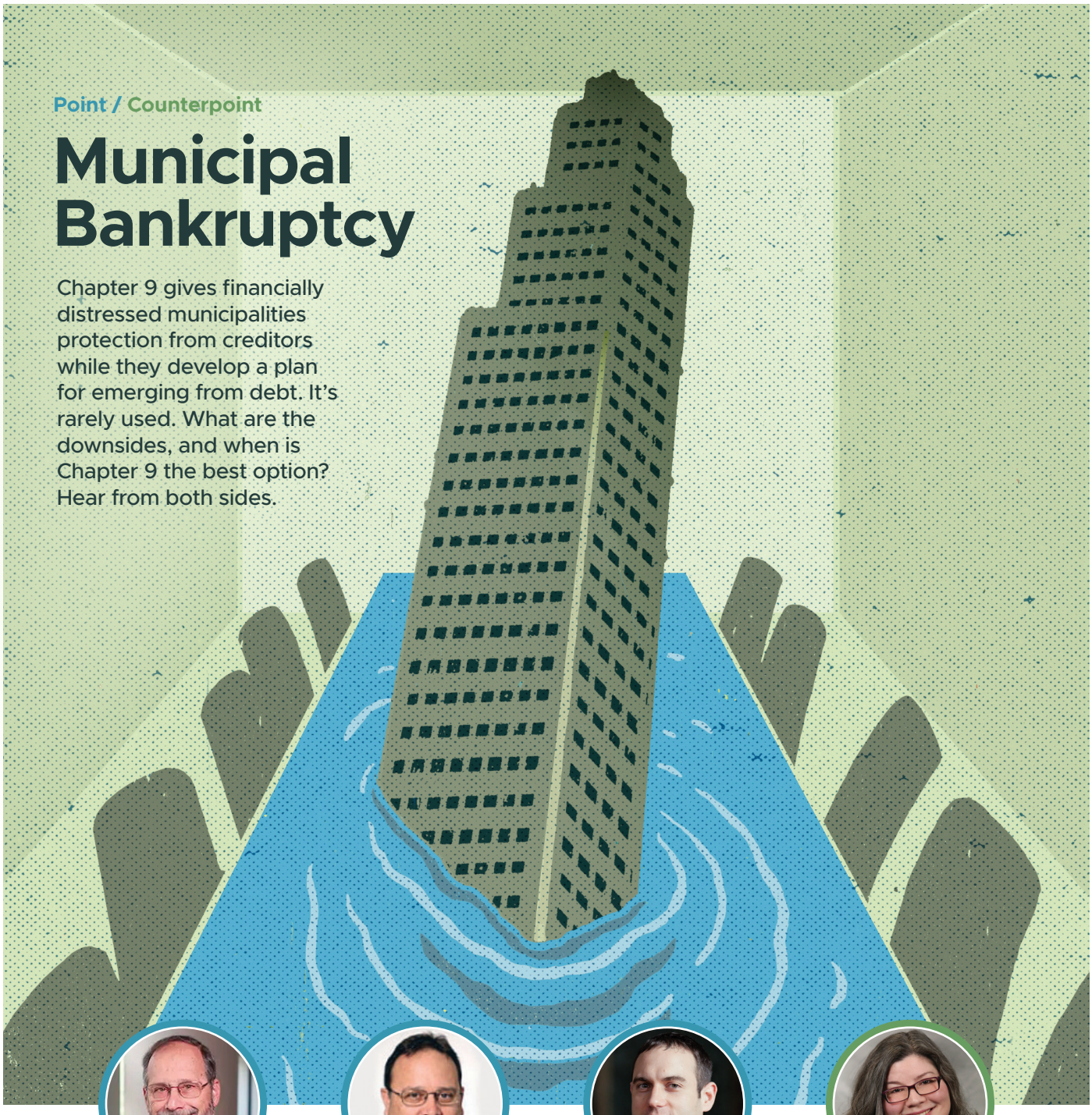
Government Finance Officers Association

Point / Counterpoint

Municipal Bankruptcy

Chapter 9 gives financially distressed municipalities protection from creditors while they develop a plan for emerging from debt. It's rarely used. What are the downsides, and when is Chapter 9 the best option? Hear from both sides.



Marc A. Levinson *is a restructuring lawyer in Orrick, Herrington & Sutcliffe LLP's San Francisco office.*

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Marcy Boggs *is the Managing Editor of GFR.*

The purpose of Chapter 9 is to provide a financially distressed municipality protection from its creditors while it develops and negotiates a plan for adjusting its debts. Reorganization of the debts of a municipality is typically accomplished either by extending debt maturities, reducing the amount of principal or interest, or refinancing the debt.

To file for Chapter 9, municipalities must be insolvent, have made a good faith attempt to negotiate a settlement with their creditors and be willing to devise a plan to resolve their debts. Chapter 9 differs from other sections of the bankruptcy code, such as Chapter 11 and Chapter 13, which generally provide court relief to cash-strapped businesses and individuals, respectively. When a municipality files for Chapter 9, its finances move into the jurisdiction of the courts.

Municipalities seldom pursue bankruptcy, and only as a last resort. Filing for bankruptcy gives policy makers some breathing room by changing a political process into a judicial one, and it can halt potential lawsuits resulting from debt defaults.

Marc A. Levinson, **John H. Knox**, and **Shayne C. Kavanagh** remind GFOA members that there are a number of good reasons why municipalities should avoid bankruptcy if at all possible. On the other hand, **Marcy Boggs** notes that the new reality of post-coronavirus finances means that bankruptcy might be something more governmental entities will be forced to consider.

POINT

The Downsides Are Significant

By Marc A. Levinson, John H. Knox, and Shayne C. Kavanagh

For many reasons, GFOA recommends that municipalities make every effort to avoid seeking bankruptcy relief. Bankruptcy can have significant costs and an impact on the community's reputation and the government's creditworthiness.

Marc A. Levinson, a restructuring lawyer in Orrick, Herrington & Sutcliffe LLP, notes that it's important to keep things in perspective. The cities of Stockton, California; Vallejo, California; and Detroit, Michigan, definitely suffered in the media for having filed for bankruptcy, but Levinson says he hasn't seen evidence that people have chosen not to live there because of it. "And as best as I can tell, the capital markets are willing to loan to a Chapter 9 survivor so long as it's creditworthy," he adds. "They wouldn't loan to it prior to the bankruptcy cases because the cities were insolvent."

This doesn't mean that bankruptcy is an easy road to travel. For one thing, this kind of damage to a community's reputation can sap its economic vitality, and it will increase the government's cost of borrowing. Also, the cash outlays required to go through the court proceedings are significant. Bankruptcy isn't a cure-all, either. A Chapter 9 plan of adjustment (Chapter 9 refers to municipalities, whereas the more commonly known Chapter 11 refers to private entities) is unlikely to completely void the municipality's obligations—so debts, albeit restructured, will still need to be paid. As a matter of law, a bankruptcy judge cannot override provisions of state law such as requirements for voter approval of tax, bond, and other matters. Furthermore, the municipal government is not dissolved by bankruptcy, and although bankruptcy provides local government officials with additional latitude, in the end, it is the municipality's management and elected officials who must make the hard choices required to reach financial health.

For these reasons, municipal bankruptcy is rare. Only a handful of cases have been filed by general-purpose governments since 1930. In fact, fewer than 40 cities and towns have declared bankruptcy.[1] Of the general-purpose

governments that have filed, many were small towns that experienced an outside shock such as losing a dominant revenue stream, losing a lawsuit, or facing a large court judgment related to environmental or real estate development issues. The fact that bankruptcy is so rare suggests local government leaders in the past have tried hard to avoid it—and for good reason. Let's delineate the three main drawbacks.

Credit market reaction. Municipalities that seek or even consider bankruptcy protection should expect a swift and harsh reaction from the credit markets. Even if bonds are paid in full, bankruptcy may leave a stigma that lasts for years, making it difficult to access credit and/or obtain favorable rates. Levinson notes that "may" is an important word here; as noted previously, the capital markets will make loans if the borrower, even one that emerged from bankruptcy, is creditworthy. Post-bankruptcy, Stockton and Vallejo were able to sell and/or refinance sewer/water bonds at favorable pricing for that reason.

Cost and distraction. Bankruptcy is expensive, with consulting and legal fees of seven figures for small entities and rising to eight or even nine figures for large cities. Those standing to lose from a bankruptcy (e.g., unions) may spend large sums resisting it, and the government will have to expend funds to respond. Bankruptcy will also require a great deal of staff time for the technical/legal proceedings as well as for dealing with the political repercussions and reactions from the public.

Furthermore, not all municipalities are eligible for bankruptcy protection. Only about half of the states have enacted laws relating to municipalities' eligibility for Chapter 9 relief. Some states have limited bankruptcy eligibility to special districts such as water or irrigation districts, and others have added conditions that must be satisfied before a municipality can file for Chapter 9 relief. For example, the State of Connecticut requires the governor to approve a Chapter 9 filing.[2]

Stigma on the community. Bankruptcy may tarnish the good name of the community, reduce civic pride, and deflate the business climate. All of this may hurt the economic viability of the community and weaken the local government's financial position.

Bankruptcy may tarnish the good name of the community, reduce civic pride, and deflate the business climate. All of this may hurt the economic viability of the community and weaken the local government's financial position.

Unfortunately, bankruptcy is not a cure-all for local government financial distress and should be used only when all other options have failed. Local governments will have to do the hard work needed to turn the financial situation around. Furthermore, bankruptcy entails significant monetary and reputational costs. Therefore, local governments will be better off if they recover on their own and avoid the options described in this article. GFOA's *Fiscal First Aid: 12 Steps to Financial Recovery* provides comprehensive guidance on how to do just that.

***Marc A. Levinson**, a restructuring lawyer in Orrick, Herrington & Sutcliffe LLP's San Francisco office, was the lead bankruptcy counsel in the Chapter 9 cases filed by the Cities of Vallejo and Stockton, California. **John H. Knox**, who was a public finance lawyer in Orrick, Herrington & Sutcliffe LLP's San Francisco office until his retirement, was the lead bond counsel in the Chapter 9 cases filed by the Cities of Vallejo and Stockton, California. **Shayne C. Kavanagh** is the Senior Manager of Research for the Government Finance Officers Association.*

[1] According to a 2010 National Public Radio interview with the late Jim Spiotto, who was a leading municipal bankruptcy lawyer, only 32 cities and towns had declared bankruptcy as of 1980. Since 2010, a handful of other cities have declared bankruptcy, keeping the total under 40.

[2] "The State Role in Local Government Financial Distress," The Pew Charitable Trusts, July 2013.

COUNTERPOINT

What COVID-19 Might Mean for Municipal Bankruptcy

By Marcy Boggs

Although local governments have had the ability to restructure their debts under Chapter 9 of the Federal Bankruptcy Code for 90 years, few have done so—in large part because of the stigma bankruptcy has traditionally carried. But the COVID-19 pandemic could change that.

Local governments across the United States are facing severe financial problems at the moment that are not of their own making. No amount of planning ahead would have addressed the impact of a pandemic. Municipalities are facing severe budget shortfalls caused by decreases in tax revenue at the same time they're being called on to provide emergency health measures and other additional services. Governments that rely on tourism have seen hotel occupancy largely dry up. Transportation has been similarly impacted.

No amount of planning ahead would have addressed the impact of a pandemic.

"The pandemic has hit budgets so hard that even cities in relatively good financial health will face significant changes to staffing and services," according to the Conversation, an independent, not-for-profit global network of newsrooms.[1] "For cities in the poorest shape, the pandemic could mean bankruptcy."

"Chapter 9 bankruptcy may provide an option for some local governments unable to otherwise survive the economic downturn and may help them more effectively

If a municipality has assessed its underlying financial problems and determines that Chapter 9 restructuring is its only option, the picture isn't entirely bleak.

restructure their operations, workforces, and debt," according to Manatt, Phelps, and Phillips LLC. "In addition, Chapter 9 may help struggling municipalities restructure their debt and pension obligations. While there are risks associated with filing for bankruptcy as a municipality, these risks may be offset by the benefits in the current and near-future fiscal environment."[2]

If a municipality has assessed its underlying financial problems and determines that Chapter 9 restructuring is its only option, the picture isn't entirely bleak. In addition to being able to adjust public debt and other obligations, "one of the most important and immediate advantages of a bankruptcy filing is the injunction prohibiting actions that might be taken by creditors or others against the municipality, its officers and its inhabitants," Orrick, Herrington & Sutcliffe noted. "The automatic stay protects debtor against creditor lawsuits, foreclosures, attempts to terminate leases and even collection phone calls and emails. The benefit to a municipality with insufficient liquidity to pay its operating costs cannot be overstated."[3]

Orrick also points out the value of breathing space. Bankruptcy allows a municipality to continue providing services to residents while it works out its financial difficulties, which takes time. "If a municipality is forced to breach contracts or face other legal claims caused by fiscal stress outside bankruptcy, it may have to spend time fighting off creditors trying to seize assets or collateral, or be forced into regulatory or other state fora to answer for such actions and redress grievances before it is able to fashion a workable solution for the benefit of all creditors, employees and residents. The bankruptcy case serves as the vehicle for all these disputes to be addressed in one forum, and the automatic stay provides the municipality the opportunity to focus on a comprehensive solution rather than simultaneously fighting multiple brushfires."

In addition, Mayer Brown pointed out that a government that is actively considering Chapter 9 can still have discussions with creditors about a voluntary out-of-court restructuring.[4] Mayer Brown also noted that the City of Detroit's bankruptcy "revealed some other positive features of Chapter 9 that came as a surprise to many observers. One was that it led to the consideration of a variety of financial options that may have existed previously in a theoretical sense but had never seemed viable from a political or bureaucratic standpoint—or perhaps because of the general force of institutional inertia. For example, Detroit seriously considered the possibility of privatizing its water system as a way to maximize the value of assets in its reorganization. The sale or lease of existing assets is often a feature of Chapter 11 plans in the private sector."

This is not to say that governments should move "consider bankruptcy filing" to the top of their to-do lists. Filing for bankruptcy is a last resort and has very serious consequences; however, governments that have been pushed to the brink by the pandemic should understand the options that may be available to them.

Marcy Boggs *is the managing editor of* GFR.

[1] Mark Davidson and Kevin Ward, "Next COVID casualty: Cities hit hard by the pandemic face bankruptcy," The Conversation, July 30, 2020.

[2] Ivan L. Kallick, Randall Keen, and Jacob Itzkowitz, "Municipal Bankruptcy in the Time of COVID-19," PM Magazine, August 2020.

[3] "Municipal Bankruptcy: Avoiding and Using Chapter 9 in Times of Fiscal Stress," Orrick, Herrington & Sutcliffe, 2020.

[4] John R. Schmidt and Sean T. Scott, "Municipal Restructuring, Covid-19, and Chapter 9, "Bloomberg Law, June 2020.

10 Steps to Acing an Employment Interview

As executive recruiters, the staff at GovHR have had the opportunity to observe thousands of interviews. They've provided us with a list of tips to help you avoid making some of the most common missteps they see.

Find a handy PDF of these tips, along with GovHR's *Top 10 Tips for Developing a Resume* and GFOA's employment agreement template at **gfoa.org/employment-resources**.

1

Make a good initial impression. Smile when entering the room. Make eye contact. Shake hands with every interviewer.

2

Watch your appearance. Project a professional image. Wear a suit that fits you well. Be aware of any nervous habits you have that may creep into an interview like shaking your leg under the table, saying "um" frequently, or turning red. For habits you can't fully control, you might be able to minimize them by working on it beforehand.

3

Don't use dated language. Don't say "girls in the office" or anything else that indicates you might not be current with appropriate professional conversation.

4

Always answer the question. Answer directly, give an example to support your answer, and conclude. If you have to ask if you answered the question, you probably haven't. If you're unsure, you could say, "Can I provide you with another example?"

5

Stay on point. Strike a balance between being succinct and getting your story out. If the recruiter or interviewer brings up time constraints and the need to focus your answers, take heed. You can still salvage the interview if you adjust going forward.

6

Convey your accomplishments. Write down a few key points that you want to make. If you don't have the opportunity to make all of your points, ask for a chance at the end of the interview to make a brief closing comment.

7

Prepare! Do your research on the community and organization. Read website materials and include some of your observations in your answers. Practice answering questions you think might be asked. Also, make sure your social media presence is what employers will find acceptable—more and more candidates are not advancing because of social media missteps.

8

Don't say "retire." Do not say this word in an interview if at all possible. Indicating that you are interested in a job because you want to retire in that area makes an interviewer worry that they will pay for relocation and get you up to speed, only to have you retire in a year or so.

9

Ask thoughtful questions. If you're given the opportunity to ask one or two questions, do so. If you are not given the opportunity, ask the interviewers if you can ask a question. Be sure your questions reflect research you've done on the organization.

10

Show your passion for the position and for public service. Smile, lean forward with your forearms on the table, and engage the group with your answers.

Government Finance Officers Association

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It is our hope that we'll be able to proceed with our event that is scheduled on **June 27-30 at the Hyatt Regency & Swiss Hotel in Chicago, Illinois**. However at this time, there is much uncertainty in this rapidly changing environment. We continue to closely monitor and follow the State of Illinois safety guidelines and capacity restrictions for meetings and social events. Ideally, we will open attendee registration, sponsorship opportunities, and exhibit sales in January 2021.

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