

The New Financial Sustainability Framework:

**A HOW-TO GUIDE FOR CHANGING GOVERNANCE
TO SUSTAIN YOUR COMMUNITY WITHOUT
BREAKING YOUR PIGGY BANK**



Government Finance Officers Association

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Financial sustainability was the top concern of an overwhelming number of GFOA members in the 2015 GFOA member survey. In fact, respondents raised financial sustainability almost three times more often than the next biggest issue. Of course, this survey was years removed from the 2007 Great Recession — yet financial sustainability was still top-of-mind for a large portion of GFOA membership.

Even without an economic storm like the 2007 Great Recession, local governments face financial headwinds that increase the probability of rough budgetary waters ahead:

- **Pensions and health care.** Health care cost increases are still well above inflation and typical government revenue growth. Local governments can expect health care cost increases to remain a financial challenge going forward.¹ The well-publicized pension funding challenges faced by many local governments add an additional large expenditure to the ledger.
- **Infrastructure maintenance and renewal.** According the American Society of Civil Engineers 2017 report card on American infrastructure, the US, on the whole, rates a “D+” and requires a \$2.0 trillion investment over 10 years.² Though not all of this required investment falls on local governments, enough of it does to create a significant financial burden.
- **Aging population.** An aging population generates less income, uses more, and spends a greater portion of income. This translates into less revenue per citizen.³
- **The impact of technology.** Governments will need to spend more on technologies like cybersecurity, while also facing technology-enabled challenges to traditional taxing systems.
- **State and federal financial uncertainty.** State and federal governments have adopted policies that place more responsibility on local government, while also reducing revenues.

The implication is that local governments must look for a way to ensure their on-going financial health and, thereby, ensure their on-going ability to provide for the health, safety, and welfare of their citizens.

¹ According to “[Medical Cost Trend: Behind the Numbers 2017](#)”, published by PWC in June 2016, cost increases will remain similar to recent prior years and may eventually even uptick.

² <http://www.infrastructurereportcard.org>

³ For more information see: Mark Pisano. *The Puzzle of the American Economy: How Changing Demographics will affect our Future and Influence Our Politics*. Praeger. 2017.

A New Framework for Financial Sustainability

A popular answer to the financial challenges of local governments is to run government “like a business”. This prescription does offer value, such as emphasizing efficiency in service provision and measurement of government performance. However, it is not fully satisfactory because it ignores the fundamental difference between government and business: government is a public organization while a business is private.

A public organization is one where decisions necessarily require the assent of multiple people, perhaps across various social groups, and where use of resources has to be negotiated between diverse stakeholders. Put another way, chief executive of a private company has far greater unilateral decision-making authority than a mayor or city/county manager could ever hope for. Furthermore, businesses have a clear overriding goal: profit. The goals of public organizations are often more ambiguous. For these reasons, the public sector requires a different model of leadership than the private sector.

Also, the design of a government institution empowers people to, simply by virtue of being a citizen, exert influence over how a government’s resources are used. When a citizen works together with others of similar interest to form a group, this influence can be substantial, including voting public officials out of office. Compare this with a private company, where the individual consumer has relatively little influence over a company’s direction and collective action on the part of consumers is relatively rare.

A more satisfying answer to the challenge of local government financial sustainability must account for these substantial differences in how leadership is exercised and how institutions are designed.

A promising new approach for local governments in the 21st century has its roots in 19th century England. A Victorian economist, William Forster Lloyd, described a situation where a group of farmers had common ownership of a grazing area. The individual farmer had the incentive to send his animals to the common grazing area as much as possible. This is because the additional cost to use the grazing area was zero (it was commonly owned) and if he didn’t send his animals, the other farmers’ animals would still graze, thus depriving the farmer’s herd of potential food. The result was that the common area was eventually overgrazed and became barren.

This “tragedy of the commons” inspired a line of modern economic research, called “common pool resource theory,” which is concerned with how to create sustainable management of commonly owned resources, such as grazing lands, fishing stocks, or forests. One of the originators of this line of research was Elinor Ostrom, who was awarded a Nobel Prize for her work in 2009. Dr. Ostrom started her academic career as a professor of political science at Indiana University and conducted her research on common pool resource governance at the university’s Workshop in Political Theory and Policy Analysis.

The Tragedy of the Commons

BEFORE



AFTER



The tragedy of the commons is a situation within a shared resource system where individual users acting independently, according to their own self-interest behave contrary to the common good of all users, thereby depleting that resource through their individual actions.

A local government budget has important similarities to the commonly owned grazing area. A government and its financial resources are commonly owned by all citizens of the government. Further, each stakeholder of the government has an incentive to extract resources from the public budget. Stakeholders often find themselves in “competition” with others to get resources, so therefore try to get as much as possible lest they lose the resources to others. The long-term result could look very much like the commonly owned grazing area.

The Tragedy of Local Government?

Local governments face problems that require cooperation. The “tragedy of the commons” could occur, for example, if infrastructure maintenance is deferred in favor of meeting the demands for compensation increases from labor unions. However, the tragedy can be avoided by creating decision-system that promotes trust and mutual gain for all parties.



Common pool resource theory has identified six leadership strategies and eight institutional design principles to encourage sustainable outcomes for commonly owned resource systems.⁴ Over the last few years, GFOA, the National Civic League, researchers at the University of Southern California and University of San Francisco, and the Lincoln Institute of Land Policy have worked together to determine the value of common pool resource theory for local government and how it can be implemented. Practitioners and other university Researchers were provided feedback on the framework developed by the research team. We believe the potential of the framework is great for the following reasons:

- **A holistic perspective.** Common pool resource theory goes beyond budget numbers and addresses the underlying decision-making behaviors and processes that lead to financial health.
- **Forward-looking.** Because this framework does address the underlying causes of financial sustainability, it should be indicative of future financial health.
- **Makes finance everyone's business.** Common pool resource theory recognizes that because everyone is involved in using resources, everyone needs to be involved in sustaining them. This includes elected officials, staff, and citizens and other constituents.
- **It works!** These strategies and principles have been proven to work in a variety of natural settings, and we have identified similar strategies and principles in local government settings by examining a series of case studies of local governments from across the United States.

In the next sections, we will briefly review these leadership strategies and institutional design principles, including some of their implications for local governments.

Leadership Strategies

Local government leaders cannot “order” stakeholders to behave in a sustainable way. Instead, they must inspire pride, loyalty, and enthusiasm among stakeholders so that followers will want to help make the organization financially sustainable. Common pool resource theory offers six strategies to help leaders reach this goal:

1. Create open communication among all participants.
2. Help participants to build trustworthy reputations.
3. Convince participants that there are high benefits from collective efforts.
4. Ensure that key stakeholders remain engaged.
5. Build long-time horizons into fiscal planning.
6. Maintain capabilities to reinforce cooperative behavior.

⁴ Tang, Shui-Yan, Richard Callahan, and Mark Pisano. 2014. “Using Common-Pool Resource Principles to Design Local Government Fiscal Sustainability.” *Public Administration Review* (November/December): 791–803.

1

Create Open Communication between All Participants

We often expect that people will behave selfishly. However, to test this proposition researchers ran experiments that gave people the opportunity to advance their own self-interest at the expense of their group's interest. A surprising number of people choose to help the group, even when they could have personally gained more by opting for a selfish strategy. Even more encouraging is that when participants in the experiment had the opportunity to communicate with one another, especially face-to-face, the likelihood of cooperation increased (even when the participants didn't like each other!).

One implication of this strategy is that local governments should use teams with members of different backgrounds to participate in financial decision-making. If financial decision-making pits one group against another, this dynamic sets the stage for one group to view others as adversaries. In this situation, it is only natural for a group to seek to maximize its own share of resources at the expense of others. It is important, therefore, to find ways for participants in financial decision-making to work together towards a common goal, even if they have to go outside of their normal group boundaries. For instance, cross-departmental teams might be used more widely to make financial decisions.

There are also implications for how governments engage with the public. Members of the public often leave a typical local government meeting with a worse opinion of government than when they started.⁵ This dissatisfaction occurs if participants in the meeting do not feel their views were given an honest and fair hearing. Leaders of public organizations should work to provide effective, meaningful ways for the public to discuss issues with one another and with public officials. For example, the public should be engaged early enough in the decision-making process that their input can have a meaningful impact, and government should make an active effort to recruit the participation of the stakeholders who will be primarily impacted by the decision.

Finally, whether communications involve just people inside the organization or outside as well, the parties should seek a joint understanding of the problem before discussing a solution. Reasonable people can disagree, but they are more likely to disagree on a solution when they don't share a common understanding of the problem.

Who are the Stakeholders that should Participate in Reaching Financial Sustainability?

At a minimum, stakeholders from inside of the government who have an important role in financial decision-making, such as department heads and elected officials should participate in the conversation about financial sustainability. Ideally, stakeholders from outside the organization, especially those that have an important influence on the organization's finances will also be included. Examples might be leaders of organized labor groups that represent public employees, influential citizen/civic groups, or representatives from influential overlapping jurisdictions.

⁵ "Making Public Participation Legal". Compiled by the Working Group on Legal Frameworks for Public Participation October, 2013 references the Knight Foundation's "Soul of the Community" study.

Looking for the Details on How to Operationalize the Framework?

You can read the “Framework for a Financial Sustainability Index”, which includes:

- Implementation tactics for each of the leadership strategies and design principles.
- Case studies of how common pool resource theory applies to local government.
- More detail on the implications of common pool resource theory for local governments.
- In-depth descriptions of the real-world experimental research that validates common pool resource theory.

For more information, please visit gfoa.org/financial-sustainability-resource-center

2 Help Participants to Build Trustworthy Reputations

Experimental evidence has shown that when people have reason to trust each other, they are more likely to make decisions that will advance the collective interest of the group — even when they could realize personal gain by making a selfish decision.

This means that when participants in financial decision-making trust each other, they are more willing to bear their share of the costs associated with good financial decisions. For example, if public officials have developed a reputation for conserving financial resources, it is easier for them to negotiate pension issues with public employee unions. If officials have established reputations for being trustworthy, unions can be confident that short-term sacrifices by their members will not be used to benefit other interest groups instead of helping ensure the availability of resources in the future. However, just as we couldn't expect a sports team to develop the trust between team members necessary to execute difficult plays during a game without first practicing, it is unrealistic to expect the members of a decision-making team to make difficult, collective decisions during the heat of the moment without some preparation. Leaders must prepare participants to trust each other before they ask them to act in the interests of collective well-being. This might include, for example, encouraging departments to work together to solve shared day-to-day operational problems or even just designing workspaces and social events that encourage intermingling of different groups.

When it comes to making actual decisions, certain behaviors will enhance trust between the parties, while others will undermine or destroy it. For example, when people trust that it is safe to offer information that contradicts views held by a larger group, then teams will function better. Hence, leaders need to model the behaviors that create trust and encourage others in the organization to practice those same behaviors.

3 Convince Participants that there can be Benefits from Collective Efforts

Experimental evidence has shown that people are more willing to contribute resources to a common effort if they believe that their contributions will create benefit for themselves. Therefore, leaders need to show participants in financial decision-making that individual benefits come from collective action. However, it may be difficult for benefits to accrue as financial resources, especially in times of scarcity. Fortunately, research shows that people are powerfully motivated by intrinsic rewards such as serving a purpose greater than themselves or achieving a challenging goal. Research also shows that we tend to believe that others are more motivated by extrinsic rewards (e.g., money) than they actually are. This can lead us to underestimate what others are willing to do for the collective good without monetary incentives. Hence, “benefits” do not

necessitate extrinsic rewards, but could encompass intrinsic rewards. Leaders need to set forth an inspiring vision for what collective decision-making can do for the organization and how it can get there to show participants the greater purpose they can contribute to and benefit from.

4

Ensure that Key Stakeholders Remain Engaged

Common pool research suggests that if participants can opt out of a decision-making process at relatively low costs and avoid being taken advantage of, this ability encourages other participants to be cooperative. In other words, if participants can simply choose to not play the game instead of being forced to go along with an unfair game, all participants are encouraged to play fairly. However, if everyone drops out at the first sign of trouble there will be no one left in the game. Hence, leaders must encourage key participants to remain engaged in the process of collective problem-solving.

Yet, many stakeholders will not be inclined to routinely participate in local government. Regardless, governments should provide the opportunities for stakeholders to become participants and stay engaged. Leaders not only need to use meeting and communication formats that invite participation, they also need to demonstrate their personal commitment to making stakeholders part of decision-making.

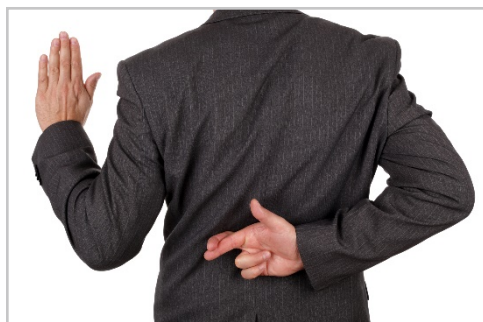
Even when leaders do their best to build an engaging process, they will sometimes encounter situations that strain the cohesion of participants. In general terms, leaders can take steps to build the loyalty of participants so that they will stick with the group to make it through hard times. For example, leaders can model collective commitment by giving up something that they, themselves, value for the good of the group, and by helping participants to recognize their shared goals and mutual interdependencies.

A specific challenge to the cohesion of participants is when one participant cheats or otherwise attempts to gain an unfair advantage at the expense of other participants. If a cheater is perceived to be “getting away with it”, then others will become cynical and become disengaged. Leaders must counteract cheaters and support fair play.

Finally, though participants will, ideally, stay engaged and loyal, this will not always be the case. Leaders should recognize that when participants leave the decision-making process, it provides a valuable signal that all may not be well. Hence, leaders should make allowances for constructive exits by participants, while taking steps to address the problems that triggered these exits.

The Importance of Fair Play

CPR research has found instances where people did not engage in collective behavior. However, there is a competing explanation to pure selfishness. When person “A” observes that person “B” is extracting resources from the system beyond their contribution, A may see B as cheating. Not wishing to be taken advantage of further, A reduces their commitment to the system. In extreme cases, A might even undermine the entire system in order to punish B, even if A loses resources in the process. Hence, government leaders need to ensure participants see the system as fair.



5

Build Long-Term Horizons into Fiscal Planning

Researchers have found that, in experimental situations, when participants take a longer term view on their interactions with other participants, they are more likely to engage in cooperation. Conversely, if the participants took a short-term view, they were more likely to engage in selfish behavior.

Accordingly, financial planning and budgeting are more likely to produce unsustainable choices if participants only focus on the short-term. Local government leaders need to develop mechanisms that concretely measure the longer-term impact of annual budget decisions including those related to labor agreements and infrastructure maintenance. A leading example is long-term forecasting that shows the impact of decisions many years into the future. Long-term plans must also help decision-makers accept and deal with uncertainty. For example, decision-makers can be presented with different, plausible scenarios for future revenues and expenditures and then use these scenarios as the basis for developing strategies to remain adaptable to whatever situation eventually does come to pass.

However, because local governments appropriate funds annually, there is a natural bias towards the short-term. Additionally, people are often naturally inclined to adopt short-term thinking. Consequently, it is not enough to simply introduce a long-term perspective into planning and budgeting. Local government leaders must also acknowledge short-term pressures and find ways to prevent short-term considerations from overpowering long-term ones.

6

Maintain Capabilities to Reinforce Cooperative Behavior

Noticeable successes of a few non-cooperators may convince others not to cooperate as well, while notable successes of those that do cooperate may have the opposite effect. For these reasons, it is important to maintain a system that can identify and reward or sanction those who do or do not cooperate.

The best way to ensure on-going cooperation is for the participants inside the decision-making system to reinforce the importance of cooperating themselves. Participants are closest to the decision-making process are in the best place to recognize instances of good or bad behavior from other participants and apply positive or negative reinforcement. For example, people generally prefer to be seen as good members of the group. If leaders can show that most members of the group exhibit sustainable behaviors, the other members of the group will be encouraged to do the same.

While secondary in importance to the efforts of participants within the system to reinforce cooperation, external actors can have a role as well. Bond-rating agencies, auditors state agencies, community groups, the media, or even the courts can provide a check against unsustainable decision-making, and the voters can exercise accountability.

A Lighter Touch for Reinforcing Cooperative Behavior

The Town of Gilbert, Arizona, grew rapidly over the course of a decade. Knowing that high growth can lead to financial challenges if not managed properly, Gilbert's leadership appreciates the importance of financial sustainability. For example, Gilbert has adopted a vision of being "The Best-in-Class: All Lines of Service" as an expression of its desire to be cost-effective. This aspiration is not necessarily unique to Gilbert, but it is strongly supported by staff and members of the Gilbert Town Council. They know that if they want to be the best, it will take a coherent, long-term financial strategy. Hence, decision-makers in Gilbert reflexively and intuitively inquire about whether decisions will make Gilbert "The Best in Class," including the financial condition associated with being the best in class. Hence, if someone suggests a course of action that would make Gilbert less financially sustainable and, therefore, something less than "Best in Class," that suggestion is more likely to be rebuked than it would be in many other governments.



Institutional Design Principles

Institutional design principles are the rules of the game for how local government and other, related organizations work together for a sustainable financial future. Institutional design principles provide the context in which the leadership strategies operate. The eight institutional design principles are:

1. Well-defined boundaries
2. Proportional equivalence between benefits and costs
3. Collective choice arrangements
4. Monitoring
5. Graduated sanctions and credible rewards
6. Conflict-resolution mechanisms
7. Minimal recognition of rights
8. Networked enterprises

1

Well-Defined Boundaries

Having well-defined boundaries encourages people to take into account the impact of their actions on one another. This is much like the old saying “good fences make good neighbors” — though, the fences must be low enough that neighbors can talk over them. If rules are imposed from the outside, they may not suit the circumstances faced by those who must abide by them, may be regarded as illegitimate, and/or may be overly restrictive thereby creating “brick walls” between people in government. Hence, boundaries defined and enforced by participants themselves tend to be more conducive to sustainable use.

In a local government, it is important to define the boundaries within which financial resources will be used and why those boundaries are important. For example, financial policies might define the amount of financial reserves that will be kept on hand, why that amount is needed, and the purposes for which reserves can be used. These and other policies demarcate the definition of good financial management.

Temporal boundaries are also essential. Because local governments legally appropriate and authorize spending annually, the de facto, default boundary of decisions is often a single year. However, many decisions that today's elected officials make will have unambiguous and significant financial impacts on future generations of local leaders and citizens. For example, if the elected body of a jurisdiction approves new debt and pension obligations as part of its annual budget, the impact of these decisions may be relatively minor in the current year but could have much larger impacts many years later. Hence, institutional design must encourage participants to look beyond a single year.

Proportional Equivalence between Benefits and Costs

When benefits from the resource system are proportional to the distribution of costs, users are more likely to contribute to the system's sustainability. Put another way, if a taxpayer does not feel that they are getting good value back from their contribution to the common pool of financial resources, then they will want to reduce their contribution. Proportional equivalence between benefits and costs must be premised on the recognition that multiple, and potentially competing, responsibilities are placed on local governments:

- First is the “civic” responsibility, by which each jurisdiction must provide basic services for maintaining the health, safety, and welfare of the community, regardless of an individual resident’s ability for payment.
- Second is a “corporate” responsibility, by which each jurisdiction must ensure basic services are provided at prices that are fair to current and future residents.
- Third is a “fiduciary” duty, by which each jurisdiction must ensure that current and future expenditures are justified by benefit-cost calculations and supported by reliable revenue streams. Hence, local governments must think carefully about how to clarify the relationship between the benefits received by stakeholders and the contributions they make to sustaining local government.

One way to create proportional equivalence between benefits and costs is to create a more explicit linkage between where revenues come from and what they pay for. Local governments have historically funded most services through general tax dollars generated from across the community. However, in an environment of increasing resource scarcity, a more explicit linkage between what citizens pay for and what they get in return is needed to help citizens see the value that their contributions to local government produce. This concept is not totally alien to local government. There is a long tradition of charging fees to individual constituents for services that directly benefit them, such as fees to participate in recreation programs, parking fees, etc. Local governments might have opportunities to build on this tradition by thinking about new and additional ways to make a link between revenue and the precise services that they fund. This could include more user fees as well as other revenue tools such as special service/special assessment areas. For example, San Bernardino County, located in southern California, covers one of the largest geographic areas of any county in the United States. In much of the County, snowfall is not a concern. However, in mountainous parts of the County snowfall is a concern. In some of these areas, residents want more frequent snow removal, so San Bernardino County establishes special taxing districts in those areas to pay for the cost of more frequent snow removal. Hence, there is direct connection established between what taxpayers pay and what they get.

Another way to clarify the relationship between costs and benefits is to explicitly consider the cost-effectiveness of public services in decision-making. The services a local government offers must deliver the maximum benefit for each dollar spent. Without this standard in place, it becomes more plausible for stakeholder groups to extract disproportionate benefits for their members at the expense of the common treasury. This is because it programs that is disproportionately benefit small groups of stakeholders will often fail a cost-benefit test. This principle applies equally to operational programs as it does to large capital projects and land-use decisions, with the added consideration of the multi-year lifecycle of capital assets and land use decisions. These decisions must consider not just the costs of initial construction and acquisition, but the long-term costs the community incurs to operate, maintain and /serve new infrastructure and development.

Proportional Equivalence in Benefit and Costs in Taxes

The City of Roanoke, Virginia, found itself short of funding for its schools in an anti-tax climate. In response, the City proposed a two percentage point increase in the City's meal tax, the proceeds of which would go for public education. A key reason that the tax passed is because taxpayers could easily appreciate the connection between their contribution to the community's finances and the resulting benefit. The tax would sunset after two years, ensuring that the City's tax base was not locked into inflexible revenue and spending arrangements.



3

Collective-Choice Arrangements

For the best use of any kind of collective resource, people who participate, locally, in using that resource should genuinely participate in designing the processes for making collective choice so that they can be confident that they will have a say about how the resource is to be used and managed. When they are empowered to participate in making and modifying the rules that govern a system, the rules will be more likely to fit the circumstances and be perceived as legitimate.

In many cases, the most productive way to enhance the participation of stakeholders in financial decision-making might be to strengthen the connection between financial decision-making and the choices stakeholders make in other planning processes. Members of the local community often become engaged in planning processes that are not explicitly about finances. They might become engaged in general or

specific plans for communities, planning about neighborhood parks, reviewing a proposed development, or planning service levels for programs. Fiscal realities and context, such as the economic implications of demographic changes, need to be included in these planning efforts.

For any planning process, problem resolution typically rests upon getting insights from those closest to the problem. A structured process for engaging the public aggregates the inputs from many stakeholders. This process may help reach a common understanding of the situation the local government is in and the options for moving forward. Enabling such a process requires a government to have institutional capacity for effective virtual and in-person engagement, for representative engagement, and to make engagement a regular part of decision-making.

4

Monitoring

Effective monitoring discourages participants from breaking the rules. For example, experiments have found that participants are more apt to cheat on a test if the lights are dimmed or even if the subjects are simply allowed to wear dark glasses while taking the test. Conversely, they cheat less when there is a cartoon picture of an eye nearby. The point is that people are more prone to dishonest and self-interested behavior when they believe they cannot be seen and their reputations are not on the line.

Local government has often relied on external monitoring, like that provided by bond rating agencies or an external auditor, to provide some assurances of financial probity. Though these forms of monitoring can be helpful, they have limitations. Most importantly, there is often a long lag between when the local government makes a decision and when feedback is received. This makes it difficult for course corrections to be made. Hence, local governments should develop their own capacity for creating regularly available and credible information about local government financial performance.

For any monitoring system to work, all involved parties must have some shared understanding of financial terminology and concepts. This does not mean that everyone has to be a financial “expert” to participate in monitoring financial conditions, but it does mean establishing a baseline level of financial literacy and using shared, mutually understandable terminology.

5

Graduated Sanctions and Credible Rewards

Sanctions deter participants from breaking the rules. Effective sanctioning ensures that no participants can routinely or flagrantly break the rules without suffering the consequences. In addition to sanctions, rewards can be arranged for those who contribute to maintenance and enforcing rules for resource use.

Without a system of sanctions and rewards, it is hard to encourage behaviors that produce sustainable outcomes. Sanctions can include an array of incentives designed to influence behavior. The most severe sanctions would include things like an official being removed from office or a downgrade from a rating agency. However, sanctions will work best when they are graduated — a light touch at first, with greater intensity as a party increasingly deviates from the established and agreed upon rules. Rewards will work best when they are credible.

Sanctions and Traffic Controls

Traffic enforcement is a metaphor for the ideal role of sanctions. The vast majority of people observe traffic rules because of social norms. However, without sanctions for flagrant or repeat violators, the traffic system would likely descend into chaos.



Government has traditionally relied on heavy-handed methods of enforcing compliance with policies such as fines, citations, etc. In recent years researchers have found that more subtle approaches can actually be more effective. For example, benchmarking information or commonly accepted “best practices” can be used to demonstrate that financially sustainable decisions are widely practiced by other governments. This makes it easier for decision-makers inside of government to make similar choices. More subtle, but more powerful is establishing clear norms of behavior. When it is expected that financially sustainable choices will be made, people will tend to self-monitor because they don’t want to risk drawing the ire of their peers by going against what is expected.

6

Conflict Resolution Mechanisms

Decisions regarding the use of a government’s fiscal resources are subject to dispute. Access to rapid and low-cost conflict-resolution mechanisms helps prevent unnecessary escalation of conflicts, which may undermine general trust in the system. Practicing constructive conflict resolution methods means that conflict becomes a way to solve problems, not exacerbate them.

The best way to resolve destructive conflict is to prevent it from happening. Research shows that if participants in a decision-making process believe that the process was fair, they are more likely to support the decision, even if the decision is not in their own interest

However, sometimes disagreements will run deeper and be so intractable that conflict is unavoidable. In these cases, having structured mechanisms to help parties resolve disagreements constructively can help the organization move forward.

7

Minimum Recognition of Rights

People who participate, locally, in using a common resource, in general, are better able to figure out how to allocate benefits and responsibilities among themselves. It is, however, more difficult for local participants to uphold their local rules if they are not recognized by external government authorities, as disgruntled participants may seek the help of external authorities to invalidate these local rules. Or, when external authorities seek to impose uniform rules on communities with divergent circumstances, these efforts may lead to unsustainable use of the resource.

Accordingly, local governments will be in the best position to craft the strategies that will best support their own long-term financial sustainability. However, state and federal government policies often create fiscal stresses for local governments. Chief among these policies are “unfunded mandates”, which create obligations for local governments without the revenue to support them. Local governments should proactively look for ways to mitigate unfunded mandates and other restrictions that prevent local governments from best aligning local resources with local needs.

Grants also impose obligations on local governments and though there is some supporting revenue stream, the revenue stream is often not sufficient to cover the full cost of the grant. Hence, local governments need to put systems in place to ensure that grants don’t commit the government to unsustainable cost obligations or to over-expand into low priority service areas.

In some cases, local governments may have the opportunity to fundamentally alter the nature of their relationship with the state government through mechanisms like home rule, charter changes, referendums, etc. These changes could strengthen a local government’s hand, giving it more latitude to improve its financial position. However, with increased power also comes the potential for local government to make bigger missteps.

8

Networked Enterprises

Collective-action problems are not always solvable within the boundaries of a single jurisdiction. Multiple organizations (public, private, and non-profit) may be needed to address collective-action problems at different scales (i.e., a system of “networked enterprises”).

As a fundamental part of institutional design, governments need to consider how they develop and maintain relationships with outside organizations that can help government meet public service demands at a

sustainable cost. Local governments must be intentional about managing those relationships that are most crucial to financial health. These relationships will be different for each local government and might change over time. For example, a school district might have important relationships with overlapping cities, whose land use policies greatly impact its tax base. Or, local institutions of higher education might be important partners in helping high school students become college-ready.

As part of developing networked relationships, governments need organizational structures that connect resources with the service providers that create the best value. Too much centralization can lead to lack of responsiveness to local and changing conditions. Too much decentralization can work against a coordinated response to large, strategic issues and lose economies of scale. Hence, local governments should seek to develop organizational structures that provide centralized leadership and coordination for those issues that demand it, but also have decentralized features that allow for responsiveness and agility and for the movement of resources to where it will create the best value.

Creating Networked Enterprises

As part of its journey towards financial sustainability, San Bernardino County, California, initiated county-wide strategic planning that involved county officials, officials from the 24 cities in the county, officials from regional planning agencies, civic leaders, business leaders, and more. This diverse group worked together to develop joint solutions to complex problems such as housing and public health. The County even has taken steps to nurture new civic groups, by helping them with grant-seeking and initial administrative set-up. The goal is to create a strong civic partners for when the County needs them.



Where to From Here?

GFOA has developed a “Framework for Financial Sustainability” that provides more details behind the leaderships strategies and institutional design principles, including specific implementation tactics to help public managers put framework into practice. GFOA has also developed a “Financial Sustainability Index” that allows governments to self-assess the extent to which they embody the leadership strategies and institutional design principles. Both of these documents are available at gfoa.org/financial-sustainability-resource-center.

GFOA will next be convening a group of city and county governments to be the “early adopters” of the financial sustainability framework. This group will use the self-assessment tool and work with GFOA to advance their own government’s financial management practices to shape the direction that GFOA’s financial sustainability project will take in the future.

Credits

This paper is based on research originally performed on behalf of the Lincoln Institute of Land Policy by the following people:

- Shayne Kavanagh, Government Finance Officers Association
- Mark Pisano, University of Southern California Sol Price School of Public Policy
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- Doug Linkhart, National Civic League
- Monika Hudson, University of San Francisco
- Erik Colon, Government Finance Officers Association

A group of advisors from local governments and universities across the North America was integral to this research. We’d like to acknowledge the valuable contributions of this advisor group, whose members are listed below (alphabetical, by last name):

- Mary Bunting, City Manager, City of Hampton, Virginia
- Gregory C. Devereaux, Chief Executive Officer, San Bernardino County, California
- Alfred Tat-Kei Ho, Professor, University of Kansas, School of Public Affairs and Administration
- Chris Morrill, Executive Director, Government Finance Officers Association
- Tina Nabatchi, Associate Professor, Syracuse University, Maxwell School of Citizenship and Public Affairs
- Ken Rust, Chief Financial Officer, City of Portland, Oregon

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