



## Incrementalism

### A Solution for Local Governments' Unfunded Liabilities?

By Shayne Kavanagh

*The journey of one-thousand miles begins with a single step.*

— Chinese proverb

Public finance leaders might be able to harness one of the most pervasive forces in local government to help solve the problem of unfunded liabilities: *incrementalism*.

Many local governments struggle under the weight of unfunded liabilities. Pension liabilities are, perhaps, the most notorious of these, but there are many unfunded liabilities that local governments must be concerned with, such as those associated with:

- Accrued employee paid time-off that must be paid out to employees upon separation.
- Funding for self-insurance programs to reach prudent levels of coverage.
- Maintenance to keep capital assets in acceptable condition.

The dollar amounts associated with these liabilities can be quite large — perhaps even so large that funding them seems like an unobtainable goal. This can lead to a sense of helplessness, causing public officials to take no action at all to reduce the size of the liabilities.

#### A PERVASIVE FORCE

Public finance leaders might be able to harness one of the most pervasive forces in local government to help solve the problem of unfunded liabilities: *incrementalism*. Put simply, incrementalism is the practice of taking small steps over time in order to reach

a larger goal, where each successive step builds on the last. Incrementalism is sometimes derided in local government because it does not provide the fast-paced revolutionary change that people who are enthusiastic about government reform typically prefer. However, incrementalism does have the advantage of practicality. It allows a large number of stakeholders to come along with the change gradually, one step at a time. This slower and less jarring pace means that the coalition supporting the change is less likely to be pulled apart by centrifugal forces that accompany any significant organizational change. Incrementalism attenuates these forces.

#### IS THE GOAL WORTH ACHIEVING?

To make incremental progress towards the goal of funding liabilities, public managers must first establish that it is a goal worth reaching. Given the many competing priorities facing public officials, it may not be immediately obvious why they should want to fund liabilities. Further, some officials may see liabilities as a highly abstract problem, removed from their immediate concerns of providing services to the public.

A first step toward establishing funding liabilities as a worthy goal is to establish “financial sustainability” or a similar concept as one of the governing board’s official goals, on par with goals

like public safety or economic vitality. For example, in 2016, San Bernardino County, California, had just seven goals, including one to “operate in a fiscally responsible and business-like manner.”

A second step is to define a policy that furthers the goal of financial sustainability by describing the governing board’s intent to fund liabilities. San Bernardino County adopted the following policy in the form of an elaboration on their “fiscally responsible” goal:

*The County will] live with our means, fully funding maintenance of infrastructure and facilities, the provision of state-of-the art basic operating systems, liabilities, and reserves; while forming capital to strategically invest in the future.*

The underlying objective of these steps is to create a feeling among public officials that funding the liabilities is a shared undertaking, and that everyone can trust that other officials share the same desire and will support efforts to reach the goal.

## EXPLAINING THE CONNECTION

In addition to making funding liabilities a formal goal, public managers may be able to illuminate a connection between the personal values held by public officials and funding liabilities. In San Bernardino County, many officials had a conservative political outlook. Funding liabilities was positioned as part of an overall “conservative” approach to public finance. Public officials in the City of Portland, Oregon, have a more liberal outlook. There, the ideas of funding liabilities out of a sense of fairness to future generations of Portlanders and to preserve the quality of the community assets that

the underprivileged segments of the community rely upon were effective for making the case for funding liabilities for deferred maintenance.

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If funding liabilities is to be seen as a goal worth pursuing, it might also be necessary to help some public officials better appreciate the importance of funding liabilities. The reasons held by public finance professionals (e.g., professional norms, best practices) maybe seem relatively abstract to the non-expert. Reasons that connect the problem to matters of day-to-day public services could be more compelling. A straightforward example is deferred asset maintenance. San Bernardino County used measures of pavement quality to illustrate the impact that deferred maintenance had on the public’s experience with county services. Pictures or tours of deteriorating facilities can be an even more visceral illustration.

Similar illustrations can be made even for liabilities with a seemingly more tenuous relationship to tangible day-to-day services. In San Bernardino County, the sheriff was forced to hold open, for up to a year, vacant positions after the separation of a deputy in order to cover the cost of paying out the accrued paid time-off to the separated employee. This meant that there were measurably fewer deputies on the street because the county had not funded this liability.

## MAKING THE GOAL MORE MANAGABLE

Even if public officials are convinced of the merit of funding liabilities, the amount of money involved can make the goal appear unobtainable. Hence, the next step is to define specific funding goals and long-term funding schedules to get there. This breaks a larger goal down into more manageable pieces. San Bernardino County identified funding targets for its liabilities, which generally ranged from 80 percent to 100 percent, depending on the type of liability. For example, accumulated leave could have a lower funding goal because it is highly unlikely that the county would need to pay out the entire accumulated leave balance within a short time period. Historical experiences or actuarial assessments can be used to determine a prudent funding target.

The county also identified long-term funding schedules, typically with a term of about ten years. These goals were set with the close cooperation the finance staff in order to ensure the goals were responsible and achievable. For instance, the county might set more aggressive goals for funding a self-insurance reserve than for funding accrued time off.

## FUNDING THE LIABILITIES

The last step is to begin actually funding the liabilities. San Bernardino began by using the annual budget surpluses that arose from its deliberately conservative budgeting practices. Governments without such conservative practices might look to other sources, like one-time revenue. The goal of the county’s management was

to eventually migrate away from using surpluses (which are inherently undependable) toward making these contributions to the liabilities a part of the “baseline” budget. This took a number of years, but eventually making these contributions to the liabilities became an engrained behavior such that these contributions were no longer particularly extraordinary or noteworthy. Seeing progress being made against the funding schedule and appreciating the practical, on-the-ground reasons for funding the liabilities helped public officials stick with the practice. In fact, after a time, some elected officials would actively encourage county management to be mindful of the unfunded liabilities and to make sure they were being addressed.

## CONCLUSIONS

Because incrementalism does not require people to absorb a great deal of change at once, it can be a good way for an organization to make progress. An inspiring, collective vision of the future can be achieved over time in small incremental steps. One key to this approach is to identify “small wins,” accomplishments that take place on a shorter-term time horizon and mark progress towards the larger goal. “Small wins,” like a funding goal and schedule for liabilities, allow the organization to focus on shorter-term objectives, and achieving these objectives can provide motivation to continue.

San Bernardino County also shows that a good incremental approach does not involve just gradually making

progress. For example, San Bernardino took steps to make sure everyone saw funding the liabilities as a goal worth pursuing and to help everyone realize the concrete benefits of tackling what might otherwise seem like an abstract problem, removed from more pressing day-to-day concerns.

Taken together, San Bernardino County’s experience shows how the time-honored approach of incrementalism in local government can be used to address one of the most nettlesome financial problems facing local governments today: unfunded liabilities. ■

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