



This Stuff Works! Let's Talk about It

By Katie Ludwig



Financial Foundations
for Thriving Communities

Shayne Kavanagh
and Vincent Reitano

GFOA, 2019, \$30

GFOA recently released its newest book, *Financial Foundations for Thriving Communities*. If the title of the book sounds slightly familiar, there's a reason for that. GFOA introduced a new initiative with the same name at its 2019 conference and has been promoting it through a series of webinars and at state GFOA conferences throughout the year.

The book outlines strategies you can use to address the people side of public finance. Getting the numbers right (e.g., balancing the budget, paying the bills, tracking the receivables) is usually not the most difficult part of a finance officer's job. The hardest part is dealing with the people side of things — keeping stakeholders satisfied, knowing whom you can trust, convincing people that they can trust you. You have the technical skills; this book shows you how to apply those technical skills in a way that gets everyone moving forward together to build a thriving community.

Before delving into the particulars of the Financial Foundations Framework, the authors provide some background on common-pool resource theory, Elinor Ostrom's Nobel-prize winning research on which the Framework is based. (Fun fact: Ostrom was the first woman to win the Nobel Prize in economics, and until this year, she was the only woman to have won it!) A common-pool resource is one with the following characteristics:

- All members of the group have access to the resource.
- Access to the resource cannot be limited easily.
- One person's consumption of the resource prevents another person's consumption of it.

Common-pool resources (classic examples are grazing lands or fisheries) often fall victim to the “tragedy of the commons,” the unfortunate collision of individual and group interests. For example, individuals have an incentive to fish as much as possible in a given area — but if they all do so, the wellbeing of the whole group suffers, as the fishery will be depleted sooner rather than later. Ostrom's research identified six leadership strategies and eight institutional design principles that groups can use to avoid or overcome the tragedy of the commons.

Kavanagh and Reitano go on to explain that a local government's finances are another example of a common-pool resource. Everyone in a community owns or contributes to public resources, and everyone has an incentive to use those resources for their personal benefit. To address the tragedy of the commons in this context, they have adapted Ostrom's leadership strategies and institutional design principles for use in a local government setting. These have been organized into five pillars as outlined below:

■ **Pillar 1: Establish a Long-term Vision:**
Give People a Reason to Cooperate

- Leadership Strategy 1: Promote Collaboration
- Leadership Strategy 2: Balance Long-term Goals with Short-Term Needs

■ **Pillar 2: Build Trust and Open Communication:** Create the Conditions for Cooperation

- Leadership Strategy 3: Create Open Lines of Communication
- Leadership Strategy 4: Cultivate Trustworthy Reputations

■ **Pillar 3: Use Collective Decision-making:** Develop Forums for Participation

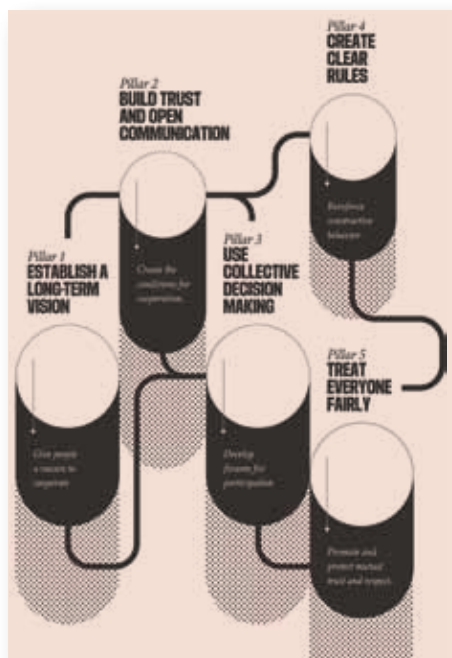
- Leadership Strategy 5: Engage Key Stakeholders
- Institutional Design Principle 1: Collective Choice Arrangements
- Institutional Design Principle 2: Networked Enterprises

■ **Pillar 4: Create Clear Rules:**
Reinforce Constructive Behavior

- Institutional Design Principle 3: Well-defined Boundaries
- Institutional Design Principle 4: Monitoring
- Leadership Strategy 6: Maintain Oversight
- Institutional Design Principle 5: Sanctions and Rewards

■ **Pillar 5: Treat Everyone Fairly:**
Promote and Protect Mutual Respect

- Institutional Design Principle 6: Proportional Equivalence Between Benefits and Cost
- Institutional Design Principle 7: Conflict-Resolution Mechanisms
- Institutional Design Principle 8: Minimum Recognition of Rights



Each leadership strategy or institutional design principle is highlighted in a chapter of the book. Drawing on research in behavioral science, the authors explain how the leadership strategies and institutional design principles can be used to get all stakeholders involved in building a strong financial foundation for their local government. The authors cite case studies showing how local governments of all types and sizes have implemented parts of the framework and how it has improved their finances. Each chapter concludes with a list of questions and conversation starters that you can use to begin thinking through how you might move forward.

CASE STUDIES AND PRACTICAL TIPS

Financial Foundations for Thriving Communities is easy to read. The mix of behavioral science, local government vignettes, and practical tips for using the strategies and principles help keep the reader engaged throughout. The book

gives you an inside look at some of the financial problems facing different local governments and shows how the public finance leaders in those governments brought people together to figure out a way to get them on the right track.

One may question whether these strategies and principles can be easily implemented and whether they make any impact on a local government's finances. That's where the case studies come in. The authors provide countless examples from cities, towns, counties, and school districts that have implemented one or more of the strategies and principles and show how doing so has put them on a path to better financial outcomes and, in many cases, has also led to other positive outcomes such as increased employee engagement, increased citizen trust, and improved program results.

“Sure, this sounds great, but I really don’t have time to start a whole new initiative, with kick-off meetings and committees. I barely have enough time to get my day-to-day work done.”

The point is: This stuff works. It might take you a bit outside of your comfort zone. It might take some extra time and effort. It might take some convincing to get executives and staff on board with this new approach. But your efforts will pay off, slowly but surely.

Still, you might be thinking, “Sure, this sounds great, but I really don’t have time to start a whole new initiative,

What Do You Think about GFOA's Financial Foundations for Thriving Communities?

Starting in February 2020, GFOA will host a series of virtual book club meetings to discuss it. Each meeting will be held at a 1 p.m. (Central) on the dates listed below, and we'll discuss four chapters at each meeting:

Friday, February 28: Discuss Chapters 1-4

Friday, March 27: Discuss Chapters 5-8

Friday, April 24: Discuss Chapters 9-12

The last meeting to discuss Chapters 13-16 will be held during GFOA's 2020 Annual Conference in New Orleans at a to-be-determined date and time. Email GFOA Senior Manager Katie Ludwig at kludwig@gfoa.org to RSVP for any of the meetings.

We look forward to hearing from you!

with kick-off meetings and committees. I barely have enough time to get my day-to-day work done." The good news is that much of the framework doesn't require you to do new things; it simply encourages you to do the things you are already doing (preparing an annual budget, for instance) in a different way, with a different approach. Similarly, you don't have to implement the entire framework at one time. Early on, Kavanagh and Reitano advocate for positive incrementalism, making small changes over time to get to where you want to be. This approach to change is manageable and can help you make steady progress over time.

Read this book if you are looking for new ways to approach long-standing, tough financial problems facing your local government. It doesn't offer an easy formula for how to fix your pension problem. It doesn't contain a secret spell that will provide funding for infrastructure maintenance. What it does give you is the tools you need as a

finance officer to get everyone to play an active role in helping you develop creative ways to address these kinds of problems.

**Whether you loved it,
hated it, or aren't sure
how you feel about it,
join me to talk it out.**

In this sense, it provides context and purpose for GFOA's best practices. You don't implement best practices simply for the sake of saying you implemented a best practice (at least that shouldn't be the reason). You shouldn't be preparing a comprehensive annual financial report or a budget document just so you can win that award and have a nice plaque to hang in your conference room. You do these things so that you can build a stronger financial foundation for your organization, and ultimately, for your community.

LET'S TALK ABOUT IT!

So, now you know what I think *Financial Foundations for Thriving Communities*; it's a practical guide to help local government finance leaders address financial challenges facing their communities. I'm interested in hearing what all of you think about the book, though, so starting in February 2020, I'll be hosting a series of virtual book club meetings to discuss it. The plan is to discuss four chapters per meeting. Whether you loved it, hated it, or aren't sure how you feel about it, join me to talk it out. **I**

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