

In Brief

PARTNERSHIPS | RESEARCH | RESOURCES



PARTNERSHIPS

GFOA Works with Aon to Help Local Governments Mitigate Natural Disaster Risk

GFOA is teaming with Aon plc, a leading global professional services firm, on a first-of-its-kind initiative to provide local U.S. governments with state-of-the-art tools to help them better analyze and plan their rainy day funds.

Local government rainy day funds are critical for managing exposure to risks like economic downturns and natural disasters. According to a recent report from the National Oceanic and Atmospheric Administration (NOAA), the United States experienced 18 billion-dollar disasters in 2022, totaling more than \$165 billion in damage. The frequency of these costly disasters has been increasing in recent years, and the trend is likely to continue into the foreseeable future.

When planning for potential disasters, local governments perennially ask themselves how much is enough to keep in the rainy day fund. To help answer this question, GFOA contracted with Aon to acquire access to data on natural disaster exposure in local communities, enabling GFOA to build risk models with comparable analytical techniques that insurance companies use to develop coverages. GFOA stores the data in a unique open standard, developed by ProbabilityManagement.org, a GFOA partner. This allows the data to be easily integrated into Microsoft Excel, providing users with full access to the range of Aon's insights.

In fact, Aon and GFOA have already completed a successful pilot of this project, using Aon's data to build a

risk model. "The City of Providence, Rhode Island, had a Rainy Day Fund Ordinance that had become antiquated and in need of update. As part of Results for America's City Budgeting for Equity and Recovery program, we worked with GFOA to analyze what our reserve levels should be, create a comprehensive fund balance policy, and update the Rainy Day Ordinance. The team at GFOA was incredibly helpful and the data provided by Aon was critical in building the risk model we used for analysis. Using the model, we were able to create a fund balance policy that will protect our taxpayers against future economic shocks and protect its most vulnerable residents," said Krystle Lindberg, deputy finance director and budget officer for the City of Providence.

"Working with risk strategy leader Aon will help us to accelerate our support of finance officers as they develop stronger rainy-day funds to protect their communities," said Chris Morrill, GFOA's chief executive officer.

Liz Henderson, global head of climate for Aon's Reinsurance Solutions, said: "Our data and analytics will enable state and local governments to navigate the volatility from natural disasters and climate change while providing the insights needed to shape better, more-informed decisions. This initiative adds to Aon's growing suite of climate analytics through a series of collaborations with leading academic institutions."

GFOA has a number of resources available now to help provide information on using risk based analysis. Please visit gfoa.org/risk-analysis to view research papers and best practices, explore case studies, and download sample models. This issue of *GFR* also contains an article highlighting the City of Sharonville's approach to risk-aware management of reserves. GFOA's consulting work with local governments has revealed that there are many opportunities for reserve optimization beyond the guidance provided by GFOA's existing best practice. Should we rethink reserves? A recent GFOA research paper available on GFOA's website brings together lessons learned from our members with university research to provide strategies for how local governments can get the most value from their reserve strategies.



Read the research report:

➔ gfoa.org/materials/rethinkingreserves

RESEARCH

GFOA's Fiscal Fluency Challenge

Numbers are at the core of a public finance officer's job, and a big part of the job is communicating those numbers to other people. But many members of a finance officer's audience don't speak numbers as a first language.

Numbers are abstract concepts. Abstractions require effortful thinking—which is why young children are taught to count objects, like fingers and toes, making the numbers more concrete. The numbers that public finance officers need to communicate often go well beyond what can be accommodated by fingers and toes; however, we can take a cue from childhood and transform numbers into human experience.

GFOA is looking for outstanding examples of good communication of financial information using the principles described in our research report, "Fiscal Fluency Made Easy." This could be a PowerPoint, a report, a video of the presentation being given at a meeting of the elected board, or whatever medium you think

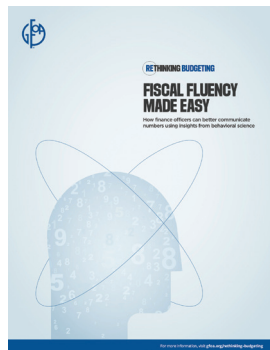
best captures how you've used the ideas of Fiscal Fluency. If you can also provide evidence that your presentation was effective in achieving the goals of the presentation, that increases your chances of winning! The Grand Prize is an all-expenses paid trip to GFOA's 118th Annual Conference in Orlando, Florida, June 9-12, 2024. Entries must be submitted by January 15, 2024.

Read the research report:

➔ gfoa.org/materials/fiscalfluency

Join the Fiscal Fluency Challenge:

➔ gfoa.org/fiscalfluency



A Checklist for Fiscal Fluency

The principles below are designed to help communicate with the fiscal fluency necessary for productive conversations and good decisions about public finance.

Understand the limits of rationality. Human thinking is more automatic and less rational than we may think, often leading to an overestimation of people's ability to grasp numbers. The presentation of numbers must be mindful of those limits.

Translate numbers to human scale. Break numbers down to a level that people can easily relate to. For example, rather than using the total amount of money the public would pay for a new tax, show the impact per household.

Help people grasp the numbers. Compare the numbers to those of familiar items and events in people's lives. For example, compare the cost of a public service to the cost of consumer goods or services people are familiar with.

Catalyze action with emotional numbers. When it is important to catalyze action, fuse the logic of numbers with a presentation that engages the emotions of the audience. For example, there might be opportunities to relate the numbers to something the audience will personally experience.

Build a scale model. Use geospatial information on maps to help people visualize the impact of numbers on their communities.

GFOA Launches Online Academic Journal



GFOA is developing an online academic journal for peer-reviewed articles and research that examines and analyzes contemporary issues in budgeting and finance and explores potential solutions. GFOA and the *Public Finance Journal* are thrilled to announce cash awards for answering long-standing public finance questions.

Public Finance Journal

The *Public Finance Journal* will be published twice a year, creating a forum for finance officers to discuss significant issues that advance our scientific understanding. Articles will focus on originality, importance, interdisciplinary interest, timeliness, and accessibility, connecting the science with the practice in public budgeting and finance.

The publication will address the needs and interests of academics and government finance leaders connected with the local or national academic community—that is, both public finance's scientific and practitioner communities. *Public Finance Journal* will publish significant advances in the science of public finance that are both timely and of theoretical importance.

The journal's guiding principles are:

- *Public Finance Journal* is an open access journal that is committed to the community of practice.
- All articles published adhere to the standards of peer review and the ethical standards of the Committee on Publication Ethics.
- The journal encourages the posting of open data and methods for all articles published.
- Both replications and manuscripts with null results are important to the scientific process.

GovFi Prize

What if there were resources to support, recognize, and reward academic writing in public finance? There now is such financial resourcing for *four specific questions*. GFOA and *Public Finance Journal* will provide \$500 in start-up funding for proposals that address one of the four initial proposals for each question below. The total prize amount available for each of the four questions is \$8,000. The non-winning articles may also be published in the *Public Finance Journal*. In fact, GFOA would prefer to publish articles from multiple researchers on the same question—social science is hard and answers from research are rarely definitive, so having multiple perspectives on the same question is helpful.

Question 1: Is the 80-20 Rule Operative for Financial Analysts' Use of Financial Reports?

The 80-20 rule says that 80 percent of outcomes result from 20 percent of all causes. Applied to financial reporting, this could mean that some fraction of the information contained in the financial report satisfies the vast majority of the questions professional analysts (for example, those who perform analysis as/for bond market participants) have about a local government. GFOA wants to know the most common questions professional analysts have about local governments and the information they most commonly use from financial reports. We also want to know the extent to which the most commonly used information satisfies the financial analysts' total informational needs—or put another way, what percentage of the outcome (such as completing the financial analysis) results from the most commonly used information?

Question 2: What is the Cost of Complying with GAAP Accounting and Reporting Standards?


GAAP accounting standards often require governments to collect, prepare, and report information that they otherwise would not. This adds a new or marginal

cost to finance administration that would otherwise not exist. GFOA wants to know the marginal cost of complying with new reporting standards, including staff time, consulting time (including external auditors and other accounting service providers), software, and any other relevant costs. We are interested in total costs, include staff time, software upgrades, and consultant support, after the standard is "live." We are also interested in seeing data from a random selection of governments, or at least reasonably representative of the range of capabilities that local governments need to implement new standards.

Question 3: What Does the Public Really Want to Know About Public Finance?

Financial transparency is important but is often undertaken without a firm understanding of what the public most wants to know about their government's finances. GFOA wants to know what information about public finances would do the most to reduce the public's uncertainty about the trustworthiness of their local government as stewards of their tax dollars. What do citizens/taxpayers want to know about local government finance? How do they define accountability for the use of their tax dollars?

Question 4: Do Financial Reports Impact Policy Making?

Elected officials need to know about the financial condition of their governments. GFOA wants to know what information about public finances gives elected officials the most confidence that they are succeeding in their role of stewards of public finances. What do elected officials want to know about local government finance? How do they define accountability for the use of public funds? 

Learn more about the first issue of the *Public Finance Journal*:

 gfoa.org/publicfinancejournal

Read more about the GovFiPrize:

 gfoa.org/govfi-prize