

The Virtuous Circle of Local Government Financial Sustainability

What is a mental model?

A mental model is a representation people hold in their minds of how things work in the real world. A good mental model simplifies complex systems in a way that helps people make more informed and better decisions.

Finance officers can improve their own thinking and support others in making better decisions by creating and sharing stronger mental models for complex public finance topics.

Why is a mental model important?

The factors that go into making a local government financially sustainable are complex. As a result, local officials and the public often focus on the details of public finance—for example, they might

ask how much is being spent on sidewalk repairs, and what was spent last year? Because these details are relatively easy to understand, the complex big picture often gets ignored. A shared mental model of the big picture enriches everyone's ability to make better decisions.

About the Virtuous Circle Model

This model depicts a cycle of financially sustainable local government, which highlights the role of quality and efficient services. As long as all the arrows are “green” — meaning each part of the cycle is working as it should — the circle continues. If any of the arrows turn “red,” indicating a breakdown in one part of the cycle, the circle is broken, and trouble may follow.

Quality and Efficient Public Services

Local officials ensure good services and put the long-term plan into action through smart budgeting.

Strategic Long-Term Investment

Invest in future assets, like infrastructure, to support the community’s vitality. Don’t pass undue costs to future generations.



Citizen and Business Confidence

When services are good, citizens and businesses want to be in the community and invest in it.

Stable or Growing Tax Base

The public’s engagement and investment in the community supports the tax base.

Proactive Revenue Management

Keep taxes and fees “just right.” Not so high that they become a burden, and not so low that they undermine the ability to invest in the community.

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Questions this model answers

- What makes a local government’s finances sustainable and its services effective?
- How can we step back and focus on the big picture and long-term financial sustainability?
- Why do some local governments perform better than others?

Why it works

The circle depicts a “positive feedback loop,” or “virtuous cycle.” If the loop is


broken, it is no longer positive. Positive feedback loops are common in everyday life, and many people intuitively understand the concept. For example, if you start saving and investing money, you become wealthier, which makes it easier to save and invest more.

Limitations of the model

All models are imperfect depictions of reality. This one does not cover every aspect of public finance that could affect a local government’s financial health. For instance, it does not address the

role of reserves as “insurance” against unplanned, unavoidable losses.

Audience considerations

This mental model is intended to fit any government. You may have specific circumstances in your community you’d like to highlight. For example, a growing community might want its cycle to emphasize attracting new residents. 

*GFOA acknowledges **Glenys R. Salas**, finance director for the Town of Newtown, Connecticut, for originating this concept.*