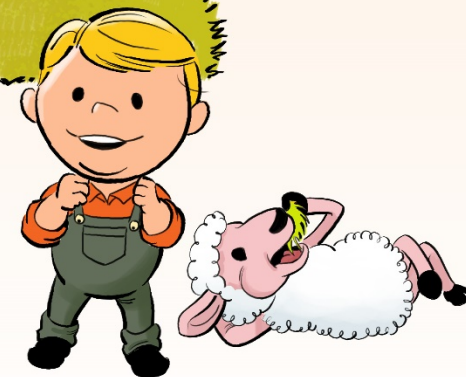
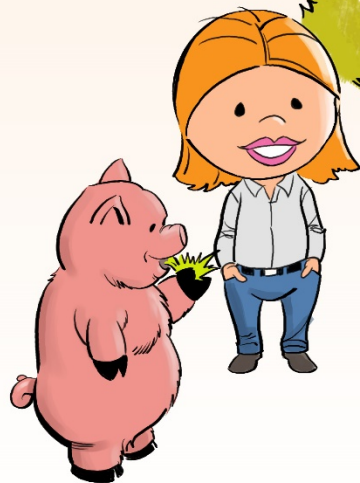
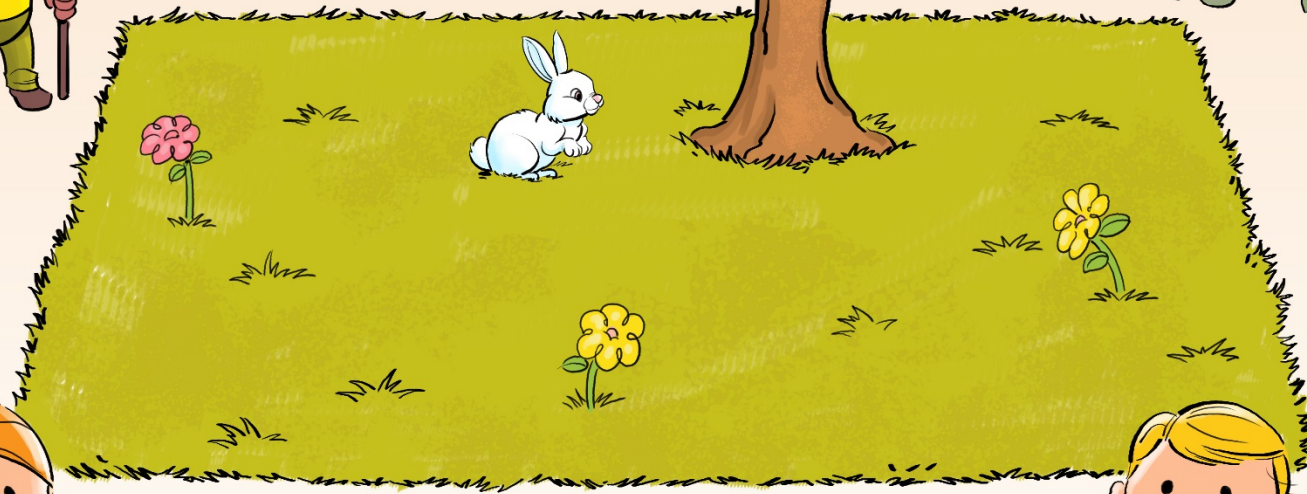
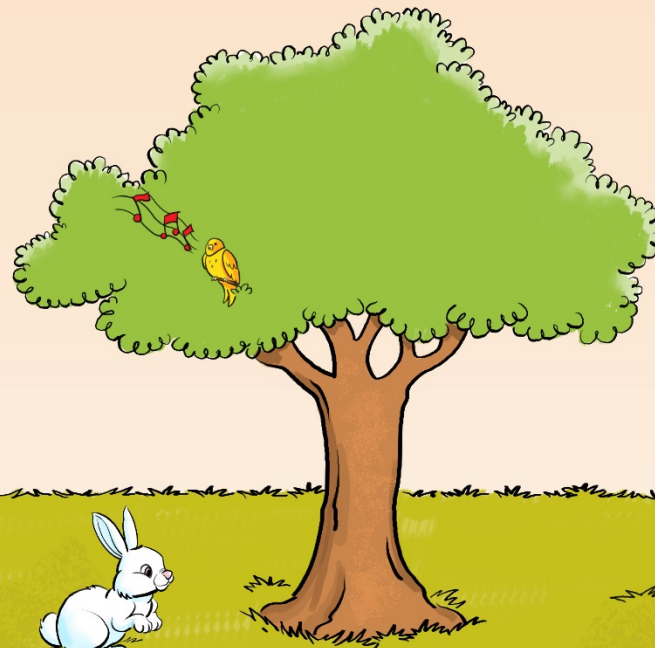
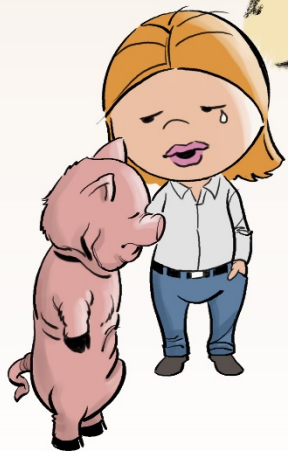
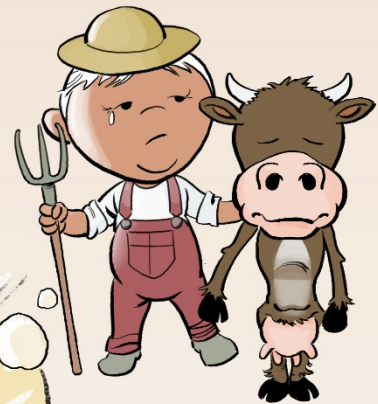
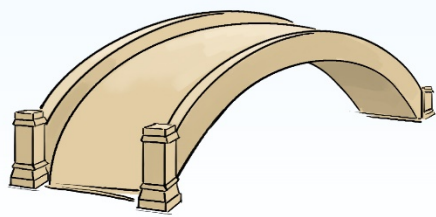
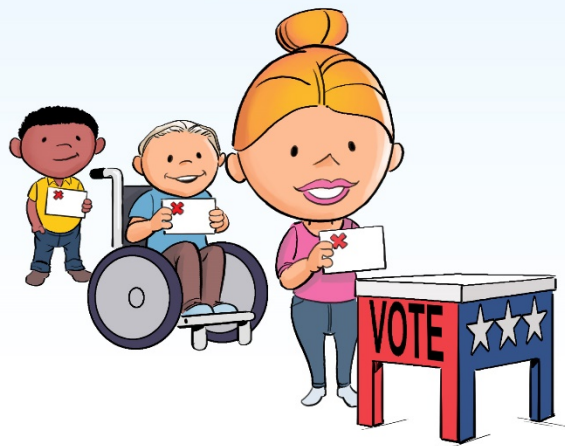


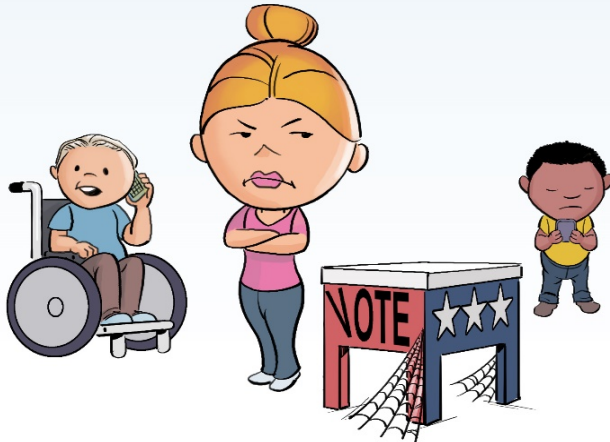
Beyond the Bottom Line: The GFOA Fiscal Sustainability Framework













Why This Framework?

- Makes finance everyone's business
 - Everyone is involved in using resources, everyone needs to be involved in sustaining them
- Goes beyond the numbers
 - Accounting records don't tell the whole story
- Based on more accurate models of behavior
 - Compatible with findings in behavioral sciences
- It works!
 - Demonstrated by real governments, experimental evidence, and mother nature!



What Does the Framework Include?

- 6 Leadership Strategies
 - Local leaders cannot “order” people to behave in a sustainable way. They must inspire pride, loyalty, and enthusiasm so people will want to make the organization financially sustainable.
- 8 Institutional Design Principles
 - The rules of the game for how local government and other organizations work together for a sustainable financial future. These provide context for the leadership strategies.

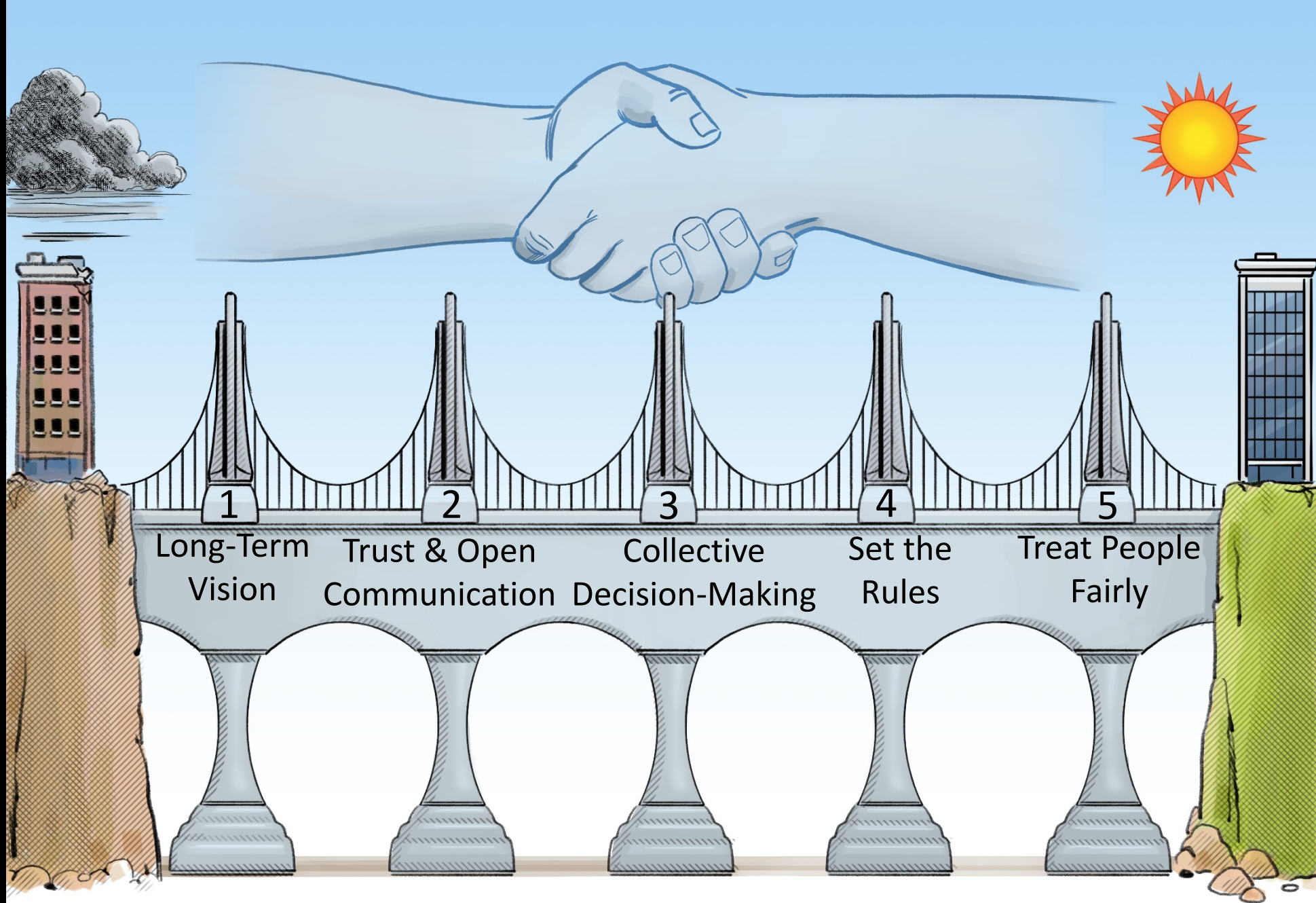


Strong Reciprocity

- Reciprocity is the practice of exchanging with others for mutual benefit.

- Two features to consider:
 - People cooperate as long as others do too
 - People are willing to punish others for taking advantage of the system, even at a cost





Financial Sustainability →



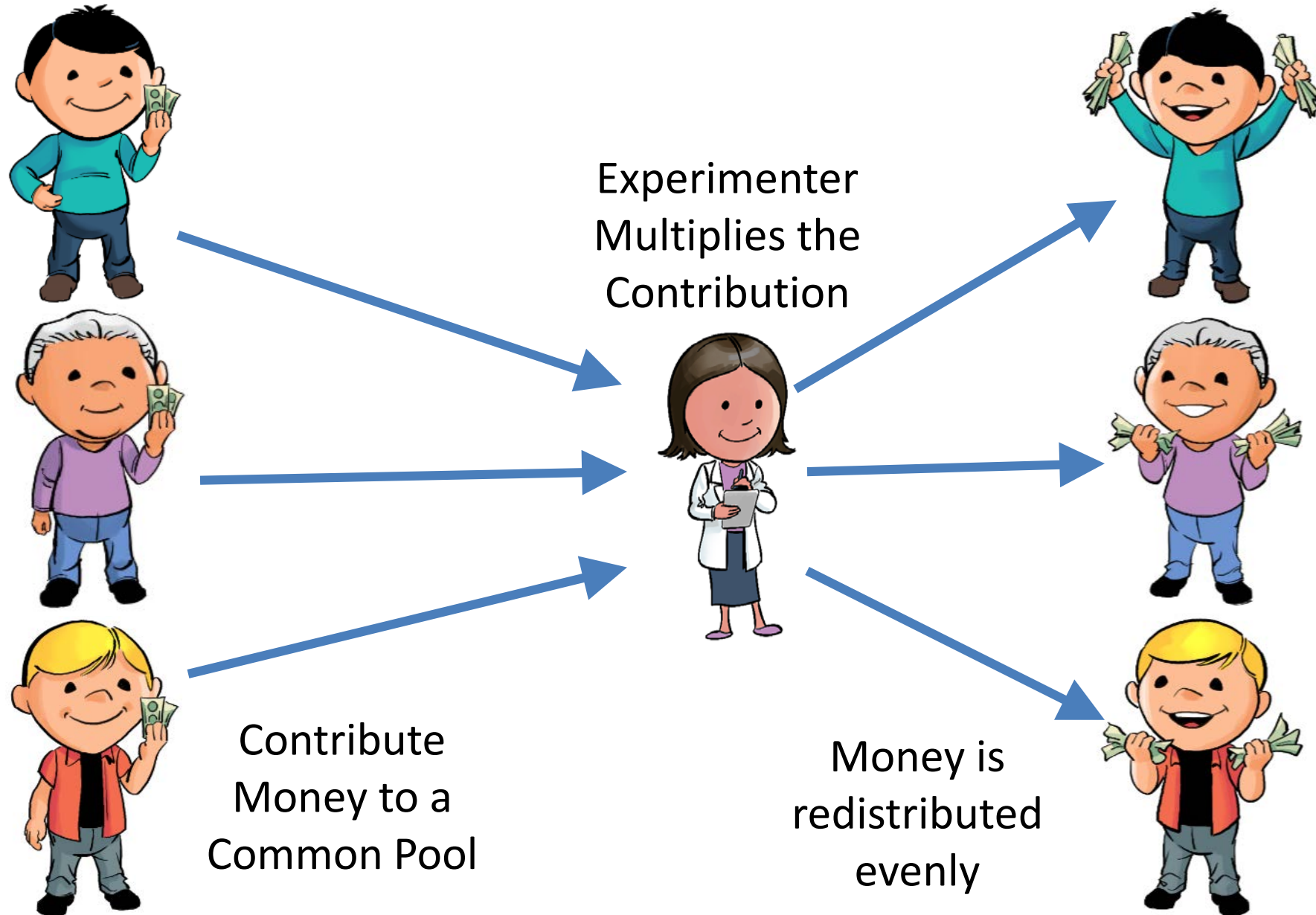


#1 – Establish a Long-Term Vision to Give People Reason to Cooperate

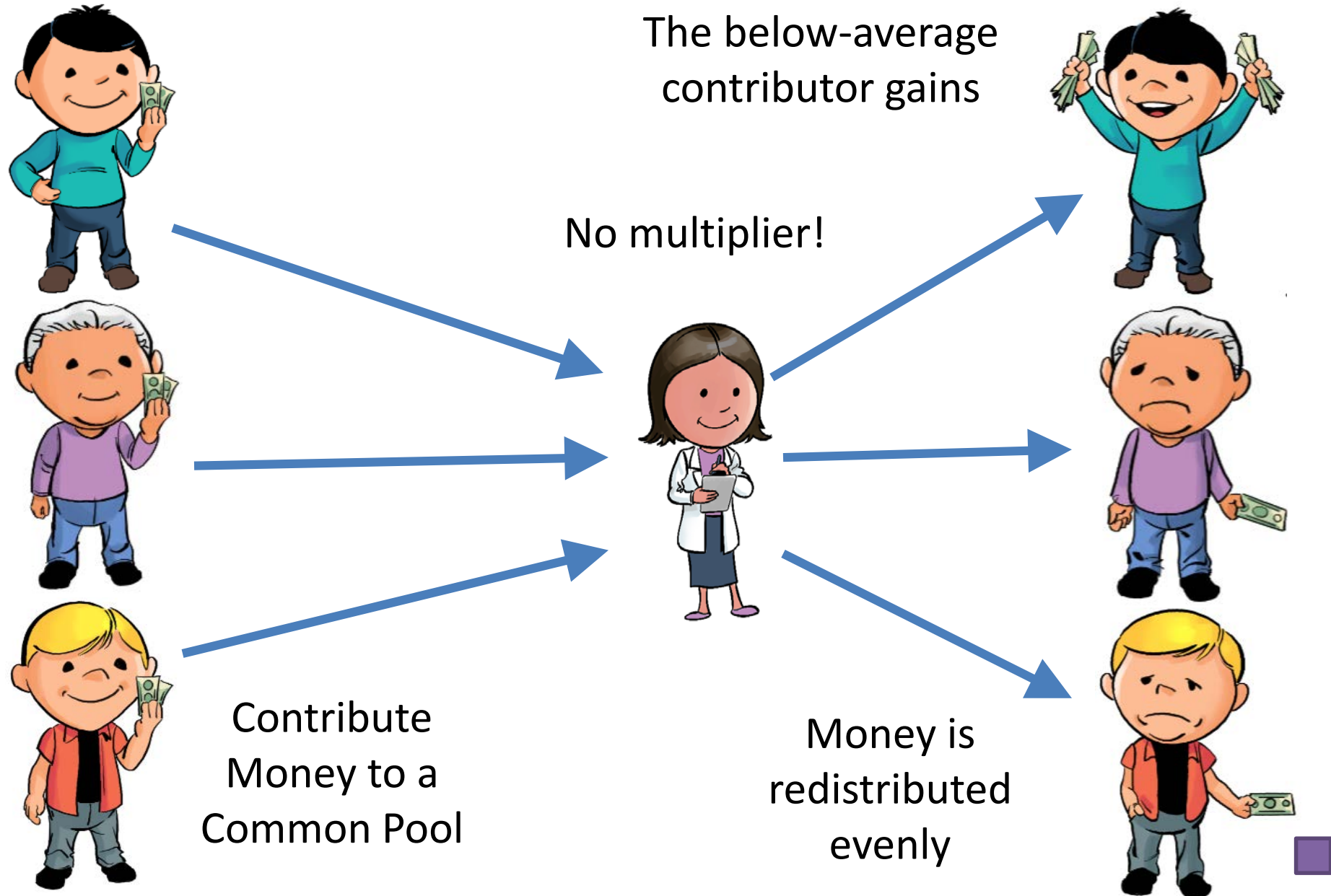
- If people see they will be better off working together, they will work together. A shared vision is how people see.
- Financial sustainability requires long-term thinking.
Financial sustainability requires short-term thinking.
Balance them to thrive.



Convince Stakeholders of Collective Benefits



Convince Stakeholders of Collective Benefits



San Bernardino County

- Largest County in USA
- Very diverse geographies
- Diverse stakeholders





An Unsustainable Path...

In 2009, \$80M deficit rolled into next year (10% of total budget), even while salary and benefit increase approved

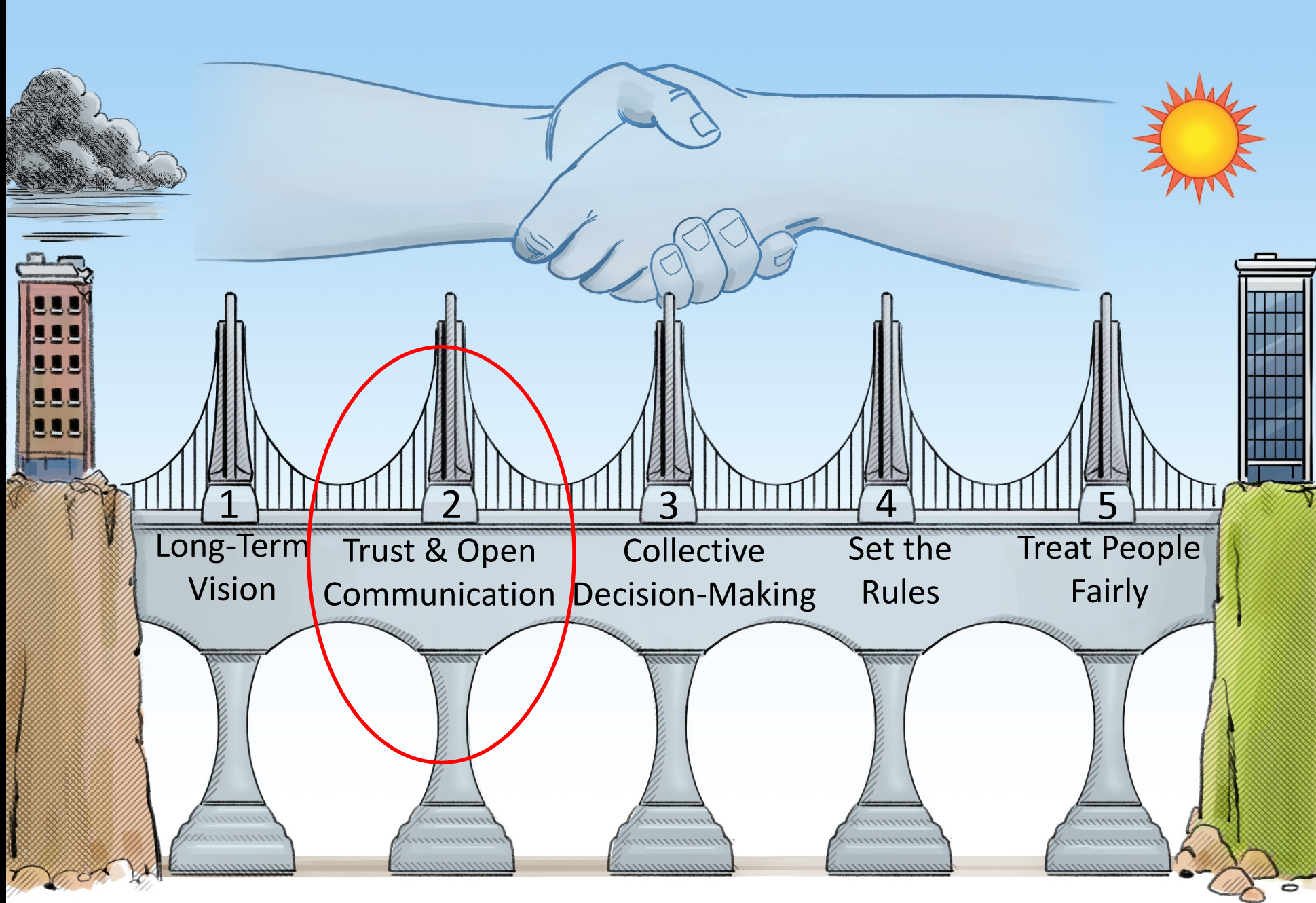




County Vision & Strategic Plan

- Where does the County and the community want to be in 20 years and how it will get there?
 - Highlights everyone's shared interest
 - Defines why County should be financially sustainable
 - Provided tangible demonstration of benefits available from collaboration
- Led to shared vision of management of water resources between previously isolated agencies
- Coordinate County & city resources (e.g., Parks)





Financial Sustainability →





#2 - Build trust and open communication to encourage cooperation

- Financial sustainability requires open communication with elected officials, open communication with staff, and open communication with the public.
- Trust is the foundation. The foundation is trust. Without it, financial sustainability is compromised.





The Importance of Trust and Open Communication

Prisoner's Dilemma

Prisoner 2	Offer evidence	B: Prisoner 2 <i>goes free</i> , Prisoner 1 gets 3 years.	A: Each get a 2 year sentence
	Do not offer evidence	C: 1 year sentence each	B: Prisoner 1 <i>goes free</i> , Prisoner 2 gets 3 years.
		Do not offer evidence	Offer Evidence
		Prisoner 1	

A = 4 years total prison time

B= 3 years total prison time*

C = 2 years total prison time

*But falls all on one person



We might assume the prisoners will pursue the self-interested strategy



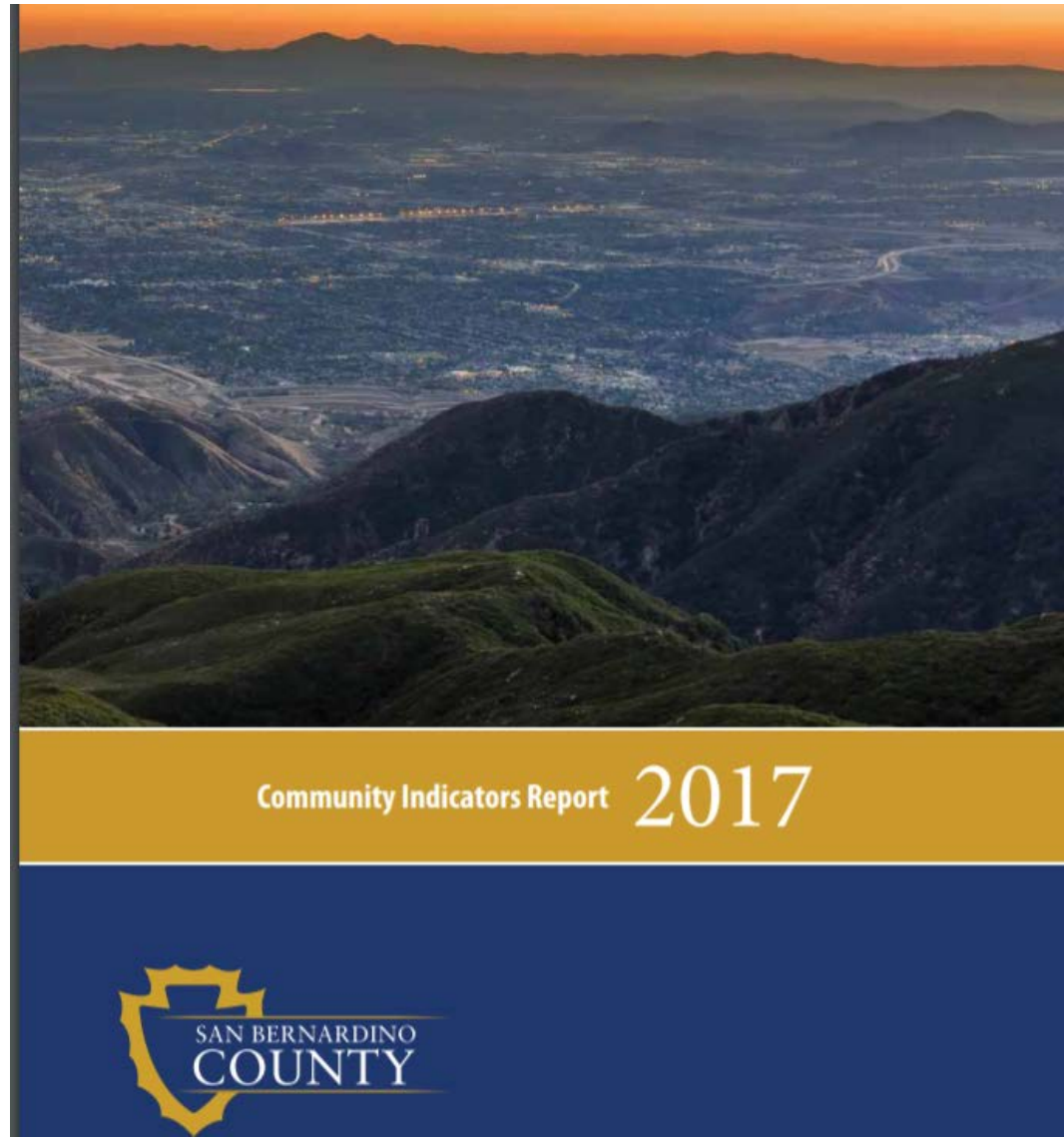
Cooperation increases when
there is open communication
and trust.





Creating Trustworthy Leadership

- Demonstrate knowledge of the forces impacting sustainability



Creating Trustworthy Leadership

- Be honest
- Show a set of assumptions that tell a story about future expectations
- Don't be afraid to say the emperor has no clothes...
... even if you are the emperor!





Creating Trustworthy Leadership

- Be dependable
- When you have policies and plans, stick to them.
- When there is a vision...
...The vision helps create consistency and dependability





Building Trust with the County Sherriff

S24



We've Got Your Back

- Departments pad budgets to manage risk
- Across all departments this really adds up
- So, provide support for the unexpected



More on Improving Trust



Transparency:

A Means to Improving Citizen Trust in Government



Government Finance Officers Association





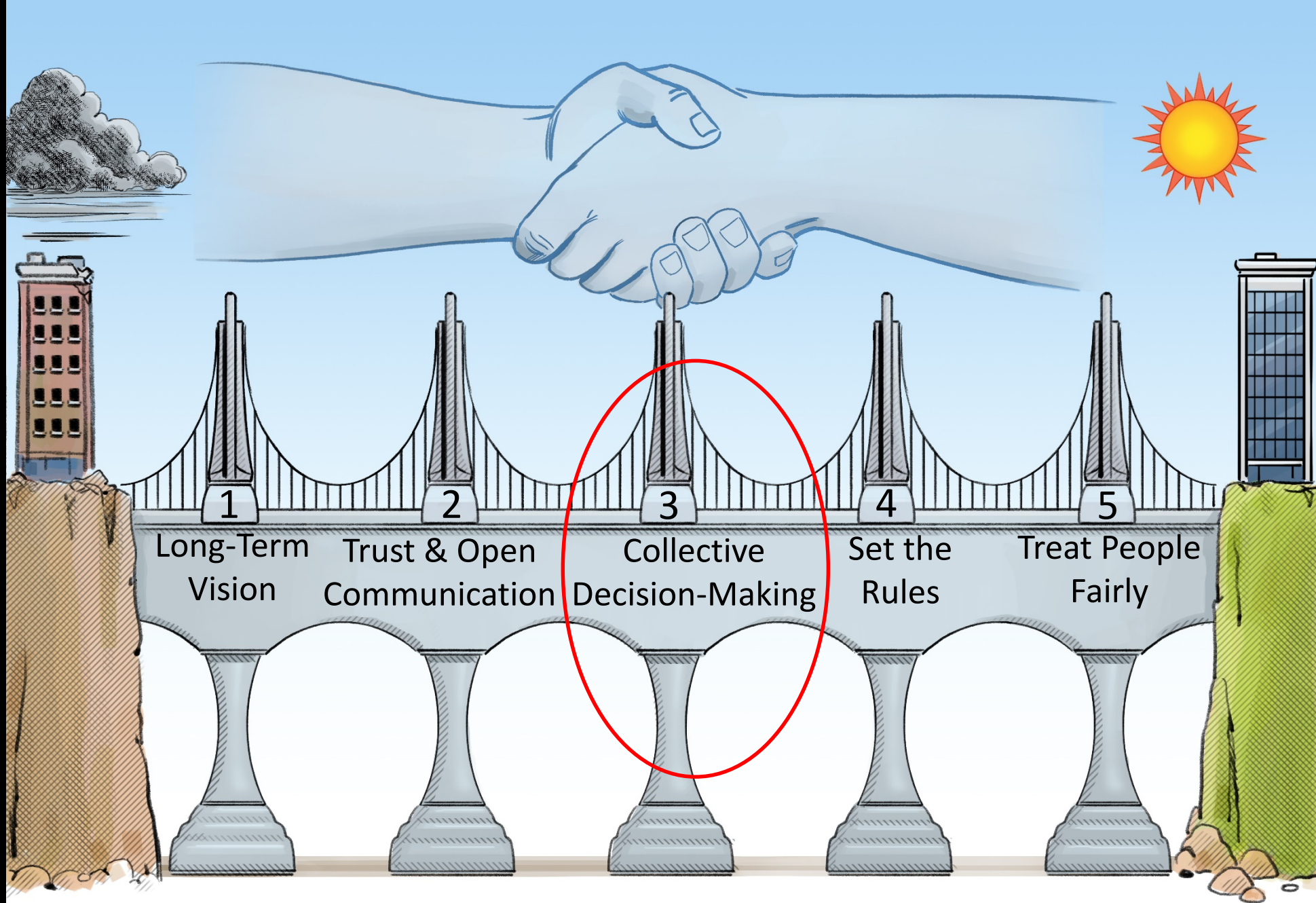
What is the most important thing your local government can do to improve trust with the community?

1 minute to think about it

2 minutes to talk with a neighbor

Optional 4 – minutes to talk with three others





Financial Sustainability →



#3 - Use collective decision-making to foster a forum to cooperate

- Everyone is either working for or against financial sustainability. If people are engaged, they are working for it. If people are not engaged, they are working against it.
- When people participate in making decisions, the decisions will be better.





“The standard process called for our City manager to work behind closed doors until she proposed a budget to the elected body, which then held public hearings. Insiders could object to proposed cuts, and new cuts were substituted – too late for opposition to gather or be effective. That process favors insiders and leads to conflict, pitting individuals against each other and against their own elected representatives.”

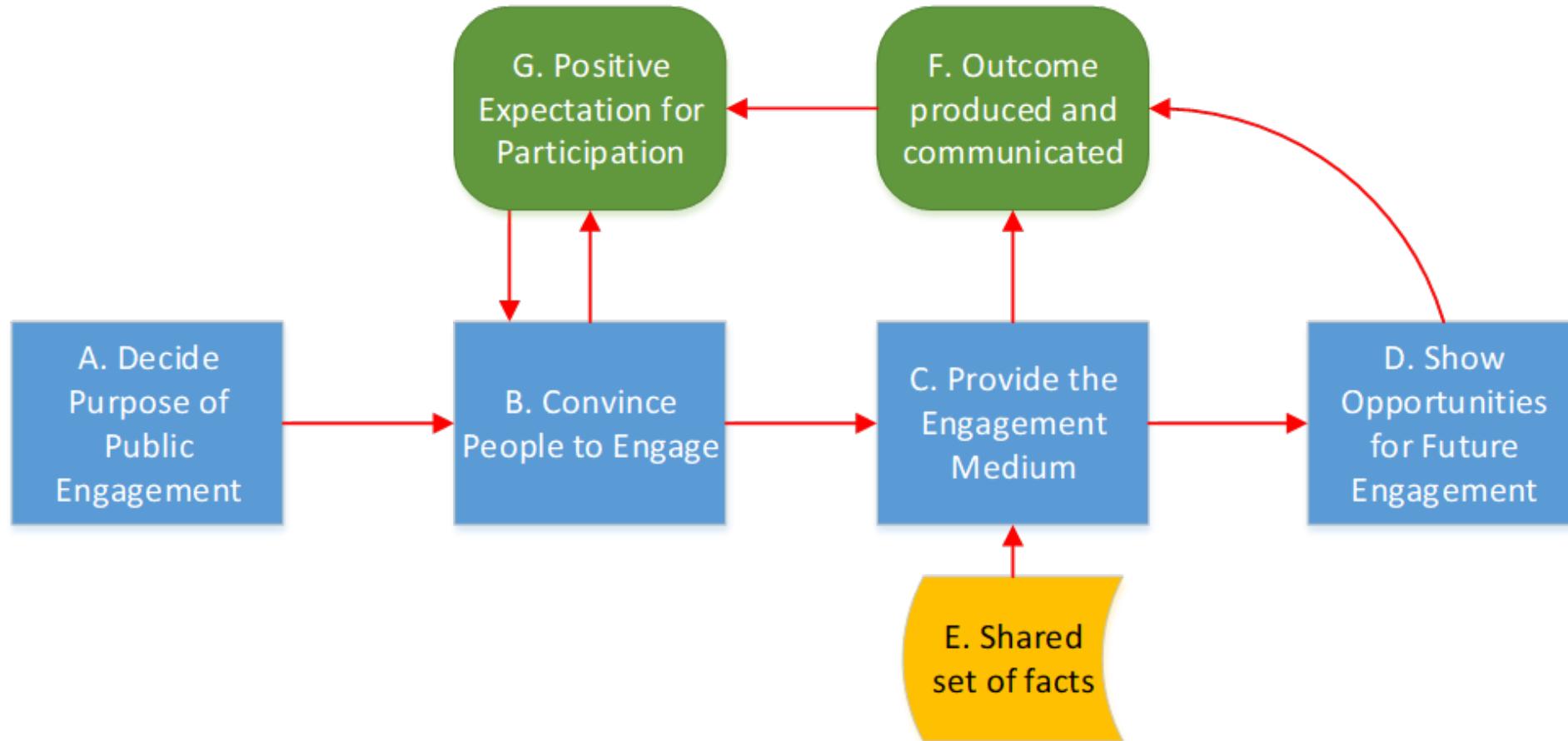


How Citizens Contribute to Good Decisions

- Most qualified to frame value conflicts
- They are uniquely placed to adjudicate trade-offs
- Slows the decision-making process down

“Sometimes you need to go slow to go fast”





A New Approach

- Set a clear purpose
 - Make trade-offs between service levels
 - What are residents willing to pay for?

- Give a convincing reason to participate
 - Hampton was a cross roads. Does the community:
 - Invest?
 - Preserve?
 - Disinvest?



A New Approach

- Provide the medium
 - Provide basic facts about taxes
 - Make the experience interesting

- Require trade-offs
 - Least successful meetings are...
 - ...where it is public vs. officials

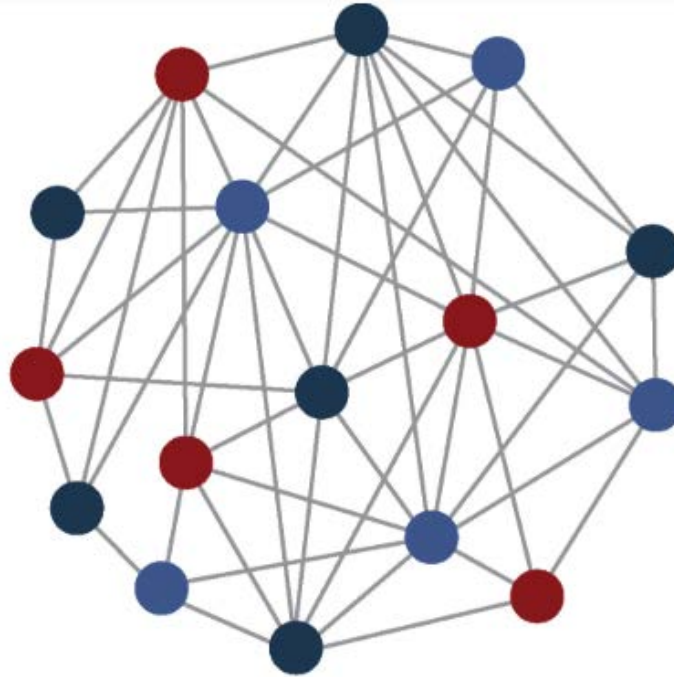


Use Technology Wisely

- Pros
 - Low “friction”
 - Provide access to unique data
 - Can meet new people more easily
- Cons
 - Less nuance, no body language
 - Reduces empathy
 - Poor preparation for real life decision-making
- Think of tech and in-person engagement as ***complements***, not ***substitutes***.



Collaboration for the 21st Century

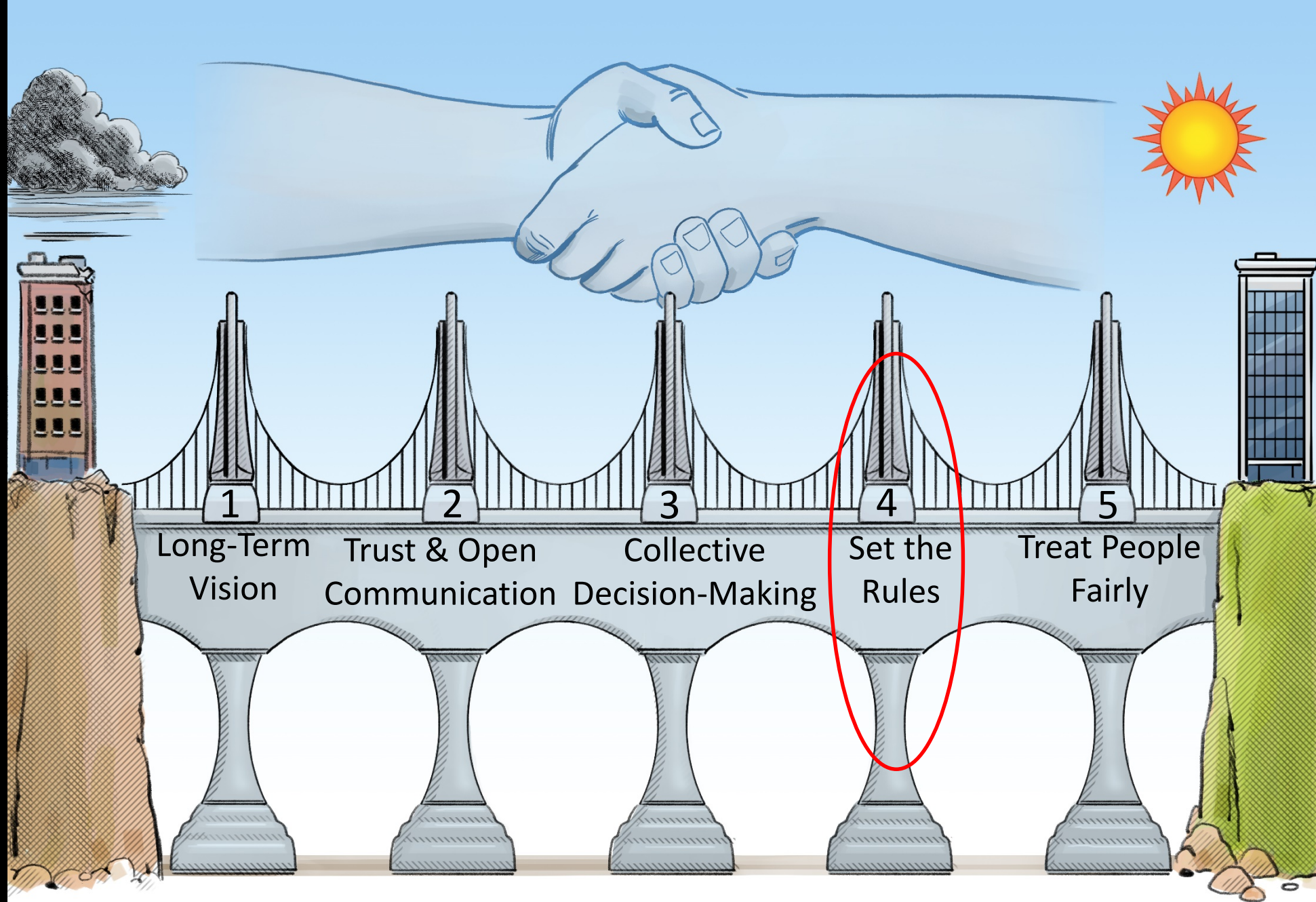


San Bernardino County
Developed an Networked
Organization By...



- **Clarifying** a goal for the network
- **Curating** the membership of the network
 - Public, private, non-profit
- **Connecting** the right people
 - Element groups
- **Cultivating** a network mindset
 - County may not be the “doer”
- **Catalyzing** the network into action
 - Mark a new era with a new CEO





Financial Sustainability →



#4 - Set rules and ensure they are followed

- Boundaries are the rules of the game. The rules determine how the game is played. For everyone to win, the rules must be well-defined.
- When people feel their actions are seen & their reputations are on the line, people are encouraged to play by the rules.





Financial Policies

- Guidelines for operational & strategic decision making
 - Ideally, adopted by the governing board
- Identify acceptable, preferred and / or unacceptable courses of action
- Provide a standard to judge performance



Key Policies

- **General Fund Reserves**
 - Target amount of reserves
 - The conditions for using reserves

- **Revenue**
 - The use of one-time revenues
 - Covering costs with user fees

- **Budgeting and Financial Planning**
 - Structurally balanced budget
 - Long-term planning



More Key Policies

■ **Capital Planning**

- Develop a long-term capital improvement plan
- Account for operating budget impacts
- Commit to funding asset maintenance

■ **Debt**

- Acceptable uses
- Limits on amount of debt
- Maturity guidelines





Power of the Purse Strings

- Can budget authority be used to reward those who cooperate
- Set expectations by what it means to cooperate



Look for Lighter Touch Penalties



Minneapolis
City of Lakes



Remove Barriers to Doing the Right Thing

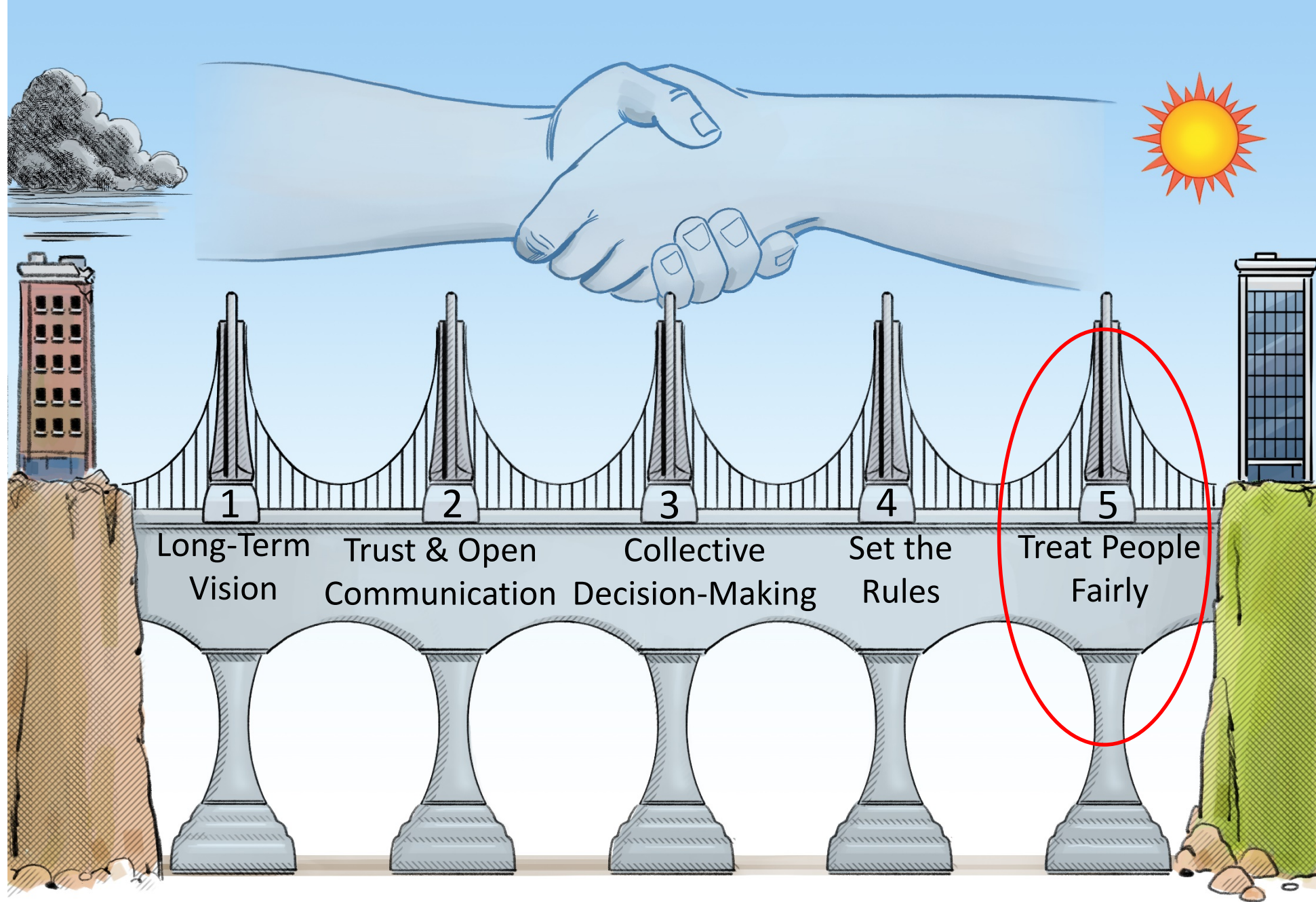
- Use-it-or-lose-it budgeting encourages unnecessary spending
- So, provide a constructive alternative



Remove Barriers to Doing the Right Thing

- Exaggerating legal restrictions on funds is an attempt by departs to fund what they think is important, so...
- Help them use the funds for a sustainable purpose





Financial Sustainability →



#5 - Treat participants fairly under the rules

- Financial decisions are subject to dispute. Prevent destructive conflict, promote constructive conflict.

Fairness Matters

Evidence:

The Ultimatum Game



Procedural Justice

- People are willing to accept & support decisions that aren't in their self-interest, if:
 - Decisions are based on accurate information.
 - Transparent & consistent decision-making criteria applied equally
 - Stakeholders given opportunity for input
 - Mistakes are recognized & corrected



Decisions are Based on Accurate Information

- May need to take time to find the facts and define the problem
 - Picking salary comparables
 - Hampton's tax experience





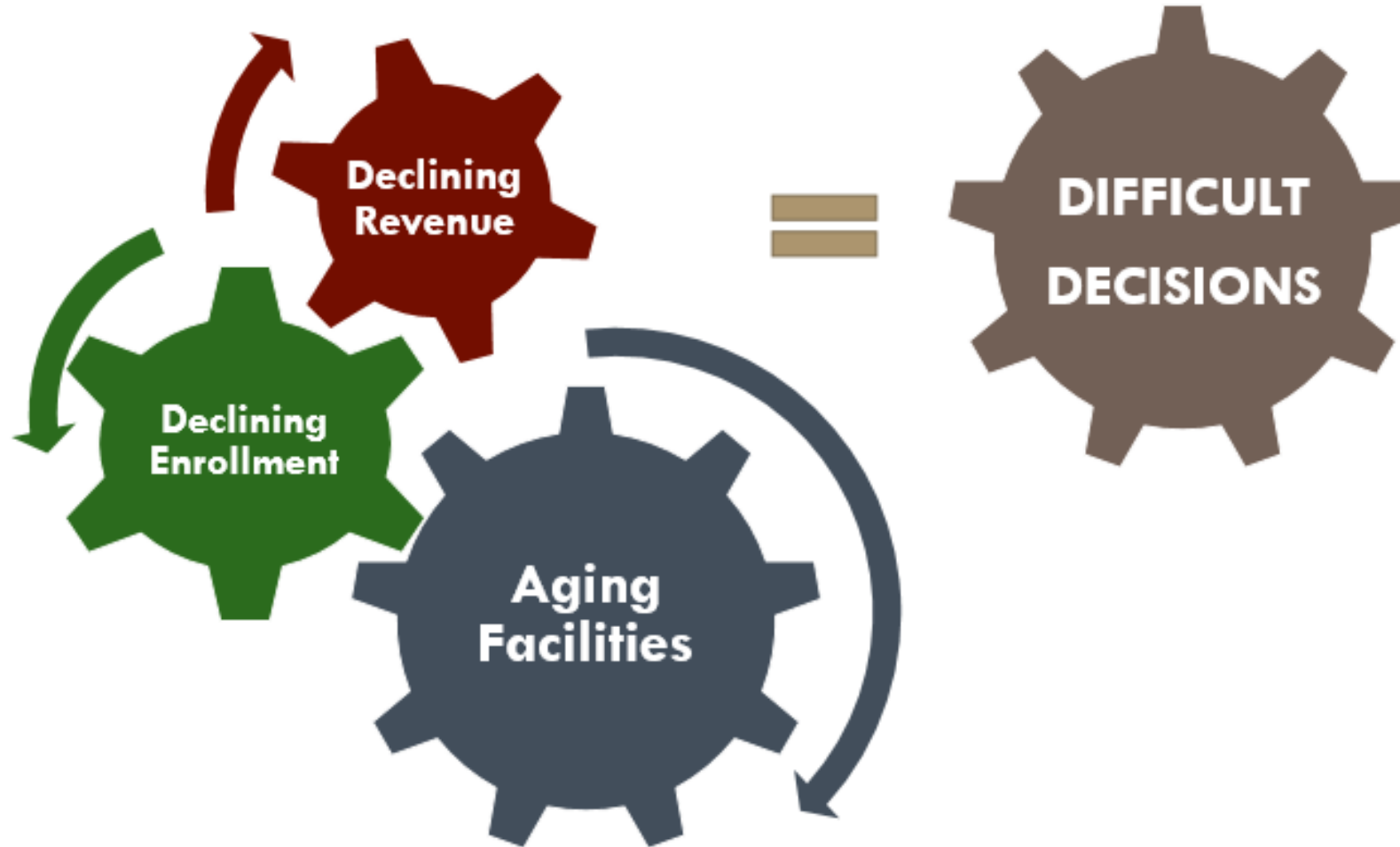
Transparent Decision-Making Criteria Consistently Applied

- Introducing...
 - Traverse City Area Public Schools





Traverse City Area Public Schools



TCAPS Three Principles

- Education priorities should drive the budget
- You can't be all things to all people
- Get the most bang for our buck

All Affected Stakeholders Have Opportunity for Input

- This could include ...
 - The opportunity to articulate interests
 - Provide input on options under consideration
 - Define decision-making criteria
 - Collective decision-making



Mistakes are Recognized and Corrected

- Acknowledge risks that decisions may not work out
- Evaluate how decisions are going
- Use pilot projects, where possible



The End

- You can look for a lot more on this subject from GFOA in the months ahead
- First up will be our new book

*Beyond the Bottom Line:
The Path to Financial Sustainability and Community
Resiliency*



What is the most important thing you could do improve perceived fairness in financial decision-making?

1 minute to think about it

2 minutes to talk with a neighbor

Optional 4 – minutes to talk with three others

