PM
PUBLIC MANAGEMENT

Elevating YOUR FINANCIAL MINDSET

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City Manager
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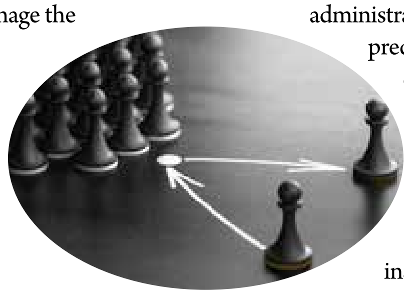
Selecting the Next Manager: *What Role Should You Play?*

Your involvement must align with the **ethical values** of the profession. | **BY MARTHA PEREGO, ICMA-CM**

A transition in who serves as the city, county, or town manager, regardless of how it came about, is a huge deal. New organizational leadership brings with it a significant investment in creating new relationships and adapting to a new style. And then there are all the organization priorities that may be paused or delayed due to the vacancy.

Each transition comes with a unique set of circumstances which will direct the organization's next steps. For organizations that have experienced regular turnover in the manager's position, the council will likely just dust off the process used before and move forward. They may look to staff to prepare the RFP to select an executive recruiter to conduct the search. Or direct staff, if they have sufficient resources, to manage the recruitment process.

Perhaps the question of succession was settled with the addition of an assistant or deputy who has been waiting in the wings. Since presumably it was the manager who hired the assistant or deputy, this is that rare moment when a manager does get to put their imprint of the future direction of the organization. Even so, no promise made to an assistant about their future in the organization is guaranteed until the governing body confirms the promise with a vote.



Consider the challenge to the organization though if the departing manager has served a long tenure, say 10 or more years. In that case, there may be elected officials or even the entire governing body who have never been through the process of recruiting and hiring a manager. And that is a problem given that selecting the person to lead the organization is perhaps the most important decision elected officials will make on behalf of the community and staff.

Or perhaps the position is open after voters adopted a form of government that provides for a manager or administrator. That governing body is in the same predicament: making the most significant of decisions without any prior experience in designing a process, defining the desired characteristics of the best candidate, and then managing the vetting process.

In all these cases, it's neither rare nor inappropriate for the governing body to

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ICMA
Creating and Supporting Thriving Communities
ICMA's vision is to be the leading association of local government professionals dedicated to creating and supporting thriving communities throughout the world. It does this by working with its more than 12,000 members to identify and speed the adoption of leading local government practices and improve the lives of residents. ICMA offers membership, professional development programs, research, publications, data and information, technical assistance, and training to thousands of city, town, and county chief administrative officers, their staffs, and other organizations throughout the world.

Public Management (PM) aims to inspire innovation, inform decision making, connect leading-edge thinking to everyday challenges, and serve ICMA members and local governments in creating and sustaining thriving communities throughout the world.

look to the current manager for advice on the selection of their successor or to reach out to other managers in the region for help. The response by the manager though needs to align with the ethical values of the profession.

This is such a common scenario that ICMA's Committee on Professional Conduct (CPC) developed advice on the managers role in the executive recruiting process. The CPC's advice acknowledges that ICMA members may assist a community in the process by serving as an executive recruiter in a consulting capacity, as a volunteer advisor to the process, or a member of the search committee as long as they can be fair and impartial and *will not be a candidate for the position.* To uphold the values outlined in the ICMA Code of Ethics, members are advised to consider and function within the following parameters and considerations.

Members can volunteer their time to serve as an advisor to the process or as part of a search committee as long as they will not be a candidate for the position.

Do You Want this Job?

The most important decision for any person responding to a request to help in a search is to decide at the outset whether they will be a candidate or not. Members can volunteer their time to serve as an advisor to the process or as part of a search committee as long as they will not be a candidate for the position. Common sense dictates that you will have a tremendous advantage as a candidate if you develop the candidate profile, have facetime with the governing body, and/or otherwise run the selection. It's a non-starter from the perspective of Tenet 3 and your obligation to act with integrity and be clear about your intentions. If you are at all uncertain about your interest in the position, the wisest move is to decline the ask to assist.

This requirement holds true as well for the person appointed to serve in the interim role. If you are certain that you don't want the permanent appointment, you can assist the governing body with the process. If you are uncertain, you should decline to get involved in the search process.

Consider this twist. You are the assistant manager appointed to serve in the interim role. While happy to step up to fill the void for a few months, you have no desire to be the manager. You share that perspective with the governing body at the time they ask you to serve as the interim. After months of running the show though, you now have a change of heart. This is not only fun, but you have total confidence that you can handle the demands of the position. How does your new interest in being considered for the position align with the fact that you have been engaged in the recruitment process? Should the organization scrap the recruitment and start over?

Or what happens if the governing body goes through the entire recruitment process and decides that none of the prospects look as good as their interim manager or the volunteer serving as an advisor? Again, are they ethically required to toss out the entire process, spend time and money to restart in the interests of having a transparent and fair process?

The CPC recommends that if *a member, serving as a consultant or in an advisory capacity, is offered the position or decides to apply for the position, he or she should immediately withdraw as an advisor and the position should be re-advertised. In this way, any appearance of improper influence is avoided.*

This one is hard. Governing bodies are largely unlikely to restart a process just because the candidate is in an ethical quandary. Driven by the need to fill the position, they may consider the extra cost and delay as outweighing any ethical considerations. The member will then need to choose between accepting the position in a cloudy process or decline. All the more reason to give very careful consideration of your interest in the position at the outset of the process.

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The Advisors' Swim Lane

In an advisory capacity, members need to stay in their lanes. They may assist the governing body to identify the preferred attributes and skills of the next manager, write the job description and job ad, outline the process, develop the schedule, make recommendations about the interview questions and process, review resumes, and evaluate candidates.

But members should draw the line at participating in elements of the recruitment process that influence the selection of the candidate. The selection of the manager is uniquely the responsibility of the governing body. Afterall, they are the ones who must work with and supervise this person. An outsider's assessment about whether an individual would make a great manager is pretty much irrelevant if the governing body doesn't agree, is on the fence, or just outright defers to the experts. To that end, an advisor should not recommend candidates, participate in the interview with the governing body, or sit in on the governing body sessions where decisions are made about finalists and the final candidate.

Members who are asked to sit on the selection panel should similarly decline the offer. It's one thing for a manager to sit on a panel recruiting a police chief in a neighboring community. But sitting on the panel where the manager is influencing the selection of a peer with whom they will be engaging with and even working with on mutual issues is problematic.

At the end of the day, it is the governing body who must live with their choice for manager.

Serving as a Consultant

Members working for a local government who provide this service on a consulting basis should follow the guidelines on outside employment under Tenet 12:

> **Private Employment.** Members should not engage in, solicit, negotiate for, or promise to accept private employment, nor should they render services for private interests or conduct a private business when such employment, service, or business creates a conflict with or impairs the proper discharge of their official duties.
>
> Teaching, lecturing, writing, or consulting are typical activities that may not involve conflict of interest, or impair the proper discharge of their official duties. Prior notification of the appointing authority is appropriate in all cases of outside employment.

Lastly, members who are not officially part of the process may respond to inquiries from elected officials by providing professional advice. But in no case should a member seek out officials to comment on a candidate's qualifications for the position. ICMA has a great resource designed to assist elected officials facing a vacancy. "Recruitment Guidelines" is available for all to access at icma.org/documents/recruitment-guidelines. PM

ICMA

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Boston, MA | April 6-8

In 2022, the ICMA Northeast Regional Conference will be an in-person event and is dedicated to enhancing your ability to bounce-back and thrive by offering new strategies, best practices, and creative solutions to some of the greatest challenges faced by your region. Learn more and register today at *icma.org/regionalconferences*

April 5: Webinar: Improving Your Jurisdiction's Development Review Process

April 6: Conference: 2022 Northeast Regional Conference

April 12: Webinar: Defining and Developing a Data-Driven Equity Budgeting Strategy

April 14: Webinar: Community Engagement: The Art of Doing it Well

April 21: Workshop: Leading a Culture of Engagement and Productivity

April 25-July 29: Leadership Development Program: April 2022 Cohort: ICMA High Performance Leadership Academy

April 25-29: Midwest Leadership Institute

April 27-June 1: Webinar: Council Orientation Webinar Series

April 29: Feedback on Diversity, Equity, and Inclusion in the ICMA Code of Ethics

FEEDBACK ON DIVERSITY, EQUITY, AND INCLUSION IN THE ICMA CODE OF ETHICS

Join your colleagues in the conversation on the ICMA Code of Ethics Review, focused on better integrating the local government management profession's commitment to equity, social justice, and the ethical responsibility of members to serve the best interests of everyone living in their communities. Register in advance for the April 29 virtual meeting, access more detailed information on this current review, and a history of prior revisions to the Code on ICMA's website: *icma.org/ethics*

COURAGEOUS CONVERSATIONS

Real talks providing insight about the experiences of marginalized and underrepresented persons in local government leadership. *icma.org/living-history*

VOICES IN LOCAL GOVERNMENT PODCAST

ICMA's Voices in Local Government podcast tells stories, inspires ideas, celebrates progress, and acknowledges challenges faced by local government managers and staff in serving the public. Upcoming episodes include regional check-ins, long-term investment initiatives, citizen and employee engagement, cybersecurity, sustainability, and more. *icma.org/podcasts*

WANT TO BE SPOTLIGHTED BY ICMA?

If you are an ICMA member, we want to hear what's new in your career or organization. All members are welcome to submit—from CAOs to students. Complete the form at icma.org/spotlight-members. Check out the April Member Spotlight with Michael Colbert, county administrator of Montgomery County, Ohio, on the inside back cover of this issue.

Now Is the Time to Level Up Local Government Budgeting and Revenue Diversity

BY MARC A. OTT

ICMA and GFOA are helping to chart a new course for the most fundamental of local government responsibilities.

This may sound odd to non-practitioners, but the budgeting process can be an exhilarating career experience for local government managers and their entire teams. Some of the most exciting moments I have had as city manager and here at ICMA involve the kind of out-of-the-box thinking that comes from staff—and even the public—when reconciling how we can achieve our vision within the reality of our limited resources. Initially we challenge our teams to bring forward the best solutions and services. Those become our aspirations, which we can never realize if we don't take the time to define them, understanding that most times ascendency will be incremental as circumstances and resources allow.

Over the past two years, it has been challenging to plan beyond the immediate public health crisis. Just as citizens, local economies, and our staff members who have been suffering from tremendous burnout are emerging from the challenges of the pandemic, so too are our planning processes, which for many of us were somewhat dormant during the response and recovery phase of the COVID crisis. A revitalized budget planning process with a renewed focus on revenue is most likely among the highest-priority activities that city and county leaders will address.

Partnering with GFOA

We're especially excited by the partnership we've developed with the Government Finance Officers Association (GFOA), covering the related areas of Rethinking Budgeting (gfoa.org/rethinking-budgeting) and Rethinking Revenue (gfoa.org/rethinking-revenue). Chris Morrill, executive director of GFOA, who also served as a city manager and member of ICMA explains it best:

> "How local governments raise revenues and allocate scarce resources is critical to building communities that are livable, resilient, and equitable. Through research and case studies, ICMA and GFOA, together with other partners, are helping local governments develop more equitable and responsive budget systems and raising new ideas for state and local policy makers on how local government revenue systems can be modernized."

As many of our members have told us, traditional revenue sources and ways of getting to a balanced budget are no longer sustainable. For example, continuing to depend on gas and weight taxes as manufacturers and consumers move to electric vehicles will undermine our ability to fund infrastructure programs. But where and how do we make up for these lost revenues?

Likewise, we often opt for incremental changes to the previous year's budget to expedite the process rather than beginning the budgeting process with our long-term strategy. We also fail to consider fairness when making budget decisions. I think you'll be very impressed with the level of creativity that has gone into these "rethinking" initiatives in helping to chart a new course for the most fundamental of local government responsibilities.

A revitalized budget planning process with a renewed focus on revenue is most likely among the highest-priority activities that city and county leaders will address.

Initial Resources Available

In this issue of *PM,* you will find a progress update on Rethinking Budgeting, co-authored by Sabina Agarunova, ICMA's CFO, as well as an article on the next steps in the Rethinking Revenue initiative.

The initial reports looking at revenue have already been shared on our website at icma.org/search?keyword=rethinking+revenue and additional content is in progress. We also plan to work with GFOA and our other local government partners to offer webinars, workshops, and conference sessions, as well as opportunities to continue the conversations virtually and in person.

With so many issues vying for the attention of city and county leaders, these initiatives promise to not only provide a positive return on the time invested, but have the potential to re-energize the entire organization as we contemplate the unlimited potential of our communities. PM

MARC OTT
is executive director/CEO of ICMA, Washington, D.C.

What to Do When Your Municipal Employer Is in Deep Financial Straits

Five Guideposts For Addressing Financial Dysfunction

BY DONNA M. GAYDEN

Municipal financial challenges in America are deeply embedded in the fabric of our governmental process. Whether real or manufactured, budget preparation is always a fraught process, one that is usually marked by political gamesmanship, bargaining unit pressures, and public frustration, among other difficult environmental obstacles.

Depending on your state, you may be confronted with a number of legacy issues (e.g., pension obligations) or statutory requirements that create ongoing, profound professional tension for municipal leaders.

We've come to accept the realities of this environment: in general, a steady hum of discontent over outcomes ranging from service cutbacks, the need for tax increases to fund government services, critical projects sadly left for another day, contract agreements that founder, and of course, a lack of leadership continuity, as good professionals become political victims or walk away in frustration for the need to maintain a good career trajectory.

I'm not here to talk about any of that. Because it is sadly ordinary. I'm focused on true financial dysfunction, the kind that poses an existential threat

to your municipality—the very real prospect of bankruptcy. If you inherited a situation like I'm about to describe, these suggestions are for you!

I was brought to my most recent engagement to solve what were defined to me as the financial problems rooted in a history of corrupt relationships (cronyism and patronage) and lack of political will. These concerns were made manifest in unsustainable collectively bargained obligations, thin or nonexistent reserves, and an over-reliance on borrowing to establish balanced budgets, among other things. This turnaround challenge was appealing to me as a municipal finance specialist.

But none of these trappings told the true story of financial peril in this city, with a population of nearly 35,000 and an annual budget in excess of $100 million. The obligations made by previous leaders truly dwarfed the city's ability to create authentic balanced budgets. The city's credit rating was barely above junk status. Then, a legal judgement of 1.5 times our budget placed the city on the knife edge of bankruptcy. Oh, and COVID-19 emerged merely a week or two after I took the job!

True financial dysfunction—marked by a combination of political amateurism or indifference, corruption, malfeasance, and a host of other negative impulses—is, in my mind, the greatest test of leadership resourcefulness. If you have the opportunity to assist a municipal entity through a crisis such as this, here is what you may face:

- Politicians will instinctively reject assertive action, play the blame game, and try to "kick the can down the road."

True financial dysfunction—marked by a combination of political amateurism or indifference, corruption, malfeasance, and a host of other negative impulses—is, in my mind, the greatest test of leadership resourcefulness.

- Collective bargaining groups will fear you will solve the problem at the expense of their members.
- Individual staff members will express legitimate fear and doubt about what a resolution will mean to their careers.
- The public, generally cynical toward government already, will be generally unsurprised by this news, but want no part of any of the solutions.
- The media will cover the story with a certain angle, taking its cues from political sources who will try to control the narrative in an opportunistic manner.

At all times, you will feel that what must be done to "save" the enterprise is being compromised by people with other agendas. So how does one preserve composure and work toward the goal? Here are my five

guideposts for addressing deep financial dysfunction:

1. Be Factually Iron-Clad

If there is ever an opportunity for people to destroy your credibility (and thus, the momentum toward a solution), it is when factual errors are made in the presentation of the problem. Be clear and straightforward and use a set of basic facts that are easily repeated. This is your story—stick to it! I know it might sound inauthentic, but the more information you provide to the general public, the higher the likelihood that errors will be made, and individuals will cherry-pick data to suit their agendas.

2. Hire an Expert Team

There is a reason that consultants are used: they bring subject matter expertise and objectivity to bolster your case, and naysayers will find it much harder to argue against those who are on the team to get a job done and move on to the next crisis. No matter the scale of your crisis, you shouldn't be a voice in the wilderness. Independent professionals who have a strong track record and are good on their feet are key in these situations. Ideally, these professionals will have no ties to your community or to your enterprise, thereby preserving their objectivity and eliminating this ancillary argument against their recommendations.

> **Win the optics war by getting out ahead of your critics (and the media) by communicating directly with the constituencies you serve.**

3. Establish Your Communication Plan in Advance

It is not hard to imagine the criticism that occurs when a leader is trying to resolve a problem that will result in higher taxes, reduced services, reduced compensation, or any combination of efforts to bring the entity back from the void. As such, a reactive communications posture has to be avoided at all costs. You must have strong arguments for the proposed solutions. You must anticipate the arguments against proposed solutions and be ready to repel them. You must communicate tactically by putting a premium on confidentiality, timing, and media engagement.

Ideally, outside communications professionals, like your legal and financial partners, are part of your turnaround team. Remember, too, that communication isn't simply about words on a piece of paper. Good communication in these digitally saturated times requires the novel approach of face-to-face meeting. Talk to the anxiety-ridden staffers. Meet regularly with the bargaining heads to soberly reinforce the scale of the problem and your desire for partnership in solving it. Dial up influential community leaders out of the blue to talk turkey. Win the optics war by getting out ahead of your critics (and the media) by communicating directly with the constituencies you serve.

4. Be Realistic About Time

No matter how good of a team you have assembled… no matter if the political establishment is even on your side (!)…no matter if the public isn't mobilizing with their pitchforks…nothing will go exactly according to plan. There are too many variables in the financial turnaround scenario, starting with the uncertain amount of time it often takes to fix these problems. As time passes, leaders change, new developments emerge, ratings agencies get antsy, and on and on. In short, creating a specific timeline is ill-advised. Instead, think of (and communicate) steady progress toward the goal. Always be thinking about the "little" wins and how to have them add up.

5. Recognize Your Shelf Life

It is not often that leaders who are out front of these solutions last for very long. Even in the best cases, there will be people (sometimes your own employer!) who simply believe that you represent the "ugly past," and that it is time to move on with a new face. Those who do this job well know they will not be tied to a specific enterprise for the long term. They recognize that a key component of their success is the ability to engage, fix, and move on to the next challenge. And that is a critical part of their credibility—that they are only in it to realize a solution.

Conclusion

This work is not for everyone. As I mentioned earlier, these general rules are really for those who have inherited the problems of the past as the bill comes due. But the ability to fix these challenges affects the lives of thousands, and with that knowledge comes great reward! PM

DONNA M. GAYDEN is city manager of Long Beach, New York, and a government turnaround specialist.

Rethinking Budgeting:

Are We Ready for a New Approach?

Local governments have both an imperative and an opportunity to rethink how they do budgeting.

BY **SHAYNE KAVANAGH AND SABINA AGARUNOVA**

Local governments have developed their budgets in essentially the same way for decades. The essence of the traditional approach is, first, that the budget is incremental. This means that last year's budget becomes next year's budget with changes at the margin. Second, the budget is built around line items—categories of spending like personnel, commodities, and contractual services, which are then grouped into departments and funds. This approach has been criticized for almost as long as it has been in use in local governments.

One of the most prominent criticisms is that *past decisions are frozen in place past the point at which they are affordable or relevant.* Once a change is made to the budget, the change is carried over to successive budgets. Let's illustrate: if a department gets a grant from, say, state or federal government to increase staffing for a few years, those positions come to be regarded as part of the department's baseline budget. Once the grant ends, the expenditure continues to be funded without an evaluation of whether those positions are creating sufficient value for the community to justify the cost. This "layering on" effect contributes to financial distress and is a suboptimal allocation of resources.

Behavioral science tells us that people are "predictably irrational." They will interpret numbers and make choices in ways we might not expect.

Another criticism is that *the traditional budget is not strategic.* Spending is allocated to line items that concern the day-to-day operations of government. Line items like "travel," "supplies," or "miscellaneous" don't speak to how spending impacts big-picture results like public safety, mobility, health, etc. Also, historical precedent is the primary determinant of how much money is allocated to each line item. This is backward-looking, not forward-looking. All of this means that the budget process is not well suited to handle big-picture and/or emerging issues.

A final criticism is that *traditional budgeting is a "zero-sum game."* This means that for one party to win, someone else must lose. For one department to get more funding, another department must get less. In traditional budgeting, this is seen as a win for one department and a loss for the other. A zero-sum game promotes power dynamics that favor maintaining the status quo and encourages self-interested decision making.

These criticisms have led to attempts to do budgeting better. Two widely recognized innovations are zero-base budgeting[1] and priority-based budgeting.[2] A number of intrepid local governments have tried these methods with varying degrees of success and staying power. Among the majority of local governments, however, the traditional budget has endured…and for good reasons. It is simple, the results are predictable, line items provide a sense of control, incrementalism avoids radical change, and it is flexible—since there is no overarching strategic direction, public officials can more easily declare new policies when then they want.

If prior efforts at new ways of budgeting have met with limited success and the traditional budget has important advantages, why have we written this article and why are you reading it? The contention of the Rethinking Budgeting initiative—a collaboration between ICMA, GFOA, and the NLC—is that there are three new forces that make the traditional budget less tenable than in the past. However, it is not all downside. After we examine these threats, we'll explore the opportunities that work in favor of local governments.

Three Threats to the Status Quo

1. Stagnant or Diminishing Resources

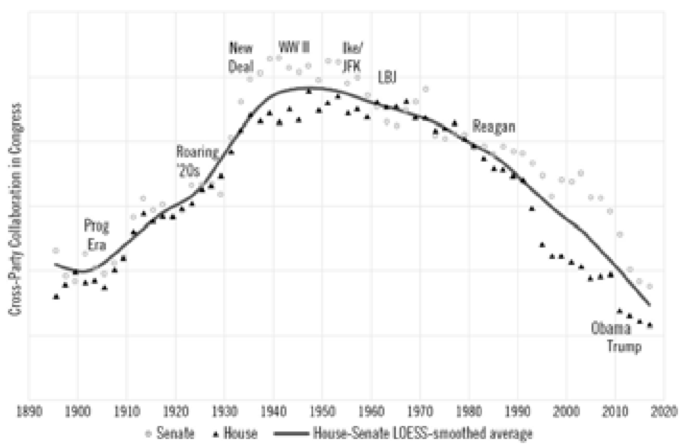
The first threat is stagnant or diminishing resources available to local governments. Much of the traditional budget's success rests on distributing budget increases to enough stakeholders to maintain a stable governing coalition. However, the traditional budget does not have a good answer to resource declines. This is why we see across-the-board cuts as a common response to fiscal distress: everyone is cut evenly. However, this does not optimally size or shape government to the conditions it faces. In this issue of *PM* magazine, we have an article on "Rethinking Revenue" that delves into revenue reform. But, it is also important that government spending plans be more adaptable to resource-constrained environments.

2. Conflict

Conflict is the second threat. The defining conflict of our times is political polarization. Figure 1 shows cross-party collaboration in the United States Congress from 1895 to 2017. We see today that cross-party collaboration has reached all-time lows. Political conflict is not limited to federal government officials. It affects the general public, too. Conflict has gone along with declining trust. Surveys show that in the early 1960s, nearly two-thirds of Americans trusted other people, but by the 2020s only one-third did.[3] The traditional budget lessens conflict by relying on historical precedent. However, in an environment of markedly lower trust, where many people no longer believe that others have their best interests in mind, people may not be willing to accept historical precedent as a justification for how resources are distributed.

***Figure 1.* Cross-Party Collaboration in the U.S. Congress from 1895 to 2017**

Adapted from: Putnam, Robert D.; Romney Garrett, Shaylyn (October 13, 2020). The upswing: How America came together a century ago and how we can do it again. Simon & Schuster.



3. Volatility

The third threat is volatility. Perhaps the most important source of volatility is information. The amount of information—and access to it—has been increasing exponentially over the past few decades.

Fairness is a multi-faceted concept. Understanding all facets allows the budget process to be designed so that the most people feel fairly treated.

This phenomenon seems to have reached a threshold point, where new ideas can rapidly spread to a point where they are adopted by a critical mass of people. The result is rapid changes in public opinion and consequent demands on institutions. For instance, the role of social media in catalyzing social unrest and coordinating protest organizations has been well documented.[4] This volatility challenges the legitimacy of all established organizations.

The traditional budget is unsuited to provide legitimacy in this volatile environment.[5] First, the traditional budget relies on historical precedent for much of its legitimacy. New information and ideas, by definition, do not defer to historical precedent. Second, the traditional budget does not have a good means for getting feedback from an environment that is subject to rapid change, much less a means for changing if and when the need to do so is identified.

Opportunities for Better Budgeting

The Rethinking Budgeting initiative has identified opportunities for local governments to budget better. The initiative is still in its early phases, so there will be much more to come. For this article, we'll introduce key concepts that are foundational to rethinking how we do budgeting.

Modern Behavioral Science Offers New Insights into How We Make Decisions

Behavioral scientists study how we—human beings—interact with each other and our environment in ways that impact our preferences, decisions, and behaviors.[6] We can use this knowledge to design better processes and achieve better outcomes for your organization and the community. As a simple example, there is an underlying assumption in budgeting that people are rational—show them the numbers and they will make the right decision. However, behavioral science tells us that people are "predictably irrational." They will interpret numbers and make choices in ways we might not expect.

Let's take an example that is an integral part of budgeting: choosing between options. From a purely rational standpoint, the more options you have, the better! However, research has shown that under conditions like those that often exist in budgeting, more options can work against good decision making. This is called "choice overload" and is characterized by long delays in making a decision, not making a decision at all, and frustration. Knowing this allows the budget officer to mitigate choice overload. The most obvious way is to present decision makers with fewer choices. Decision makers will often appreciate being provided with a smaller number of solid choices that they can become familiar with rather than a wide range of options. For example, GFOA has observed that managers have success by presenting decision makers with a limited menu of carefully formed strategies to close a budget deficit. Decision makers still have a choice but don't feel overwhelmed by too many choices.

That is, of course, but one tactic for one common decision-making problem. The larger message is that the budget officer should be thought of as a "choice architect." Choices can't help but to have an architecture, such as large number of choices versus a limited number. The architecture influences how choices are made—like how the architecture of a physical space will influence how people use that space. The budget officer must: (1) be aware of how the presentation of information influences choice, and (2) use professional judgment to apply choice architecture wisely. Check out the Rethinking Budgeting's series on "Using Behavioral Science for Better Decision-Making" to go deeper on this topic.[7]

Key Questions to Ask: **Do you understand how the process and decision-making environment that you've set up for the budget encourages or discourages good decision making? What can you do to architect a better decision-making environment?**

Understand What's "Fair" and the Implications for Budgeting

Conflict is a defining feature of today's political environment. Issues of fairness are often at the heart of the conflict.[8] The conventional budget decreases or avoids conflict by relying on historical precedent, but many people are not willing to defer to historical precedent today. Local governments need a more comprehensive understanding of "fairness" because more attention to fairness in the budget could play a role in positively influencing some of the most important potential conflicts of our time.

Fairness is a multi-faceted concept. Understanding all facets allows the budget process to be designed so that the most people feel fairly treated. A limited understanding, at best, leaves opportunities unrealized and, at worst, risks more conflict with those that feel unfairly treated. We'll examine two major facets in this article, but you can dive deeper into the concept of fairness in the Rethinking Budgeting's "What's Fair" series.

Procedural Justice. The first facet of fairness is procedural justice, which refers to a fair process. Do people have the chance for input? Is the information used to make decisions seen as accurate? Are clear decision-making criteria applied equally to everyone? Procedural justice is critical because people are more willing to accept a decision that is not consistent with their self-interest if they feel the process used to reach the decision was fair. This has been shown in applications as disparate as courtrooms and corporate strategic planning. GFOA has observed that it is no less valid in budgeting. There will never be enough resources for everyone to get everything they want. We have observed again and again that budget processes that exhibit procedural justice are far better at navigating conflict.

Distributive Justice. The second facet of fairness is distributive justice. The simplest definition is that people get what they deserve. Of course, what people "deserve" is open to interpretation! To illustrate, many local governments are grappling with "equity" in budgeting. "Equity" means people should be treated differently by public policy to compensate for different circumstances and consequent need for help from government. It is often associated with equality of outcomes. However, this is not the only interpretation of what is "deserved." "Proportionality" means that people are given resources commensurate with their contributions. It is more closely associated with equality of opportunity. Nearly everyone believes in a mix of proportionality and equity, but equity tends to be favored by political liberals, while proportionality appeals to everyone but more so for conservatives. This means budget officers will need to think about how and where the equity principle might be operative in budgeting and where the proportionality principle might hold sway. Because most people believe in a mix of both and because a lot of conflict hinges on which definition is used and when local governments must be intentional about how they are applied. Also, this is not always an either/or proposition. There may be opportunities to satisfy both with clever approaches to public policy.[9]

Key Questions to Ask: **Does your budget process exhibit the features of procedural justice? Where might it be important to apply the principle of equity and where might it be important to apply proportionality? Where might it be important and possible to apply both?**

Avoid the Accountability Trap

Local governments are being asked to deal with complex and difficult problems, like drug abuse, climate change, social

inequalities, and more. Given the high stakes of the issues and the potentially large sums of money needed to address them, there can be a justifiable interest that the government (and its staff) be held "accountable." This sounds fine, in theory, but there are some practical problems with a focus on accountability.

Wharton organizational psychologist Adam Grant points out that focusing on only accountability raises anxiety and impedes communication. What is the solution? To be clear, we are not anti-accountability. As ancient wisdom prescribes, balance in all things. What balances with accountability? Psychological safety.

Psychological safety is a shared belief, held by members of a team, that the group is a safe place for taking risks. It is a sense of confidence that the team will not embarrass, reject, or punish someone for speaking up. It describes a team climate characterized by interpersonal trust and mutual respect.[10]

A rethought budgeting process can better direct resources to where they will do the most good.

Psychological safety is necessary for challenging deeply held beliefs and assumptions and taken-for-granted ways of operating. To illustrate the importance of psychological safety, consider the experience of software giant Google. Google wanted to know what makes for a successful, innovative team. After a two-year study covering 280 teams, Google found only one difference between teams that were innovative and teams that were not: psychological safety.[11]

You can check out Rethinking Revenue's "The Accountability Trap" to go deeper into how to create psychological safety and integrate it with accountability.[12] In this article, we'll limit ourselves to the first and most important point: differentiate between two kinds of accountability. Those are accountability for results and accountability for process. It is common to think that decisive leadership "demands results" or that we should "budget for results." However, an over-emphasis on results meant that no one wants to be seen as failing to deliver results, admitting that they don't have the answer, or questioning processes that have delivered results in the past. Process accountability, conversely, asks us to evaluate how we get to the results and learn how to do it better.

To illustrate, let's consider King County, Washington. The county focuses its accountability on measures of the process used to meet a goal. Within a given budget cycle, the county can change the process based on feedback from its measures. The larger goal or outcome might be to reduce homelessness, but accountability during the budget cycle is centered around the actions and milestones required to meet the goal.

Ultimately, balancing accountability and psychological safety is about building a learning culture where ideas that don't work (which will be many when trying to address complex community challenges) are used to bring local government closer to ideas that will work and building a budget that reflects those lessons.

Key Questions to Ask: How psychologically safe is your organization? Do people really feel free to offer up their best thinking? What can you do to improve psychological safety? Might an overemphasis on results accountability and under-emphasis on process accountability be an imbalance in your organization that you can correct?

Conclusion

Local governments have both an imperative and an opportunity to rethink how they do budgeting. A rethought budgeting process can better direct resources to where they will do the most good. It also will help local governments better navigate resource constraints, conflict, and a volatile environment. The Rethinking Budgeting initiative will continue progress and if you'd like to be a part of it or just kept apprised of progress, please let us know at gfoa.org/rtb-updates. PM

ENDNOTES

[1] https://www.gfoa.org/materials/zero-base-budgeting

[2] https://www.gfoa.org/materials/anatomy-of-a-priority-driven-budget-process

[3] Putnam, Robert D.; Romney Garrett, Shaylyn (October 13, 2020). The upswing: How America came together a century ago and how we can do it again. Simon & Schuster.

[4] Tufekci, Zeynep (2017). *Twitter and tear gas: The power and fragility of networked protest.* Yale University Press.

[5] Inspired by: Gurri, Martin (2018). *The revolt of the public and the crisis of authority in the new millennium.* Stripe Press.

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[7] https://www.gfoa.org/behavioral-science

[8] https://www.gfoa.org/fairness

[9] For an example, see https://www.gfoa.org/materials/segmented-pricing

[10] Edmondson, Amy C. "Psychological safety and learning behavior in work teams." *Administrative Science Quarterly* 44(2): 350–83. 1999. Taken from: Duhigg, Charles. *Smarter faster better: The transformative power of real productivity.* Random House Publishing Group. 2016.

[11] "This is the way Google and IDEO foster creativity." An undated podcast in the IDEOU "Creative Confidence" podcast series, featuring, Frederik Pferdt, chief innovation evangelist at Google.

[12] https://www.gfoa.org/materials/accountability-trap

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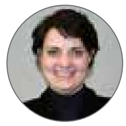

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RETHINKING LOCAL GOVERNMENT REVENUE:

Why the Time Is Now and What Can Be Done

ICMA, GFOA, and a host of partners are working together as part of the Rethinking Revenue initiative to consider and propose new ideas for how local government can raise revenue.

BY SHAYNE KAVANAGH

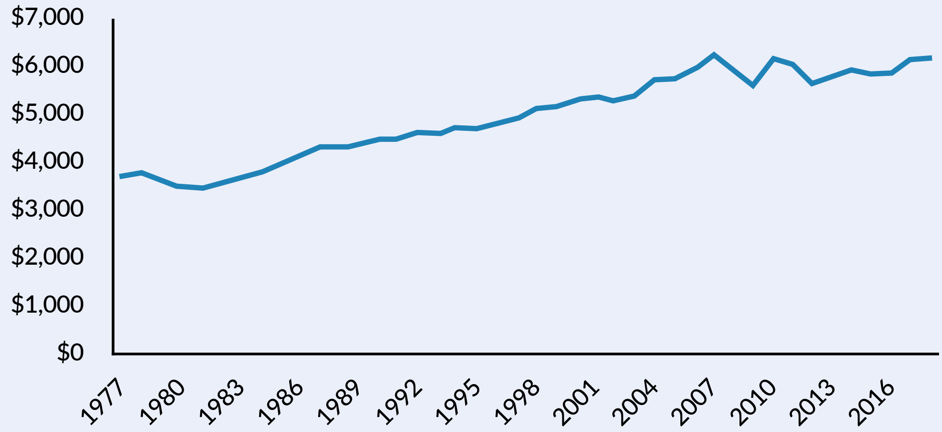
A large majority of Americans think we need substantial changes in our political system.[1] How revenues are raised are a big part of that system and people's intuition that change is necessary is not wrong. Local government revenue systems are becoming outmoded in two important ways.

First, is technical obsolescence—revenues have not kept up with the evolution of the economy. Two obvious examples are: (1) fuel taxes do not account for the increase in fuel efficiency and electric vehicles, and (2) cable television franchises do not reflect the "cut the cord" phenomena of consumers leaving traditional cable television for online alternatives. This trend also extends to the largest local government revenue sources—property taxes and sales taxes. Sales taxes do not tax services, yet the long-term trend is that people are spending more of their income on services and less on goods.[2] As for the property tax, property is not the store of wealth it used to be. Financial assets have increased as a share of a family's total assets, from 31 to 42 percent. The relative share of wealth derived from primary residences and equity in nonresidential property both decreased.[3]

The second point is that local government revenue systems are becoming increasingly unfair. The most obvious example is fines and fees. Many local governments have become more reliant on fees and fines. Fees and fines are appropriate in many cases and serve a legitimate purpose. However, overuse of fees and fines can lead to unfair and counterproductive outcomes. An example is court fees and fines that make it harder for low-income people to disengage with the justice system. There have been documented cases where local governments spend more money enforcing delinquent court fees and fines than they collect.[4]

More broadly, any time a one-size-fits-all fine or fee is levied, it will fall more heavily on low-income residents. A charge of questionable fairness can also be levied at the sales and property tax. Low-income individuals typically spend a higher portion of their disposable income on taxable goods, so the sales tax falls more heavily on them. One might think the property tax is fair: the taxes paid scale up with the value of the property.

Figure 1. **Real Per Capita Revenue for All Local Governments**



However, property assessment practices have made it so that the burden of the property tax falls disproportionately on the owners of the least valuable properties. To illustrate, property valued in the bottom 10 percent pays an effective rate that is double that of property in the top 10 percent on average across the United States.[5]

The sources of revenue a local government uses to fund itself should reflect the bedrock value of democratic systems of government: fair and equal treatment.[6] However, the current unfairness in the local government revenue system is not consistent with that value. Bringing our systems of local government in line with this fundamental value and creating a fairer tax and fee system is more important than ever with declining citizen trust in government.[7]

What's the Scale of the Problem?

Local governments are a diverse set of jurisdictions, so the scale of the problem varies. When we look at revenue data aggregated across all local governments, we find that total local government revenue has gone up after adjusting for inflation and population growth, as Figure 1 demonstrates.[8] However, when we look beyond the aggregated data, there are some important nuances.

First, user fees make up an increasing portion of many local government budgets. For example, an in-depth study of the 39 largest cities in the United States showed that from 2003 to 2018, charges grew so much as to equal tax revenue for half the cities. User fees are the most regressive form of local revenue.

Second, the extent to which a local government's population increases and the wealth of its citizens' increases will impact the extent to which revenues stay at least even with expenditures. One study of larger cities found that from 2003 to 2018, larger and wealthier cities enjoyed revenue growth in excess of expenditures, while smaller and poorer cities had higher growth in expenditures than revenues.[9] A rethought revenue system should provide all communities with revenue options responsive to local economies and that keep up with the cost of public services.

The sources of revenue a local government uses to fund itself should reflect the bedrock value of democratic systems of government: fair and equal treatment.

Where to from Here?

ICMA, GFOA, and a host of partners[10] are working together as part of the Rethinking Revenue initiative[11] to consider and propose new ideas for how local government can raise revenue. Though the initiative is still in its early days, we already have a number of proposals out now. Let's review a few of them. You can delve into the details of these proposals and more at gfoa.org/new-approaches-to-revenue.

Urban Wealth Funds

Local governments might be sitting on a metaphorical gold mine. Just as a private individual or corporation uses assets (like machinery and buildings) to generate income, governments can generate income from their assets. Urban Wealth Funds (UWF)[12] are assigned government assets with commercial value under unified, professional management who own and manage these assets for the betterment of the local community.

We can illustrate with a basic example. Let's say a city owns vacant or underutilized land—imagine a municipal garage along a river in an area where waterfront property is now a hot commodity. If the conventional government approach to asset management recognized this opportunity at all, a common response might be to simply sell the land to a private developer. A UWF tracks all government assets and their true market value, and then promotes development of those assets to generate resources for the public benefit commensurate with their true market value. So, in the case of our waterfront garage, the UWF might redevelop the property into a more valuable use, but retain an ownership interest in the property so that the public enjoys a substantial portion of the financial benefit.

UWFs have been used by governments in Europe and East Asia to generate billions of dollars to fund local infrastructure while maintaining public control of these local assets. A few local governments in North America have begun to explore UWFs as well. In fact, the Rethinking Revenue initiative is working with Schmidt Futures, the Lincoln Institute of Land Policy, and the Sorenson Impact Center to launch an Urban Wealth Fund incubator program as a first step to harnessing the power of UWF on a large scale in the United States. Local governments who are interested in becoming part of this incubator cohort can find more information at gfoa.org/rethinking-revenue.

A rethought revenue system should provide all communities with revenue options responsive to local economies and that keep up with the cost of public services.

Segmented Pricing for Fines and Fees

As we discussed earlier, fines and fees have become a much more important part of local government revenues. While it is probably advisable to eliminate certain types of fines and fees, many others do have a valuable role in not only the revenue portfolio but influencing public behavior to pro-social ends.[13] But the problem of fairness remains: the one-size-fits-all nature of how fines and fees are set makes them regressive. What if we could, instead, set fines and fees to the level that a given individual ratepayer could afford, no more and no less?

As it happens, this approach, called segmented pricing, is widely used in the private sector.[14] When a salesperson is authorized to offer you a discount if you won't buy at the full price, that is segmented pricing. Government segments prices, too—senior citizen exemptions assume that fixed-income seniors have reduced ability to pay property taxes, so they get a lower "price" for their tax bill. The same concept can be applied to fines or fees. Not only would this be fairer—everyone pays what they can afford—it has the potential to actually *increase* revenue! If a fine or fee is set above a low-income individual's ability to pay, they probably won't pay it, especially if they are faced with the choice of paying the fine/fee or paying for rent, food, etc. Segmented pricing finds the amount they are able to pay and avoids the creation of municipal debt and all the disadvantages that entails for all involved. The Rethinking Revenue initiative, together with the University of Chicago's Center for Municipal Finance, is developing a pilot program to use artificial intelligence and machine learning to find the most efficient price points for local government fines and fees.

Entrepreneurial Thinking in Local Government

Local governments have opportunities to pursue entrepreneurial activities that take advantage of their assets to create more value for the community and financially strengthen the local government. Innovation, along with efficient execution of the idea to create new value for the public, is what we refer to as entrepreneurialism in local government.[15]

For example, Lancaster, California, recognized that it had assets like underutilized space in public buildings, city staff eager for new challenges, a strong public purpose (a goal to become a "net zero" city), and given its location in the Mojave Desert, the sun! This led the city to first install solar panels on city property. Success generating energy and selling excess back to the energy grid led it to partner with the local school district to install more panels at school sites. After that, the city was able to allow community members to buy energy directly from the city. Currently, over 90 percent of eligible accounts participate in the city's energy program. Today, the city's energy program accounts for $40 million of a total $234 million city budget, and the energy program more than covers its costs. Of course, not every local government can become a solar power success story, but every local government has assets, physical or otherwise, that could have potential that can be unlocked with entrepreneurial thinking.

The Rethinking Revenue initiative, together with the University of Chicago's Center for Municipal Finance, is developing a pilot program to use artificial intelligence and machine learning to find the most efficient price points for local government fines and fees.

Legal Financing

Legal action is an important lever for local governments to achieve policy goals, enjoin harmful activity, and receive monetary compensation for damages suffered. However, the cost of litigation and greater legal resources available to well-funded defendants means that many local governments cannot realize the full potential of litigation. Legal financing is an established practice among private firms for financing and reducing the risk of litigation. Legal financing is essentially venture capital for litigation, where private funders back legal action they believe has a good chance of succeeding in exchange for a portion of the eventual judgment or settlement.[16] Could it be time for local governments to start using legal finance to pursue lawsuits that seek to vindicate the public's interest ("affirmative litigation") and receive compensation that could be used to help address community problems? The Rethinking Revenue initiative has partnered with the International Municipal Lawyers Association to explore this possibility.

How Can You Get Involved?

If you'd like to be part of Rethinking Revenue, please let us know at gfoa.org/rethinking-revenue. We've heard from a number of government officials that want to be an active part of creating a new revenue system. For example, if you are interested in the pilot/incubator programs we've described, let us know. We'd also love to hear suggestions for specific revenue issues we should examine. And, of course, if you'd like to simply stay informed of the latest

developments in the Rethinking Revenue initiative, let us know and we'll keep you apprised. Today's local government revenue system need not be a permanent feature of American life. Together, we can update it to better serve our communities. PM

ENDNOTES

[1] https://www.pewresearch.org/global/2021/10/21/citizens-in-advanced-economies-want-significant-changes-to-their-political-systems/

[2] This trend reversed during COVID, but as COVID becomes endemic and society normalizes we might very well expect this trend to resume.

[3] Based on data from the Federal Reserve's Survey of Consumer Finance.

[4] See Menendez, Matthew; Crowley, Michael F.; Eisen, Lauren-Brooke; Atchison, Noah. "The steep costs of criminal justice fees and fines." Brennan Center for Justice. 2019. Also see: Laisne, Mathilde; Wool, Jon; Henrichson, Christian. "Past due: Examining the cost and consequences of charging for justice in New Orleans." Vera Institute of Justice. January 2017.

[5] "Property tax burdens fall on the nation's lowest-income homeowners." University of Chicago Harris Public Policy. March 9, 2021. https://harris.uchicago.edu/news-events/news/property-tax-burdens-fall-nations-lowest-income-homeowners. The article describes work done by Professor Christopher Berry available at: https://propertytaxproject.uchicago.edu/

[6] For example, in the March 2021 edition of the Grinnell College National Poll, 92% of respondents described "equal treatment regardless of race, religion, and other traits" as "very important" in a democracy, beating out "free speech" (82%) and "peaceful transfer of power" (80%) and tied with "free and fair elections."

[7] See: "Public Trust in Government: 1958 to 2021." Pew Research Center. May 17, 2021. Pew's data is on the federal government. In recent decades, local government has garnered higher levels of trust than the federal government, but there is reason to expect that the forces that are reducing trust in the federal government may also impact local government. See: Kettl, Donald F. "The growing threat to trust in local government." *Governing*. June 15, 2021.

[8] Data is from the Urban Institute's State and Local Fiscal Conditions data set. In this data set inflation adjustments are based on the consumer price index. There is reason to believe that local government's costs may often increase faster than the consumer price index because governments purchase a different set of goods. However, even when we account for this the real, per capita revenues of government have gone up.

[9] Ahern, Kenneth R. "The business of city hall." Working Paper 28805. National Bureau of Economic Research. May 2021.

[10] Visit gfoa.org/meet-the-rethinking-revenue-team to see who is involved.

[11] https://www.gfoa.org/rethinking-revenue

[12] https://www.gfoa.org/putting-public-assets-to-work-urban-wealth-funds

[13] https://www.gfoa.org/materials/fees-fines-forfeitures

[14] https://www.gfoa.org/materials/segmented-pricing

[15] https://www.gfoa.org/materials/entrepreneurial-thinking-in-local-government

[16] https://www.gfoa.org/materials/legal-financing

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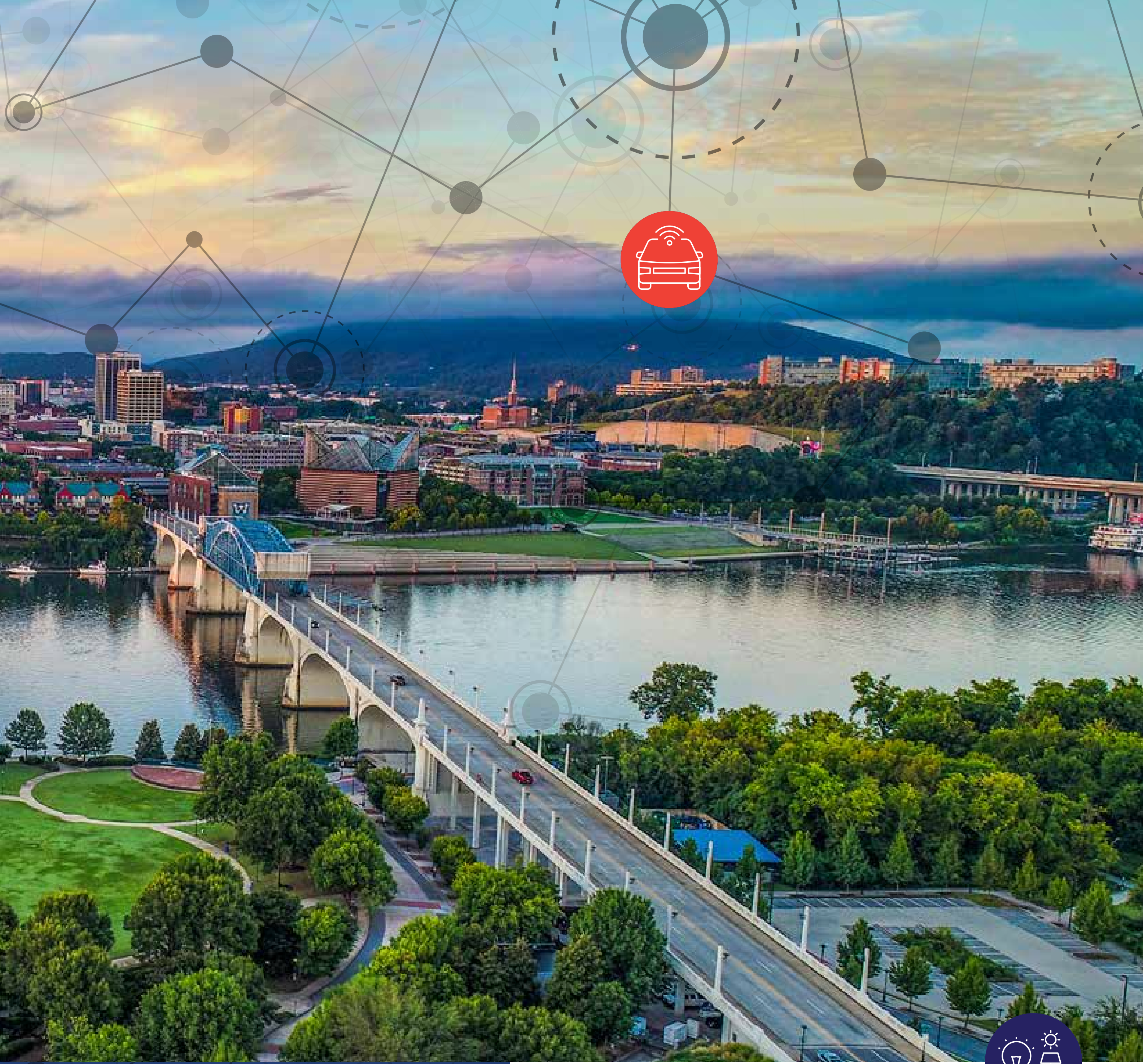
Making Smart Investments In SMART CITY PROJECTS

BY MARC EVANS



Decision makers need to elevate their financial mindset in their approach and ultimate execution when it comes to smart city projects.

The promise of futuristic smart cities that harness technology to improve infrastructure, efficiency, and overall quality of life for residents has consistently fallen short. While we're still a long way from Jetson-style towns, city planners do have access to technology that can significantly move the needle when it comes to building a truly smart city. So why do smart city projects that show so much initial promise keep falling flat? We've seen big promises fail to deliver, like the Sidewalk Labs Quayside project or Sidewalk Labs' spin-off company Replica's work in Oregon, both of which were ultimately scrapped.

Quite frankly, there's been a pattern of unintelligent spending on smart city projects. Decision makers need to elevate their financial mindset in their approach and ultimate execution when it comes

to smart city projects. Many municipalities will receive funding and might be tempted to immediately buy the biggest and brightest piece of technology their budget will allow them to show their community that they're taking action and try to gain public favor. However, there's rarely a clear, outcome-based business case or reasoning behind the purchase and implementation. It's this private-sector strategy that should be adopted by the public sector when it comes to smart cities.

The need for a smarter approach to smart city development is underscored by the massive infrastructure bill President Biden signed into law late last year. The bill allocates $500 million to smart city projects through the Strengthening Mobility and Revolutionizing Transportation (SMART) grant program. With funding underway, city leaders need to understand that the key to delivering on the promises of smart cities is to rethink their approach to smart projects and leverage data to inform new investments that will truly benefit residents, prevent failures, and keep cities running more effectively and efficiently.

Aside from dedicated "smart" funding, all funds should embrace "smart" to spend more intelligently, whether supported by data, technology, or most critically, intelligence. Every component of the $1.2 trillion infrastructure bill will need data to justify spending. This means it's critical to understand how to access and use that data. Therein lies the smart opportunity to rethink how we approach smart cities.

IN MOST CASES, SMART CITY PROJECTS FAIL BECAUSE PLANNERS DON'T FIRST ANALYZE THE DATA, IDENTIFY A SPECIFIC BENEFIT, AND DETERMINE THE DESIRED OUTCOMES.

Rethinking Smart Cities

A smart city isn't made up of flashy, automated "set-and-forget" technologies. The true purpose of a smart city is to provide a better community experience. When municipalities invest in quick-fix gadgets, they're not actually solving a community problem or delivering better outcomes. In most cases, smart city projects fail because planners don't first analyze the data, identify a specific benefit, and determine the desired outcomes.

Some municipalities are starting to take a more focused approach to smart city strategy, however. Chattanooga, Tennessee, which is recognized as one of the most advanced smart cities to date, recently hired a new CIO to oversee the growth and efficiency of the city's smart projects. The hiring of a private-sector leader to guide smart city projects demonstrates how much careful thought, planning, and strategy needs to go into smart city initiatives if they're going to be successful. Most government agencies haven't had the opportunity to deliver complex smart city projects and, therefore, often do not have the internal experience needed to implement them effectively and meet the desired outcome.

Data Lays the Foundation

How can towns, cities, counties, and states up the ante in data intelligence to drive future strategy? Yes, bridges will need to be fixed, and many investments will be obvious. However, what if city planners fully understood the true performance of their assets: How they trend against similar assets across the globe, when to invest, when to replace, and when to simply monitor and maintain. Capturing asset condition simply and effectively and using this insight to determine future investment requirements across multiple asset classes will revolutionize spending.

In terms of smart city projects, data is key to the foundation and ultimate success of any smart initiative. First and foremost, city leaders need to review data that's already accessible to them to determine how and where smart city projects can make the biggest impact in their community. Reviewing data captured over the past five years allows decision makers to understand the state of their assets and how those assets have evolved over time, providing critical insights in the planning phase. Moreover, once a government agency establishes this baseline, they can predict future requirements across asset types and the overall community as new developments, trends, or statutory obligations are introduced.

Quality over Quantity with Smart Tech

For example, if a city is considering implementing smart sensors for drainage assets, they should start by reviewing data on how often the drainage assets are filling up, when they're filling up, how they're performing, how much maintenance is needed on a regular basis, and ultimately how the sensors will communicate with each other after the implementation phase. By taking this analytical approach before investing in any technology, they'll likely find that, by only purchasing five sensors versus 2,000 and placing them in the right locations, they'll get better outcomes at a lower investment.

When buying these technology widgets in bulk, maintenance costs year-over-year will increase and make it difficult to achieve a sensible ROI. If the sensors themselves aren't maintained, they become less than worthless as business process becomes structured around the data they provide. If they fail to function and if manual inspections stop, the asset is in a worse place than before the technology was implemented and the risk of failure increases. It's a stronger, smarter approach to determine where the technology will be most valuable and pull the most relevant data, rather than starting with a project scope that's too large and pulling in too much data to manage. Additionally, understanding the future impact of these investments will ensure these funds don't create a legacy of unaffordable maintenance.

Another example of how quality trumps quantity is in smart traffic light technology. Purchasing and installing a set of 100 smart traffic lights throughout a city can appear to be a step in the right direction, but it might not be the most impactful way to approach the project. Instead, city planners need to review and understand current insights of a city's intersections, streets, and traffic patterns to determine which specific areas can be improved through lights with sensors.

But it shouldn't stop there. Before starting the project, city leaders must also determine what actionable insights they can take from smart traffic lights to solve other community problems. Will they change traffic patterns during school pickup or drop-off hours to reduce traffic? Can they adjust traffic patterns during storms to help people avoid roads that regularly flood by leveraging data from the drainage sensors? The answers to these types of hypothetical questions should be carefully considered in conversations around implementing technology city wide. For example, installing lights in new locations that might not normally require traffic control can help nudge behavior. This can shift people to greener routes to manage congestion or reduce strain in difficult to maintain locations.

A "CITY" IS NOT ALWAYS THE BEST PLACE TO MAKE "SMART." CONNECTING REMOTE OR OUT-OF-CITY AREAS CAN OFTEN HAVE A MUCH LARGER COMMUNITY BENEFIT.

The key is to review all the data silos from the start of the project and determine how to combine them to create a safer and stronger community experience, aligned to the strategic aims, objectives, and outcomes the city is aiming to achieve. Marrying data silos, determining their joint functionality, and leveraging these insights to improve a wide range of community problems is what's missing in today's smart city projects.

Smart and Sustainable Communities

Another key aspect of the $1.2 trillion infrastructure bill is the focus on sustainable investments and how communities and quality of life can be improved. Smart city projects can assist with these goals as well. Using funding and smart city projects to re-route roads, rather than simply rebuilding the road, may be more expensive at the start. However, if the impact results in moving pollution from residential areas to brownfield locations, the long-term environmental and community investment will likely outweigh the initial investment.

Add the electrification of transportation and digitization of services into the mix, and more fundamental shifts will need to be considered. For example, why invest in expanding road infrastructure at all if smart vehicles and remote working will ultimately reduce congestion?

Smart City Projects Aren't Always Tech-First

It's also important to reiterate that smart city projects aren't always synonymous with technology projects. Smart initiatives are almost always approached as a technology project that will be managed by the IT team instead of a collaboration with community leaders to understand how to best address specific community problems or achieve resident goals. This can result in a disconnect between the IT department and the decision makers who are allocating city funds.

To start building a smarter city, the technology should be more of an enabler to creating action plans that actually resonate with a community. You don't necessarily need a widget to make a city smart. If city leaders can use the data they're capturing—whether it's the condition of an asset or resident complaints—they can implement more informed projects that improve their community. Smart projects can be as simple as finding new ways to collect feedback from community members and turn that feedback into appropriate action.

Additionally, a "city" is not always the best place to make "smart." We should strive toward smart communities. Connecting remote or out-of-city areas can often have a much larger community benefit. Digitizing community service, providing locally accessible support, and delivering information in a timely manner to those who need it most, will empower planners to make informed decisions that make an entire community smart, not just the city.

A smart project is truly a smart project when it's cost effective and encouraging a more positive resident experience. The underlying foundation to building a smart community should always be to implement flexible ways to collect data and marry those data silos to make more informed investments. It's important to not get lost in the term "smart city" by equating it to technology and big cities with big budgets. A smaller budget that's spent more effectively will provide a better community experience and instill public confidence. PM

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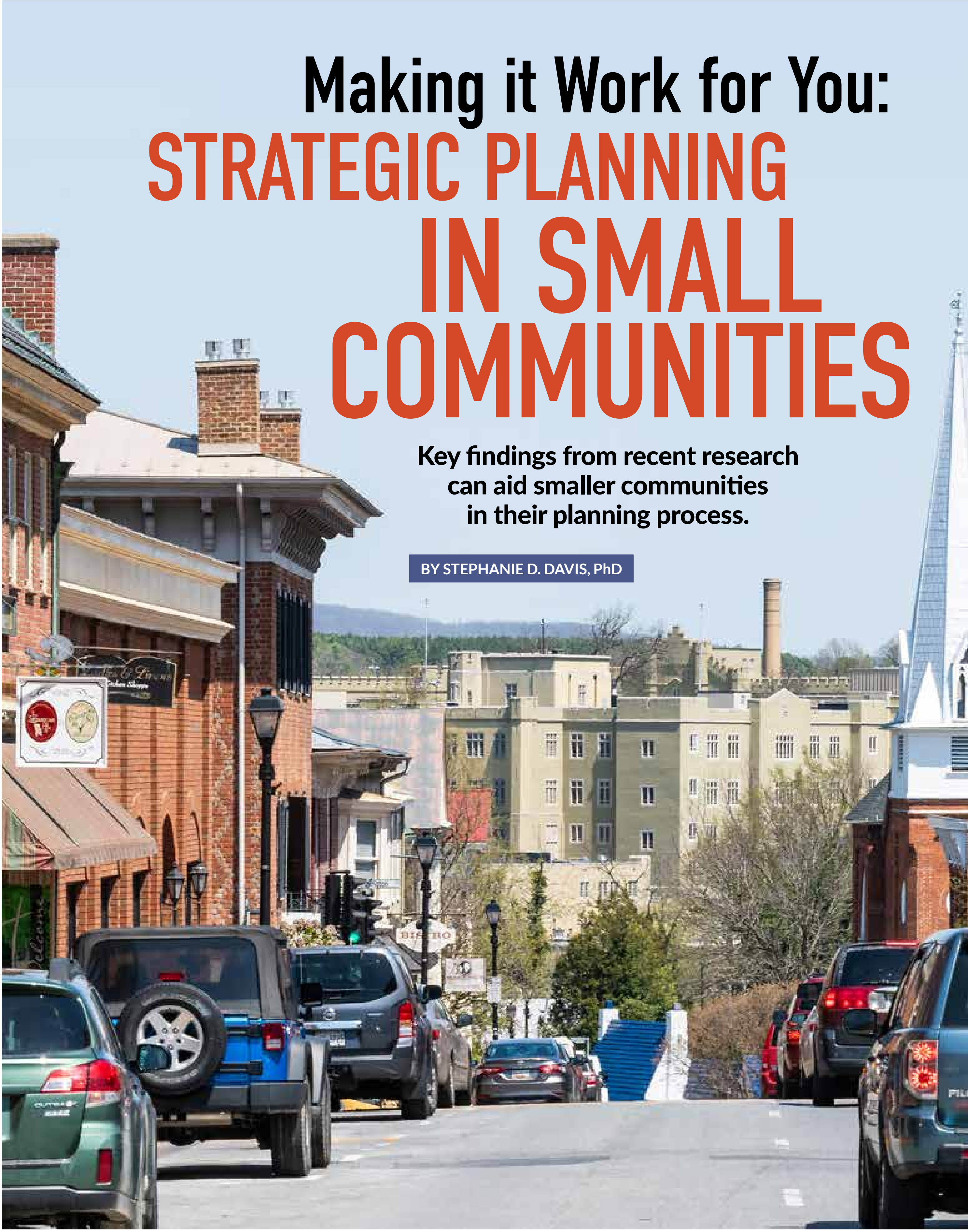
Making it Work for You: STRATEGIC PLANNING IN SMALL COMMUNITIES

Key findings from recent research can aid smaller communities in their planning process.

BY STEPHANIE D. DAVIS, PhD



Strategic plans can be valuable tools that guide managers and their governing bodies in making complex decisions and navigating challenging periods. And yet, financial constraints, limited staff capacity, and lack of buy-in from elected officials are just a few examples of the numerous challenges to strategic planning faced by managers of small local governments.

Despite knowing that a strategic plan is helpful, in reality, small communities often struggle to create and implement one. In a recent survey I conducted of 90 communities under 20,000 in population, only about 50 percent of the officials responding indicated they have a completed strategic plan.[1] The remaining communities had only some components or a plan in process (29 percent) or no plan at all (21 percent).

I have found through my years of work with small communities that strategic planning does not have to be complicated. Even a simple plan is better than no plan, and managers have found ways to tailor planning processes to fit their community's constraints and needs. As small local governments receive historic amounts of federal aid with the passage of the American Rescue Plan Act (ARPA), now more than ever, strategic plans can be a useful tool when determining how to allocate these once-in-a-lifetime funds to maximize their long-term benefit to our communities.

Organizational Capacity Challenges and How to Address Them

Small communities, in general, have a lack of organizational capacity for strategic planning initiatives. Organizational capacity is comprised of financial capacity, administrative capacity, and leadership capacity.

Over the last several months, I have partnered with ICMA to conduct research on the unique aspects of strategic planning for smaller communities, including a survey and case studies from local government organizations under 20,000 in population. As seen in Figure 1, each local government approached strategic planning in a unique way to best suit their community's needs.

To get started developing a strategic plan, these organizations had to tackle the three organizational capacity issues common among small local governments.

Financial Capacity

The first major barrier is the lack of financial capacity for discretionary funding initiatives. Sixty-four percent of local governments responding to the survey reported that they do not have the funding available for a strategic planning process. In my experience with small communities in a challenging area of the country, the ability to prioritize resources is essential *because of* the lack of resources.

The city of Stevenson, Washington, saw the value in strategic planning when faced with a slew of competing, important, and high-cost projects. With $16 million in mandated sewer updates, a need for a new fire hall, and numerous complicated street improvements, they needed a way to prioritize and plan for these upcoming expenses straining their already-limited budget. Stevenson hired a facilitator for $2,000 to conduct a retreat over the course of a day and a half. City staff and elected officials updated, created, and prioritized goals for the organization that resulted in a five-year strategic plan with a vision, mission, and SMART (Specific, Measurable, Achievable, Relevant, and

Figure 1. Overview of Communities Surveyed

Local Government	Population	Cost	Time for the Process	Facilitation	Public Engagement	Updates	Reporting
Mariposa County, California	17,100	$8,000	6 months	In-house staff	Consult using survey data prior to the plan's creation	Annually	Annually
Vinton, Virginia	8,128	$2,000	6 months	Consultant	Inform residents after the plan was created	Annually	Annually
Stevenson, Washington	1,700	$2,000	9 months	Consultant	None	Annually	Annually
Lindenhurst, Illinois	14,406	$16,900	10 months	University	Consult using survey data and focus groups prior to the plan's creation	3-4 years	Monthly and Quarterly
Rolesville, North Carolina	9,359	$16,200	3 months	University	Consult using community input sessions	2 years	Quarterly

Courtesy of Rolesville, North Carolina

Time-Bound) goals.[2] To capitalize on the cost of creating the strategic plan, they review it annually and use it as a tool to create the budget for the following year.

While some of the communities listed spent up to $17,000 creating their plan, Stevenson made it work for them with a small investment that created a tool to help navigate competing projects and allocate funds strategically.

"The mayor was on-board to begin with and recent events at the city created the impetus for council to change direction and look at a better way to plan for the future," reported Leana Kinley, city administrator of Stevenson, Washington.

Administrative Capacity

In small communities, it is especially common that staff "wear many hats" and are responsible for a wide variety of services and programs. For many small communities, the lack of administrative capacity, in terms of number of staff and capabilities of staff, is the second major barrier to strategic planning. Of the communities surveyed, 44 percent of local governments agreed they do not have the time to do a strategic plan and 41 percent agreed they do not have the staff expertise to do a strategic plan.

But small communities do not have to "reinvent the wheel." Mariposa County used existing information from their economic vitality strategy and a community survey to inform their strategic plan. Your capital improvement plan and annual budget can be useful tools when creating visioning and planning statements for a strategic plan and these documents should be aligned and work together. Look to your state associations, ICMA, and nearby communities for existing processes, materials, and resources that you can adapt to fit your own community.

To ease the administrative burden on staff, almost 60 percent of responding governments used an outside facilitator. Mariposa County


Courtesy of Rolesville, North Carolina

hired a facilitator to help when establishing a new strategic plan and noted that finding the right facilitator was key. They plan to work with one again when it comes time for a larger update. For the town of Rolesville, North Carolina, a facilitator was hired to create their first strategic plan, but internal staff were responsible for the scheduled two-year update.

Finally, it is worth restating that a simple plan is better than no plan. Whether you conduct a formal or informal process with a facilitator, do what makes the most sense for your community. Mariposa County, California, recommends erring on the side of simplicity: "We've debated back and forth between a thorough plan with estimated budgets, specific performance targets and timelines, and a simpler conceptual plan. For our first time, we opted for simple and now think we should make it even more simple. One page would be ideal to make it a frequent reference that is easy to remember and use," said Dallin Kimble, county administrative officer of Mariposa County, California.

Leadership Capacity

The last major barrier for small communities is the lack of elected official support for strategic planning. Overall, 38 percent of local governments agreed that elected officials are not interested in developing a strategic plan. As one survey respondent stated, "Our biggest challenges are engaging elected officials in prioritization and strategic planning efforts. (A lot of this depends on the mix of your board or council at any point in time.)"

Elected officials can be resistant to developing a strategic plan for a variety of reasons, such as a fear of losing control or a lack of understanding the purpose. Even before beginning a strategic planning process, it is essential to gain the elected officials' approval. Take time to outline the benefits of creating a plan with your elected officials, explaining that a strategic plan can:

- Serve as a communication device for elected officials, staff, and the public.
- Help prioritize organizational work and the limited financial resources available.
- Serve as a decision-making tool for controversial issues.
- Create clear guidance on the goals of the governing body to the manager and can serve as an accountability tool for their performance.

Dallin Kimble of Mariposa County remarked, "We're fond of saying that we don't want buy-in, we want ownership. Our elected officials had ownership in the strategic plan because they directed staff to put it together and were involved in the process."

If the terminology of a strategic plan is making your elected officials wary, try giving it a different name or integrating the components into existing structures like the annual budget. As one survey respondent shared, their "board is wary of a single strategic plan, but have essentially participated in developing a group of plans that together provide a strategic vision."

Once the town of Rolesville, North Carolina, had created their strategic plan, they focused on regular communication to keep the plan alive and relevant. They created 11" x 17" copies of the plan and placed them in front of the elected officials at all board meetings, hung them on staff bulletin boards, and included copies in their new hire onboarding packets. According to Town Administrator Kelly Arnold, "These easy-to-find copies of the plan help ensure it remains accessible to all and relevant to decision-making."

Conclusion

Ultimately, the key to successful strategic planning in a small community is to tailor the process to fit your needs. For more information on this research, keep an eye out for the final report, "Strategic Planning for Small Communities," for an in-depth exploration of these challenges as well as practitioner-oriented recommendations. PM

This research is part of ICMA's Local Government Research Fellowship program.[3] ICMA Research Fellows are practitioners and academics that conduct action-oriented research addressing important trends, drivers, and issues facing local governments. Their work advances ICMA's strategic priority to provide thought leadership and resources that support members and other local government stakeholders in creating and sustaining thriving communities throughout the world.

ENDNOTES

[1] The survey was distributed electronically in August 2021 by the Virginia Municipal League, Virginia Association of Counties, Virginia Local Government Management Association, and ICMA, with responses received from local government officials in 24 states. Data analysis was conducted during the month of September 2021. Full results will be available in the forthcoming ICMA publication, "Strategic Planning for Small Communities."

[2] https://www.ci.stevenson.wa.us/citycouncil/page/council-strategic-goals

[3] https://icma.org/icma-local-government-research-fellows

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10 STEPS for Budgeting Local Government Salary and Wages

Important factors to keep in mind in your budget approach

1

Forecasting

Salaries typically make up the greatest portion of the expenditure budget, so it makes sense to try and better understand how different trends or cost drivers may impact payroll costs.

2

Personnel Tracking System

Budget payroll projections are based on the estimate of budgeted positions for the year, so make sure the number of budgeted positions is correct. If the system that tracks budgeted positions is outside of finance, ensure there is regular coordination and communication to ensure accurate information.

3

Vacancy Adjustments

Address expected vacancies in the salary budget. Consider tracking expected start dates; reviewing trends (average filled positions per year versus average vacant positions) to determine the dollar impact of including a hiring lag; quantifying the money saved by not filling frozen or eliminated positions; tracking unfunded positions; and budgeting payouts where employees have indicated specific retirement dates.

4

Collective Bargaining Units

Note the positions that are covered under collective bargaining, identifying the group name and representation, along with the beginning and end date of the contract and key dates in contract provisions; consider setting aside reserves for contract settlements. Also account for any union agreement items such as overtime and holiday premiums that may be different.

5

Impact of Inflation

The Consumer Price Index is used most often for determining cost-of-living adjustments, but the U.S. Bureau of Labor Statistics Employment Cost Index might be a better choice, as it measures the change in the cost of labor, free from the influence of employment shifts among occupations and industries.

6

Optimal Staffing Level

Some governments compare their staffing levels to those of other governments; some make hiring decisions to fulfill strategic initiatives. You might also use volunteers or part-time or seasonal employees in certain programs or services. Some governments make more use of overtime instead of hiring full-time workers.

7

Compensation Approaches

When analyzing current compensation levels, or comparing to other governments, consider total compensation. Costs of benefits, retirement programs, employee training, and other related costs beyond salary can be significant.

8

Program Costs

You may want to consider tracking time and costs that relate to the specific services that your government provides. Tracking costs to specific programs can provide better data for evaluating cost of service and making decisions on how to best achieve outcomes.

9

Outsourcing or Shared Services

Governments may be able to improve service levels or reduce costs by considering partnerships with vendors, nonprofits, or other governments. However, keep in mind that outsourcing some services may not directly result in position reductions as employees may also be providing other services that were not outsourced.

10

Monitoring

Monitor the salary and wages budget throughout the year, not just when the budget is being put together. Should actual results significantly deviate from the budget, you'll need to make adjustments.

For more details, visit gfoa.org/materials/effective-budgeting-of-salary-and-wages.

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FRAUD AND EMBEZZLEMENT IN LOCAL GOVERNMENT

The number of crimes committed internally each year is staggering and the consequences of it happening at your organization can be significant.

BY DAVID ROSS, ICMA-CM

Theft of cash. Theft of fuel. Ransomware attacks. Successful spear phishing schemes. Electronic vendor payment fraud. Expense reimbursement schemes. Purchasing and fraudulent return schemes. Theft of inventory. These are each common in local government in recent years, and the problem seems to be getting worse. Many of the recent local government fraud and embezzlement cases are for tens of thousands, hundreds of thousands, or even millions of dollars.

Why are there so many fraud and embezzlement cases in local government within the United States every year in organizations of all sizes—and more importantly, could it happen at your organization? The problem of why frauds happen so often in local government might be more of a senior management issue than we would like to believe. Of course, ethical decision making on the part of the person committing the fraud is the primary factor, but is it appropriate for senior management to believe their organization is well protected without really knowing their true fraud-risk vulnerabilities?

Not Just a Finance Concern

These fraud and embezzlement incidents have occurred in numerous departments and often from long-time employees in organizations with regular annual audits and established policies that "must be working" since the audits are "clean." Many of these frauds occurred for several years, and even decades, all undetected. To highlight the financial and reputational harm that can come from an incident happening in your organization, the following quotes are from news articles on government fraud cases. They are intentionally older incidents so as to be respectful of the hundreds of recent incidents that government officials have had to deal with over the past year or two.

> "It's pretty embarrassing for the city to have that happen right under our noses." —Councilman Roland Winters, 2016, regarding a finance employee that was accused of embezzling $836,000 from the city of Surprise, Arizona.[1]

> "When Columbia County commissioners realized that a long-term employee was embezzling funds, we were shocked. Our first thoughts were 'how could this person, this trusted employee of 30 years, do this?'" —Commissioner Alex Tardif, 2018, regarding a sheriff's office employee accused of stealing $650,000 from the organization in Columbia, South Carolina.[2]

> "Whether you are a business or a government agency, you are vulnerable to fraud. You must have strong oversight and robust systems in place to prevent theft. Valley Township was victimized by this trusted employee, acting merely to amuse herself, and now the taxpayers will foot the bill."—Chester County District Attorney Tom Hogan, 2018, regarding a township clerk accused of embezzling $250,000 from Valley Township, Pennsylvania.[3]

Management Believes Everything Is Okay

Local government organizations receive regular annual audits, they have established policies to protect against wrongdoing, they have long-time employees who are very trusted, and fraud has never been found before—so the manager believes that everything must be okay.

Maybe it's a desire to truly believe things are okay. Maybe it's head-in-the-sand syndrome because we are busy and do not necessarily want to think about fraud because the audit is "clean." But imagine for a minute that it is happening, or could happen in the near future, because of weaknesses within the control environment of which you are not aware. It is very possible that the reason fraud has not been discovered is either because it has not happened yet or because there are vulnerabilities in your processes, but nobody has tried to exploit them yet. You may have vulnerabilities that you don't know about. While annual audits serve an important purpose, ensuring your organization's internal controls are actually effective is not one of those purposes. On the front of the audit report, you will often read that the auditors will not express an opinion as to the effectiveness of the organization's internal controls as that is the responsibility of management. A "clean" external audit does not mean you are without vulnerabilities.

> **You may have vulnerabilities that you don't know about. While annual audits serve an important purpose, ensuring your organization's internal controls are actually effective is not one of those purposes.**

External audits serve a valuable purpose, but they are generally ineffective at finding fraud. According to the Association of Certified Fraud Examiners, only about four percent of recent fraud cases were discovered by external audit.[4] What the data show is that numerous local governments that fall victim to fraud find they were victimized for years, sometimes decades, losing hundreds of thousands or millions of dollars, and all while having policies in place and receiving regular annual audits.

Why Is This an Issue and Why Do People Steal?

People change roles within the organization, systems change, processes change, and even with good policies, it is always possible that employees are not actually following those policies to best protect the organization. This is all true, but why would a trusted employee of a local government steal from the organization? It comes back to the fraud triangle: pressure, rationalization, and opportunity.

Pressure can come from a health issue, a gambling problem, a spouse losing a job, or any of a variety of circumstances that can arise in life. Often it only happens after they have been there for a while, sometimes for years, and then all of a sudden something happens and they feel incredible financial pressure. They do not know what to do, but they realize that there are opportunities where they work for them to steal.

Rationalization is when the person feels the pressure and they consider stealing, but they need to rationalize it within themselves. Maybe they say, "I will only do it this one time," or "I will just borrow it and pay it back soon," or "I deserve this because I've worked really hard over the years." It can be just about anything to make themselves feel like it is okay to steal.

Opportunity is what we are really talking about when we look at internal controls within the organization. Has the organization done enough to ensure they are aware of their vulnerabilities throughout all aspects of organizational processes? If the opportunity is there (such as a vulnerability nobody knew about because they didn't know what to look for and nobody before has tried to exploit that vulnerability), then there is internal control residual risk that must be better mitigated.

Where Does Fraud Happen?

Fraud happens in local governments of all sizes and in all departments. The following list is a handful of areas that are known to be vulnerable to embezzlement within professional local government organizations:

- Fuel use management.
- Procurement/purchasing functions, including fraudulent refund schemes.
- IT and cybersecurity.
- Utility operations and utility billing functions.
- Grant management, including ARPA funding.
- HR operations.
- Permitting operations.
- Inventory management, including both fixed assets and small and attractive assets.
- Payroll management, including overtime use.
- Accounts payable and accounts receivable.
- Cash handling throughout all departments.
- Scheduled drug management (fire/EMS operations).
- Evidence handling and management (police operations).

The unfortunate thing is that once a trusted employee commits the embezzlement and it is finally uncovered, the damage is done. Consequences such as loss of public confidence, reputational harm, and financial harm (such as no salary increases, deferred capital projects, managers being fired, and elected officials losing the next election) demonstrate that the fallout is very real for the organizations that experience these incidents.

What You Don't Know Can Hurt You

Many of us have spent time working in senior management positions, encouraging the employees working with us to do great work and often showing sincere appreciation for all that they do. We work with them every day and we trust them. But ethics in local government demands that we do more than trust. Trust is vital for many aspects of our work, but trust is not a control. Combining a mindset of trust with the fact that policies are in place and there is an annual "clean" audit can lead to devastating consequences (as it has for hundreds of recent local government managers).

A comprehensive fraud risk assessment will often find dozens or even hundreds of legitimate control weaknesses and vulnerabilities to fraud.

Just because it hasn't been discovered or even hasn't happened, does not mean that your organization is not vulnerable. It seems to be getting worse and incidents are becoming more frequent. Fortunately, there is something you can do to reduce the risk that your organization will be victimized by fraud.

Actions to Take

Fortunately, a comprehensive fraud risk assessment will often find dozens or even hundreds of legitimate control weaknesses and vulnerabilities to fraud. These vulnerabilities are found in highly professional organizations of all sizes, from populations of a few thousand people all the way up to populations of over a million people with their own internal audit team in place.

Take these proactive steps to reduce your organization's risk of fraud and embezzlement:

1. Complete a comprehensive fraud risk assessment throughout all levels of your organization—not just finance. This should include policies and procedures being vetted by a certified fraud examiner with industry expertise and qualifications, even if that is one of your own employees who is free from any conflicts of interest.
2. Ensure that you have an updated and modernized cybersecurity incident response plan in place and make certain that your team regularly conducts tabletop exercises related to the contents of that plan.
3. Make certain that you have correctly implemented multifactor authentication (MFA) for a variety of functions, including employee password resets, changing vendor banking information, etc.

Conclusion

Ethics are breached in local government organizations far too frequently. Please do not assume that your organization isn't vulnerable because nothing has happened before, you have long-term employees and established policies, and you receive regular "clean" audits. The amount of fraud committed against local government each year is getting worse and the consequences of it happening at your organization can be significant. PM

ENDNOTES

[1] https://www.azcentral.com/story/news/local/surprise/2016/06/22/how-nearly-1-million-disappeared-surprise-coffers/85623746/

[2] https://www.thechronicleonline.com/news_paid/former-county-justice-employee-sentenced-to-30-months-for-embezzlement/article_8ea45524-8485-11e8-947b-57fc3c5a9b19.html

[3] https://www.dailylocal.com/2018/04/04/da-valley-township-employee-embezzles-264000-goes-on-shopping-spree/

[4] https://www.acfe.com/report-to-the-nations/2018/default.aspx

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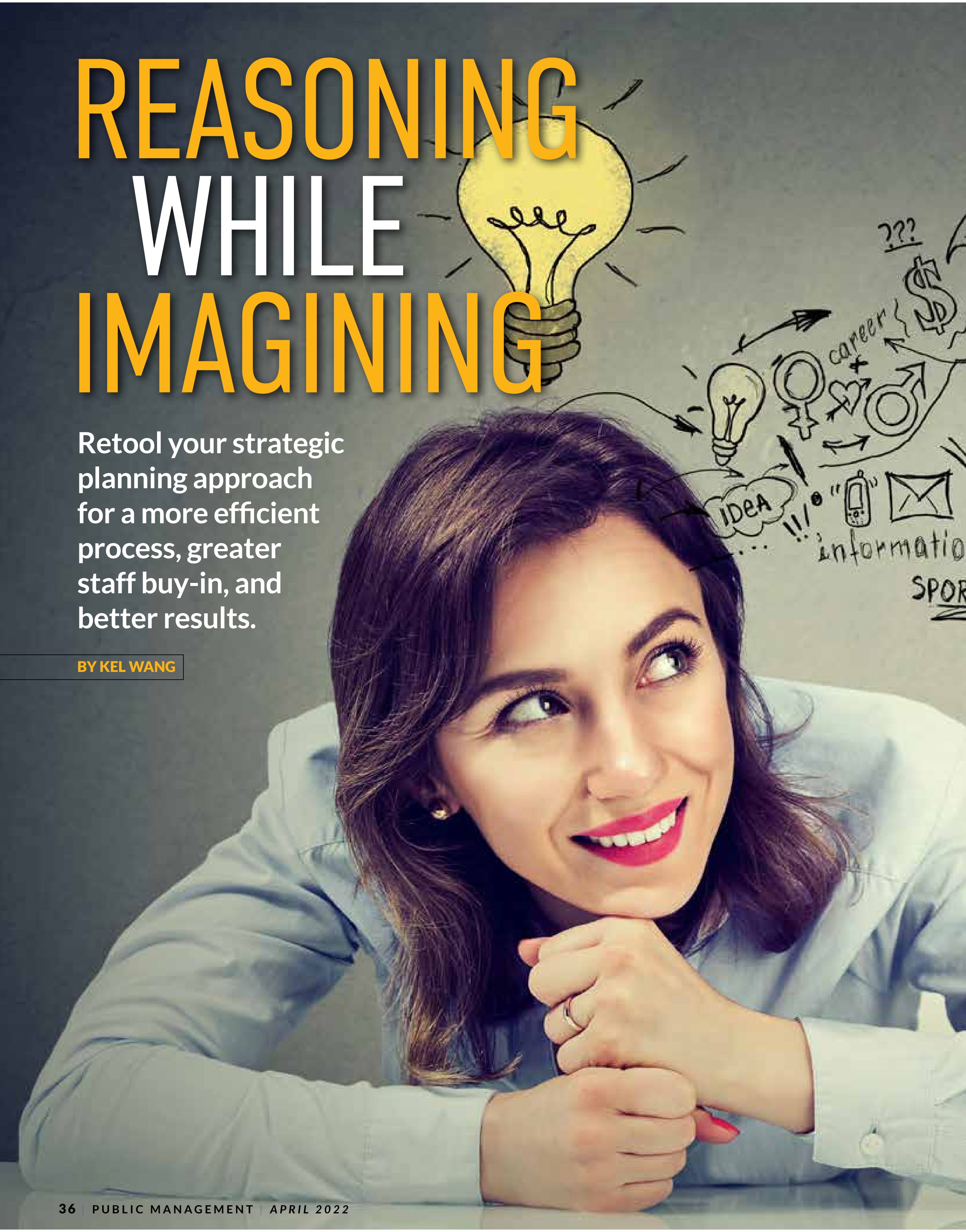
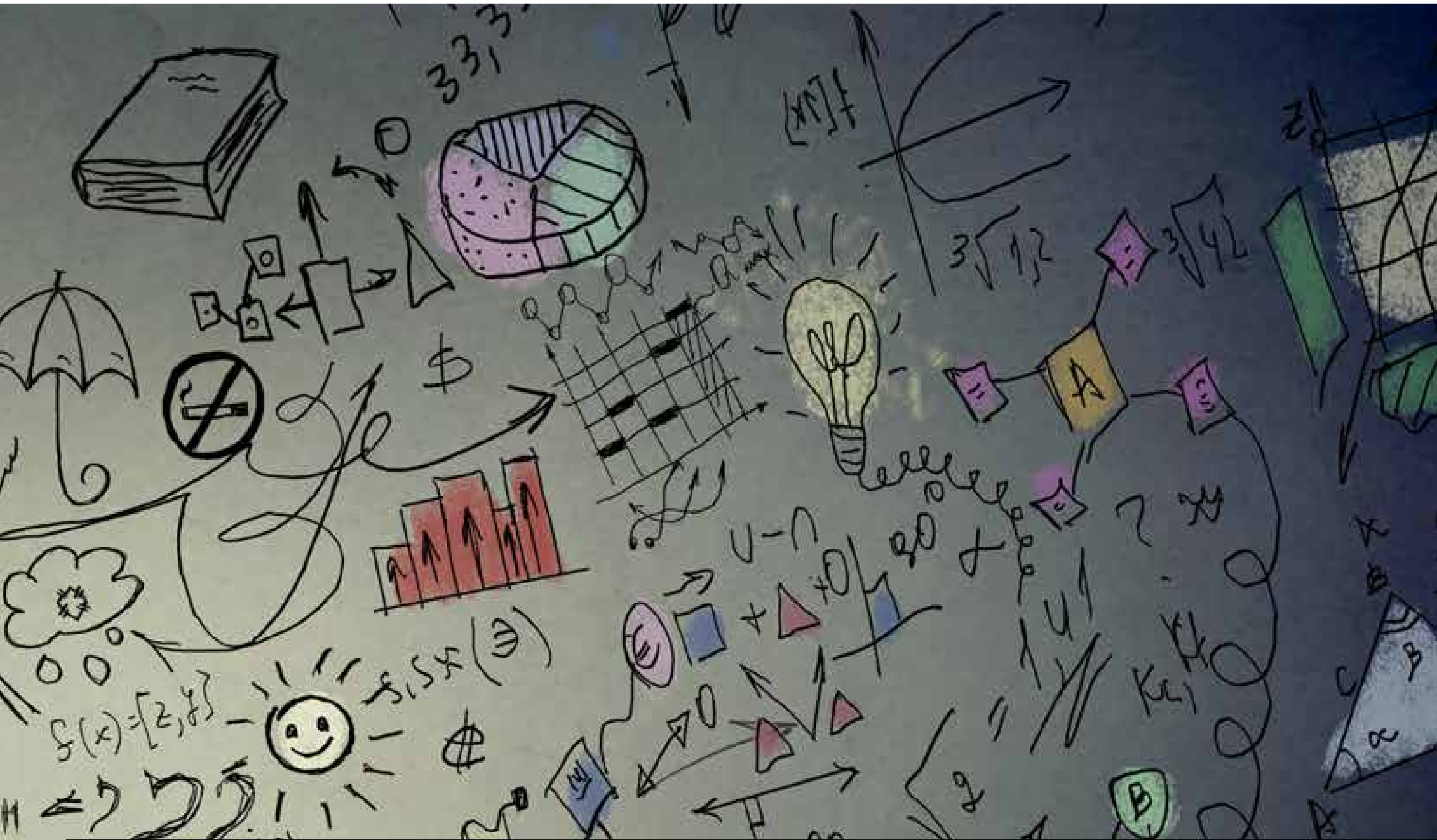


REASONING WHILE IMAGINING

Retool your strategic planning approach for a more efficient process, greater staff buy-in, and better results.

BY KEL WANG



You (or your staff—for simplicity, I will keep using "you" for the rest of the article) were tasked to lead the strategic planning effort. Your community just had an election and elected a few new faces. To address the long-term development of the community while orienting new members, you wanted to hire a facilitator to develop the strategic plan, including developing the mission and vision statements, as well as values. The work was done with elected officials and subsequently endorsed by them. The plan was clear and succinct, and everyone felt they had a good conversation. What could possibly go wrong?

I am sure you may have experienced or witnessed this already. When you start to work with department staff to identify key actions and performance indicators, there is generally a lack of familiarity and ownership. They are instrumental in identifying specific tasks and timelines, but they may not necessarily see the connection to the strategic plan. You get the feeling that they think they are helping you complete the strategic planning work, rather than providing insight into the plan and fulfilling their role in this process.

When you provide a progress update, you may find that if selected indicators are not performing, people generally criticize the selection of indicators and attention is shifted away from managing the performance and getting things done. As a result, the implementation of the strategic plan becomes quite challenging and may lose momentum over time. The aforementioned issue is what I call imagining without reasoning—when the strategic planning effort is very much focused on envisioning an ideal future, not on rationalizing the future, at least sufficiently.

There are a couple of symptoms that go along with this issue:

- **Unattainable goals.** Goals are set and projects are aligned to goals, but the organization lacks the means to make and demonstrate the impact.[1]
- **Limited staff engagement and buy-in.** Many see strategic planning as a leadership function, so the development of the strategic plan only involves elected officials and leaders of the organization.
- **Treating the work as the project of the year.** The development and approval, implementation, and finance of the plan are separated into three distinct projects. The development and approval often doesn't consider the implementation and budget implications.

What may have gone wrong? In an earlier article, I talked about the four factors that define public strategy,[2] and we have to consider those factors as we develop a strategic plan or any single-issue based strategy.[3] imagining without reasoning is a good example of when those factors are not addressed. So, how do we plan differently?

1. Initiation

Way too often, we begin to create the strategy because it is required by law, the current plan is up for renewal, or other communities have one so it may make sense for us to have one as well. But if the strategic issue(s) your strategy is set to address aren't clear, then it will be challenging for elected officials to set a clear direction—and for staff and other stakeholders to understand the reason for this work. How could we initiate the strategy properly?

According to the Harvard Policy Model, organizational success is contingent on the fit with its environment. Central to this model is the understanding of the strengths and weaknesses within the organization and the opportunities and threats outside the organization (known as the SWOT analysis). This understanding helps inform strategic issues. The key to proper initiation lies in the quality of the SWOT analysis.

The starting point of a quality SWOT analysis often contains a comprehensive external and internal scan. We search the external environment in political, economic, social, technological, legal/legislative, and environmental domains. Within each domain, we look for factors and trends affecting community or customers' preference as related to our work in the long term, as well as factors and trends affecting the organization's ability to meet the community or customers' expectation in the long term. The internal scan would look for factors affecting the organizational culture, human resources in terms of employee development and training, recruitment and succession planning, financial management, and the organization's IT infrastructure.

Ideally, the process would involve various levels of the organization (external stakeholders, if possible) because each offers their unique perspectives. The result of this analysis will lead to the identification of strategic issues that represent the fundamental policy choices a public organization has to make within its mandate. It is also the opportunity to make a difference for the community.

With strategic issues, you have evidence that informs the strategy development. It is important to start your strategic planning effort through this step because collectively elected officials have to represent diverse groups, interests, and opinions, not to mention each of them has their own background, experience, understanding, and perception of the issue. Without the common basis, confusion and division may take the conversation away from the issue itself; not to mention the clarity of the direction will be limited, both of which will ultimately affect the implementation of the strategy.

Staff engagement creates trust within the organization and strengthens the relationship between elected officials and staff.

2. Reasoning Components

An implementation-friendly strategy should include outcomes, key actions, a set of performance indicators, and a resourcing plan, which are what I call reasoning components of public strategy—components that help rationalize the future state.

One of the core activities of strategic planning is to set the vision and goals. The idea is to imagine the future state and highlight areas for change. But the vision and goals together may not provide enough information for implementation. For example, if your vision is to become a connected, accessible, and vibrant city by 2035, then one of your goals would cascade from the vision and highlight what a connected (or accessible, or vibrant) city looks like. Let's just say one of the goals is the city of Pandora is an accessible city in its amenities, transportation system, infrastructure, and services. Your elected officials would like the administration to focus its effort on improving these areas. Take the transportation system as an example. What does improved accessibility in the transportation system look like: have access in all seasons? Stations and stops are within walking distance? Allow access to vulnerable populations (especially those with mobility challenges)? Focus on road maintenance? You get the idea. It is open for interpretation. Therefore, we need further information to clarify the direction and that's why outcomes are important. An outcome is a detailed description of the change. It tends to have three components:

- How—maintain, eliminate, decrease, increase, or create.
- What—the subject or service area.
- Who—the targeted group (the entire population by default).

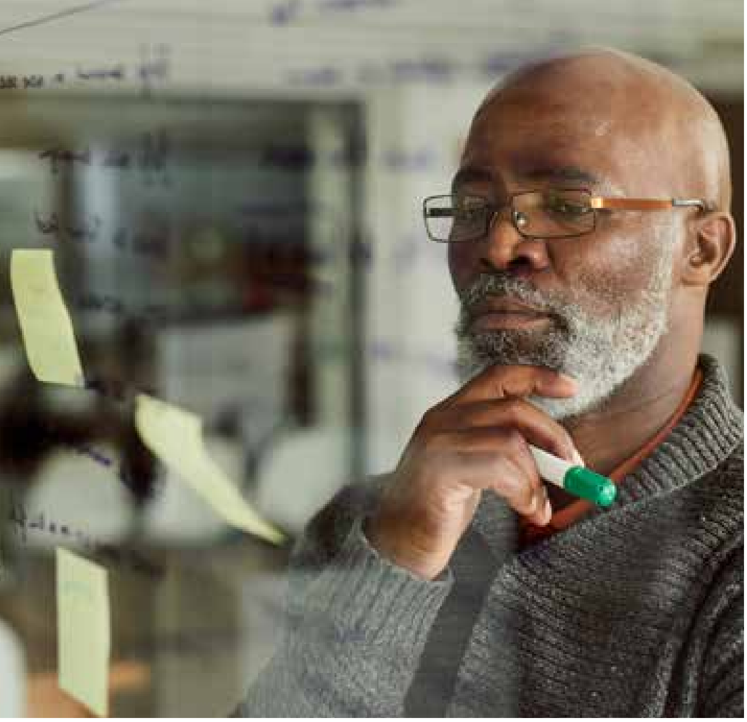
One of your outcomes could be to maintain access to public transit in all seasons or to eliminate accessibility barriers for individuals with mobility challenges. Then you will need to identify key actions to address the key attributes that lead to accessible public transit and in all seasons. To monitor progress toward this outcome, you will need a series of key performance indicators that track the results of key actions on each key attribute. For example, if the reliability of on-time bus schedule adherence matters, then one key indicator could be the percentage of buses that are on schedule. The focus of the work would be getting buses on time and on schedule.

A resourcing plan would outline the required financial and human resources (at least at a high level). If the budget is not considered, elected officials and the public may be surprised by the cost. As a result, the long-term fiscal sustainability would be questionable, and what is worse, the key action may be delayed or canceled.

The reasoning components are necessary because it creates a clear line of sight between the direction and the work. It helps cascade the goal into actions that are conducive for implementation. Goals may have been set, but if the organization lacks the means to deliver them, this may suggest a need to rethink what the goals are or the organization's role within the goal area.

3. Staff Engagement and Buy-in

If you have read my earlier article, "Strategy Management: Innovation Beyond Planning,"[4] you would know that department staff have a very limited role in strategic planning: they are responsible for implementation and they are the targets of change management, in terms of understanding and supporting the strategy. There are a couple of issues with this approach. First, how can we get the



relevant information up there, so that elected officials and senior leaders can be informed about the necessary details down below without having to immerse themselves in the details? There is value in engaging frontline staff and identifying opportunities for them to contribute.

Second, your staff may have already been advocating for many of the "innovations" or "good ideas" identified during the strategic planning process, but they never got any traction because there wasn't an appetite or senior leadership buy-in. As a result of the strategic planning process, they then had to react to the direction. I am sure they would get the work done, but it is just poor management that there were opportunities to be proactive and to be ahead of the curve that went ignored. It sets a bad tone for culture for people to be innovative and to be accountable. Engaging staff through the scanning process helps surface those opportunities or challenges.

Last but not the least, staff are often worried about performance management because they think it may lead to funding reduction, poor press, political fallout. or the judgement of individual performance, all of which make it difficult for them to do their work properly. Engaging them throughout the process and sharing the reason for change helps them understand the value of the work, and more importantly, helps them use the strategic plan and associated key performance indicators to better tell the story of their work. Why wouldn't they support the plan when they have a stake in the game?

4. Organizational Maturity

To build a sustainable and better community, we need to fight the pandemic, deal with equity, address climate resilience, and many other challenges. We could hire a facilitator and develop a strategy for each of those issues, and then hand it off to staff for implementation, but you may lose opportunities to leverage each strategy as a means to strengthen your organization.

First, if there is an expectation to address those issues on an ongoing basis, then why not create a dedicated position (or team) that is responsible for facilitating the process? It helps get things done, retain corporate knowledge, and gather staff support.

Second, for staff to properly manage the project performance of public strategy, there is an ongoing need to learn proper measurement, data collection and verification, and also reporting and evaluation exercises. Their uptake helps provide insight and recommendations both of which are essential for evidence-based decision making to manage the strategy timely.

The world is connected, change is constant, and our community's expectation is evolving. That's why I believe developing and maturing organizational competencies through strategy is necessary.

Summary

It may sound quite strange that the development process has to consider the plan implementation so extensively. People may ask if it actually blurs the line as to having elected officials involved too much in the administration and operational issues. The answer is no.

Under strategic planning, the role of elected officials is focusing on representation and policymaking. By representation, they ensure the views of the community are incorporated. By policymaking, they review and approve the work as a way to set the direction for the organization. However, focusing just on those two roles would become challenging and sometimes problematic when it comes to the work of strategy. First, the issue, the associated scope, and the context are often complex and ambiguous. Second, the organization's role on those issues is often unclear. You cannot just expect elected officials to set a clear direction by listening to the voices of the community.

The initiation step sets an evidence-based foundation to start the conversation and complements the voices of the community. The reasoning components help articulate the direction. Staff engagement creates trust within the organization and strengthens the relationship between elected officials and staff. Last, organizations with growing uptake in performance management are more likely to be able to address or prevent issues and challenges, both of which could not only help elected officials focus on the big picture rather than getting into the nitty gritty of the administration, but also could help them achieve the cause that got them elected in the first place.

So, what's your plan for the next strategy? PM

ENDNOTES

[1] Alignment shows relevance while impact shows relevance and more importantly effect.

[2] For more information, please read "What's Different About Strategy in the Public Sector?" Kel Wang, *PM* magazine, November 2021, https://icma.org/articles/pm-magazine/whats-different-about-strategy-public-sector

[3] Such as the community safety plan, climate resilience plan, or housing affordability plan, etc. Both the strategic plan and the single issue-based plans or strategies are public strategy.

[4] *PM* magazine, November 2020, https://icma.org/articles/pm-magazine/strategy-management-innovation-beyond-planning.

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Performance Management

One small step for transparency, one giant leap for democracy | BY KATHRYN MATOS

KATHRYN MATOS is assistant city manager of Boynton Beach, Florida.

Decisions are made based on one of two things: anecdotes or data. Successful performance management programs play a vital role in dismantling sensationalism and distrust in government by making data and metrics accessible and usable for budgeting and decision making. Local government, being the closest level of government to the people, plays an essential role in utilizing performance management as a tool for restoring public trust and preserving democracy.

As an assistant/deputy, developing a performance management program is a great tool to allow you to keep your finger on the pulse of the organization. Being involved in the process will give you keen insights into the operations you manage, as well as provide the information you will need to build the case to your CAO when it comes time for budgeting and making strategic decisions.

The following is a "keep it simple" approach to building a performance management program when your organization has limited resources and staff, and does not have a centralized enterprise resource planning (ERP) software.

First Things First: Where Are We?

Create an inventory of what data is already being collected in each department and what software or programs are being used to collect it. In Boynton Beach, we sent out a form to all departments and then put it all in one spreadsheet for easier analysis.

Start Small: Pilot Program

Review the inventory and set yourself up for success by piloting the program with one or two departments. Ideally, select departments that are already collecting data and perhaps more importantly, have the staff bandwidth to assist with piloting the program.

Develop the Dream Team

Put together a team of motivated staff members who will spearhead the pilot and will meet regularly (bi-weekly/monthly) to develop the program. At a minimum, you will want to have the following on your dream team:

1. An executive level champion (assistant/deputy).
2. A staff member from information technology or who is familiar with pulling data from the software of the pilot department(s).
3. The department director(s) of the pilot department(s).
4. A staff member from the pilot department(s) with analytical skills and time to dedicate to the program.

Find Your SaaS

Have the dream team work together to select a software as a service (SaaS) solution to centralize data across departments and build the dashboards that will display the data for consumption. There are many good options that are low cost and user friendly. I highly recommend looking into what other municipalities are using to benchmark. The biggest key will be finding the one that most easily integrates with the software that your departments already use for data collection.

In Boynton Beach, we use a solution that has a relatively inexpensive annual subscription cost, as well as a fixed hourly rate for consulting services to assist us as needed with integrating the data from the departments and building the dashboards. We are also minimizing costs by taking the "Train the Trainer" approach—having the consultant train the dream team so they can become in-house trainers as we continue program rollout.

KPIs + Your Strategic Plan

The dream team will provide support to the pilot department(s) in determining meaningful metrics to capture (Key Performance Indicators or KPIs). There is a ton of good information out there on developing your KPIs, such as this resource from ICMA: icma.org/documents/icma-open-access-

Boynton Beach, Florida

LOCAL GOVERNMENT SHOULD USE PERFORMANCE MANAGEMENT AS A TOOL FOR RESTORING PUBLIC TRUST AND PRESERVING DEMOCRACY.

benchmarking-key-performance-indicators. If your municipality has a strategic plan, it will be highly beneficial to tie the KPIs to the goals outlined in the strategic plan.

Data + Dashboards

The dream team will work to build the dashboards for displaying the data and then get the data into the selected SaaS. Figure 1 is an example of one of the first dashboards we developed.

Repeat the Process

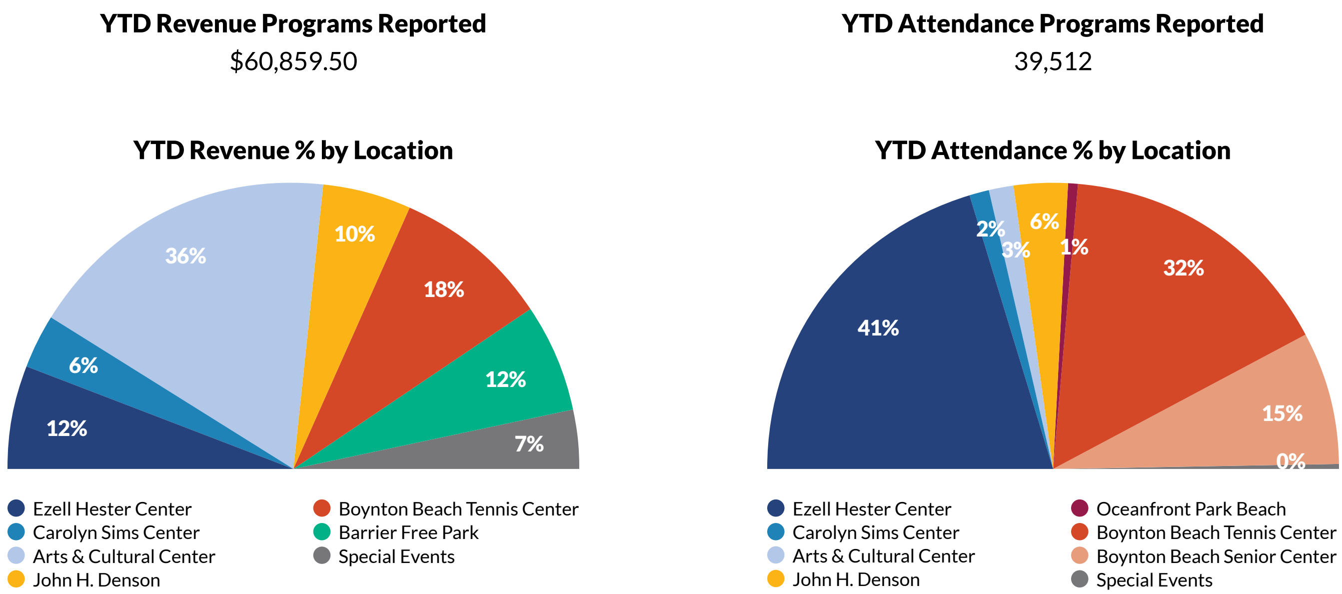
Once the pilot is up and running, it will become easier to slowly add in more departments and replicate the pilot process. Set up quarterly meetings for all department directors across the municipality and executive-level staff (including the CAO) to walk through the dashboard and provide feedback. This will allow the departments to see the tangible results that have been created and inspire application of the program to their own department. These regular meetings are an essential key for the program's success and continual improvement. They also have the added benefit of fostering collaboration between departments, as walking through each department's dashboards will naturally bring up discussions about increasing efficiencies between departments.

Play the Long Game

Communicate to staff and stakeholders from the beginning that implementing performance management is a long-term effort and will evolve and be refined over time. It's a paradigm shift for the organization to start thinking in terms of metrics and it will become easier and more natural with time. It is an exciting leap to take your organization to the next level. Eat the elephant one bite at a time.

In closing, performance management has much larger implications beyond the boundaries of your municipality. The new task of public service is restoring faith in government through data-driven decision making. PM

FIGURE 1. CITY OF BOYNTON BEACH RECREATION & PARKS DEPARTMENT



A Leading-Edge, Energy-Efficient Water Resource Recovery and Bioenergy Facility

Wooster, Ohio—2019 Recipient, Program Excellence Award, Community Sustainability (10,000 to 49,999 Population)

When the original sewage treatment plant in Wooster, Ohio, began operation in 1938, it consisted of primary settling tanks, an anaerobic digester, and sludge drying beds. Over the years, the facility has been upgraded several times, but failed to meet performance standards for digestion and solids handling. Something had to be done.

The city evaluated several proposals and formed a partnership with a private company. The company provided some capital investment, engineering, construction, and expertise, while the city delivered manpower and infrastructure and paid a monthly management services fee. The city council approved the funds to begin the project and offered support. Managers in the city and utility worked closely with the private company during construction, startup, and early operations.

The three existing digesters in the Wooster facility were enlarged, and new mixing, cover membranes, and heat exchangers were all added along with a gravity belt thickener (for city biosolids), a solids receiving vault, a liquids receiving pit, and a feedstock holding tank. A larger combined heat and power unit was installed to heat the new organic biosolids receiving building and all the tankage in the anaerobic digestion system. In order to produce enough methane to utilize the larger heat and power unit and supplement the city's biosolids, the facility accepted organic third-party waste streams. Tipping fees were collected by the private partner, and the city offered discounted fees to benefit local businesses or as an economic development tool to attract new business to the area.

The city's Water Pollution Control Plant became known as the Water Resource Recovery and Bioenergy Facility. Within 12 months of startup, the power generation was exceeding the facility's daily demand. To optimize the anaerobic digestion system, the city installed an electric transmission line to the nearby water treatment plant and eliminated the electric meter at that location. At times, both facilities are "off the grid" to become what may be the first electrically self-sufficient water/wastewater utility.

The facility upgrade provides a means to harness waste streams into renewable energy. Rate payers benefit from reduced energy costs. The city benefits from additional revenue. The facility is operating with a focus on environmental stewardship and reducing operating costs.

In 2018, the facility produced 3.9 megawatts of power for the operation of the treatment facilities, which resulted in nearly $250,000 in energy savings. The ability to accept feed stock, septage, and food waste solids to create the methane provided nearly $900,000 in additional revenue. Ultimately, this provides self-reliant power sources, but also a nutrient-rich soil product that saves farmers money and eliminates commercial fertilizer runoff from agricultural areas.

The Water Resource Recovery Facility is leading edge. No other facilities in Ohio produce the power from an anaerobic digestion process to power both water and wastewater facilities. The facility innovation was confirmed with a 2018 Utility of the Future Award from the Water Environment Federation. PM

Learn more about the ICMA Awards Program at icma.org/awards.

Michael Colbert
County Administrator
Montgomery County, Ohio
ICMA Member since 2021

The highlight of my career has been serving as county administrator. I say that because I've had an opportunity to do a lot of different jobs. I've been a state director; I've been a treasurer; and I've had an opportunity to work in the private sector. Being county administrator allows you to really see the impact of the policies, infrastructure, procedures, and all the things that you're doing locally, and you get to see that impact on your local public in a community you live in. So that's pretty wonderful.

One of the biggest challenges of my career was the 2019 tornado. In 2019, our community was hit by a devastating tornado. Some 20 tornados hit the entire Dayton region. We had about 11 tornados that hit the Montgomery County area, ranging in intensity from EF0 to EF4. It tested the strength of our community, but it really tested the strength of our emergency management system. We had to collaborate with utilities and search and rescue, and think about things like debris removal and bringing in water from the state. It was a huge ordeal for my whole community, but it was huge for me as the leader of the community because the county, which is not normally the front line of government, became the front line of services.

ICMA has given me a wealth of contact information and knowledge. Membership in ICMA also allows you to expand your professional development. ICMA is always providing the opportunity for you to be a part of either larger conversations on hot button issues or to be a part of professional development for yourself. I'm very thankful for ICMA and their networking and educational opportunities.

The NACA Idea Exchange is huge. Networking with the National Association of County Administrators (NACA) is incredibly helpful. They do something called an Idea Exchange, with conversations going on between administrators and counties all over the United States. We are able to discuss things like the tornado that my community experienced. There are those in Florida that have experienced hurricanes; those on the west coast that have experienced forest fires. NACA allows us to really coordinate and create relationships, and discuss how we deploy resources, and that's great.