

# Financial Sustainability Index: A Self-Assessment Tool for Financial Sustainability

Working Paper WP17MP2

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**Shayne Kavanagh**

Government Finance Officers Association

**Doug Linkhart**

National Civic League

**Mark Pisano**

University of Southern California Sol Price  
School of Public Policy

**Monika Hudson**

University of San Francisco

**Shui Yan Tang**

University of Southern California Sol Price  
School of Public Policy

**Erik Colon**

Government Finance Officers Association

**Michael F. McGrath**

National Civic League

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[help@lincolninst.edu](mailto:help@lincolninst.edu)

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## **Financial Sustainability Index: A Self-Assessment Tool for Financial Sustainability**

### **Introduction: Financial Sustainability Index**

The Financial Sustainability Index is a companion document to the Financial Sustainability Framework. Both the Framework and the Index are built around six Leadership Strategies and eight Institutional Design Principles that underpin a financially sustainable local government. Our research identified fiscal stress as a long-term continuing issue for government. The Framework and Index are tools that local government can use to achieve their policy goals while dealing with this long-term condition. The Framework described, in detail, the Strategies and Principles, as well as tactics that governments can employ to put them into practice.

The Financial Sustainability Index can be used by local government leaders to start a conversation with people inside and outside of the government about how well the government is doing in building and maintaining a governance and decision-making system that produces financially sustainable choices. The objective of the Index is to help the people with a stake in the ongoing financial health of their government discuss how better, more sustainable financial decisions can be made—the objective is not to render a judgment on the financial quality of the government. Of course, governments with better governance and decision-making systems could still experience financial difficulties, but an array of case study and experimental evidence suggests that such governments are less likely to experience financial problems or will at least be able to solve those problems more effectively. You can read about these experiments and case studies in the Financial Sustainability Framework.

The Financial Sustainability Index document is intended to be used primarily by local government leaders. However, you will quickly see that financial sustainability depends on involving a broad array of people in the decision-making process. Hence, local leaders will need to get the input of these “outsiders” while conducting the self-evaluation of financial governance and decision-making that the Index will guide you through.

Finally, the self-assessment process contained within the Index is notable by the absence of “financial indicators.” Financial indicators, such as debt ratios, fund balance levels, etc. have long been used to establish a government’s financial position. The Index does not employ financial indicators because it addresses how to structure financial governance and decision-making to ensure strong financial position in the future. Financial indicators measure what financial position is now or has been in the past. So, while financial indicators may provide a clue of where financial position is already deteriorating, the Index forewarns of future financial problems by highlighting sub-optimal decision-making systems that often lead to problems.

## Go-To Financial Indicators

The public finance profession has proposed many different quantitative measures of financial condition, however, not all of them are reliable measures of financial health. Indicators that measure cash solvency or fiscal reserves, debt, and revenue structure will generally be the most useful.<sup>1</sup> Below are some examples:

### Debt

- Total debt as a percent of revenues
- Total debt service as a percent of revenue

### Revenue Structure

- Total revenues divided by population
- Property tax as a percent of own-source revenues

### Cash Solvency of Fiscal Reserves

- Cash, cash equivalents, and investments) divided by current liabilities
- General fund balance as a percent of total expenditures.

## Structure of the Self-Assessment

The first step is to assess your organization's performance on each of the six Leadership Strategies and eight Institutional Design Principles by using the self-assessment form provided. In each self-assessment form you will find a short description of the Leadership Strategy or Institutional Design Principle. Then you will be presented with a series of detailed assessment items that ask the evaluator to rate how frequently the organization engages in behaviors that support the Leadership Strategy or Institutional Design Principle. Following the detailed items, you will find two to three summary questions that provide a high-level indication of how well your organization embodies the Leadership Strategy or Institutional Design Principle. Each question asks you how strongly you feel that your organization matches (or does not match) a behavior that leads to financial sustainability. Your answers to the detailed items should inform your answer to the summary questions.

The self-assessment is not easy, so we offer the following guidelines:

**Use the self-assessment as the basis for a conversation about financial sustainability in your organization.** Ideally, self-assessment will be far more than just an exercise in checking-off boxes—it should be used to catalyze a conversation about what the organization can do to secure its financial future and continue to provide valuable public services to future generations. Therefore, we encourage you to engage a diverse group of stakeholders in the assessment process. Making sustainable financial decisions is not easy and engaging a diverse group can help build commitment to making those decisions.

**Structure the conversation.** Conversations are great for building mutual understanding among diverse people and creating commitment to a shared goal. However, as they are typically organized, group conversations and evaluation are not effective for reaching the best solutions to

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<sup>1</sup> Based on work conducted by: Evgenia Gorina and Craig Maher. "Measuring and Modeling Determinants of Fiscal Stress in US Municipalities". Mercatus Center, George Mason University, 2016; and by: Bruce McDonald III. "Measuring the Fiscal Health of Municipalities" a working paper published in 2017.

complicated problems. For example, research has shown that individuals acting alone often come up with more and better ideas than those arising from the conventional forms of ideation (e.g., “brainstorming”).<sup>2</sup> The good news is that you can sidestep the pitfalls of group evaluation while also gaining the benefits by structuring the conversation effectively. For example, be sure to provide enough structure to the conversation that everyone knows what is expected of them and gets a chance to participate. Also, give participants ample time to individually digest each self-assessment question and arrive at their own opinion before having group members share their views. See Appendix 1 to this document as a guide to structuring such a conversation.

**Beware of overconfidence.** Psychological research has shown that most people routinely overestimate their own effectiveness—this inborn bias is called the “illusory superiority” effect by psychologists.<sup>3</sup> Therefore, we must be very careful about how we score a self-assessment. We have tried to help you guard against the illusory superiority effect in two ways. First, the assessment begins with detailed questions. The detailed questions may offer less room for interpretation and, hence, less room for the illusory superiority effect. Second, at the end of the assessment for each Leadership Strategy and Institutional Design Principle, there are two or three global summary questions, where we have suggested specific criteria you should meet in order to give yourself the highest score. However, the best thing you can do to guard against the illusory superiority effect is to invite multiple perspectives into the self-assessment and structure the conversation in such a way that allows everyone to put their best thinking forward. This is critical because one person may offer disconfirming information that causes another to rethink how effective the organization really is in a given area.

**Identify specific opportunities to strengthen the Leadership Strategies and Institutional Design Principles within your organization.** As a result of the self-assessment, your organization should identify a series of specific, achievable goals for improving capacity within the 14 Leadership Strategies and Institutional Design Principles. It is important to note that the whole of the Financial Sustainability Index is greater than the sum of its 14 parts. This means that it is not sufficient to embody a majority of the Leadership Strategies and Institutional Design Principles—an organization must have capacity in each. That said, your government may not find that it is achievable to work on simultaneously improving its capacities in all the areas in which it is lacking. Hence, your goal setting process will need to:

- Identify all areas in which improvement is needed.
- Prioritize those areas that are most important.
- Identify achievable steps that can be taken to improve in those areas.
- Identify the more immediate benefit you can gain from these steps in order to maintain momentum
- Set a schedule to eventually address the areas that were not the highest priority.

Appendix 2 contains a worksheet you can use to help organize your goal setting.

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<sup>2</sup> Karan Girotra, Christian Terwiesch, and Karl T. Ulrich. *Management Science*. Vol. 56, No. 4, April 2010, pp. 591–605

<sup>3</sup> Tia Ghose, “Why We’re All above Average,” LiveScience, February 6, 2013, [http:// www.livescience.com/ 26914-why-we-are-all-above-average.html](http://www.livescience.com/26914-why-we-are-all-above-average.html).

## **Leadership Strategy #1 - Create open communication between all participants**

Open communication between participants in a decision-making process leads to a higher likelihood of a good decision. Similarly, if the decision-making process excludes stakeholders from outside the organization who are impacted by a decision, then the decision will be perceived as less legitimate and its implementation will be more likely to fail. Conducting decision-making within a process that incorporates people of different backgrounds, thoughtfully engages the public, and that builds a shared understanding of the entire story behind the problem all contribute to more sustainable outcomes. This Leadership Strategy invites you to consider the following themes:

- **Teams with diverse backgrounds in decision-making.** Find ways for people to work together towards a common goal, outside of their normal group boundaries.
- **Leading public engagement with open communication in mind.** Citizens often leave a public meeting with a worse opinion of government. Public leaders should provide effective, meaningful ways for the public to engage.
- **Start from a shared understanding of the situation.** Before discussing a solution, the parties should have a joint understanding of the problem. Reasonable people disagree, but they are more likely to disagree on a solution when they don't understand a problem in the same way.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Use Teams with Diverse Backgrounds in Decision-Making</b>					
We use teams to analyze financial challenges we face.					
We use teams to develop financial strategies.					
Our teams include people of diverse backgrounds.					
We take time to develop good working relationships on the team before starting work.					
As the team does its work, we explicitly examine how well the team is functioning.					
<b>Lead Public Engagement with Open Communication in Mind</b>					
We engage the public early enough in the decision-making process that their input has a real impact on final decision.					
We recruit a set of participants that is representative of the people impacted by the issue under consideration.					
We use in-person engagement methods that give participants the opportunity for meaningful interaction with public officials and with each other.					
Participants are given a clear and accurate explanation of how their input will be used in the decision-making process.					
<b>Start from a Shared Understanding of the Problem</b>					
Budget discussions are guided by a set of overarching organization-wide goals/priorities.					
We take explicit steps to define the nature of the financial challenges we face before jumping to solutions.					
As part of defining the problem, we take steps to understand the perspectives of people with competing positions.					



## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment above to help you arrive at your answer.

A. We effectively use cross-functional teams to analyze and solve financial challenges.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...you are aware of and deliberately practice skills proven to enhance teamwork, use teams in both financial analysis and strategy development, and team structures that have been consciously designed to avoid the common dysfunctions of team meetings.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. We provide meaningful engagement opportunities for the public throughout financial decision-making.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...public engagement happens early enough in the decision-making process that it has meaningful impact on the decision, you engage key stakeholders effected by a decision, and you structure public meetings to maximize give-and-take between all participants.</i></b>					
[Please provide examples or short description to explain your rating]					

C. We routinely and deliberately take steps to define the problem early on in the decision-making process—before we get to solutions.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...your financial decision-making processes are tightly linked to a strategic plan, you regularly use special techniques to define problems (e.g., root cause analysis), and, for controversial issues, you use facilitative methods that help participants on opposite sides better understand the perspectives of others.</i></b>					
[Please provide examples or short description to explain your rating]					

## Leadership Strategy #2 – Help stakeholders build trustworthy reputations

Familiarity and trust between stakeholders make sustainable decisions more likely than they would be otherwise. In fact, people are quite capable of making decisions that advance their group’s well-being, even at the expense of their own personal interests, if the conditions are right. Chief among these conditions is that people trust that other people won’t cheat and take unfair advantage of the group.

Hence, government leaders should seek to help stakeholders build trustworthy reputations so that more stakeholders are comfortable making decisions that advance the entire organization’s well-being. There are two primary means by which a leader can encourage trustworthy reputations.

- **Create the conditions for trust outside of decision-making processes.** It is probably unrealistic to expect stakeholders to develop feelings of mutual trust solely through their interactions within formal decision-making processes. Hence, leaders need to create opportunities for stakeholders to start forming these bonds before tough decisions need to be made.
- **Build trustworthy leadership.** During the decision-making processes, certain behaviors will enhance trust between the parties, while others will destroy it. Hence, stakeholders need to be mindful of these behaviors and practice those behaviors that enhance trust and safety. Leaders can model these behaviors for others.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Create the conditions for trust outside of decision-making processes</b>					
We use cross-functional work teams outside of financial decision-making, such as to solve shared problems.					
People from different departments intermingle during the course of the day as a natural byproduct of doing their work.					
We encourage social events specifically for the purposes of mixing people from different groups within the government.					
We use games or simulations to help diverse participants practice making difficult decisions.					
<b>Build trustworthy leadership</b>					
Leaders in our government make decisions as a result of compromise or bargaining, where appropriate.					
Leaders in our government are transparent about the information used to make decisions.					
Leaders do not make decisions that appear to be primarily for the benefit of the leader himself/herself.					
Leaders follow through on commitments. If they can’t follow through, they explain why.					
Leaders make people feel safe to speak their mind.					
Leaders encourage honest and open conversation about high-stakes, emotional, or risky topics that need to be addressed for the organization to move forward.					

### Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment above to help you arrive at your answer.

A. I trust people in this organization to make decisions that optimize our collective well-being, even if it might go against their own self-interest.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...you have had direct experiences with other people making collectively beneficial decisions; and you have worked closely enough with different people that you have a sense of trust.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. I trust our leadership to do the right thing most of the time.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...you perceive that leadership produces valuable results, is honest, and is dependable; you feel leaders foster a climate that makes people feel safe to speak up; and leaders exhibit strong skills in raising and resolving controversial topics.</i></b>					
[Please provide examples or short description to explain your rating]					

### Leadership Strategy #3 – Convince stakeholders that there can be benefits from collective efforts

People are more likely to contribute to collective efforts if they believe that they will gain some benefit from the effort. Critically, these benefits do not necessarily have to be monetary - people are powerfully motivated by intrinsic rewards such as serving a purpose greater than themselves or achieving a challenging goal.

Leaders can persuade participants of the potential for collective efforts to create benefits for individuals, and can show how the overall well-being of the entire organization will be improved. This can be done in two ways:

- **Establish an inspiring, collective vision of the future.** Leaders need to set forth an inspiring vision for what collective decision-making can do for the organization and how the organization can get there.
- **Address the potential for incrementalism to reduce stakeholders’ incentives to participate in collective decision-making.** Incremental decision-making is very common in government, but if stakeholders believe that certain groups have a historically precedented claim on resources then there could be reduced motivation to participate in a collective decision-making process. Leaders need to show that an organization’s past does not necessarily determine its future, while also respecting the reasons why public sector organizations typically hew to an incremental approach.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Establish an inspiring, collective vision of the future</b>					
Leadership communicates an exciting and inspirational vision for the future.					
Leadership’s vision recognizes our strengths as an organization and seeks to build on them.					
Leadership identifies the outside forces that we must overcome together in order to achieve the vision.					
<b>Address the potential for incrementalism to reduce incentives to participate in collective decision-making</b>					
Leadership identifies “small wins” that can be achieved on the way to the vision.					
Leadership asks departments to submit joint plans and budgets that are designed to achieve important goals.					
When we develop budgets, we reconsider old ways of spending and think about the best way going forward.					

## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment above to help you arrive at your answer.

A. Our organization has a clear and inspiring vision of the future that I feel committed to.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...the organization's vision: is both achievable and aspirational; builds on the organization's strengths; and different departments are united in a common mission.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. We undertake a goal-oriented, strategy-based approach to budgeting.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...clear service goals motivate multiple departments and organizations within the jurisdiction to participate in integrated approaches to achieving objectives; departments or other sub-units are encouraged to bring forth budget proposals that are integrated with other entities.</i></b>					
[Please provide examples or short description to explain your rating]					

C. Our organization moves forward together towards a better future at a steady, yet measured pace.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...the organization regularly recognizes and celebrates smaller steps taken towards larger goals; departments regularly work together to reach shared objectives, including using shared budgets; the organization regularly critically re-examines historical patterns of spending and reallocates when historical practices are no longer relevant or affordable.</i></b>					
[Please provide examples or short description to explain your rating]					

## Leadership Strategy #4 – Ensure that key participants remain engaged

If participants can opt out of a decision process at relatively low costs and avoid being taken advantage of, this encourages other participants to be cooperative. However, a community can remain healthy only if most of its members are willing to stay on and seek to improve the entity from within, instead of seeking an exit at first sight of trouble. Leaders should encourage participants to remain engaged in collective problem solving by doing the following:

- **Provide opportunities for authentic engagement.** If participants are confident that they have ways to make their views heard, they are more likely to remain engaged. Also, active participants may stay mindful of others’ interests, because disregarding them may cause the non-participants to seek to overturn the decision.
- **Build feelings of group loyalty.** Occasionally, leaders will encounter situations that strain the cohesion of the people involved in the decision-making process. Leaders can take steps to build the loyalty of participants so that they will stick with the group to make it through the hard times.
- **Recognize the silver lining when participants exit.** Unfortunately, participants will not always stay engaged and loyal. Leaders should recognize that participant exit provides a signal that all may not be well and should make allowances for constructive exits, while taking steps to address the problems that triggered these exits.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Provide opportunities for authentic engagement</b>					
Decision-making processes are governed by a clear set of rules that help people understand how to participate.					
The rules are applied equally to all participants.					
Decision-making processes work towards a clear outcome.					
Decision-making processes are perceived as fair.					
Everyone gets enough time and opportunity to talk when we meet to make decisions.					
<b>Build feelings of group loyalty</b>					
Leaders personally demonstrate their commitment to the continued wellbeing of the organization.					
Leaders help us see the similarities between members of the group whom might otherwise be perceived as different.					
Leaders don’t allow people to circumvent decisions.					
<b>Recognize the silver lining when participants exit</b>					
Staff members have good options to leave the organization, if they feel their ethics demand it.					
We recognize when people have become dissatisfied and leave the process and we take steps to learn from that.					

## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment above to help you arrive at your answer.

A. We provide opportunities for stakeholders inside and outside the organization to get engaged in financial decisions that impact them.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...there are clear rules governing how decisions are made; the rules apply equally to everyone; there is a clear goal for engagement; there is a clear outcome from engagement that participants can see; there is open and honest communication during the process of engagement.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. People in our organization are generally willing to stick with the government in tough times and give leadership the benefit of the doubt that problems can be solved.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...the leadership has made it clear that everyone is in the same boat; you feel that you share common goals and interests with other people in the government; leaders take steps to counteract people who would take a disproportionate share of the organization's resources for their own benefit.</i></b>					
[Please provide examples or a short description to explain your rating]					

C. We create the conditions for professional staff to give their best advice, but also make sure they can easily leave, if they feel it necessary.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...professional staff have employment opportunities outside of the organization; financial leaders have contracts to insulate them from short-term political pressures; the organization notices when people do leave the system and learns from it.</i></b>					
[Please provide examples or a short description to explain your rating]					

## Leadership Strategy #5 – Build long-term horizons into financial planning

Participants are more likely to contribute to a collective effort if they believe that more can be gained by thinking about participation on a long-term basis than a short-term one. When participants are acutely aware of the long-term basis of their participation in the community or government organization, they are more likely to develop cooperative strategies.

However, short-term thinking is the more common mode of human decision-making. Hence, government leaders will need to counteract this tendency. Strategies for doing so include:

- **Develop strong long-term perspectives in decision-making.** Local governments need to develop mechanisms that concretely measure the longer-term impact of annual budget decisions, including labor agreements and infrastructure maintenance.
- **Develop mechanisms to look beyond short-term pressures.** It is not enough to simply introduce a long-term perspective into planning and budgeting. Local government leaders must also acknowledge short-term pressures and find ways to prevent short-term considerations from overpowering long-term considerations.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Develop strong long-term perspectives in decision-making</b>					
Leaders request long-term forecasts of financial position.					
When we produce long-term forecasts, we look at least ten years into the future.					
We acknowledge that forecasts are inherently uncertain and are able to cope with that uncertainty.					
We use interactive long-term forecasts that help us see the impact of changes in key forecast variables.					
When planning, we formally consider the different ways in which the future might turn out and prepare accordingly.					
<b>Develop mechanisms to look beyond short-term pressures</b>					
We articulate explicit decision-making principles to provide philosophical guidance for decisions.					
We are able to remind ourselves to consider the long-term, even when faced with short-term pressures.					



## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment above to help you arrive at your answer.

A. We consider the long-term consequences of our decisions and have developed formal tools for understanding long term revenue and expenditures.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if... leaders regularly ask to see long-term forecasts of financial position; leaders have granted permission for people to express uncertainty about the long-term and leaders help people cope with that uncertainty.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. We are able to look beyond short-term pressures.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if... the government has identified an explicit set of principles that will guide decisions towards sustainable outcomes and references those principles regularly; we recognize where short-term pressures are legitimate and look for ways to relieve that pressure without sacrificing the long term.</i></b>					
[Please provide examples or a short description to explain your rating]					

## Leadership Strategy #6 – Maintain capabilities to reinforce cooperative behavior

Rewarding people who cooperate and sanctioning those that don't helps ensure that stakeholders constructively and consistently participate in the decision-making system. Noticeable successes of a few non-cooperators may convince others not to cooperate as well, while notable successes of those that do cooperate may have the opposite effect.

For any reward or sanctioning system to work, it is important that participants share common understandings on the ground rules on when rewards or sanctions are to be handed out. Equally important is credible leadership in fair enforcement such that participants are confident that no favoritism exists. Strategies for an effective reward/sanction system include:

- **Participants within the system should reinforce the importance of cooperating.** Participants are closest to the decision-making process, so they are in the best place to recognize instances of good or bad behavior from other participants and apply positive or negative reinforcement.
- **External reinforcement can be helpful, but is secondary.** While secondary in importance to the efforts of participants within the system to reinforce cooperation, external actors can have a role as well. Bond-rating agencies, state agencies, the media, or even the courts can provide a check against unsustainable decision-making, and the voters can exercise accountability.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Participants within the system should reinforce the importance of cooperating</b>					
People that engage in behaviors that work against financial sustainability would meet with disapproval from their peers.					
Leaders do not countenance attempts to “end-run” decision-making processes.					
Leaders recognize when other people make sustainable choices and celebrate it.					
Stories of people who have made good choices are repeated and stick.					
<b>External reinforcement can be helpful, but is secondary</b>					
Information needed to understand the financial condition of government is made available online.					
We use third party assessments of financial condition to get an outside perspective on how we are doing.					

### Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment to help you arrive at your answer.

A. We all exhibit leadership by reinforcing with our colleagues the importance of working together cooperatively					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if... the organization's culture supports working together across departments; leaders do not countenance attempts to subvert or do an "end run" around collective decision-making processes; leaders recognize and celebrate when other people make financially sustainable choices.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. We use outside assistance, where it is useful, to help reinforce cooperative behaviors.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if... bond ratings or other third party assessments of the organization's financial health are used to get feedback on how financially sustainable the organization is; the organization makes available clear and comprehensive records of financial performance.</i></b>					
[Please provide examples or a short description to explain your rating]					

## Institutional Design Principle #1 - Well-defined boundaries

A government’s physical boundaries are clear, which provides definitive guidance for deciding how and where services will be provided. In contrast, the boundaries for financial decisions are often less clear. For example, an annual budget encourages a government to consider the impact of its decisions over a single year, yet many decisions have unambiguous impacts on generations many years into the future. Just as potentially problematic are the boundaries around who has the right to make certain financial decisions. It is sometimes unclear where decisions of financial consequence are made by board or staff, centrally or de-centrally, or even if they are consciously made at all. For example, using one-time resources (e.g., proceeds from selling an asset) to finance an on-going expenditure (e.g., employee salaries) is an unsustainable proposition. Who decides what one-time revenues will be used for? Is this question explicitly considered at all?

Boundaries that are defined by the local government itself will often be the most effective, so this Institutional Design Principles asks you to consider how effective your government has been in establishing boundaries for financial decision-making. Specifically, it addresses two types of boundaries:

- **Decision-Rights:** Financial decision-making is not just about who has a share of resources but also about who has control over which portion of them. It is, for example, important that the elected board, working with the chief executive, maintain control of the entire budget, allowing flexibility to adjust expenditures according to revenue projections and where resources will be best used.
- **Temporal boundaries.** The beginning and end of a fiscal year imposes arbitrary temporal boundaries on decision-making. However, many decisions that today’s elected officials make will have significant financial impacts on future generations of local leaders and citizens.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Decision-Rights</b>					
Financial policies provide boundaries for financial decision-making					
Responsibilities for carrying out a policy are clearly defined.					
We make conscious effort to continuously improve the processes used to make decisions.					
Elected officials place the interests of the entire community above the interests of narrow segments of constituents.					
<b>Temporal boundaries</b>					
Our policies encourage us to pursue structural balance as an explicit long-term goal.					
We build the capacity to build models that project financial position up to 20 years into the future.					
We adopt financial plans and budgets that consolidates all sources of funding.					

## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment to help you arrive at your answer.

A. We have defined boundaries for decision-rights on financial issues and have created a governance structure that clarifies decision-rights for financial issues, along with the tools to enact those decisions.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...you have adopted a comprehensive portfolio of financial policies to define the boundaries of financial decision making, have governance structures sufficient to enact the policies, and have methods for managing financial processes so that roles and responsibilities remain clear and processes evolve to meet the needs of a changing environment.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. We routinely consider the impacts that our financial decisions have multiple years into the future.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...you have adopted policies that support taking a long-term perspective, you have created the staff capacity for long-term forecasting, and all the sub-units of the organization participate in long-term financial planning and budgeting.</i></b>					
[Please provide examples or a short description to explain your rating]					

## **Institutional Design Principle #2 - Proportional equivalence of benefits and costs**

When the benefits that any given stakeholder receives from the resource allocation process is reasonable given the costs to that stakeholder to support the government, then the government will be more likely to be financially sustainable. Furthermore, fair rules for distributing benefits and costs contribute to the building of trust among stakeholders. Hence, local government institutions must not only provide basic services for maintaining health, safety, and welfare, but must also do so for a price that is fair and cost-effective.

A local government's institutional design should address the following:

- **More explicit linkages between revenues and what they pay for.** As local governments have traditionally done with user fees, local governments should consider the link between revenues and the services that they fund. This can increase transparency on what revenues are used for, thereby improving the value citizens perceive from government and improving trust.
- **Consider the cost-effectiveness of public services.** Services provided by local government deliver the most benefit for each dollar spent. When services are cost-effective, stakeholders are more likely to perceive that they are getting good value for their money.
- **Devise rules that provide for flexibility in “crisis” situations.** The midst of a financial crisis is often not conducive to making the best decisions; by identifying sources of flexibility before a crisis occurs, the organization can promote better decision-making.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>More explicit linkages between revenues and what they pay for</b>					
For our basic services, we consider the role of user fees for assigning costs of the service to the beneficiary.					
For our basic services, we examine the cost-effectiveness of how we provide the service.					
We use special assessments / service areas or similar tools to assign the cost of special services to beneficiaries.					
We capture some of the value created when local government services increase the value of land (examples include impact fees, joint development agreements).					
<b>Consider the cost-effectiveness of public services</b>					
We inventory the programs we provide and are fully aware of the scope of services our government offers.					
Performance measures are used to help describe the benefits that public services produce.					
Our policies support using rigorous evidence to determine if a program is producing its intended result.					
Our policies support comparing the cost of a program to the benefit it creates, so we get the most bang-for-the-buck.					
<b>Devise rules that provide for flexibility in “crisis” situations</b>					
Our policies provide enough flexibility for officials to adapt to unexpected circumstances.					
Our policies provide guidance on how to respond to a financial crisis.					

## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment to help you arrive at your answer.

A. We have made a tight linkage between the revenues we collect and the services that revenues pay for.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...the government has adopted a comprehensive user fee policy; has linked general taxes to specific services in some way; and has made connections between land use and financial planning.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. We explicitly consider the cost-effectiveness of public services when making decisions.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...the government has developed an inventory of the programs that it runs; uses performance budgeting; and has adopted a policy that calls for rigorous evaluations of program effectiveness to support decisions about program funding.</i></b>					
[Please provide examples or a short description to explain your rating]					

C. We have decision rules in place that provide for flexibility in “crisis” situations.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...formal financial policies exist and those policies allow officials to exercise discretion within reasonable boundaries; the government has adopted a policy that provides a framework for how officials should approach a financial crisis, but without being too prescriptive.</i></b>					
[Please provide examples or a short description to explain your rating]					

D. We deliberately consider what is “fair” to different stakeholder groups when considering the distribution of benefits and costs.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...the government has explicit discussions about the equity of distribution of resources and financial planning includes efforts to measure and address equity.</i></b>					
[Please provide examples or a short description to explain your rating]					



### Institutional Design Principle #3 - Collective-choice arrangements

When stakeholders are empowered to participate in making and modifying the rules governing financial decision-making and then participate in making the decisions, they are more likely to develop rules that fit local circumstances and to respect the decisions. Of course, many of the “rules” local governments must observe are prescribed by other levels of government, but local government institutions can still enhance participation in making decisions through the following:

- **Connect financial planning to other, non-financial planning processes.** Many stakeholders may prefer to become engaged in planning processes that are not directly/explicitly about finances (e.g., land uses, service levels, etc.). Strengthening the connection between these planning processes and the financial planning process can show stakeholders how their decisions ultimately impact finances.
- **Develop capacity to use public engagement to solve problems.** Problem resolution typically rests upon getting insights from those closest to the problem. A structured process for engaging the public aggregates the inputs from many stakeholders. This may help reach a common understanding of the situation the local government is in and the options for moving forward.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Connect financial planning to other, non-financial planning processes</b>					
Our budget plans are closely informed by the service goals described in our strategic plan.					
Strategic plans elevate financial sustainability (or a similar concept) to the status of an organization-wide goal.					
We link other service plans (e.g., comprehensive land use plans, transit plans, etc.) to financial plans.					
<b>Develop capacity to use public engagement to solve problems</b>					
We engage the public in financial decision-making, beyond just the forums required by law.					
We use social media, surveys, or other forms of “virtual” public engagement.					
When we engage the public in-person, the meetings are valuable both for public officials and citizens.					
When we engage the public in-person, the participants are representative of the major stakeholder groups that are impacted by the issue under consideration.					

## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment to help you arrive at your answer.

A. We have recognized, as an organization, the need to run government efficiently and cost-effectively.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...a strategic plan or similar business planning document has been formally adopted that describes how the government will carry out its public responsibilities; efficiency and providing the best possible value to taxpayers are recognized as explicit goals in the strategic plan.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. We have connected non-financial planning processes such as general and strategic plans with our financial planning processes.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...there is a tight link between the strategic plan and the budget such that it is easy to see how and where strategic initiatives are funded; other plans, outside of the strategic plan, have integration points with the financial planning process.</i></b>					
[Please provide examples or a short description to explain your rating]					

C. We have the capacity to use public engagement to solve problems.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...public engagement is a regular feature of decision-making, beyond just the routine public hearings that are required by law; there is capacity to use both virtual engagement (e.g., surveys, on-line forums) and in-person engagement; there is capacity to recruit diverse stakeholders into public engagement processes (i.e., the government can and does reach beyond the "usual suspects" for public engagement).</i></b>					
[Please provide examples or a short description to explain your rating]					

### Institutional Design Principle #4 – Monitoring

Effective monitoring discourages people from breaking the rules. Monitoring arrangements that rely on people who are closer to the local government are often more effective than those relying on monitors who are further removed. Local government institutional design can support effective monitoring by:

- **Develop a system of internal monitoring.** Common forms of external monitoring, such as that from a bond rating agency or external auditor, are suboptimal because feedback is not timely. Hence, local governments should develop their own capacity for creating regularly available and credible information about financial performance.
- **Developing shared fiscal fluency.** Monitoring financial condition requires that everyone have some understanding of financial terminology and concepts. Though not everyone need be an “expert,” there needs to be a base of financial literacy and shared, mutually understandable terminology.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Develop a system of internal monitoring</b>					
We review our financial policies to ensure they are current and that we are in compliance with them.					
We review how actual revenues are performing against projections during the year.					
We review leading indicators of financial performance during the year.					
Formulas and criteria for deciding who receives which resources are clear and transparent.					
We measure and evaluate the results that programs achieve.					
<b>Developing shared fiscal fluency</b>					
Our budget clearly identifies how much money is being spent on specific services/programs.					
Forecasts are regarded as politically unbiased and reasonable representations of future financial position.					

## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment to help you arrive at your answer.

A. Among our decision-makers, there is a base of financial literacy and shared, mutually understandable terminology.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...the budget process is built around programs, not just line-items; the budget process at least occasionally asks us to reassess the affordability and relevance of traditional spending patterns; steps are taken to address perceptions of political bias in the financial forecasts.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. We have developed our own capacity for creating regularly available and credible information about financial performance.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if... “financial sustainability” (or something similar) is an explicitly stated goal of the governing board; there are regular reviews throughout the year of both actual revenues and expenditures and leading indicators of future revenues and expenditures; the board’s formal financial policies are regularly reviewed to make sure that the organization is in compliance with them and that policies remain relevant and up-to-date; and the government has identified and monitors outcome-based indicators of the impact that its services are having on constituents.</i></b>					
[Please provide examples or short description to explain your rating]					

## Institutional Design Principle #5 - Graduated sanctions and credible rewards

Sanctions deter participants from breaking the rules. Sanctions should be graduated such that the penalties are proportional to the severity of infractions. In addition to sanctions, rewards can be arranged for those who contribute to maintenance and enforcing rules for resource use. Rewards should be reliably and fairly distributed. Institutional designs that support these concepts include:

- **Recognize the role of sanctions and credible rewards in financial decision-making.** In local governments, a manager’s pay is often directly related to the size of his or her budget. This could create incentives to pursue unsustainable behaviors. Instead, local governments might connect the reward system (either extrinsic or intrinsic rewards) to more adaptive behaviors like actual results achieved or by participating in processes that lead to results being achieved cost-effectively.
- **Consider the role of “nudges” in public management.** Government has traditionally relied on heavy-handed methods of enforcing compliance with policies such as fines, citations, etc. A “nudge” by contrast is any aspect of the decision-making environment that alters people’s behavior in a predictable way without forbidding any options or significantly changing their economic incentives. Public officials can consider subtle alterations in the decision-making environment for public finance that make it easier to make financially sustainable choices.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Recognize the role of sanctions and credible rewards in financial decision-making</b>					
Managers are compensated primarily based on the results they achieve and/or doing the things that lead to results. Managers’ compensation does not depend primarily on the size of the budget they oversee.					
<b>Consider the role of “nudges” in public management</b>					
Managers face disincentives for making financially unsustainable choices.					
The organization’s culture supports good financial decision-making.					
We examine how other governments have made financially sustainable choices.					

## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment to help you arrive at your answer.

A. We have developed a system of sanctions and credible rewards to encourage the behaviors that contribute to financial sustainability.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...the compensation of public managers is not based primarily on the size of the budget that they oversee; compensation is linked to behaviors that do promote financial sustainability, such as value created for the public or continuous improvement of work processes.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. We have made it easier for decision-makers to make financially sustainable choices by creating a decision-making environment that encourages sustainable choices.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...you have removed barriers to making sustainable choices, such as by creating rules that curtail the "use-it-or-lose-it" approach to spending out budgets at the end of the year.</i></b>					
[Please provide examples or a short description to explain your rating]					

## Institutional Design Principle #6 - Conflict resolution mechanisms

Decisions regarding the use of a government’s fiscal resources are subject to dispute. Access to rapid and low-cost conflict-resolution mechanisms helps to prevent unnecessary escalation of conflicts, which may undermine general trust in the system. Institutional designs that can help resolve conflict include:

- **Make sure decision-processes are perceived as just.** The best way to resolve conflict is to prevent it from happening. If participants in a decision-making process believe that the process was fair, they are more likely to support the decision, even if the decision is not in their own interest.
- **Develop conflict resolution structures for financial disagreements.** Sometimes disagreements will run deeper than good interpersonal skills can handle. In these cases, having structured mechanisms to help parties resolve disagreements constructively can help the organization move forward.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Make sure decision-processes are perceived as just</b>					
Decisions are based on information that is perceived to be accurate.					
A transparent and consistent set of decision-making criteria are applied to everyone equally.					
All effected stakeholders are given the opportunity for input.					
Flawed decisions are recognized and corrected.					
<b>Develop conflict resolution structures for financial disagreements</b>					
We provide formal training to public officials on effective interpersonal communication of difficult or controversial topics.					
People who are in conflict have a neutral third party they can go to for help in resolving the dispute, even if informally.					

## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment to help you arrive at your answer.

A. Our decision processes are designed to be fair and just to participants.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<p><i>You might strongly agree if...decision-processes are based on information that is perceived to be accurate by the parties involved; a transparent set of decision-making criteria are applied to everyone equally; all effected stakeholders are given the opportunity for input; if a mistaken decision is made, it is recognized and corrected.</i></p> <p>[Please provide examples or a short description to explain your rating]</p>					

B. We have systems in place to help parties resolve disagreements constructively.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<p><i>You might strongly agree if...We have formal training to develop and practice constructive interpersonal communication skills; we have a place where people can take their disputes to get facilitative help in reaching resolution.</i></p> <p>[Please provide examples or a short description to explain your rating]</p>					



### Institutional Design Principle #7 - Minimum recognition of rights

Local governments, in general, will be better able to figure out how to allocate benefits and responsibilities among themselves. However, external authorities often seek to apply uniform rules or other regulations that don't fit local circumstances, thereby hurting the sustainability of local government. The following institutional designs can help local governments develop effective mechanisms for preserving resources that will be accepted by external authorities.

- **Proactively address unfunded mandates.** “Unfunded mandates” are obligations placed on local governments by state or federal government, without the revenue to support them. Rather than simply accepting these circumstances, local governments should look to mitigate unfunded mandates.
- **Strategically manage grants.** Grants impose obligations on local governments with some supporting revenue stream—however, the revenue is often not sufficient to cover the full cost of the obligation. Local governments need to ensure that grants don't commit them to unsustainable cost obligations.
- **Consider if you should change the rules of the game for intergovernmental relationships.** Local governments may be able to alter the nature of their relationship with the state government through mechanisms like home rule, charter changes, referendums, etc. These could strengthen a local government's hand, giving it more latitude to improve its financial position.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Proactively address unfunded mandates</b>					
We review the precise wording of mandates before we approve financial plans to comply with the mandates.					
We seek adjustment to mandates where there is a good case for allowing our government flexibility.					
We build flexibility into our budget so that we can be more adaptable to mandates.					
We use unfunded mandates as an opportunity to review how services are provided.					
<b>Strategically manage grants</b>					
We refuse grants for programs that are inconsistent with our strategic priorities.					
When a grant ends, we review the program before deciding to continue funding with our own budget.					

## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment to help you arrive at your answer.

A. We proactively look to address the ill effects of unfunded mandates.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<p><b><i>You might strongly agree if...the government regularly reviews the exact language of mandates in order to determine what is truly required; works with state/federal government to get adjustments to mandates; develops policies that encourage financial flexibility to cope with funding uncertainties introduced by mandates; and use mandates as an opportunity to review how a service is provided.</i></b></p> <p>[Please provide examples or a short description to explain your rating]</p>					

B. We strategically manage our grants so that we don't overcommit to unsustainable cost obligations.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<p><b><i>You might strongly agree if...the government has adopted a formal policy on grants which directs that grants align with the government's strategic priorities and that directs the government to review the continued value of a program after grant funding ends in order to decide if it should continue to be funded using local revenues.</i></b></p> <p>[Please provide examples or a short description to explain your rating]</p>					

## Institutional Design Principle #8 - Networked enterprise

The problems faced by communities are often not solvable within the jurisdiction of a single local government. Local governments, therefore, need to work together to offer services at the scale and intensity needed to cost-effectively address the problems faced by communities. Institutional designs for this include:

- **Look for opportunities for intergovernmental collaboration.** Local governments must actively manage the intergovernmental relationships that are most crucial to financial health, including forging new and stronger relationships when it makes good financial sense.
- **Develop organizational structures that connect resources with the service providers that create the best value.** Local governments should develop structures that provide centralized leadership and coordination for issues that demand it, but also have decentralized features that allow for responsiveness and agility and for the movement of resources to where it will create the best value.

<i>How frequently do you observe the following behaviors?</i>	Never	Seldom	Occasionally	Often	Always
<b>Look for opportunities for intergovernmental collaboration</b>					
When we consider the problems we face, we look for opportunities where collaboration could be of great help in solving them.					
We are active participants in intergovernmental organizations that provide the platform for more in-depth collaboration.					
We nurture civic organizations so that they can serve as strong partners in helping to solve community problems.					
<b>Develop organizational structures that connect resources with the service providers that create best value</b>					
We deploy technology that allows for centralized coordination of useful data and easy and transparent access that allows decisions to be made locally.					
We clearly define our service goals so that we can judge where outside collaborators can help us achieve the goals.					
We accurately assess our own capabilities, so we know when we need help and when we don't.					
We accurately assess potential collaborators' capabilities to help us.					
We precisely define division of responsibility with collaborators.					
We monitor relationships with collaborators and adjust them when our goals aren't being met.					

## Summary Self-Assessment Questions

Rate how much you agree or disagree with each statement. You can use the detailed self-assessment to help you arrive at your answer.

A. We actively manage our relationships with other governments and key players in the private and non-profit sector in order to improve our financial sustainability.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...the government recognizes situations where collaboration with other organizations is necessary to solve public problems for an affordable cost; the government stays active in organizations that can facilitate collaborative arrangements.</i></b>					
[Please provide examples or a short description to explain your rating]					

B. We have developed structures that provide centralized leadership and coordination for issues that demand it, but also have decentralized features that allow for responsiveness and agility and for the movement of resources to where it will create the best value.					
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Don't Know
<b><i>You might strongly agree if...the government deploys technology that allows for centralized coordination of useful data and easy and transparent access that allows decisions to be made locally; the government has developed the skills of staff and the process and procedures that will help it work collaboratively with other organizations (e.g., specialized purchasing and contract management, etc.)</i></b>					
[Please provide examples or a short description to explain your rating]					

## Appendix 1 - Guidance for Using the FSI for a Group Conversation

The Financial Sustainability Index will be most effective when used to catalyze a group conversation about the extent to which your organization embodies the Leadership Strategies and Institutional Design Principles. This Appendix provides some guidelines about how you might structure such a conversation. We recommend following three basic stages: (1) Preparation; (2) Identifying and engaging the stakeholders; and (3) Holding the conversation. The stages and the steps within them are detailed below and summarized in box 1.

### Preparation

Efforts to plan strategically are more successful when the process leaders have a substantive command of the issues involved. Therefore, you should start by studying the document entitled “A Framework for Financial Sustainability,” which is the source material for the Financial Sustainability Index (FSI). Once you are comfortable with the materials, you should begin planning for the conversation. The first step of planning should focus on specifying the desired goals/outcomes of the conversation. For example, a common goal would be to collaboratively explore and reach a common understanding on where the government is doing well, or not so well, on embodying the practices outlined in the financial sustainability index, and prioritizing where the government should focus its efforts to improve. Another goal may be to develop ideas about how to improve government’s financial sustainability. With your goals in mind, you should then think through the steps necessary to achieve them. This will help you begin to prepare an initial agenda or outline of the conversation.

### Identifying and Engaging the Stakeholders

The next step is to identify the stakeholders you want to include in the conversation. At a minimum, you should include stakeholders from inside of the government

#### Box 1: Planning for a Group Conversation about the FSI

##### 1. Preparation

- Study the FSI to gain understanding of underlying concepts.
- Ask yourself: What are the desired goals/outcomes of this conversation and what steps do we need to take to reach those goals?

##### 2. Identifying and Engaging the Stakeholders

- Identify internal and external stakeholders.
- Reach out to each stakeholder with a personal invitation that explains why they should participate, how the conversation will be run, and what they are expected to do.
- Share the FSI and supporting materials with stakeholders.

##### 3. Holding the Conversation

- Convene the meeting.
- Open with a welcoming statement.
- Discuss one Leadership Strategy/Institutional Design Principle at a time (focus on its relative priority and how it can be better cultivated).
- Conclude each discussion with a summary of what was learned.
- Conclude the overall conversation.

who have an important role in financial decision-making, such as department heads and elected officials. Ideally, you will also include stakeholders from outside the organization, especially those that have an important influence on the organization's finances. Examples might include leaders of organized labor groups that represent public employees, influential citizen/civic groups, or representatives from influential overlapping jurisdictions. As you are preparing your list of stakeholders, think about the people who have the power or influence to help you achieve your goals—they should definitely be on the invitation list. Also think about those who have the ability to block you from achieving your goals. If their participation will reduce their ability or desire to block your goals, consider inviting them.

Next, you should reach out personally to each stakeholder to invite them to participate. Personal invitations are always more effective than generic invitations. The invitation should communicate to the stakeholders *why* they should join the conversation about financial sustainability, *how* the conversation will be run (including the role of the FSI), and *what* they will be expected to do. This means that you need a fairly well-formulated plan for the conversation before engaging stakeholders.

You should also share the FSI with the stakeholders, including access to all of its 14 Leadership Strategies and Institutional Design Principles. You may consider sharing existing organizational/government assessments for each area, as well as the “Framework for Financial Sustainability,” if such documents will be helpful to the conversation. Be careful not to overwhelm potential participants with too much information and too many reading materials.

### **Holding the Conversation**

Research shows that successful, constructive groups can make better decisions than individuals alone, and that conversations can energize the participants and build their commitment to the outcomes. However, to help ensure group success, you should be prepared for and aware of dysfunctional group behaviors, such as: domination by particularly talkative or loud individuals; the inclination of people to conform to the views of the majority or authoritative individuals (and, hence, not share potentially valuable or disconfirming information); and the possibility of group think, where members become overly confident in their ideas and decisions. A well planned process can help lessen the likelihood of these and other group dysfunctions. In addition, you should use ground rules to guide the conversation, and may consider using a neutral facilitator. You can learn more about dysfunctional group behavior and how to address it in [this article](#) from *Government Finance Review* magazine.<sup>4</sup>

We suggest avoiding the standard meeting format, where participants sit around a table and raise their hands to make a point (or just start talking). This meeting model often leads to dysfunctional group behavior: people come unprepared, conversations veer off-track, and the discussion feels like a waste of time. Instead, we recommend a different format that gives everyone an opportunity to think deeply about the issues and provide meaningful input. We describe this format below and provide more specific details in box 2. Of course, you can adjust

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<sup>4</sup> See: Shayne Kavanagh. “Team Work: Not All It Is Cracked Up to Be?” *Government Finance Review*. October 2015.

the format to meet your needs, but keep in mind that the format should be structured to help you achieve your goals for the conversation.

### **1. Convene Meeting**

The leaders should distribute an agenda and offer a short opening message, reminding participants why they are there, thanking them for their participation, and giving them an overview of how the meeting will proceed.

### **2. Discussion of Financial Sustainability**

The group should cover one Leadership Strategy (LS) or Institutional Design Principle (IDP) at a time. In most cases, it is probably not advisable to cover more than a handful of LS/IDPs in a single meeting, lest participants become exhausted. For each LS/IDP, the discussion should proceed in two phases. First, the group should focus on evaluating the extent to which the government is (or is not) in conformance with the LS or IDP they are reviewing. Evaluating all of the LS/IDPs will allow the participants to then determine which particular LS/IDPs are most important or ripe for the group's attention.

Second, the group should generate ideas about how to better cultivate the LS/IDP in the local context. In many cases, the previous step will highlight opportunities for government to improve how it exhibits the LS/IDP. Thus, the purpose of the second step is to give the group time to think about what the government might do to nurture and advance the LS/IDP in the local context. We describe a short process for generating ideas and narrowing them down in box 2. Explain to participants that the ideas generated during this step are not necessarily the final word—final decisions should not be made as part of this meeting. Appendix 2 provides a suggestion for making those decisions in another meeting. After each discussion of each LS/IDP, you should summarize what was learned, including overall scores and next steps.

### **3. Conclude the Conversation**

Every meeting should close with a concluding segment. You should take a few minutes to recap the discussions and remind people about (or present) the overall evaluation scores for each LS/IDP that was covered. You should also elucidate the next steps for the participants, such as when the next meeting is and what will happen to the ideas that were generated. For example, you might consider compiling the scores and ideas into a brief, informal progress report that will be given to participants and updated as the government completes discussions of subsequent LS/IDPs. We also recommend that you give the participants an opportunity for final reflection on the conversation, before thanking them for their participation and adjourning.

## Box 2: Specific Steps in the FSI Conversation

### 1. Convene Meeting

- Distribute an agenda and open with a statement that reminds participants why they are there, thanks them for their participation, and gives them an overview of how the meeting will proceed.
- Describe the rationale for the meeting structure. Most people will not have encountered the format suggested here. Describing the format and letting them know what to expect may help them feel more comfortable and willing to engage.

### 2. Discussion of Financial Sustainability

- Focus on one Leadership Strategy or Institutional Design Principle (LS/IDP) at a time. For each LS/IDP, the discussion should proceed in two phases:

#### (1) Decide on the Relative Priority of the LS/IDP

- Organize participants in groups of four (Try to balance group composition to account for diversity and power dynamics).
- Ask each participant to think silently for 2-3 minutes about how they would rate the self-assessment questions for a given LS/IDP and their rationale for their score. (*Note:* The score indicates the extent to which the organization exhibits the LS/IDP, and when compared to the scores for the other LS/IDPs, provides an indication of where the organization needs to focus its efforts to become more sustainable.) Be sure to firmly facilitate the silent reflection period (i.e., NO talking), because silent self-reflection plays a *critical* role in mitigating common group dysfunctions. If you'd like to learn more about importance of silent reflection, read [this article](#) from *Government Finance Review*.
- Ask participants to form pairs, and give them 2-3 minutes to share their scores and rationales for their answers and to make note of key similarities and differences. The purpose of talking in pairs is that it increases the odds that everyone will get engaged later in the conversation. Give participants a warning halfway through to ensure that both people have a chance to talk.
- Reconvene the group of four and give them 5-10 minutes to discuss their scores and rationales, again noting key similarities and differences. Ideally, the participants will have an open dialogue, but, if necessary, structure it to give each participant a set amount of time. Ask each group to “report back” to the room with general observations or thoughts from their conversations.
- Following the all-groups sharing segment, give each individual 1-2 minutes to silently rescore the FSI. Collect the final scores from each individual. If available, technology can be used to instantly tally and display scores to all participants. If technology is not available, you or an assistant can tally the scores by hand and report them at the end of the meeting.



## Box 2: (Continued)

### (2) Idea Generation about Cultivating the LS/IDP in the Local Context

- Explain that the purpose of this activity is to generate ideas about how the organization can improve its financial sustainability, but the ideas are not necessarily the final word. Final decisions should not be made at this meeting.
- Give each person a piece of paper and a pen. Ask participants to take 3 minutes to individually write down ideas for improving the score on the LS/IDP in question. When the time is up, give participants another 2 minutes to individually narrow their list to the best two or three ideas.
- Go around the room and have each person read aloud their best ideas, explaining briefly if necessary. There should be little or no discussion. Write the ideas on a flipchart or whiteboard. All ideas need to be visible for the next step, so use and hang multiple flipchart pages or leave ample space on the whiteboard.
- Give each participant two sticky dots, which represent their “votes.” Ask each person to put their dots next to the ideas they like best. They can use both dots on a single idea, or put them on different ideas. (If using a whiteboard, each person can state their votes and the scribe can draw dots.) The ideas with most dots are the “winners” and should be recorded for later use.
- Briefly discuss the results as a group, making note of important points or key issues.

### 3. Conclude the Conversation

- Recap the discussions. Remind participants about (or present) the overall scores for each LS/IDP that was covered and elucidate the next steps for the participants.
- Give participants time for final reflections. Ask them to silently consider for 1 minute one or more of the following questions:
  - What was most meaningful / valuable to you from this experience?
  - What learning, new understanding, or common ground was found?
  - Did this conversation change your perception about financial sustainability?
- After silent reflection, ask participants to find a partner and give the pairs 2 minutes to share their thoughts. This can be followed with optional share-outs to the entire group.
- Offer your own thoughts on these questions. Thank the participants for their time and effort, and adjourn the meeting.

## Appendix 2 – Goal Setting for Improving Financial Sustainability

Appendix 1 provided guidance for how to use the FSI to facilitate conversation about the relative need for the government to improve each of the Leadership Strategies and Institutional Design Principles, and for how to start generating some preliminary ideas for how to make that improvement. After the conversation contemplated in Appendix 1 is complete, the government should set specific goals for what it will do to improve is financial sustainability. The table below covers the elements of an effective goal. You can use the template to identify your goals. Because some Leadership Strategies or Institutional Design Principles will be of greater need than others in your organization, you may have more extensive goals in some areas than others.

<b>Name of Leadership Strategy / Institutional Design Principle:</b> [Insert name here]
<b>Top goals to improve this Leadership Strategy or Institutional Design Principle</b> <i>(Be specific enough that there is not too much room for interpretation as to what the goal actually is. We have provided three spaces, but it is fine to focus on a fewer number of goals.)</i>
<ol style="list-style-type: none"> <li>1.</li> <li>2.</li> <li>3.</li> </ol>
<b>Evidence the goal will produce the outcomes we want</b> <i>(Describe the reason why you believe that achieving each goal will help the organization become more financially sustainable.)</i>
<ol style="list-style-type: none"> <li>1.</li> <li>2.</li> <li>3.</li> </ol>
<b>Evidence that goal has been achieved</b> <i>(Describe how you will know that the goal has been accomplished.)</i>
<ol style="list-style-type: none"> <li>1.</li> <li>2.</li> <li>3.</li> </ol>
<b>Small wins we will target</b> <i>(Long-term goals are good, but small wins encourage stakeholders by showing that progress is possible. Identify things that can be done right away, on the way to your goal.)</i>
<ol style="list-style-type: none"> <li>1.</li> <li>2.</li> <li>3.</li> </ol>
<b>Schedule</b> <i>(Set a realistic schedule for the goals, given the relative priority of other goals.)</i>
<ol style="list-style-type: none"> <li>1.</li> <li>2.</li> <li>3.</li> </ol>