Increasing Trust and Financial Sustainability through TRANSPARENCY

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This article is part of an ongoing series about financial sustainability, based on GFOA's new financial sustainability framework. It is adapted from a whitepaper, available at gfoa.org. You can learn more about the framework at www.gfoa.org/financialsustainability.

The underlying reason for transparency is to help create trust amongst citizens, government administrators, and elected officials. When citizens trust in government, they will be more willing to pay taxes, participate in community governance, cooperate with government officials to solve community problems, and invest in the community.

This article focuses on how trust will produce financial sustainability for local governments, and how transparency is a means to obtaining this end. However, financial sustainability is not simply a matter of dollars and cents. A local government has three fundamental responsibilities that are essential to financial sustainability:[1]

- **Equitable Responsibility.** Each jurisdiction must provide basic services for maintaining the health, safety, and welfare of the community, regardless of an individual resident's capacity for payment.
- **Fair Pricing.** Each jurisdiction must ensure basic services are provided at prices that are fair to current and future residents.
- **Fiduciary Responsibility.** Each jurisdiction must ensure that current and future expenditures are justified by benefit-cost calculations and supported by reliable revenue streams. Hence, local governments must think carefully about how to clarify the relationship between the benefits received by stakeholders and the contributions they make to sustaining local government.

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EQUITABLE RESPONSIBILITY

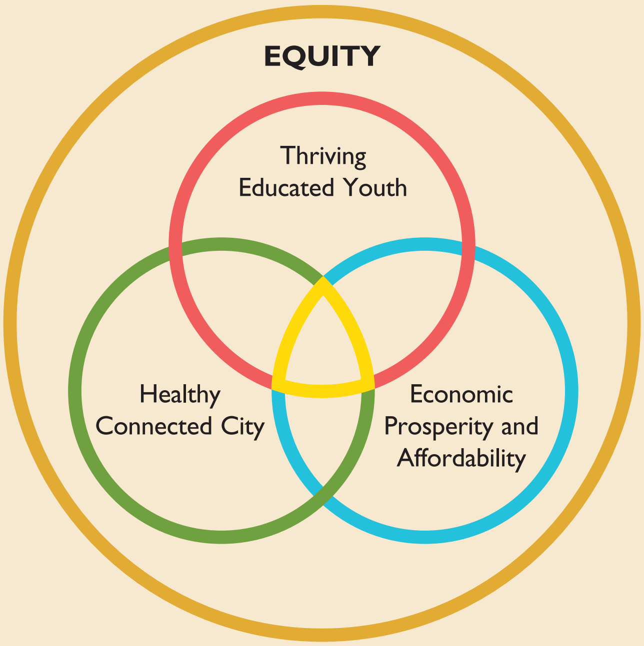
The responsibility to provide services that maintain the health, safety, and welfare of constituents may appear to be relatively straightforward, but the need to provide services equitably across stakeholders belies this apparent simplicity. This is because there are different ways to define "equitable." For example, under perfect equality, resources are equally distributed to all stakeholder groups. Another definition of "equitable" might provide services back to stakeholders proportionate to the amount they paid, while yet another might provide services in proportion to the individual need of the constituent. And different definitions might be appropriate for different services. For example, for a municipal water or sewer service, users' financial contributions are typically proportional to their use of the system. For many social services, the users do not pay taxes or fees in an amount sufficient to cover their costs — they are subsidized by other payers.

> *"All are equal, but some are more equal than others."*
>
> — GEORGE ORWELL,
> warning that governments that proclaim equality in fact give power and resources to a small elite.

Perceptions of equity have real implications for trust in government. If resources are perceived to be distributed inequitably — according to family background, personal connections, political affiliation, etc. — then trust in the institutions responsible for distributing those resources will decline.[2] If the standard of fairness is perceived to be reasonable and not unduly benefiting one group at the expense of another, this gives the impression that public officials care, and can be reasoned with and influenced.

A government should be clear about its definition of "equitable" and show how that value is implemented. For example, the City of Portland, Oregon, adopted equity as an overarching goal of its strategic plan (see Exhibit 1). From there, the council decided to focus on racial equity and equity for people with disabilities. The city adopted three specific equity goals, covering: 1) the representativeness of the city's workforce; 2) outreach and engagement of marginalized groups; and 3) elimination of inequities in service provision. Each city department developed a racial equity plan to show how these goals would be implemented. The plans were adopted by council resolution.

Exhibit 1: Portland's Strategies



To identify where services are being provided equitably (or not), Portland uses a series of performance measures broken down by geographies. Population information (e.g., race or disability) can be overlaid on the maps. For example, a map of pavement quality index shows that the east side of Portland, traditionally an underserved area, has some of the best-quality streets in the city. However, a map of traffic fatalities shows that this same area has a relatively large number of fatalities. Hence, a more equitable distribution of resources might not entail more street maintenance, but, instead, more investment in traffic control devices. Portland's maps and performance measures are available online. Some of the maps are interactive, allowing the public to pursue different lines of inquiry about equity.

Portland also has a "budget equity assessment tool" to help departments think through how their base budget and any requested additions (or subtractions) impacts equity. The effectiveness of this tool has improved over the years as departments get more acclimated and as the guidance from the city's Budget Office and Office of Equity and Human Rights has become more refined.

Taken together, the performance measures, maps, and budget equity assessment show the "equity" value can be discerned in the way the city allocates resources and the results produced by city services.

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EVIDENCE OF RELIABILITY

Moving on from communicating how equity is valued, transparency can support a government's civic responsibility in other ways. For example, one aspect of a government's perceived competence is its reliability: its ability to deal with uncertainty and provide services in a consistent and predictable manner.[3] A government can enact a variety of financial policies that are aimed at helping it prepare for, and respond to, uncertainty. For example, a publicly adopted "rainy day fund" policy that defines the amount of money the government will keep in reserve and the conditions under which it can be used could offer assurances of reliability. Such a policy could be even more powerful if the reserved amount is based on an explicit analysis of the risks a government faces and there is a means for outsiders to verify that the guidelines set forth by the policy are being followed. For example, some local governments have published an annual self-assessment of the extent to which they are in compliance with their financial policies.

Transparency initiatives can be used to support perceptions of competence. For example, a program called "Boston About Results" quantifies how well public employees are able to respond to service requests and reports the results on digital scorecards (boston.gov/finance/boston-about-results). These statistics range from number of home health-care visits to how much trash and graffiti is cleaned during a given period of time. Across these and other metrics, the scorecards compare actual performance to Boston's goals.

All the scorecards are available on the "Boston About Results" website, and are aggregated to a daily "CityScore." CityScore is easy to understand: A score less than 1.0 is below the city's goal, and higher than 1.0 is exceeding the goal. All the data that goes in to CityScore is presented on a daily to quarterly basis, which shows how the numbers are trending over time.

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To verify Boston's financial probity, citizens can explore the city's checkbook via a searchable "Open Expenditures" platform. The database aggregates all spending by department and over time, to help summarize data. Boston has won GFOA's Distinguished Budget Presentation award for its comprehensive annual financial report and budget, thereby providing citizens with other means by which to check the city's financial competence.

Finally, local governments might think about how open data could address the public's emotions and intuitions. For example, charitable organizations long ago realized that donors don't care for pie charts that show where donor money is allocated. They prefer stories and images that show how their money is making an impact on people. Because many taxpayers are, in effect, "donors" to public services, having access to these stories and images may help build taxpayers' trust that their money is being used well. School districts sometimes use this strategy when children who have benefited from an educational program are featured as part of descriptions of that program. There is likely potential for local governments to more systematically use similar techniques to build trust.

A CASE STUDY IN UNINTENDED CONSEQUENCES:
The Sherriff Who Purchased Too Many Avon Products

A county government put in place an online open checkbook to increase transparency. There was a subsequent uproar when the local media discovered that the Sheriff's department had spent a large amount of money on "Avon Products," which many people mistook for the cosmetics company. As it turned out, over the course of transporting prisoners out to the county jail in the countryside, the sheriff's bus would stop in a town called Avon to buy gas. The name of the gas station was Avon Products. While it is fortunate that the sheriff was not guilty of a cosmetics scandal, it is unfortunate the government's reputation was damaged when the truth of the matter did not spread as far as the alleged wrongdoing (even with a retraction issued by the media).

Story from the personal experiences of Jon Johnson of the Center for Priority-Based Budgeting.

FAIR PRICING

Fair pricing is about providing services at a reasonable cost to current and future residents. "Fair" is the key word. This is because whenever governments think about which services to provide and at what prices, there will be "winners" and "losers." According to the concept of procedural justice, the perceived fairness of the decision-making process is crucial to the acceptance of these decisions and, ultimately, trust in the institution.

Governments can a start by being transparent about the values behind the way prices are set. User fees provide a straightforward illustration. Some services seek to recover the full cost of providing the service through the fees charged to customers. For service such as utilities or building permits, there is an underlying belief that people who use the service should pay the full cost of producing it. For other types of services, the government might accept fees that don't cover the entire cost — which might be the case for an afterschool recreation program for at-risk youth. A user-fee policy adopted by the governing board can make these values transparent. The City of San Luis Obispo, in California, provides an illustration of such a policy. (The city's "User Fee Cost Recovery Goals" policy is available at gfoa.org.) The city's policy describes which services are expected to recover their full cost through user fees and which services will be partially subsidized through general tax dollars, and it describes the criteria used to reach this decision. For example, services that produce benefits for the entire community, rather than just for the person who uses the service, are eligible for a subsidy.

Setting fair tax rates is not as clear-cut as setting user fees, but local governments can still introduce transparency into how tax rates are set. For example, a government might recognize that a general community-wide tax supports a certain basic level of service, but segments of the community that want additional services should pay additional taxes. For instance, San Bernardino County, California, covers one of the largest geographic areas of any county in the United States. Snowfall is only a concern in mountainous parts of the county, where residents want more frequent snow removal — so San Bernardino County establishes special taxing districts in those areas to pay for the cost. Hence, there is direct connection established between what taxpayers pay and what they get, and "premium" snow removal in some parts of the county is not subsidized by taxpayers in other parts of the county. Further, taxpayers living in the districts must petition to form the districts and then vote them into existence, and they can vote to dissolve them at any time. Because these districts are not imposed, citizens feel they are fair.

Fiduciary responsibility is about providing good value to taxpayers and making sure that services are supported by reliable revenue streams in the future.

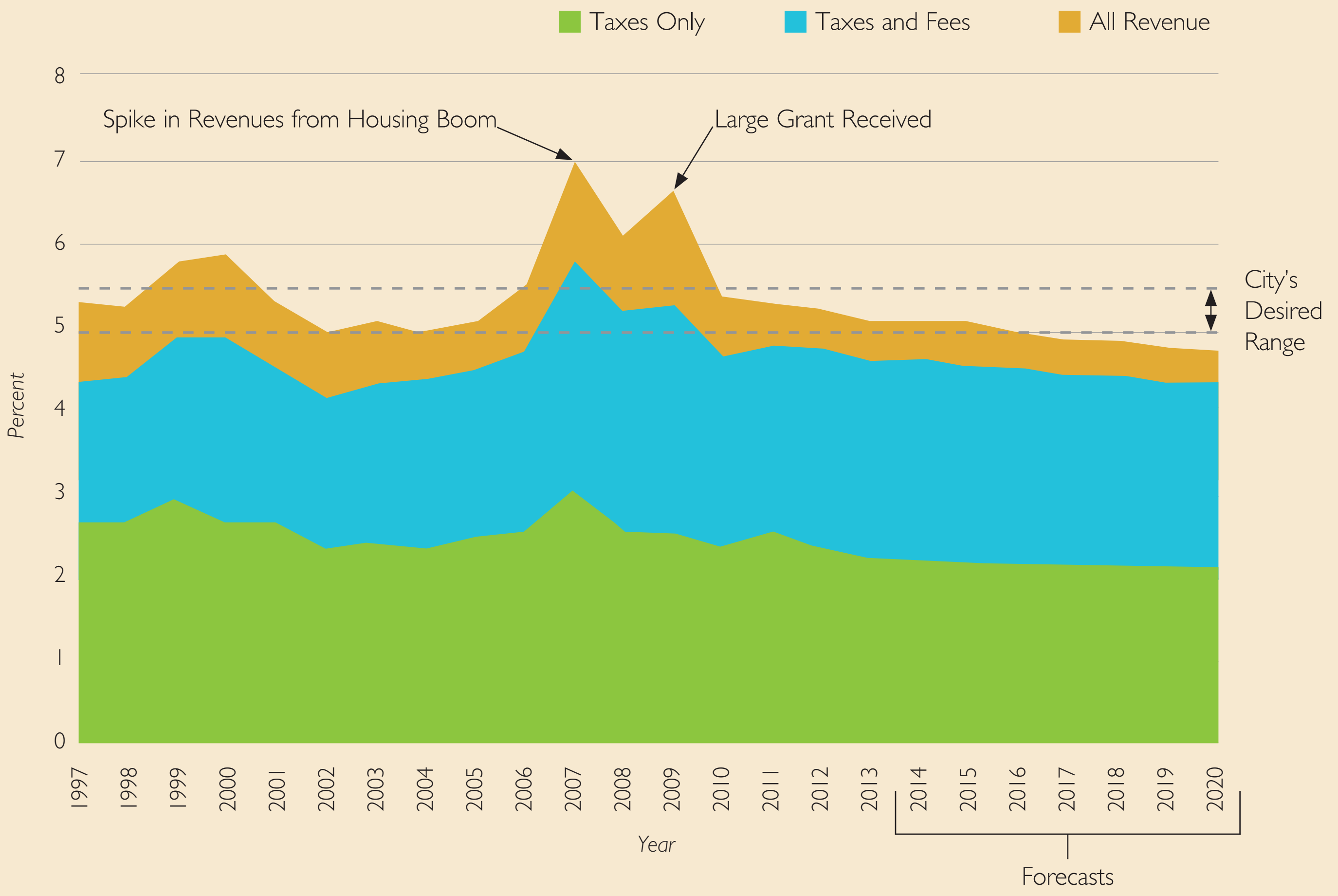
The City of Redmond, Washington, provides transparency on how the city sets tax rates with their "price of government" policy. The price of government compares the city's revenues with the total personal income of all Redmond residents,[4] which reveals how much of citizens' resources are being consumed by the city and also provides a good context in which the city council can discuss future tax rates.

Exhibit 2 shows historical trends in Redmond's price of government as well as the presumed effect of the forecasted revenue on the price of government. The chart contains three layers. The first is all the taxes the city receives, such as property, sales, utility, hotel, admission, etc. The second layer adds on user fees, including utility user fees, recreation fees, and development fees. The last layer reaches a total for the entire city by adding the city's remaining revenue sources, such as licensing charges, fines, interest income, and grants. The chart also shows Redmond's desired range for the price of government — 5 to 5.5 percent of personal income, as set by city council policy — and it shows the reasons for why the city has gone above that range. The range was arrived at through debate amongst the city council members about the minimum level of revenue necessary to provide the level of service that Redmond residents expect and the maximum level of financial burden that Redmond municipal government should place on its citizens.

Of course, citizens must receive sufficient benefit in return for any financial contribution they make for a price to be considered "fair." Open data that allows citizens to check governments' work has been the gold standard in transparency initiatives so far. For example, the Citizen-Centric Report from Syracuse City, Utah, compares revenues to expenditures and then shows the distribution of specific revenue sources and expenditure categories.

Governments might be able to do more to demonstrate value-for-money to citizens upfront, before they make a financial contribution. For instance, the City of Roanoke, Virginia, found itself short of funding for its schools in an anti-tax climate. In response, the city proposed a two percentage-point increase in its meal tax, the proceeds of which would go for public education. A key reason that the tax passed is because taxpayers could easily appreciate the connection between their contribution to the community's finances and the resulting benefit. There is a belief among government finance officers that tax measures that are connected to a specific purpose are more acceptable to citizens that those that aren't. Hence, governments may have the opportunity build trust with citizens for taxes and fees by showing a direct

Exhibit 2: City of Redmond Revenues as a Percentage of Total Personal Income of All the City's Citizens



The "price of government" demonstrates the tax burden the City of Redmond places on its citizens.

connection between the taxes/fees paid and the services/benefits produced.

Finally, inherent in the corporate responsibility is intergenerational equity, which is simply to say that today's budget should not be balanced on the backs of tomorrow's taxpayers. For example, if a government is accumulating debt or other unfunded liabilities at an unsustainable rate, then it should be reported and publicized among stakeholders (i.e., long-term forecasts should include long-term costs such as maintaining assets to a reasonable standard of quality).

FIDUCIARY RESPONSIBILITY

Fiduciary responsibility is about providing good value to taxpayers and making sure that services are supported by reliable revenue streams in the future. Again, articulating the values related to this responsibility is a good starting point. For example, the Town of Gilbert, Arizona, recognized the need to have reliable funding for infrastructure maintenance in order to maintain a high quality of life in the community. To that end, the city council adopted "long- and short-term balanced financial plans" and "proactively address infrastructure needs" as two of six strategic initiatives in 2011 — a clear signal that Gilbert takes its fiduciary responsibility seriously.

Integrity is essential to the public's perceptions of fiduciary responsibility. This is because concerns about public corruption and the capture of lawmaking and enforcement authority by moneyed interests are some of the most important forces working against public trust in government.[5] Public officials should demonstrate their integrity to citizens though measures like asset disclosure, conflict of interest management, and transparency in lobbying and political financing.[6] For example, a handful of cities across the United States share information about campaign financing with their citizens. An example is the City of Albuquerque, New Mexico, which shares campaign finance information through an online portal. Ideally, campaign finance data includes information from reports filed by candidates, political action committees, and other relevant groups. Where the money came from, who spent the money, how much was spent, and what the money went toward are important metrics for the campaign finance dataset.[7]

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There is, however, a limitation to these methods in that citizens must avail themselves of the records for these methods to have their full intended impact. Unfortunately, it is unlikely that large numbers of citizens will do so. Therefore, governments may need to recognize and take advantage of high-profile opportunities to demonstrate integrity. Large capital projects, for example, have the reputation for attracting mismanagement and corruption. The public is also likely to notice such projects, since they usually have a dominating physical presence. Local governments could make special efforts to demonstrate and publicize integrity around such projects, thereby piggybacking off the attention they naturally generate. For example, a special website for the project could highlight transparent and fair procurement and bid award procedures.

Finally, local governments can make long-term financial planning and cost-benefit analysis integral to decision making. This demonstrates that the fiduciary responsibility is a concern to decision makers and allows citizens to check governments' work. Financial policies and popular financial reports are two examples of this. Another approach would be publicizing long-term forecasts of the government's financial position, including transparent assumptions and underlying data. Ideally, such a model would be online and interactive, allowing users to adjust certain parameters. A user's ability to simulate scenarios has been shown to promote greater understanding and learning than static presentations.[8] A government could also obtain and publicize independent expert reviews of its financial analysis to improve credibility (e.g., the external audit that a government receives every year). Some state governments involve external reviewers in the revenue forecast to improve the forecast's credibility. Local governments could look for similar opportunities.

CONCLUSIONS

Citizens' trust in government is vital to the functioning of a democratic system. Transparency is one way in which governments can build trust. However, there are costs associated with transparency that range from time and money spent on transparency initiatives to less obvious concerns about unintended consequences, like misunderstandings about what data means and too much access for special interest groups. Thus, the future of government may not necessarily lie in more transparency, but rather in smarter transparency, which includes providing information on government performance with enough context for citizens to evaluate the quality of government's work.

Notes

1. Shayne Kavanagh, Mark Pisano, Shui Yan Tang, et al, "A Framework for a Financial Sustainability Index," Lincoln Institute of Land Policy, Working Paper WP17MP1, April 2017.
2. Eric D. Gould and Alexander Hijzen, "In Equality, We Trust, *Finance and Development*, a magazine of the International Monetary Fund, March 2017.
3. *Trust and Public Policy*, Organization for Economic Co-operation and Development, 2017.
4. Total personal income for the community is calculated by multiplying Redmond's per capita income from the U.S. Census Bureau's "American Community Survey" by the total population of Redmond. While this does not capture income from Redmond's commercial sector, the city finds it a useful proxy.
5. OECD.
6. Ibid.
7. *Municipal Campaign Finance Data Guidebook*, Sunlight Foundation.
8. Robin M. Hogarth and Emre Soyer, "Using Simulated Experience to Make Sense of Big Data," *Special Collection of MIT Sloan Management Review: Making Better Decisions*, Winter 2015.

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