LINKING TRANSPARENCY TO SUSTAINABILITY
STRATEGIES AND CASE STUDIES

BY SHAYNE KAVANAGH AND VINCENT REITANO

Trust produces financial sustainability for local governments, and 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 reaching financial sustainability:[1]

1. Equitable Treatment. Each jurisdiction must provide basic services for maintaining the health, safety, and welfare of the community, regardless of an individual resident's ability to pay.

2. Fair Pricing. Each jurisdiction must provide basic services at prices that are fair to current and future residents.

3. Fiduciary Responsibility. Each jurisdiction must ensure that current and future expenditures are justified by benefit-cost calculations and supported by reliable revenue streams. Local governments must think carefully about how to clarify the relationship between the benefits stakeholders receive and the contributions they make to sustaining local government.

This article will describe transparency tactics that support each of these responsibilities of government.

EQUITABLE TREATMENT

The responsibility of providing services to maintain the health, safety, and welfare of constituents may seem relatively straightforward, but it is complicated by the need to provide services equitably. This is because what is considered equitable can vary, depending on the beholder. For example, under perfect equality, resources would be equally distributed to all stakeholder groups. Another reading of what's equitable might be providing services to stakeholders in proportion to the amount they paid, while yet another might be to provide services in proportion to the individual need of the constituent. Different understandings of what is equitable might be appropriate for different services. For example, users of municipal water or sewer services typically make financial contributions that are proportional to their use of the system. But the users of many social services do not pay taxes or fees that cover their costs — they are subsidized by other payers.

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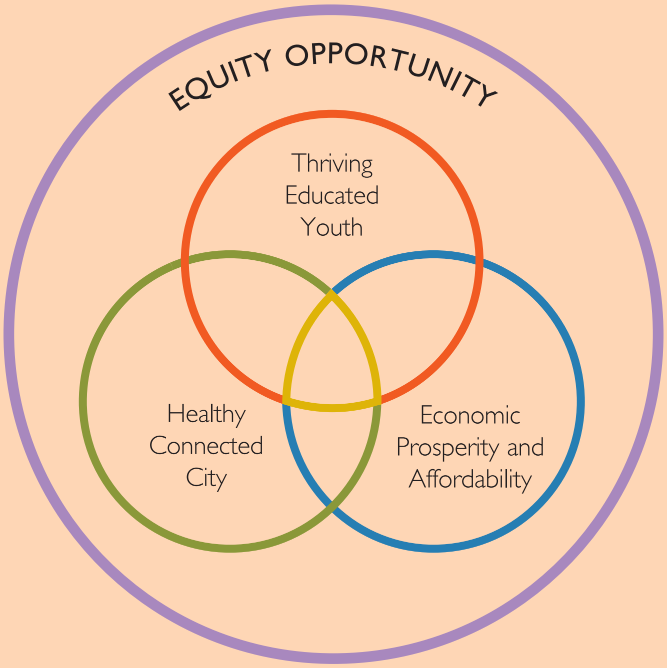
Trust in government is strongly affected by perceptions of equity. If stakeholders perceive that resources are distributed inequitably (e.g., according to family background, personal connections, or political affiliation), then trust in the institutions responsible for distributing those resources will decline.[2] If the public perceives the standard of fairness as reasonable and to not unduly benefiting one group at the expense of another, they will have 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 city 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

Exhibit 1: Portland's Strategies



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.

To identify the extent to which services are provided equitably, Portland uses a series of performance measures broken down geographically. Demographic information (e.g., race or disability) is overlaid on maps of the city. 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 (see Exhibit 2). However, a map of traffic fatalities shows that this same area has a relatively large number of fatalities (see Exhibit 3). So in this case, a more equitable distribution of resources might require more investment in traffic control devices than additional street maintenance. Portland's maps and performance measures are available online at portlandoregon.gov, and some are interactive, allowing the public to pursue their own lines of inquiry about equity.

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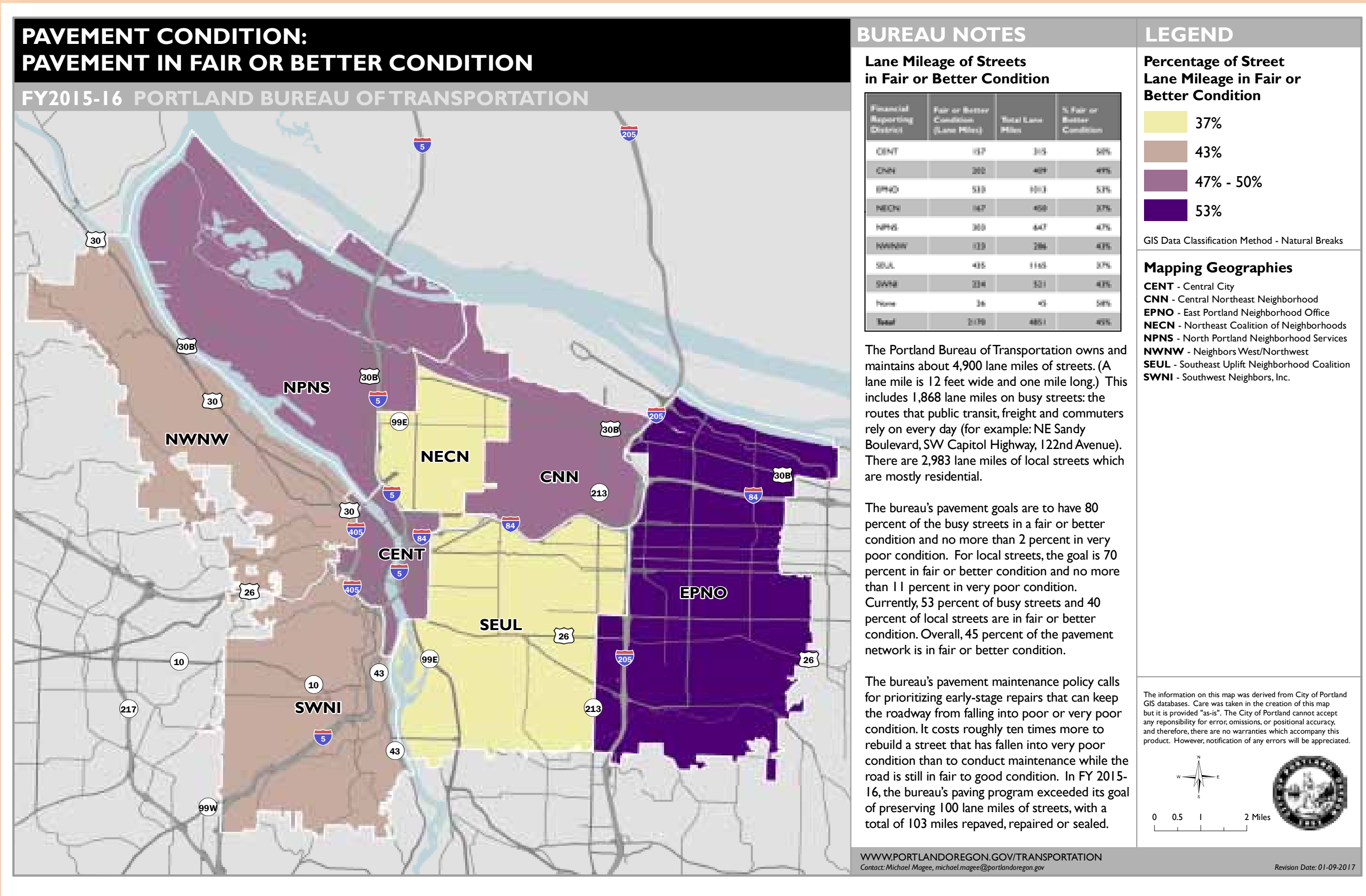
Portland also has a budget equity assessment tool to help departments think through the ways their base budget and any requested additions (or subtractions) will affect equity. The effectiveness of this tool has improved over the years

Exhibit 2: Map of Pavement Quality



as departments become more acclimated to it and as the guidance from the city's Budget Office and Office of Equity and Human Rights has become more refined.

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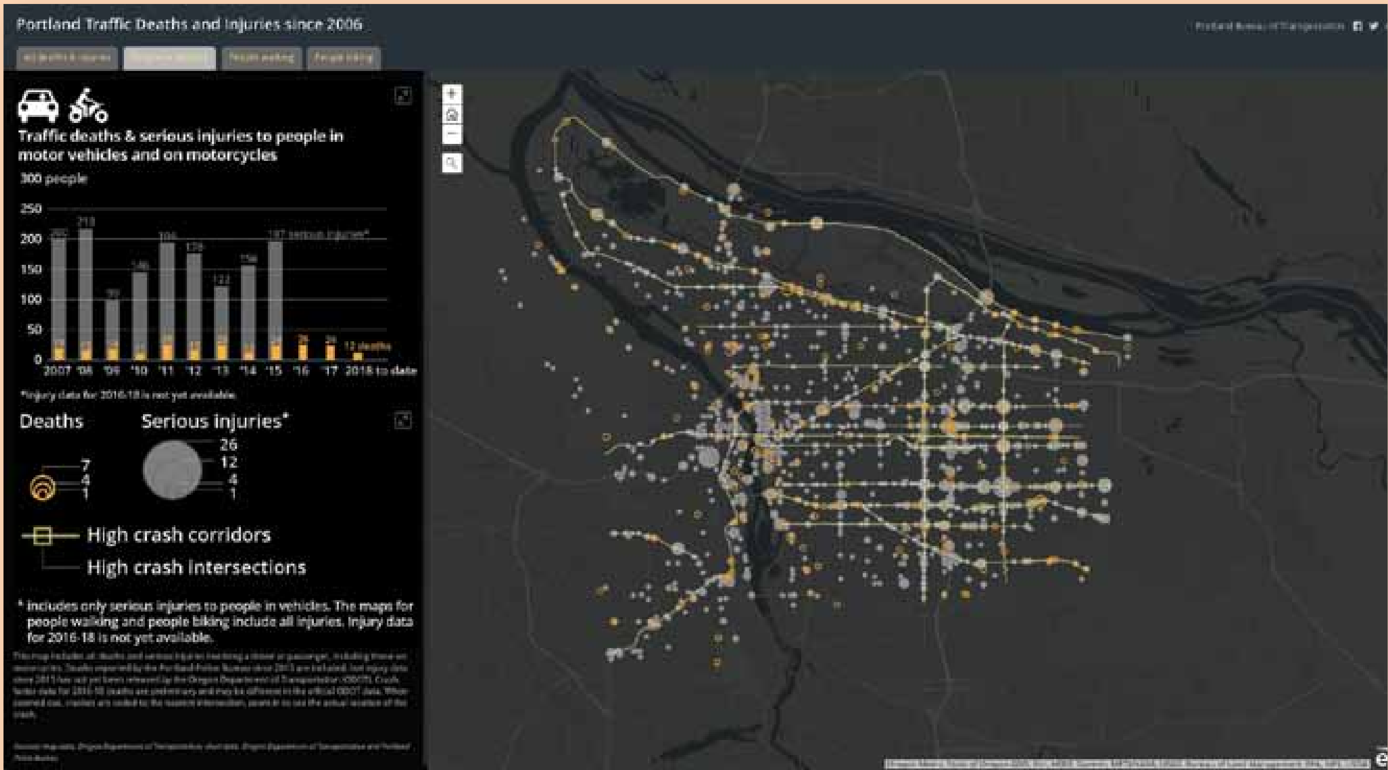
Transparency can support a government's civic responsibility in ways other than communicating how equity is valued. For example, one aspect of a government's perceived competence is its reliability — its ability to deal with uncertainty and provide services in a consistent and predictable manner.[3] A government can enact financial policies that prepare it for uncertainty. For example, a rainy day fund policy, which 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. It would be even better if there is a way 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 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.[4] These statistics range from the number of home health-care visits to how much trash and graffiti is cleaned

Exhibit 3: Map of Traffic Fatalities in Portland



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 (at Boston.gov), and are aggregated to a daily CityScore. CityScore is easy to understand: A score of less than 1.0 is less than the city's goal, and more than 1.0 exceeds the goal. All the data that goes into 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 the GFOA Distinguished Budget Presentation award for its comprehensive annual financial report and budget, thereby providing citizens with other means by which check the city's financial competence.

FAIR PRICING

Fair pricing is about providing services at a reasonable cost to current and future residents. "Fair" is the key word. Whenever governments think about which services to provide and at what prices, there will be "winners" and "losers" in the decisions that are made. 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 with transparency surrounding the values behind the way it sets prices. A straightforward illustration is user fees. Some services seek to recover the full cost of providing the service through the fees charged to customers. For these services, such as utilities or building permits, there is an underlying belief that people who use services should pay the full cost of producing them. For other types of services, the government might accept fees that don't cover the entire cost of the service — an afterschool recreation program for at-risk youth, for instance. A user-fee policy adopted by the governing board can make these values transparent. An illustration of such a policy is available at GFOA's website (at gfoa.org/FinancialPoliciesDoc.pdf).[5] The 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. The policy 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 not a concern in much of the county, but it is in the mountainous areas. Residents in some of these areas want more frequent snow removal, so the county establishes special taxing districts in those areas to pay for the cost. There is direct connection 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, 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.

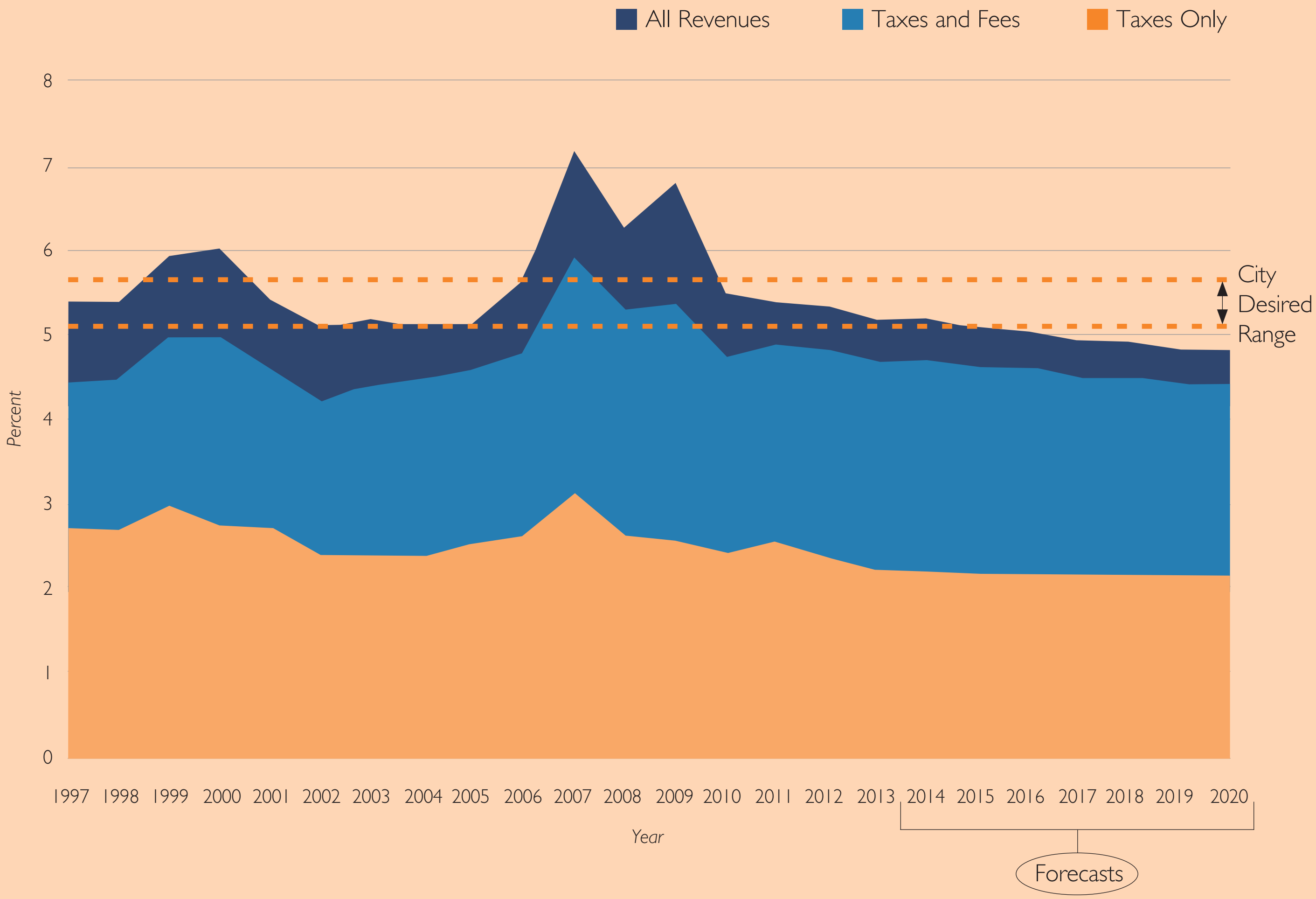
The City of Redmond, Washington, provides transparency around the way the city sets tax rates with their "price of government" policy. The price of government compares the city's revenues with the total personal income of all Redmond residents.[6] This reveals how much of citizens' resources are being consumed by the city and provides a good context for the city council to discuss future tax rates. Exhibit 4 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 (e.g., property, sales, utility, hotel, admission). The second layer adds on user fees (e.g., 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 (e.g., licensing charges, fines, interest income, and grants). The chart also shows the City of Redmond's desired range for the price of government: 5 to 5.5 percent of personal income, as set by city council policy. And if the city has gone above that range, it shows the reasons why. The range was arrived at by debate among 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.

> Portland also has a budget equity assessment tool to help departments think through the ways their base budget and any requested additions (or subtractions) will affect equity.

Of course, citizens must receive sufficient benefit in return for any financial contribution they make for a price to be considered fair. Providing open data and allowing citizens to check the government's work has been the

Exhibit 4: Historical Trends in Redmond's Price of Government and the Effect of the Forecasted Revenue

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



primary transparency initiative seeking to address this 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.[7]

Fair pricing is about providing services at a reasonable cost to current and future residents. "Fair" is the key word.

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 the city's meal tax, the proceeds of which would go for public education. A key reason the tax passed is because taxpayers could easily appreciate the connection between their contribution to the community's finances and the resulting benefit. Tax measures that are connected to a specific purpose are thought to be more acceptable to citizens that those that aren't — so governments might have the opportunity to build trust with citizens for taxes and fees by showing a direct connection between the taxes/fees paid and the services/benefits produced.

Finally, there 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, this should be reported and publicized among stakeholders. Long-term forecasts should include long-term costs (e.g., 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. For example, the Town of Gilbert, Arizona, recognized the need for reliable infrastructure maintenance funding in order to maintain a high quality of life in the community. To that end, the town included "long- and short-term balanced financial plans" and "proactively address infrastructure needs" as two of only six strategic initiatives adopted by its council in 2011, clearly signaling that Gilbert takes its fiduciary responsibility seriously.

Integrity is essential to the public's perceptions of fiduciary responsibility. 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.[8] Public officials should demonstrate their integrity to citizens though measures like asset disclosure, conflict of interest management, and transparency in lobbying and political financing.[9] For example, a handful of cities across the United States share information about campaign financing with their citizens. For example, the City of Albuquerque, New Mexico, shares campaign finance information through an online portal. Ideally, campaign finance data include information from reports filed by candidates, political action committees, and other relevant groups. Important metrics for the campaign finance dataset include where the money came from, who spent the money, how much was spent, and what the money went toward.[10]

Citizens have to make the effort of looking at the records, though, which limits their effectiveness. 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 tends to notice such projects because they usually have a dominating physical presence. Local governments could make special efforts to demonstrate and publicize their integrity around such projects, 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.

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Finally, local governments can make long-term financial planning and cost-benefit analysis integral to decision making. This demonstrates that fiduciary responsibility is a concern for decision makers, and it allows citizens to check the government's work. Examples include financial policies and popular financial reports. 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. Making it possible for a user to simulate different scenarios has been shown to promote greater understanding and learning than static presentations.[11] A government could also obtain and publicize independent expert reviews of its financial analysis to improve credibility. The external audit that a government receives every year is a leading example of this. 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 and, over time, foster financial sustainability. However, "transparency" does not mean simply making financial data available to those who have an interest in it. In fact, psychological research suggests that people do not rely solely or even primarily on logic and reason to form judgments such as trust, so governments must go beyond open and accessible data strategies in order to build it.

For example, the City of Fort Collins, Colorado, has fostered trust through transparency initiatives such as "Citizens Financial Report," which details major aspects of financial statistics and decisions. The report links financial inputs (taxes) to outputs (public services), which helps build trust that the government is using taxpayers' money for the good of the community.[12] Further, e-mail records are available, allowing citizens to see conversations between the public and the council.[13] Another digital measure to foster trust through transparency is the use of social media, in which people interact directly with government employees and fellow community members.

With these and other innovations aimed at trust and transparency, Fort Collins has become more sustainable and is able to pursue policies with and for the public, rather than behind closed doors and without public knowledge. In fact, the city has worked with local university students to engage citizens with facts and public engagement designs that can help them make decisions for the better of the whole community.[14] Without a culture of trust and transparency, Fort

Collins would be unable to do this, and it would face resource allocation concerns typical of a community that is not sustainable.

Of course, there are costs associated with transparency. These range from time and money spent on transparency initiatives to less obvious concerns about unintended consequences, like misunderstandings about what data mean and giving too much access to special interest groups. The benefits, however, can yield a government that has the trust of citizens and can therefore better serve collective interests.

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

Overall, transparency needs to be carefully constructed. With this in mind, the future of government may not necessarily lie in more transparency, but rather in smarter transparency that: 1) Shows that the values government operates by are the same core values held by its citizens; 2) Demonstrates that government officials care about citizens' well-being and acting fairly; and 3) Provides 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*, March 2017.
3. *Trust and Public Policy*, Organization for Economic Cooperation and Development, 2017.
4. Boston About Results, City of Boston (boston.gov/finance/boston-about-results).
5. The User Fee Cost Recovery Goals policy is available at GFOA's website (gfoa.org/financialpolicies).
6. 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 still finds it a useful proxy.
7. "A Report to Our Citizens," 2014-2015, Syracuse City, Utah.
8. *Trust and Public Policy*.
9. Ibid.
10. "Municipal Campaign Finance Data Guidebook," Sunlight Foundation.
11. 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.
12. For example, see "Trailblazing Transparency: Citizens' Financial Report, 2015," City of Fort Collins, Colorado (fcgov.com/finance/pdf/pafr-2015.pdf).
13. For additional information, see the City of Fort Collins website (fcgov.com/council/email-transparency.php).
14. See Aaron Leavy, "Fort Collins, Colorado: An Expectation of Public Engagement," *National Civic Review*, Spring 2016.

SHAYNE KAVANAGH is GFOA's senior manager of research. **VINCENT REITANO** is Assistant Professor of Public Administration at Western Michigan University.