

# Key Findings on Fiscal Sustainability for Local Governments in Southern California

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A three-year research collaboration of the Sol Price School of Public Policy at the University of Southern California (USC), National Civic League (NCL), and the University of San Francisco (USF) concluded in early 2014. The project achieved three primary objectives: (1) To conduct original research for twelve in-depth case studies on leadership practice and strategy of Southern California local governments in adapting to fiscal challenges and related changes in social, economic, and cultural environments; (2) to develop key findings that can be used in developing new models for Southern California local governments; and (3) to widely distribute the cases and findings through publications, forums, and presentations to elected and appointed officials, public sector associations, public administration students and educators, and community leaders and advocates of public engagement.

The case studies focused on the following twelve jurisdictions in Southern California: City of San Bernardino, San Bernardino County, City of Los Angeles, Los Angeles County, City of Long Beach, City of Riverside, City of Pasadena, City of Santa Ana, City of Brea, City of South Gate, Whittier Union High School District, and El Rancho Unified School District. These cases were selected by surveying and querying members of associations of governments and applying screening criteria to their responses.

The findings were identified empirically by researchers at the NCL, the USC, and the USF. The research team investigated and analyzed the ways in which government leaders have developed strategies to adapt to the changing fiscal, social, economic, and cultural environment. An innovative feature of the project was that each year researchers engaged expert panels of practitioners and academics to review and discuss the draft cases to sharpen the

findings and make them more useful so public managers learn from the long-term strategies and structural innovations discovered in the research.

Another significant feature of the project was the dissemination of the findings in presentations and publications over the past three years to elected officials, career public managers, civic leaders, public finance professionals, and academic researchers. These engagements have been in the Southern California region, statewide, and nationally, including but not limited to the following:

- *Cities*. Follow-up advisory work with the City of Los Angeles and City of San Bernardino has developed with senior officials in those jurisdictions
- *Regionally*. Three annual forums of city and county executives, elected officials, and researchers convened at USC with the USC Bedrosian Center for Governance and the American Society of Public Administration (ASPA).
- *Statewide*. Presentations at the State Capitol building hosted by USC and the ASPA, and work with the multiple foundation-funded *California Forward*.
- *Nationally*. Publication in the *National Civic Review*, *Public Administration Review*, *Government Finance Officers Review*, and at national conferences of the National Academy of Public Administration, Government Finance Officers Association, ASPA, and a network of academic researchers, including Arizona State University, George Mason University, University of Washington, University of Illinois, Federal Reserve, U.S. General Accountability (GAO) Office, USF, and USC.

The researchers employed the institutional analysis framework developed by Elinor Ostrom and applied

research on civic infrastructure and public engagement strategies developed by the NCL to explore how leaders and the public have adapted to long-term structural changes in the economic and institutional environments since the passage of Proposition 13 and the Great Recession in 2008. Each of the case studies has been or is on track to be published in the quarterly journal *National Civic Review*.

The researchers also considered whether the current fiscal pressure is the temporary result of the Great Recession or the manifestation of broader social, economic, and demographic forces with long-standing implications that leaders will need to confront. As a result of this research, we know that fiscal sustainability has become a major challenge for all levels of government in the United States. As forecasted by the US GAO in 2013, the state and local government sector is facing operating deficits that will only grow over time and last for decades. Reduced tax revenues resulting from demographic changes will also create budgetary stresses for governments at all levels that will continue for the next two decades, based on analysis by the US GAO in 2013.

The key findings are provided in summary next and in greater detail within this report:

- Effective leaders prepare for the future and possible economic downturns.
- Fiscal fluency is an essential leadership expertise.
- Structure and collaboration matter in sustainable decision making.
- Partnerships advance fiscal sustainability.
- Strategy matters.
- Fiscal sustainability rules extend beyond the budgetary process.

The research has deepened our understanding of (1) the structural causes and consequences of the current fiscal challenge and (2) leadership strategies for overcoming some of the structural constraints. The research findings have been (and will continue to be) shared regionally and nationally with leaders in local government, statewide associations, and others through conferences, panels, and a range of publications and networks. Fiscal stress will significantly impact public management at the federal, state, and local levels of government. Confronting these fiscal sustainability challenges requires public managers to coordinate efforts among multiple

actors in the intergovernmental process both inside and outside government and to refashion institutions, budgetary processes, and core assumptions about funding and delivering local public services. As evidenced by a number of highly visible municipal bankruptcy cases in the recent past, public managers around the country may face the prospect of chronic fiscal imbalance and the impacts of near bankruptcy in the future. The key findings of this research will provide public managers with a deeper understanding of practical steps to address the complexities of the processes and mechanisms by which local stakeholders may gradually overcome collective-action obstacles to fiscal sustainability. This research is an important addition to the national dialogue on government practices and policies regarding long-term fiscal sustainability and the changing nature of the role of government in the provision of services to its residents.

### Key Findings

The research over the past three years has developed a set of findings from twelve case studies. These findings are presented in six sets of propositions. A key feature of these propositions is that they are part of an interrelated set of actions and practices deemed by the researchers to be necessary but not individually sufficient conditions for fiscal sustainability. Each set of propositions is illustrated by several relevant cases covered in the research project.

#### 1. Effective Leaders Prepare for the Future and Possible Economic Downturns

The economic environment alone does not determine local government fiscal outcomes; administrative and elected officials can work together in advance of crisis to develop the capacity over time to address the unpredictability and instability of economic conditions and long-term changes in social and demographic changes. Decisions made prior to the Great Recession of 2008 and in response to the economic downturn from 2008 to the time of the case studies shaped the fiscal sustainability of the cities, districts, and counties.

Not surprisingly, the cases found fiscal sustainability driven by budget-related decisions. However, the quality of the budgetary decision making directly reflected understanding of the long-term impacts on jurisdictions, including pension costs, economic impacts on revenues, and demographics.

The issues related to demographic changes cut across budget revenues and expenditures. Demographics created three major effects on our cases dating back to Proposition 13. The emergence of the baby boomers had increased the working-age population for decades who earned more income, creating an economic surplus for local governments between 1980 and 2006 by generating higher tax revenues than expected. Budget policy assumptions in most local jurisdictions were based on these higher growth assumptions. As the baby boomers age, the population has begun to generate less taxes, invalidating the past assumptions of growth in revenues and creating fiscal pressure on budgets starting in 2006. Finally, the growing number of retirees will increase pension and health costs in the decades to come. Public jurisdictions at all levels of government will experience fiscal stress for decades unless leadership practices change.

Jurisdictions that prepared for these challenges early on are better able to weather these fiscal challenges by adjusting expenditures based on realistic revenue projections. Among them, the County of Los Angeles is an exemplary case. Being the largest and most complex governmental unit in the region and the state, the County of Los Angeles made fiscal decisions immediately after the passage of Proposition 13, enabling it to withstand two devastating economic cycles that eroded the county's job base and significantly increased the population living in poverty. Recognizing that the political climate of the voters had crossed a political threshold with the passage of Proposition 13, county officials changed their decision-making culture to include only longer-term, identifiable resources in their general fund budget and to develop strategies and partnerships to meet perceived needs. The underlying calculus in the county's decision making was to think and act on the long term. Insecure funding, including federal and state grants, went to partners and was not embedded into the long-run budgetary assumptions. Lack of term limits created long-term thinking on a politically diverse board.

Officials in Long Beach, the second largest city in Los Angeles County, recognized the long-term fiscal bind they were facing as early as 2002, when they held a comprehensive strategic planning process to address the city's structural deficit. The result was a three-year strategic plan, based on the

priorities identified by the public and an appointed citizen budget committee. Those priorities included cutting managerial and administrative staffing. After 2006, a new mayor with management experience in the energy sector used the bully pulpit and enhanced powers (thanks to a charter amendment) to advocate pension reform and a more conservative approach to the city's oil revenue projections, among other more sustainable policies. These more fiscally prudent policies were supported by the council majority despite the political temptations for district-based representatives to cater to powerful constituencies. Long Beach's relative success was in spite of transitional leadership in upper management positions, including the tragic death of the chief budget officer at the height of the crisis. Structural balance was achieved by 2012.

Whittier Union High School District (WUHSD) has been relatively successful in weathering fiscal challenges in recent years. A Budget Review Committee has long established itself as a focal point for discussing and reviewing all budget proposals to ensure saving and effectiveness of the budgets. To fund facility improvements, two bond measures were passed by the voters; without a high level of trust in school leadership, these bond measures would not have passed. Budget proposals offer options for reductions, which show flexibility and critical thinking of all possible scenarios. High reserves (more than the 3 percent required by the state) allowed the district to weather the financial crisis. Good relationships with employees allowed for transparency about budget issues so everyone could see the necessity of a high reserve. Increased efficiencies, together with agreement with employee associations on salary freezes and expense reductions from early retirement, allowed the school district to avoid layoffs. In its budgeting and fiscal scenario development, WUHSD gathers information from a variety of sources, including the enrollment levels of its feeder schools. Five years ago, declining enrollments led to the development of a declining enrollment reserve.

Pasadena had a history of cautious fiscal policies and had amassed a healthy reserve fund to ease the hardship of budget cuts that were necessary during the Great Recession. The city manager and finance director developed a successful five-year plan to eliminate the structural deficit. Cuts to departments and services, such as library hours, were severe but not

as stringent as they would have been without the reserve fund and the ability to make transfers from the city's water and power utility.

The City of San Bernardino declared bankruptcy in 2013. Key elected officials have divergent interests and time horizons, the mayor and council members have term limits, but the elected city attorney has unlimited terms established through the city charter; they mistrust and are unwilling to communicate with each other. Public safety officers have strong unions that are politically active and use the charter as their vehicle to influence fiscal allocations. Their salaries and retirement benefits are guaranteed and set through a process established by a charter provision enacted by the voters, which makes them less willing to work with other stakeholders to address budgetary shortfalls. There was a lack of civic infrastructure to mobilize moderating force against the predominant influence of the public safety unions and some entrenched elected officials. These political actors not only did not prepare for future downturns, they used their political influence to adversely affect the city during the height of the Great Recession, leading to the city's bankruptcy.

Santa Ana also faced a near-bankruptcy situation. Though the city's overall spending on nonpublic safety services was lower than the statewide average, spending on police and fire was higher. The political dynamic of judging government success by positive results in public safety functions had to be balanced with an ethic of fiscal sustainability. By sacrificing local control of the fire department, the city avoided an immediate fiscal crisis. There are signs that a change in upper appointed management and improved city council leadership has resulted in a more realistic approach to fiscal governance.

South Gate's ability to navigate the financial crisis of 2008 was disadvantaged by a political crisis in the early 2000s, when a corrupt elected official (the city treasurer) assumed unusual control over the municipal government abetted by a loyal majority on the city council. Traditional standards of professionalism, accountability, and management were abandoned, and millions of public dollars were squandered. Though a successful community-based movement was able to oust the corrupt regime, a discontinuity of leadership (both elected and

appointed) and the need to rebuild the police department and reestablish community trust put the city in a disadvantageous position compared to some other localities in developing realistic strategies to address the fiscal crisis of 2008.

In the County of San Bernardino, a new majority of the board provided the leadership leading to structural and cultural changes in the face of the severe fiscal challenges made evident by the Great Recession. The hiring of a reputable chief executive officer, with a five-year secure employment contract, helped to put in place a new budgetary process, which emphasizes transparency, broad-based consultation with stakeholders, and a long-term perspective in revenue and expenditure projections. This long-term perspective marked an important transition from a recent past characterized by a focus on each supervisor district separately and a public image marred by a political corruption court case.

## **2. Fiscal Fluency Is an Essential Leadership Expertise**

Elected and appointed officials need to share fiscal fluency, leveraging professional knowledge provided by professional staff in both financial and subject matters. Our case study findings and our peer-review group raised serious concern that fiscal fluency at both elected and appointed levels was declining.

Understanding all capital, operations, and maintenance costs projected over time is essential. Equally important is an understanding of revenue stream projections. Elected and appointed officials must have a shared understanding of both long-term costs and revenues in order to develop strategies for attaining fiscal sustainability. Demographic changes need to be reflected in these forecasts.

In Los Angeles County, a major change after the passage of Proposition 13 was to make decisions on this basis, but even in this fiscally conservative jurisdiction, this plan was not rigorously adhered to over time. Health care costs ballooned, creating a fiscal crisis that caused the board of supervisors and the staff to become fully knowledgeable in all aspects of the budget and make the necessary adjustments to avoid fiscal disaster. This crisis in the county demonstrated that maintaining fiscal fluency is a constant work in progress and requires continuous attention. With a budget over \$22 billion, the

County of Los Angeles developed career financial staff whose expertise increased over decades, giving that county's leaders strong, professional analysis of budget, pension, and capital costs as well as leveraging through expert knowledge in negotiations for federal and state funding of health and other large-scale programs. The existence of capable and centralized finance staff that focused on a transparent flow of information clearly communicated to the elected officials in this extremely complicated and large organizational unit has created a culture of fiscal fluency that continuous up to today.

San Bernardino County did not even have an integrated database that would enable this analysis, which was rectified only when it faced a fiscal crisis. Creating an integrated database was the first step the new executive undertook. The City of Brea performed this analysis, set up reserve schedules to cover operations and maintenance expenditures, but even this jurisdiction relies on pension schedules calculated by the state pool, which could leave the city vulnerable to future shortfalls. The City of Los Angeles was advised years ago that it was operating on an annual 3 percent increase in the revenue stream with an estimated 4 percent annual increase in the expenditure stream that will continue far into the future. The city reduced the capacity of the central finance unit and upset the balance of involvement between the council and the mayor under the guise of charter reform, which reduced the council's capacity to fully understand the fiscal stress building up in the city and created a crisis when the Great Recession hit. Brea's city manager initiated a bottom-up strategic planning process in 2008, asking employees from all levels to attend a series of meetings on budget solutions. Meeting once a week for over a year, the "learner practitioners" underwent an extensive education process in which each of the departments presented detailed information on their workings. This gave all participants a more comprehensive understanding of the fiscal realities facing each of the city's departments. Participants were asked to take findings from public input on priorities to develop four tiers for cutting the various departments. The tiers represented various degrees of severity in terms of how the cuts would affect service delivery. The participants' willingness to consider significant cuts in their own departments after this exercise suggests the success of the city manager's bottom-up strategy.

Santa Ana's elected officials professed to be caught unaware by the severity of the financial crisis in 2011 when the city had exhausted its reserve fund. The former city manager was described as an old-school public manager who viewed the fiscal crisis as his problem to solve. Although the former manager had warned of difficult fiscal challenges in a budget message to the council, whether the extent or immediacy of the problem was clearly communicated or openly discussed is not clear. Since the former city manager retired, top management has encouraged more open and equitable lines of communications between department heads and the council, leading to a more informed and realistic conversation on fiscal policies.

In the City of Riverside, the practice of posting the city's finances for the past ten years to the Web site, a high level of trust in the city's long-term budget experts and officials, and an expectation to continue award-winning budgets all contributed to high fiscal fluency.

Fiscal fluency cannot be determined just by looking at annual fiscal statements; it must be supported by a culture of continuous leadership, training, and oversight. Without fiscal fluency, the use of existing resources cannot be optimal. Resources will be "taken" from future generations if local governments are deferring costs to future periods and entering into future obligations, such as pension costs, without future revenues.

### **3. Structure and Collaboration Matter in Sustainable Decision Making**

Sustainable fiscal decisions do not happen by accident. Elected officials and senior appointed staffs do not need to have identical interests, but their willingness to work with each other is a critical precondition for success. Reputable and professional chief executives play an important role in leading and maintaining a budgetary process that takes into account a broad range of interests in the entire community from a long-term perspective. To be successful, executives have to be empowered by elected officials to present the realities of the fiscal condition of the jurisdiction, both short and long term, regardless of the political consequences. Effective relationships between elected and appointed executives correlated in the case studies with transparent and forward-looking budgetary processes.

The engagement of varied stakeholders in the community also invites consideration of the long term when making fiscal decisions.

To achieve fiscal sustainability in periods of fiscal stress, with the likelihood of declining revenue growth and known increases in costs for a long period of time, it is important to have a centralized fiscal staff that monitors all costs that could influence the general fund for both the short term and the long term. The fiscal staff also must have a reputation for objectivity with the ability to speak the truth about the fiscal realities without fear of retribution. Executive staff must be empowered by the elected board/council to monitor the entire fiscal decision process of the jurisdiction. Well-developed and maintained databases permit a systematic look at the budget. Given the complexity and politics of fiscal stress, this information needs to be communicated to policy makers with clearly laid out assumptions and implications. When these conditions exist, jurisdictions are more likely to cope with fiscal stress, as in the case of Los Angeles County, Brea, Riverside, and Pasadena.

A key strategy for turning around the fiscal condition in San Bernardino County has been to clarify the role of the executive while creating uniform databases with ten-year forecasts. Long Beach sought to clarify the executive role of the mayor's office. In the City of Los Angeles, the City Administrative Officer (CAO) office once had this capacity, through charter and administrative choices, but has apparently been losing it in recent years. For example, the CAO does not have the responsibility for negotiating benefits for the staffing of over 60 percent of the human resource costs of the city, a dynamic that has led to a significant ratcheting effect of the main cost item for the city. Furthermore, the CAO office needs to be further strengthened to provide the systemwide and long-term analytical capacity to bring forth recommendations to deal with the long-term mismatch between revenues and expenditures. In Santa Ana, the city manager did not adequately include the council in the information loop, which created a lack of understanding of the fiscal stress in the city. In the City of San Bernardino, the conflict between the elected city attorney and other elected officials resulted in a failure to develop clear, systemic, and agreed-on fiscal processes.

Poor communication between senior staff and elected officials is reflected in the Santa Ana case study, in which a long-term city manager is said to have not shared information equally with the entire council, favoring the long-serving mayor and certain council members. Santa Ana has term limits for council members and relatively high turnover in recent years. When it became clear that the city was facing a dire fiscal crisis, some newer council members felt they had been out of the loop. A new city manager, who was appointed after the dimensions of the fiscal crisis became clear, adopted a more open and even-handed policy of communicating with the council and other important stakeholders.

In the City of Riverside, long-serving mayor Ron Loveridge built a solid reputation that enabled a strong working relationship between elected and appointed officials, which has continued with his successor, Mayor Rusty Bailey. Riverside deploys a fairly surface level policy of engagement with citizens on the budget, but city officials believe their robust civic culture in other areas and lack of outcry at budget meetings show support for city's budget decisions.

In WUHSD, the fifty-member Budget Review Committee (BRC) played an important role in discussing and reviewing proposals for cost savings and efficiencies, meeting quarterly in 2009, 2010, and 2011. The BRC and superintendent have a strong relationship built on trust that allows for the decision-making processes to run smoothly and promote fiscal sustainability.

California school districts are required to submit three-year budget projections to the California State Superintendent of Public Instruction. Annual revenue of the El Rancho Unified School District (ERUSD) is made up of 75 percent of state funds, with the balance from federal, local, and other sources. ERUSD's budget projections are approved by the five-member elected school board and prepared by the school district staff. Twice a year, school districts must file their budget projections as an interim status report with the state. The California State Superintendent of Public Instruction reviews the projections and makes a determination of positive, qualified, or negative. ERUSD received

a qualified determination in May 2012, which suggested that it may not be able to meet its financial obligations in 2012 or in the next two years. In 2012, ERUSD took action to reduce its projected expenses for FY2013 through 2015 to reflect the anticipated smaller state fund allocation. A lack of trust between the three separate unions was a main factor in ERUSD earning a qualified rating.

#### **4. Partnerships Advance Fiscal Sustainability**

Partnerships with the public, individually and collectively, advance fiscal sustainability through accessing knowledge, increasing transparency in processes leading to increased accountability, and developing support for budget decisions. Addressing the mismatch between the demand side and supply side requires creating community and intersectorial problem-solving partnerships. Engaging the community through partnerships creates the understanding needed to maintain integrity through listening to residents when determining fiscal priorities.

A growing strategy after Proposition 13 has been to enable individuals to pay more directly for services. Fees and financing instruments were developed among many of the cities, counties, and school districts in our cases. Many of these instruments required voter approval. Those that have been most successful, such as WUHSD, have transparent financial postings and leadership that communicated with the public openly and continuously on the financial conditions they are confronting.

As a result of the current fiscal climate, even the most stable local jurisdictions lack resources for deferred maintenance and meeting longer-term requirements. Many approached this mismatch of resources and expenditures through intergovernmental funding initiatives; but with continuing declines in both federal and state resources, this strategy may not work in the future. In safety, health, and educational programs, counties and school districts are encountering increased requirements and responsibilities from the state and federal government without the fiscal resources sufficient to fulfill the requirements. The state compounded these pressures by eliminating local redevelopment agencies.

Another growing trend has been the development of co-production within the community by bringing

individuals and nonprofits into the provision of public goods. Several of the jurisdictions that we studied are national leaders in this approach. Los Angeles County, Riverside, and Pasadena had multiple partnerships that brought new resources to bear on issues ranging from health, housing, cultural institutions, and community development. There has also been a growing utilization of partnerships between local governments. For example, the County of San Bernardino's strategic planning process set up countywide partnerships where the county and cities develop better utilization of parks and maintenance facilities. This strategy was a critical element in the county's effort to avert a fiscal crisis.

Leadership and encouragement from policy officials are essential; legal authority and instruments are needed, and most important staff who are willing to partner and not control partners are needed to make it work. Some city officials are openly skeptical about the public's ability and attention span when it comes to complex budget issues. Others adopt a superficial public relations/public information approach. Levels of public participation vary from city to city. Among the jurisdictions we have examined, Long Beach probably had the most authentic experiment in public engagement, by arranging a large-scale public planning meeting attended by more than 800 citizens, which is a truly impressive turnout for a public budget meeting. The results of this meeting, when combined with a public opinion survey, gave city officials a clear set of priorities they could consider when drafting their strategic plan to bring structural balance to the budget. Admittedly, this public engagement strategy was not carried forward after a new mayor, Bob Foster, was elected in 2006. Some elected and appointed officials we interviewed were skeptical about the public's ability to comprehend complex budget issues. But at least one official believed the process in 2003 built public trust and public knowledge, enabling city officials to adopt even more stringent measures after 2008.

In Long Beach, citizens asked to put up with longer wait times for services such as tree trimming or sidewalk repair due to budget cuts. Citizens were given the choice, however, of paying a share of the costs (for sidewalk repair) to expedite the process. In contrast, in South Gate, there was a proposal to give the

public a sense of the trade-offs between costs and services by putting parking meters at a large soccer park used by residents from throughout the region. Residents of the neighborhood surrounding the park would have been given permits, but users from outside the area would have to pay the meters. The city council rejected this idea because it seemed to them to be an onerous burden on park users with modest incomes. This proposal would not have been a significant savings, but it would have been symbolic of the city's attempt to align revenues with the true costs of services.

In Riverside, formal engagement processes include the City Council Strategic Plan, boards and commission meetings, Mayor's Night Out forums, public hearings, and other forms of written and oral communications. Riverside also recently launched an engagement initiative, "Seizing Our Destiny," which included an extensive survey to gain input on what citizens were satisfied with and what they believed are needed to be improved in the city. Going forward, Riverside's leadership wants to give the public an opportunity to use technology to engage in the budget process through an online budgeting portal that will allow residents to create their own city budget and send it to the city with their suggestions. This tool also helps residents understand the trade-offs of certain budget decisions and increases transparency and accountability of the budgetary process. Budget transparency includes having ten-year budgetary forecast, financial data, and easy-to-understand budget-in-brief documents available on the city Web site. With this transparency, long-term trust from citizens and partnership with the local school district helped pass Measure A, which allowed the city to continue to use utility revenue for general fund expenses.

Over many years, WUHSD has built trust and a problem-solving partnership with the school district's three unions in a number of ways. Now, many years later, when funds are significantly reduced but the mission has remained the same, the established trust and partnership culture has paid off for the entire district. In the 2009–2010 school year, this partnership with the employee unions led to the establishment of the fifty-member BRC. The committee increased fiscal literacy throughout the school district. Individual members of the BRC felt that their

concerns and ideas were heard, included, and valued and that they themselves were informed about the budget scenarios and implications. Engagement at WUHSD is reciprocal. School district leaders are involved in the community (attending community meetings and serving on boards), and the community is engaged in the school district. Volunteers from businesses serve on the oversight committee, for example. The community also sees the school district as a public resource, by providing facilities and a stable workforce. Through collaborations, WUHSD is leveraging the high school experience for students through its partnership with local community colleges and sharing the school district's playing fields with city youth groups.

Lack of partnerships between the unions increased the urgency of the fiscal crisis in ERUSD. Each of the unions had specific priorities and points of view. Holding the negotiations with all of the unions at the table at the same time would not have worked out well because of the perceived hierarchies. A previous lack of community and parent outreach also exacerbated ERUSD's financial problems. The 2012 superintendent noted on her Web site that during the last two years, she "spent a significant amount of time working to involve our parents in the educational process and giving them a voice in school decisions . . . a more focused strategy of reaching out to parents and to the community as a whole with open and honest communication between parents, teachers, students, and community members." There is a history of successful collaboration between the school district and the City of Pico Rivera. They are working closely together to share facilities (recreation areas) and to seek foundation and federal grants to promote health and safe schools programs.

How jurisdictions approach developing an understanding of the whole community and moderating the influence of special interests will determine fiscal sustainability in the future. In a climate of fractured political interests making special-interest demands on a budget process that is experiencing long-term stress, developing the capacity deal with these forces is the key to fiscal sustainability. In all the case studies, most of the civic infrastructures of community maintenance mentioned by former National Civic League chairman and Common Cause founder John

Gardner—newspapers, reform groups, businesses, and so on—were either in decline or not effective. Effective communities used new strategies to counterbalance special interests. These strategies include social network technologies; partnership networks; involving constituents as consumers; and joining fiscal and environmental strategies. In the cases that were struggling fiscally, these experiments were not present.

### 5. Strategy Matters

Strategy matters when developing self-enforcing fiscal organizational practices and culture in combination with institutional rules. The intersection constrains special-interest claims on the common revenue pool with rules and practices that take into account the long-term fiscal health of the municipality. Strategies that leverage all the community's resources, such as shared services and partnerships with individuals and organizations, can fill financial gaps so that the needs and priorities of the locality are achieved in collaboration. Local governments are realizing that they alone cannot provide all of the services desired by their residents.

The greatest threat to fiscal sustainability in periods of fiscal stress is the demands that special interests, particularly public employee unions, make on limited resources. At its core, fiscal sustainability stress is political. In the City of San Bernardino, in the face of repeated warnings by the mayor and the city manager that the city was facing bankruptcy, the council failed to act due to the pressure and influence of the public safety unions. Facing similar difficult fiscal conditions, the County of San Bernardino developed a long-run strategic process involving interest groups within the county to foster a shared understanding of their future and possible fiscal demise. What the county developed was a "community maintenance" process, advanced by John W. Gardner, that enabled a sufficient understanding of the needs of the whole. The County of Los Angeles has built "community maintenance" through its broad networks of stakeholders that are involved in the provision of services; it has also enjoyed the long-term service of both elected and executive leadership, which helped create a shared understanding of the county's long-term needs and a mind-set of living with the decisions that you make.

Elections and political conflicts often inhibited the discussion of strategy needed to balance the political stress needed for fiscal sustainability. There was limited public discussion of the city's fiscal conditions during the mayoral election in City of Los Angeles in the midst of fiscal meltdown; the large contributions from employee groups to the frontrunner led to a reversal in the election result. For decades, the public safety unions controlled elections in the City of San Bernardino, even though over 90 percent of the officers did not live in the city. The continual political turmoil of corruption-induced shortfalls in Southgate led to a change in policy and executive leadership, but the city still faces fiscal uncertainty.

Pasadena city department chiefs have been asked to develop entrepreneurial strategy in finding cost savings and additional sources of revenue. Innovation has allowed the city to continue and in some cases expand less traditional services that benefit less affluent community members. The city's housing director, for instance, is described as being "almost like a college fundraiser" in seeking grants and other sources of support for the city's successful low-income housing program. The director transferred a small endowment fund to the local community foundation, so the fund could be invested more profitably. The city's director of public health analyzed department functions to determine how they could be managed most efficiently. In one case—billing services—he brought the function in-house and improved efficiency. In another case he outsourced grant writing to a private sector provider. The director also established partnerships with nonprofits associated with academic institutions to boost the department's research capacity.

Brea has been innovative in strategically implementing partnerships with public and private sector contracts. Since the late 1960s, the neighboring city of Yorba Linda has received police services from Brea. The city established a partnership with Chevron Energy Solutions to save costs through an extensive use of solar energy panels. The project is estimated to save the city millions in energy costs. Brea is now the largest public provider of solar energy in the county. After the 2008 fiscal crisis, Brea also decided to share command and administrative staff with the neighboring community of Fullerton at an estimated savings of about \$600,000 in the first year.

In 2010, the City of Long Beach adopted an official policy of “proportionate share” to ensure that the percentage of the budget devoted to police and fire would not go above 70 percent. The strategy is to look at departments that have experienced growth and to require those department heads to make appropriate reductions to keep their growth under control. The policy meant making draconian cuts in police and fire in the 2012 budget, but without it the city would have had to exact even more draconian cuts in libraries, sidewalks, code enforcement, animal control, and parks to maintain its goal of structural balance.

Keeping in mind a balanced budget with eroding revenues, Riverside deployed several strategies to keep services at acceptable levels. Department leadership was able to consolidate and find inefficiencies for the 2014 budget that totaled \$2.6 million in departmental expense reductions. The city also noted that cooperation of the employee union was vital to the success of the budget. Recently the city has forgone routine maintenance and began prioritizing its services based on resident requests placed through the city’s 311 phone system. Finally, trimming the budget in Riverside means decreasing money spent on entertainment like the Festival of Lights.

In WUHSD, the superintendent’s leadership has been recognized nationally in a number of ways. Her whatever-it-takes attitude and strong capacity for building trusting relationships has helped establish fiscal sustainability in WUHSD. The district was able to avoid layoffs using a common-pool resource strategy to find efficiencies, expense reductions from early retirements, and salary freezes agreed on by the employee associations. Also, under the leadership of the superintendent and the BRC, WUHSD passed two facilities improvement bonds with excellent ratings. Measure C, a \$98 million bond passed in 1999, has an AAA rating, the highest credit quality investment grade. Measure W, a \$75 million bond approved in 2008, also has a high credit quality rating of AA.

In ERUSD, lack of permanent leadership has led to unstable financial practices. Interim appointments hold the top three administrative positions—superintendent, assistant superintendent for educational services, and budget director—and there is a history of financial stress over the past decade,

as noted in reports by bond rating companies. To overcome the financial stress in 2008, ERUSD has to make some difficult decisions that resulted in the elimination of adult education programs, increase in class size from twenty-four to one to thirty to one, laying off of fifty-seven teachers, and requiring employees to help pay for health insurance. The 2012 budget reductions add to those made in 2008: four elementary schools were closed and eighty teachers were laid off.

#### **6. Fiscal Sustainability Rules Extend beyond the Budgetary Process**

The rules affecting fiscal sustainability are not immutable. Rules can be written to design institutions that support each of the features previously discussed. Fiscal sustainability extends beyond the budgetary process to include rewriting the rules of the game of government goals, outcomes, and focus. These rules are designed so members of the community can trust that their goals will be met and that they are willing to provide the resources to accomplish them and to refrain from demanding more than is available in both the short and the long run.

The right institutional design can create the space for transparency and accountability within the government and with the community. Bond ratings, financial reports, and Web sites are important instruments to keep track of the financial condition of a community, but by themselves they are insufficient to persuade stakeholders to support decisions for sustainability during periods of stress. Appointed executives who try to impose discipline in the budgetary process are unlikely to succeed without the widespread support from all major political constituencies. New rules of the game need to be developed so that all the units and organizations in the jurisdiction become part of the solution. To be effective, the new rules need to help build trust between the board/council and the appointed executive (as in the case of Los Angeles County, San Bernardino County, City of Long Beach), and that between the local government and the voters (as in the case of WUHSD and City of Riverside). This element of trust exists in the successful cases and a lack of trust in the unsuccessful cases (cities of San Bernardino and Santa Ana).

Transparency advanced by rules requiring budget and fiscal disclosure characterizes more successful

jurisdictions. All of the case study communities made budget documents available on line. The Web sites of the more affluent communities tended to be better designed and therefore more user friendly and easy to navigate than those of the less affluent communities. Some communities, such as Pasadena and Long Beach, mailed or posted online budget surveys to receive citizen feedback on priorities. Santa Ana posted online a comprehensive budget analysis by an outside consultant. The report, written in clear language and easy to read, contained charts and graphs and provided a useful historical analysis.

Long Beach, thanks to a charter innovation enhancing mayoral power in its city council/city manager form of government, provides both a budget message from the city manager and the mayor, who has the power to review the budget and also a line item veto. The mayor's letter has served to rally political support for changes such as pension reform and matching ongoing costs to ongoing revenues. Pasadena created a video of the top budget officer explaining the fiscal challenges and policies in clear layman's language. But this was only during one budget year. It hasn't become a regular feature on the Web site.

Riverside makes its financial information for the last ten years available online, including a four-page Budget in Brief document that "distills the budget document into a useful set of tables, charts, and diagrams for the use of the general public."

For many years, WUHSD has been transparent about fiscal issues and future funding scenarios. It has shared this information in detail inside and outside of the district, which is not all that common. Annual reports to the community include the financial health of the school district with charts and narrative about the general budget and updates on the bond measure initiatives. The school district's Web site has a letter from the superintendent to the community that reports on fiscal and academic progress. The 2011–2012 WUHSD Report to the Community indicates that the school is on firm ground, "fiscally solvent due to the dedicated efforts of our experienced Board of Trustees who, together with our teachers, staff and administrators, have worked collaboratively to cope with our budget limitations."

In ERUSD, school board meeting agendas are posted on the district Web site in advance of meetings, as

are minutes of previous meetings. A decade of agendas and minutes is available on ERUSD's Web site, but no detailed financial information is posted there. Budgets are only available on request.

The effective leaders in the case studies designed rules for budget processes and decision making that extended over time. These institutional designs encouraged estimating future costs, jurisdiction-wide engagement with stakeholders, moving beyond departmental silos, reserving funds for future needs, and addressing both the revenue and expenditure sides of the equation of fiscal sustainability.

### Conclusion

No set of organizational structures can be adopted and no set of political actions or ideal process can be followed to achieve fiscal sustainability. Rather, the six propositions discussed in this article act together to form a culture of fiscal sustainability. Many of the communities developed and used these propositions in the difficult period of the Great Recession. The research team has used these propositions to formulate a framework of approaching fiscal sustainability as a "common pool" fiscal resource management problem that will need to be refined over time. Continuing to experiment and refine these propositions will be necessary to address the fiscal stress that lies ahead.

### Reference

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