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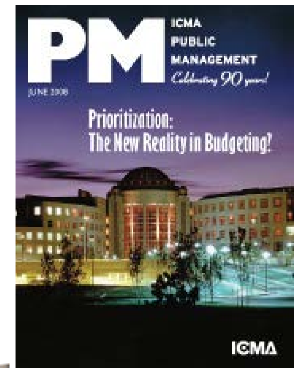

Getting Your Priorities Straight

The true crisis governments face is hardly fiscal; it's a crisis of priorities. How strategic are local government professionals about understanding what they do, why they do it, and (in times of scarcity as well as abundance) how they should invest resources to achieve the results their communities need? While focusing on priorities sometimes takes a back seat to other issues during times of fiscal stress, it's actually even more critical to make prioritization a top priority.

Chris Fabian, Jefferson County, Colorado; Scott Collins, City and County of Denver, Colorado, and Jon Johnson, Jefferson County, Colorado.

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Do you subscribe to the theory that the terms “individual liability” and “local government manager” are never used in the same sentence?

Joseph Jarret, Powell, Tennessee.

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Congress Gives Retirement Plan Fee Disclosure a Closer Look

Every employer is concerned about choosing the right retirement plan provider for the employee retirement plan. But there should be no question about the amount of disclosure on fees and expenses that is provided to employers and participants. Several legislative proposals are on the table.

Gregory Dyson, Washington, D.C.

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COVER STORY

Getting Your Priorities Straight

by Chris Fabian, Scott Collins, and Jon Johnson

Is Permanent Fiscal Crisis Our Top Concern?

All local government managers have seen what sometimes happens. Revenue growth is slowing, expenses are increasing, fund balances are dwindling, and it's perceived that these conditions will persist for the foreseeable future. As David Osbourne and Peter Hutchinson proclaim in their 2004 book, ***The Price of Government***, we are in an "age of permanent fiscal crisis!"[1] The National League of Cities identifies "local fiscal conditions" as a top issue,[2] while the U.S. Government Accountability Office anticipates "persistent fiscal challenges."[3]

But why do local government professionals believe that this is the crisis? What assumptions do we hold so firmly and that so calcify our thinking to convince us that changing fiscal conditions represent our crisis? Would higher revenues and lower expenses allow us to operate crisis free? Or does the true crisis exist when, despite our fiscal realities, we don't focus on those priorities and objectives that ensure the success of our communities?

The Crisis Is Not Fiscal

In ***Reengineering the Corporation***, Michael Hammer writes that organizations suffer from "inflexibility, unresponsiveness, the absence of customer focus, an obsession with activity rather than result, bureaucratic paralysis, lack of innovation, and high overhead." Why?

"If costs were high, they could be passed on to customers. If customers were dissatisfied, they had nowhere else to turn."[4] Should we in government only now be concerned with flexibility, responsiveness, customer focus, and results because we can no longer afford not to be?

Perhaps the biggest concern we face is not a fiscal crisis. Fiscal trends and conditions are by and large out of our control and simply represent a reality with which we need to cope. The real crisis on our hands is whether our organizations have the capabilities to address current fiscal realities and still meet the objectives of government and the expectations of our constituents.

When facing declining growth in revenues, government leaders have approached the issue of balancing the budget in similar ways. A recent article describes California's approach to managing its fiscal reality:

The spokesman for the Governor said, "In our view, an across-the-board approach is designed to protect essential services, by spreading those reductions as evenly as possible so no single program gets singled out for severe reductions." In response the state legislative analyst wrote, "the governor's approach would be like a family deciding to cut its monthly mortgage payment, dining-out tab, and Netflix subscription each by 10 percent rather than eliminating the restaurant and DVD spending in order to keep up the house payments."[5]

Step 1: Getting the Right Results

The figure for step 1 shows the five results developed by Jefferson County, Colorado.

OBJECTIVES:

- Results are clear, understandable, and measurable.
- Results are the objectives and priorities of the board or council and the citizens.
- Results accommodate potentially diverse board or council views.
- Results incorporate majority as well as

minority opinions.
- Results are definable

Results	Description of Results
Fiscally responsible government	Our organization is committed to providing cost effective services. We will work diligently to be accountable for the funds entrusted to us and to seek innovative ideas to being efficient and effective.
Predictable growth and development	Our approach to land use planning and development produces predictable results based on the overall land use vision for the county. Our planning processes result in balanced communities that focus on primary job creation, provision of open space, and attractive neighborhoods and communities.
Mobility options	Our transportation system is effective and well maintained. The transportation network is effectively planned providing eased congestion, regularly maintained streets, and new options for mobility including the Northwest Parkway.
Quality customer service	Our employees are responsive to the needs of our customers. Employees are ethical in their behavior and communicate effectively with our customers.
Safe communities	Our approach to providing safe communities is a combination of proactive public safety services and courts, combined with appropriate enforcement of codes and standards.

Source: Jefferson County, Colorado

KEYS TO SUCCESS:

- Strive to establish between five and 10 results. These should be the main priorities of the government. Not everything can be a priority.
- Be broad but precise. “Safe community” as a result is broad, but it is also distinct. You can talk about what it is and what it isn’t. “Quality of life” as a result is broad, and it is also too ambiguous and subjective.
- Results are the objectives and priorities of your council or board and the citizens. These are the primary stakeholders who must be directly engaged in influencing the results–development process. Revise results periodically, especially when these stakeholders change.
- Recognize there are internal as well as external stakeholders. Draw a distinction between results of public programs and internal operating programs. The differing results will lead to differing evaluation and measurement.
- Each member of the board or council does not need to agree on the value of each result if the opportunity exists for each to express individual beliefs about which results should be of higher value.

The *Price of Government* describes more thoroughly the “7 Deadly Sins” or the seven most commonly implemented strategies that local governments use to manage their fiscal realities:[6]

1. Rob Peter to pay Paul.
2. Use accounting tricks.
3. Borrow.
4. Sell assets.
5. Make something up.
6. Nickel and dime the employees.
7. Delay asset maintenance or replacement.

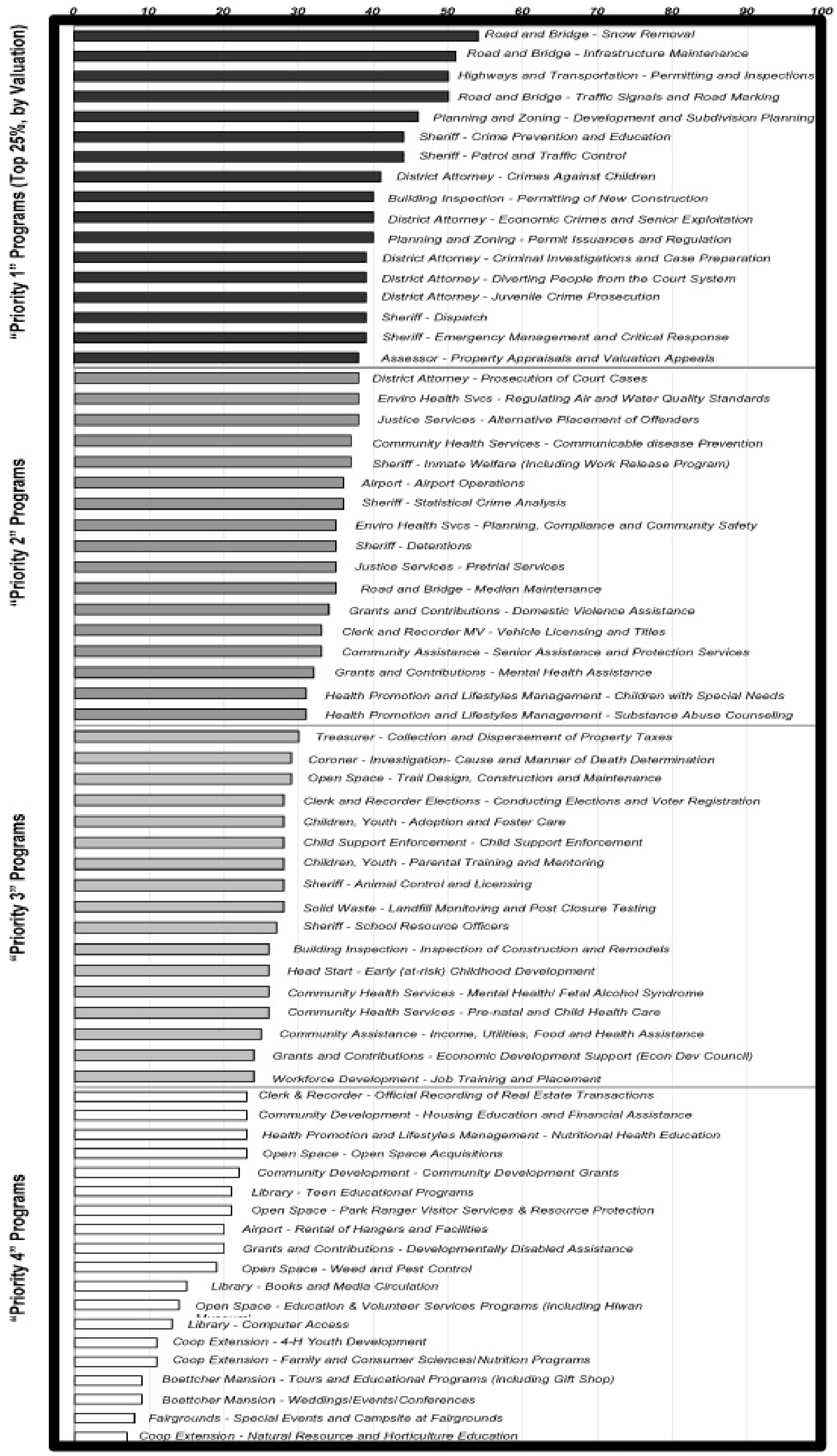
Although these strategies lead to balanced budgets, do they really assist us in reaching our greater objective—that of achieving results and meeting citizens’ demands? Don’t they ultimately lead to cost cutting that impacts highly desired services at the same level as services that are relatively unimportant to citizens?

Don’t they endanger government’s ability to provide statutorily mandated services while preserving those services that are simply nice to have? And furthermore, what does this say about the strategies that governments would use to allocate resources when more revenue was available?

The true crisis governments face is hardly fiscal; it’s a crisis of priorities. How strategic are we, as local government professionals, about understanding what we do, why we do it, and (in times of scarcity as well as abundance) how we should invest our resources to achieve the results our communities need? While focusing on priorities sometimes takes a back seat to other issues during times of fiscal stress, it’s actually even more critical to make prioritization a top priority.

Figure 1. County-wide Program Prioritization

Note that the top-ranking program in this county-wide program prioritization was snow removal, while the bottom-ranking program was natural resources and horticulture. Snow removal scored highest because the program was proven to have a significant influence on all of the county’s results. The horticulture program had the least amount of influence of the results. This is the very definition of "Bang for the Buck" as, for every dollar spent on snow removal, Jefferson County achieves more of the results.



Source: Jefferson County, Colorado

Prioritization, a Better Way to Deal with the Crisis

Prioritization is a way to provide clarity about how a government should invest resources in order to meet its stated objectives (and about what services could be funded at a reduced level without impacting those objectives). Prioritization as a process helps us better articulate why the programs we offer exist, what value they offer to citizens, how they benefit the community, what price we pay for them, and what objectives and citizen demands are they achieving.

The objectives of implementing a successful prioritization initiative allow us to:

- Evaluate the services we provide, one versus another.
- Better understand our services in the context of the cause-and-effect relationship they have on the organization's priorities.

- Provide a higher degree of understanding among decisionmakers as they engage in a process to rank services based on priorities.
- Articulate to people in the organization and to the public how we value our services, how we invest in our priorities, and how we divest ourselves of lower-priority services.

While we are not advocating that public sector organizations mimic our colleagues in the private sector, we find context in an unusual and unique private sector perspective from Jack Welch, famed chief executive officer of GE:

Every company has strong business or product lines and weak ones and some in between. Differentiation requires managers to know which is which and invest accordingly . . . [T]o do that you have to have a clear-cut definition of "strong."

At GE, "strong" meant a business was No. 1 or No. 2 in its market. If it wasn't, the managers had to fix it, sell it, or close it . . . differentiation among your businesses requires a transparent framework that everyone in the company understands.[7]

To meet our real crisis, a comparable approach should be applied by government leaders whereby our programs are prioritized, which in turn encourages decisionmakers to recognize high-priority resource allocations and differentiate them from those of low priority.

Step 2: Getting the Right Definitions

The figure in this step is from Fort Collins, Colorado's initiative to define the result of "improved transportation." Fort Collins used the Kaplan-Norton strategy mapping technique.[*]

Note that the five categories in the oval closest to the result statement (traffic flow, quality travel surfaces, and so forth) are what the city believes are the primary factors or indicators demonstrating the achievement of the result.

OBJECTIVES:

- Definitions should encompass all conceivable influences, causes, factors, and indicators that spell out the meaning of the result. These factors could be external to your organization.
- Definitions should be clear, comprehensive, logical, and measurable. They should depict the cause-and-effect relationship between the result and all identified influences on the result.

KEYS TO SUCCESS:

- Focus on identifying all possible, logical influences and causes for each result. Complete definitions are the key to linking programs and services to the results they influence. Clear definitions for each result make it easier to determine a program's value.
- Use teams to develop the definitions for results to ensure organizational buy-in. Even if the board or council does not agree with all the identified influences and factors for a particular result, members can identify which influences and factors they believe are most critical to the achievement of a result in the scoring process.
- Be concise in writing result definitions. Avoid eloquent, overly articulate, and lengthy paragraphs. The purpose of result definitions is to guide and facilitate program scoring based on that program's influence on results.
- Solicit the advice of subject-matter experts within your organization when developing results definitions; this adds value to the final product.

[*] Robert S. Kaplan and David P. Norton, Strategy Maps: Converting Intangible Assets into Tangible Outcomes (Boston: Harvard Business School Press, 2004).

The Process of Prioritization

The logic behind prioritization is that effective resource allocation decisions are transparent when the results of an organization can be identified and defined, when programs and services can be distinctly (and quantitatively) evaluated as to their influence on any of the results, and when programs can be valued relative to one another and ultimately prioritized on the basis of their impact on results.

Successful execution of prioritization depends on three factors:

- **The right results.** Accurate prioritization of programs depends on the comprehensive identification of the results we are in business to achieve.
- **The right definitions.** Precision in prioritization results from the articulation of the cause-and-effect relationship between a program and a result. With clearly defined causality and an understanding of the influences on results, we can minimize subjectivity in linking programs with results.
- **The right valuation.** With the right results and with clear definitions we can accurately value our programs relative to their influence on achieving results. Steps 1, 2, and 3 show how two jurisdictions addressed this issue.

Step 3: Getting the Right Valuations

The figure in this step is from Jefferson County, Colorado, and it shows the scoring process used for several programs offered by the sheriff's office.

Individual Program Grading Sheet
Tuesday, March 11, 2008

***Directions**: For every program the County provides to it's citizens, your job is to help us understand how that program influences our ability to provide the results of government.*

		Evaluation Criteria							
		Basic Program Attributes			*BCC / Public Results*				
		Mandated to Provide Program	Program Sustained by Direct User Fee	Demand for Service	Accessible and Efficient Transportation	Safe Community	Planned Growth and Development	Quality Customer Service	Fiscally Responsible Government
		0-10 Scale (10=State/Federal Mandate; 5=Local Mandate; 0=No Mandate	0-10 Scale based on Percentage (10=100%; 5-50%; 1=10%; 0=0%)	-4 to 4 Scale (-4=demand significantly decreasing; 4=demand significantly increasing)/	On a scale of 0 to 4 points, **0** = program has no influence on achieving the Result; **1** = program has some influence, though minimal; **2** = program influences the Result; **3** = program has a strong influence on the Result; **4** = program is essential to achieving the Result				
Department Providing Program	Program Name	Grade	Grade	Grade	Grade	Grade	Grade	Grade	Grade
Sheriff	*Crime Investigations*	10	0	2	0	3	0	0	0
Sheriff	*Detentions*	10	5	2	0	2	0	0	0
Sheriff	*Emergency Management and Critical Response*	5	0	3	0	2	0	0	0
Sheriff	*Drug Enforcement*	10	3	-2	0	2	0	0	0
Sheriff	*Crime Prevention and Education*	5	0	4	0	2	0	0	0
Sheriff	*Court Security*	5	0	-1	0	2	0	0	0

Source: Jefferson County, Colorado

Note that the programs are scored on the basis of their relationship to each result (see BCC/Public Results) as well as the basic program attributes. The county recognized that a program's influence on the stated results alone was not adequate to understanding the program's overall priority.

OBJECTIVES:

- Each program, service, and project needing to be funded should be identified by name, by cost, and then rated as to its believed influence on results.
- Scoring criteria should be established to allow programs to be compared, one with another, based on overall value to the citizens.
- Scores should be reasonably assigned to programs on the basis of measurable evidence, not opinion.

KEYS TO SUCCESS:

- When defining programs, make sure they are neither too big (the sheriff's office is not a program) nor too small (answering e-mails is not a program).
- Link programs, services, and projects with a result by assigning scores based on their influence on that result.
- Evaluate every identified program.
- Expand the grading criteria beyond results to include other factors that give programs a higher priority. (Jefferson County believed the more a program could pay for itself—in other words, be sustained by user fees—the lower would be the investment of county taxes in funding the program and, therefore, the higher the priority of the program was to the county.)
- Program scoring is inherently subjective. Minimize subjectivity by requiring performance metrics and other measurements to demonstrate how the program influences the result. Where measurements don't already exist, require program managers to develop theories about the cause-and-effect relationship a program has on a result, and test the theory.
- Require justification for all scores given. Tie performance evaluations to the scores.

Summarizing Prioritization: Putting It All Together

The final steps in the prioritization process involve weighting the results, calculating program scores, and developing a top-to-bottom summary of all programs, in approximate order of priority. It is critical that this process be completed before making any budget decisions.

This is a significant deviation from the budgeting-for-outcomes process because with the premise outlined in this article, prioritization is the beginning of any resource allocation discussion. As in GE's differentiation process, using prioritization assumes that regardless of the amount of revenue an organization generates, regardless of a reasonably calculated price of government, and regardless of what amount of funding a board, council, or citizenry feels a particular result should receive, it is only when confronted with the end product of prioritization that resource allocation discussions can begin.

Case Study: Jefferson County, Colorado

Figure 1 shows the result of the Jefferson County's prioritization process, with a top-to-bottom profile of every program offered to the public. The bar measurements indicate the priority score (the scale is 0 to 100, and higher scores indicate a high-priority program).

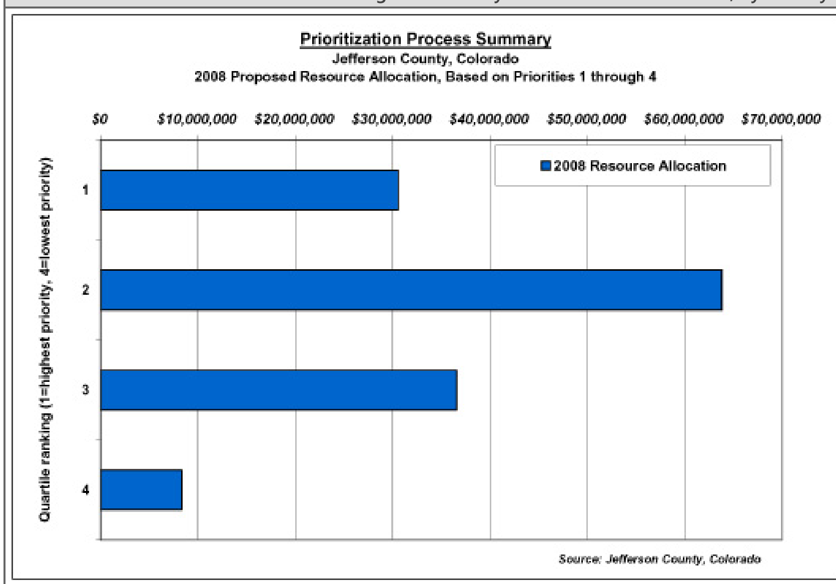
Figure 2 profiles the dollar amounts spent by Jefferson County on programs offered to the public, in order of priority (where the top 25 percent of programs are Priority 1, the second 25 percent are Priority 2, and so on). Without addressing the fiscal reality facing Jefferson County, we can see that these extremely telling figures make statements about the appropriateness of this county's resource allocation. Is the level of spending for Priority 3 or Priority 4 programs acceptable? Should the county consider shifting more dollars Priority 1 programs?

If a significant revenue downturn suddenly occurred, should the county implement across-the-board budget cuts, or might the county use the prioritization information to consider other alternatives about where to look first for potential spending cutbacks? Conversely, if revenues were unexpectedly higher, would the county implement across-the-board spending increases, or should the additional investment be made in top priorities first?

Jefferson County, at the end of 2006, projected a $12 million budget shortfall in the general fund alone. With the adoption of the 2008 budget, 37 full-time positions were eliminated or not funded, and the budget in total was reduced by $13.7 million . . . without a single layoff. County Administrator Jim Moore observed: "This is the first year that a county budget has been less than the previous year. This is especially remarkable given the rising costs that we must pay for fuel and other supplies and expenses."

Of more significance, however, according to Todd Leopold, administrative services director, was "that the discussions with the board and the departments shifted from funding levels for programs to how those programs contributed to the county's overall mission and goals. At the end of the process, there was a much better understanding of what we do and why we do it."

Figure 2. County-wide Resource Allocation, by Priority



Crisis Averted

The biggest challenge we face in government is not the ever-changing fiscal conditions. Instead, the issue most often is a crisis of strategy. Recognizing this, we believe that implementing prioritization is an effective way to combat crises. All organizations, especially those that are stewards of public resources, establish values and objectives to meet the expectations of those for whom they exist to serve.

Resources contributed by the community or other constituencies are dedicated to achieve those established objectives, regardless of the current fiscal condition. As we evaluate the inventories of all programs and services offered, we would find it implausible to believe that each achieves those objectives to an equal extent.

Prioritization offers an objective process that allows those responsible for resource allocation decisions to ensure that those programs of higher value to citizens, those programs that achieve the organization's objectives most visibly and effectively, can be sustained through adequate funding levels regardless of the fiscal crisis du jour.

Whether there are more resources to distribute or fewer to allocate, prioritization guides that allocation toward those programs most highly valued by the organization and, most important, by the citizens who depend on those programs for their well-being, their comfort, and their expected quality of life.

[1] David Osborne and Peter Hutchinson, ***The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis*** (New York: Basic Books, 2004).
[2] Christine Becker, "Local Fiscal Conditions, Public Infrastructure Important Issues to NLC Members," ***Nation's Cities Weekly***, December 3, 2007.
[3] "State and Local Governments: Persistent Fiscal Challenges Will Likely Emerge within the Next Decade," Report no. GAO-07-1080SP (Washington, D.C.: U.S. Government Accountability Office, July 18, 2007).
[4] Michael Hammer and James Champy, ***Reengineering the Corporation: A Manifesto for Business Revolution*** (New York: HarperBusiness, 1993).
[5] Mike Zapler, "Governor's Depiction of Finances Accurate, Solution Falls Short," ***Mercury News***, Sacramento Bureau, January 15, 2008.
[6] Osborne and Hutchinson, ***The Price of Government***.
[7] Jack Welch, ***Winning***, with Suzy Welch (New York: Harper Business Publishers, 2005).

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FEATURE

Congress Gives Retirement Plan Fee Disclosure a Closer Look

by Gregory Dyson

Employers have many issues to consider in choosing the right retirement plan provider for their employee retirement plan. Certainly, the educational and support services as well as the investment choices are critical factors for any employer to consider.

City and county managers who place additional focus on appropriate disclosure of the costs associated with their retirement plan are giving their employees a better opportunity to build savings for their retirement. Transparency and full disclosure about the costs and fees associated with their plan are essential for designing the right program for public employees and should be part of the decision process.

Now, Congress and the regulatory agencies are taking a closer look at fee disclosure practices, especially fee disclosures in the 401(k) market, to determine whether employers and their participants have sufficient information about their plan to meet their retirement investment objectives.

Given the added scrutiny of Congress and the administration on the issue, some type of regulatory or legislative mandate on fee and expense disclosure appears likely this year. Key congressional leaders have indicated that they plan to place their concern about fee disclosure on their agenda. Chairs of the key committees overseeing retirement plans have signaled their intention to act this year on some of these proposals:

- Defined Contribution Plan Fee Transparency Act. Introduced by Rep. Richard Neal (D-MA), the bill would require that the employer disclose the objective and investment manager, risk and return characteristics, and historic rates of return for each investment alternative in the plan. Employers would also be required to disclose fees being paid beyond investment management fees and whether there are any additional charges, such as redemption fees. The bill would specifically apply to 457 plans.
- Mutual Fund Fee Reform Act. Introduced by Rep. Dennis Moore (D-KS) and Rep. Mike Castle (R-DE), the bill would direct the U.S. Securities and Exchange Commission to require detailed fund marketing fees (called 12b-1 fees) to investors. It would apply to all funds covered by the Securities and Exchange Commission.
- 401(k) Fair Disclosure Act for Retirement Security Act. Introduced by House Education and Labor Committee Chair George Miller, the bill would require annual disclosure to participants of all fees charged to their accounts and any possible conflicts of interest. Many industry groups have stated that the amount of disclosure would be confusing and burdensome. This bill would apply only to private sector plans.
- Defined Contribution Fee Disclosure Act. Introduced by Sens. Tom Harkin (D-IA) and Herb Kohl (D-WI), the bill would follow the lines of the Miller bill but require less extensive disclosure.

What gave particular impetus to the fee disclosure issue was the December 2006 report by the Government Accountability Office (GAO), the research arm of Congress, which cited evidence that the majority of participants in 401(k) plans did not know how much they were paying for their retirement plan in fees and expenses. (No comparable study has been undertaken on participants in 457 deferred compensation plans.)

In its report to Congress, the GAO stated that "for plan sponsors, understanding their expenses helps fulfill their fiduciary responsibility to act in the best interest of plan participants. Given this responsibility and the potentially large impact on an individual's account balance over time, it is important that both plan sponsors, typically the employer, and participants, as investors, receive and understand the fee information necessary to make informed decisions."

Mindy Harris, president of the National Association of Government Defined Contribution Administrators, testified during a hearing on the issue before the House Ways and Means Committee.

"NAGDCA believes that to achieve retirement security—and to assure that millions of public employees will be self-supporting during their retirement years—it is imperative to maintain a shared responsibility between employers and employees to fund retirement income," she told the committee.

Most of the regulatory and legislative proposals apply only to plans in the private sector, although at least one would specifically cover 457 plans. More hearings are being discussed and other proposals may be introduced later this year. There is also some talk on Capitol Hill that regulations, rather than legislation, may be able to resolve the concerns.

While the outcome of Congress's interest in fee disclosure practices is uncertain, there appears to be general consensus that more information must be made available to both plan sponsors and participants. Since the fees charged are a factor in the ultimate benefit that the participants will receive from their retirement plans, participants have a right to know what they are being charged and any arrangements that the providers and funds have made with their employers.

Plan providers will be responsible for assisting employers in complying with the new laws or regulations after they are finalized. In the meantime, employers should maintain a careful watch on the progress of the issue as Washington moves toward its resolution.

ICMA-RC's Part

Consistent with its origins with ICMA, the ICMA Retirement Corporation has consistently strived to be transparent with its plan sponsors and participants. Here are a few of the initiatives the corporation has taken to increase fee transparency:

- ICMA-RC's retirement investing guide provides detailed information about all the fees and expenses in its retirement plans. Although the guide is not a required disclosure document, the corporation designed the document to meet all federal standards.
- ICMA-RC provides employers with specific information about their plan fees.
- Account Access, located on the ICMA-RC Web site, is a resource to participants for information on fees and expenses related to their retirement accounts.
- ICMA-RC discloses all the amounts that the corporation receives from its partners and service providers, in an effort to be as transparent as possible.
- The Legislative Report on ICMA-RC's public Web site (www.icmarc.org) provides an ongoing update on the regulatory and legislative activities related to fee disclosure.
- ICMA-RC is active in many industry groups advocating and promoting fee transparency and disclosure.

ICMA-RC prides itself on being a leader in the effort to provide employers and participants with the best information possible about the fees that they are paying for the services that we provide. It is part of our ongoing commitment to help participants build for a secure retirement.

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DEPARTMENTS

Ethics

Ethical Leadership

What sets ICMA members apart is that they bring an ethics-based approach to their leadership. They recognize that the leader is not likely to have all wisdom and that followers either have important contributions to make or may even have the facts and knowledge necessary for the leader's decisions.

During my manager days, I coined a term for this. I said I was not the "city manager," I was the "city manageable." I have always believed in trying to provide the vision and to keep the goals well-defined for the organization, but I always knew that I was carried on the shoulders of the garbage collectors, the police officers, the firefighters, and the inspectors. They needed to do well before I could do well.

Ethical leadership encompasses three realities:

1. Ethical leadership is not a universal norm.
2. Trust is both the foundation of and the result of ethical leadership.
3. Ethical leadership that is composed of a combination of vision and values-based management is the best approach.

Ethical leadership as We know it is not universal

Ethical leadership is not the universal norm. It might be considered an ideal in those cultures derived from or significantly influenced by ancient Greco-Roman civilization, but that certainly does not represent a majority of the world. Dr. Stuart Gilman, who has done much work on the international level on conflict of interest, points out that in some societies family obligations are paramount.

He writes that it is not uncommon in the Middle East for individuals to use a government job to benefit their families. In this type of culture, taking care of family members is considered the right thing to do. Nepotism can be particularly difficult to tackle in a culture where it is seen as a virtue, Gilman also says.

I do not believe that these other cultures are "bad" and that ours is "good." Remember that I said that ethical behavior might be considered an "ideal" in our culture. But I also wonder if it is the norm, even in our culture.

What we as a profession consider ethical behavior is not the norm for a majority of the world's population. It is not even the norm for all who live and work in our society. American professional public administration places great emphasis on ethical behavior. You represent the core of that profession. You are special! Because of that, you need to be conscious of your role as an ethical leader and not take it for granted.

Trust is the foundation

Trust is both the foundation of and the result of ethical leadership. As Dr. John Knapp, Mann Family Professor of Ethics and Leadership and the first director of the Frances Marlin Mann Center for Ethics and Leadership, Birmingham, Alabama, points out, these are cynical times, and they have led to a "trust deficit." He cites a National Opinion Research Center survey where, in 1979, 51 percent of Americans agreed with the statement, "Most people can be trusted." In 2006, that had fallen to 33 percent.

There are three dimensions of trust that lead to ethical leadership. Those dimensions are credibility, respect, and fairness. In Dr. Knapp's model, each dimension has three components.

The components of credibility for a leader are:

Transparency: Requires open and accessible communication.

Competence: Ability to properly manage human and material resources. Integrity: Consistency in applying proper values to the proper vision.

The components of respect are:

Professional development: Supporting professional development and the appreciation of the role and value of each employee. Collaboration: Collaborating with employees in relevant decisions. Caring: Caring for employees as people with lives outside of work.

The components of fairness are:

Equity: Equity in terms of rewards and recognition.

Impartiality: Impartiality in hiring and promotions.

Justice: Combining a lack of discrimination with a process for appeal for those who might be aggrieved.

I challenge you to hold yourself and your organization up to the mirror of Dr. Knapp's model to see whether you are meeting the mark for ethical leadership that builds trust.

Values and vision are at the Core of ethical leadership

Ethical leadership that is composed of the combination of vision and values-based management (as opposed to compliance-based management) is the best approach. I recognize that the local government profession has some unique history that has traditionally downplayed the role of values.

The ethical foundation of public administration has been distorted by two perspectives, both of which amount to a refusal to acknowledge a defined set of values. One perspective is the model that divorces administration from policy making or from "politics."

The other is the effort to make political science more precise through empirical analysis and values-free behavioral studies. Emphasis on the "science" in political science coincided with the growing belief that it is wrong to impose value judgments, which has often come to mean that "it is wrong to make value judgments" or even that "it is wrong to acknowledge that you have values."

Dr. James Bowman traces the abandonment of values to Woodrow Wilson, the father of the study of public administration. The distinction between policy making and policy execution was fundamental to Wilson's thinking.

This distinction has been perpetuated by the supporters of the council-manager form of government. Bowman writes that this "dualism obscured ethical dimensions of public administration since it placed most administrators beyond the province of moral responsibility."

The idea is that the public manager will just follow orders—do what he or she is told—without regard for the ethical dimensions of the policy to be executed. Successful public managers have never just followed orders. Contrary to folklore, these managers do not draw a line between policy making and policy execution. It may be a cliché, but it's true: The effective public manager must not only do things right; he or she must do the right thing.

That is a brief historical perspective. ICMA membership officially pronounced that to be "history" in 1982 with the adoption of the ICMA Declaration of Ideals. This short, 11-point declaration is more relevant to real ethical leadership than the entire ICMA Code of Ethics. This declaration provides us with values to guide us in developing and administering policies.

It is interesting that this declaration was adopted in 1982, about the time that we 1960s socially conscious flower children were reaching our mid-30s and taking on more responsible roles in our profession.

John Dever, at that time the city manager of Sunnyvale, California, and president of ICMA, spoke at the 1986 ICMA conference:

Our friends in academia have rediscovered political "power." Effective government no longer seems of interest to them. Recently, the dean of one of our most prestigious graduate schools of government stated that the primary function of a local chief executive is to broker power. I wonder, in that scenario, who looks out for the powerless. It is time that we all quit worrying about who is to blame and instead focus on how we can make a difference. . . .

The way we can make a difference, then as now, is to lead with a clear vision governed by an articulated set of values, well articulated in the Declaration of Ideals:

Members of ICMA dedicate themselves to the faithful stewardship of the public trust and embrace the following ideals of management excellence, seeking to:

1. Provide an environment that ensures the continued existence and effectiveness of representative local government and promotes the understanding that democracy confers privileges and responsibilities on each citizen.
2. Recognize the right of the citizens to influence decisions that affect their well-being; advocate a forum for meaningful citizen participation and expression in the political process; and facilitate the clarification of community values and goals.
3. Respect the special character and individuality of each community while recognizing the interdependence of communities and promoting coordination and cooperation.
4. Seek balance in the policy formation process through the integration of the social, cultural, and physical characteristics of the community.

5. Promote a balance between the needs to use and to preserve human, economic, and natural resources.
6. Advocate equitable regulation and service delivery, recognizing that the needs and expectations for public services may vary throughout the community.
7. Develop a responsive, dynamic local government organization that continuously assesses its purpose and seeks the most effective techniques and technologies for serving the community.
8. Affirm the intrinsic value of public service and create an environment that inspires excellence in management and fosters the professional and personal development of all employees.
9. Seek a balanced life through ongoing professional, intellectual, and emotional growth.
10. Demonstrate commitment to professional ethics and ideals and support colleagues in the maintenance of these standards.
11. Take actions to create diverse opportunities in housing, employment, and cultural activity in every community for all people.

Ethics is about values and about values-based management. Leadership is about vision: having one, sharing one. Apply this set of values to your vision and you can become an exemplar of ethical leadership.

Ethical leadership is a combination of righteous goals and righteous behavior, righteous ends and righteous means, righteous policy and righteous administration.

—G. Curtis Branscome
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Ethics advice is a popular service provided to ICMA members. The ICMA Executive Board members who serve on the Committee on Professional Conduct review the inquiries and advice published in PM magazine. ICMA members who have questions about their obligations under the ICMA Code of Ethics are encouraged to call Martha Perego at 202/962-3668 or Elizabeth Kellar at 202/962-3611.

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Profile

Lane Bailey, ICMA-CM, is city manager of Lenoir, North Carolina.

It is shortly after 8 a.m., and Lane Bailey already is deep into a day that will stretch through the evening hours.

Having worked the phones—both regular and cellular—for more than an hour, Bailey, Lenoir, North Carolina's city manager, has one department head in his second-floor office at city hall and another waiting to see him. The primary concerns on this morning are drought and water. A year-long dry snap [in 2007], which began in late spring and worsened throughout the summer and fall, has prompted another in a series of discussions between Bailey and Public Utilities Director Mack "Buddy" Edmisten about how to manage the situation.

As [the city of Lenoir is] the primary water provider for most of the county, both men understand the harshest of mandatory water restrictions could be on the horizon. The challenge is multifold. By conserving water, the valuable commodity still will be available if the drought persists. At the same time, conservation by the bulk of the city's and county's residents likely will mean lower revenues for a water operation that generates a positive cash flow each year.

And don't forget about Google. The Internet search and applications giant, expected to come online soon, is forecast to use large quantities of water to cool its massive array of computer servers.

In other words, it's just another Tuesday for Bailey, who has been Lenoir's city manager for the past three and a half years. "Every day is different," Bailey said. "And this is something that I enjoy doing."

During Bailey's tenure, Lenoir has fought to recover from the economic hardships created by the closure of several furniture plants. Aside from the economic devastation to working families, the city also experienced severe budget difficulties from the loss of tax revenues when the factories closed.

"[Former Lenoir city manager and Bailey Guiding Lenoir's Future current councilman] Lewis Price said that the budget was really bad when I interviewed," Bailey, 43, said. "And that realization came real quick when I arrived."

Just how bad? The city's undesignated fund balance had dipped below 11 percent and was being propped up through borrowing from the water department's enterprise fund. According to the North Carolina Local Government Commission (LGC), counties and municipalities are advised to keep an undesignated fund balance of 8 percent in reserve. If left unchecked, Lenoir's ability to borrow funds and its credit rating were in jeopardy.

The cure was not without pain. Staff positions were eliminated or left unfilled, and the city halted its curbside recycling service. But the measures have produced concrete results.

Bailey credits the department heads for doing more with less in changing the city's fiscal fortunes. At a recent staff and council meeting, the city learned that its fund balance has pushed above 20 percent. Bailey wants it to reach 24 percent, which would represent three months of general fund revenues.

"We've done a good job turning that situation around," Bailey said. "There are still some things we need to address."

All in all, though, not bad for someone who was looking at law school while an undergraduate at Appalachian State University. But some second thoughts about law school, along with a conversation with fellow ASU student Jeff Emory (now the city manager of Lincolnton), pushed Bailey in a different direction.

"I was hearing stats that there were more people in law school than there were attorneys," Bailey said. "I came back to get an MPA (Masters of Public Administration), and I never looked back."

Members of the Lenoir City Council, Bailey's bosses, laud his performance. "There is no one else I would rather have at the helm than Lane Bailey," Councilman and former Mayor Pro Tem Todd Perdue said. "All you have to do is look at the downtown and the business that has been recruited.

"I just continue to be impressed with the breadth of Lane's knowledge, be it water and sewer or grants and legislative-related issues. He just has a great grasp of things to be able to run a city."

Added Councilman Price, who was Lenoir's first city manager from 1964 to 1983, "I've got a good appreciation for what he has done and know what he has done. He's a real good team player, and he's developed a really good team. When Lane speaks, you know he means business."

Lenoir Mayor David Barlow credits Bailey for following through on projects and initiatives. "His management style is to not let something sit and to not be passive," said Barlow, who recently began his third term as mayor. "What I like about him is his vision and passion. He gets things done.

"He's not afraid to suggest things and propose things. The council and I don't always agree with him, but that's his job to call them as he sees it. But I know that when I ask him to follow up on something, I can depend on him to do that. And that's vitally important to me as mayor."

Of course, Bailey does not get everything he requests. His proposed 4 cent property tax increase for the current budget year was nixed. And an examination of converting the fire and police departments to a single public safety office went nowhere. Bailey also regards the elimination of curbside recycling to be his biggest disappointment.

"I've got probably one of the best city councils in the state," Bailey said. "It's the best I've ever worked with. I think we respect one another. I've been doing this for 18 years and never voted on a budget. You have to respect anybody who volunteers for that.

"I'll make mistakes, and I've made plenty. But I think you should take ownership of them."

Bailey acknowledges that he is "very well-paid" with a base salary, along with an expense allowance, set by the city council. Lenoir almost didn't get a shot at his services. In 2004, Bailey was about to be considered for the assistant city manager's job in Fayetteville. But during a talk with Andy Lovingood, an engineer with McGill Associates, Bailey learned of the opening in Lenoir. He withdrew his name from the Fayetteville job and interviewed instead for the Lenoir post.

A key focal point of the past year and into the future for Bailey has been customer service. Previously, Bailey distributed copies of Jim Collins' book "Good to Great," and the council has visited Salisbury to see how its customer service has improved.

For his part in the effort, Bailey said he makes a point to return all phone calls, particularly those from residents, in a timely manner. "The citizens are our customers," he said. "There's a lot of good companies out there that don't become great because they just want to stay good. We want to do better throughout the organization, and that starts with me."

Prior to coming to Lenoir, Bailey served as city manager of King, a small community in Stokes County. He also spent seven years as the manager of Polk County. "I was one of the youngest (28 when he took the job) county managers in the state. I tell people when I left that I was one of the oldest," Bailey quipped.

"He's becoming more and more involved with the city," Councilman Merlin Perry said. "I think he has grown with the city tremendously. I think he sees things that the community needs and wants."

Bailey takes pride in the renovations that have been done in the downtown area, along with the successful recruitment of Google. "The better part of 2006 was spent on Google," he said. "In talking with another city manager, he told me that getting to work on a project like that is a career thing."

Bailey and his wife, Ruth, whom he met at Sunday School while living in Hendersonville, have two children, Brennan, 7, and Katherine, who will be 5 [in December]. Ruth recently completed her Master's Degree from Liberty University in education, with a concentration in counseling.

"We just think this is a wonderful place to raise a family," said Bailey. And being close to Bailey's beloved ASU football team doesn't hurt. Bailey's office is a testament to his Appalachian State devotion, with posters and memorabilia adorning the walls and shelves. "Brennan is starting to go up with me to the games," said Bailey, an avid runner who has competed in half marathons and triathlons. "Now his little sister wants to go too."

As for the city's future, Bailey hopes to continue Lenoir's economic recovery. "We need to continue to focus on quality of life and how attractive this community is to outsiders," he said. "That will be a big part of what drives the economic engine. We want people living here and working here."

And as for his own future? Bailey said, "I'd like to stay around for awhile."

—Paul Teague
Local News Editor
News-Topic
Lenoir, North Carolina

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Checklist

13 Steps for a Smoother Transition to Performance-Based Pay

Every local government is different, but the following steps should be considered to assess readiness and prepare the organization for a switch to pay for performance.

1. Discuss and secure the commitment of elected officials, political appointees, and senior executives to the change. Identify one or more of these individuals to become public proponents or champions of the change.
2. Draft a statement of compensation philosophy, including the planned linkage to salary increases, and gain consensus at senior levels. The statement should say that performance-based pay will benefit the organization and create a better work environment.
3. Develop a communications strategy to help employees understand why the change is needed, how it is expected to benefit the organization, and what they can expect. Commit to seeking ongoing employee input and emphasize the goal of fairness.
4. Assess the current pay system for executives and managers. If an effective linkage between pay and performance does not exist, start at that level. It is always easier to assess performance against measurable results, and this will help to confirm the intent in changing the policy.
5. Assess the current organizational performance planning process to determine whether the mission and goals can be translated into job-related expectations for individual performance planning.
6. Analyze available performance-rating data for evidence of inflation and bias across departments. If there are pockets where it is clear that managers are not making reasonable rating decisions, that needs to be addressed.
7. Create a task force of managers and respected employees to plan and oversee the implementation of the change in policy. It may make sense to assign one or more people full time to the planning. In larger organizations, it is advantageous to create a project management office.
8. Assess the current pay and performance systems through a series of focus groups, including separate groups of managers and employees. The goal is to identify and confirm problems and to give participants the background on what is planned.
9. Assess the culture to identify ways to strengthen and reinforce the commitment to performance. This can also be accomplished in focus groups. There are likely to be differences across departments. Those differences should be discussed and possibly accommodated in planning the new system.
10. Conduct a labor market analysis to determine whether pay levels are generally competitive. If wage and salary levels are too far below market levels, switching to pay for performance may not be feasible.
11. Make a commitment to train both managers and employees on performance management, and allow a period for them to practice and become comfortable with the new practices before tying ratings to pay increases.
12. Consider running the new systems and practices alongside current pay and performance policies as a trial. This will allow employees to understand how pay for performance will affect them and to take the steps necessary to satisfy new expectations.
13. Include a grievance procedure.

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