An editorial by Bob McEvoy, ICMA CM, Managing Editor

President Cabrera’s statement sounds like it was part of our Journal of County Administration’s continuing and unique series about helping our local businesses create private sector jobs—or—it is a statement by Curtis Branscome, Chair of the ICMA Credentialing Advisory Board extolling the virtues of our outstanding ICMA Credentialing Program. It is neither. It is a passionate voice of the part of the academic community that is responsible for our new MBA’s and it is a voice of reform. Harvard Business School’s Rakish Khurian said: “The basic model—the fundamental model, which really made up the fabric of contemporary business education, has to be revisited” Regarding the new model, he said “one of the most important things would be, ‘I will create value rather than extract value’ and not ‘I’ll get back to society after I make a lot of money’. They have to start seeing that giving back to society in the course of doing business is possible when one conducts oneself along the lines of a professional business ethos”.

In response, we offer to our business colleagues whose predecessors created the Council Manager Plan, our tested and very successful ICMA Credentialing Program. To do so we are very pleased that the ICMA Credentialing Program Manager, Amanda Relyea, has accepted our invitation to be our featured author and her wisdom is presented for you and our business colleagues below.

ICMA Credentialing: A Recognition of Experience and Commitment to Professional Development

by Amanda Relyea, ICMA

“The Credentialing Program is the most relevant tool at our disposal for assessing one’s capacity for dealing with local government management in the most challenging time in the history of our profession,” according to ICMA Credentialed Manager (ICMA-CM) Israel Small.

The Voluntary Credentialing Program helps managers create value for their communities. It recognizes

(continued on page 2)
As a new year begins, it is a great time for reflection and to prepare for the future. A County Administrator needs to understand that the governance structures and relationships are far more complex and challenging, and not as concentrated as executives in the private sector. Jim Collins, in his monograph Good to Great and the Social Sectors: Why Business Thinking is Not the Answer, states that there are two types of leadership skills, executive and legislative. An executive leader has enough concentrated power to make decisions.

Collins states that legislative leaders do not have the power to make all the decisions individually, “Legislative leadership relies more upon persuasion, political currency, and shared interests to create the conditions for right decisions to happen.” No truer words have been spoken about being a County Administrator.

To maintain our skills and improve as managers, it is important that County Administrators understand the need for professional development. This month, the cover story is by ICMA’s Amanda Relyea concerns the ICMA Credentialing Program and the importance of showing to the profession, the community and yourself that you are dedicated to professional county management. I hope you enjoy the story and wish you all the best in 2011.

Patrick Urich
President, National Association of County Administrators

Currently, 12% of in-service program participants work in counties.

History
In 2001, the ICMA executive board sought member input on a policy outline of a voluntary credentialing program for professional local government managers and administrators. Members were encouraged to participate in discussions at state or affiliate meetings or communicate their views to any member of the executive board. In addition, a mailed survey provided an opportunity for members to comment on all aspects of the proposed program.

Survey results indicated strong support for requiring that ICMA Credentialed Managers and...
Candiadate be ICMA members and hold at least a baccalaureate degree.

The Executive Board, in response to member feedback, did make two key changes to the proposed program: adding a Credentialing Manager Candidate level and providing alternatives to the Performance-Based Assessment requirement.

ICMA President Dave Mora appointed a nine-member credentialing advisory board to advise on implementation and on granting credentials. Later, this board was expanded to 15 members. The first credentials were granted by the executive board at its May 2002 meeting.

Benefits
All of us know the importance of continuous learning, but ICMA's Credentialing Program provides a way to focus and structure that learning, as well as become involved in coaching younger managers and administrators. Full Members of ICMA are already required by Tenet 8 of the ICMA Code of Ethics to commit to at least 40 hours of professional development every year. The Credentialing Program encourages you to reflect on your learning, and receive peer feedback and recognition. Credentialed Managers are also eligible to become ICMA Legacy Leaders and receive preferred access to leadership development programs like the ICMA Gettysburg and SEI Leadership Institutes.

ICMA-CM Chris Lochner says, “I have come to better understand that being a professionally trained manager isn’t something that just happens; it truly is a lifelong learning experience. I believe the Credentialing Program has not only made me a better manager, but it has also benefited the community I serve.”

Ethics and the Credentialing Program
In addition to recognizing education and experience, the Credentialing Program also recognizes adherence to high standards of integrity and an assessed commitment to lifelong learning and professional development.

The first guideline to Tenet 8 of the ICMA Code of Ethics commits members to routinely assess their professional skills and abilities. To help members fulfill this responsibility, ICMA partnered with the Andrew Young School of Policy Studies at Georgia State University to develop the Applied Knowledge Assessment and the Performance-Based Assessment. Both instruments were developed for the local government management profession and are based on ICMA’s Practices for Effective Local Government Management, including Practice # 17: Integrity. The assessments are required as part of the Credentialing Program and are designed to identify professional strengths and pinpoint opportunities for professional development.

The second guideline to Tenet 8 of the ICMA Code of Ethics requires Full Members of ICMA to commit to at least 40 hours of professional development every year. The Credentialing Program helps members focus and structure that 40 hours, reflect on their learning, and receive peer feedback. ICMA-CM Daniel Coss says, “Not only has [the program] helped me grow professionally, but it has helped me to better serve my community.”

In other words, the Credentialing Program helps managers create value for their communities, which, as we learned in the introduction to this article, is “one of the most important things.”

Application Steps
Managers and administrators often ask whether they can make the time or spend the money to become credentialed. The application process actually does not require a lot of time or money. The three steps are:

• Verify that you are eligible. Your work experience must be full-time and appointed.

• Complete the ICMA Applied Knowledge Assessment and receive results. This costs $75. Your assessment results must be less than three years old to make initial application.

• Submit application, which includes your professional development for the coming year, before the deadline. The online application fee is $50.

You can complete these steps and find much more information, including a sample professional development plan, at http://icma.org/credentialedmgr.

Approval Process
After you submit a credentialing application, the credentialing advisory board (CAB) reviews your education, experience, and professional development plan. They contact with you with any questions; otherwise, they recommend you to the program and put your name in the ICMA Newsletter for a member review period. After the member review period is over, and assuming no objections were received, the executive board grants you the designation of ICMA Credentialed Manager or ICMA Credentialed Manager Candidate. ICMA Credentialed Managers are members who meet the experience requirement; Candidates are members who are within two years of meeting the experience requirement.

Annual Report Requirement
To renew the credential, you must submit an online annual report (no fee). The report should begin by clearly identifying the professional development needs you sought to improve over the past year. The remainder of the report should focus on what you learned.

Credentialing advisory board reviewers are looking for concrete examples of learning. A comprehensive report of all you learned is not necessary: one brief, yet specific,

(continued on page 4)
The purpose of the requirement is to ensure that participants receive periodic external feedback from more than one source. ICMA offers the Performance-Based Assessment (PBA), but the credentialing advisory board also pre-approves alternatives on a case-by-case basis. If you cannot complete a multi-rater assessment due to a tough political or financial situation, the credentialing advisory board works with you to devise another method of external feedback. Since making the policy on alternatives more visible three years ago, member feedback on the requirement has become much more positive.

Resources

The Credentialing section of the ICMA website offers many resources, some available to everyone and some available only to program participants. You can find frequently asked questions, sample professional development plans, sample annual reports, guidelines for fulfilling the annual professional development requirement, a Performance-Based Assessment preview, and a list of credentialing advisory board members. Also available to ICMA Credentialed Managers and Candidates is a restricted-access group on the Knowledge Network where program participants can go to share ideas and documents, ask and answer questions, and access a professional development wiki that includes reading and training recommendations.

Leadership Development Programs

Credentialed Managers are eligible to enter the ICMA Legacy Leaders Program and receive preferred access to leadership development programs like the ICMA Gettysburg and SEI Leadership Institutes. The Legacy Leaders Program is a voluntary program that honors Credentialed Managers who commit to coach an ICMA Emerging Leaders Development Program (ELDP) participant for at least two years and sponsor (financially support) or recruit at least two ELDP or Leadership ICMA participants. After two years in the Legacy Leader Program, you choose from a larger menu of different activities that enrich the profession and prepare the next generation. In addition to coaching, sponsoring, or recruiting, the list includes establishing an intern position, hosting an ELDP or Leadership ICMA discussion group, and reaching out to students in your community to improve their knowledge of local government or to encourage young people to consider the profession.

The ICMA Gettysburg Leadership Institute is a highly-rated program limited to 30 senior local government managers and administrators. This small group meets to study the leadership lessons of Gettysburg and join colleagues in an exploration of personal leadership, organizational effectiveness, disaster management, and the lessons of history. In 2011, the institute will be held May 11–13. See icma.org/gettysburg for details.

The ICMA SEI Leadership Institute is a Senior Executive Institute “super session.” ICMA University in conjunction with the faculty and staff of the Senior Executive Institute (SEI) at the University of Virginia offers a unique seven-day SEI program for senior local government managers and administrators and Leadership ICMA participants. SEI is held at the University of Virginia’s (UVA) renowned Colgate Darden School of Business. The curriculum, designed by the faculty at UVA’s Weldon Cooper Center for Public Service, is varied, and the faculty well-grounded in the needs and concerns of the top local government executive. Participants have ample opportunity to hone skills and test strategies to help build a high-performance organization. In 2011, the institute will be held April 30–May 7. See icma.org/sei for details.

For More Information

For more information, please visit the Members section of icma.org or go to http://icma.org/credentialedmgmr. Contact credentialing@icma.org with questions.
The Tyranny Of Organizational Allegiance

Most county governments are in deep financial difficulty, and the county administrator has no choice but to ask each member of the cabinet to propose deep cuts in their operating and capital budgets. So the Sheriff, the Public Works director and the head of the Health and Human Services agency go away on their own and try to find ways to carve yet another 5% from their already strained budgets. But the pain does not stop there. Usually there is a school system, a community college, a water agency who also receives support from the county general fund. They, too, are given their painful marching orders to make immediate cuts in spending and produce budgets which can fit the emerging tight reality of the future.

In previous articles, we have explored the way that Information Technology can make this painful exercise a bit less onerous. Using automation tools, the way that services are provided can be improved and provided with less resources. Using process analysis and streamlining tools such as Business Process ReEngineering (BPR), old procedures can be streamlined and eliminated altogether, leaving simpler and less expensive processes to fund. However, there is one more alternative to be explored, one which brings us smack dab in front of a difficult, emotional issue: organizational allegiance.

There is nothing that says that cuts must be made in neat packages that do not jump across departmental lines. There is nothing mandating that the agency directors have to recede within their organizational walls and find cuts in their own departments. Indeed there is every expectation to think that cross—departmental collaboration could produce more significant cost reductions in a far less painful manner. And yet we do not do it. And we still ask our leaders in individual agencies to bring us savings within their own agencies. Because we, too, fall prey to the mantra of “acting within the boundaries we control”.

How would a radically different approach work? One which cuts across organizational lines? How can we convince our employees to stop serving their own organization with blind loyalty and to attempt to serve their ultimate customer instead by collaborating with others? Well, let’s look at the world of Information Technology (IT) and follow this different line of reasoning to its conclusion within the cost elements of IT services.

Each agency probably has its own data center, its own set of programmers, analysts, and data base administrators. They have a relationship with some off-site facility to provide a secure back-up site and a place to store data- in many instances a private vendor. And they each have their own technology procurement processes with staff that can create bid specifications, announce Requests for Proposals and evaluate and make awards for new systems. Is it possible for such systems to be provided in a more consolidated manner across several departments and independent agencies? Some counties already do this sharing of IT tools and systems proving that the answer is surely “yes!” But the majority of counties hear the rhetoric of “we are special” and “our needs are different” all too often loudly articulated, discouraging collaborative action.

Ultimately, the true reason for the lack of additional collaboration and more efficient provision of support services is the absolute tyranny of organizational allegiance. Each employee feels more allegiance to his or her organization than they do to the ultimate tax payer who receives their services and, incidentally, who does not care about where the services come from, so we remain in an unproductive environment where we duplicate and triplicate services under the guise of organizational support, while the mandate to reduce costs makes truly needed services be eliminated altogether in cruel meat-ax fashion within each agency. It’s time we change.

The way to make this change possible is to provide incentives to employees that span organizational boundaries. Whether it is performance-based pay which comes from a collective pot, or training opportunities which provide a mingling ground for employees with different “uniforms” (physical or otherwise), it is important to begin to weaken the stranglehold of individual organizations on the total county productivity, and to encourage cross agency collaboration. With IT leading the way, there is a natural progression path- after all; IT does not recognize any inherent barriers!

Is it possible to see collaboration in its total form? Probably not. But a pragmatic model under which 50–60% of functions are shared across all departments, with the remaining 40-50% being left to the individual culture of each agency is probably a very doable model. Such a shared, hybrid model could probably bring savings of 20–35% in the first year of operation, and strong improvement (rather than reduction) of customer service. What it will take is strong leadership from the administrator’s office, and support (and often time’s action) from our elected leaders. Let’s give this shared model a chance to succeed! The times demand no less!
The NACo Board of Directors held its Fall Board of Directors meeting on December 2–4, 2010 in Tarrant County, Texas. This is the home county of the NACo president Glen Whitley. During the business portion of the meeting held on Friday, December 3, 2010 a review of the proposed 2011 Legislative Priorities occurred. The legislation as presented by the various committee chairs included in summary the following:

**Agricultural and Rural Affairs**
- Support Reauthorization of the Farm Bill and Priority for Rural Development Programs
  - Rural Development
  - Renewable Energy and Energy Efficiency
  - Beginning and Young Farmers
- Food Safety

**Community and Economic Development**
- Support for increased/maintaining funding the Community Development Block Grant Program
- Support for Congress passing an additional economic stimulus package to promote and fuel job creation and economic development
- Support for federal economic development funding in agencies such as HUD, and the U.S. Department of Commerce for programs such as Brownfields, Section 108 Loan Guarantees, and Economic Development Administration (EDA) grants

**Environment, Energy and Land Use**
- National Energy Policy—Accelerates development, research and incentives for alternative and renewable energy technologies
- Funding support for the Energy Efficiency and Conservation Block Grant (EECBG) program
- “Waters of the U.S.”
- Water Infrastructure Funding

**Finance and Intergovernmental Affairs**
- Unfunded Mandates and Preservation of County Revenues
- Repeal of the 3% Withholding Requirement
- Election Reform

**Health**
- Support county public health infrastructure through the Prevention and Public Health Fund (PPHF)
- Advocate that implementation of new PPHF-funded, as well as other federal public health programs that go through the states, require concurrence by localities in the objectives and budgets for those grants
- Support direct federal funding for health information technology for county health departments
- Eliminate the federal health benefits “inmate exclusion” for persons in custody in county jails and detention centers pending disposition of charges

**Human Services and Education**
- TANF Reauthorization: Urge the Administration to increase flexibility in use of TANF funds for education, basic skills and language training, job search, and substance abuse prevention and treatment
- Restore the Social Services Block Grant to the $2.8 billion
- Reauthorize the Older Americans Act (OAA) with expanded program flexibility
- Refinance child welfare so that all children in foster care are eligible
- Child Support Restore flexibility to use child support incentive payments to match federal funds

**Justice and Public Safety**
- Congress should fully fund a number of justice and public safety appropriation measures
- Congress must reauthorize the Second Chance Act, and also enact the Justice Reinvestment Act
- Congress must enact the National Criminal Justice Commission Act
- Congress must enact Comprehensive Immigration Reform

**Labor and Employment**
- Reauthorization of the Workforce Investment Act (WIA)/Funding for Workforce Development Programs
- Opposition to the Public Safety Employer—Employee Cooperation Act
- Public Pension Reform
- Opposition to Mandatory OSHA Coverage for Public Sector Workers

**Public Lands**
- Maintain Full Funding for Payments in Lieu of Taxes (PILT) Program
- Reauthorize the Secure Rural Schools and Community Self-Determination Act
- Promote Active Management and Restoration on Federal Lands

**Telecommunications and Technology**
- Broadband Deployment and Adoption
- D-Block Spectrum for Public Safety
- Protecting local government control over public rights-of way

**Transportation**
- Reauthorize the Surface3 Transportation Program
- Reauthorize the Federal Aviation and Airport Programs
- Promote, fund and, where necessary, better regulate passenger, (continued on page 7)
Promote county fiscal relief and save jobs. Support for a commitment to maintaining, federal financial assistance to counties at 2010 levels for county programs such as PILT/SRS/CDBG/HOME/EDA/Justice & Public Safety programs/investments in local workforce development systems/rural development/transportation/water infrastructure development, FMAP/Medicaid/social services and other domestic programs that are essential in creating and maintaining jobs while providing assistance for our citizens.

Save jobs by repealing the three percent tax withholding requirement. Congress should immediately repeal Section 511 of PL 109–222 requiring local government to collect a three percent withholding tax for goods and services contracts in order to us to send to the IRS. This costly unfunded mandate takes effect January 2, 2012, requiring action in this first session of the 112th Congress. Counties must act as agents of the IRS and begin purchasing equipment, begin training and create systems to begin collecting taxes for the IRS with no federal assistance, an unacceptable unfunded mandate that even the business community agrees is onerous in creating and maintaining jobs.

Support job creation by enacting aviation and surface transportation program reauthorizations. Reauthorization of the federal airport and aviation programs needs to be completed. NACo supports a well-funded Airport Improvement Program with guaranteed funding from the aviation trust funds and increased funding for the Essential Air Service and the Small Communities Air Service Programs. Congress should develop a comprehensive legislative effort to create jobs by providing robust funding for bridges, highways, mass transit, assistance for rural roads and other local infrastructure needs by reauthorizing the highway, transit, and safety programs. Congress should explore the various financing sources available to fully fund the Highway Trust Fund into the Future while addressing metropolitan congestion and rural road safety. Enactment of these programs will help build our nation’s infrastructure and create additional employment opportunities.

Opposition to job killing unfunded mandates and preemptions: NACo is constantly vigilant against legislative or regulatory initiatives that undermine local government decision making and contributes to reductions in our workforce. The partnership with federal policy makers should recognize local government roles and not preempt county authority on issues such as land use, rights of way and other local functions which reduces county resources and adversely affects job retention by reducing revenues. Adequate federal financial assistance should be proved for these key responsibilities.

Support Job Creation by Making Rural Development a Priority within Farm Bill Reauthorization. Reauthorization of the Farm Bill and funding for key provisions such as rural development, renewable energy and support for beginning and young farmers are critical to the economic well being of all Americans, Especially rural Americans. NACo will focus on strengthening USDA Rural Development’s grant and loan programs that bolster and leverage county initiatives to enhance and maintain water and wastewater infrastructure, community facilities, broadband infrastructure, rural business programs and rural housing.

Support county health priorities. NACo will continue to work with Congress and the Administration to improve and implement the provisions of the Patient Protection and Affordable Care Act that help counties build healthy communities and ensure affordable access to health care for all Americans.

On Saturday December 4, 2010 the Board of Directors held its business meeting which included a review of the budget for NACo. The budget for the 2011 year was approved with no dues increase. This is the fourth year in a row without a NACO dues increase. Significant discussion was held surrounding the NACo Discount Prescription Drug Program which included as a provision within the budget a contribution on behalf of CVS Caremark to support dues of all current non NACo county members of NACo. The purpose of the grant was two-fold, first to provide exposure to the (continued on page 10)
Outlook on Retirement Issues in the New Year

by Joan McCallen, President and CEO, ICMA-RC and John Saeli, Vice President, Marketing Services & Industry Analytics, ICMA-RC

Retirement issues received unusual prominence in 2010 with passage of the major finance reform bill, release of long-awaited participant and plan sponsor fee disclosure regulations, and passage of legislation permitting Roth features in 457 plans. While the shift in Congressional power after the November mid-term elections is likely to preclude passage of major stand-alone retirement plan legislation in 2011, an attempt to reach an agreement to address the deficit may include provisions that significantly impact retirement plans.

The report issued by the Fiscal Responsibility and Reform Commission in December 2010 includes a number of proposals that could be influential in shaping the upcoming national debate on federal taxes and spending. The focus of the Commission’s report was to eliminate all but five deductions in the federal tax code in order to broaden revenue collection that permits both a significant reduction in tax rates and an increase in total revenue to reduce the deficit. One of the deductions retained by the Commission is for retirement savings, with a significant reduction in maximum tax deferrals to a level capped at 20% of pay or $20,000, whichever is less. The Commission further recommended consolidation of 401, 403 and 457 plans in the Internal Revenue Code and proposed that all state and local government employees hired after 2020 be included in Social Security. Reform of Social Security, which also was addressed in the Commission’s report, may be an area of Administration interest in 2011.

In the 112th Congress, new legislative proposals impacting retirement plans and local government finances are likely to surface. For example, the Public Employee Pension Transparency Act (H.R. 6484) recently introduced by Representatives Devin Nunes (R-CA), Paul Ryan (R-WI), and Darrell Issa (R-CA) would require state and local governments to report pension funding levels to the Department of Treasury to retain the federal tax exemption on bonds sold to investors. The bill mandates a methodology for measuring pension liabilities that is comparable to practice in the private sector and likely would increase the level of underfunding reported. In addition, the bill would require disclosure of how plan sponsors intend to eliminate unfunded liabilities and declares that the federal government would not be liable for bailing out underfunded public pension plans.

Numerous organizations, including the International City/County Management Association, National Association of Counties and Government Finance Officers Association, have expressed opposition to the bill. While the bill may pass on a stand-alone basis in the House, it is unlikely to be passed by the Senate or to be signed into law.

Retirement income issues gained both legislative and regulatory prominence in 2010 and may receive renewed attention in 2011. Last year, the Departments of Labor (DOL) and Treasury conducted a Request for Information and held a joint hearing on issues related to access and use of retirement income alternatives. In June the Senate Special Committee on Aging conducted a hearing to discuss ways to help retirees convert savings into lifetime income. During that hearing, panelists provided testimony on how to educate individuals on retirement planning and on flexible lifetime income solutions, particularly annuities. This followed earlier introduction of the Lifetime Income Disclosure Act, by Rep. Ron Kind (D-WI) and Sen. Jeff Bingaman (D-NM), which would require ERISA plans to disclose projected monthly income at retirement based on current plan account balances. The bill was bi-partisan and has no impact on the Federal budget so it has some chance of being addressed in the future.

Most retirement-related activity in 2011 likely will focus on the regulatory side. Issues include implementation of plan sponsor and participant fee disclosure and enhancements to target date fund disclosure.

Last October, the DOL released final regulations mandating fiduciary disclosure requirements for ERISA plan administrators with respect to covered participant-directed individual account plans. The final regulations are applicable for plan years beginning on or after November 1, 2011.

The disclosures are designed to provide plan participants with a better understanding of the fees they pay and may prompt questions to both plan sponsors and plan providers. While the final regulations only apply to plans subject to ERISA, providers are likely to give comparable disclosure to participants in public retirement plans. The DOL also released interim regulations on fee disclosure for plans (continued on page 9)
sponsors in July 2010, with final regulations expected before their effective date of July 2011.

The DOL recently issued proposed amendments to both qualified default investment alternative (QDIA) and participant fee disclosures regarding target-date funds. The proposed regulations require issuers of target-date funds used as QDIAs to provide additional disclosures to participants, including a description of the fund’s asset allocation and how it will change over time, a graphical illustration of the fund’s glide path, and an explanation of the significance of the investment’s target date. The DOL will receive public comments on the proposed regulation until January 14 and may issue final regulations later this year.

March is National Ethics Awareness Month: Raise the Visibility of Ethics at Your Workplace

One way of helping protect the integrity of your organization is to keep ethics in the forefront with your employees. In the public sector, we need to understand that while something might be legal, it doesn’t mean it’s ethical. In these challenging times, everyone could use a refresher to help build skills and learn practical strategies for making ethical choices. March is National Ethics Awareness Month, and what better time to strengthen the ethical culture of your organization by ensuring that every member of your staff understands your organization’s values and providing them with the training and tools they need to address perplexing, on-the-job issues. ICMA offers workshops on such topics as:

- Ethics at Work!
- Ethical Survivor
- Promoting an Ethical Culture
- The Leader’s Role in Building an Ethical Culture
- Elected Officials and the Public Trust

These sessions are available for staff, leadership, elected officials, boards, and commissions. For information about local government ethics workshops and technical assistance services, contact Martha Perego at the ICMA Ethics Center at 202/962-3521. Or visit http://icma.org/ethics for information on general ethics topics.

Rise Above Crisis
Can you successfully meet the challenges of budget fluctuation?

TechSolve can help.

TechSolve teamed with Pitkin County, Colorado, to eliminate operations waste and redundancies to create a more efficient and responsive organization.

For more information, contact former NACA president, David Krings, at krings@techsolve.org, or read the whole story at www.techsolve.org
**Top Ten Actions for Doing Financial Turnaround**


1. Find the integrity failure underlying the deficit and fix it. (It is usually about not telling the truth.)

2. Turnarounds are about doing a thousand small things rather than a few big things, on both the revenue and expenditure sides. They are a slow, grinding hard work at the detailed level, relentlessly pursued. No cost saving is too small.

3. Cut the costs, not the value from the budget.

4. Cut everything, at least a little.

5. Cut over several years; thereby changing the entitlement or “autopilot” spending culture.

6. Do not imprison your thinking into artificial constructs such as an annual budget. Perhaps do twelve 30 day budgets, adjusting the budget each month.

7. Face the largest fiscal threats with political courage and serious resources.

8. Re-size your base services responsibilities so they are in long-term balance with your revenues.

9. Get rid of “autopilot” spending, “past practices,” or anything that does not drive discernible results. Use tactics such as hiring and capital spending freezes, reverse auctions on eBay or vendor contract give backs.

10. Put all of these reforms in place as both policy changes and organizational culture. Never look back, except to use the deficit to remind yourselves of “the bad old days.”

P.S. Please avoid the fiscal nonsense and gimmicks, if possible.

(“From Your NACo Rep” from page 7) non-County NACo members to all of the services and a program offered by NACo at no cost to the County and second was to provide access to the CVS Caremark Prescription Drug Program for the residents of these counties which are only available to NACo members. The grant amount provided by CVS Caremark totaled $725,000 of additional revenue to NACo.

The next NACo Board of Directors meeting will be in March during the 2011 NACo Legislative Conference in Washington, D.C. ■
Let Us Make Structural Changes for Our Taxpayers—Now is the Time

Editorial by Bob McEvoy, ICMA CM, Managing Editor

In our November 2009 Issue, we featured the inspiring work of The National League of Cities’ Cathy Spain in proposing a new and exciting financial structure to replace the “Downgraded Muni Bond Insurers”. Below is Cathy’s revised proposal which is presented to keep you up to date on this proposed major financial reform.

IssuersMutual™ Bond Insurance Company Proposal

by Cathy Spain, National League of Cities

The National League of Cities (NLC) has revised its May 2009 business plan for a new mutual bond insurance company for issuers of municipal bonds.1 The new plan proposes a public-private partnership arrangement with capital provided by the federal government, private investors such as public pension funds and reinsurers, and the issuers benefiting from the bond insurance. It is currently seeking an investment of seed capital to provide the financing to establish the company, obtain the needed financing, and create the next generation bond insurance company.

This new insurer, IssuersMutual Bond Insurance Company™ (“IssuersMutual”), will provide market access for municipal bond issuers that have been shut out of the municipal bond market since 2008 or are paying higher borrowing costs due to the unavailability and lack of affordable bond insurance. IssuersMutual will improve the salability and marketability of bonds issued by small, infrequent, and lower-rated borrowers as well as other issuers such as the bond pools that issue on behalf of these issuers. Upon the successful implementation of the IssuersMutual’s business plan, municipal issuers’ borrowing costs will be reduced and, most importantly, they will have a broader investor base for projects that will rebuild the nation’s infrastructure, stimulate the economy, and create jobs.

IssuersMutual will be formed as a financial guaranty insurance company domiciled in New York and solely dedicated to public finance. The design of IssuersMutual introduces a new structural approach—one that relies on public and private sector governance, management, and financing. This structure provides for a public finance bond insurance company that will provide policyholders (the bondholders) with a superior level of credit enhancement and municipal bond issuers with an ownership interest in the new company. IssuersMutual will be structured as a mutual company: the public finance issuers who utilize the credit enhancement will be required to invest in IssuersMutual through the purchase of the surplus notes of the insurance company and will be its members.2

Capitalization of the Insurance Company. It is proposed that IssuersMutual will be initially capitalized with an interest-bearing loan of approximately $500 million from the U.S. Treasury. In addition to this interest-bearing loan and as part of the public-private partnership approach, it is anticipated that IssuersMutual will benefit from a capital investment of at least $500 million from private investors or a reinsurance agreement that will provide first loss protection. The first loss will absorb credit losses from bond issuers participating in the enhancement program up to the $500 million limit of liability. Additional capital will be provided by the investment of bond proceeds by the issuers in surplus notes of the new mutual insurance company. This source of capital continues to grow as IssuersMutual grows and will be used to pay back the Treasury loan. A triple-A rating will be sought.3

Management Company. In addition to the creation of the new mutual insurance company, the structure establishes a management company to provide operational, financial systems and credit-writing services. The management company will be owned by the private investors. It will recommend and submit applications to the insurance company for insurance approval. Transactions will only proceed after the mutual insurance company and the private investors (or the reinsurance company that provides an agreement to provide first loss coverage) approve the underwriting submission. This approach ensures that political interference does not influence the underwriting process and that the insurance company does not insure high-risk transactions.

Scale and Timing of the Loan. The amount of the federal investment is not expected to exceed $500 million and it will be repaid as additional capital is invested into the mutual by the bond issuers. The estimated time for full repayment is approximately (5) years, subject to regulatory and rating agency approval. The interest rate on the Treasury investment will be fixed by the Secretary of the Treasury, who shall take into consideration (continued on page 12)
Participation Criteria. There will be limited classes of borrowings eligible to obtain a guarantee from the company. Only general and special purpose obligations issued by state and local governments and their agencies as well as pooled financings for essential governmental purposes will be eligible for the insurance. The underwriting function will ensure that the federal support benefits only those issuers that are responsible in their financial management activities.

Protection of the Treasury Investment. During the term of the federal investment, the company must meet certain criteria, including the following, to protect the federal investment:

- limit the types of transactions eligible for insurance to those with the lowest default experience;
- obtain private equity capital or ensure that there is a first loss reinsurance agreement between the reinsurer and IssuersMutual;
- establish appropriate reserves at IssuersMutual;
- subordinate the policyholder surplus, which includes reserves and the surplus notes held by the participating municipal issuers, to the Treasury investment;
- create a management company owned by the private equity investors that will provide credit, financial and operational services to ensure that there is no political interference in the underwriting process;
- select individuals with insurance and public finance expertise to serve on the IssuersMutual’s board of directors; and
- give IssuersMutual final approval authority on policies sold to ensure that the management company does not venture into product lines such as structured finance.

Funding and the Management of the Assets. Funding for the federal investment will be provided directly by the Treasury. The funds will be managed by asset managers in limited classes of investments defined by the IssuersMutual’s governing body, the vast majority of which will be securities of the federal government and its agencies.

Reporting, Monitoring and Accountability. IssuersMutual will follow all necessary state insurance regulations and follow generally accepted accounting principles. It will provide such information to the Treasury Secretary during the term of the investment. Audited financial reports will detail the number of entities for which the credit enhancement was provided and the total amount of credit enhancement provided.

Plan Benefits. There are multiple benefits to this structure: issuers gain access to capital markets at a reduced cost of borrowing and issuers buy into the structure and become owners by providing capital support for the company, making it a true mutual company. Bond investors receive attractive returns generated from low-risk public finance credit. The public/private partnership vests the issuers and investors with the authority to determine business and management policy. Treasury is provided with a high confidence level of security and timely repayment of the loan because there are numerous levels of protection. First, unprecedented levels of municipal defaults must occur and each defaulting entity must exhaust any debt service reserve fund. Second, losses must be in excess of the $500 million private capital or reinsurance policy limit and third, the issuers’ capital must be exhausted before the federal investment is at risk.

A fully functioning municipal bond market is essential for delivering state and local government services, improving infrastructure, stimulating the economy, and supporting national economic growth and recovery. A new bond insurance company is needed to provide the capacity lost because of the downgrades of the companies that previously provided credit support. All lost their triple-A ratings due to their involvement with high-risk, structured finance transactions that were not related to their public finance business. A new bond insurer will provide market liquidity by facilitating market access and broadening the investor base—measures that are critically important in this time of unprecedented fiscal stress.

More Information. Contact Cathy Spain, National League of Cities, spain@nlc.org or (202) 626-3123.

1 NLC is working in partnership with Bill Tomljanovic and Bonny Dorland of Labrador Consulting.
2 Surplus Notes are bond-like instruments issued by an insurance company to raise capital that pay a coupon and have a finite maturity.
3 This means that the private investor(s) provides the initial and ongoing protection or credit enhancement to the bondholders in the event of a default. This is the first of several layers of credit enhancement. First loss facilities absorb losses up to a certain level, thereby mitigating the risk of default on payment of principal and interest to other capital providers. The surplus notes will provide the second layer of protection and the federal loan will provide third-loss protection.