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What's the Future of Local Government?
--An Alliance White Paper Intended To Provoke a Needed Conversation—

Big economic, technological and social mega-forces threaten the viability of local governments across the nation. The question "What's the future of local government?" is not just a topic of academic interest but a critical business issue for public agencies. If a local government can create a vision or "story" about its future, it can help shape that future. Without a vision, a public agency will be reactive and forced to change, one crisis after another.

Sponsored by the Alliance for Innovation, this white paper suggests an emerging model for local government, discusses the experience of the City of San Jose, CA, in re-imagining its future, and provides some big questions that will hopefully provoke further conversation about the future of local government.

Crippled Public Agencies

The traditional direct service model of local government is now seriously threatened. It is not just the budget, staffing and service cutbacks crippling local governments. A whole series of forces calls into question the traditional model, including:

Escalating demands and mission creep. Over time, citizens have increased their demands on local government to respond to a whole variety of issues. Currently, local governments are being urged to respond to climate issues, the home foreclosure disaster, the "retirement wave" of baby-boomers, and the adolescent obesity challenge (to name just a few). Consequently, local governments have become full-service organizations that attempt to be all things to all people. To exacerbate matters, local government leaders have a heroic urge to respond to any new community problem or demand with a public service.

Mandates without money. Local agencies have increasingly been mandated by state and federal governments to provide new services or enforce new regulations without sufficient funding, thus siphoning money from other more basic services.

Static structures. The organizational structures, systems, processes and rules of local government are oriented toward a static world. Rigid job classifications, civil service and hiring rules, and purchasing and contracting systems are not aligned with a dynamic and disruptive world. For instance, a public agency cannot compete with a private corporation that can hire a soon-to-graduate student on the spot at a university career fair.

Accelerating technology. Technology is changing all service delivery. As just one example, a number of local governments have launched smart phone applications so that residents can report potholes, graffiti, sidewalk damage, and other service needs. Several years ago, whoever would have guessed that public officials would be tweeting constituents about community issues?

Big challenges cross boundaries. No one institution—government, business, faith-based groups, non-profits, educational agencies—can solve any one problem. Regardless of budget resources, the city police department cannot resolve by itself a major gang violence problem. All the big adaptive challenges of the day (e.g., economic vitality, climate protection, family stability, reinvestment in infrastructure, educational achievement, and immigration) require boundary-crossing.

Out-of-whack tax system. The tax system funding local governments is often based on the old industrial economy. Local agencies generally receive tax revenue when a tangible good is sold. However, our economy is now service and knowledge-based. The provision of services or the creation of knowledge does not generate tax revenue to fund local government programs. While there seems to be little political will for modernization, the tax system needs to be better aligned with the new economy if local governments are to perform their historic role.

Citizen mistrust. As the closest unit of government to the people, local governments in the past could rely on people's special allegiance. Now, local agencies are just another institution, just another service provider. Declining confidence in all levels of government, including local government, is based on a convergence of forces, including anti-government media, anti-government politicians who run against city hall, an inability to effectively address the big issues confounding communities, and periodic scandals. Citizen mistrust is reflected in ballot-box initiatives and tax and fee restrictions, as well as the public's seeming unwillingness to work with local officials in making tough choices. To make matters worse, citizens do not understand how services are

funded, thus creating a fundamental disconnect between the impacts of ballot-box budgeting and the continuing demands for services.

The "Vending Machine" Is Broken

Local government typically performs as a "vending machine." Citizens with certain responsibilities and obligations have become passive consumers of local government services. They put a quarter into the vending machine and expect a quarter (if not a dollar) worth of service. When the vending machine does not perform as desired, consumers kick it.

The other problem with the vending machine is that it is based on a deficit model. Local government services are used to fix up problems and people. Moreover, as passive consumers, people take no responsibility for the problem or the solution.

Assuming a reasonable level of ongoing funding (a big assumption), the vending machine model works for most technical problems, such as filling potholes. However, it is insufficient to tackle the big adaptive challenges which cross boundaries.

The Emerging Model

After decades of responding to new community, business and union demands, we have entered an era of "take-aways." As Michael Mandelbaum, a John Hopkins University foreign policy expert has stated, we are entering a new era "where the great task of government and of leaders is going to be to take away things from people." As local government leaders are forced to downsize services and staffing, restrain pay and roll-back benefits, shutter buildings, and eliminate grants to non-profits and subsidies to businesses, we will need to engage in difficult conversations focused on redefining the expectations, roles and systems of local government.

Given this new era, we believe that there are at least eight elements to an emerging model for viable local governments.

1. More disciplined government, focused on its "core" businesses

In the midst of accelerating and discontinuous change, most private, public and non-profit organizations are struggling to define "core" businesses. What is core and non-core for a local government depends on the community. For example, in a

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northern California county, the county executive recently approached the city managers in the county to discuss which discretionary services their governments may wish to contract out and those core businesses they desired to keep in-house. Surprisingly, public safety was not identified as a service that must be provided by the city government. Public safety services may be essential but police and fire programs could easily be provided by other agencies (e.g., the county or a joint powers authority) in perhaps a more cost-effective manner. City managers did indicate that their agencies wanted to keep in-house land use planning (related to the physical character and economic viability of their communities) and park programming (related in part to the quality of life in their communities).

To identify the core, local government leaders obviously need to have courageous conversations involving elected officials, management, labor unions, and business and community groups. Once the core is defined (no easy task), then elected officials and top management need to be focused on the core businesses and not get distracted.

As one example of this effort, the City of San Jose is engaged in a program prioritization process in order to identify the most important services based on the strength of the impact on a set of outcomes desired by the Council and the community. Once ranked as a high-priority program, top management and the governing board can decide the nature of the local government involvement. For example, should local government deliver the service itself or ensure that it is delivered by some other entity (presumably at a lower cost and perhaps more effectively)?

2. Demonstrating value

As just another service provider, local government agencies will be required to deliver and demonstrate value. Local agencies operate in a competitive marketplace. Taxpayers/consumers are asking in increasingly strident voices if they are receiving value for their tax dollars. Reducing its cost structure, streamlining, performance measures and other accountability efforts are key initiatives as local government improves its value proposition.

3. Integration of technology into all service delivery

Obviously, technology will become an integral part of all service delivery. Technology has already transformed many library services. Surveillance cameras

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are transforming police work. New building technologies call into question fire suppression services.

4. Constantly morphing organizations and systems requiring ever-learning employees

Local government agencies need to jettison rigid personnel systems and practices, as well as ossified purchasing and contracting processes. Constantly morphing organizational structures and practices will require flexible and ever-learning employees who will take on new challenges about which they know little, do some research, respond, make mistakes, and fix up their responses as they go along. The model of loyal, compliant civil servants needs to evolve more to knowledge workers who are self motivated, change-proficient and adaptable.

In this kind of dynamic environment, technical know-how quickly becomes obsolete. Learn-how becomes as important as know-how.

5. Shared services

Given the cost structure of local government, shared services (collaborative service delivery) will become a more prevalent approach for providing services to the public. Shared service approaches include:

Self-service. Examples include businesspeople who conduct self-inspections in certain low-risk situations just like library patrons who check out their own books.

Contracting out. Local agencies can contract out to private, non-profit, and other public organizations back-room functions as well as many discretionary public safety and community services.

Regionalizing services. Fire, police, public safety communications, SWAT and hazmat teams, employee development and purchasing can all be delivered by regional organizations such as joint power authorities.

Leveraging assets. Local governments can sell or barter their services, expertise, equipment, facilities, and technologies to other public and non-profit entities, reducing the cost for everyone.

Partnering to co-produce the service. Local governments will increasingly partner with neighborhood associations, non-profits, voluntary parent and sports groups,

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and business organizations to deliver all kinds of service. Instead of directly delivering the service, local agencies can provide their expertise, facilities, some level of seed funding, or other assistance so that these other interested entities can organize after-school programs, neighborhood safety efforts, tree planting and maintenance, and economic development activities.

6. Nongovernmental solutions

Typically, local government is at the center of any problem-solving. People look to local government to solve all problems. This government-centric approach is no longer viable given constrained resources. Given the continuing limitations of public agencies, local government must put the issue (e.g., economic vitality, affordable housing, gangs, education achievement) in the center and become just one partner among many. With an issue-centric approach, local government leaders can better resist the heroic urge to take on every new challenge.

7. Authentic civic engagement

To address any significant challenge, local agency representatives need to cross boundaries. Local government is now just another player. To exert leadership in such a situation and address tough issues, local government officials must start conversations with other players, convene stakeholders, facilitate problem-solving, integrate the interests of other parties, and mobilize action. Only through this kind of authentic engagement can local governments turn stakeholders into partners.

Committing to authentic engagement requires a "barn-raising" model for local government work. In our agrarian past, families who needed to raise a barn would put out a call to neighbors. Someone would hold a ladder; someone else would hammer; others would bring the food for all the workers. In addressing complex adaptive challenges, local government needs to put out a call for different kinds of contributors and engage them in "barn-raising." As opposed to the vending machine approach, barn-raising is an asset, not a deficit, model.

8. Change in Workforce

Even for the most sophisticated agency, all of the above elements in the emerging model portend significant transformation of the local government workforce, especially moving away from traditional risk-adverse, seniority-based systems.

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Shared services require employees who are adept at operating within networked environments in which success is increasingly dependent on relationships. More than ever before, the ability to reach intended goals will be based upon alliances with internal and external partners—the lean core organization managing relationships with providers on behalf of the organization's constituents. For example, in San Jose, the city parks department was able to avoid some summer pool closures because of new relationships it leveraged with external private sector operators. This new model was very different than the traditional and increasingly unaffordable model of staffing pools with city employees.

Given the move toward self-motivated, adaptable workers, agencies will have to prepare for employees who are more self-reliant in their careers. Workers will depend more on themselves than the organization, looking to the agency less for lifetime employment and security and more for skill-building—something smart organizations will provide in order to have a competitive edge in attracting the best talent. The old social contract of loyalty to the employer in exchange for lifetime employment has long left the private sector. Local governments need to adapt to the new social contract of public employees who will stay with local agencies as long as they are learning and expanding their portfolio of experiences and skills.

Knowledge-sharing and portability will also continue to grow and influence the local government landscape. Knowledge used to be something that was hoarded (the more knowledge I have the more I'm worth), but now this approach is progressively viewed as weakness, especially among knowledge workers. Employees want opportunities to leverage knowledge-sharing. This is most evident in the explosion of social networking opportunities. In addition, few boundaries will exist for when and where work is done with perhaps some continued exceptions for public safety services. Employees will expect flexibility on where and when work will be performed. As job tenures are becoming shorter, some may see work as a series of time-defined projects. Retirement reform efforts and movement away from the traditional defined benefit toward the defined contribution retirement plans may be seen as complementary to this portability trend.

Lastly, as local governments become leaner core organizations that provide services through convening stakeholders, facilitating adaptive challenges and managing relationships with internal and external providers, the relative make-up of the local government workforce will become even more knowledge worker in composition. Knowledge work involves more diverse and amorphous tasks guided by professional judgment as opposed to traditional production or clerical work

which is routine, clear-cut and predictable. US Department of Labor statistics already demonstrate that state and local government workers are twice as likely as their private sector counterparts to have a college or advanced degree. The leaner local government of the future is likely to be even more highly skilled than the general labor market and represent a diversity of professionals.

Promoting the Emerging Model

To promote the new model of local government in an era of take-aways, appointed and elected officials need to engage in courageous conversations about limitations, expectations, and the "what" and "how" of government. While modernizing and reforming contracting, purchasing and civil service systems are absolutely essential elements of the emerging model, local governments will still be held to high standards. Citizens and their elected representatives will continue to require fairness, equity, accountability and transparency—key ethical values that are the hallmark of the public sector, especially local government. These changes will first require conversations with all parties in order to surface issues and obstacles and then ultimately political courage by local government leaders.

In addition to courage, local government agencies must free up "slack resources" to make strategic investments, either by over-cutting or by partnering with other entities. These strategic investments include investments in technology and employee development.

Government now needs to reap the benefits of IT-led productivity growth that has accrued to the private sector in the last three decades. This means investing in enterprise-wide IT systems, such as Customer Relationship Management (CRM) systems, Enterprise Resource Planning (ERP) systems, and Knowledge Management (KM) systems. Of course, with approximately 70% of all our resources invested in employees, we cannot increase the productivity of knowledge work without investing in employee development through new learning and employee development initiatives. As opposed to IT investments, learning initiatives are relatively cheap. These include job rotations, special assignments, interim positions, talent exchanges internally and externally, team leadership assignments, and soft skills training.

The San Jose Experience

To help shape its future, the City of San Jose, CA, is trying to proactively envision a new future in the face of dramatic budget cuts, layoffs, and service reductions.

The City of San Jose serves almost one million residents under a mayor/city council/city manager form of government. Over the last decade, the City has faced persistent budget shortfalls as cost escalation continued to outpace revenue growth. This systemic problem grew far worse in the last few years as a result of the economic meltdown that led to significant declines in the City's major revenue sources as well as escalating retirement and benefit costs. Drastic budget balancing actions have been necessary to close General Fund budget gaps totaling $565 million over the past nine years, with over $200 million addressed in 2009-2010 and 2010-2011 alone. Since 2001-2002, over 1,600 positions have been eliminated, a 22% decline in the workforce.   Over 1,100 of these positions were eliminated in the last two years, resulting in over 200 layoffs and the transfer and "bumping" of hundreds of employees into other positions and departments. The staffing level for San Jose now stands at 1994-1995 levels when the City's population hovered near 825,000. While the economy has started to recover, another large budget shortfall of over $100 million is projected for 2011-2012 due, in large part, to the continued escalation of retirement costs. Addressing this large budget gap will necessitate further drastic reductions in the City's services and programs as well as City staffing levels.

Under the leadership of Debra Figone, City Manager of San Jose, the city's senior management team has begun to develop a new story for its local government. The senior management team has conducted a number of discussions around three questions:

What is the city government like today?
What should city government look like in four years?
What does city leadership need to do now to achieve our new vision?

A summary of that discussion is depicted below.

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City of San Jose
Managers / Supervisors discuss challenging questions about City government's future

TODAY

- Security and certainty gone; all is in flux
- Unrelenting annual budget pressure
- Fiscal sustainability threatened
- Antiquated systems: revenue, civil service, IT
- Now doing less with less
- Some "traumatized" workforce
- Public-private is blurring
- Open government is way of life
- Boomer retirements coming; looming loss
- Public resentment towards pension benefits
- Civil service rules prevent sustainable workforce and succession planning
- Traditional City model feels outdated
- Uneven approach: regulating vs. facilitating

What is City government like today?

LEADERSHIP PRIORITIES

- Align expectations to reduced organizational capacity
- Deal with financial challenges head on
- Take smart risks, reinforce safety net
- Reform retirement benefits
- Reform compensation structure
- Reform civil service system
- Innovation / new models / outsourcing
- Succession planning
- More partnership with community
- Cost control for public safety
- "Green" infrastructure replacements
- Revenue generation
- Embrace technology solutions; make IT investments
- Consolidate services across departments

What must we prioritize to get there?

FUTURE LEGACY

- Enable outside partners to deliver services, rather than delivering them ourselves
- Smaller, highly skilled core staff
- Skilled line staff work in self-managing teams
- Residents are citizen-partners, not just customers "buying services"
- More focused; more capacity to prioritize work
- Employee costs aligned; but "Tier 1" talent retained / attracted
- IT fosters more efficiency, reliability
- Smooth transition to next-generation leadership
- Willing to take risks to get rewards
- Many alternate hybrid service models
- No silos within or across departments

What should our City government be like in 4 years?

WORKING DRAFT, FEB. 2011: For conversation only

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Provoking a Needed Conversation

As a result of this white paper, we hope to provoke a conversation among local government leaders across the country about the future of local government and thus learn from each other's best thinking. To help initiate the conversation, we are posing some critical questions:

Are the problems jeopardizing the traditional model of local government transitory or long-term challenges?

Are there other trends and forces not discussed in this white paper that are threatening the viability of local government as we know it?

Can local governments survive and hopefully one day thrive without aligning the tax system with the service and knowledge economy?

Is the "emerging model" outlined in this white paper sufficient to address the overwhelming challenges facing local governments today?

In practice, how do local government leaders rebuild trust and confidence in our public agencies?

If the traditional model of local government is not viable in the mid- to long-term, what practical steps must local government leaders take now to move towards a more viable model?

Again, the future of local government is not an academic issue. The viability of local government agencies is based on our ability to re-envision our government and figure out real-world actions to move us in the desired direction.

Participating in the Conversation

To participate in this needed conversation, local government leaders can email their reactions to this white paper and respond to the following issues:

What resonates with you?

What does not resonate?

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What do you have to add to the discussion?

Please email your responses to Dr. Frank Benest at frank@frankbenest.com.

It is our intent to summarize the responses to this white paper and distribute a follow-up document via the Alliance for Innovation.

Thank you for your concern and commitment to the future of local government.

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Debra Figone is the City Manager of San Jose, CA. Kim Walesh is the Chief Strategist and Mark Danaj is the former Human Resources Director for San Jose (and now currently serves as the Assistant City Manager of Fremont, CA). Dr. Frank Benest is the former City Manager of Palo Alto, CA, and currently serves as a consultant to San Jose.