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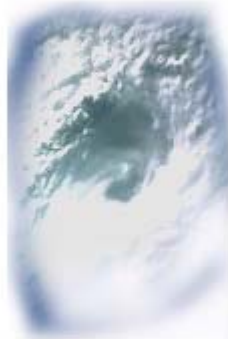
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**Surviving the Perfect Storm**

*By Lee Merkhofer, Ph.D., Lee Merkhofer Consulting and Bob Hart, President of IG*

In Sebastian Junger's true story, *The Perfect Storm*, separate weather systems, each extraordinary in its own right, combine to produce the storm of the century. One-hundred-foot-high waves doom the fishing boat Andrea Gail.

Local government is beginning to experience its own perfect storm. In this case, the components are structural fiscal pressures, growing demand for services, and lost public trust.

To avoid a fate similar to that of the Andrea Gail, local governments need to evolve and adopt new and innovative tools. The capability to quantify the value of the services that local governments provide is one such tool. In short, local government needs to embrace the methods used by successful managers in federal agencies and the private sector that enable them to measure, explain, and defend the value of what they do.

**The Brewing Storm**

The forces building against local government are powerful. Severe financial problems are being caused by escalating costs, revenue losses, stagnant local economies, deficit spending, and tax-cut initiatives. According to the Osborne and Hutchinson book, *The Price of Government*, 16 percent of cities and towns have cut police services. Some 100 local school districts shut down schools one day a week to save money.

While financial resources are drying up, the demands on local government continue to grow. The causes include aging populations, aging infrastructure, and social problems that include crime, drugs, gangs, mistrust or misunderstanding arising out of cultural differences, and, now, the threat of terrorism.

Meanwhile, public confidence in leaders and institutions has been declining for over 3 decades. Local government used to be the one level that retained some measure of public trust. Now, only 25 percent of nation-wide respondents say they believe local officeholders have "high" or "very high" levels of honesty and ethics.

Like the atmospheric forces in Junger's story, the forces impacting local government combine and compound. Insufficient resources, together with adverse media coverage, legal challenges, and public opposition to proposed solutions, make it nearly impossible for managers of local governments to succeed. The storm is no longer on the horizon, it is here.

## **A Fundamental Problem**

Local governments might not be in this situation were it not for a fundamental problem. As government administrator Jack W. Carlson expresses it, "Government has a defect central to its very existence—It does not know how to tell whether many of the things it does are worth doing at all."

Suppose local governments had a credible way to put dollar values on candidate activities. The purpose of government is to provide services that citizens value. Thus, by value, we mean the value that citizens would assign. Quantifying project value would be a powerful way to explain and defend decisions, and to demonstrate accountability and rebuild public trust.

For example, suppose the value of a proposed activity was estimated to exceed its cost. There would be a persuasive argument for doing it. Conversely, if it were clear that the value of some proposed activity did not justify its cost, there would be a good argument for not doing it, regardless of pressures from politically powerful special interests.

Quantifying project value would likewise help address the problem of insufficient resources. If resources are constrained, then those activities that add the greatest value per dollar of cost (those that create the biggest "bang-for-the-buck") should be done first. Demonstrating that high-value projects remain unfunded would be a good argument for obtaining additional resources; for example, by diverting funds from other areas that aren't generating as much value or by increasing fees and taxes (since the net effect of doing projects that provide more value than they cost is net value to the community). Resistance to tax increases is based, at least in part, on the pervasive belief that citizens don't get real value for their tax dollars.

## **Methods Exist for Quantifying Project Value**

As described in an article in the previous issue of the IGNewsletter, the federal government has, over the past two decades, been sponsoring research on methods for valuing and prioritizing projects. The approach, known as multi-attribute utility analysis, involves identifying what people want and the trade-offs they are willing to make to get what they want (including the tradeoffs between financial and non-financial ends, like protecting health and safety and the environment).

Multi-attribute utility analysis has similarities to cost-benefit analysis, but unlike cost-benefit analysis, it can be used to value ends that are not priced in the marketplace. Cost-benefit analysis has gained a bad reputation among some. When used to evaluate investments that include "intangible benefits" (e.g., like some of the benefits of environmental regulations) it often shows that the benefits don't justify the costs. The bias occurs because cost-benefit analysis omits important benefits from the equation. Multi-attribute utility analysis can be used to value any type of benefit.

The Department of Defense, Department of Energy, NASA and other agencies have used multi-attribute utility analysis to guide a wide range of decisions, including prioritizing environmental clean-ups, upgrading facilities, choosing R&D projects, and space mission planning. The private sector has developed its own version of these tools. Many companies that routinely make very large investments, such as large pharmaceutical companies, now routinely use sophisticated analytical methods for evaluating and comparing alternatives.

## **Additional Work is Needed to Create the Tools that Will Help Local Governments**

Only a very few applications of multi-attribute utility analysis have been conducted for local governments. Catawba County, NC's tool for valuing and prioritizing water and wastewater projects (described in last month's IGNewsletter) is one of the first. Additional pilot applications are needed to create practical tools for valuing and prioritizing other types of local government expenditures, such as investments in education, hospitals, storm water control, community redevelopment, and police services.

This will also be the topic of an IG Satellite TV broadcast scheduled for July 27, 2005. Details will be forthcoming. IG is seeking local governments that may be interested in participating in the testing or development of such tools. If you are interested in learning more, please contact Bob Hart.

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