GOVERNING
THE STATES AND LOCALITIES
August 2015

In Treatment

How Miami stopped criminalizing mental illness.

Clark is a participant in Miami's mental health offender diversion program.


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GOVERNING 08.2015

PHOTO BY DAVID KIDD
COVER PHOTO BY DAVID KIDD

A monorail track cuts through Seattle's Experience Music Project Museum.

FEATURES

DEPARTMENTS

FEMA/JOCELYN AUGUSTINO

16

APIMAGES.COM

12

SHUTTERSTOCK.COM

58

Freedom of Information/Public Records Request

Part I: I hereby request to: X Inspect ___Copy the following records:
(please be specific and include names, dates, keywords, and name of record type where possible).

Please provide all Everton City and Police Department social networking content from May of 2012 regarding special notices and street closures related to the Everton Memorial Day parade

Part II: What format do you request? X Electronic ___Paper

Part III: Name of individual(s) requesting information: John A. Citizen

Address: 1076 Freedom Way City: Everton State: TX Zip: 75996

Phone: (210) 867-5309 Email: jpublic1@gmail.com

REQUEST FOR SOCIAL MEDIA RECORDS

For Internal Office Use Only

Date Request Received: July 1, 2014 Request Status: Pending

Notes: Staff has invested more than ten hours scrolling through social media pages and collecting stored screenshots from department hard drives. Citizen comments no longer available, City Attorney issued subpoena to social network – response still pending after four weeks.

The Test of Time

At first glance, this month's feature articles may not seem to have much to do with one another. But in fact, they share a common element: time. Quick fixes are rare in government; the things that matter most take a long time to get done. In Liz Farmer's article on social impact bonds, for example, she writes that while the bonds are a very hot idea right now, no such project has reached its end date yet, so nobody knows if any of them has officially "worked" or not. It might take decades for the real results to become apparent.

Similarly, Daniel C. Vock, in his story about light rail in the Sun Belt, writes about early signs that Phoenix's project is having a positive impact. But as even proponents acknowledge, we won't really know for many years. Then there's Chris Kardish's feature on Seattle Mayor Ed Murray, a progressive who, despite an impressive set of accomplishments, is under fire from his left for not moving fast enough.

Mark Funkhouser, Publisher

John Buntin's cover feature is about the success that Miami-Dade County Judge Steve Leifman is having in diverting the mentally ill from jail and into treatment. Incarcerating the mentally ill is inhumane and expensive, and yet in this country every year 2 million people with serious mental illnesses end up behind bars. At a recent *Governing* event in Texas, I asked Dallas County Sheriff Lupe Valdez what her biggest challenge was. Her quick reply was mental health. Leifman seems to have cracked the code on this problem, with results so dramatic that the county was able to close one of its five jail facilities.

But this didn't happen quickly. Leifman's first exposure to problems with the way government handles the mentally ill came in 1973, when he was interning for a state senator and was sent to check out a constituent issue at a state mental hospital. In 1994, as acting chief of the county court division, he tried to organize a conversation among judges, prosecutors and police chiefs to discuss the issue. Nobody showed up. He became a judge in 1996 and has been working actively on mental health issues since 2000.

The big issues take time, a tough commodity to come by in politics. Often the counsel to be patient and go slowly comes from those who actually don't want things to change. But a lot can be accomplished with persistence and resilience. Leifman didn't quit when no one turned up for his meeting. He knew that locking people up for mental health problems was insane and that eventually others would join him in changing things. That's leadership.

GOVERNING

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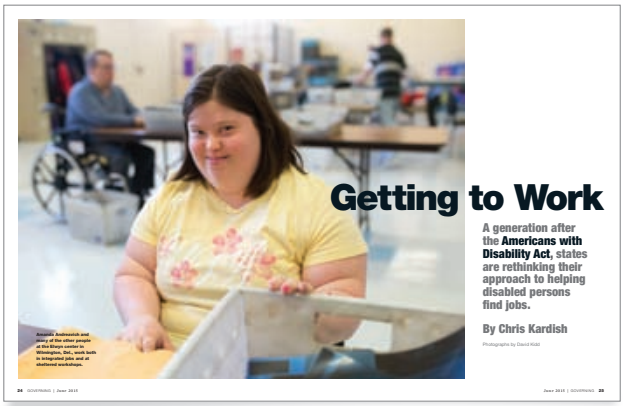

Getting to Work

A generation after the **Americans with Disability Act**, states are rethinking their approach to helping disabled persons find jobs.

By Chris Kardish

Photographs by David Kidd

Amanda Andonovich and many of the other people at the Kreps center in Wilmington, Del., work both in integrated jobs and at sheltered workshops.

24 GOVERNING | June 2015

June 2015 | GOVERNING 25

Hiring the Disabled

In his June cover story "Getting to Work," Chris Kardish looked back at 25 years of the Americans with Disabilities Act (ADA) and one of its biggest failures: jobs for the disabled. According to federal statistics, the employment rate for the disabled remains basically unchanged after a quarter-century, and many of the 34 percent of Americans with disabilities who do have jobs are in sheltered workshops earning $2 an hour. Several states are looking to remedy the situation through integrated employment, where people with significant disabilities have jobs in typical workplace settings. The push is not without its critics. Several readers wondered if the integrated workforce movement was right for every individual with a disability. Some readers took issue with the employment data itself.

I find this article simultaneously disheartening, confusing and optimistic. My optimism comes from the fact that we are having this discussion and looking for ways to provide people who can handle it with meaningful work in non-segregated settings.

I am disheartened that 25 years on, it is obvious that there are still big barriers to full employment for people with disabilities. [Some of those] barriers come from counselors with limited imaginations about what people can be trained to do.

Unfortunately, I find the statistics incomplete and misleading. It seems that only people who are part of a state's disabled caseload are counted. It is also misleading to look at employment without some analysis by age, work history and education. Are we looking at college-educated people facing discrimination that the ADA should prevent? Are we looking at people who are no longer able to work due to a change in health status?

I would like to see an article with better data. I don't want all sheltered workshops to end; they're appropriate for some people. At the same time, I don't want to see lives squandered at $2 per hour when people have the ability to do more.

—WriterCPA on Governing.com

It seems to me *Governing* used available stats but did not ask the right question: Whether those stats are adequate to describe the situation referred to/ They beg the question of what proportion of the disabled want or can do jobs. Note that "disabled" covers a broad range of physical and mental conditions, ranging from ones that allow many types of employment, to retired people who have had a full work life and are now suffering dementia, to the severely mentally disabled for whom it would take considerable ingenuity and tolerance for risk to design a job.

—Ian Straus on LinkedIn

The choice for integrated employment is extremely important and everyone should be given that opportunity, but without other options [like sheltered workshops], you have taken away an individual's choice. What is fair about that?

—Concerned Parent on Governing.com

Repair, Don't Build

Senior Editor Alan Ehrenhalt's June Assessments column "Pavement Enslavement" detailed the activist Charles Marohn's view on transportation funding. A civil engineer from a small Minnesota town, Marohn believes that the U.S. has built more highways than it can afford to maintain, and that, until the problem is dealt with, Congress should spend nothing to fix the nation's troubled transportation system. Marohn advocates a "fix it first" approach, whereby roads are repaired and maintained before new ones are built.

Charles Marohn's message is a vast oversimplification of the process. That being said, in New Jersey, planners and a multidisciplinary approach for the last 35 years have espoused most, if not all, the physical solutions that Marohn likes except for the defunding of a regional transportation network. New Jersey policy since the mid-1990s has recognized a "fix-it first" strategy; however, at the political level some compromises have accommodated political leadership desires. For instance, a new lane on the interstate highway designated as an HOV lane became a "general purpose lane." That is the nature of our system, and as more political realists understand the "needs and wants" of a changing electorate, it is hoped that a realization to better fund transportation maintenance, repairs and "complete street" strategies can prevail upon fiscal nihilists to see the prudency of public safety and fund it at a realistic level that executives and legislative leaders have been timid to honestly act on or talk about.

—John C. Jennings, retired supervising planner, New Jersey Department of Transportation

The main problem I see is not one of building new highways. The main problem is maintaining what we have. If the cost of new roads is a problem, perhaps the bar for justifying construction of new highways is set too low.

—Don Cooper on Governing.com

Correction: In the July Economic Engines column "How Fast is Fast Enough?," Alex Marshall stated that Interstate 35 stretches from El Paso up to Minneapolis. Rather, I-35 bisects the country between Laredo, Texas, and Duluth, Minn.

Louisiana Gov. Bobby Jindal's out-of-state trips cost state police more than $2 million.

APIMAGES.COM

When Governors Travel, Who Pays?

GOV. BOBBY JINDAL has been traveling a lot lately. That's not surprising, considering that he's running for president. But legislators in Louisiana grew upset when they learned providing security for his trips had cost the state police more than $2 million over the past budget cycle. So they inserted a provision in this year's budget blocking the agency from paying for protection for out-of-state political trips. "That was an effort by some legislators to say, 'The state should not be paying for your presidential campaign,'" says GOP state Rep. Chris Broadwater.

The question of who should pay for what the governor does comes up all the time. In that job, you don't have to run for president to face questions about expensive trips paid for by economic development agencies or other parties. Governors run relatively small operations overseeing the whole of state governments. Many stretch their office budgets by having agencies pick up the tab for all kinds of things, routinely "borrowing" staffers from state agencies, offloading some share of their costs. This spring, for example, the auditor's office in Missouri found that over a three-year period, 14 agencies had spent about $948,000 for all or part of the salaries and travel costs for six employees in Gov. Jay Nixon's office and the governor's mansion. Several agencies kicked in an additional $732,000 for other expenses. "As a result, the governor's office has significantly under reported the true costs of operating the office," the audit found.

"It happens a fair amount," says Ray Scheppach, a former executive director of the National Governors Association (NGA). "One state would pay NGA dues with 12 checks from 12 different agencies."

When the transportation department pays for the guy sitting in the governor's office shaping infrastructure policy, that may constitute a legitimate expense, but it's still a problem, suggests Steven Procopio, policy director for the Public Affairs Research Council of Louisiana, a watchdog group. Budgets should clearly reflect the state's priorities. "It doesn't make a difference to the bottom line, but it does make a difference in terms of transparency," he says. "You want a budget that reflects the priorities of the state."

No one wants budgets to be a shell game. A million dollars appropriated for education shouldn't go to prisons. But there will always be overlap between state agency functions and virtually everything a governor does. It may make perfect sense for a governor to share costs or pass the bill on to agencies. Nevertheless, it's clearly worth keeping an eye on. Even if there's no corruption or abuse, a governor's office might decide to work around dedicated fund restrictions, for instance, by billing an agency for perfectly defensible costs, which would have the effect of freeing up general fund money to be spent in other ways.

There's nothing the public hates more than the impression politicians are feathering their own nests. That's why there's always media attention when a governor gets in the habit of expensive trips, no matter who pays for them.

Other than weathering a little criticism, however, it's not clear that a governor intent on spending other people's money can be easily stopped. What the Missouri audit showed as much as anything is that Nixon has been willing to ignore restrictions prohibiting most agencies from paying for his office costs. And Jindal wasted no time using his line-item veto authority to delete the provision that would have blocked the state police from accompanying him on his political trips.

—Alan Greenblatt

On Social Safety Net, Conservatives Get a New Voice

KANSAS AND MAINE have made headlines in recent months for enacting conservative reforms to their human services programs for low-income residents. Now a burgeoning national organization wants to spread initiatives like those and provide a place for officials to exchange other conservative ideas for reforming the safety net at the state level.

In recent decades, partisan groups have sprouted up to represent all sorts of state and local government officials: Governors, attorneys general, secretaries of state, state legislators and mayors all have national political bodies with specific ideological bents. But until now, there wasn't a partisan equivalent for state officials who oversee public programs for the poor. That's the purpose of the Secretaries' Innovation Group (SIG), which brings together conservative state secretaries of human services and lobbies for their priorities.

Members of the group must work for a Republican governor and must adopt an "activist" approach to reforming the nation's safety net programs. That means "you don't want to be just presiding over a government agency," says Executive Director Jason Turner, who founded the group in 2012. "You want to actively promote change." The organization seeks to limit government spending, support state autonomy and tighten work requirements within the nation's antipoverty programs.

Before forming the group, Turner oversaw departments of human services under former Wisconsin Gov. Tommy Thompson and former New York City Mayor Rudy Giuliani. More recently, he's worked for Illinois Gov. Bruce Rauner. So far, SIG has held nine conferences around the country, putting members in the same room with poverty researchers, federal officials and other state secretaries.

Jason Turner founded the Secretaries' Innovation Group in 2012.

WWW.C-SPAN.ORG

The conservative critique of government assistance is that the programs induce dependency and anchor people in perpetual poverty. The solution? Limit aid and add incentives to find employment. Maine offers an example. Under Mary Mayhew, Maine's commissioner of health and human services, the state has added welfare fraud investigators, instituted drug testing of ex-felons in its cash assistance program and ordered towns to stop using state welfare funds to cover emergency expenses for undocumented immigrants. After shorter time limits were imposed for families on cash assistance, caseloads fell more than 50 percent in three years.

Or consider SIG's proposals for modifying the federal Supplemental Nutrition Assistance Program (SNAP). Households on SNAP wouldn't be able to use their benefits to buy soda, candy and other unhealthy food. In an attempt to screen for fraud, states would be required to place photos on debit cards that store SNAP benefits. Currently, the federal government allows states to waive work requirements for able-bodied adults without dependent children when local unemployment is high; SIG would do away with the waivers, even during economic downturns.

Turner envisions SIG as more than just a vehicle for communicating ideas across state lines. It's also a way for conservative secretaries in human services to lobby Congress with one voice. Mayhew and other members of SIG have signed off on white papers aimed at altering federal disability insurance, unemployment insurance and food assistance. In the span of a few years, they've become fixtures at congressional committee hearings on public assistance; the powerful House Ways and Means Committee regularly requests testimony from SIG members. The group last year persuaded Republican lawmakers to fund 10 pilot projects that will test experimental SNAP employment and training programs.

"They are a voice that is very attentively listened to on the Hill," says Douglas Besharov, a conservative poverty researcher who has attended SIG conferences and testified before the House. Besharov points out that the group's membership now represents 18 of the 31 states with Republican governors, and many of them personally attend the conferences. "There's strength in numbers. This is a lot of states with a lot of influential people."

—J.B. Wogan

The Higher-Wages Housing Crunch

WHENEVER A MINIMUM-WAGE increase is proposed, you can count on hearing certain warnings, including that employers will cut back on hiring, or that prices could go up for consumers. Now that cities have gotten in the habit of setting their own minimums, a new concern has come up: the possible effect on housing prices.

The cities that have adopted a $15-per-hour minimum wage—Los Angeles, San Francisco and Seattle—are already some of the country's most expensive places to live. Some economists are concerned that increased incomes will put still more pressure on housing markets in these areas. It's simple supply and demand, says Chris Thornberg, founding partner of Beacon Economics in Los Angeles. If people have more to spend in the low-end rental market and there isn't new construction, prices are bound to rise, he says—eating up much of the benefit of increased wages, "particularly with a big-ticket item like housing."

This became part of the debate before Los Angeles approved its increase in May. The idea might make sense on paper, says Michael Reich, director of the Institute for Research on Labor and Employment at the University of California, Berkeley, but there's no data showing minimum-wage levels have any effect on housing. "Cities that are enacting minimum-wage increases to $15 are doing so over five to six years," Reich says. "That's enough time to expect some responses from housing supply."

It's not yet clear how the working poor will respond to their raises—whether a family now renting a single room in a crowded house, say, will decide to find more space somewhere else, thus creating more demand. The poor will certainly be helped by having more choices, says Joel John Roberts, CEO of People Assisting the Homeless in L.A. "Now, when we help people find jobs who are homeless, they typically get minimum-wage jobs, which doesn't pay market-rate rent." Arguing that their wages shouldn't go up is like saying the economy should never grow because that would increase rents, he argues.

This unsettled question about housing costs reflects a new reality about the minimum wage. Having cities mandate wages that are substantially higher than state or federal levels could have effects that are not yet understood. "The more localized these increases are, the more spillovers there can be into other markets," says Michael Strain, an economist at the American Enterprise Institute.

—Alan Greenblatt

FLICKR/THOMAS HAWK

THE BREAKDOWN

$46k

Amount paid by Tennessee to a design firm to produce a new logo for the state. The resulting image—a white "TN" floating on a red square, with a blue line across the bottom—has been determined by the U.S. Patent Office to be so simple that it cannot be trademarked.

57k

Number of deaths in the U.S. that could be prevented between now and 2100 if carbon emissions are reduced enough to limit the rise of the average global temperature to about 2 degrees Celsius, or 3.6 degrees Fahrenheit, according to new calculations from the Environmental Protection Agency.

12

Number of states that allow the sale of raw milk in stores. Advocates say milk that hasn't been pasteurized is easier to digest and helps boost the immune system; however, the USDA says there are no particular health benefits to raw milk.

$4k

Amount Montgomery County, Pa., will spend to replace 26 signs that spelled the word "commissioners" with only one "m."

SOURCES: *THE TENNESSEAN, LOS ANGELES TIMES*, NATIONAL CONFERENCE OF STATE LEGISLATURES, *U.S. NEWS AND WORLD REPORT*

Remembering Pinckney

AS A PASTOR, Clementa Pinckney spoke at rallies protesting the police shooting of Walter Scott in North Charleston, S.C. As a state senator, Pinckney championed legislation making South Carolina the first state to require all law enforcement agencies to use body cameras. "He never disconnected his ministry, as a minister, from his ministry as a public servant," says Marguerite Archie-Hudson, a political scientist at the College of Charleston.

The body-camera bill was signed into law on June 10—seven days before Pinckney, along with eight other African-Americans, was shot and killed at Emanuel African Methodist Episcopal Church in Charleston by a white assailant.

President Obama delivered the eulogy at Pinckney's funeral on June 26. Thousands of mourners paid their respects two days before inside the rotunda of the state Capitol building, where Pinckney's open casket lay in state. "It's a tragic loss to the Senate and to the state of South Carolina," says Republican state Sen. Thomas Alexander.

Pinckney, a Democrat, was 41. He was called both to the ministry and to politics at a young age. He began preaching at the age of 13 and later served as a House page. At 23, he became the youngest African-American ever elected to the South Carolina House. Four years after that, in 2000, he was elected to the state Senate.

He was not a "fire-and-brimstone kind of guy," Archie-Hudson says. "He really was a guy who thought if you could get people to the table, whether it was at the church or at the legislature, you could find common ground."

Pinckney had a big baritone voice but a calming presence. He was "always positive," Alexander says, always eager to find consensus, happy to hear out people with whom he disagreed politically.

Alexander worked with Pinckney on nutrition programs, including Healthy Bucks, which provides coupons doubling the value of food stamps for purchases of fruits and vegetables made at farmers markets and groceries. Without Pinckney's leadership, Alexander says, "that initiative would never have been embraced."

"This was the first ever state-level legislation in the country to support this type of programming," says Carrie Draper, policy director at the University of South Carolina Center for Research in Nutrition and Health Disparities. "His efforts have already led to hundreds of South Carolinians gaining access to quality produce that they wouldn't have otherwise and for dozens of small-scale family farmers to increase their income—numbers and impacts that will only continue to grow as the program expands because of the foundation he laid."

Pinckney represented a district that spread across six mostly rural counties, with a land mass roughly the size of Rhode Island. He focused on education, as well as economic development issues, such as improving port infrastructure and securing tax incentives for construction of an upscale outlet mall in his district.

He was also a champion of state aid for low-income kids, advocating increased benefits for foster children. "Ought we not look out for people we represent who have no other recourse, even those who don't contribute to our campaigns or don't even vote?" he asked during a 2009 debate over payday lending. "Are we doing our jobs?"

Pinckney "was the moral conscience of the General Assembly," says Democratic Sen. Marlon Kimpson, who credits Pinckney's floor speech with pushing through the police body-camera bill.

In his May 9 speech, Pinckney invoked "doubting" Thomas, the apostle who refused to believe in Christ's resurrection, "except I shall see in his hands the print of the nails."

Those who similarly could not believe a police officer would shoot someone repeatedly in the back were convinced by a video, Pinckney said. "I believe we all were like Thomas and said, 'I believe.'"

Pinckney, who came from a long line of preacher-politicians, was always conscious of his place in history, both as pastor of one of the oldest African-American churches in the country and as a politician trying to make a difference in the lives of others.

His death, along with those of the other victims, helped lead his state, the region and the nation to rethink the symbols used to mark the past, such as the Confederate flag. "Part of the legacy of Sen. Pinckney will be that his very life made the case about why it was so important to have the hard conversation and stay with it long enough to find some common ground," says Archie-Hudson, the political scientist.

Last month the South Carolina Legislature voted to remove the Confederate flag from the capitol grounds. In this way, says Archie-Hudson, "Sen. Pinckney's and those other deaths will end up having a profound impact on the future of South Carolina. That's the highest legacy and gift we could give to Sen. Pinckney."

—Alan Greenblatt

APIMAGES.COM

South Carolina Sen. Clementa Pinckney

By Alan Ehrenhalt

The Lost Shop Around the Corner

'Hypergentrification' and the disappearance of local businesses.

In New York City, and especially in Manhattan, 2015 may be remembered as the year the neighborhood store suffered a mass extinction.

Small retail businesses have been closing their doors in New York this year at a rate that longtime students of the city's commercial life say has no precedent in their memory. At the beginning of the year, in a much publicized departure, Café Edison, a Times Square institution, gave up after 34 years at the same spot. Since then, every few days has seemed to bring news of another small business closing—a shoe store, a diner or a hole-in-the-wall cheese shop. Multiply those closings by a few hundred, and you'll have an idea of what is happening these days on the New York commercial front.

It seems curious, at first glance, that a majority of the retail extinctions seem to be taking place in fashionable or increasingly popular parts of the city, such as Tribeca and the East Village in Lower Manhattan, and Williamsburg and Park Slope in Brooklyn. It seems curious, but it's merely ironic. The attractiveness of New York's gentrified neighborhoods has lifted commercial rents to the point where many small-scale tenants—even those operating at a profit—can no longer afford to pay them. Prosperous residents who were drawn to these neighborhoods in part because of the quaint mom-and-pop stores are finding that their own presence helps drive the stores away. In recent months, says Manhattan Borough President Gale Brewer, "the mom-and-pop crisis has intensified with a fury."

Tim Wu, a Columbia University law professor who ran for lieutenant governor in 2014, calls this situation "high-rent blight." Others describe it as part of a much larger phenomenon: hypergentrification, defined as a mature stage in the gentrification process when merely affluent residents are displaced by the truly rich, and when commercial real estate properties reach a market value that makes it difficult for anyone but a national or global corporation to pay the asking price.

In a relatively short time, the East Village has lost cafés, theaters, shoe stores, toy stores and gift shops. Tribeca, in a process that has been well-documented by its neighborhood newspaper, *The Tribeca Tribune*, has lost a bistro, a pizzeria and a coffee house, among other longstanding commercial institutions. "Many Tribeca residents complain that neighborhood-friendly stores seem to be vanishing before their eyes," one local told the *Tribune* recently. An East Village blogger who goes by the pseudonym of Jeremiah Moss put it much more bluntly: "Small businesses," he wrote, "aren't just struggling—they are being targeted for assassination."

At an earlier stage of its gentrification history, Tribeca had more than its share of empty storefronts, a vestige of its previous status as an unattractive and somewhat dilapidated corner of Lower Manhattan. But it also had a significant assortment of small, independently owned retail establishments—bookstores, coffee shops, hardware stores—catering to the middle class that lived nearby. You can still find independent merchants on Tribeca's streets in 2015, but they're boutiques and other high-end specialty stores appealing to tourists and wealthy newcomers who have been settling in the community. Many of the workaday neighborhood stores have been replaced by bank branches and chain drugstore outlets.

The Real Estate Board of New York insists that the big retail die-off of 2015 is mostly a matter of insufficient sales. But the tenants tell a different, generally consistent story. As they describe it, the die-off nearly always follows a familiar process: The tenant's lease comes to an end. At that point, the landlord has several attractive options. He can sell the building for a price substantially greater than the amount he paid for it. Or, more commonly, the landlord simply raises the cost of a new lease to an amount the tenant can't possibly afford and refuses to negotiate.

New York newspapers have reported this year on a framing gallery in Tribeca whose rent was tripled in one quick move, with no negotiation possible. An Asian department store in Soho with 40 employees saw its rent quintuple when national brand-name stores began appearing in the buildings around it. It now sells its merchandise online only. Some of the city's

Moviegoers remember its cameo in the 1998 movie *You've Got Mail*. But this real-life shop around the corner closed in 2008, making way for a café.

FLICKR/12TH ST DAVID

small-scale merchants look back fondly on the days when their most difficult burden was a payment of $500 a week or so to the local Mafia boss.

The immediate result of the present churning isn't always a brand-new bank or drugstore. Often it's a storefront that stays empty for months at a time. Landlords sometimes jack up the rent not because they have a chain tenant in the wings, but because they hope to snare one. The landlords call them "credit tenants." In the meantime, there are tax deductions to be claimed. And if the building was a recent purchase, the landlord is paying off the acquisition at interest rates much lower than those that would have prevailed at any time in recent history.

In any event, the die-off is real. The question is whether the local government has the power and the political will to do anything about it.

Odd as it seems now, New York City actually had a commercial rent-control law on the books from 1945 to 1963. Promoted by a Republican governor and Republican mayor amid fears of wartime rent gouging, it served primarily to protect tenants' negotiating rights and drive speculators out of the market. It was upheld in court on several occasions, but when it finally expired, there was little agitation to renew it.

By the mid-1980s, the situation had changed. Merchants were again complaining about impossible lease conditions, and City Council Member Ruth Messinger introduced what she called the Small Business Survival Act. SBSA provided that tenants in good standing had the right to negotiate 10-year leases with their landlords and would have imposed binding arbitration when no deal could be reached.

SBSA went nowhere then, and although it has been reintroduced in every city council session for nearly three decades, it still hasn't gone anywhere. But in the recent climate of soaring rents, the legislation has sprung back to life. By 2013, it had acquired 32 co-sponsors on the city council, more than enough to guarantee passage if it came to a vote, but then-Council President Christine Quinn declined to bring it up for consideration. Small business advocates pointed to Quinn's ongoing campaign for mayor and her campaign's connection to the real estate industry, whose role in local campaign finance has continued to grow in recent years as real estate has become an even more dominant player in the New York economy.

The mayor elected in 2013, Bill de Blasio, initially seemed to be supportive of commercial tenants' rights. But since taking office, he has done little to further the cause. The new council president, Melissa Mark-Viverito, has said she will hold hearings on the issue but will not say whether she supports the bill. For her part, Brewer, the Manhattan Borough president, arguing that the original SBSA will never pass, has offered a milder small business protection proposal. It would call for mediation but not binding arbitration and would provide for guaranteed lease renewal, but only for a single year rather than 10.

Tenant activists think Brewer's bill is much too weak; the real estate association thinks it's too strong. The real estate lobby would prefer tax subsidies for landlords who refrain from rent gouging, but this isn't an idea the city council is likely to go for. So the possibility of a stalemate remains, and meanwhile the city's small business die-off continues.

There are other potential ways of dealing with the situation. Some cities in Pennsylvania impose a surcharge on vacant property over and above the property tax; Pittsburgh did this in the 1980s, but the tax was repealed after five years. San Francisco has a law that, under certain circumstances, allows neighborhoods to vote on which chain stores can locate in the area.

The San Francisco approach is unlikely to attract support in many other cities, but it does point to what may be the ultimate moral question in this crisis: Just whose rights deserve to be considered? If the only legitimate contestants are landlords and tenants, the landlords will win nearly all the time. But if the residents who patronize a neighborhood's businesses are deemed to have some rights—both the newly arrived gentrifiers and the old-timers who have hung on through decline and recovery—then the idea of providing some stability to commercial life takes on a different coloration.

In the current climate of economic opinion in the United States, the notion of neighborhood commercial rights sounds like a far-fetched idea. But at earlier times in the nation's history, and in much of the urbanized Western world to this day, it's an idea that is treated with considerable respect. That is why there are more than 30,000 bakeries in France, and local artisans get to approve new lease applications from supermarket chains.

No doubt France overdoes it. Maybe the United States has as many bakeries as it needs. But it's not crazy for the people who buy the bread and eat in the cafés to be treated with a little more respect than the landlords and political leadership of New York are currently giving them. G

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By Donald F. Kettl

Katrina's Lasting Legacy

The storm has redistributed political power—in Washington's direction.

FEMA/JOCELYN AUGUSTINO

Hurricane Katrina flooded 85 percent of greater New Orleans on Aug. 29, 2005.

If you marathoned the most recent season of "House of Cards" on Netflix, you know that one major plot line hinges on a federal disaster-relief law—the Stafford Act of 1988, which authorizes the use of federal money to respond to hurricanes and other natural disasters. In the show, President Frank Underwood, played by Kevin Spacey, battles his foes in Congress over implementation of the law and just what constitutes a "disaster."

It's a testament not only to the arcane machinations that drive "House of Cards," but also to the increasing importance of federal emergency funding. This month marks the 10th anniversary of Hurricane Katrina. Retrospectives on the storm instantly bring back the searing images of a drowned city, the tales of unimaginable chaos inside the Superdome shelter and the misuse of police power in trying to regain control.

Behind the retrospectives, though, are some big questions. How much should we spend on disaster relief? Who ought to pay for it? And when calamity strikes, who should be in charge? Since Katrina, new answers to these questions have emerged—and they've quietly but dramatically shifted the balance of intergovernmental power.

Disaster spending is up in part because disasters themselves are becoming more frequent. In the nine-year period from 1997 through 2005, according to the Federal Emergency Management Agency (FEMA), there were 470 such events. In the following nine-year period from 2006 through 2014, there were 583. The National Oceanic and Atmospheric Administration found that the number of severe weather events—those causing more than $1 billion in damage—averaged two per year in the 1980s, but more than 10 per year since 2010. Many scientists suspect that climate change has made us more vulnerable to big storms. But, quite simply, there are more of us living in harm's way, concentrated on the coasts and on floodplains, and where forest fires strike and earthquakes threaten.

Not only is spending on the rise, but the feds account for more of it. According to a 2012 report by the Federal Reserve Bank of New York, the federal government on average paid about 26 percent of the damage costs for major hurricanes from 1989 to 2004. Since Katrina, that's increased to 69 percent, along with a rising expectation that the feds will pick up the tab for large-scale multistate cataclysmic events. After all, Congress has an easier political road than state and local governments in getting money for disaster relief.

But there's no consensus on what restrictions the feds ought to place on post-disaster rebuilding in exchange for providing this greater level of aid. In the past, federal aid programs often encouraged disaster victims to rebuild in the very spots that had suffered damage. Since Katrina, that has started to change, with requirements that homes rebuilt in New Orleans be raised above typical flood levels. Following Superstorm Sandy, some local governments on the East Coast forbade any rebuilding in low-lying areas. Now, FEMA has issued a policy set to take effect next March requiring states to address climate change before they can become eligible for disaster relief.

Federal restrictions on local choices, however, often don't go down well, especially if they come through FEMA. The agency is so despised in Texas, for example, that, before this spring's epic floods there, citizens debated how to protect themselves from FEMA setting up detention camps as part of a martial-law takeover. (Nothing of the sort was afoot,

of course.) Then, after the floods, victims urgently waited for FEMA's help. No one really wants the government to tell them where they can live and how they must build their homes, even if the regulations reduce death and damage in future disasters. But when disaster strikes, government help can't come fast enough.

Katrina's other major legacy, the dispute over who's in charge at the moment of impact, is equally tricky. Behind the scenes there's been an enormous shift in whether and when the feds need to pull the trigger.

The government of New Orleans all but collapsed during Katrina. The Bush administration was also politically embarrassed by FEMA's problems. In fact, after the storm the president's political negatives rose sharply and never really returned to their previous levels.

Within FEMA and the Department of Homeland Security, a quiet consensus has emerged: There will never be another Katrina, at least in political terms. If a disaster threatens public order, the federal government will hit fast and hard.

All in all, Katrina's legacy marks a permanent change in relations among federal, state and local governments. It shifted more of the cost of natural disasters to Washington, and it's gradually pushed the feds deeper into what had long been mostly local decisions. More subtly, it's also reset the trigger for federal intervention in other state and local functions, including fundamental ones such as public safety and criminal justice. Hints of these changes have sharply heightened simmering tensions about the federal government's role, with an expectation of instant relief but an unwillingness to accept Washington's efforts to control the costs of future disasters.

These shifts have taken place deep inside the corridors of government, without attracting much attention among Americans at large. It took President Underwood to give the general public a hint about what's really happened in the decade since the storm. G

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By Alan Greenblatt

Stuck at Purple

Have Republicans plateaued in Missouri?

Missouri Republicans have created a lot of problems for themselves. In May, House Speaker John Diehl was forced to resign for exchanging innuendo-laden texts with a college intern. Diehl was the third GOP speaker to step down over the past decade under an ethical cloud. The last Republican governor, Matt Blunt, suddenly pulled the plug on his re-election bid back in 2008 amid rumors about his personal life. During the next cycle, Lt. Gov. Peter Kinder canceled his bid for governor due to his one-time "romantic attraction" to a stripper. Then there's Todd Akin, the former congressman whose Senate campaign imploded over his comments about "legitimate rape."

Missouri Attorney General Chris Koster

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These events are emblematic of a larger dynamic: Republicans just can't seem to consolidate power in the state. Missouri hasn't supported a Democrat for president since Bill Clinton. Republicans have big supermajorities in both the legislature and the state's congressional delegation. But time and again, Missouri Republicans haven't looked quite ready for prime time.

Poor performance by both politicians and party officials helps explain why Democrats control six of the eight statewide offices. The GOP's problems leading up to next year's gubernatorial election have already made national news, given the suicides of Auditor Tom Schweich and a top aide. Even before their deaths, it was clear that Republicans would be heavily divided amongst themselves heading into the race.

In a sense, there's nothing new about this. Missouri Republicans have been badly factionalized at least since a brutal primary race for governor back in 1992. They hold veto-proof majorities in the legislature, but Diehl's sexting scandal and earlier complaints about lobbyists' gifts this year led editorial writers to complain about a "culture of entitlement in Jefferson City."

With the Democratic vote heavily concentrated in major cities and college towns, most GOP legislators don't have to give any thought to broadening their appeal. "Missouri Democrats who have won statewide have all been better at appealing to rural and suburban voters than their GOP counterparts have been with urban voters," says Peverill Squire, a political scientist at the University of Missouri. "Heavy GOP control of the General Assembly has made a lot of Republicans forget how many Democratic voters are packed into St. Louis and Kansas City."

Democratic Attorney General Chris Koster is now the early favorite to succeed Gov. Jay Nixon next year. Unlike Democrats in most other states, he will have the advantage of running for governor in a presidential year, when turnout will be higher.

Koster is a former Republican. The fact that he saw a more profitable future as a Democrat speaks volumes about Missouri politics. In an era when so many other states have gone red, Missouri remains stubbornly purple. "Republicans have power in the state legislature," says Saint Louis University political scientist Kenneth Warren, "but that's the only place they have any power." G

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By Chris Kardish

New York's Big Gamble

Can rewarding doctors for taking on risks provide better outcomes?

A decade ago, New York state's Medicaid system was known mostly for its gargantuan size, runaway costs and pervasive inefficiencies. By the end of this decade, however, the state is betting that it will be known for rooting out that old system's worst habits. Whether it can pull that off is far from a given.

New York is the latest in a small group of states attempting far-reaching Medicaid overhauls through what's known as the Delivery System Reform Incentive Payment program. DSRIP varies in each state, but at bottom it seeks to hold costs below a certain threshold and reinvest the savings in projects aimed at achieving specific goals, such as preventing patients from needlessly winding up in hospitals.

New York's program aspires to go beyond improvements in individual hospitals to improvements across entire regions, allowing or requiring different groups of doctors and even nonmedical social services organizations to work together toward certain goals. Texas has a similar $11.4 billion five-year project. New York's is a few billion dollars smaller, but its ambitions are grander in some key respects.

In every DSRIP program, a state is pushing medical providers toward a payment model that's more rooted in health outcomes than in simply awarding a fee for every service. In the health-care world, these are referred to as "value-based payments," and they represent a departure from the way insurers have traditionally paid doctors. By the end of 2019, all of New York's privatized Medicaid plans will have to ensure that 90 percent of their payments to providers are value-based.

The idea behind value-based payments is to ultimately get doctors to take financial risks for failing to deliver good outcomes. In New York, they'll have some control over the level of risk they accept, but they'll be rewarded financially for embracing bolder arrangements. The insurers who pay the providers can also earn higher fees per patient if a greater volume of the payments they make goes to doctors who take on greater risk—agreeing, for instance, to a lump sum for an entire procedure and absorbing the additional costs if the patient experiences an avoidable mishap.

That pace of change is unmatched in the Medicaid world, and it has some people worried. For one thing, academic studies vary on whether incentivizing doctors through pay for performance achieves the desired efficiencies. Health outcomes among patients of safety-net providers are notoriously difficult to manage, for example, because of challenges in other aspects of their lives, such as employment and housing.

The widest effort so far to incentivize doctors has shown mixed results. Of the 114 medical groups participating in the Medicare

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Shared Savings program, about half have saved enough money to pocket bonuses. Concerns by doctors in that program have led the federal government to delay for three years requirements that they accept risk for losses.

New York participated in the shared savings program as well, and that experience is coloring views of DSRIP's potential. Dr. Neil Calman, who heads the Institute for Family Health, which operates more than two dozen community health centers across the state, told the New York State Health Foundation last year that being measured by numerous insurers for a host of different tasks can undermine the whole idea of incentivizing better outcomes. "The danger is that a multiplicity of performance standards means that there are no real incentives," Calman says, "and these standards may not reflect how providers can better care for patients."

That danger is just as real for New York's newest experiment, but this time the stakes are even higher—as are the rewards. G

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By Elizabeth Daigneau

Innovating to Zero

To be carbon-neutral, one city is partnering with emerging green tech companies.

Eight years ago, Austin, Texas, set a lofty goal: Its facilities, fleets and leading utility would be carbon-neutral by 2020. Since then, as concerns over climate change have mounted, more and more governments have followed suit. So far four states and 34 cities have committed to reducing greenhouse gas emissions by 80 to 100 percent by 2050.

But how, exactly, does a city get to zero carbon emissions? That's the question facing Somerville, Mass., which, at four square miles and a population of about 80,000, is the densest city in New England. Its mayor, Joseph Curtatone, announced in 2014 that it would strive to reduce its carbon emissions to a net-zero level in the next 35 years. "Basically when the target is carbon neutrality, everything is suddenly on the table," says Oliver Sellers-Garcia, Somerville's director of sustainability and environment. "We know that the things to start off with are energy efficiency and renewable energy generation. But when we think closer to 2050 and beyond, there will have to be huge fundamental shifts in how we use energy and transportation. So what can we do so that not just Somerville but other cities can make these big changes?"

The answer: the Somerville Green Tech Program. Already home to the largest green tech incubator in the country, Greentown Labs, Somerville figured that if it was going to be carbon-neutral by 2050, it was going to need the help and cooperation of the business community. So the city issued a request for information last October asking green tech companies what they do, what a pilot project with their company would look like, what they wanted to get out of a collaboration with the city and what their past experiences working with the city were like.

Based on the responses, Somerville officials realized their green tech program would need two components: pilot projects and, to their surprise, events. The businesses that responded said they wanted the opportunity to raise their profile by connecting with municipalities and entities that municipalities have good relationships with, such as developers and local manufacturers. "We also learned that there is actually a lot that cities don't know at all about green technology," says Sellers-Garcia, "just from adopting it down to how you implement these technologies in a city building."

As a result, the Green Tech Program will act as convener, holding events to bring green technology innovators together with municipal officials and other industries. The program will also offer companies the opportunity to pilot their green products and services in Somerville. The city announced its first pilot project in May: The startup Understory, a weather analytics company, has installed solar-powered weather stations at two schools. The weather data gathered will be publicly available online and will be used by the city for purposes ranging from snow clearing to analyzing local climate change effects. The city also held its first event in June.

Ultimately, Somerville has three broad goals with its pilot projects: They must help with climate change mitigation, climate change adaptation and quality of life. Beyond that, Sellers-Garcia says, "We want at the end of this to come out with a replicable model for other cities. We are really interested in the knowledge transfer part of the program."

So far the program has only cost the city staff time. Somerville has benefited from strong partnerships with local green tech businesses. They have helped the city evaluate potential pilot projects by zeroing in on whether companies will learn from the pilot in order to take the technology to the next stage of development or commercialization, and whether these projects line up with what the city can feasibly offer. "We don't want this to be a one-off project," says Sellers-Garcia. "We want to make Somerville an urban laboratory. It would be terrific if we could go from helping to host pilots to actually becoming early adopters." G

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Somerville launched its first pilot—hyper-local weather stations—in May.

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By Alex Marshall

The Word on 'Infrastructure'

Not that long ago, we hardly ever used the term. What changed?

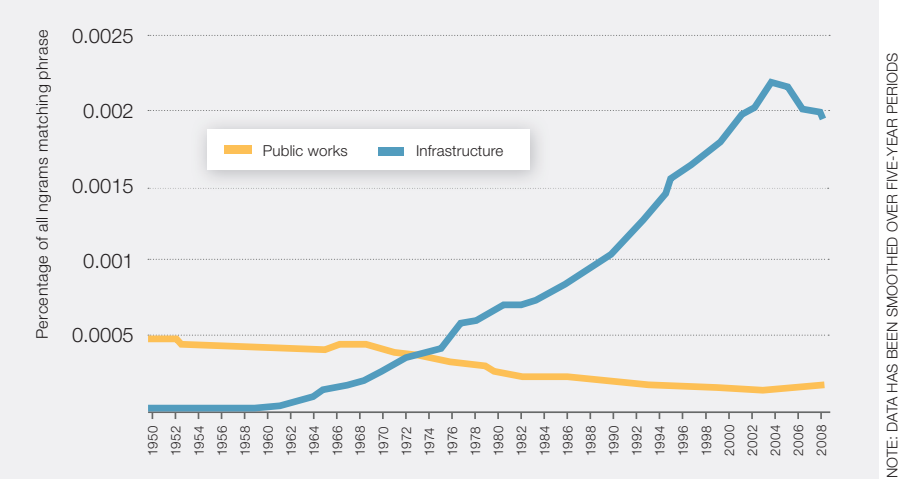
I teach a course on infrastructure at the New Jersey School of Architecture in Newark, which offers a master's degree in infrastructure planning. Harvard's Graduate School of Design has the Zofnass Program for Sustainable Infrastructure. Meanwhile, planners and architects talk about "green infrastructure," and presidential candidates debate the merits of an "infrastructure bank."

But this word "infrastructure," which I just managed to use five times in one paragraph without explanation, was not in common discourse 35 years ago in the U.S. and was just about unknown 50 years ago. Where did it come from, and what does its rise mean?

First of all, let's put some evidence behind my claim. Using Google's Ngram Viewer, one can search millions of books published over the last two centuries for the prevalence of words or terms. This miraculous tool shows that, in English at least, "infrastructure" was hardly used until about 1960, after which it climbed steadily, taking off after 1980.

Another Google search, this time of books published in French, shows the word beginning to be used in that language in the 1880s, and thereafter being employed at a steady rate before exploding in usage in the 1940s after World War II. This data appears to confirm what I have read elsewhere, which is that "infrastructure" was originally a French word, one that first made its appearance in railroad planning in France in the late 19th century. Military planners with NATO began using it in Europe, and it then gradually migrated over to civilian usage. But it was still several decades before even professionals outside of Europe began using the term.

Why, you may be asking at this point, should we care? After all, it's just a word. But words, of course, are powerful things, and as they change so do our perceptions of what they represent. For me, the way this new word rose up and replaced older terms like "public works" is interesting and significant. Building roads and bridges where none existed before—"public works"—is one thing. Viewing such projects as interconnected, mutually dependent systems that move us from place to place and serve as a primary engine of commerce—"infrastructure"—is quite another. "The emergence of 'infrastructure' as a generic concept and prominent item on the public agenda is a phenomenon of the eighties," wrote Alan Altshuler, former secretary of transportation for Massachusetts, in a 1989 book review for *The Journal of Policy Analysis and Management*.



A search of Google Books shows that references to "infrastructure" have increased dramatically over the past 50 years, while published uses of "public works" have declined.

You can see that emergence onto the public agenda pretty clearly with another dive into the archives. In searching *The New York Times'* past articles, I found that the word "infrastructure" appeared just one time in 1950, then 19 times in 1960 and 27 times in 1970. Most of these occurrences were for specialized purposes that did not really conform to modern usage.

In 1980, the term was used in the *Times* 134 times, and that was the first year I found it being used in the way we do today. For example, Clyde Haberman reported on a proposal for the New York City Economic Development Corp., writing that one official had said "he had no objection to an agency to deal only with rebuilding the city's infrastructure." Haberman then felt the need to define the word as "a bureaucratic term for such projects as bridges, sewers and roads."

Time marched on. The term occurred 335 times in the *Times* in 1990, 727 times in 2000 and a whopping 5,357 times in 2014. Clearly, "infrastructure" had come into its own.

By comparison, "public works" was gradually declining in popularity. It was used 754 times in the *Times* in 1940, 554 times in 1980, 246 times in 1981 and just 184 times in 2000. "Infrastructure" had shoved "public works" almost out of the arena of public discourse. Robert Moses, New York's master builder, titled his 1970

autobiography *Public Works: A Dangerous Trade*. Today Moses would be talking about "infrastructure."

Personally I prefer "public works" because it has both "public" and "work" in it, a combination that economically describes both what we build and who it benefits. But while I dislike the bureaucratic sound of "infrastructure," it really is a useful term for a broader view of these systems. In my last book, *The Surprising Design of Market Economies*, I use it to describe not only roads, power lines and water pipes, but also systems of law, policing and education that societies and business operate within.

Whatever you call these systems, building, nurturing and managing them has always been inherently political and controversial because they represent the public coming together to do something collectively. Some of the largest debates in our country's history have turned on them, and still do.

In the early 19th century, the drive to build canals, ports, dams and roads, spearheaded by the brilliant Albert Gallatin under President Thomas Jefferson, was known as "internal improvements." Debates over internal improvements were one of the causes of the Civil War: Southern planters opposed them because they feared that public investments in systems like railroads, particularly when accompanied by giving away Western land to settlers, would build a "free labor" system that would make slave labor less viable. Congress passed the national railroad and homestead acts in 1862 only after the South had left the Union and so could not block their passage.

Putting aside civil wars, infrastructure projects require, in a democracy at least, some measure of consensus to move forward. Generating that consensus is difficult, particularly in our system of government where localities, states and the feds operate almost independently of one another. But it's a good fight to have, choosing what projects we put our collective will into—whatever one calls them. G

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By William Fulton

The Dynamic City

Data has thrown the built environment into chaos.

When I was an urban planning student at the University of California, Los Angeles, more than 30 years ago, my area of concentration was known as the "built environment"—the bricks and mortar, the form and design of the buildings, the streets, the sidewalks, the parks and everything else that makes up the way humans have manipulated the environment to create built spaces. The course of study led me to think that cities are pretty static: Buildings, roads and other structures are expensive and time-consuming to build, and they don't change much over time.

If you want to understand how completely wrongheaded that way of thinking is, just check out Corridorscope. It's a website created by the Alliance for Downtown New York and the Center for Urban Science and Progress at New York University, and it displays all kinds of data that shows just how dynamic a city is. Specifically it shows how Wi-Fi connections, 311 service requests, bike-share docking and trash compactors grow and shrink during the day as humans come and go. It's a startling depiction of how one street in one neighborhood in one city changes over the course of the day.

WWW.CORRIDORSCOPE.COM

This kind of information isn't just fun to look at. It's also a powerful way to help cities understand what's really going on and how they can better manage urban systems. For most of human history, urban managers have had to do their jobs with only the dimmest understanding of what's going on—with the possible exception of vehicle traffic, which is maybe the only thing that has been comprehensively tracked by cities over the past several decades. Now, however, we are awash in data. Not long ago, I got a briefing from Houston's analytics department about how the open data effort was going. The answer was, "We're doing OK, considering we have 2,000 data sets."

Which is why the democratization of data may be the most important urban trend in the long run. No city government, university or consulting firm can possibly figure out how best to use all the data we now have. The future lies in having everybody who understands how to manipulate data—from sophisticated engineering professors to smart kids in poor neighborhoods—mess around with it in order to come up with useful solutions.

And the solutions are no longer top-down. They're also bottom-up. Yes, we can use data and technology to improve the way urban systems work, such as by having cameras on fire trucks discover new potholes or using sensors on trash compactors to tell the city when to pick up the garbage. But it also works to tell residents about those things. In an open data environment, once city officials know where the potholes are, residents using apps can also take that information and figure out how to avoid them. Once the city knows which trash cans to empty, the Average Joe can also figure out where there's a trash can with some room. This, more than anything, makes urban systems work better than ever before. G

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In Treat

ment

America's jails are filled with offenders suffering from severe mental illness. Miami is pioneering a different approach.

By John Buntin

Photographs by David Kidd

Peer specialist Justin Volpe, right, stops by to check on his client Kwame, who missed a recent appointment.

Justin Volpe grew up as part of a small New Jersey community that believed the world was about to end. Its leader, Justin's grandfather, suffered from the delusion that he was a reincarnation of the Prophet Jeremiah and would soon become one of the rulers of the world to come. But after Justin's older brother complained about abuse within the group, his family was expelled and Justin went into public school for the first time.

The trauma Justin experienced as a result of the event went unaddressed. In his freshman year in high school, after the loss of his best friend, he started drinking and experimenting with drugs—marijuana, nitrous oxide, ecstasy, cocaine, LSD. When Justin's brother arose the morning after Justin's 19th birthday party and found his brother and friends still up doing drugs, he persuaded Justin to make a fresh start by moving to Miami to live near him.

The year was 2003. Justin ended up working in and around Miami Beach. It was a surreal place—a place where it was easier to find drugs than a stable job. Eventually, one of Justin's employers introduced him to crystal meth. "Two hits of that and my life changed forever," he says.

The combination of crystal meth and Justin's unaddressed trauma proved to be a toxic pairing. Memories of his grandfather's teachings began to run obsessively through his mind. Gradually paranoia set in: CIA agents were looking through his trash; container ships were flashing messages to him. He stopped buying food, stopped showering. Eventually, Justin became convinced, like his grandfather, that Armageddon was coming and that he too was a prophet. He stopped sleeping. Instead, he walked the streets aimlessly.

Finally, in April 2007, Justin experienced something that befalls up to 40 percent of people with serious mental illnesses: He was arrested on petty theft charges. In Miami, that meant a trip to the Pre-Trial Detention Center. Justin was identified as someone with a form of schizophrenia and was sent to the psychiatric ward on the ninth floor.

Justin was locked in a cell with a schizophrenic who had stabbed his wife with a pair of scissors. At first Justin couldn't sleep. Then he was put on suicide watch. An officer came by every 15 minutes, 24 hours a day to tap on the window. Justin had to show his face in response. Now he couldn't sleep even though he wanted to. One day, a person in the cell next door flipped a corrections officer the bird. "They pulled him out and beat him so bad, it haunts me to this day," says Justin.

His hellish experiences in the detention center were not unique. In the early 2000s, some 113,000 people were arrested in Miami-Dade County every year. An estimated 20 percent suffered from a mental illness. As a result, at any given moment in time, some 1,700 individuals with mental illnesses were in the county lockup. Until recently, they were housed on the upper floors of the Y-shaped, 10-story detention center, making it the largest psychiatric facility in Florida.

The fact that Florida's largest mental health facility was—and is—a county jail isn't unusual. The Twin Towers Correctional Facility in Los Angeles is California's largest psychiatric facility; Chicago's Cook County Jail is Illinois'. Both incarcerate about 3,000 mentally ill occupants at any given time. State prisons house large numbers of people with mental illnesses too. Indeed, prisons today contain more than 10 times the number of people with mental illnesses than all state psychiatric hospitals combined.

That's partly the result of decisions taken by governors and lawmakers during the most recent recession. Between 2009 and 2012, states cut funding for the mentally ill by slashing spending on so-called behavioral health services by some $4.35 billion, even as demand for those services was rising. Not surprisingly, the number of people with mental illnesses in jails surged. According to the Council of State Governments, jails in this country now report that between 20 and 80 percent of their inmates suffer from a mental illness.

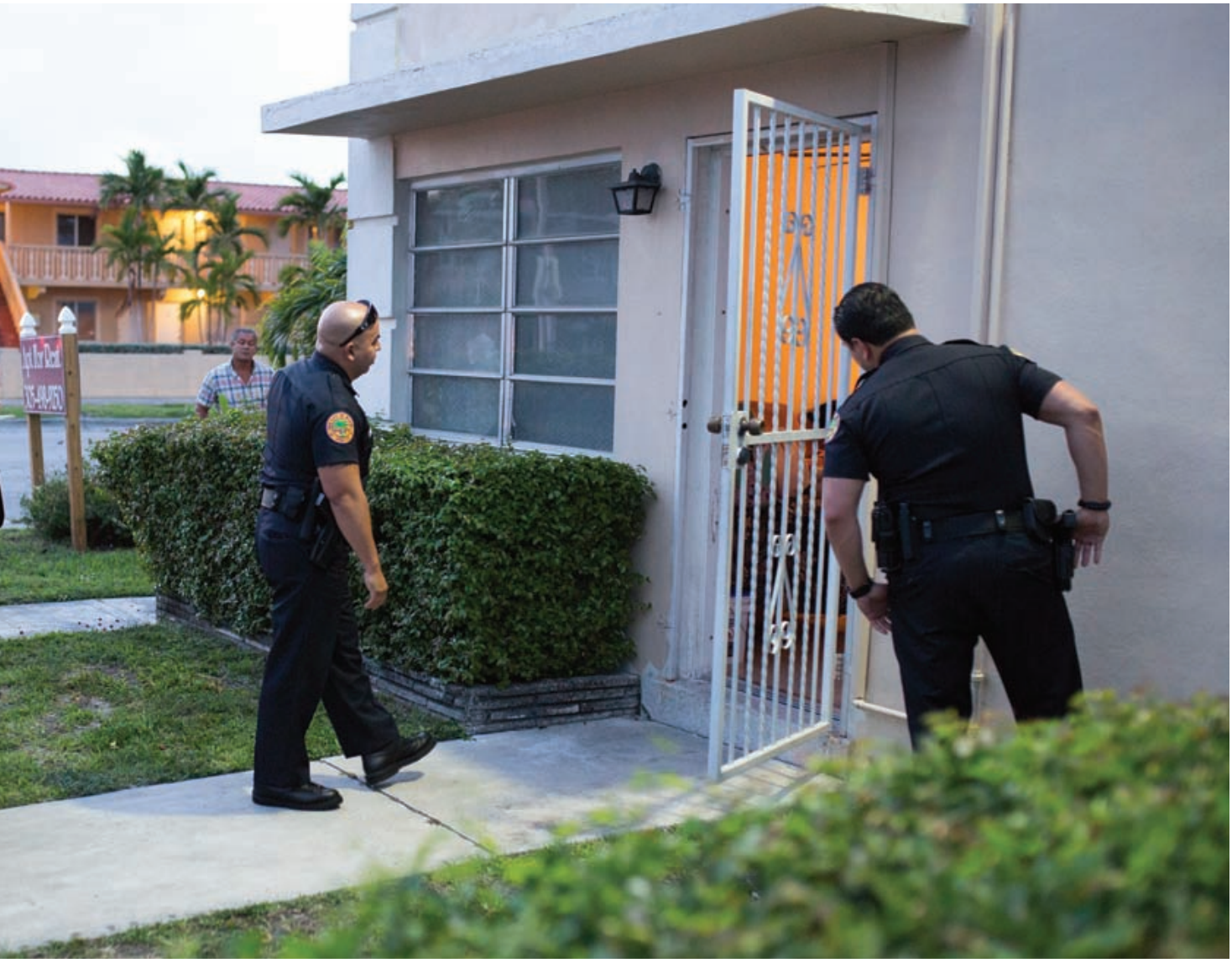
Miami-Dade County has long had a more acute problem than most. By one estimate, more than 9 percent of Miami residents suffer from a mental illness—a rate that is approximately three times higher than the national average. It also has a large homeless population, most of whom have mental health issues and substance abuse problems. Yet over the course of the past decade, Miami-Dade County has emerged as a national model for how a county can develop strategies to combat the criminalization of mental illness.

Every locality, of course, has behavioral health programs. Some have outstanding programs. But what makes Miami different, says Dan Abreu of Policy Research Associates, a think tank focused on behavioral and mental health issues, is that "they are really moving toward having a continuum of services." In short, the county is trying to build a comprehensive system. That's due largely to the efforts of one person, Judge Steve Leifman.

Since joining the bench in 1996, Leifman has pushed police to adopt a pre-arrest diversion program that keeps thousands of people picked up by police agencies across the county out of jail. He's created a model postbooking diversion program that offers people charged with misdemeanors and second- and third-degree felonies an opportunity to get out of jail and go into treatment. Leifman has also developed a network of case managers and peer specialists to support people with mental illnesses who enter the postbooking diversion program, and worked with researchers, corporations and pharmaceutical companies to develop innovative ways to identify and address the needs of the neediest members of this population.

In addition, he's been one of the leaders of an effort that has brought the legislature to the brink of passing the first major overhaul of the laws governing treatment of the mentally ill in 41 years, while also convincing the state and county to sign over a 180,000-square-foot facility to serve as a comprehensive treatment center.

Conditions in metro Miami certainly aren't perfect. For one thing, the U.S. Justice Department continues to monitor the Pre-Trial Detention Center closely. Yet Miami-Dade County's experience also suggests something hopeful: When local government thinks in terms of systems rather than programs, dramatic improvements can result—even with a problem as difficult as dealing with people with mental illnesses who encounter the criminal justice system.



Thanks to better training, Miami's two biggest police departments have greatly reduced arrests of the mentally ill.

Leifman is one of about 120 judges serving the 2 million people in Florida's 11th Judicial Circuit, the nation's fourth largest circuit court. He has been working actively on mental health issues since 2000. But his first exposure to the problems posed by the way government handled people with mental illnesses came much earlier—in 1973, when he was interning in Tallahassee for a state senator.

"I had grown up in a very nice, sheltered, middle-class family"—in north Miami Beach—"and had never seen anything bad in my life," he says. That changed when the editor of the *Miami Herald* contacted the state senator in whose office Leifman was working. The newspaper had received a letter from one of its readers claiming that her son was being held inappropriately at the South Florida State Hospital in Broward County. Leifman's boss asked him to check it out.

When Leifman arrived at the hospital, the staff showed him to the patient's room. There Leifman found the young man tied to the bed; both his arms and his legs were in restraints. He was enormously overweight: Hospital staff had been injecting him with Thorazine, an antipsychotic medication that caused weight gain. Thorazine had been hailed as a wonder drug when it was released in the U.S. in 1953, and for good reason. Among other things, it significantly reduced psychosis. But the bloated young man strapped to the bed before Leifman was not psychotic. He was autistic.

Leifman was deeply shaken. As he was preparing to go back and brief his employer, an advocate showed up and offered to give him a tour of the hospital. He led Leifman down the hallways. The light grew dimmer, the temperature colder. Eventually they got to a metal cage. The door was open. A guard was hosing feces off several naked men. "It was one of those experiences that you never forget," says Leifman. "The only thing I could think of while I was standing there was, 'We treat animals better in the zoo.'"

The state senator Leifman worked for was able to arrange

for the autistic man's release. Across the nation, however, scenes like the ones Leifman had witnessed were leading to sweeping changes in the ways state governments handled people with mental illnesses. States were shutting psychiatric hospitals down, as well as other facilities that housed and treated the mentally ill. This process is often called "deinstitutionalization." The term, however, is misleading. What was really happening was more akin to a transfer—out of hospitals and into jails. In the mid-1950s, more than 500,000 people were held in state psychiatric hospitals. By the 1980s, that number had fallen to around 70,000. During this period, the number of people with mental illnesses who were arrested and ended up in local jails surged.

Today fewer than 40,000 people with mental illnesses are in state or civil psychiatric hospitals or facilities. Yet last year, 1.5 million people with serious mental illnesses were arrested in about 2 million incidents. Instead of being committed to state psychiatric hospitals, they are sent to jail. Instead of being offered treatment, they are turned into criminals.

By the early 1990s, when he was an assistant public defender in Miami, Leifman was seeing this process every day at work. He and his colleagues had to represent clients who had been arrested, mainly for misdemeanor charges that stemmed from their mental illnesses. Some of these people had once been in the very hospital that Leifman toured as an intern.

In 1994, when Leifman became acting chief of the county court division, he decided to call attention to the problem. He sent out letters inviting the state attorney (who serves the same function as a traditional district attorney for Miami-Dade County), the chief judge and several area police chiefs to a meeting to discuss the issue. Not one replied, and when the day of the event arrived, not a single person came. "I showed up," Leifman recalls, "and there was nobody there."

Two years later, in 1996, Leifman was appointed to the bench as a county court judge. Four years after that, he presided over a case that involved parents attempting to require their son—who suffered from schizophrenia and who was also a Harvard-educated psychiatrist—to get help. His frustrations with the case inspired him to dig into the problems posed by the intersection of mental illness with the criminal justice system.

At a national conference in Miami, Leifman met Hank Steadman, the co-founder and president of Policy Research Associates. Steadman had federal funding, and after hearing Leifman describe his hopes to tackle this problem in Miami-Dade County, he offered him a grant. Leifman reprinted his old letter on judicial letterhead and sent out another invitation to local stakeholders. This time, people came.

Leifman and his partners decided to use their grant money to engage in what is called "sequential intercept mapping"—basically, documenting existing services and gaps in programming. The first opportunity they identified was a postbooking diversion program. With one staff person from the county and another staffer from Jackson Memorial Hospital, Leifman launched what he called the Criminal Mental Health Project (CMHP). Initially, it targeted people with serious mental illnesses who had been arrested for misdemeanor offenses, such as trespassing, loitering, petty theft and other quality-of-life charges. These were defendants who typically spent months locked in the Pre-Trial Detention Center awaiting hearings—four to eight times longer on average than people without mental illnesses.

Judge Steve Leifman has led the effort to overhaul Miami-Dade County's approach to criminal offenders with mental health issues.

The postbooking diversion program offered an alternative. To start, people who had been arrested for misdemeanor offenses and identified as having acute mental illnesses would be transported from jail to an offsite crisis stabilization unit, typically within 48 hours of their arrest. After defendants began to receive treatment and regained some clarity, one of the CMHP staff members would visit and offer a choice: If they opted to receive treatment, the program would help them find housing and see that treatment continued. The court would agree to hold open their case, meaning that as long as they complied with the program they would stay out of jail. State attorney Katherine Fernandez Rundle and public defender Carlos Martinez also agreed to cooperate. Rundle encouraged her prosecutors to downgrade or dismiss charges for misdemeanants who completed the program.

If, on the other hand, defendants chose to reject the opportunity to participate in the diversion program, they would return to jail and, if competent, stand trial.

Not surprisingly, seeking treatment proved to be a popular choice. About 80 percent of people offered the chance to participate in the program accepted it. What was surprising was how many people stayed out of the system afterward. An evaluation conducted soon after the program began found that recidivism rates one year out among participants who complete the program was just 20 percent. In contrast, 72 percent of peers who did not participate in the program were back in jail within one year of their release.

The next—and greater—challenge was to avoid arresting the mentally ill in the first place. That meant changing the way Miami-Dade's 36 police departments interacted with people with mental illnesses. Some 175,000 adults in Miami-Dade County have a serious mental illness. Yet only 24,000 of them are receiving treatment in the public mental health system at a given time. As a result, police across the county encounter people with serious mental illnesses on a daily basis. These encounters have often gone poorly. Between 1999 and 2005, police in Miami-Dade County shot and killed 19 people with mental illnesses.

Leifman believed that metro area police could reduce arrests, deaths and injuries by adopting the Crisis Intervention Team (CIT) program developed in Memphis, Tenn., in the late 1980s. The program taught officers how to distinguish between different types of mental illnesses and respond accordingly. It introduced officers to families struggling with mental illnesses and to providers in the community who could offer help.

It's a model that seems to work. Police departments that adopted it generally saw meaningful reductions in the use of force and in officer injuries. But getting buy-in was difficult. In the CMHP's first three years of existence, its staff managed to train only about 60 officers a year.

A program participant named Clark will soon transfer from a group home to independent living.

In 2003, Leifman's program got a grant from the federal government that allowed it to hire a program director and a handful of additional staffers. Gradually more police departments adopted CIT training. But the single largest police department in the area—the Miami-Dade police—continued to resist. Leifman urged the department's director, Carlos Alvarez (the equivalent of a sheriff in other parts of the country), to sign on. Alvarez told Leifman he'd look into the matter but denied that his part of the county had a problem with mental health arrests.

But Leifman knew that Miami-Dade police were probably dealing with thousands of calls. The two men's disagreement eventually went public, prompting stories in the local press. In 2004, Alvarez ran for mayor and won. Just months after Alvarez's election, the county grand jury released a report on the criminalization of mental illness, along with a comprehensive set of recommended reforms.

To Leifman's surprise, Alvarez embraced all the recommendations and asked Leifman to co-chair a group charged with overseeing implementation of the reforms. "Those recommendations," Leifman says, "have been the blueprint for everything that has happened since."

Every police department in the county now offers its officers CIT training. Some 4,500 officers in all have gone through the training. In 2013, the most recent year for which data is available, Miami and Miami-Dade County police responded to 10,626 mental health calls. Prior to CIT, these responses would have resulted in hundreds if not thousands of arrests. But that year those departments made only nine arrests in response. Instead of booking mentally ill offenders into jail, police officers took these people to crisis stabilization centers. The reduction in arrests was so significant that last year the county was able to close one of its five jail facilities.

The CMHP has also assigned four employees to help people going through the postbooking diversion program to obtain

Social Security benefits. In effect, says Program Director Cindy Schwartz, this has turned people who were once seen as "these criminals with mental health problems into attractive, paying customers." The program's first client was none other than Justin Volpe.

After 46 days in the Pre-Trial Detention Center, Justin was offered the opportunity to leave as long as he agreed to enter the postbooking diversion program. From Justin's perspective, this was an easy decision. He immediately signed on and was sent to Jackson Memorial Hospital. There he got treatment and got back on medications for his illnesses. Eventually he was placed in an assisted living facility in Opa-Locka. Its costs were covered by the monthly Social Security disability check that Schwartz's office had secured for him.

But it turned out Justin wasn't ready to get clean. Within two months, he was living in Liberty City with a woman and her four kids, smoking crack. Eventually, the woman's boyfriend came home and kicked him out. As Justin began the 10-mile walk back to his assisted living facility in Opa-Locka, he had a realization. "By the time I got home," says Justin, "I felt physically and emotionally sick. I had had enough." When his caseworker called, Justin said he wanted to go back to Jackson Memorial. He promised that this time he would comply with the treatment protocols. And he did.

Schwartz realized that Justin needed something else to sustain his recovery—a job. In November 2007, Schwartz offered Justin a position as a peer specialist. In that role, he would help other postbooking diversion participants discharge from hospitals and jails, help them line up doctors' appointments and keep track of medications, find housing, make it to drug and alcohol support meetings, and so forth. Justin was shocked—and doubtful. "You want me to be a county employee?" he asked after receiving the job offer. "But I have a criminal record. I'm also paranoid and delusional."

"You'll fit right in," he was told.

Today, Justin and five other peer specialists spend their days working with people with mental illnesses in the postbooking diversion program. It's a tough job. Justin doesn't have a car so he and his clients take the bus to their doctor appointments. He visits his clients frequently, offering them advice and encouragement.

On a late afternoon outing in May, Justin stopped by River Villas, a shabby, eight-unit apartment building in Miami's Little Havana neighborhood, to check on three clients. Several men sat in chairs outside. One of them was Justin's client, Kwame, who suffered from schizophrenia, acute paranoia and substance abuse issues. About a year ago, he'd been picked up on a panhandling charge, entered the postbooking diversion program and, after a period of intensive treatment, been transferred to River Villas. He'd been living there for a year.

Justin asked him about a medical appointment he'd missed the previous Thursday. He said he'd help him reschedule and gave him a bus pass so he could get to the appointment. Kwame didn't have much to say, but considering his acute paranoia ("the most paranoid person I've ever met," says Justin), the fact that he'd shared any details of his life at all was a heartening sign that he was taking his medications. As shabby as his current circumstances were, they were undeniably better than the Pre-Trial Detention Center would have been.

After greeting a few other men in the building, several of whom were CMHP clients, Justin set out for his last visit of the day. Clark, a man with a serious case of bipolar disorder, had also been picked up by police and ended up on the detention center's ninth floor. Thanks to the diversion program, however, he'd gotten out and made it to a tidy house across the Miami River from the government center. Justin or another CMHP employee stopped by two or three times a week to check on Clark. They frequently went to Alcoholics Anonymous meetings together. After talking briefly about an upcoming meeting, Clark returned to a small room he shared with another man. "He has about three months to go," says Justin. "Then he will go to independent-type housing"—most likely an apartment paid for with his disability check.

As for Justin, it was time for him to go home too—to a house he and his wife had purchased a year ago, and to his 4-year-old son. His success illustrates something important, says Leifman. Namely, this population can be helped. Mental illnesses, he notes, are treated successfully at the same rate as diabetes. With treatment, even acute chronic cases can be ameliorated.

Leifman ticks off the statistics that back up his assessments of his program's success: The county has reduced recidivism among participants in the misdemeanor diversion program from 72 percent to less than 20 percent. And the felony diversion program—the one that Justin was part of—is maintaining a recidivism rate of only 6 percent for those that successfully complete it, which most do. That program alone has saved Miami-Dade County around 35 to 40 years of jail time.

Already, Leifman is focused on the next next steps. Earlier this year, both houses of the legislature passed bills (shaped by Leifman and other advocates) that would have overhauled Florida's mental health laws. But before the two versions could be reconciled, the House unexpectedly ended its session—to avoid legislation that would have expanded access to Medicaid. Leifman is hopeful the legislature will get it done during its next session.

Leifman's program has also acquired an old seven-story forensic jail that's been closed since 2007. Workers have begun converting it into a model mental health facility. The plans call for a triage area, a central receiving room, a crisis unit for people who need treatment immediately and a short-term residential program. Leifman wants there to be a courtroom where judges can do bond hearings so that people who get arrested on misdemeanors can get out and get treatment. He would also like the facility to include a primary health unit and possibly a dental clinic. The funding for many of these programs has yet to be identified, but Leifman is confident that it will come.

"Treatment works; recovery is real," he says. When the 180,000-square-foot building is converted, it will be a central piece in a comprehensive system. It will, Leifman says, "be the first of its kind in the country, a true diversion facility with all the essential elements." G

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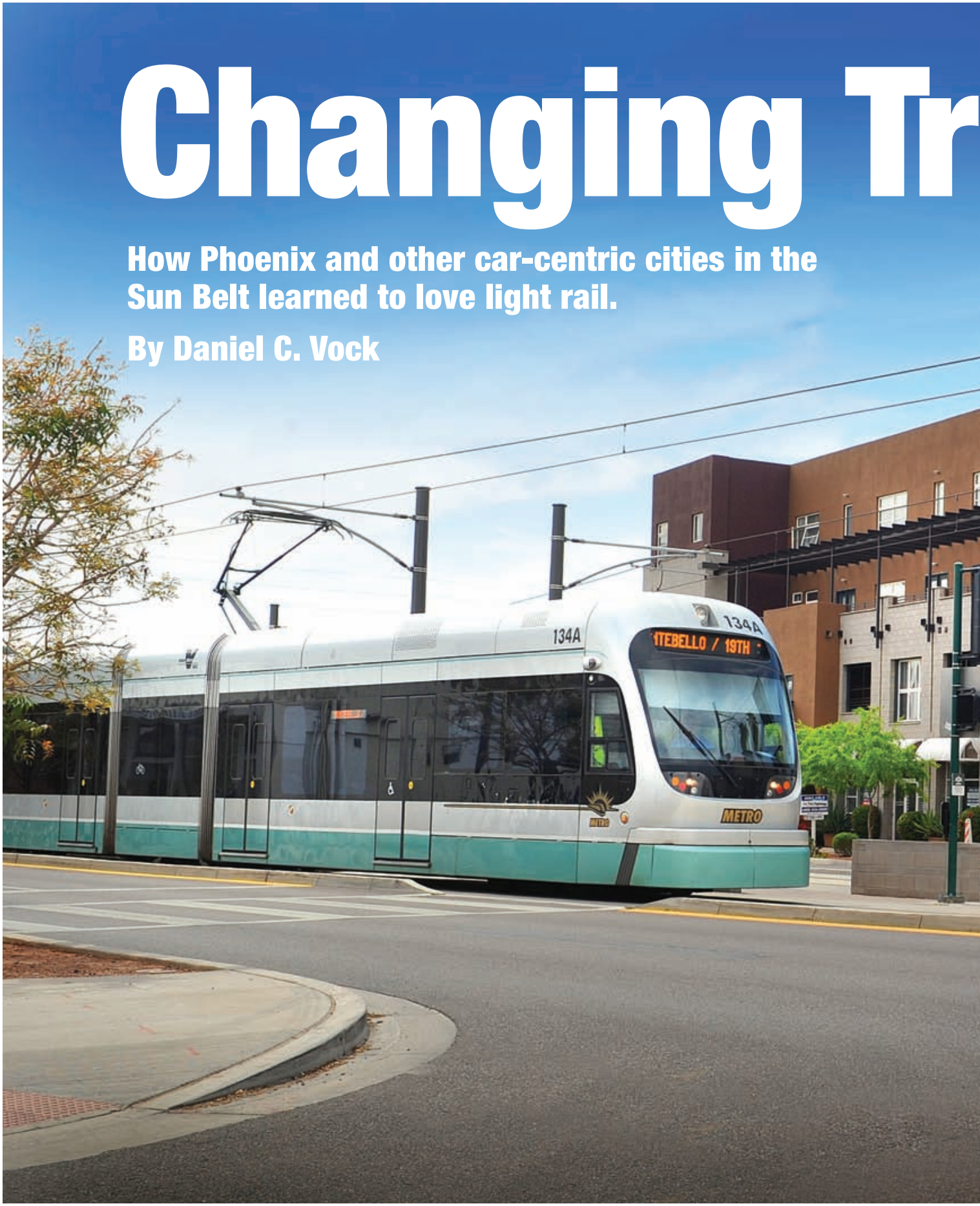
Changing Tr

How Phoenix and other car-centric cities in the Sun Belt learned to love light rail.

By Daniel C. Vock



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VALLEY METRO

Roosevelt Row, an area north of downtown Phoenix, has changed dramatically since light rail arrived.

The centerpiece of Greg Stanton's re-election campaign is a tax increase. The Phoenix mayor not only wants his city's voters to approve a 35-year sales tax hike later this month, but he wants them to do it on the same ballot that has him running for a second term. Stanton believes voters will support both him and his tax policy because, in doing so, they will be casting a vote for transportation. The mayor argues that an improved regional transportation network—and specifically a bigger light rail system—are the key to his own political fortunes and to the economic well-being of the region as a whole.

Stanton was not yet mayor in 2008 when light rail made its debut in Phoenix with hype worthy of a new theme park ride. Rock bands, street fairs and fireworks marked the opening. Nearly 90,000 people enjoyed free rides on board the new teal-and-silver trains that first day. Transit advocates exulted; skeptics insisted the enthusiasm couldn't possibly last.

But it largely has. Today passengers take nearly 44,000 trips on light rail on a typical weekday, already beating the local transit agency's estimates for ridership in 2020. Long-neglected neighborhoods are experiencing new life, and major employers credit transit for their decision to add new jobs in the region.

To those who fought for it, light rail in Phoenix was always about more than shiny new trains and faster travel times; it was a machine to transform urban life. Advocates in Phoenix, like those in many other cities, claimed light rail would introduce a whole new type of development, one that would appeal to both working millennials and retired snowbirds. Less developed neighborhoods would morph into walkable communities. Residents who live along transit corridors would be able to hop on a train to see a show, catch a game, head to class or get to work. The transit system would attract new residents, new businesses and new jobs, making the region competitive for years to come.

Seven years later, Stanton argues that the strategy has worked so well that it should be rolled out to many more neighborhoods. "It's about more than getting people from point A to point B. The single most powerful tools we have to drive economic development are quality streets and robust public transit," Stanton said while pitching his new transportation plan this spring. He argued that the increased rider capacity would help prepare Phoenix for further population growth and link more of the area's community colleges and universities. "It is the most comprehensive transportation plan in our city's history," he said. "It's forward-thinking. It's ambitious. And the city council and I will ask voters to approve this plan in August."

The idea of a major public transit project running through the heart of a car-loving Sun Belt city may sound a little incongruous at first, but it is far from unique to Phoenix. The past decade has been a boom period for light rail in cities all across the South and West, from Charlotte to San Diego. While older East Coast and Midwestern cities have largely struggled to find money to finance their existing rail systems, newer ones like Phoenix have embraced light rail as a way to revive their downtowns and close-in neighborhoods. Dallas, Houston and Los Angeles have been on a light rail building spree. Denver, Norfolk and Salt Lake City have made major commitments.

Federal money is part of the lure, but so is a marked shift in what residents and businesses want their cities to look like. Light rail is such an important piece of that vision in many places that even the Great Recession, which stymied development and hammered local budgets, has done little to dampen enthusiasm for new rail lines. In fact, the biggest question on the minds of leaders in many growing cities is not, as opponents would ask, whether light rail systems are worth the huge public investment needed to build and run them. The question is: Where can we expand to next?

Phoenix is only one of many Sun Belt cities investing in light rail.

Light rail first emerged in the United States in the late 1970s. Atlanta, San Francisco and Washington, D.C., had just opened their high-capacity heavy-rail subway systems, but federal transportation planners recognized that most cities couldn't afford the tunnels and elevated tracks necessary for heavy rail. So they drew up plans for ground-level light rail systems, which would travel farther and with less frequent stops than traditional streetcars, while costing much less

than conventional subway lines. San Diego opened the first light rail line in 1981. Portland, Ore., quickly followed, and a handful of other cities, enticed by federal funding, joined the parade.

But the idea of light rail really took off over the past 15 years, as cities began passing local sales taxes dedicated to building the new lines. Thirty-eight metropolitan areas in the United States now have light rail systems. Light rail ridership over the last decade increased more than 53 percent. In 2011, for the first time, light rail carried more passengers than conventional commuter trains between downtowns and their suburbs. Art Guzzetti, vice president of the American Public Transportation Association, a group of transit agencies, says the surge of interest in light rail is part of a larger move to attract residents by using a wide variety of transportation options. "Roads are important," he says, "but you don't want a cloverleaf intersection defining your downtown."

Transit planners, however, caution that light rail cannot single-handedly remake a city. To have a significant impact, the trains must travel through neighborhoods that are ripe for revival. The routes must be busy enough to attract a steady stream of passengers. They should connect to other modes of transportation, with park-and-ride stations for auto passengers and easy transfer to buses, streetcars and subways. And they should be packaged with other incentives—tax breaks, zoning changes and streamlined permitting—to lure investment into the transit corridors. When it's done right, Guzetti says, "it's not a rail plan; it's a transportation and land use plan. It's not, 'If you build it, they will come.' No, you have to design your community the right way."

But doing it that way often requires massive public support beyond just the costs of laying tracks and buying railcars. Phoenix is a good example. The biggest category of light rail passengers in the Phoenix area is students, who at last count made up 40 percent of the system's riders. Arizona State University (ASU), a public institution that boasts the nation's largest on-campus enrollment at 76,000, encouraged light rail use by opening a new campus in downtown Phoenix after the line was in operation. It also enacted steep parking rate increases on its main campus in Tempe to encourage more students and staff to take the train rather than their cars to classes.

Sports events are a major draw for light rail passengers, and downtown sports facilities, built well before the light rail, represent another huge public investment. Chase Field, where the Arizona Diamondbacks play baseball, was built using sales tax revenues and is owned by Maricopa County; U.S. Airways Center, home of the Phoenix Suns basketball team, is owned by the city.

DAVID KIDD

VALLEY METRO

Students make up about 40 percent of light rail riders in Phoenix.

Meanwhile, the city-owned Sky Harbor Airport, which draws 31,000 employees along with airline passengers, is improving the connection between the airport rail station and its terminals with a new $1.6 billion automated train.

In fact, government was the chief source of investment along the light rail line in Phoenix during the eight years leading up to the line's opening, according to research by ASU's Michael Kuby and Carol Atkinson-Palombo at the University of Connecticut. The city passed special zoning to spur private investment along the corridor in 2000, but government has remained the biggest investor. It accounted for almost all of the pre-opening development in areas of urban poverty. Even in employment centers, government spending accounts for nearly half of the initial investments along the line.

Light rail critics decry the high costs of creating such a system. Building a four-lane interstate in an urban area costs about $10 million a mile (not including the cost of buying the property in the first place), argues Randal O'Toole, a transportation analyst at the Cato Institute. Meanwhile, building light rail costs 10 times that; a three-mile extension of the Phoenix-area system to nearby Mesa, for example, is expected to cost $300 million, but that includes the cost of buying property.

O'Toole and other transit skeptics insist that buses are a smarter investment than light rail for cities. Light rail, they say, is a huge, long-term bet on an old technology with expensive upkeep costs that won't be able to adapt to changing development patterns or technological innovations such as driverless vehicles. "Buses are cheaper," O'Toole says. "They're faster. They're more flexible. They're safer. They have all kinds of advantages over light rail. If one bus breaks down, the rest can drive around it. If a light rail car breaks down, all of the other ones on the line are stuck."

The fact remains, however, that bus ridership peaked nationally in 2006, and the number of passenger trips on buses has been stagnant for the last five years. In the Phoenix area, that trend has been helped by service cuts and fare increases for bus riders as the city encouraged people to take the new light rail. In the first fiscal year that light rail operated in Phoenix, which coincided with the beginning of the recession, bus ridership dropped from 66 million trips to 56 million. By the end of last fiscal year, the number of bus trips in Phoenix had inched back up to 58 million, while light rail ridership in the area rose from about 12 million trips to just over 14 million.

It's true that buses are gaining popularity in the private sector. They have proliferated, for example, in the San Francisco

DAVID KIDD

DAVID KIDD

After years of construction, the three-mile extension to downtown Mesa is about to begin operation.

Passengers take 44,000 trips a day, beating estimates for ridership in 2020.

Bay Area, where tech companies hire private buses to take their urban-dwelling employees to and from their jobs in Silicon Valley. To critics, that undercuts the argument that light rail is needed to boost economic development or to appeal to a new generation of workers. "[Tech companies] get their high-paid software engineers to ride buses," says O'Toole. "Why can't Phoenix get people to ride buses? This is an idiotic argument that we need to have a 19th-century Disneyland ride to get people to ride transit."

Not all political leaders are smitten with light rail. It's especially controversial, as you might expect, in areas where no tracks have yet been laid. Voters too can be skeptical. Ballot measures to help build light rail failed last year in the St. Petersburg, Fla., area and in Austin, Texas.

In Phoenix, however, Mayor Stanton is betting the public not only enjoys the area's current light rail system, but also wants more routes in more neighborhoods. It was at Stanton's request that the city council placed the sales tax increase on the Aug. 25 ballot, a measure that would not only expand light rail, but also would boost bus service and fix city streets.

In his State of the City speech earlier this year, Stanton anticipated opposition to the proposal, which would raise the city's base transportation sales tax from 0.4 percent to 0.7 percent. "We're already hearing the same old tired arguments from those who opposed light rail in the first place: that the solution is only more freeways," he said. "Despite the evidence right in front of us, they say light rail doesn't work, that there are no economic benefits."

Light rail, Stanton says, helped convince Banner Health, a hospital operator and the state's second-largest employer, to move its corporate headquarters to midtown Phoenix. The mayor credits light rail for huge amounts of redevelopment in commercial, educational and residential spaces. He says the light rail system has helped create 35,000 permanent jobs. And it boosted the city's image, Stanton believes, when record-breaking crowds took the train to enjoy festivities in downtown Phoenix surrounding this year's Super Bowl.

Light rail is not nearly as controversial in Phoenix as it was a decade or so ago, when several ballot measures to fund it were defeated. "There was a loud roar back in the early 2000s" when it was being proposed, says Todd Sanders, the president and CEO of the Greater Phoenix Chamber of Commerce. "Today you really don't hear it. More and more you hear people wanting to get light rail, in the next phase, into their communities."

Light rail service to downtown Mesa, the often overshadowed city of 458,000 just east of Phoenix, is scheduled to begin this month. A three-mile extension will bring trains from the western edge of town to the city center, generating an anticipated 5,000 more people a day downtown. After several years of disruptive construction, downtown businesses hope the new transit option will help the city transform its image from a 9-to-5 town of office workers to a hub of artists and boutique shops.

In Tempe, city leaders want to build on the success of the light rail system with a new streetcar. Local leaders hope transit will help the city grow up instead of out, as cranes erect high-rises near Sun Devil Stadium. State Farm announced that it will open a regional headquarters in Tempe that will house 8,000 workers, requiring it to nearly double its Phoenix-area workforce. The insurance company cited Tempe's transit options—including light rail and the planned streetcar—as a major reason for selecting Tempe for the new offices.

One of the areas that has changed most with the introduction of light rail is Roosevelt Row, an area north of downtown Phoenix. City leaders in the 1970s zoned the neighborhood for the development of office towers that never came. The offices sprang up near the interstate instead, and Roosevelt Row was marked by high crime and vacant lots. But with light rail, the area is being reinvented. The first new residential building opened up in 2012; now 600 new units are in the works. Meanwhile, a 1928 building that originally housed a Chrysler dealership reopened this spring with seven restaurants and a patio looking out onto the tracks. Roosevelt Row draws students from the new downtown ASU campus and brings in art lovers for self-guided tours on the first Friday of every month.

But Greg Esser, the CEO of the Roosevelt Row Community Development Corp., cautions that the full benefits of light rail take a long time to materialize. "People envision a dense, vibrant corridor as soon as a line opens, but it's really an evolution over time," he says. "In a decade, a community that takes advantage of the transit could be almost unrecognizable." G

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Republican gubernatorial candidate Matt Bevin, left, during a campaign stop at a Chick-fil-A restaurant in Louisville, Ky.

TURNING THE BLUEGRASS RED

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Republicans want to make Kentucky the next Southern state with a GOP governor. It won't be an easy fight.

By Alan Greenblatt

Matt Bevin needs more voters like June McWhorter.

In what may be the most surprising news in state politics this year, Bevin ended up winning the GOP nomination for governor of Kentucky. At the end of a brutal and divisive primary, he wound up on top by a mere 83 votes. McWhorter, meanwhile, is a friend of James Comer, the second-place finisher, but she now says she's backing Bevin all the way. "When the [primary] race was decided, I said, 'We are now Bevin people,' and I hope we can get everybody on board with that," McWhorter says. "Don't let the Democrats win because we're too stubborn to vote for somebody."

Not everyone is as convinced. Bevin entered the race as a suspect quantity. The financier burst onto Kentucky's political scene last year with a high-profile but far from successful primary challenge against Mitch McConnell, the Republican leader in the U.S. Senate. After he lost to McConnell, Bevin launched a gubernatorial campaign—late—and had a hard time recruiting a running mate. Although McConnell and his crew are now saying all the right things about backing Bevin, it's not clear he'll get much more by way of practical support. Plenty of Republicans, sore from two contentious primaries in as many years, are still waiting to be convinced. "Down in our part of the state, I would describe the mood as unenthused," says Jim Henderson, county judge executive in Simpson County, which is south of Bowling Green. "I'm a conservative Republican, and it would be hard for me to vote different than that, but I have to be won over."

Jack Conway needs to convince voters he's the second coming of Steve Beshear, not the second cousin of Barack Obama.

That has many Republicans worried that they've blown a golden opportunity. The GOP will have no trouble winning the other two elections for governor this fall, in Louisiana and Mississippi. Kentucky was never going to be a gimme, but the state appeared prime to change color from purple to red. McConnell won last November's general election by 15 points. In 2012, President Obama got blown out by an even bigger margin. The idea that Kentucky is bound to follow the rest of the South in fully embracing the Republican Party seems inevitable. As even Ray Jones, Democratic leader in the state Senate, laments, "We have been a victim of a drastic shift to the left in terms of the national Democratic Party."

With popular Democrat Steve Beshear term-limited out of office, Kentucky should be ripe for the GOP's picking. But that may not happen this year. Bevin remains little-known in the state. He's had to introduce himself not only to the mass of voters but to many GOP donors and local party chairs. When Bevin entered the race in January, Jesse Benton, McConnell's former campaign manager, said that "Republicans should not, and will not, take Bevin seriously."

If Bevin has a tough job ahead of him in bringing his own party together, however, the same can be said about Jack Conway, the state attorney general and Democratic nominee. While Conway faced no serious threat in the Democratic primary, many voters in the party remain iffy about him. Democrats continue to enjoy a big advantage in voter registration in Kentucky, but many thousands in their ranks are conservatives who have yet to formally switch allegiance to the GOP. "He's hardly the most competitive choice they could have turned up—a liberal lawyer from the biggest city," says Stephen Voss, a University of Kentucky political scientist. "Selling his message statewide will be a challenge."

Conway is emphasizing his support for coal and guns, but he refused to defend the state's ban on same-sex marriage in court. Opinion on that issue has shifted around the country—and the Supreme Court has made it a done deal—but that doesn't mean Kentucky voters are happy about it. All of this leaves Conway with a challenge. To win, he has to come across as the second coming of Steve Beshear, not the second cousin of Barack Obama.

But the funny thing about this race is that Democrats may be hungrier to win, even though they're the incumbent party. Republicans seem sure the state will eventually fall into their hands, and therefore they may not be overly worked up about Bevin's chances. Some already talk about concentrating on winning the state House in 2016. An all-GOP legislature would neutralize Conway, who could then be defeated in the next election.

Democrats are worried about just that scenario. They may have their doubts about Conway, but they are completely focused on winning. Once power slips out of Democratic hands in the South, it's proven impossible so far to win it back. In Kentucky, Democrats know the governor's office is their Alamo. "We're fired up on the Democratic side," says state Rep. Derrick Graham. "We know how crucial this election is for the state and for our party."

It's possible that Democrats haven't yet hit bottom in state elections. When Obama took office, Democrats held 28 governorships. Now they're down to 18. Holding power where governors are term-limited has proven difficult. Three of the four states that Republicans picked up last year—Arkansas, Maryland and Massachusetts—were vacated by term-limited Democrats. Pat Quinn of Illinois was the only incumbent Democrat governor

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Democratic Gov. Steve Beshear

who was defeated. Next year, Democratic governors will be forced to retire in Missouri and West Virginia, states that haven't supported a Democrat for president since Bill Clinton. Republicans are near their post-war high in governorships, but instead of being overextended, they continue to find opportunities. "The map is tricky for the Democrats," says Kyle Kondik, managing editor of the *Crystal Ball*, a political newsletter. "There are not a whole lot of places where they can credibly play offense, and they have to play defense in a lot of places."

But Democrats have been able to play pretty good defense in Kentucky. The party has won nine out of the last 10 elections for governor and currently holds five out of six statewide offices. Significantly, they held onto their state House majority last fall. In fact, the GOP didn't gain a single seat, even as Republicans were sweeping legislative contests around the country. "Democrats lost virtually everywhere in 2014, except in Kentucky," Beshear says. "The Republicans threw a lot of money into state House races, but at the end of the day, [Democrats] came within 200 votes of *adding* a seat."

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Although he's been elected attorney general twice, Conway has never won a tough race.

Kentucky is a poor state, and there's a streak of economic populism that keeps Democratic support for government programs salient. It was the first state to adopt the Common Core education standards, and Obama singled out Beshear at last year's State of the Union address, touting the success of the state's health coverage exchange, Kynect. Thanks to Kynect and the Medicaid expansion under the Affordable Care Act, the percentage of residents lacking insurance dropped from just over 20 percent in 2013 to just under 10 percent last year.

Beshear took office just ahead of the Great Recession. Since 2009, the state has added more than 125,000 jobs, according to a recent analysis by the Kentucky Chamber of Commerce. The state's unemployment rate is below the national average. Wages are up, too, although employment gains have been heavily concentrated in the state's most populous counties. For all those reasons, when you ask Kentucky Democrats about Conway, they tend to talk about Beshear. "From a public policy standpoint, this state is moving in the right direction on every front," says Lt. Gov. Crit Luallen. "That's why the kind of continuity we would see with a Conway administration would be so positive for Kentucky."

Conway is seeking to run on his own record as state attorney general, bragging about having slashed the office's budget, fighting Internet porn, and prosecuting prescription drug abuse and heroin cases. Conway has brought in millions of dollars in Medicaid and mortgage fraud settlements and took the lead among state AGs in investigating abuses at for-profit colleges. For all that, Conway failed to take advantage of the long period of GOP in-fighting during the spring to define himself and his aspirations as a potential governor. He's made job creation the centerpiece of his campaign, but he didn't release a detailed plan of any sort until June.

Although he's been elected attorney general twice, Conway has never won a tough race. He lost a congressional election back in 2002 and got beaten badly by Rand Paul in the 2010 race for Senate. Luallen, a longtime friend, concedes he can come across as "formal" on the stump. Others are less kind when it comes to describing Conway's style. Conway himself admits he's not natural as a backslapper. "His biggest problem is that he's just perceived as not personable," says a Democratic consultant. "He's a good-looking guy and he's shy, so he seems stuck up."

With Gov. Steve Beshear term-limited out, Kentucky should be ripe for the GOP's picking. That may not happen this year.

It's always a trick for Kentucky Democrats to appeal to liberals in Louisville and Lexington without alienating conservative stalwarts in rural areas. Conway has been trying hard to straddle that divide. Like other Democrats, Conway is fond of pointing out that 500,000 more residents now have health insurance. But he knows that while Kynect has been successful, it suddenly turns unpopular when referred to as Obamacare. "I don't think you run on it or run away from it," he told the *Lexington Herald-Leader*. Conway acknowledges voting for Obama—something Alison Lundergan Grimes awkwardly refused to do in her race last year against McConnell—but then immediately notes that he sued him, referring to his status as the only Democratic attorney general to join the suit against the Environmental Protection Agency's carbon rules that was decided by the Supreme Court in June. "While he may not be the classic good ol' boy," says former Democratic congressman Mike Ward, "he certainly is capable of carrying out our goals."

If Conway can come across as stiff, Bevin is a born salesman. He's been largely a self-funded candidate to this point, having made his fortune in financial management and consulting. But on the stump, he talks about having "been poor" and serving in the Army—portraying himself a simple guy who grew up in the country, even if that countryside wasn't in Kentucky. (Bevin was raised in rural New Hampshire.) "I've walked in the shoes of average Kentuckians in a way my opponent has not," Bevin says. "I've created more jobs this month than he has in his entire life."

Bevin loves to deride Conway as a career politician, but Democrats warn in turn of Bevin's complete lack of experience in government. Some Republicans are nervous about his potential approach, worrying that he'll push things too far when it comes to gutting programs such as education and roads. His campaign blueprint for the state calls for abolishing inheritance taxes and slashing personal and corporate incomes taxes. Bevin may be a great salesman, but to some extent he's selling spinach, offering frequent warnings that the state is broke and can't meet its commitments when it comes to matters such as pensions and Medicaid. "You deserve better than people who blow smoke and make promises," Bevin told a gathering of county officials in June. "The reality is this state is broken. I can tell you, 'I can give you this, I'm going to give you that,' but where does the money come from?"

Democrats have wasted no time in portraying Bevin as a heartless millionaire ready to unravel the state's most popular programs. "Several Southern states are in a race back to the 19th century," says Beshear. "Matt Bevin is clear that he wants to throw everything out that's been done and have very little or no government, if that's possible."

In demonizing Bevin, Democrats are building on a foundation laid by McConnell, who spent millions of dollars attacking Bevin for all manner of offenses—real or exaggerated. No matter how upset Bevin became in response, McConnell kept piling it on. He had plenty of accusations left in his file cabinet, and Democrats are bound and determined to use any material they can get their hands on. "There has been $25 million used to paint me a certain way," says Bevin. "Ninety-eight percent, not true."

Bevin doesn't want to be put on the defensive. He needs to make himself appealing to voters who are skeptical about him—including the two-thirds of the GOP primary electorate who voted for somebody else. Bevin refused to endorse McConnell in last year's Senate race, leading some Republicans to joke they'll do just as much for him as he did for McConnell. The state GOP is being pulled in multiple directions—with McConnell running the Senate and Rand Paul running for president—while Democrats are fixated on the governorship as their firewall. That leaves Bevin searching for more people like June McWhorter.

But even McWhorter isn't convinced Bevin can win. "I think it will be tough for him," she says. She's not alone in that assessment. The two candidates offer a stark choice on the issues, but each faces a big job convincing the many remaining skeptics in his own party that he'd be a great governor. It's telling that each of them likes to brag about quiet offers of support he's received from folks in the other party. **G**

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The Big Behavi

CAN SOCIAL IMPACT BONDS REALLY WORK?

By Liz Farmer

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Three years ago, New York City launched an ambitious and unprecedented social policy experiment at its jail on Rikers Island. Thousands of teenage inmates began receiving group therapy aimed at improving their moral reasoning by addressing their beliefs and thought processes in a step-by-step treatment. The goal was to reduce the number of repeat offenses once the inmates were released. Academic studies using the method, known as moral reconation therapy, had reported success in reducing recidivism. Still, no one had ever scaled up these studies to accommodate anything like the 9,240 inmates the four-year Rikers Island program aimed to serve. This month, the program is coming to an abrupt end. »

The reason for the progam's demise has to do with another feature of the experiment: It was financed entirely with a $9.6 million loan from Goldman Sachs. New York City was to pay the investment firm back if the repeat offense rate went down by at least 10 percent over four years. In June, a preliminary report showed the program not only was missing its recidivism target, it had no impact on the rate altogether. Goldman Sachs moved swiftly and took a contract option to cancel the program one year early. The first social impact bond program in the United States has officially failed.

"Everyone went into this understanding what they were getting into," says David Butler, a senior adviser at MDRC, a nonprofit social policy research organization that managed the treatment program at Rikers. "These things are risks. Just because something works in one environment doesn't mean it will work somewhere else."

Unpredictable as they are, programs like the one at Rikers are not going away. In fact, these attempts to link altruistic policy goals with the pursuit of private profit have been gaining steam as the latest promising innovation in public finance. The mere announcement of the Rikers project back in 2012 was a catalyst for action in dozens of other jurisdictions. Cash-strapped governments quickly became sold on the concept that they can use private money from investors for preventive social programs—money the government will have to pay back only if the programs produce the desired measurable outcomes. In 2013 alone, 28 state and local governments applied to the Rockefeller Foundation and Harvard's Social Impact Bond Technical Assistance Lab to receive help in developing such programs.

Media outlets have often touted the innovative financing tool with few notes about the complicated nature of the projects. Last year on Capitol Hill, where bipartisan support is famously elusive these days, a $300 million proposal pushed by President Obama to allocate federal funds for social impact bond projects in the states managed to attract proponents on both sides of the aisle.

But as the enthusiasm for social impact bonds has grown, so has skepticism about the concept of partnering with the private sector to accomplish social goals. Last spring, a congressional hearing on the subject ended on a negative note as critics questioned the complicated structure of program contracts between governments, investors and the various private operators involved. "I don't get this at all," said Maine independent Sen. Angus King, squinting with disbelief. "I think this is an admission that government isn't doing what it's supposed to do. This strikes me as a fancy way of contracting out."

That hearing was followed by a report last summer that the world's first social impact program, located in the United Kingdom, had not reached its target goal required to trigger early payments to investors. That development and the news from the Rikers project underscore the fact that the merits of social impact bond programs are entirely unproven. The programs are so new, in fact, that people are still arguing about what to call them. Some say that referring to them as bond investments is misleading because they are not like actual government bonds that are bought and sold on a public market. That's why many proponents prefer to call them "pay for success" programs. But what does "pay for success" imply, asks Indiana University Public Affairs professor Craig L. Johnson. "That right now we're paying for failure?"

The bond programs may or may not save governments money in the long run. Even though the Rikers project didn't work, Goldman Sachs said last month that its three other social impact bond investments had shown "encouraging progress." Still, it's much too early to tell if any of these endeavors will actually bring about the kind of change that social scientists and governments are hoping for.

Social impact bonds got their start five years ago in the U.K., at a prison in Peterborough, a city of about 190,000 people situated 100 miles north of London. Investors and social services professionals formed a group called Social Finance and made Peterborough their first investment. For a cost of about $8 million over six years, the provider, One Service, is giving comprehensive assistance to offenders who have served short sentences, in an effort to help them become self-supporting when they are released. Caseworkers help get ex-cons ID cards, set them up with doctors, encourage them to take classes and help them find counseling.

The argument for doing something at Peterborough was compelling. In Britain, 60 percent of those who serve short-term sentences land back in jail within a year. The Peterborough program, which will conclude next year, aims to reduce recidivism by 7.5 percent. The buzz about it and its new financing method via private investors led to the flurry of experiments at the state and local level in the United States. In December 2013, New York became the first state to try social impact bonds, with its program at Rikers; a month later, Massachusetts launched a project with similar recidivism-reduction goals for about 1,000 at-risk young men either on probation or exiting the juvenile justice system. All told, more than two dozen states and localities have now taken up or considered a social impact bond project.

These bond deals are being used to address all sorts of social problems, including early childhood education, homelessness, health and criminal justice. No two projects are the same. Each must draw up its own contract with service providers and with the project evaluators who track the outcomes. None of the new projects can be modeled after an existing one; each is its own social experiment and must be built from the ground up. For example, the Massachusetts juvenile justice bond program is financed with $18 million from six organizations, including nonprofits. The state is setting aside money every year for a separate fund to pay back investors if the seven-year project meets its goals. The Rikers Island project, on the other hand, was financed entirely by Goldman Sachs, with Bloomberg Philanthropies insuring three-quarters of the money.

The stated goals vary considerably. While the goal at Rikers was to reduce recidivism by at least 10 percent, Massachusetts is targeting a 40 percent reduction in jail days over seven years for the nearly 1,000 offenders in the study. The state estimates this reduction would result in a $22 million savings, and that is the amount it will pay back investors if the goal is reached. If the program exceeds that goal, Massachusetts estimates it could save

The Rikers Island project was the nation's pioneer experiment with social impact bonds, an attempt to link altruistic policy goals with the pursuit of private profit. It failed.

as much as $45 million; however, it would only have to pay out a maximum of $27 million. Other programs have similarly structured payouts. Goldman Sachs stood to receive as much as $11.7 million if the Rikers program significantly exceeded its goal, while New York City estimates it would have recouped a net savings of up to $20.5 million.

These are complicated agreements—the Massachusetts bond contract is more than 200 pages long—and their very complexity is often cited by their critics as a weakness. Maryland investigated the possibility of using social impact bonds, but the state's Department of Legislative Services concluded in 2013 that the startup cost of designing a program and negotiating a contract would likely exceed the projected savings of a pilot serving several hundred people. That report essentially killed the issue of social impact bonds in Maryland, at least for now.

Indeed, the Rikers experience seems to illustrate that concern. A report on lessons learned prepared last year by MDRC lamented the jail program's "high transaction costs" that weren't covered in the Goldman Sachs loan. And for all the effort, the city's greatest potential for cost savings would have amounted to less than half of a percent of the $1 billion it costs annually to run the jail.

But whatever the critics may say, it seems likely that governments will be increasingly attracted to these experiments. At a minimum, practitioners argue, they will get the benefits of knowing more about what doesn't work, and can cut their losses. In that sense, says MDRC's Butler, the Rikers program was a success. "This is not the recipe for reducing recidivism for these kids at Rikers," he says. "Learning that was really important."

Still, the task of attracting investors is tricky. Even the philanthropically minded investors drawn to social impact bond projects aren't going to put up money for a program that looks like it was constructed on a wing and a prayer.

Goldman Sachs was reticent to enter the Rikers deal in 2012 until it saw results from previous academic studies that showed moral reconation therapy could reduce recidivism by up to 25 percent in those participating. And even then, it took insurance from Bloomberg Philanthropies to seal the deal. (As a result, the firm lost $1.2 million instead of its full investment.) "We're trying to find that sweet spot of allowing every stakeholder to win," says Tracy Palandjian, CEO of Social Finance US, which is a sister company to the U.K. group and is managing the New York state and Massachusetts projects, as well as ones in Connecticut and South Carolina. "So even when the state pays back the investors with returns, that still should be smaller than what you gain overall as a state."

But that's where the argument ends, at least for now. Until the social impact projects currently running hit their end dates, no one will know how the numbers play out. And on the social services side, some question whether designing projects focused on short-term behavioral change is the best way to intervene. "It is hard to recreate the kind of concrete turnaround you get in pay for success across a whole lifespan," says Anne Stone, who runs a child development program in Washington state. "I'm not in any way suggesting it's not worthy to move those dials, but is there a way we can be thinking about this in a two-generation approach?"

The fact is, social impact bonds may have started out life as an innovative financing tool. But many who are now taking part in them are finding that the real experiment is in developing a new model for delivering government services. In that sense, supporters hope the projects' immediate impact will be in encouraging more social policy geared toward preventive measures, even if the intangible savings are impossible to quantify. They are hopeful that when a project ends and appears to be working, the government will be willing to pay the full cost of its extension, without any private backers.

Sometimes even the hint of private investment can spur a commitment from government. The Utah Legislature recently agreed to assume some of the costs of Salt Lake County's three social impact bond programs after Goldman Sachs committed to financing for one. Harvard's Jeffrey Liebman had a similar experience working with a state budget director to find a social impact project for that state. Among the ideas Liebman proposed was a health-care program that would place caseworkers in senior centers to save on Medicaid costs. Instead of going for the financing project, the budget director just opted to include the cost for the caseworkers in the state's budget. "If social impact bonds cause that to happen, that's just as good," Liebman said at last year's Senate hearing.

Still, for Indiana University's Johnson, any kind of mass social impact brought about by these kinds of projects is decades away. "We need a lot more cases to see what works and what doesn't," he says. "The problem I see now is, if you just have a few experiments going, that's not going to tell us how to change. Until people have put up [collectively] hundreds of millions of dollars, we're not going to know if this works." G

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A Little More

DAVID KIDD

to the Left

Ed Murray is one of the most progressive mayors in the country. But can he survive in an increasingly liberal Seattle?

By Chris Kardish

When Ed Murray walked into Seattle City Hall as mayor-elect in late 2013, he couldn't help thinking about the physical changes that had taken place. In his days as a city council aide in the early 1990s, Seattle's center of government was a far cry from the curving, glass-paneled marvel of green design that it is today. It looked more like an aging hotel—plain, blocky, uniform—and in fact was regularly panned by critics for exactly that reason.

If the old city hall wouldn't recognize the new city hall, completed in 2003, the old Seattle in many ways wouldn't recognize the new one, either. Yesterday's aircraft manufacturing port city with a working-class bent has become a tech beacon with some of the fastest-rising rents and property values in the country. Always left of center in its politics, the city has developed even more of an appetite for banner liberal causes and a tone that's more impatient, angry, even strident.

It's a politics that another liberal local leader, New York Mayor Bill de Blasio, who came to power the same year as Murray, is trying to take national, asserting himself as the premier champion in the fight against income inequality. On a recent visit to New York City, Murray joked about the size of de Blasio's office, a more modest space that predates the American Revolution. "I got a better office than you," Murray said. But that's not the only thing that Murray can boast about.

The New York mayor won an early victory in his campaign for subsidized pre-kindergarten, but Murray soon matched him, persuading voters to support his pre-K plan over a union-backed alternative. Murray also got the city council to pass a $15 minimum-wage package that's now taking effect—a plan that clearly influenced San Francisco and Los Angeles, which both set a $15 floor as well. Murray has succeeded with paid parental leave for city workers and expanded public transit. After stumbling out of the gate in his handling of police conduct, he's now taken some steps to add more community accountability. In terms of pure popularity, Murray is also riding higher than de Blasio, with 70 percent approval by the most recent publicly released count. And while both men have grand ambitions on housing affordability, Murray may be less constrained by forces at the state capitol as he embarks on an agenda to triple the city's pace of low-income development.

"To me, the legacy is about equity," says the 60-year-old Murray, who grew up in an Irish Catholic household in West Seattle, one of seven children born to a father who worked in steel manufacturing and logging, when he had work at all. "My parents could afford a house despite having seven kids and inconsistent employment on my father's part," he says. He wants Seattle to be "a city that families like mine—working class—can work in, where their kids who go to school and get degrees can actually work in. Because that's not the case so much right now. We're a star as far as the economy, but it's not our kids that are necessarily filling in the new economy."

But some of the same forces that are making Seattle an epicenter of progressivism and helping Murray to a historically productive start also make it an increasingly volatile place to govern and to hang onto a job in city politics. The last three Seattle mayors all had periods of popularity, but all were eventually unseated by aggressive insurgents. Murray is beginning to get some criticism from the right—whatever exists of it in Seattle—but his bigger challenge is knowing how far left to push. There are few places in the United States where a mayor like Murray—with his progressive first-term achievements, a successful same-sex marriage campaign in the state legislature, and a legislative record that included support of higher capital gains taxes and rent control—could be criticized as hewing too closely to the center, but Seattle is one.

By his own admission, Murray's career before entering politics wasn't terribly exciting, but it gave him time to harness his interest in public policy. After graduating from the University of Portland in 1980 with a degree in sociology, he did pretrial work for the city's public defenders, then returned to Seattle to work as a paralegal and become immersed in local politics.

He established himself in Capitol Hill, a center of artistic and gay culture in Seattle, directing a gay and lesbian political action committee called the Privacy Fund. He befriended Cal Anderson, the first openly gay state legislator in Washington's history. Anderson came to the legislature in 1987 by appointment to fill a vacancy, then won re-election in his own right with Murray as his campaign manager.

Anderson worked to downplay his sexual orientation, calling himself "a Democrat who happens to be gay." For Murray, who is also gay, that mentality struck a chord, and he adopted it as he himself entered elective politics. When Anderson died of AIDS in 1995, a House seat opened up and Murray was appointed to it.

That launched a 17-year legislative career most notable for major transportation packages, a leading role in budget writing, a stint as Senate leader before Democratic defections left nominal control to the GOP, and the legalization of same-sex marriage—the latter an effort that took some 12 years and placed Washington in the rare company of states that dealt with the issue through legislative action rather than court order.

Murray developed a reputation in the legislature as reliably progressive but willing to compromise and build varied coalitions to strike a deal. He did it twice on transportation by getting business and environmental groups to work out their differences, on one occasion reviving a deal that voters had rejected just a year before. When he led the Senate Ways and Means Committee in 2011, Murray closed a $5 billion budget gap by negotiating with one of the chamber's most ardent fiscal conservatives. "A lot of legislators don't know how to count to 25 [a majority in the Senate]," says Sen. Steve Hobbs, one of the Democrats' more conservative members. "He knows how to do that, when to hold strong and when to compromise. He knows that sometimes progress is done one step at a time."

That was a notable contrast to Mike McGinn, the one-term Seattle mayor whom Murray challenged in 2013. McGinn, a lawyer and environmental activist, developed a reputation as brash and difficult to work with early in his tenure, which was marked by bitter relations with a city council that openly disdained him. Thanks to his Sierra Club credentials and outspoken nature,

McGinn was seen by many as the more liberal choice, but Murray outflanked him in part by seizing on the minimum-wage issue. There was already a campaign for a $15 minimum wage in SeaTac, the community surrounding the Seattle airport, and from Kshama Sawant, a Socialist city council candidate who went on to an unexpected victory in the same election. "I think very early on, he realized that he needed to protect his left flank," says David Brewster, a journalist who's been a close observer of city politics for more than 40 years, "and he had a Socialist on the council leading the charge, so he had to co-opt that."

SEATTLE MAYOR'S OFFICE

Murray signed a $15 minimum-wage package last year that's now taking effect.

Murray applied his penchant for consensus-building to the minimum-wage fight, in which he accepted a gradual phase-in of the higher wage rather than an immediate boost. That tactic left him open to criticism from some that he was too eager to find the middle way. But he also has shown that he's not too fixated on the so-called Seattle Process, an effort at finding dialogue and wide agreement that's derisively equated to spinning the wheels of consensus-building without moving forward. On pre-kindergarten, he clashed with some blocs of the Service Employees International Union, but ultimately defeated them handily. Then he returned to coalition politics on the housing issue, tapping into a committee of developers and affordable housing advocates for recommendations to control fast-rising costs. The mayor's goal: produce or preserve 50,000 housing units over the next decade, 20,000 of them priced for those earning 80 percent of the area's median income or below. To get there, Murray wants a series of city council measures designed to get developers to commit more money for affordable housing, but he also wants zoning changes to add more density in some places, as well as a major increase in the city's housing levy.

Affordable housing is a combustible subject in Seattle these days, one that keeps generating new cracks in the progressive political front. Some advocates point to federal housing data that show the residents most burdened by rising costs are actually those earning less than 50 percent of the median income, and they want solutions more targeted to those people, who are mainly renters. At the same time, there's a market-rate building frenzy going on, and this has led to the loss of 7,300 units of lower-income housing since 2005 in favor of new construction, according to John Fox of the Seattle Displacement Coalition. "Growth, and how to deal with it, is the No. 1 issue in Seattle right now," he says "The mayor hasn't grabbed this bull by the horns, and I'm just not sure he's set up a process that's going to help him move forward with an aggressive agenda to preserve the low-income housing stock."

Sawant wants the city to include a blunter approach among its levers: rent control, which Murray once supported as a state legislator but now opposes. That would actually require a change in state law, but Sawant is asking the council to go on record in favor of rent control and to issue hundreds of millions of dollars in city bonds to preserve existing affordable units and build new stock. "Given the scale of the problem," she says, "what we need are bold, urgent solutions to deal with this crisis. When you have a committee that is at least half full of developers, whose interests are diametrically opposed to what we're trying to do, I don't see that coming."

Sawant embodies a level of forcefulness that's finding traction elsewhere. The entire city council is up for election in November. (Seattle passed a ballot measure in 2013 that shifted the council from an at-large system to mostly district-based representation.) Many of the fresh candidates veer sharply to the left and are backing aggressive housing agendas, ones that include rent control. The mood overall is fiercely anti-incumbent: Any official who's perceived as "too establishment" faces a backlash from the left, no matter what his progressive bona fides may be. For example, some local Democrats recently declined to back Council President Tim Burgess because they thought he was too close to city hall, even though he had been a key player on the pre-kindergarten issue.

What's fueling the insurgent mood and a harder shift to the left? Common threads that come up again and again are the city's surging population and the growing sense of income inequality. Seattle has been among the fastest-growing cities in the U.S. in Census figures for several years now, and in 2012-2013 it ranked first in that category among the nation's 50 most populous cities. The growth has largely come in two shades: rich and poor. Of the 85,000 new households that came to King County between 2000 and 2012, about half earn less than 50 percent of the median income, while the other half earn more than 180 percent of the median, according to county officials. Meanwhile, between 2010 and 2013, rents shot up 11 percent, the steepest rise among big cities in the country. The Occupy movement, which was particularly potent in Seattle compared with other American cities, helped cement all of this in the minds of local voters.

DAVID KIDD

About 60 percent of Seattle is zoned for single-family housing, which makes up much of the city's affordable housing stock.

The growth is also brushing up against a housing culture that values single-family homes over high-rise apartments. About 60 percent of the city is zoned for single-family housing, and something approaching half of the overall stock comes from that—which makes Seattle an outlier among major cities. A vocal contingent of developers and urbanists say the only way to accommodate the growth affordably is to allow for greater density. But activists such as Fox, of the Seattle Displacement Coalition, argue that much of the affordable housing in the city comes from that existing stock, and replacing it to make way for denser growth means losing the most viable low-income options remaining. Owners of existing single-family homes tend to take Fox's side in that debate, as they did when the city council debated the merits of micro-apartments and opted for stiffer regulation, which the pro-development faction said would be the death of an affordable option for renters. "There's not even a clear progressive camp," says Seattle labor leader David Rolf, "because the urbanist coalition includes developers and renters, and the antidensity crowd is single-family homeowners, environmentalists and antidisplacement people, and both sides claim the mantle of progressivism."

The public criticism of Murray that has come from the right stems from his well-publicized stand against allowing a Shell oil rig bound for the Arctic to dock at Seattle's port. He has no direct authority to actually prevent it, but he's sounded off on the expansion of fossil fuels it represents and tested the limits of what he can do with the leasing company's permits. In response, he's been accused of playing to environmental extremists by business leaders who say the mayor didn't object until the docking rig became public knowledge, a claim Murray rejects. "He was very interested in winning our support [during the campaign], and to turn on us like this without any attempts to reach out and discuss possible solutions, to simply lash out with what is so obviously a purely political maneuver, was a surprise to us," says Peter Phillips, a former president of Seattle's Marine Business Coalition.

Still, it's the left that Murray needs to worry about as he prepares to run for re-election in 2017. That's where the discontent comes from, despite the long string of progressive victories in the past 18 months. In some ways it's an impossible constituency to satisfy. "Wages, police accountability, pre-K, more bus service—these are all benchmarks for the progressive community, and yet the anger among certain elements of that progressive left is not subsiding," says Christian Sinderman, an influential political consultant in Seattle, who worked for Murray in 2013. "I don't know if that's fomented by the Sawants of the world for whom nothing will ever be enough or if it really is a growing class consciousness driven by forces beyond the city limits."

So far Murray has managed Seattle's progressive wave with painstaking care and keen political sense, an achievement ascribed to the mayor's knack for always looking over his shoulder. If he keeps it up, he could leave city hall as one of the most well-regarded leaders in Seattle's history and occupy a special place among the big-city liberals of his time. But it's a challenge for anyone to navigate Seattle politics right now. "His skill is riding the wave," says Councilman Nick Licata. "I honestly don't know whether he'd be leading the charge, but he recognizes that this is where people are going. A lot of people fall off the surfboard." **G**

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Smoke and Budgets

Fiscally troubled states can solve some of their money problems by increasing cigarette taxes, but it's no long-term solution.

Facing a massive budget deficit this spring, Kansas Gov. Sam Brownback turned to an unexpected source to help raise much-needed revenue: a nearly threefold increase in the state's 79-cent-per-pack cigarette tax. But lawmakers resisted, instead approving a budget with a more modest cigarette tax hike of 50 cents.

Legislatures increase cigarette taxes periodically for a variety of reasons. Policymakers and public health advocates have long pushed them as a means to incentivize smokers to quit. More recently, though, a number of states have looked to them to bridge sizable budget gaps. When governors unveiled their budget proposals earlier this year, nine included proposals to raise taxes on tobacco.

One of those states was Louisiana, which used a 50-cent tax increase on cigarette packs to help close a $1.6 billion budget shortfall. Lawmakers also introduced new taxes on electronic and vapor-based tobacco products to help minimize Medicaid funding cuts. In Ohio, Gov. John Kasich initially proposed raising the state's cigarette tax by $1 per pack. Nevada lawmakers passed a $1 per pack tax increase in Gov. Brian Sandoval's $7.4 billion budget, helping pay for additional investments in education. Lawmakers in Connecticut, Rhode Island and Vermont OK'd smaller cigarette tax hikes as well.

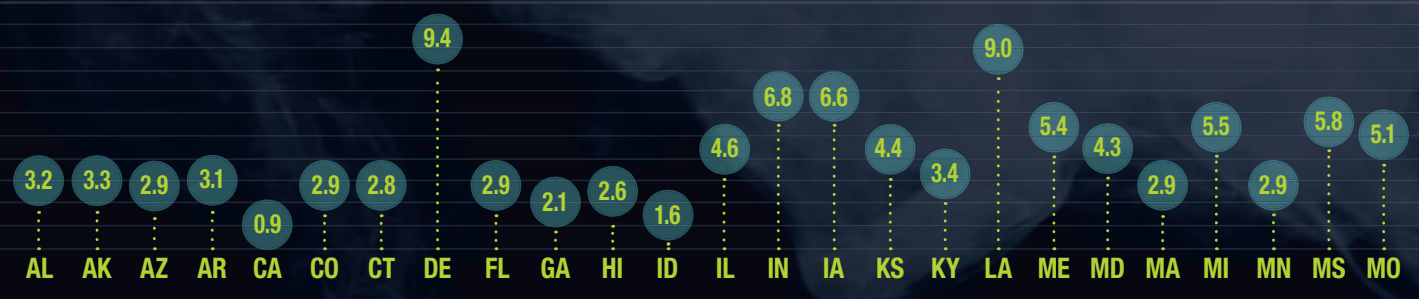
Of course, raising cigarette taxes alone won't balance a budget. But tinkering with these and other sin taxes on goods or services considered unhealthy tend to be more politically viable at a time when many state lawmakers vehemently oppose any efforts to increase taxes on income. Most states exploring the issue

Taxing Bad Habits

Cigarette taxes are one form of sin taxes levied on products or services deemed socially harmful. The extent to which states rely on revenues from sin taxes, while generally small, varies greatly across states.

Sin taxes considered in this analysis included taxes on tobacco products, alcohol, casinos, racinos, video gaming and pari-mutuel betting.

SIN TAX SHARE OF TAX REVENUE, FY 2014 (%)



By Mike Maciag

have among the lowest cigarette tax rates, making them prime targets for increases.

A growing number of states are also, like Louisiana, weighing taxes on electronic cigarettes and vapor products. But only a few states have passed laws dealing with them so far, with most proposals levying taxes at the wholesale level where they are easier to administer.

Some of the lowest cigarette tax rates are found, not surprisingly, in major tobacco-growing states. Georgia, Kentucky, North Carolina and Virginia all impose taxes of no more than 60 cents on cigarette packs, well below the national average of $1.58. In seven states, the rate exceeds $3 per pack.

The extent to which states rely on cigarette taxes for revenue, while not significant, varies greatly. Cigarette taxes accounted for 9.4 percent of New Hampshire's total tax receipts in fiscal year 2014, the most of any state. This is partly because New Hampshire lacks a broad-based sales or individual income tax, but also because the state benefits from cross-border purchases by smokers living in neighboring states with higher tax rates.

In the long term, cigarette taxes represent a less-than-ideal revenue source, because the money they bring in is gradually declining. An analysis by the Government Accountability Office estimated Americans consumed 299 billion cigarettes in 2010, down from 456 billion in 2000. "If you're depending on cigarette revenue for education, you better be thinking about the years down the road," says Norton Francis, a researcher with the Urban-Brookings Tax Policy Center.

They also don't raise as much money as projected, even in the short run. The National Taxpayers Union Foundation reported that tobacco tax collections failed to meet initial revenue targets in 72 out of 101 recent tax increases.

States typically route most tobacco tax revenue to their general funds. A portion of the money does go to tobacco control programs aimed at smoking cessation and preventing kids from starting to smoke. However, as of 2011, only two states were funding tobacco control programs at levels recommended by the Centers for Disease Control and Prevention.

Another strike against cigarette taxes is that they're regressive. Poorer taxpayers who smoke pay a higher share of their overall earnings in excise taxes, and they tend to smoke at higher rates than the rest of the population. The burden is particularly severe for those living in select areas where taxes are highest. Those smoking a pack a day in New York City pay $2,135 a year in state and local tobacco taxes, and that doesn't even include federal taxes.

When it comes to encouraging smokers to break the habit, research shows large tax hikes have a much more noticeable effect, and it's typically young and poorer smokers who are most likely to quit. Those who stop smoking, of course, help drive down health costs. G

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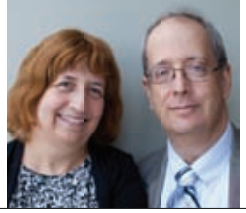
NOTE: A small portion of sin tax revenues is routed to local governments in some states. Tax revenues shown represent *Governing* calculations of tobacco, alcohol, pari-mutuel and total tax revenue data reported in the U.S. Census Bureau's 2014 Annual Survey of State Government Tax Collections, along with gambling revenue data compiled by the Rockefeller Institute of Government from agencies' financial reports.



By Katherine Barrett and Richard Greene

Exit Strategy

Why does an employee call it quits? The answer might keep others on the job.

One of the great challenges that cities, counties and states face is hiring and retaining competent, reliable employees. Things were a little easier during the Great Recession, when public service was the proverbial port in a storm for many job applicants. But private entities are hiring again. At the same time, governments are facing a growing wave of retirees, making it a greater challenge to maintain an adequately trained workforce.

There are some obvious—but largely impractical—approaches to this issue. Cities and states could, for example, raise pay levels. For most, that's unaffordable. Or they could provide heftier benefits. But given the killer costs of pensions and post-retirement health care right now, boosting benefits is fiscally and politically unsupportable almost everywhere.

As a result, it's becoming ever more vital for governments to hang on to the employees they already have. Not only does this help keep the entity sufficiently well-staffed, it also helps reap the benefits of the training that new employees typically get, instead of, in effect, spending those training dollars to the advantage of the employee's next boss.

When it comes to gaining information that can shape employee retention and recruitment policies, exit interviews or surveys are one of the most powerful tools available. What kind of information usually surfaces? Pay issues, unsurprisingly, lead the list of reasons why employees leave, but there are more. Sometimes people need more recognition. People also quit because a manager makes life intolerable or unpleasant.

In one large Southern city, exit interviews led to the discovery of a particularly troublesome cause for departures: A supervisor in a division with approximately 400 employees was acting inappropriately in the way he responded to employees. The negative tone of his voice and the irrationality of his responses were an issue the soon-to-be-former employees mentioned. The city conducted further interviews to confirm whether this behavior was an ongoing issue. When it was proven so, a performance plan was put in place that helped the supervisor make his communications with subordinates more constructive.

Like all other solutions to difficult problems, exit interviews are not without their flaws. For one thing, some employees may hesitate to be entirely candid out of concern that their words will be used against them sometime in the future. But although they are "not a perfect tool," says Sam Wilkins, director of human resources for South Carolina, "exit surveys are probably the only tools to try to get feedback as people are leaving the workforce."

Sharon Winslow Erickson, city auditor for San Jose, Calif., is certainly persuaded. "Without exit surveys," she says, "we cannot determine what causes an employee to leave or what could be done to incentivize them to stay."

Her city is in the heart of Silicon Valley and, as she points out, "when the economy heats up, it becomes very hard for us to hire." At times like that, more employee losses come from resignation than retirement, putting the pressure on to retain staff.

Partially as a result of a recent audit that came out of Erickson's shop, San Jose is in the early stages of implementing an exit interview program. One of the discoveries that city officials are making is that the timing of the process can be difficult.

Joe Angelo, San Jose's human resources director, explains that many employees only tender their resignations

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within two weeks of their actual departure and "there is a lot on their plates: getting their office in order, getting managers up to speed on their projects and starting the transition to the new job." With so many competing interests for an employee's limited time, it's easy for an exit survey to take a back seat.

This time-constraint issue is not unique to San Jose. That raises the question of how to make sure an exit interview takes place and provides valuable information.

According to South Carolina's Wilkins, the best way is to do the exit interview one-on-one rather than in a written survey. Employees asked to fill in a survey form may decide that they're just too busy to do it. But it's somewhat more difficult for an employee to evade the task if it involves being called into a superior's office. In addition, in a one-on-one conversation, the interviewer has the opportunity to delve into the specifics of an employee's problems through follow-up questions.

"When I've conducted exit interviews," says Wilkins. "I've done them face to face. I've encouraged honest feedback and I explain the point. The point is to try to retain folks."

As we've been mulling over the benefits of exit interviews, it struck us that, since the point is to avoid resignations, employers can check with employees periodically to see how they're doing. Many governments try to uncover this information during annual performance reviews and at other employee check-ins. But the question of honesty comes up again. If employees are reticent to tell the whole truth after they've quit, how honest will they be when they're hanging onto a position while job hunting elsewhere? We've yet to come up with an answer to that. G

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By Mark Funkhouser

The Impact That Auditing Could Have

Government is about a lot more than money.

Performance auditing can be a powerful contributor to effective and accountable government. There is, however, a gap between the positive impact it could have and that which it is actually having.

In many jurisdictions, the work of the government audit office is largely irrelevant, having little or no influence on the decisions made by the government or the outcomes of those decisions. But two changes to the standards that govern the profession could make performance auditing more relevant.

It is hard to overstate the influence of the auditing standards published by the U.S. Government Accountability Office (GAO). They shape performance auditing in most state and local government audit organizations. But the first problem with the GAO's standards has to do with the way they deal with audit risk. The standards essentially define audit risk as the chance that the audit organization will make a mistake by, for example, drawing a conclusion that is not warranted by the evidence or by not drawing a conclusion that it should have. Audit organizations have built elaborate systems of quality control to prevent these types of mistakes. The very strong signal to auditors is to be very, very careful in their work.

> "Auditing that focused on equity as much as on efficiency and effectiveness would be auditing that mattered."

A better approach is outlined in the standards issued by the International Organization of Supreme Audit Institutions. "Many topics in performance auditing are complex and politically sensitive," the group acknowledges, adding that while "simply avoiding such topics may reduce the risk of inaccuracy or incompleteness, it could also limit the possibility of adding value." In other words, be careful, but do work that matters.

The second problem with the audit standards is their focus solely on money. I have long argued that the standards should include the concept of equity—the fair exercise of power—along with efficiency and effectiveness. Governments use both money and power to achieve results. Efficiency and effectiveness address money, while equity addresses power. As the recent events involving police in Ferguson, Mo., and Baltimore remind us, citizens are as concerned with the misuse of power as they are with the waste of resources. As the citizens' watchdogs, auditors should examine and report on both kinds of issues.

Auditing that focused on equity as much as on efficiency and effectiveness would be auditing that mattered, because the three concepts are connected just as money and power are connected. As John Norquist, the former Milwaukee mayor who later led the Congress for the New Urbanism, has written, "Efficiency in government is a matter of social justice. Every tax dollar controlled by the government is taken from the taxpayer who earned it. Wasting money shows contempt for the labor that produced that money."

Nearly universally, performance auditors define a successful audit as one that results in better government decisions and outcomes. Changing the professional standards for auditing would make their work more relevant—and more successful. G

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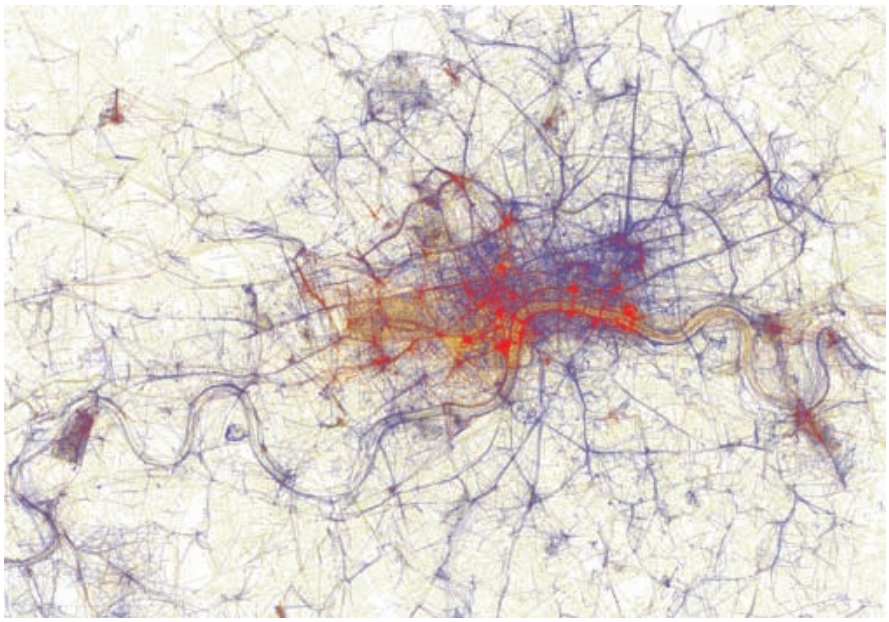
By Tod Newcombe

Paying for Open Data

For all of its advantages, cost is not always one of them.



FLICKR/ERIC FISCHER

Los Angeles County announced this January the creation of an open data website that would allow anyone to find information on a host of county government programs, from budget information to welfare data to crime statistics. Supervisor Mark Ridley-Thomas told the *Los Angeles Times* the county was about to become the "largest municipal government in the nation" to make its data easily accessible to the public.

While the data will be free to the public, the county will spend $319,000 in startup costs, and annual expenses are expected to cost an additional $287,000. For comparison, consider this: California lawmakers in June introduced a bill to establish a statewide open data policy that would affect more than 200 state agencies. An analysis of the bill's fiscal impact showed the policy would cost the state $4 million to $5 million annually.

Open data has become a big movement in state and local governments. One clear sign of its growing popularity is the rising fortunes of Socrata, a company that helps states and localities set up open data programs and websites. This spring, the firm announced that demand for its products has surged, generating 104 percent year-over-year growth in its customer base.

Adoption of open data polices is linked to two powerful benefits. First, it makes government more transparent and understandable at a time when trust in the public sector has plummeted. Second, it has the potential to generate significant economic benefits. The consulting firm McKinsey has estimated open data's economic potential at more than $3 trillion globally.

But before the profits arrive, governments have to cover sometimes unexpected costs. All projects, of course, are affected by these. Arnaud Sahuguet, the chief technology officer of New York University's GovLab, recently wrote a blog post in which he listed some of the factors that can hide the true cost of open data: unexpected startup costs if data is kept in a legacy computer system that requires reformatting; quality-related costs to keep open data fresh and up-to-date; legal costs to comply with open data legislation; liability costs in case something goes wrong, such as publication of nonpublic information; and public relations costs that can occur when a jurisdiction generates bad press from open data about poor performance metrics or workforce diversity problems.

For California, some hidden expenses have already surfaced. They include staffing a new chief data officer position and spending more than $756,000 over a three-year period to enable employees in the Department of Insurance to interact with the open data portal, inventory the department's data and redact nonpublic information.

One very big way to hold down costs is to limit what data sets are published. Public officials tend to focus on the number of data sets their city or state releases rather than on the effect of releasing a few high-quality sets of data. Some jurisdictions have achieved acclaim for their transparency by publishing select data sets that impact budget issues, public safety and education. Others have focused on data that has high user participation rates and useful information, which can deliver economic value for startups and established businesses when they reuse data.

Cities and states that do a careful analysis of which data sets have the most impact, both in terms of transparency and economic value, are less likely to be burdened by hidden costs down the road. The selected release of quality data can also improve the efficiencies of government by lowering certain operating costs. The bottom line is that government data can be extremely valuable for public consumption, but only if the policies behind the data are well thought out and the related costs are affordable. G

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By Justin Marlowe

Are Muni Bonds an Income Equalizer?

A surprising look at who owns and who benefits the most from tax-exempt debt.

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Income inequality has reemerged as the central issue in American politics. States and localities across the country are considering a variety of responses, including raising the minimum wage, enacting rent control and expanding affordable housing. But how will we pay for these responses?

Advocates for the "99 percent" have built a simple and compelling story: They blame their situation on taxes, the super-fortunate "1 percent" and a broken promise. For decades, the story goes, the lower and middle classes permitted the rich to pay less than their fair share of federal taxes. More money in the private economy was supposed to mean stronger economic growth, more jobs and better opportunities for everyone else. But instead of reinvesting in America, the 1 percenters took the money and ran. Now the 99 percent want to put an end to tax exemptions, credits and other "tax preferences" that have done little to help them.

Among these taxes are the "muni exemption" that excuses investors from paying federal income taxes on the interest they collect on investments in state and local government bonds. That interest rate is, of course, lower than it would be for a corporate bond. The exemption has been part of the federal tax code for as long as we've had a federal income tax. It's a natural target because conventional wisdom says municipal bonds mostly benefit rich folks who can afford to buy them. President Obama seems sympathetic to this argument and has floated his own plans to reform the exemption.

As it turns out, some new academic research sheds light on this issue. In a new paper, researchers Dan Bergstresser of Brandeis University and Randy Cohen of Massachusetts Institute of Technology ask a simple but often overlooked question: Who actually owns municipal bonds? To get at the answer, they analyzed 25 years of detailed data on individual households' finances. They found that municipal bond ownership has in fact become more concentrated with the wealthy. The top 1 percent of households by total wealth owned about one-quarter of all municipal bonds in 1989. By 2013 they had upped that edge to around 42 percent.

Ironically enough, this concentration of investment has a lot to do with our past attempts to reduce inequality. From 1989 to 2013, tax-deferred retirement accounts like 401(k)s and IRAs became the savings vehicle of choice for the middle class. Before those tools were available, regular folks often bought municipal bonds as a tax-free way to save for retirement or for college. Today they can buy stocks and other taxable assets through a tax-free retirement account and realize a much better return on investment. Municipal bonds with their tax-free but lower interest rates make a lot of sense for rich people, but now the middle class have better options.

So if the 99 percent don't benefit from the muni tax exemption, what else is in it for them? That's the focus of a paper published in 2014 by a team of researchers from the Urban-Brookings Tax Policy Center. They looked at data from individuals' tax returns to see the muni exemption's direct and, more important, indirect effects. They too found the wealthy realize most of the tax benefits. However, their results also show that low-income taxpayers gain substantial indirect benefits, equal to as much as 15 percent of their total income.

How do these indirect benefits work? Simply put, the muni exemption reduces a government's cost to deliver basic public services more than it reduces the taxes paid by the rich. It allows public school districts to finance new school buildings at lower interest rates, so they do. Same for roads, transit systems, bridges and many other basic public services that the 99 percent use every day. It also shifts some of the 1 percent's attention away from corporate bonds and stocks, and that makes those investments even better: Through their 401(k)s and IRAs, lower- and middle-class folks can own them tax-free.

Tax reform can and perhaps should be a part of our policy response to income inequality. But that reform should follow from a compelling story that takes account of all the facts. This is especially true of the muni exemption's story. G

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Last Look

JETT LOE/*SUN-NEWS*

On the ground floor of the Doña Ana County Government Center in Las Cruces, N.M., is a unique kind of library. Instead of checking out books, county employees can check out cats. Since 2012, the county has partnered with a nearby animal shelter on the Kitty Kondo, or "cat library" as employees have come to call it. In an effort to help felines find a home, the county installed a kitty condo in the lobby. While the kittens are waiting to be adopted, workers can "borrow" them and bring them back to their desks. Not only does this help the cats acclimate to humans, but, according to county workers, it has also been a morale booster and stress reliever. More than 100 kittens have been adopted since the condo went up.

—Elizabeth Daigneau

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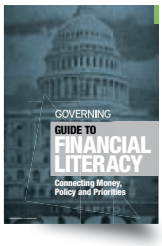
GUIDE TO FINANCIAL LITERACY

Volume 2

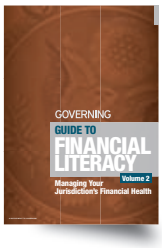
Managing Your Jurisdiction's Financial Health

A SUPPLEMENT TO GOVERNING



About this Series

The *Governing Guide to Financial Literacy: Connecting Money, Policy and Priorities* is the first volume in a series of resource guides developed by the Governing Institute. The first Financial Literacy Guide takes an in-depth look at budget basics, investing, legacy costs, taxes, bonds and more. Download a complimentary copy at: **www.governing.com/publicfinance**



Volume 2

The *Governing Guide to Financial Literacy, Volume 2*, is a resource for newly elected public officials, budget officers, government leaders and department heads. This Guide provides relevant knowledge to public leaders, which helps them better determine their jurisdiction's financial health. Inside you'll find everything from an overview of accounting concepts to what steps you can take to improve your jurisdiction's financial health. For additional information on public finance, visit **www.governing.com/finance101**.

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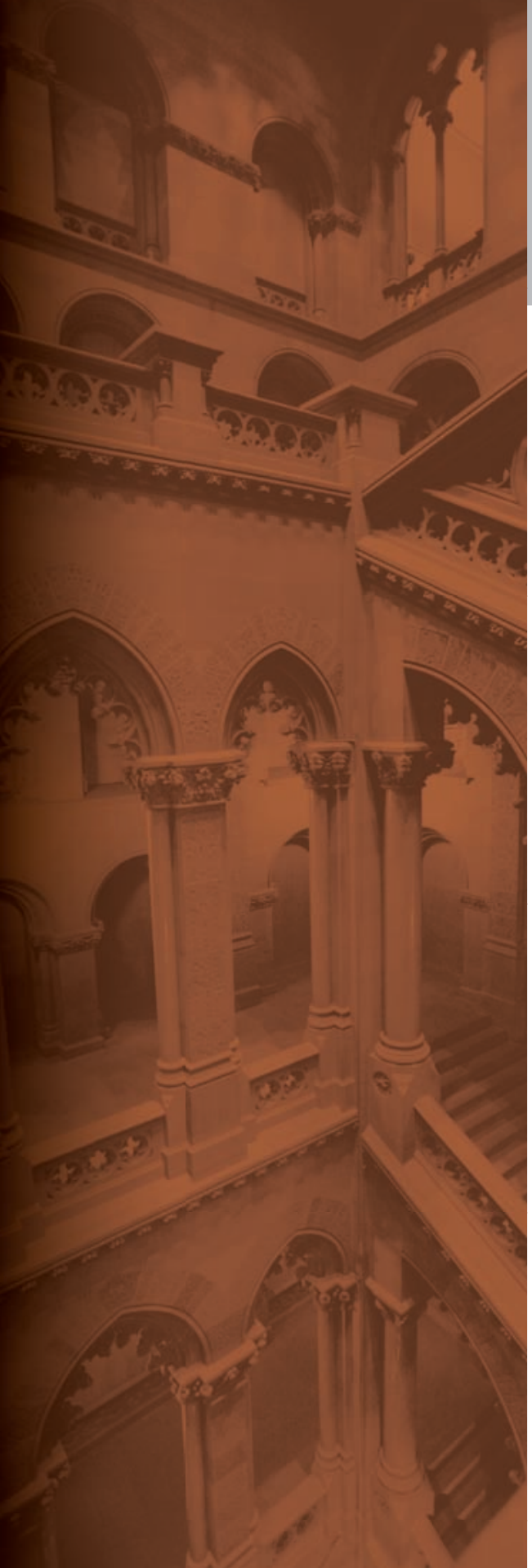


CONTENTS

Your government's finances are a lot like a famous Italian opera.

Great opera is a beautiful, elaborate production put on by talented, dedicated professionals. It doesn't take a trained eye or ear to respect the effort and commitment it demands. But it's also in a foreign language, and it's full of traditions, customs and unspoken rules most casual fans don't understand. So if you're like most of us, you can't tell an excellent opera from an average one, but you're willing to trust the connoisseur sitting next to you.

As a government leader and decision-maker, you don't need to be an expert on your government's finances, but you do need to have your own opinion. You also need to be able to speak confidently about your government's overall financial health.

Financial health is a difficult subject because your government's finances are complex. The basic question, "Is this government financially healthy?" is really several questions wrapped into one: Did it collect all the money it expected to collect? Did it spend more than it expected to spend? Did it use dedicated or "earmarked" resources for their intended purpose? How much of the money it will collect in the future is already claimed for future spending needs? There are several financial documents that answer these questions; however, separating vital information from the non-essential details can be difficult.

At the same time, financial statements are only part of the story. To really know your government's financial health, you'll need to know how decisions about everything from information technology systems to road repairs to pension benefits affect the bottom line.

This Guide focuses on five simple principles:

1 Financial health is more than a grade.

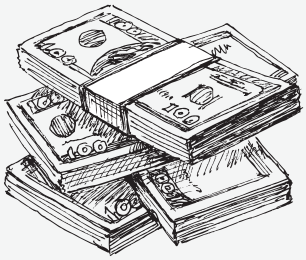
It's a multifaceted concept with trade-offs, contradictions and other complexities. No single grade or rating is a comprehensive representation of financial health. However, it's not so complex that it can't be defined or measured. The hard part is striking a balance between too much complexity and not enough.

2 Financial health is more than a balanced budget.

Good budgeting is an essential part of financial health. If a government cannot plan to live within its means, and follow that plan, it will not sustain financial health. However, budgets are short-term plans. Even a balanced budget can mask long-term financial health problems.

3 Financial health requires a focus on context.

Financially healthy governments understand how economic conditions, the legal environment and political climate shape their financial health. They see how subtle changes in that environment will affect revenue collections and long-term demand for services. They have a long-term financial plan based on the environment and context in which they operate.



4 Financial health demands effective financial information systems.

Today, smartphones and cloud computing are the norm. By that standard, many states and localities manage their money with ancient technology. A government's finance systems should, at a minimum, allow staff to answer basic questions, including: Where is our cash? How many jobs are currently vacant? Is a department at risk of overspending its budget? These systems are smart investments that can help ensure financial health.

5 Financial health is everyone's responsibility.

It is as much about internal processes and staffing patterns as it is about rainy day funds and budget variances. Effective operations management empowers staff to focus on cost savings, efficiencies and other essential components of financial health.

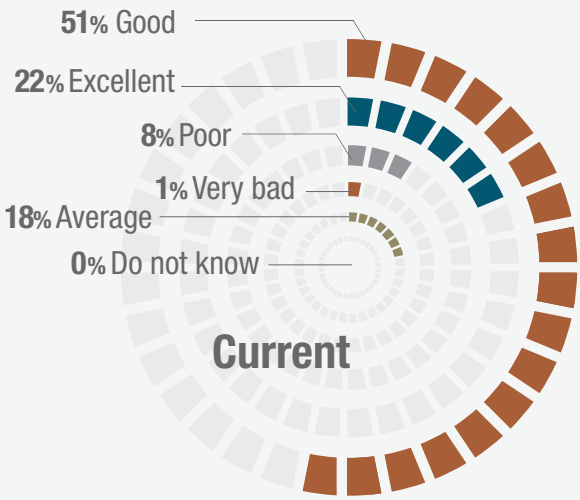
This Guide is organized into three sections. The first section covers the basic definitions, concepts and other technical information relevant to financial health. It also includes some quick reviews to help you brush up on basic public finance and governmental accounting concepts. The second section addresses how we determine financial health. It covers the different metrics, systems and benchmarks governments use to assess and communicate financial health to stakeholders. The third section is an overview of the biggest threats to state and local government financial health, and how some jurisdictions are addressing those threats. It focuses on the policies, strategies and systems that you, as a policymaker, should consider for improving financial health. **G**

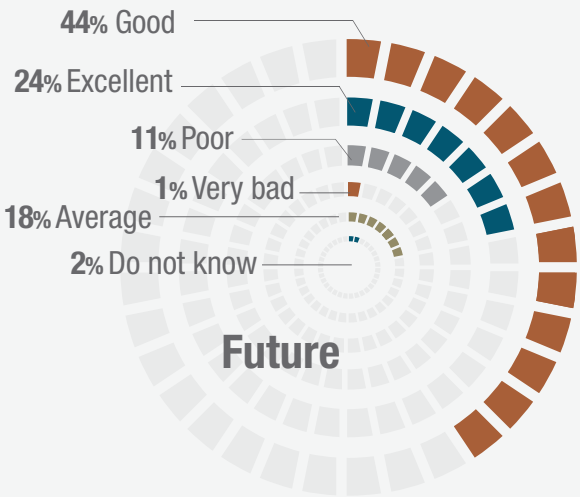
Financial Health at a Glance

In a Governing Institute survey, state, county and city government leaders reported their jurisdictions' current financial health as strong, but expected it to decline over the next decade.

Financial Health 2015-2025

Nearly three-quarters of the respondents reported their jurisdiction's current financial health as excellent or good, while only two-thirds thought that would be the case a decade from now.





The Top 3 Biggest Threats

Large unpaid bills loom on the horizon.

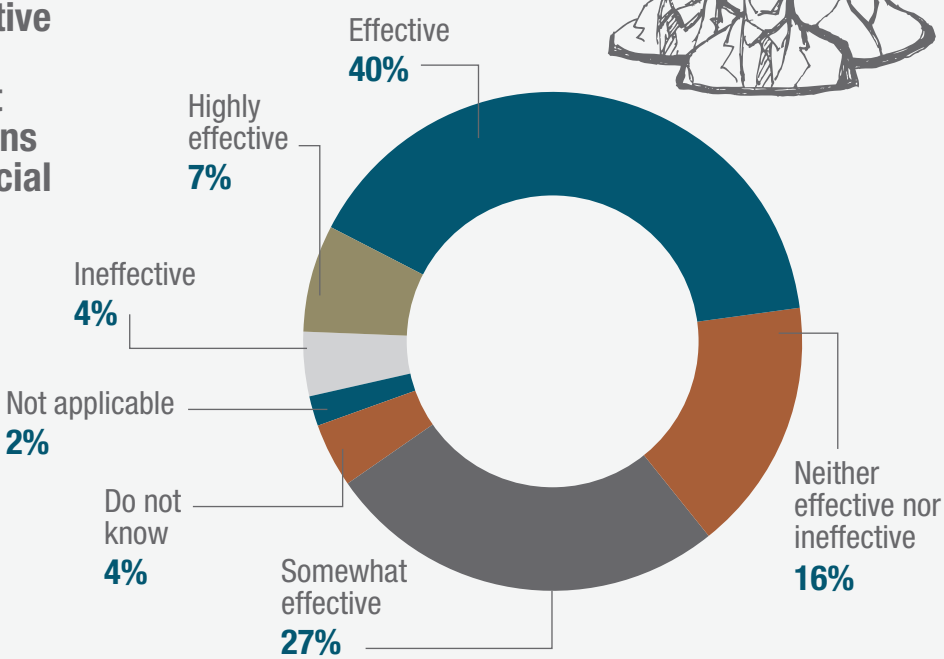
1	Infrastructure costs	54%
2	Insufficient revenue	50%
3	Personnel costs	39%

Source: Governing Institute Financial Health Survey, April 2015

Most Popular Ways to Get the Word Out About Financial Health

Annual public financial report	Website	Press releases	Social media
75%	69%	46%	23%

How effective are efforts to connect with citizens over financial health?



WHAT IS FINANCIAL HEALTH?

First and foremost, let's define financial health.

Financial health is often used alongside words such as fiscal health, financial condition, financial outlook and fiscal fitness. These terms all mean something slightly different, but they all speak to the same set of concepts. Throughout this Guide we will use the term "financial health" to encompass all of these related terms.

Public finance experts have defined financial health dozens of ways, but they all point toward the same basic idea. That is:

> A state or local government is financially healthy if it can deliver the services its citizens expect, with the resources its citizens provide, now and in the future.

The core idea here is that government financial health is about the ability to deliver services citizens want. This is quite different from the private sector where a company is considered financially healthy if it is profitable and is expected to remain profitable for the next year or two. Citizens expect state and local governments to deliver essential services for decades to come. To do this, governments must invest in infrastructure, set money aside for pensions and other future obligations, and take many other steps to ensure they can deliver services in the future. If they fail to do these things they are not financially healthy.

This seems simple enough, but it's complicated by three factors:

1. Tastes and preferences change. The services citizens want today might be quite different from the services they want tomorrow. Twenty years ago, no one expected state and local governments to fight climate change, promote international trade or broaden access to healthful food. Massive policies and programs like these were left to the federal government. What citizens consider essential services often changes. How they're willing to pay for services can also change. In government financial health, the past is not always prologue.

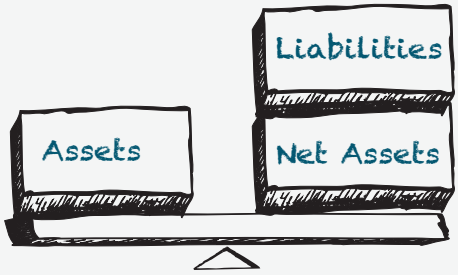
2. Time matters. If a government pushes its payments on bonds, pensions and other obligations 20 years into the future, its 5- to 10-year financial health will look much better. If it spends money to maintain its infrastructure today, it weakens its near-term health in exchange for better long-term health. Because of these trade-offs, financial health has a lot to do with how we define "the future."

finance defined:
FUNDS:
Stand-alone groups of accounts within a government

3. Can't control the uncontrollable. State governments, and local governments in particular, can't control many of the factors that directly impact their financial health. They can do little, if anything, to affect federal government policies, economic recessions, natural disasters and many other important influences. These are essential financial health considerations.

Government Accounting 101

The most important concept in governmental accounting is the "fundamental equation." It states that a government's assets must equal its liabilities plus its net assets.



An asset is anything the government owns that has value, such as cash, equipment or buildings. A liability is money the government owes someone else, such as unpaid invoices or pension liabilities. Net assets — or fund balance, in some circumstances — is the difference between assets and liabilities. Growth in net assets over time is a good indicator of financial health. Governments report this information in several different balance sheets.

For these and many other reasons, when we think about state and local government financial health, it's essential to keep a few points in mind. The first is that conversations about a government's financial health should happen in a context. How does your jurisdiction's financial health compare to governments with similar political and economic circumstances? How have its key financial health indicators changed over time? How did it change in response to a major change in federal government policy, or some other major external influence?

Secondly, government financial statements are complex because they present different types of information that assume different time frames. Some of the most popular financial indicators, such as fund balance levels, are focused on the short term. They tell us about a government's ability to meet its spending needs during the next fiscal year. Others, such as coverage levels, tell us about its ability to meet spending needs over the next several decades. To properly assess a government's financial health, you need indicators that cover both the near and long term.

Lastly, there's nothing wrong with summarizing financial health with a single letter grade or number. However, discussions about financial health often end there when that's where they should begin. Your job as a policymaker is to know your jurisdiction's financial health, but more importantly, to know the story behind it. What are its main drivers? What explains a recent improvement or downturn? How is it connected to dynamics in the local, regional and international economy? How does it, or could it, respond to a major policy change that you lead?

Once we take all of these considerations into account, we arrive at a simple model or representation of financial health in practice.

The Components of Financial Health

Financial health has three main components. To understand a government's financial health, we need to understand each component individually and how each component interacts with the others:

1. Financial position is a government's ability to pay its bills as they come due. A government's financial position is strong if it has plenty of cash and other liquid resources available. Without those resources it will have to borrow money, delay payments or liquidate some of its other assets, all of which carry significant financial costs. Some bills might be unexpected, such as legal settlements or emergency infrastructure repairs. A strong financial position means a government is prepared for these and other contingencies.

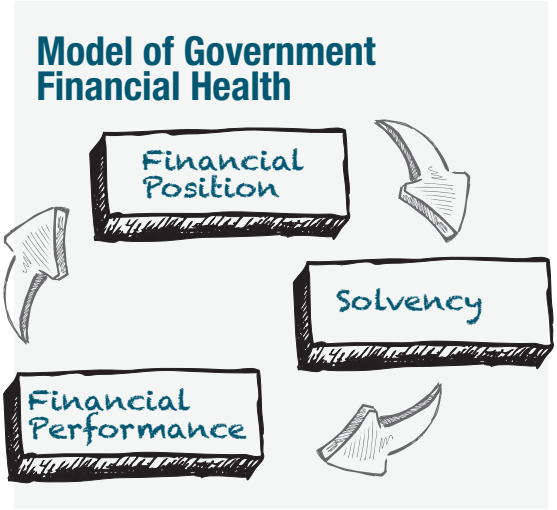
2. Financial performance is how well a government's typical revenues cover its typical expenses. In the private sector this is called profitability. For state and local governments it's more complex. No doubt, government services should generate enough revenue to cover most or all of a government's costs. In many cases this is possible, such as with public utilities or state parks. But for many essential services it's not. Citizens do not expect to get a bill when they call the police. Children do not pay for health care they receive through the state Medicaid program. Citizens pay for these services through general revenues such as local property taxes and state income taxes. These are some of the most important and expensive services governments offer. For that reason, states and localities think about financial performance quite differently than their private sector counterparts.

3. Solvency is a government's ability to pay bills that will arrive in the future. There are three types of solvency:

Cash solvency is whether a government has enough cash on hand to cover expenses that will come due in the very near future, usually in the next 60 to 90 days. This is the definition of solvency that typically applies to bankruptcy. If the entity in question does not have enough cash to pay its bills currently due, and if it cannot generate cash by imposing new fees or selling assets, then it is insolvent and eligible for bankruptcy protection.

Long-term solvency is the government's ability to generate the revenues it will need to cover its long-term spending needs. In other words, assuming there are no major changes to its tax rates or other revenue policies, a government is long-term solvent if it can generate enough revenue to cover the principal and interest on its outstanding debt, its obligation for pensions and retiree health care, its infrastructure investment requirements and other long-term spending needs.

Service-level solvency is whether the government has the capacity to continue to deliver basic services in the face of major changes in its economic and political circumstances. Its tax base should be able to withstand the loss of a major employer or industry. Its tax structure should allow it to capture enough revenue to pay for the transportation, public safety and other service demands that come with new growth. And its policies and the political culture should be able to adapt to a changing economy by delivering services through public-private partnerships, cross-jurisdictional sharing and other alternative service arrangements.



To truly understand your government's financial health you must know how the three main components of financial health interact. Sometimes these interactions are a cycle of virtue. For example, strong financial performance means a government is more likely to end the year with a budget surplus. That surplus becomes cash that improves the government's financial position. If its financial position is strong, it can borrow money at lower interest rates to finance routine infrastructure maintenance, which improves its long-term solvency.

This cycle can also be destructive. A government with a weak financial position is more likely to borrow money to cover its short-term spending needs. Some of its revenues will then be diverted to pay the interest on that borrowed money. With

Budgets and Financial Health: Proceed With Caution

There is a fourth type of solvency — budget solvency. A government is budget solvent if its budgeted revenues meet or exceed its budgeted spending. Most state and local governments are required by law to pass a balanced budget that meets this basic criterion. At the surface it would seem that budget solvency and financial health go hand-in-hand. Unfortunately, this is often not the case. Why? Because budgets are based on assumptions, and those assumptions don't always square with reality. A government can balance its budget by planning for new cost savings or efficiencies, by shifting spending responsibilities to another level of government, or by suspending payments on long-term obligations such as pensions or infrastructure maintenance.[1] Many also adjust their budgets throughout the fiscal year. Over time, these "budget tricks" can turn a temporary gap between revenues and spending into a permanent gap, or "structural budget deficit."

fewer revenues, financial performance weakens and it's more difficult to improve financial position over time. States that depend heavily on income taxes, such as California, or severance taxes from natural resources, such as Alaska and Wyoming, struggle with this problem because those revenues are difficult to predict.[2] In fact, California voters recently approved the creation of a mandatory state rainy day fund to bolster their state's financial position.[3]

Some governments are strong on one component but weak on others. For instance, many small municipalities have robust financial positions, sometimes holding cash and other liquid assets equal to more than a year of their annual spending. At the same time, they have large unfunded infrastructure needs that are a major drag on their long-run financial position. This often happens because voters are sensitive to property taxes. If local property values increase, the government will collect more property taxes even if it does not change its property tax rate. At the same time, many taxpayers oppose new taxes or increases to existing tax rates to fund new programs or infrastructure. Most governments cannot "save up" enough to pay for infrastructure projects with cash, so those spending needs go unmet while, ironically, more cash goes in the bank. The opposite is true of governments that have invested heavily in infrastructure, but have little, if any, free or "slack" resources to bolster their financial position.

finance defined:
ASSET:
Anything that has value, such as cash, inventory, equipment, and even infrastructure, such as roads and bridges

The central challenge with financial health is that these interactions are a bit different for every government. That's why, once again, context matters. It's crucial to think of your government's financial health relative to other governments with similar economic, political and demographic characteristics.

The Shrinking Fiscal Policy Space

Flexibility is a big part of financial health. If financial circumstances change, it helps to have the latitude to take raise taxes, trim spending on social services, renegotiate labor contracts or other corrective action.

Many states and localities don't have that latitude. Their state constitutions require voter approval of any new taxes. They have large numbers of vulnerable citizens who literally can't live without basic public services. Their labor contracts, pensions and other benefits are protected by state law. Or they face massive unfunded mandates from other governments. Governments in these circumstances can't do much to bolster their financial health.

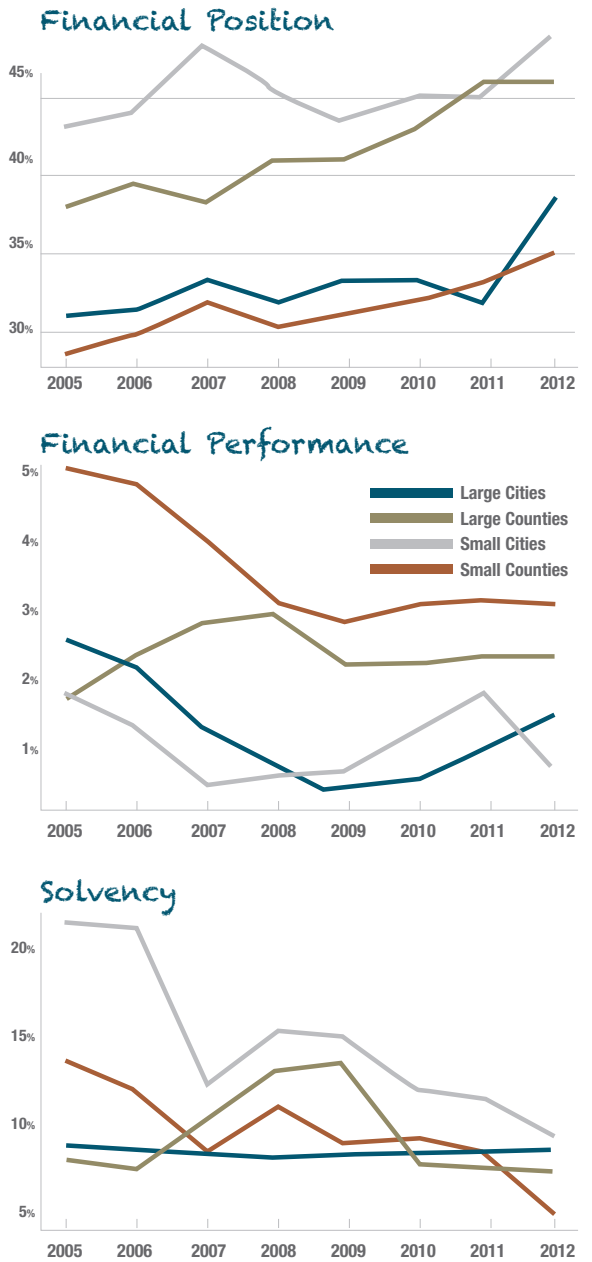
These constraints are known as the "fiscal policy space."[5] This concept is a useful way to think about the context for how to measure and manage your jurisdiction's financial health. The fiscal policy space is also a powerful predictor of financial health. Research has shown that throughout the past two decades virtually every state and local government in the U.S. has seen its fiscal policy space narrow. For local governments that depend on support from their state government, this problem is even more acute. That's why it's not surprising that half of the Governing Institute survey respondents cited insufficient revenue as a major threat to their future financial health.

The Status of Financial Health Today

What do we know about state and local government financial health today? First, there's a lot of optimism. According to a recent Governing Institute survey conducted for this publication, more than 70 percent of state and local government decision-makers believe their jurisdiction's financial health is excellent or good. Approximately 90 percent of those same officials believe their government's financial health will be the same or better in 10 years.[4]

We also know the Great Recession hurt, but spared states and localities permanent damage. Consider the trends shown in the figure titled "Trends in Select Local Government Financial Health Indicators" on page 13. It shows nationwide financial health trends before, during and after the recession. In this case, financial position is a government's fund balance as a percentage of its annual spending; financial performance is the annual change in its net assets; and solvency is how much its overall revenues exceeded its overall expenses as a percentage of its overall expenses. This figure is a plot of the averages of these measures for a national sample of just less than 1,000 local governments. Small governments are defined here as having populations less than 100,000 people while large governments are defined here as having populations of more than 100,000 people.

Trends in Select Local Government Financial Health Indicators



Source: Merritt Financial and author's calculations

The figure highlighting trends in government financial health indicators shows that financial performance and solvency dropped a bit, mostly because revenues consistently fell short of expectations during the Great Recession. At the same time, financial position, one of the most closely watched financial health measures, didn't change much. For state governments, these figures are quite similar.[6]

Some more recent numbers indicate financial performance and solvency are also back on the rise. According to the National League of Cities, more than 80 percent of city finance officers believe their government is better able to meet spending needs now than it was in the recent past.[7] Recovering revenues are a big part of that improvement.

However, there's plenty of cause for concern. According to the Governing Institute survey, more than half of state and local government decision-makers believe infrastructure investment — or the lack thereof — is the biggest threat to their government's financial health. A variety of studies also show that more than two-thirds of state and local governments slowed or stopped spending on infrastructure during the Great Recession.[8] In the meantime, the federal government has significantly scaled back its own spending on state and local infrastructure projects. So even though financial position and financial performance have improved, there are looming concerns about long-term financial health. **G**

Essential Questions: Defining Financial Health

1. Do we routinely review our financial health? If not, do we rely on analysis from the state government, a think tank, a research institution or some other source?
2. Do we use a formal definition of near-term and long-term financial health? If not, why?
3. Do financial staff have a regular, formal opportunity to explain noticeable changes in our financial health?
4. When financial health changes noticeably, is it due to an increase in mandated spending? Expiration of a grant or loss of a revenue source? The addition of a new service? A change in management practice, staffing or technology? Economic recession or expansion?
5. How much do we depend on federal resources to deliver our core services? For state governments, how much of our annual spending is related to Medicaid? For local governments, how much do we depend, both directly and indirectly, on state shared revenue, federal grants and other sources? Have we established plans?
6. Is our fiscal policy space shrinking or expanding? If it's shrinking, how will that affect the financial choices available to us in the future?

HOW TO MEASURE FINANCIAL HEALTH

Given the complexity of financial health, a good measurement strategy is simple and intuitive, but multifaceted.

That's why we typically talk about financial health measurement "systems." These systems pull together information from financial statements, budgets, economic and demographic information, and other sources into a summary assessment. Of course, no system is perfect. Each has advantages and disadvantages.

There are two basic types of systems: retrospective and prospective. Retrospective systems use existing data to say something about a government's current financial health. Prospective systems use that information to forecast a government's future financial health. Your government should have a system to evaluate its own financial health. Ideally, that system includes both retrospective and prospective elements.

Retrospective Systems

Most of the financial health measurement systems in use today are retrospective. They share similar features, including:

They're based mostly on information from audited financial statements.

They combine financial information into summary measures, usually in the form of mathematical ratios.

They compare — or benchmark — those ratios across governments with similar population, wealth and other characteristics.

They report a grade or other summary measure.

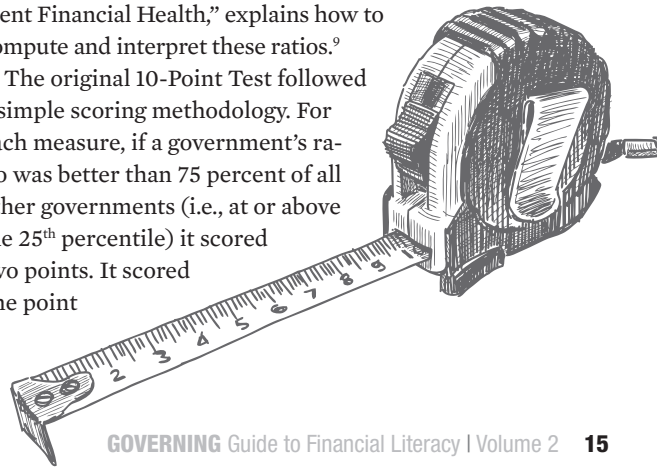
The 10-Point Test. The original retrospective system is the 10-Point Test. It is designed to speak to financial position, financial performance and solvency in a comprehensive but simple measurement system. Parts of the 10-Point Test have evolved over the years, but the basic measurements and concepts have not changed. Most of the financial health assessment systems used today are patterned off of this original test.

As the name suggests, the test is based on 10 measures from a government's basic financial statements. "Short-run financial position" and "liquidity" cover financial position. Two measures — "net asset growth" and "operating margin" — cover financial performance. Budget solvency is covered by "own source revenues" and "revenue sufficiency." "Debt burden," "coverage 1" and "coverage 2" speak to long-term solvency. Service-level solvency is difficult to measure but is roughly captured through "capital asset condition." The table on page 16 titled, "The 10-Point Test of Government Financial Health," explains how to compute and interpret these ratios.[9]

The original 10-Point Test followed a simple scoring methodology. For each measure, if a government's ratio was better than 75 percent of all other governments (i.e., at or above the 25th percentile) it scored two points. It scored one point

finance defined:

RETROSPECTIVE SYSTEMS: Financial systems that use existing data to say something about a government's current financial health



The 10-Point Test of Government Financial Health

Measure	Ratio (expressed as equations)	Financial Health Component	Ratio Interpretation
Short-Run Financial Position	Unassigned General Fund Balance / Total General Fund Revenues	Financial Position	A higher ratio suggests larger reserves for dealing with unexpected resource needs in the long run.
Liquidity	Total General Fund Cash and Investments / (General Fund Liabilities - General Fund Deferred Revenues)	Financial Position	A high ratio suggests a greater capacity for paying off short-term obligations.
Net Asset Growth	Change in Governmental Activities Net Assets / Total Governmental Activities Net Assets	Financial Performance	A high ratio suggests annual costs are being adequately financed and the financial condition is improving.
Operating Margin	(Revenue for Governmental Activities / Total Governmental Activities Expenses) X - 1	Financial Performance	A low ratio suggests basic government services are more self-sufficient through charges, fees and grants.
Own Source Revenues	Primary Government Operating Grants and Government Revenues / Total Primary Government Revenues	Financial Performance/ Budget Solvency	A low ratio suggests the government is not heavily reliant on intergovernmental aid.
Near-Term Solvency	(Primary Government Liabilities - Deferred Revenues) / Primary Government Revenues	Budget Solvency	A low ratio suggests outstanding obligations can be more easily met with annual revenues.
Debt Burden	Total Outstanding Debt for the Primary Government / Population	Long-Term Solvency	A low ratio suggests less burden on taxpayers and greater capacity for additional borrowing.
Coverage 1	Debt Service / Non-Capital Governmental Funds Expenditures	Long-Term Solvency	A low ratio suggests general governmental long-term debt can be more easily repaid when it comes due.
Coverage 2	Enterprise Funds Operating Revenue + Interest Expense / Interest Expense	Long-Term Solvency	A high ratio suggests greater resource availability for repaying the debts from enterprise activities as they come due.
Capital Asset Condition	(Ending Value of Primary Government Capital Assets - Beginning Net Value) / Beginning Net Value	Long-Term Solvency/ Service-Level Solvency	A high ratio suggests a government is keeping pace, on average, with the aging of its capital assets.

if it was better than 50 percent of other governments, and zero points if was better than 25 percent. If it was in the bottom 25 percent, it received one negative point for that measure. A government that outperforms its peers can earn up to 20 points on the 10-Point Test.

The 10-Point Test is timeless because it's comprehensive but simple. It speaks to all three dimensions of financial health with just a few numbers. That said, any system based entirely on financial statements will have several drawbacks. Among them:

It causes financial reporting lags. According to the Governmental Accounting Standards Board (GASB), a typical state or local government takes six to nine months to produce its annual financial statements.[10] The implication for financial health measurement is clear: Financial ratios tell us about financial activity that happened a long time ago.

The 10-Point Test and financial statements do not effectively measure cash solvency. Measures like short-run financial position and liquidity are taken from a government's balance sheet. The balance sheet is a snapshot; it describes asset and liability levels at a specific moment in time. But a government's cash flows are dynamic: They ebb and flow throughout the year as taxes are collected and dispersed, as grant dollars arrive, and as the government pays its employees and vendors. To really understand your government's cash flow needs you have to see regular reports — ideally monthly or quarterly — on cash inflows and outflows. It's difficult to do that analysis from basic financial statements alone.

Ratios based on financial statements don't account for transfers of resources within the government. For example, many state and local governments are allowed to move money from their public utilities funds to their general fund. This will improve the general fund's financial position, but that improvement is unrelated to the general fund's assets and liabilities.

State Fiscal Monitoring Systems. The 10-Point Test is the basis for a second broad category of retrospective financial health measurement systems: state fiscal monitoring systems. Many states have the power to intervene on behalf of a local government that is struggling with major financial problems. According to the Governing Institute survey,

42% of Governing Institute survey respondents believe that if a local government's financial health is failing, the state should intervene.

42 percent of respondents believe that if a local government's financial health is failing, the state should intervene. That intervention can include anything from technical assistance to the state seizing control of the local government's daily operations.[11] Almost all states that have this power use financial health measurement systems to identify local governments that are, or might be, on the verge of severe problems. Local officials in states with these

For Better or Worse, Fund Balance is King

There is no correct financial health measure. In fact, a 2012 study commissioned by The Civic Federation in Chicago found state fiscal health monitoring systems collectively use more than 100 different measures to capture the three main dimensions of financial health.[12]

State and local public officials see it differently. When asked to identify the financial health indicators they rely on the most, 82 percent cited the general fund balance and 46 percent cited bond ratings. No other measure received more than 25 percent of responses. For better or worse, fund balance is king.

Fund balance is a good measure of budget solvency and financial performance. It grows when revenues exceed expenses and it shrinks when they don't. It also speaks to financial position and liquidity because governments can use fund balance to meet unexpected spending needs. Some even see it as a measure of fiscal discipline because it's difficult for policymakers to resist the temptation to spend it. However, it's only one measure, and it has little to do with long-term solvency. So while general fund balance is useful, always keep in mind it's just a small piece of your government's overall financial health.

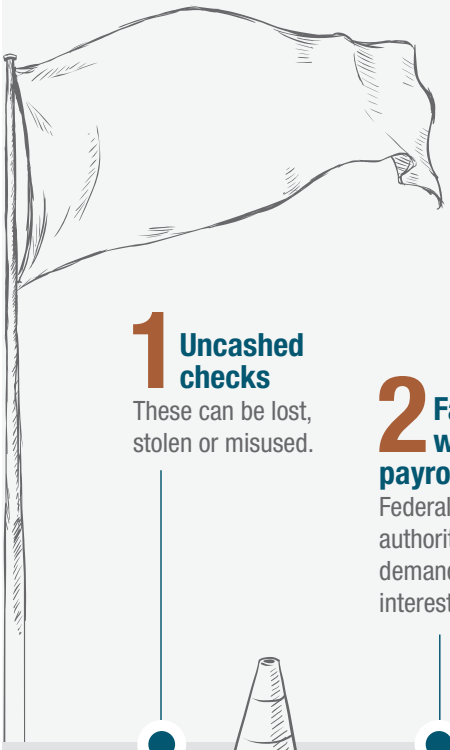
systems are acutely aware of how the state monitors, evaluates and ultimately grades its financial health.

Examples include:

- New York State's Office of the Comptroller launched its Fiscal Stress Monitoring System in 2013. It includes nine financial indicators, all from audited financial statements, and eight environmental indicators, such as changes in population, property values and unemployment. The system includes a rubric that converts those indicators into a fiscal stress score. As of September 2014, 15 localities were in a state of "Significant Fiscal Stress," 11 were rated as having "Moderate Fiscal Stress" and 25 were "Susceptible to Fiscal Stress."[13]
- Michigan revamped its local fiscal oversight system in 2012. That system, run by the state treasurer, now includes 19 different indicators, including new measures of cash solvency.[14] If a local government scores high enough on a fiscal stress indicator index it is placed on a watch list. If it remains on the watch list it becomes a candidate for additional state intervention, including the imposition of a state-appointed emergency manager.
- In Florida, the auditor general requires local governments to design their own financial condition assessment system based on suggested measures from their financial statements. That system is then reviewed as part of the government's independent financial audit. The independent auditor reports any concerns to the auditor general.[15]
- North Carolina's state treasurer maintains one of the most thorough and, arguably, effective systems in the country. That system includes several different measures of financial position, financial performance and solvency taken from

10 Financial Health Red Flags

A big part of financial health is knowing what not to do. Below are a few common red flags that point to much larger problems with a state or local government's financial policies, procedures and systems:



1 Uncashed checks
These can be lost, stolen or misused.

2 Failure to withhold payroll taxes
Federal and state authorities will eventually demand full payment with interest.

3 No procedures to verify cash in the bank with cash on the balance sheet
Unauthorized cash disbursements are a major source of fraud.

4 No procedures to verify that vendors exist
Payments to fake vendors are also a major source of fraud.

5 Vendors with a lot of outstanding payments
This may indicate unauthorized or unnecessary work performed by people outside of your agency.

audited financial statements. It also allows users to benchmark their government against other governments of their choosing.[16]

Financial Health Self-Assessments. No doubt, state oversight systems produce useful information. If your government is part of one, you should familiarize yourself with the information it offers about you and your peer governments. However, these systems are not a substitute for your own periodic financial health self-assessment. With a few exceptions, most of these systems do not properly account for context. They create groups of local governments on broad criteria like population, but they usually ignore far more important factors such as local wealth, tax base and the authority to raise local revenues. Moreover, it's not always clear what these systems are designed to accomplish. A few states have broad authority to assist or even take over struggling local governments. But most states don't. Proponents of these "non-intervention" monitoring systems argue that publicizing a local government's financial struggles will encourage its residents to take their own corrective action. But at the moment it's not clear if and when that approach works.

You will serve your government much more effectively if you encourage it to develop its own financial health monitoring system. A good place to start is the International City/County Management Association's (ICMA) Financial Trends Monitoring System (FTMS).[17] It is one of the few retrospective systems that incorporates information from governments across the country.

This system is popular because of its focus on context. It includes a mix of 23 different indicators explicitly designed to measure all three elements of financial health. Local governments that participate in it agree to have their financial health benchmarked against a peer group of governments with a similar population, tax base and service demands. To that end, members also receive periodic reports on their financial health relative to those peers. Perhaps most important, members agree to share the story behind those numbers. They routinely communicate with each other about how key management and policy decisions have affected the financial ratios over time.

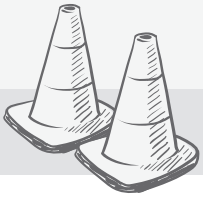
6 Paychecks sent to retirees, terminated employees or deceased employees
Good payroll audit procedures should prevent this.

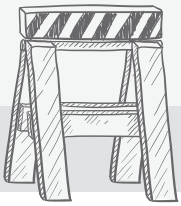
7 Benefit payments to ineligible retirees, family and friends
Without proper procedures, it's easy to lose track of who is eligible.

8 Individual departments/agencies maintaining their own checking accounts
This allows staff to create unauthorized bank accounts in the government's name.

9 Financial audit identifies a material weakness on internal controls
This indicates a major problem with financial policies or procedures and requires immediate attention.

10 Staff are not trained on new financial systems or policies
Small mistakes over time by well-intended staff can add up to big financial problems.



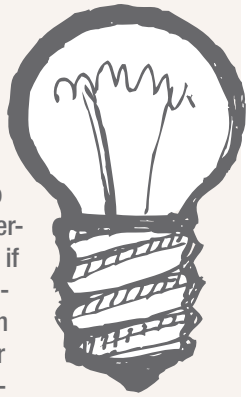


Best Practice

Thinking Ahead in Portland

Every other year the city auditor in Portland, Ore., publishes a performance audit of the city's financial health. The analysis behind the audit is based on a system of 12 measures, including a mix of 10-Point Test-style indicators and broader economic factors such as the unemployment rate and tax base growth. It also benchmarks 10-year trends against similar trends for 6 other large West Coast cities.

Portland's version of the financial health performance audit is unique because much of it is focused on questions about the city's long-term solvency, including: Are the city's unfunded pension and retiree health care liabilities higher or lower than peer cities? Is it investing enough in its capital infrastructure? Has it borrowed an appropriate amount of debt? It also contends with questions of service-level solvency by asking if the city should consider delivering certain services through public-private partnerships or other non-traditional arrangements, and if it should continue to deliver certain services at all.[18] Portland's model is one of the most thorough prospective measurement systems in state and local government today.



This system was popular at a time when government financial information was difficult to find and even more difficult to compare across governments. Comparisons are less of a challenge today as most local governments make their financial statements and other documents available electronically. That said, the FTMS remains popular, and its measurement strategy is one of the most influential in the industry.

Financial health self-assessment is not a one-size-fits-all approach — each jurisdiction must develop its own system for an accurate assessment. For example, the city of Lawrence, Kan., launched its own financial health assessment system in 2009. The main challenge when developing this system was finding appropriate comparison cities. Lawrence, with a population of 90,000, is home to the University of Kansas and sits on the far western edge of greater Kansas City, Mo. Like most mid-sized cities, it tends to compare itself to nearby cities. But for Lawrence it's less useful to compare its financial health to its neighbors. Its population is more educated but also has a lower income level than most Kansas City suburbs due to its preponderance of students. The university and other cultural institutions employ a lot of people, but those institutions are exempt from most property and sales taxes. Lawrence needed a different approach.

finance defined:

PROSPECTIVE SYSTEMS: Financial systems that project future financial health based on past trends in economic, financial and other measures

To address this problem, it identified the 14 best comparison cities across the country matched on general population, youth population, per capita income and age of housing stock. Not surprisingly, the best comparison cities are other standalone, mid-sized college towns, including Iowa City, Iowa; St. Cloud, Minn.; Chico, Calif.; and State College, Pa. Lawrence compares 10-year trends in its financial health indicators to the same trends among these peer cities. According to the city auditor, who developed and manages this approach, the system has been well received and has helped focus policymakers' attention on important emerging financial issues.[19]

Prospective Systems

Financial health measurement based on financial statements is essential. But if the goal is to make policies today that improve financial health tomorrow, that style of measurement falls short. Arun Raha, an award-winning economic forecaster and former chief economist for the state of Washington, famously brought this problem to life by saying forecasting financial trends is "...like driving a car forward, looking only in the rear view mirror."[20] Circumstances today offer clues about the future, but we can really only guess what's coming.

That's where prospective systems fit in. These systems project future financial health from

past trends in economic, financial and other measures. More specifically, they attempt to project solvency based on some understanding of the links between a government's economic environment and its financial policies.

Credit Ratings. Credit ratings are the most widely discussed financial health measurement systems for state and local governments. They're also one of the few prospective systems. That's a big part of their appeal.

The credit rating agencies – Moody's, Standard & Poor's and Fitch – answer a simple question: Will this government pay back a particular bond (or set of bonds) on time and in full? Bonds more likely to be repaid carry a higher rating, and those considered likely to be repaid carry lower ratings.

Credit ratings on their own are not a good financial health indicator. They are meant for investors who want to know if they'll get their money back.

To reach that conclusion the ratings agencies analyze information from financial statements, economic indicators, demographic trends and how much debt the government currently owes, among many other factors. Their goal is to forecast a government's near-term financial position and long-term solvency. They do this analysis in different ways for different types of bonds, but every credit rating is a prospective statement about financial health.

Credit ratings are a powerful influence on how we think about and manage our financial condition. They are a clear and decisive statement about a government's financial future. They're also widely misunderstood and misused.

Credit ratings on their own are not a good financial health indicator. They are meant for investors who want to know if they'll get their money back. They are, at best, an indirect measure of whether a citizen can expect to receive the same package of services for the same basic tax rate.

In fact, many state and local governments are only marginally healthy but have strong credit ratings. Why? Because if they encounter severe financial problems, their state constitution requires them to repay their bond investors before anyone else. This is one of many instances where credit ratings can be out of sync with overall financial health. This is not a criticism of credit ratings, but it is a caveat — they are, at best, a proxy for overall financial health.

Unfortunately, outside of credit ratings there are few good examples of prospective financial health measurement systems. Some state and local governments convene round table discussions of business leaders and other financial experts. These discussions can help identify emerging trends in the economy that will affect future financial health. Internal auditors in a few cities do performance audits of long-term solvency and service-level solvency (see the sidebar "Thinking Ahead in Portland" on page 20), but that style of work is still uncommon. That said, as new data and analytical tools become more readily available, the potential for better work is unlimited. For now, the key point is to try, whenever possible, to incorporate prospective elements into how you think about your government's financial health. G

Essential Questions: Measuring Financial Health

1. Who do we consider our financial peers, and why? Do we identify our peers on the basis of geography? Demographics? Types of services delivered? Or other factors? Would we draw different conclusions about our financial health if we compared ourselves to a different group of governments?
2. How do we define a financial trend? Relative to ourselves over time? Relative to a peer group? Both? Would our financial trends look noticeably different if we changed the time frame or context? What are the strengths and weaknesses in how we define those trends?
3. How do we measure our cash solvency? Do staff prepare periodic cash flow reports? Do we have a person or team who monitors our cash position?
4. What are our main assumptions about how changes in the local, regional and international economy shape our financial health? Do we routinely revisit and update those assumptions?
5. What is our current credit rating, and what does it tell us about our overall financial health? Have these ratings changed recently? If so, why?

HOW TO IMPROVE FINANCIAL HEALTH

Now that you know how to think about and measure financial health, the next question is: What can we do about it? More specifically, what are the biggest threats to our financial health, and how can we address them?

We hear a lot about a few key financial threats. Rising health care costs are probably the most widely discussed. Medicaid is now the single largest spending item in most state budgets. More ominous is that health care costs have increased faster than most other costs, and funding for Medicaid from both the federal government and state governments has not kept pace.[21] This means that without a major change in who Medicaid covers or what it pays for, it will consume an ever-larger share of state budgets. This pressure on states inevitably affects local governments.

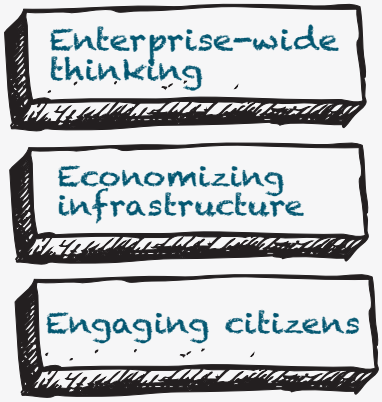
Virtually every state is taking steps to control those costs through new technologies and partnerships with the health care industry. They're also trying to use new funding tools made available by the federal Affordable Care Act (ACA). These changes are incredibly difficult, both practically and politically, but they're underway.

State and local pensions are another closely watched threat. Critics have argued that pensions are too generous and that governments have shirked their obligation to fund them for many years. Some believe pensions are as severe of a threat to financial health as Medicaid and other expensive public assistance programs. As the recent developments in New Jersey, Rhode Island and elsewhere have shown, pension reform is also politically perilous.[22] No doubt, some jurisdictions have worked with labor and other stakeholders to address their pension problems. The city of Baltimore's recent transition to a "hybrid" public pension is a good recent example.[23]

That said, it's surprising that when asked to identify the biggest threats to their financial health, 54 percent of public officials cited infrastructure costs as a primary threat while 50 percent cited insufficient revenue. Many also identified personnel costs as a cost driver, however, 26 percent pointed to pensions, other post-employment benefits or debt.

Health care and pensions are major problems, but these survey results are consistent with many of the popular strategies state and local governments are now using to take charge of important parts of their own financial health. As a policymaker you should be familiar with these strategies and how they might work in your jurisdiction. Those strategies fall into three basic categories, or the "Three Es": 1) enterprise-wide thinking; 2) economizing infrastructure; and 3) engaging citizens.

The "Three Es" That Will Help You Take Charge of Your Jurisdiction's Financial Health



Enterprise-Wide Thinking

Many states and localities organize their financial management function into separate sub-functions. The budget is prepared by one department, implemented across the organization, and audited and reported on by a different department. Governments today are moving the needle on financial health by integrating these separate functions into enterprise-wide systems.

finance defined:
SALARY LAPSE:
A chronic problem in government that occurs when a portion of a budgeted salary becomes available

Much of this integration happens through technology, and in particular, by implementing new enterprise resource planning (ERP) systems. Today's best ERP systems allow staff across the government to bring new information to bear on how they manage their budgets and their day-to-day operations. Over time, these small adjustments can make a big difference on infrastructure, personnel and other costs that can be difficult to manage. A few examples:

- With budget and performance information in the same system, it's much easier to see the full costs — the total of both the direct and the indirect costs — to deliver a service. With better cost information, managers can see where cost overruns are happening, how changes to internal processes affect costs, and how new equipment and other investments might drive down costs over time.
- Personnel costs comprise up to half of total spending for a typical local government and nearly one-quarter for most state governments.[24] But unfortunately, many public sector information systems don't allow decision-makers to answer basic questions about "salary lapse," a chronic problem in government. Salary lapse occurs when a portion of a budgeted salary becomes available. This happens when a posted job goes unfilled or when a job that someone left goes unfilled for the rest of the fiscal year. To get good data on salary lapse the personnel systems across the government must talk to one another. With enterprise-wide technology, managers can better plan for and manage their personnel needs.
- The city of Pittsburgh has moved to a paperless platform for all internal processing of licenses, permits, tax administration and other back-office functions. Approval processes that used to take weeks now take days, mostly because staff are held accountable within the ERP system for the status of critical paperwork. In some cases, these new efficiencies have allowed managers to redirect staff toward other understaffed functions.[25]
- Public utilities in Miami and Dallas have used enterprise-wide technology to automate many of their internal operations. For example, in the past, the simple process of testing water quality, treating the water and ordering chemicals to resupply for the next treatment was spread over several different departments and staffs. With automated technology, all three steps of that process happen instantly and automatically.[26]
- Enterprise-wide thinking also supports governments' efforts to leave less "money on the table." Better access to data on who uses services and when allows governments to more effectively collect the taxes, tolls and fees they are owed. More sophisticated financial information systems facilitate more efficient processing of tax bills and payments, both of which make citizens more amenable to paying their tax bill on time and in full. New technology systems can also improve data security and bolster taxpayer trust in government revenue management. Technology also allows governments to extend their reach beyond the enterprise, opening up collaborations with private companies and nonprofits, and bringing more people — including low-income taxpayers — into the system.

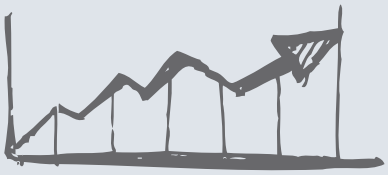
To be clear, sometimes enterprise-wide systems can be expensive and difficult to implement. This is especially true in today's financial environment where it's difficult to prioritize investments in internal systems over investments in roads, parks and other systems that benefit citizens in more direct, visible ways. Enterprise-wide thinking also requires managers and policymakers to think differently about the relationship between "spending" and "costs." It's difficult to measure costs, especially when the program or service doesn't have a clear unit of output to organize those costs. So instead, it's much easier to focus on what a government spends on that program or service, even if spending levels reflect cost overruns, subsidies to other programs, inefficiencies and other problems that good cost information can reveal. Despite the challenges, these investments yield big dividends for long-term financial health.

Economizing Infrastructure

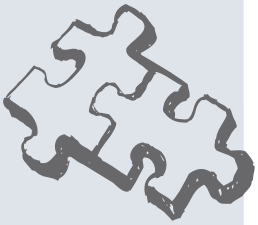
As mentioned, infrastructure costs are a particular concern for financial health. Fortunately, there are a wide variety of new tools to help better understand and plan for future infrastructure investments. These tools are all part of a strategy to "economize" infrastructure investment.

10 Policies and Practices that Promote Financial Health

As a policymaker, you can improve your government's financial health first by understanding it, and then by establishing policies and procedures to promote it. Below are 10 key policies and procedures your government should have:



1. Rainy day fund policy
2. Target fund balance or ending budget balance policy
3. Policy on the use of one-time revenues
4. Long-term financial plan
5. Regular debt affordability studies
6. Policy on inter-fund transfers



7. Quarterly cash flow reports
8. Policies and procedures on indirect cost allocations
9. Routine reviews of financial information technology needs
10. Regular analysis of how capital investments affect the operating budget

- The Government Finance Officers Association (GFOA) strongly supports long-term financial planning.[27] This style of planning is, in effect, connecting 5- to 10-year forecasts of a government's revenues and spending to its long-term strategic plan. Planning of this sort promotes infrastructure maintenance because it protects the resources available for capital investment. Capital investments are one of the first spending areas governments typically cut during recessions. If a state or local government has planned for a range of revenue and spending contingencies, it is more likely to have protected capital resources in place.
- Many states and municipalities now incorporate "sensitivity analysis" or "scenario analysis" into their revenue and expenditure forecasts. This style of analysis allows decision-makers to evaluate different future scenarios. Tools like these are valuable from a technical standpoint because they can make forecasts more accurate. They also offer decision-makers a chance to see how different assumptions about economic trends and service delivery patterns will affect the likely range of revenue and spending outcomes. GFOA's MuniCast tool is one of the most popular to this effect.
- Most states and some localities periodically review their "debt affordability." Many governments finance the bulk of their capital projects with debt, which is a scarce resource. It follows that prudent use of debt is an essential part of infrastructure maintenance. There are two critical concepts surrounding debt. Debt capacity is how much money a government can legally borrow within state law. Debt affordability is a government's ability to repay debt given its current and expected revenues. The former is based on a formula calculation. The latter is related to expected economic growth and infrastructure needs. It's essential that state and local governments periodically review both their debt capacity and debt affordability, and use that information to prioritize capital projects accordingly.

finance defined:

DEBT CAPACITY: How much money a government can legally borrow within state law

Engaging Citizens

Financially healthy governments engage their citizens. There's an important distinction here between transparency and citizen engagement in financial health. Many governments have achieved transparency by publishing most or all of their basic financial transaction data online. However, real engagement means giving citizens the opportunity to determine if their government is putting public resources behind their most important priorities.

According to the Governing Institute survey, more than two-thirds of public officials say they communicate financial health through their annual financial report and by publishing the annual financial report on their website. Financial reports are useful, but they do not tell the complete financial health story. At the same time, less than one-quarter of the respondents use more accessible methods such as social media and citizen-centric reports to communicate the jurisdiction's finances. Fewer yet seem to publish the results or outcomes of day-to-day operations.

For many states and municipalities, financial transparency means "publishing the checkbook." If taxpayers can see where their money is spent, the logic goes, they are far more likely to trust their government's financial management practices. However, this approach does not address the much larger question: What do citizens get for their investment?

The city of Boston has developed an innovative system to address this issue. Boston About Results (BAR) is a big data performance management system that produces a variety of detailed reports on city services. These reports allow citizens to see, often on a block-by-block basis, how the city manages graffiti complaints, restaurant inspections, parks maintenance requests and other essential services.[28] With these reports, citizens can see their taxes at work. This emphasis on service-level solvency is crucial to engaging citizens on their government's financial health. **G**

Essential Questions: Improving Financial Health

1. How do we define debt capacity? How do state and federal laws shape that capacity? Do we self-impose any restrictions on our debt capacity?
2. Have we done a debt affordability study recently? If so, what were the main assumptions and findings?
3. Do we have the 10 essential policies and practices known to promote financial health? If not, why?
4. Do we have a structural deficit? Is some level of deficit appropriate given our current and future financial health?
5. How do we measure the condition of our infrastructure assets? Does information about that condition affect our financial planning? Our capital budgeting?
6. How can we build sustainability into our budget process? How can we keep elected officials focused on it?

Setting the Tone for Financial Health

As a policymaker, your job is to connect your government's financial resources to its shared priorities. This is much easier to do if your government has the ability, now and in the future, to deliver the services its citizens want. In other words, your job is much easier if your government is financially healthy.

You can do two main things to make this happen. First and foremost, make sure your government has a thorough, thoughtful system to measure its own financial health. But far more important, set the tone at the top. Make sure your government has the right policies, procedures, systems and technologies in place to ensure costs are properly measured, staff can adjust to changing financial circumstances, the right information is brought to bear on day-to-day financial decisions and that citizens can see the return on their tax dollars. With time, these small, day-to-day steps can have a big impact on your jurisdiction's financial health. California Gov. Jerry Brown summed this up well recently when he said, "Fiscal discipline is not the enemy of our good intentions, but the basis for realizing them."[29] G

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- ✔ Links to organizations important to public finance
- ✔ Finance 101 quiz

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GLOSSARY

PUBLIC FINANCE DEFINED

Term	Definition
Asset	Anything the government owns that has value, such as cash, equipment or buildings
Budget Solvency	A government is budget solvent if its budgeted revenues meet or exceed its budgeted spending; often described as the fourth type of solvency.
Cash Solvency	A government's ability to cover expenses that will come due in the next 60 to 90 days using available cash on hand
Debt Affordability	A government's ability to repay debt given its current and expected revenues
Debt Capacity	The amount of money a government can legally borrow within state law
Financial Health	A state or local government is financially healthy if it can deliver the services its citizens expect, with the resources its citizens provide, now and in the future.
Financial Performance	How well a government's typical revenues cover its typical expenses
Financial Position	A government's ability to pay its bills as they come due
Fiscal Policy Space	Flexibility in a government's budget that allows it to shift funds based on needs through actions such as raising taxes, negotiating labor costs and reducing spending on social services
Funds	Stand-alone groups of accounts within a government
Fund Balance	Difference between assets and liabilities in a governmental fund; reveals the accumulated effect of a government's past general fund surpluses and deficits
Liability	Money the government owes, such as unpaid invoices or pension liabilities
Long-Term Solvency	A government's ability to generate the revenues it will need to cover long-term spending needs such as principal and interest on debt, pensions and retiree health care, and infrastructure requirements
Net Assets	Difference between assets and liabilities in a governmental fund; often mentioned as an indicator of government fiscal health; most commonly discussed is general fund balance
Prospective Systems	Financial systems that project future financial health based on past trends in economic, financial and other measures
Retrospective Systems	Financial systems that use existing data to say something about a government's current financial health
Salary Lapse	A chronic problem in government that occurs when a portion of a budgeted salary becomes available
Service-Level Solvency	A government's capacity to continue to deliver basic services in the face of major changes in its economic and political circumstances
Solvency	A government's ability to pay bills that will arrive in the future; the three primary types of solvency include cash solvency, long-term solvency and service-level solvency
10-Point Test	A retrospective system based on 10 measures from a government's financial statements

Understanding Your Financial Story:

One Application, Complete Access for Decision-Makers

Government leaders are expected to be good stewards of taxpayer dollars by making informed decisions about how their limited resources are allocated. Unfortunately, many public agencies keep operating data, personnel information and finances siloed, meaning users, managers and executives do not have real-time access to all of the information they need to do their job effectively.

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Workday's unique accounting solution, Worktags, empowers users to capture every detail of every financial transaction to create a foundation for robust analytics.

The Workday Financial Management application provides composite insight into all transactions covering budget, revenue, procurement, expenses, finance, grants, projects, consumable inventory and payroll. The application uses analytics embedded in flexible and easy-to-modify business processes to show any level of summary or information relevant to the user. This allows managers and executives to effectively make informed financial and personnel decisions from "one source of truth."

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Transforming the Workplace Savings Plan

In an effort to meet the needs of the 21st-century employee, public entities are exploring additional benefits to help shore up their employees' financial health. We know voluntary workplace plans complement existing employee benefit programs, such as pensions, and play a large role in helping employees work toward replacing their working income during retirement.

To transform the workplace savings plan, government employers may consider these five strategies to help employees understand the importance of taking full advantage of the voluntary savings plans.

1. **Focus on retirement income.** Simply showing employees their account balance or telling them how much they will need in retirement has largely proven ineffective. Instead, employers should help them understand how their savings translates to a regular retirement income. Showing individuals their projected retirement income in comparison to their income replacement goal is a key first step that can motivate them to save more.
2. **Integrate retiree health care costs into employee education.** To help employees see a holistic view of their retirement future, they need to be able to factor health care costs into their retirement savings goals. Evidence suggests that people realize the high cost of health care in retirement — with 19% of workers who delay retirement citing continued health care coverage as the reason.[1] At Empower Retirement, our tools and resources help employees estimate their expected health care costs throughout each stage of retirement.
3. **Offer financial wellness programs.** 58% of workers save less than they know they need to because of their day-to-day expenses and debt.[2] Financial wellness and budgeting should be key components of programs offered to employees.
4. **Allow peer-to-peer comparison.** When employees can compare their savings rates to top savers in their peer group, they tend to save more. Our participant experience shows that using comparisons with others in an employee peer group — based on demographic factors such as age, salary and gender — drives people to save more. Data from those who have used this type of planning tool show savings rate increases of 25%.[3]
5. **Provide enhanced plan design features.** Features such as automatic enrollment and automatic increase (escalation) may help keep employees on the right path to meet their retirement savings needs.

State and local governments can meet and exceed the expectations of employees through positive changes in workplace voluntary savings plans. Empower can help implement strategies to potentially strengthen both the jurisdiction's and employees' financial health today and well into the future.

To learn about the specific solutions Empower provides government plan sponsors to help them address America's retirement savings challenge, visit **www.empower-retirement.com**.

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PERFORMANCE MEASUREMENT	TRAINING	CONSULTING ADVICE
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Leveraging Workforce Data to Control Costs and Improve Productivity

From time-off requests to overtime worked to absenteeism, public agencies are collecting more workforce data than ever before. However, the more data that is collected, the more difficult it becomes to use. In government, manually managed spreadsheets are the norm, and while they may be successful in recording data, they don't provide actionable insights into productivity and costs.

Kronos® Workforce Analytics™ solution integrates data from multiple sources to provide up-to-the-minute insight into workforce activity – enabling your jurisdiction to predict labor costs, improve productivity, and, ultimately, better its financial health.

Control costs. Workforce Analytics consolidates and displays critical workforce metrics, helping to identify inflated labor expense. This insight allows decision-makers to make real-time adjustments to staff allocation.

Improve productivity. Workforce Analytics helps link productive employee hours and the bottom line by identifying unproductive time, such as tardiness or absences.

According to more than 50 percent of state and local government decision-makers, agencies spend the most on personnel.[1] Kronos' workforce management solutions can help by providing actionable data that allows public agencies to more accurately forecast future spending and staffing needs to create a more efficient, cost-effective government. With thousands of installations in organizations of all sizes – including over 2,000 government agencies – we're proving workforce management doesn't have to be so hard.

Benefits of Workforce Analytics

Kronos' workforce management solutions provide state and local government leaders with the necessary tools for decision-making, including:

- On-demand labor performance insights
- Real-time view of employee trends
- Identification of root causes of poor performance, reduced productivity and behavior issues
- Ongoing efficiency improvements seen agency wide

1. Governing Financial Literacy survey, 2014

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