The Year of the Underclassmen

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This room housed the 50-member North Carolina Senate until 1961.
Despite strained finances, there’s been no significant shift toward consolidation in recent years.

It’s harder than advertised to come up with an easy way to measure success.

To help address homelessness, Miami takes advantage of the sustainable eating trend.

Acting like a tech entrepreneur can improve government services.

Massachusetts has the highest credit rating it’s ever had. Its secret? Discipline.

Meet the skiing mayor from a small mountain town.
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Watching the Issues

When I joined Governing in 2008, just as the bottom fell out of the economy, I attended my first Outlook in the States and Localities conference, which we host annually at the start of the year in Washington, D.C. The conference, which includes attendees from private industry, associations, think tanks and nonprofits, explores and expands on issues Governing has identified as priorities for the coming year.

Mark Zandi, chief economist of Moody’s Analytics, was a keynote speaker. His topic was, of course, the onset of what we now know as the Great Recession. He predicted that the country would see some improvement in the economy beginning in 2013, that housing would stabilize and we would build from there.

Zandi concluded by saying the country would be back on positive economic footing by 2020.

I remember looking across the room and seeing many attendees shaking their heads. There was more than a mountain to climb, and no positive spin other than to just move forward. Fortunately, the last four years are behind us. Yes, projected GDP growth of less than 3 percent is not a stellar expectation. And yes, hard decisions about taxes and spending cuts still confront federal and state lawmakers.

This issue marks the debut of a new feature that we hope will give you more useful, real-world ideas for managing. The Problem Solver section continues to be dedicated to providing practical tools for front-line decision makers. And Behind the Numbers (see page 58) gives us a new opportunity to examine the latest trends and statistics and focus on a particular idea with a more in-depth, more analytical investigation.

As we begin 2013, I invite you to join me in a New Year’s resolution. What would be on the list of resolutions for state and local government? Think about what you want to accomplish this year—creating efficiencies, breaking down silos, making better fiscal decisions—and send your goals to ewaters@governing.com. I’ll share them in a future column, in the hopes of creating our own exchange of ideas.
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LETTERS

It’s Not Missing; It’s ‘Mistargeted’
I think it’s time that people recognize that certain nonprofits are really non-profits primarily in name and statute and not in their operational nature (“Missing Money,” November 2012). Speaking from the New York perspective, to call institutions such as Columbia University, my alma mater, or New York University, or the hundreds of mega-sized institutions, nonprofits is obscene. The overall budgets and executive compensation of those kinds of institutions are more akin to those of a private corporation than what one typically thinks of as a “nonprofit.” Coming up with a pro-rated, tiered taxation plan or [payments in lieu of taxes] plan for nonprofits is likely the way to go to ensure that they pay based on ability to pay in a progressive manner. The nonprofit tax structure as it stands is too favorable and too incentivizing at the detriment to the majority.

—Scott Webber
New York, N.Y.

All property owners pay electric and water fees regardless of their “profit” or “nonprofit” status. Why should it be any different for other public goods and services? If we have an opportunity to revisit the compact between cities and regions, then let us look at the fundamentals. The value of access to public goods and services is reflected in land value. Thus, taxes on land values return publicly created value to the public sector that created it. But taxes on building values penalize privately created values, reducing the quantity and quality of buildings and thereby increasing residential and commercial rents. By reducing the tax rate on privately created building values, we would make it cheaper to build, improve and maintain buildings. By increasing the tax rate on publicly created land values, we would put downward pressure on land prices by reducing the profits from land speculation. This tax modernization technique has worked well in the cities that have tried it, enhancing affordability and job creation. Applying it equally to profit and nonprofit entities would add an additional layer of fairness and rationality.

—Rick Rybeck
Washington, D.C.

Unfortunate Labeling
Cohousing is a viable option for everyone, not just seniors (“Everybody Get Together,” November 2012). It is great for seniors, empty nesters, families and young singles. It is simply a great way to live, and most cohousing communities in the U.S. are not just for seniors, but are robust active communities made up of multigenerational, multicultural groups.

—Brad Norris
Nashville

It would seem that this article is attempting to place a label on a lifestyle that comes about via social involvement rather than being dictated by housing type or neighborhood structure. In cities across America, people that belong to organizations that have social purpose can reap the related benefits of having members that care about each other.

—Charlie Kamps
Penns Park, Pa.

This Millennial generation is the generation that decides where it’s going to live before it decides what it’s going to do. ... The question isn’t so much getting families out of the suburbs into cities but getting them to stay in the cities.”

—William Fulton, Governing’s Economic Engines columnist, commenting to USA Today on how cities are positioning themselves to attract more millennials—the topic of his November column, “The Enrollment Window.”

On Twitter
Was a little rough ... freezes, no hiring, pension reform, etc.

—YoungGovLeaders-LA in response to our question, “How did 2012 treat public employees?”
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Statistic Source: The 2011 EBRI/MGA Retirement Confidence Survey

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Whither the Purple States?
The era of divided government is over, at least at the state level.

WHILE WASHINGTON remains gridlocked, there’s more unified party control at the state level following last fall’s elections than at any time in living memory. One party holds both the legislature and the governorship in 37 states—with legislative supermajorities in fully half the states. There are now only three states with divided legislatures—Iowa, Kentucky and New Hampshire—the lowest number since 1928, according to the National Conference of State Legislatures (NCSL).

There used to be a contrast between the “blue” and “red” states in presidential voting and legislatures. But now, with a few exceptions in areas such as the industrial Midwest and “fringe” Southern states such as Virginia and Florida where the GOP holds sway in state elections, the nation’s legislative map pretty much resembles the presidential map. “We do see within states the same kind of polarization or split that we see at the national level,” says Bill Pound, NCSL’s executive director.

Democrats made some gains in legislative chambers in 2012, but certainly did not enjoy a sweep like they saw in 2006—or like the GOP’s historic gains in 2010. “It went in both directions, which is the fascinating thing about this election,” says Thad Kousser, a political scientist at the University of California, San Diego. “This hardly ever happens, where the blue states get bluer and the red states get redder, instead of the whole country going in one direction.”

There are several possible reasons this may have happened. One is redistricting, which allowed the party in power to build on its strength. Another is the highly contentious presidential election, in which neither candidate played much toward the center but instead worked to turn out his base. But the main reason may be that there’s more of a blur of issues between the states and Washington. Where each level of government used to tackle mostly discrete sets of issues, now they have overlapping agendas, most notably in the area of health care. People on either side of the debate about Obamacare weren’t likely to split their votes for different offices. “If people are polarized in their attitudes, why would they discriminate when they’re voting at the state legislative level?” asks Alan Rosenthal, a Rutgers University political scientist.

All this means that states are likely to be operating in “parallel political universes,” Kousser says, with some states offering more by way of health care and preserving or expanding rights for gays and unions, while others will be cutting taxes, imposing greater restrictions on abortion and mandating voter ID requirements.

“All politics may be local,” Rosenthal says, “but all voting now seems to be national.”

—Alan Greenblatt
To Woo Companies in Tough Times, States Double Down on Incentives

IT DIDN'T PLAY in Peoria. Local and state officials tried to put together a generous incentives package to persuade an Egyptian company to build a $1.4 billion fertilizer plant in Peoria County, Ill., but their efforts failed thanks to $130 million worth of tax incentives and property tax write-offs offered by the state and localities over in Iowa.

Given the state’s chronic budget problems, a majority of Illinois legislators couldn’t be persuaded to surrender that kind of cash. But the fact that the plant went elsewhere shows why states have been throwing money at businesses and developers. “Economically, it’s hard to unilaterally disarm,” says Kenneth Thomas of the University of Missouri-St. Louis. “If you don’t give incentives, you are going to lose investment.”

In the wake of the recession and the long, slow recovery from it, state and local governments have been even more eager to offer incentives to those few projects they have hopes of landing. Nine of the top 25 incentive packages over the past decade were for projects in 2010 and 2011 alone, showing that states had grown “desperate” during that time, Thomas says. Over those two years, he notes, there were 21 incentive packages worth more than $100 million—compared to just three such deals within the European Union. A recent analysis from The New York Times found that subsidies from state and local governments have become an $80 billion-a-year gift to the private sector.

Governments have entered into a spiral of higher subsidy values, not just in terms of the amount of money they’re offering, but also in the ways deals are structured. States such as Illinois, Kansas and Nevada now issue STAR bonds, which stands for “sales tax anticipation of revenue.” What that means in English is that rather than giving tax breaks over a 10- or 20-year period, governments issue bonds and hand the developer or the company cash up front. That can create all sorts of problems. The money given to private companies is worth more, since it’s not spread over time and subject to inflation. And it makes it difficult for states to penalize companies that don’t make good on their promises to deliver jobs or maintain wage standards. It’s harder to claw back incentives that have already been handed out, after all, than not to award them in the first place.

There’s plenty of evidence that tax incentives aren’t economically productive. The Lincoln Institute of Land Policy released a study last year that showed property tax breaks are costing states and localities $10 billion a year, but do little to affect economic activity or create new jobs. Still, as long as neighboring communities and states are willing to play the incentives game, states and localities will keep ponying up. Illinois state Rep. Fred Crespo’s challenger complained about a $150 million property and income tax credit he’d sponsored for Sears, saying that the “deals takes millions of dollars away from a school district to essentially give to a big corporation.” But Crespo noted the legislation had wide support and required Sears to maintain more than 4,000 jobs locally. Crespo won.

—AG
FOR THE PAST 20 YEARS, on holidays, weekends and other days when legislators aren't around, New York state Assemblyman John J. McEneny has walked into the silent state legislative chamber, stood on a rostrum before 150 unoccupied seats, struck a gavel and announced to the empty room, "The Assembly of the People of the State of New York is now in session." Then he'd turn around and leave.

There's actually good reason for the 90-second ritual. According to the state constitution, if the Assembly is dark for four consecutive days, lawmakers can't reconvene until the next calendar year. By calling the house to order every third day—even when no one is actually home—McEneny and his counterpart in the Senate maintain a never-ending session. Gaveling in also helps move bills along, since state law requires that newly introduced legislation must sit for three days before it can be acted on. Convening a session every third day also prevents the governor from making recess appointments, as Gov. Hugh Carey did in 1978. Knowing the Republican-led Senate would oppose his liberal pick for corrections commissioner, Carey, a Democrat, waited until everyone was gone and appointed his guy. According to McEneny, that's when the Assembly decided to start gaveling in every day. "I know why I am doing it," McEneny says, even though he acknowledges it might seem odd to someone unfamiliar with Empire State constitutional arcana. "I preserve the independence of the house."

It's a gig that's best for somebody local. (Statehouse lore holds that an Assembly member once flew to Albany just to gavel in the empty session, but no one can say for sure.) McEneny, who represents Albany, says he doesn't mind working the unpaid detail into his schedule. Since taking office in 1993, he estimates he's devoted nearly 3,000 minutes to gaveling before no one. Other area legislators fill in on the few occasions when McEneny is unavailable.

Now, though, McEneny is retiring. As of early December, there was no word on who will replace him in the longstanding if quirky tradition. Other Albany-area legislators are retiring as well, so a newcomer is likely to take the job one way or the other. McEneny says he realizes it might not be everyone's idea of fun. "But I never saw it as a chore," he says. "It was one and a half minutes of glory." —Jane Gottlieb
Teachers Rack Up Wins Against Reform Efforts

MANY SO-CALLED REFORM ideas in education have appeared to have unstoppable momentum. Expanding merit pay and the increased use of standardized testing in teacher evaluation have enjoyed the backing of everyone from President Obama to former Florida Gov. Jeb Bush. But now these ideas are experiencing pushback in the states, including some surprising places.

Teachers unions had already succeeded in 2011 in beating back an Ohio law that would have blocked collective bargaining rights. In part to ensure such action wouldn’t be taken again, the National Education Association put $1.4 million into a super PAC aimed at unseating GOP legislators in the state last fall. One of their favored weapons was teachers themselves. A dozen teachers ran for state legislative seats in Ohio. They didn’t do too well: Only one of them won (joining two other teachers in the state Legislature).

But teachers unions enjoyed big success last fall in beating back states’ policies they don’t like, unseating Indiana state Superintendent Tony Bennett, a champion of the reform approach, and overturning multiple laws regarding matters such as tenure that had been enacted in Idaho and South Dakota.

“People responded to the notion that it doesn’t make sense in trying to improve education to limit the voices of teachers, which was at the heart of this unconstituting legislation,” says Brian Cronin, a former teacher and legislator in Idaho.

The results bode ill for some fashionable policy ideas that had appeared to enjoy bipartisan support, says Rick Hess, director of education policy studies at the American Enterprise Institute. “Some of the reform agenda doesn’t connect with a lot of middle-class, suburban voters,” Hess says. He notes that not only unions but also many Tea Party conservatives opposed some of the policy ideas. He argues this puts at risk the Common Core standards that have been widely embraced by states.

Certainly, centrists in both parties will be left “on a tightrope,” says Andrew Rotherham, an education consultant and columnist. “On all these state issues, unions flexed their muscles,” he says. “In the places where they decided to go and have a fight on this stuff, they did pretty well.”

SNOW BUSINESS

Not all cities are equal when it comes to snowplows. Some of the snowiest places have far fewer pieces of equipment than their much-warmer counterparts.

The amount of money the city of Lock Haven, Pa., expects to bring in over the next decade by selling credits that city-owned forests can earn for sequestering carbon dioxide gases.

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IN 2030, 1 IN EVERY 3 AMERICANS WILL BE 50 OR OLDER. IS YOUR COMMUNITY READY?

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Hung Up

Is universal phone service a sleeper issue to watch in 2013?

Telephony is unique among technologies, with its social contract created a century ago to provide a safety net in the name of “universal service.” It was at once a high-minded ideal, a public policy compromise to justify a historic monopoly (the original AT&T), and a funding mechanism to ensure affordable, reliable phone service for all users regardless of population, geography or cost.

Today, there are conflicting pressures on the universal service fee (that unexplained item on our phone bills) to maintain “plain old telephone service” (POTS) on one hand, and help pay for a broadband future with what the industry calls “pretty awesome new services” (PANS) on the other. A total of $8.1 billion was disbursed through universal service funding in 2011, half of which was allocated for high-cost subsidies. That puts the universal service fee—itself under threat from the decline of landline subscribers—in the crosshairs of a high stakes gambit between the past and future.

Just north of Louisiana, in Arkansas, the conflict between new trends and old service needs is apparent. State CTO Claire Bailey has just completed a term as president of the National Association of State Technology Directors. Back home, she serves on the board of Connect Arkansas, a private, nonprofit corporation created by the Legislature to guide broadband deployment in the state.

Bailey says they are following the demand curve. “When we did our analysis, 35 percent of Arkansans, or 3 million people, are wireless only. They don’t use POTS, and they are getting their broadband over their mobile devices. So we not only have to look at the fee structure but even the concept of wires. What are we truly trying to do there?”

It may portend a new digital divide. The original problem was access to the Internet. Ironically, the new problem seems strangely retrograde in that it shores up voice connectivity as part of a converged future. “Our strategy is to focus on affordable, available and adequate,” says Bailey.

Even as the debate over the future of POTS and PANS gets louder, it is much more than simply a discussion of policy or technology or even economic development. Bailey reminds us that it is ultimately a conversation about core values and modernizing the social contract. “Whenever you talk affordability, you are hitting on sacred ground. It has to be a discussion for all of us.”

Email ptaylor@governing.com

“"The whole phone deal right now has become a little cut-throat,” says Melvin “Kip” Holden, the mayor-president in this city-parish on the Mississippi River that serves as the capital of Louisiana.

High-speed broadband contributed to the city’s fast economic growth over the past decade, and Holden is optimistic about the telecommunications industry’s multibillion dollar investments in digital fiber networks that combine voice, data and video. Still, with 40 percent of city residents living at or below the federal poverty level, he is also concerned about ensuring basic phone services for people with limited income.

Against a backdrop of aggressive modernization, Holden is focused on practical concerns at the street level. He says it is too easy to assume that everybody knows or can figure out how to operate increasingly sophisticated mobile phones, which have the potential to confuse people who have only known the once-ubiquitous landline telephone service.

“We have not paid enough attention to it,” says Holden. “Sometimes, unless you live those circumstances, you tend to ignore the realities. There has to be a universal conversation about where we are, what are the obstacles in the way and how can we overcome them.”

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REGISTRATION AND SPONSORSHIP OPPORTUNITIES AVAILABLE
Who Pays for Sandy?
States want money to rebuild, but they can’t expect a mini-stimulus.

By Peter A. Harkness

It was perhaps prophetic that big storms served as bookends to the nation’s 2012 political campaign season. Hurricane Isaac delayed the opening of the GOP convention in Tampa, Fla., in late August, and forced the Democrats to cancel the outdoor event closing their convention in Charlotte, N.C. Then, as campaigns entered the final stretch in late October, along came Superstorm Sandy, cutting a swath almost a thousand miles wide across 16 states.

With the exception of Hurricane Katrina seven years ago, Sandy inflicted more damage than any natural disaster in U.S. history. Just in the New York region alone, early cost estimates put the destruction at more than $50 billion.

In its wake, we are left with two questions: Who will pay the bill to restore and rebuild, and how will we do it so we can mitigate damage from the inevitable storms in the future?

Gov. Andrew Cuomo, like a true New Yorker, shouldered his way to the head of the line in setting a price tag of at least $30 billion in an ambitious request for federal disaster aid for the city and state.

New Jersey was a bit more circumspect. “The governor of New York made a big splash with his numbers,” State Treasurer Andrew Sidamon-Eristoff said a couple of days after Cuomo’s announcement. “I want to be sure that when we offer up numbers here from New Jersey, that they’re well informed, well substantiated, well documented and well thought out.”

His governor, Chris Christie, who for three years had been pressing for reducing and capping taxes in the state, acknowledged that Sandy would require tax increases—at least in the shore towns that sustained the most damage. Seven other states, from North Carolina to New Hampshire, are likely to ask for federal funding as well.

New York, New Jersey and Connecticut ultimately agreed on a joint request for $82 billion in relief. It came at an inopportune time in Washington, however, as the White House and Congress tried to mold a solution to the looming fiscal crisis. Fortunately, the Federal Emergency Management Agency has about $12 billion on hand, but that will only cover the down payment on the final tab from Sandy. In all, the feds ended up paying $120 billion for hurricanes Katrina and Rita.

Early in December, the administration asked Congress for $60.4 billion in emergency aid. The Senate, where Louisiana’s Mary Landrieu chairs the relevant appropriations subcommittee, is expected to be sympathetic to the states. But in the House, there will be more demands for details and more questions, especially about the mammoth federal flood insurance program, which insures almost 6 million homes in flood-prone areas and has lost money in four of the past eight years.

Critics in both parties point out that a relatively small slice of covered properties account for a big hunk of annual claims because homeowners insist on rebuilding in the same vulnerable locations while ignoring best design and building practices.

Workers repair a damaged pier in Hoboken, N.J.
That raises the second question of how we should rebuild. Gov. Cuomo's proposal in general terms calls for funding that would make significant changes in the region's infrastructure for disseminating power and fuel supplies. In other words, he wants to do it smart, looking ahead to the next natural disaster.

While laudable, Cuomo's proposal has to be done right, and even The New York Times chided the governor for prematurely and unilaterally pushing out his plan instead of collaborating with Gov. Christie and Connecticut Gov. Daniel Malloy on a regional package with carefully detailed needs. It is questionable whether “Congress will want to underwrite far-reaching changes to New York's infrastructure, changes that go well beyond relief, repair and restoration,” the Times noted. “New York and New Jersey cannot expect a whole new stimulus package in the name of Hurricane Sandy.”

That’s probably true. But it forces the larger question of what to do about the monster at the door. We’ve been in denial about climate change, on how to reverse it and how to prepare for its future effects. To its great credit, California in particular refuses to stick its head in the sand and continues to take action that more states—and Washington—should emulate.

Possible answers involve a lot more than money: How do we organize the effort politically and administratively? How do we encourage experimentation? How do we reform public policies and programs to eliminate the same patterns of destructive behavior? And how do we change the traditional mindset about what we can and cannot afford, regarding issues like protecting wetlands, burying power lines, promoting alternative energy and so on?

Granted, this is not the best time to ask those questions, but there probably isn’t a good time. Even though most political leaders have hardly been talking about it, polls now show that more than two-thirds of Americans agree that global warming is affecting the weather in the United States. That’s a promising start.

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The End of Muni Bonds?

They face their biggest threat since the 1980s.

Since the onset of the federal income tax in 1913, municipal bonds have had a special status. Unlike corporate bonds, muni bonds are exempt from federal income tax. The arrangement allows state and local governments to pay investors at a lower interest rate. In turn, investors get to keep every penny they receive. But as Washington seeks ways to reduce the deficit, the muni bond’s exempt status may be on the chopping block.

Talk of eliminating the exemption is nothing new. Tax reform advocates have been calling for its demise for years. But with the Great Recession, chatter has increased. In 2011, the Simpson-Bowles Commission proposed revoking exemption, and last year, President Obama proposed capping it. A report by Citigroup in October said the exemption faces its biggest threat since the Reagan tax reforms of the 1980s.

Taxing those bonds means building less, says Cornelia Chebroun, Washington director of the National Association of State Auditors, Comptrollers and Treasurers. “Less schools, less roads—all at a time when we’re in a fiscal crunch. It’s a bad thing to do.”

Just how much could loss of the exemption cost state and local governments? It’s hard to say. But four things could happen: Lawmakers might choose to cap the benefit so that it’s only fully enjoyed by those in the 28 percent tax bracket or below (investors in a higher bracket would be left paying the difference); the exemption could be capped at a certain dollar amount; it could be eliminated altogether; or Congress could do nothing to it.

As various proposals are floated, the discussions themselves could impact the municipal bond market. If investors are spooked and feel that munis have a target on their back, then issuing debt could be more difficult—and more expensive—for state and local governments.

Some financial experts have predicted that if the exemption is entirely eliminated, municipalities’ cost of borrowing would increase 2 percentage points. Compounded over time, that could increase borrowing costs by millions of dollars for a particular issuer. But some observers view that estimate as too extreme. “We don’t think the sky is falling, but we are encouraging issuers to be vocal here,” says Matt Posner, director at the research firm Municipal Market Advisors.

Supporters of the exemption are aware that there’s a perception that wealthy investors unfairly benefit from the tax-free status of the investments. But they also say that argument misses the point: The exemption is more of a subsidy to municipalities than investors since it allows them to borrow money at a lower cost than they’d ordinarily be able to.

“All this really does is shift who pays from the federal government to local governments,” says Timothy Fristine, chief administrative officer of Montgomery County, Md. “You look at who built most of the basic infrastructure in the country, and it happens at the local level.”

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By David Levine

Compounding and Confounding

Federal and state regulators debate oversight of compounding pharmacies.

As of Dec. 3, 36 people in 19 states had died from the fungal meningitis outbreak linked to tainted steroids manufactured and sold by the New England Compounding Center (NECC) in Massachusetts. Another 541 had been infected. While news of the outbreak made headlines this fall, it was largely overshadowed by the election. Now regulators and policymakers want to make sure something like this never happens again. To that end, they’re focusing on the murky and heretofore overlooked area of pharmacy regulation.

Investigations into the outbreak have uncovered a loophole that some compounding pharmacies have exploited in order to make a lot more money. The challenge for regulators and policymakers is closing that loophole while deciding just who should be in charge of doing it—the feds or the states.

To grasp the problem, one must first understand just what a compounding pharmacy is. Put simply, compounding pharmacies are charged with making individualized doses of mass-produced medication for patients with specific needs. For example, if a child has an allergy to eggs, milk or certain colorings, the compounding pharmacy can make that child an allergy-free version of a particular med. But unlike mass-market drug manufacturers that are regulated by the U.S. Food and Drug Administration (FDA), these pharmacies are only overseen by a state’s board of pharmacy. The boards don’t have the resources to inspect or hold accountable rogue firms, and the FDA doesn’t have the authority. Indeed, this was a disaster just waiting to happen.

And it happened “at a uniquely awkward time for state legislatures,” says Richard Cauchi, health program director for the National Conference of State Legislatures (NCSL). Virtually every state body was in recess when the outbreak hit in October. While there was still a flurry of pre-election activity in various places, “it’s too early to say how much state legislatures will feel they can solve this. Much of the issue is practical inspection and enforcement, and that is dependent not just on statutes and regulations but on resources to actually get out and do the evaluations. So funding is a factor.”

Another issue is that states are waiting—and in some cases, hoping—for the feds to step in. That’s just what U.S. Rep. Edward J. Markey of Massachusetts did. His district is home to the NECC, and he has proposed legislation to strengthen federal regulations for larger-scale compounding pharmacies while keeping the mom-and-pop stores under state oversight. This is not the first time this issue has come up at the national level. “The feds have discussed this for a number of years,” says Rachel Morgan, health committee director at NCSL. “I think that last piece of legislation was introduced in 2007. It was heavily debated but didn’t go through. Pharma lobbying was definitely a factor.” In fact, a lobbyist representing compounding pharmacies at a November hearing on the fungal meningitis outbreak told Congress that stricter federal oversight was unnecessary.

Too little oversight is certainly a problem, but Morgan also worries that new regulations might “throw the baby out with the bathwater.” A registered nurse who comes from a family of pharmacists, Morgan knows that “most [compounding pharmacists] are meticulous at this. They do what they are supposed to do, which is to create a product that accommodates the needs of a single patient. A few aren’t playing by the rules, but most are.”

Since the NECC story broke, some compounding pharmacies have been closed in Florida and Massachusetts. But ultimately, no one really knows how big the problem is or, at the moment, how to fix it. “I think the FDA needs to work closely with state pharmacy boards to ensure this remains an industry that produces safe products,” Morgan says. “It’s a very complex situation, I will say that.”

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The numbers by now are familiar: Over the next 20 years, up to 10,000 Americans per day will reach the age of 65. By 2030, one in five Americans will have passed that milestone, and 10 U.S. states will have more residents of Medicare age than children of school age.\(^1\)

Nationally, awareness of the demographic shift and what it means varies. Some states and localities are working actively to get ready for the wave — both the opportunities it presents and the challenges. For most jurisdictions, though, priorities like budget crises, crime, education and natural disasters continue to dominate the policy and administration arena. Indeed, most of the U.S. is taking a “wait and see” approach to the aging population, said Nancy LeaMond, executive vice president of State and National Group at AARP. “Government and nonprofits like us need to find better ways to address the challenge.” (For a comprehensive listing of age-friendly initiatives around the U.S., go to www.aarp.org/livable.)

But it’s clear that there are areas around the country where community awareness and action around aging and how communities respond are rising as a priority. These regions reflect the wide array of ideas and actions based on the increasingly evident notion that what older Americans want in a community — safe, healthy and vibrant neighborhoods that offer multiple opportunities for engagement in a rich civic life — are exactly what every American wants in a community.

To explore the concept of livable communities for all ages, GOVERNING and AARP convened leaders from state and local government — as well as economic development experts, community advocates, academics and other key players in community development — in four cities (Des Moines, Iowa, Lansing, Mich., Philadelphia, Pa., and Salt Lake City, Utah) around the country over the course of the year. In each case, the roundtables highlighted the growing awareness of, and planning and action around, how to prepare for what is arguably the most profound demographic shift in American history. The primary lesson from the roundtables: No two places are responding in precisely the same way; there is no single formula for how to create communities that embrace all generations. But it was clear from the discussion at the roundtables that there are plenty of communities that are certainly not taking “a wait and see approach” to preparing for an aging population. These communities are actively working to create the kinds of vibrant and healthy societies that are attractive to Americans of all ages.

Although each roundtable highlighted the variations in how different regions were responding to building communities, key themes did emerge around planning, partnerships and engagement — along with the sense that embracing a changing demographic presented significant opportunities for all sectors, whether in the area of economic development or in recruiting and engaging a growing army of experienced, seasoned volunteers and workers. For example, some Michigan community colleges report that they’re seeing a distinct increase in the number of older students coming back to hone new skills for new careers. At the Des Moines roundtable, Michael Lehrer, a Los Angeles-based architect of the “new urbanist” school said, “You can say that it’s good for young people to be around...
older people and that it’s good for older people to be around younger people, but the truth is that it’s good for people to be around people.”

Or as Brian Duke, secretary for the Department of Aging in Pennsylvania summed it up during the Philadelphia roundtable, “I strongly believe that ‘aging’ and ‘community’ are the same thing.”

Planning

Numerous examples of the role of planning in creating communities for all ages emerged at each roundtable, but perhaps most notably in Michigan, known more for its struggling urban areas than for cutting-edge downtown economic development. But there, two cities are now thriving, having created long-range comprehensive master plans that are based largely on the notion that Americans of all ages want to live in compact, walkable and vibrant downtowns.

In Traverse City, for example, officials have focused development and redevelopment efforts tightly on what has become a well-known key to downtown revival: getting people to live there. Two housing initiatives have drawn people of all ages to the downtown core, said City Manager Ben Bifoss and Downtown Development Authority Director Bryan Crough. Built by private developers and based on the city’s long-range comprehensive master plan, the projects include a senior housing community and a development designed with multiple generations in mind.

In Grand Rapids, city officials partnered with a local foundation to jump start a downtown revival that included a wide mix of uses from office to retail to housing. Key to the city’s success, noted Grand Rapids City Planning Director Suzanne M. Schulz, was a strict adherence to the redevelopment vision laid out in the city’s comprehensive master plan. In fact, said Schulz, the city actually rejected a significant development proposal by a large retail chain that didn’t fit the city’s vision for a compact, multi-sector, multi-use downtown.

The idea of multi-generational neighborhoods where neighbors support neighbors, and that offer access to a wide variety of key services nearby also appears to be catching on. Lansing, for example, will open Heart of Lansing Village in 2013, a development that will operate much like a co-op, with fees going to provide various services and programs for residents. Heart of Lansing represents an evolving concept in housing for those who wish to age in place: a holistic, supportive community for all residents with nearby services and amenities.

Very often it’s simply a matter of neighbors of all ages banding together to help one another, noted AARP National Board Member and former State President of AARP Michigan Eric Schneidewind. As part of the “village” movement, community members form nonprofit corporations to exchange services such as housekeeping, home repairs and transportation.

Grand Rapids, Traverse City and Lansing are all models of a new way of thinking about downtown development, noted Bill Rustem, director of strategic policy for Michigan. “We need to start by creating places where people want to be.” And for a lot of reasons, noted roundtable participants. But one of the most important: to retain a demographic cohort that both policy makers and economic development experts argue can be a key part of a city’s or region’s economic success. “If we ship elders down to Florida, not only would that hurt the Michigan health care industry, but housing and restaurants would see a downturn as well,” said Edith Killins, director of the Wayne County Department of Health and Human Services.

But there are complications around Rustem’s admonition on creating places where people want to be. For decades, the American Dream consisted of vast tracts of suburban development; single houses on a cul-de-sac, which represent the antitheses of the sort of cohesive, easy-to-negotiate communities represented by places like Traverse City. The huge rise in suburban development — and the attendant abandonment of inner cities — during the 1950s, ‘60s and ‘70s has led to a world where making connections and creating vibrant communities easily accessible to all is much more difficult.

But certainly planning and development initiatives in and around places like Grand Rapids hold out significant
promise for jurisdictions looking for new ways to approach development and knit together otherwise fractured geography and community. For example, based on a “new urbanist” model, Stephen James, a Salt Lake City-based community planner, described Daybreak, a compact development outside of Salt Lake City built entirely with private money and designed to be a self-contained, walkable community, with schools, parks, shops, office spaces, recreation areas and civic centers. “In 2005 we began an explicit strategy for building units aimed at aging in place. There’s a fantastic opportunity for developers in this market,” said James.

The good news, of course, is that given the obvious alignment among generational views on what elements make for livable communities, any market research or long-range comprehensive planning process that includes older Americans will naturally drive the sort of development that all Americans want to see. And so it only makes sense that older Americans are included among the key cohorts consulted whenever a community is considering a smarter way to grow. Young, middle-aged and older Americans do pretty much want the same thing in community, noted Jay Byers, chief executive officer of the Greater Des Moines Partnership, the area’s pre-eminent regional economic development organization. Indeed, most of the features that attract older people to a community are the same ones that draw younger residents. “We’re focused on attracting and keeping young professionals,” said Byers. “But I don’t think it’s all that different from what we need to do to make communities age-friendly: public transportation, different options for housing, lifelong learning opportunities, a robust arts and cultural scene, walkability and urban spaces.”

Partnership

At the same time, there are those in Utah — and in other parts of the country to be sure — who have been thinking about the whole issue of all-age-friendly communities for quite some time, and who have pulled together the sort of remarkable and cross-sector partnerships necessary for getting the huge job of re-envisioning and redesigning communities done.

One of those people is Robert J. Grow, president and CEO of Envision Utah, whose board of directors includes state and local officials, builders, community advocacy...
organizations, educators, architects, regional economic development and planning councils, environmental advocates and small business advocates, among a host of others. At the Salt Lake City roundtable, Grow described a remarkable, long-range and ever-evolving regional plan for Salt Lake City that’s been ongoing for more than a decade, and that has included a host of initiatives, including everything from securing old railroad lines for current and future commuter rail, to redeveloping down-at-the-heel neighborhoods at the city’s fringes.

Based on what Grow described as its “quality growth strategy,” Envision Utah has partnered with more than 100 communities in Utah, following a “civic engagement approach” that Grow has described as “having to do with community, economics and the environment.” Grow has also said that Envision Utah has been able to achieve its goals through its “civic engagement approach,” which has been replicated by dozens of regions around the country.

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A Greener Inhaler
Using big data can create a healthier living environment.

By next summer, when 500 people with asthma in Louisville, Ky., decide to take a whiff from their inhaler, they won’t just be inhaling much-needed medication—they’ll be participating in a cutting-edge experiment that’s pushing the limits of environmental and health data.

Participants’ inhalers will be implanted with GPS trackers that notify the product’s manufacturer every time the user pulls the trigger for air. The manufacturer, Asthmapolis, will then depersonalize the data (removing a patient’s name and vital statistics, for example) and give it to a commission of city officials and health-care providers. The hope is that this data—combined with other public information like air quality, pollutants, traffic patterns and school absences—will eventually allow Louisville officials to make better-informed decisions about creating a healthier living environment.

“It represents what I think government should do, thinking innovatively and for the good of the public,” says Louisville Mayor Greg Fischer. “I’m always scanning and looking for something different. Cities really are the incubators for getting things done.”

The Louisville Asthma Data Innovation Project is a public-private partnership between the city, Asthmapolis and IBM, which is funding the initiative through its Smarter Cities Challenge. Collaboration is key to its success: Pharmacies and physicians are distributing the inhalers; doctors will guide care based on the data collected (if patients allow it); and health-care providers are sitting on the steering board overseeing the project and deciding what to do with all the information.

So what does this have to do with the environment? “Sensor technologies like these can make direct connections between health and our environment—all the trends suggest that sustainable green cities are also those that have a handle on measures that inform policy,” says Ted Smith, Fischer’s director of economic growth and innovation and a former senior innovation adviser for the U.S. Department of Health and Human Services.

The GPS inhalers present the possibility of diagnosing a public health problem using data rather than anecdotes and using that information to drive public policy decisions. The city hopes to pinpoint potential asthma “hot spots” and then respond accordingly. “For example,” says Smith, “pollution around expressways may be partially managed with targeted tree planting.” The city could even put up highway barriers in some places and establish seasonal fuel blend requirements.

But the bigger idea, say Fischer and Smith (both of whom have a background in the private sector) goes beyond the specific public health and environmental policies that the asthma data project could influence. It’s about reimagining how government thinks about data and innovation.

“There are hundreds of new things to do, but I think the big difference is the ground we are breaking in how government does this, how we go from talking the talk to walking the walk on open government and open innovation.”

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Winds of Change
Hurricane Sandy has forced conversations about rebuilding from the ground up.

A couple of weeks after Hurricane Sandy blew through, I was attending a smart growth conference in Long Island, NY. You can usually predict what these events are going to be like—a parade of impressive and attractive plans and development projects revolving around rail stations, old downtowns and major redevelopment sites like discused shopping malls. This year was different. All anybody wanted to talk about was sewers.

Yes, sewers.

On Long Island, the sewer discussion is shorthand for practically everything: aging infrastructure, economic competitiveness, the tax burden and, most urgently, the region’s sustainability over the long haul at a time of unpredictable weather events.

Even today, 65 years after construction began on Levittown—the nation’s first large-scale suburban housing subdivision—40 percent of Long Island households are still on septic tanks, which frequently fail in big storms. But putting a million people on sewers would cost untold billions of dollars. And even then, the sewer plants themselves would be at risk in a big storm, a flood or as a result of a gradual rise in the sea level.

The dilemma gives you a good idea of the kind of problems a place like Long Island faces as destructive weather events become more common. A hundred miles long and 20 miles across at its widest point, Long Island includes two counties east of New York City that are home to 3 million people. Even without Hurricane Sandy, Long Island has a lot of challenges, just like many other large mature suburbs in the United States, including an older population, traffic congestion (Long Island is sometimes called “the world’s longest parking lot”), brain drain among the young and educated, aging infrastructure, and trouble maintaining economic competitiveness in the 21st century.

But weather events like Hurricane Sandy force the issue. Say what you want about climate change, but these destructive weather events are becoming more and more common, and there is little question that the ice caps are melting and the sea is rising. It’s clear that both private insurers and the federal government no longer have the patience, or the money, to rebuild things just the way they were before, only to see further damage in the future.

If Long Island can’t foot the bill for things like sewers, and insurers and the feds won’t step in [see “Who Pays for Sandy?”, page 16], how does it restore its competitiveness?

By rethinking things. At long last, the discussion about infrastructure on Long Island, and elsewhere in the Northeast hammered by Sandy, has moved beyond simply rebuilding and has focused on rethinking instead. Perhaps centralized power grids and sewer systems need to be broken down into smaller components. Perhaps some roads and other transportation systems should be reconfigured to be more storm resistant. Perhaps new development should be focused in certain locations where storm-resistant infrastructure can be concentrated. And perhaps greener solutions should also be used, such as moving hard infrastructure out of vulnerable areas and replacing it with more resilient natural systems.

All of these possibilities will be discussed over the next few months by Gov. Andrew Cuomo’s NYS 2100 Commission, which will consider the future of infrastructure on Long Island and elsewhere in New York state in the wake of Hurricane Sandy. But as Long Island moves toward rethinking infrastructure, it’s important...
The trick will likely be to marry those efforts with the task of rebuilding infrastructure so that Long Island emerges from Hurricane Sandy both more resilient and more prosperous.

For example, if sewer infrastructure is concentrated in downtowns, more economic growth can be accommodated, providing new areas of opportunity on the built-out island. If sewers are installed on a smaller scale, the cost is likely to be cheaper, not just to residents, but also to businesses that are increasingly priced out of Long Island. If some hard infrastructure, instead of being rebuilt as is, is replaced by greenery, government and taxpayers will save a lot of money. And if Long Island is more resilient, then everything will become less expensive, including insurance.

For 200 years, the U.S. has bullied its way to prosperity by attempting to overpower nature. As the Long Island example shows, the future most likely lies in the opposite direction.

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The Next Boston(s)

Several Massachusetts cities are collaborating to improve their fortunes.

Lowell, Mass., is less than 30 miles from Boston, but economically, demographically and educationally, the two cities couldn’t be further apart. The former mill town may have been the birthplace of Bette Davis and Jack Kerouac, but today its biggest claims to fame are a stubbornly high unemployment rate and a population where less than one-quarter of its residents are college educated. Boston, on the other hand, has a robust and diversified economy, and the percentage of college-educated young adults is larger in the Boston area than anywhere else in America.

The story of a city like Lowell can be repeated throughout the state. It’s why a group of public- and private-sector leaders came together to create the Gateway Cities Innovation Institute. The group’s mission is to help second-tier cities in the state by leveraging their assets and political capital to attract public- and private-sector investment, and come up with ways to overcome current weaknesses, which can range from inadequate transportation to poor education.

“The inequality between greater Boston and the older industrial cities of Massachusetts has only grown in recent years,” says Benjamin Forman, executive director of Gateway Cities and a research director with the nonprofit think tank MassINC. Forman says that compared to the late 19th and early 20th centuries, when the industrial era allowed Massachusetts’ mill towns to reign supreme, today’s economy is far more complex. That’s why Boston, with its knowledge-based economy, well developed transportation infrastructure and educated populace, can thrive so well. In comparison, “mid-sized cities don’t have the capacity to be innovative on their own.”

In other words, Forman says, there’s strength in numbers. Gateway Cities comprises 11 cities and consists of private foundations, think tanks, private-sector leaders and public policymakers. By combining brain power with political power and some much-needed financial contributions, the institute’s goal is to make these cities mini-Bostons.

Nevertheless, they will be challenging years. Nearly half the population is poor or working poor in these cities. They lack decent public transit and good public schools. And while assets can be found throughout—from universities and airports to hospitals, rail lines and interstate highways—they haven’t been able to put together the pieces that will solidify a thriving middle class.

Still, a lot of smart people are backing the institute. Nicholas C. Donohue, president and CEO of the Nellie Mae Education Foundation and a founding sponsor of Gateway Cities, calls the approach a national model for how cities with similar profiles can work together. Last year, Gov. Deval Patrick released $10 million to the project, and the institute has begun to identify new revenue sources to support neglected transportation needs.

“Cities of this size can’t figure out how to do it on their own,” says Forman. The solution, he says, is the kind of collaborative network the institute is building.
Newbies

Thanks to term limits and anti-incumbent fervor, half the lawmakers across the country have less than two years' experience.

By Alan Greenblatt

Photographs by David Kida
A freshman legislator at 60, physician Jim Fulghum says he’s always been interested in public policy and government.
Jim Fulghum is 68 years old and a successful neurosurgeon, but he still finds freshman orientation a little overwhelming. Fulghum was elected in November to the North Carolina House and, as he’s the first to tell you, he has a lot to learn. “I’m not mechanically up to date on how to file a bill,” he says. “I’ll know within a month how much I don’t know, but I know I don’t know a lot.”

If Fulghum is feeling a little lost, he’s not alone. He’s part of a big freshman class just now coming in, following the decennial redistricting process. His class joins an even bigger group of sophomores who rode to power, in Raleigh as elsewhere, on the gigantic Republican wave in 2010. Altogether, nearly two-thirds of the legislature in North Carolina is now made up of sophomores and freshmen.

North Carolina is not unique. Nationwide, roughly half the state legislators in the country have two years of experience or less. The 15 states with term limits in place are accustomed to such mass turnover, but now it’s happening everywhere. “Half the people weren’t here two years ago,” says Texas state Sen. Robert Nichols. “They simply weren’t here.”

That means a lot of old hands are missing at a time when states face a raft of complicated questions, including ongoing budget problems, a decline in financial help from the federal government and the job of implementing (or continuing to resist) Obamacare. “All of us run on the premise that we’re smarter than the people in there, but you get there and find out there’s a lot to learn,” says Brian Cruse, a recently retired legislator in Idaho. “In the committee process, you develop a certain amount of expertise over the years. Without that, you’re left with legislators voting on things that frankly they don’t understand all that well.”

Thom Tillis, who became speaker in his third House term, says new members will catch on soon enough.
The North Carolina General Assembly has long been considered a strong branch, with experienced “gangs” of seven or eight leaders able to stand up to any governor and avoid being rolled over or finessed. But the House alone has just lost two former speakers. Harold Brubaker, a Republican, was considered a leading expert on the budget, and Democrat Joe Hackney was a master at guiding bills through the process—or making sure ones he didn’t like got bottled up in committee.

The current crop of leaders, including Speaker Thom Tillis, believes that what the newcomers bring to the body in terms of new ideas and freedom from the status quo outweighs any negatives that might be associated with lack of experience. They may not yet have mastered the art of presenting a bill to committee, Tillis says, but with their MBAs or experience handling complicated cases as attorneys or their work in local government, they’ll catch on just fine. “I’ve learned that I can’t do complicated things without listening and studying first,” Fulghum says. “You can’t go into an operating room without making a plan.”

There’s also strength in numbers. Tillis keeps a set of veto override messages under glass on the conference table in his office, testimony to the Republican majority’s ability to get what it wanted— including passage of last year’s budget—despite the opposition of Democratic Gov. Beverly Perdue.

Perdue is now out, replaced by Republican Pat McCrory, who becomes the first Republican governor to enjoy a GOP-controlled legislature since 1869. (That governor, William W. Holden, was impeached essentially for fighting the Ku Klux Klan.) McCrory, Tillis and Senate President Pro Tempore Phil Berger spent the transition period following the election batting around draft bills that aim to overhaul education and tax policy, and ease regulations on business.

With Republicans in firm control of all the political branches in North Carolina, there aren’t likely to be a lot of veto overrides—or vetoes, for that matter. But the legislature—its freshman members included—will still have a strong hand in negotiations. North Carolina followed another nationwide trend last November, giving the GOP a two-thirds supermajority in the House to match the supermajority Republicans won in the state Senate back in 2010. (Legislative chambers in half the states are now controlled by supermajorities of one party or the other.)

That much power can breed problems of its own—particularly for freshmen who arrive with a lot of enthusiasm to make wholesale changes. Tillis says it’s imperative that his caucus remains focused on what is already an ambitious agenda shared by the

Two-time freshman: Bill Cook, a retired power company executive, served one term in the House before narrowly unseating a state senator in November.
governor. It would be both easy and tempting to try to do more, given his party’s big majorities but, he says, “You typically lose when you fight on too many fronts.”

“On paper, there’s nothing we can’t do, so that raises the bar,” says Tom Murry, a House member first elected in 2010. Murry, a pharmacist in his life outside the Capitol, has been listening to “All the President’s Men,” the classic book about Watergate, while driving between drug stores. He says it offers a reminder of the potential dangers of overreaching. “The ‘we can do anything we want’ mentality is dangerous,” he says.

Murry senses opportunity. He notes that he was born a year after Harold Brubaker (the former GOP speaker) first joined the House, and argues that a younger generation can accomplish things in new ways. He cites Twitter as a tool for organizing and communicating that some veteran members still aren’t entirely comfortable with.

Although he didn’t get to chair a committee in his freshman term, Murry says he still was given plenty of responsibility. Freshman members over the past couple of years have been able to carry significant pieces of legislation to the floor in North Carolina. Now, as sophomores, they feel ready for more responsibility. “When you’ve got 500 years of legislative experience that retired over the interim,” Murry says, “that leaves a lot of opportunity for sophomores to fill that gap.”

Paul Stam, who’s been in the House since 2003 and served as the House majority leader during the last term, says that over the last two years, he acted as a primary sponsor of legislation along with 32 separate Republicans. “They would have the [policy] expertise and I would help them through the maze,” Stam says. “A lot of them were freshmen.”

In this role of mentor, Stam sent out email blasts to the caucus on more than a daily basis with background material on a particular issue, or offered a simple rejoinder to releases from interest groups. He wouldn’t tell caucus members how to vote, but he would tell them what he was thinking, either about the issue or the particular lobbyist. “I wouldn’t call it hand-holding,” Stam says. “What I would call it is equipping, or arming.”

Stam last month was selected as speaker pro tem for the new session. He had been one of three Republicans angling for that job, while three others had sought to replace Stam as House majority leader. This points to a potential problem for Republicans, says Democratic state Rep. Larry Hall, the newly selected Senate Democratic leader. When a party is growing, it can be difficult for leaders to keep all its members happy. “They’ve got 77 mouths to feed,” Hall says, referring to the size of the House GOP caucus. “How do you keep that group together?”

In part to pass out plums themselves, Democrats during their long years in power had created more than 40 standing committees in the House alone. Tillis and the GOP cut that number back significantly and, Tillis says, it would be a mistake to create more gavels in order to make members feel special. Tillis admits that he faces a challenge in elevating junior members without angering their many classmates, but says there will be plenty of work to go around for everybody.

Two years ago, says Senate President Berger, “We didn’t have anybody who had chaired an appropriations committee. That’s something if you sit back and think about it.” But two years have passed, and as Berger notes, he and his committee chairs might have been new to leadership, but they weren’t all new to the process. That’s the difference between a place like North Carolina and the states with term limits. As massive as the freshman and sophomore classes may be, there’s still a cadre in place of veterans with 12 or 20 years’ experience who can act as shepherds. “We’re in constant conversation with the leadership and that makes you confident,” says Jeff Tarte, a freshman senator. “Over half will be freshmen and sophomores, but we have excellent, sound leadership with experience to help guide us.”

Having a guide though, doesn’t guarantee you’ll want to follow his lead. Most of the time, legislative neophytes become members Less cumulative experience in the legislature will weaken checks and balances in North Carolina government, warns former Speaker Joe Hackney.
New Senate Democratic Leader Larry Hall says when a party is growing it can be difficult for leaders to keep all its members happy. "They've got 77 mouths to feed. How do you keep that group together?"
There’s no rule about having to have been around a long time to sponsor a bill,” says Paul Stam.

of the Mushroom Caucus—kept in the dark and fed bull. But huge classes can create their own identities. Those elected en masse typically share a common agenda and believe they have the mandate to carry it out.

In North Carolina, as in other states, there has been some tension between the Tea Party-aligned members of the Class of 2010 and more established, business-oriented veterans. That tension is likely to heighten in the coming weeks as legislators grapple with the question of whether to raise taxes on employers to fill a $2.8 billion gap in the unemployment trust fund, even as promoting job creation remains a singular focus for the GOP.

Like teenagers, neophyte legislators tend to see things in black and white and believe they know more than they actually do. Having so many of them running around the Capitol—and giving them a good-sized share of power—only makes this problem worse. Freshmen, whether in high school or the state House, aren’t known for their patience. “It used to be that you kept your mouth shut for a term or two, but that isn’t the norm anymore,” says Hackney, the former Democratic speaker. “They realize

Tom Murry believes carrying bills as a freshman has prepared him for his sophomore term.
eventually that they didn’t know as much as they thought they did, but it takes a while for that to happen.

Freshman and sophomore legislators themselves joke about how they’re like teenagers—specifically, like a high school class where some are more popular or more ambitious or considered most likely to succeed. One of the most important things they have to learn is who their true friends are. Fulghum, the freshman legislator, says he’s been “overwhelmed with business cards” and lobbyists looking to set up first dates ever since Election Day.

Newcomers may be wary of lobbyists, but quickly come to realize that they’re an integral part of the process—they can act as “an extension of your staff” in a state where there’s no funding for individual members to have staff, says Tarte, the freshman senator. In turn, lobbyists—who may be in mourning at the departure of their buddy, the 20-year committee chair—must earn legislators’ trust anew. Obviously, they’re going to plead their case, but they can’t stretch the facts too far without gaining a bad reputation.

They have to learn to possess the patience that new legislators sometimes lack. Newcomers might slip in ways that lawmakers who have already sat through 4,000 committee meetings won’t, but calling them out on such blunders leads to “a long session,” says John McMillan, a longtime lobbyist in Raleigh.

Republicans in North Carolina made plenty of rookie mistakes during their first term in power, says Hall, the Democratic representative. With first-time responsibility for writing the budget, some legislators would question why they couldn’t move money from Pot A over to Pot C, where the need seemed greater. “Well, that money is devoted to a trust fund,” Hall says. “You can’t take that money and move it to the general fund, or you’ll never see a dime of that money again.”

McMillan says it’s easy to bemoan the passing of an older and allegedly superior generation. “Thirty years ago, people said, ‘You’ll never replace these people.’ People have always been nervous about the old hands leaving, he says, but somehow the place still functions.

Freshmen and sophomores will eventually find their way, in large part by asking questions of others, whether it’s leaders or lobbyists they trust. Much of the work of the legislature, after all, is less about the technical data backgrounding each bill than it is about relationships. It may take time to build a sense of trust among so many new faces. But just as in high school, people soon get to know each other pretty well, for good and for ill.

“It’s important to keep yourself out of the ditches in terms of your relationships with people,” says Senate President Berger. “The biggest thing you learn is that the person who opposes you today is the person you’re working with tomorrow.”

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10 of the biggest topics states will tackle this year.

By Ryan Holeywell
Additional reporting by Dylan Scott
THE AFFORDABLE CARE ACT is here to stay. With the Supreme Court ruling last June and President Obama’s re-election in November, the law has no more legal hurdles left to jump.

For that reason, the big decision before states this year is whether or not to expand Medicaid. Chief Justice of the United States John Roberts ruled that the federal government must give states a choice, so the Obama administration has made the offer as enticing as it can: 100 percent of the costs of the expansion population (up to 20 million people) would be covered from 2014 to 2016, and the federal match would never fall below 90 percent after that.

That means, according to some estimates, states as a whole would spend as little as $8 billion to expand over the next decade, while the federal government would spend up to $800 billion. But the politics of embracing Obamacare could be tricky for some states.

Matt Salo, executive director of the National Association of Medicaid Directors, has called the expansion “one of the biggest public policy decisions of our generation.”

While states grapple with Medicaid expansion, they’ll also have to have their health insurance exchanges—online marketplaces in the vein of Expedia or Orbitz—set to open on Oct. 1.

About 20 states are developing a state-run exchange, assuming full responsibility for getting it up and running and ready for enrollment. The others are opting for either a state-federal or federal-run exchange. Even under these models, states will be keeping an eye on the administration’s movements in the next year, as the decisions in Washington will have an impact on their residents. “Between now and October, there’s a lot that has to get done,” says Joy Wilson, senior health-care policy analyst at the National Conference of State Legislatures.
LAST SPRING, the National Association of State Budget Officers (NASBO) forecast that state revenue would finally return to pre-recession levels by the end of the 2013 fiscal year. So far states are on pace to meet that projection, but that doesn’t mean states’ budget challenges are over. For some, the challenges might be even more difficult this time.

State officials controlling the purse strings had an easy and ready explanation available to anyone who thought they were being too stingy in recent years: “It’s the worst recession since World War II and everyone is facing cuts.” But even with revenue returning to pre-recession levels, not every department will be flush with new money. State lawmakers are expected to focus “re-funding” on just a few key areas. “The problem is, they’ve short-changed and haven’t put money into their pension systems,” says NASBO Executive Director Scott Pattison. “They slashed the hell out of a lot of stuff like higher education. It’s not like there’s all this new money to do new things.”

With states seeing more revenue than they have in the past, some interests may have unrealistically high expectations. “We’re better than we were, but it was such a lengthy, bad period for states,” Pattison says. “They’re filling a little bit of this hole, but not a lot.”
As of press time, Washington lawmakers still hadn’t averted the looming fiscal cliff. But regardless of what steps are taken to prevent or delay it, the ongoing debate over federal deficit reduction will have big implications for state and local leaders, who have spent vast amounts of time trying to understand how various federal cuts would impact their budgets.

With state governments only now seeing revenues return, and city governments still in the midst of their sixth consecutive year of revenue declines, any loss in federal money is bad news for them. Leaders at both the state and local level are especially concerned with cuts to transit, community policing, affordable housing and workforce development, among a slew of other programs that face the chopping block as part of federal budget talks. Additionally, many communities with ties to the military fear that defense cuts could hurt their local economies. Looking beyond the immediate cuts threatened by sequestration, the feds’ ongoing conversation about austerity is one that states and localities will have a large stake in.

State and local leaders are especially concerned that if Congress tackles tax reform, the historic tax exemption for municipal bond earnings could be diluted, which would increase their borrowing costs [see “The End of Muni Bonds?”, page 17]. Elected state and local officials, as well as the associations representing them, have been fiercely lobbying Washington lawmakers to protect existing funding and avoid changes to tax codes that might affect their bottom lines. Expect that conversation to continue in 2013.
WHEN IT COMES TO THE MILITARY, the feds typically take the lead. But that’s starting to change as more than 2.4 million veterans of two grueling wars try to reintegrate themselves into life after combat. “These are issues that haven’t been on our radar screen in a long time,” says Michael Bird, senior federal affairs counsel at the National Conference of State Legislatures (NCSL).

Last year, states enacted 43 pieces of legislation related to the mental health and reintegration of service members. That’s double the previous year’s total, according to NCSL. It’s a trend that should continue, along with a movement toward addressing issues like employment and benefits for veterans and their families.

Outgoing state Rep. John Grange of Kansas, a Vietnam veteran who co-chaired NCSL’s military and veterans’ task force, says states in the next year will definitely focus on making it easier for veterans who earned occupational licenses in the military, like trucking permits, to get the state-level equivalent without lots of red tape. Easing the pathway toward civilian employment is critical for veterans’ adjustment to post-military life, Grange says, and helping them with licensing could be a good start.

Another issue starting to gain traction in some states is the creation of special courts for veterans, led by judges who are attuned to mental health issues like post-traumatic stress disorder. States are also exploring ways to provide foreclosure prevention for vets and provide unemployment insurance to military spouses who leave their jobs in order to accommodate relocation orders.

FULL IMPLEMENTATION of the Common Core State Standards, new national academic standards that are supposed to ensure students are college-and-career ready, will occur in the 2014-2015 school year. But the 45 states that have adopted them can’t really wait until then. End-of-year testing this spring and at the start of the school year this fall are crucial for states implementing the standards.

“You’re not going to flip the light switch on in 2014. It’s a dynamic process,” says Carrie Heath Phillips of the Council of Chief State School Officers, which helped develop the standards. “You’ve got to build the capacity and infrastructure.”

That starts with aligning all of the learning materials and lesson plans with the standards (21 states are expected to have done so by the start of the 2013 school year). Many states are planning summer professional development programs. And a few states (including Kentucky, New York and North Carolina) are testing pilot assessments, the end-of-year computer-administered exams based on the learning objectives in Common Core.

When third-grade teachers learn how to teach Common Core mathematics during TNCore training last July at William Blount High School in Blount County, Tenn., (AP photo/Mark A. Large, The Daily Times)
WHILE THE FEDS PASSED a highway and transit bill last year, it merely maintained the status quo for funding. What’s worse, there is little reason to think that the federal gas tax, the main tool used to fund federal transportation funding, will increase this year. It’s been nearly 20 years since that last happened, and inflation — along with the increasing fuel efficiency of vehicles — means the per-gallon fee lacks the purchasing power it once did.

As a result, many states are taking it upon themselves to find ways to fund their aging transportation infrastructure. Massachusetts Gov. Deval Patrick is expected to call for some type of transportation tax hike. Virginia Gov. Bob McDonnell is reportedly considering indexing the gas tax to inflation. And there’s growing advocacy among some Texas lawmakers for an increase in vehicle registration fees.

Meanwhile, states in recent years have increasingly crafted legislation authorizing various types of public-private partnerships and tolling mechanisms. While those can be controversial in their own right, they’re one of the primary ways state governments have to build ambitious projects. Elected officials are likely to turn to these solutions and others in the upcoming year. “There’s a consensus that there’s a nationwide funding crisis,” says Jaime Rall, a senior policy specialist on transportation at the National Conference of State Legislatures, “and states have to figure it out — with or without federal support.”

FUNDING INFRASTRUCTURE

January 2013 | GOVERNING 37
LEGISLATED MARIJUANA

THE DECISION BY VOTERS to legalize marijuana in Colorado and Washington has set the two states on a collision course with the federal government. Although voters would allow adults age 21 and older to purchase small amounts of the drug for recreational use—regulating and taxing it much like alcohol—marijuana remains a Schedule I controlled substance under federal law.

So what happens now? Since the election, Obama has said the federal government has “bigger fish to fry” than prosecuting pot smokers, but the U.S. Justice Department has yet to issue an official response.

Though the White House has tacitly allowed 17 states and the District of Columbia to authorize marijuana for medical use, administration officials have been adamant that they oppose outright legalization. “Legalization isn’t in the president’s vocabulary,” Gil Kerlikowske, Obama’s drug czar, said in 2009.

Some have speculated that federal lawsuits could hold up the Colorado and Washington laws in court for years. But the political calculus of the federal reaction could be trickier than expected. An October 2011 Gallup poll found that, for the first time, 50 percent of Americans support marijuana legalization, and the Colorado and Washington ballot initiatives passed by double-digit margins.

Meanwhile, state officials have to figure out how to do something that hasn’t been done since Prohibition ended: establish a legitimate commercial market for a previously banned substance.
OVER THE PAST FOUR YEARS, nearly every state has made some change to its pension system in an effort to contain costs—so the idea of modifying pension benefits is nothing new at this point. But states trying to reform their pensions face an interesting challenge: The easy, common-sense fixes—things like cutting back on double-dipping and pension spiking—have already been done in many states. In short, the low-hanging fruit has already been picked, says Keith Brainard, research director of the National Association of State Retirement Administrators.

That means the next generation of pension reforms will likely be more drastic, and almost certainly more controversial. Brainard expects more states to follow the lead of Colorado, Minnesota and South Dakota, for example, which have adjusted cost-of-living increases for existing plan participants. Pennsylvania Gov. Tom Corbett, Illinois Gov. Pat Quinn and Florida House Speaker Will Weatherford are among those who have already said pension reform will be on their agenda in 2013. And this time around, the fights are likely to be tougher.

IN THE 2010 CITIZENS UNITED RULING, the U.S. Supreme Court reversed a Montana Supreme Court ruling when it said the First Amendment prohibits the government from restricting corporations and unions from spending money on advertising in candidate elections. Although the case challenged a federal law, its impact was felt in the states where it effectively rendered similar laws unenforceable. “Citizens United and other case law make it difficult or impossible to take the traditional reformer approach to get the money out of politics,” says Adam Skaggs, senior counsel for the Brennan Center for Justice’s democracy program. “The ability of states to limit spending, limit outside expenditures—it’s a bit of a nonstarter.”

Since 2012 was the first major election after the Citizens United ruling, states got a chance to see how a less restrictive campaign finance regimen operates. They may not be able to take the money out of campaigns, but states will likely require greater transparency when it comes to spending. Doing so would still comply with the Supreme Court ruling.

Expect to see states consider mechanisms to provide public funding for candidates too, based on the logic that if they can’t limit corporate funding they can at least help elevate the positions of those who want to be part of the debate but lack big financial backing. Legislation addressing “pay to play” schemes may also gain traction. Delaware led the way in campaign finance reform in 2012 with Gov. Jack Markell signing a trio of bills aimed at enhancing reporting by third-party groups, among other reforms. In 2013, New York is poised to take the lead on the issue with Gov. Andrew Cuomo continuing to advocate for a public financing system. “I think there’s going to be increased concern among policymakers on both sides of the aisle on the role that outside groups are playing,” Skaggs says.
SEVERAL CONSERVATIVE STATES in the past year have challenged parts of the Voting Rights Act, the landmark 1965 law that outlaws voting practices considered discriminatory. Their beef is with part of the law known as Section 5 that requires federal approval of any changes to their voting practices. In November, the Supreme Court announced that it will hear a federal lawsuit filed by Shelby County, Ala., on that aspect of the act.

The implications of the case could be big. If the court rules that Section 5 is, in fact, unconstitutional, the pre-clearance requirements could vanish. As it stands, nine states (Alabama, Alaska, Arizona, Georgia, Louisiana, Mississippi, South Carolina, Texas and Virginia) and a handful of localities must seek approval of any changes.

“It’s an extremely important case for voting and for state-federal relations,” says Margaret Paton-Walsh, assistant attorney general in Alaska, which has filed its own Voting Rights Act lawsuit that could be affected by the Shelby ruling. “It will make a big difference for state governments if they no longer have to deal with these pre-clearance problems. It’s a lot of time, a lot of resources and frankly a lot of aggravation.”

Any ruling will be hugely controversial, as civil rights advocates don’t want to see Section 5 go away. The decision comes at a time when many states have pursued voter ID laws and other changes in election law that critics say disenfranchise minorities. Section 5 has been one of the primary tools that the Justice Department has used in fighting those laws.

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The Millennials in the Mayor's Seat

Young leaders are injecting cities with a new energy.

By Dylan Scott
Duluth Mayor Don Ness: “Oftentimes, we look at optimism as a source of weakness. I think optimism is the fuel for a willingness to take on the big problems and to feel like we have a chance to actually solve those problems.”

Just in front of City Hall in Ithaca, NY, the mayor has a reserved parking spot. Or at least he did. When then-24-year-old Svante Myrick took office in January 2012, he decided he didn’t need it. During his four years as a student at Cornell University, Myrick had gotten used to traversing the city of 30,000 on his feet and via public transit. As an environmentally conscious member of Generation Y, he wanted to set an example. So Myrick authorized city workers to construct Ithaca’s smallest public park where his parking space once stood. They laid down turf and erected a small bench. Some evenings, he will sit out there and conduct a sort of open forum, letting residents come up and share their thoughts or concerns. A few feet away stands a “Mayor’s Mailbox” that Myrick has installed, a comment box for citizens to leave their praise and scorn for the city government.

These small touches are reminders that Ithaca’s youngest and first African-American mayor (he’s actually biracial) does things a little differently. When Myrick wants public input on a road project, he doesn’t wait for the 6 p.m. Tuesday City Council meetings, where folks have to fill out a comment card and get their allotted three minutes to speak. He posts a status on the city’s Facebook page—a page he started—and lets residents share their thoughts. His new style “still freaks people out a little bit,” Myrick says. “People aren’t used to having unfettered access to public officials,” he says. “But unfettered access is kind of what my generation is all about.”

Just like his approach to governance, little about Myrick’s journey to the Ithaca mayor’s office is traditional. He grew up in Earlville, about 70 miles to the east, the son of a single mom and the third of four children. His mom worked two jobs, cooking at a hospital and nursing home, while caring for her kids between double shifts. Perpetually short on money, the family moved in and out of rundown apartments and homeless shelters. When Myrick was 11 years old, he started his first business. He and a friend would walk around Earlville with a bucket of water, offering to wash strangers’ windows, mow their lawns or trim their hedges.

He grows noticeably quieter when talking about his childhood and how it might have impacted how he approaches his job, but he acknowledges the influence is there. Some months as a kid, he would have to choose between going on a school field trip and buying a new pair of shoes. “When the money didn’t match up, and it never matched up, it was like, ‘OK, what are we going to do?’” Myrick says. “It does make you grow up a little faster, and it does prepare you for the hard decisions that you have to make in this job.”

That level of maturity is part of what it takes to be a young, new mayor. And Myrick is one of several young mayors around the country who are ushering in a new era of municipal management.
the country who represent a changing of the guard in city hall, bringing a fresh perspective and new energy to public office.

You can see it in Pittsburgh, where residents might catch 32-year-old Mayor Luke Ravenstahl at a City Council meeting one night and then out with friends at a local watering hole the next. In Manitowoc, Wis., where 25-year-old Mayor Justin Nickels can’t go out on a date without his server asking about a pot-hole on her street. In Holyoke, Mass., where 23-year-old Mayor Alex Morse commuted from class at Brown University during his campaign. Or in Duluth, Minn., where 38-year-old Mayor Don Ness keeps a drawer full of toys in his desk for his young children when they make a surprise visit to the office.

Being a young mayor comes with its own set of challenges. There’s skepticism from friends and family—not to mention voters—about whether you’re prepared to move from the college dorm to city hall. Once in office, younger mayors are eager to shake things up with fresh ideas and new ways of doing business, only to be confronted with the same old challenges of overburdened budgets, drowning pension systems and struggling schools. And these mayors are still learning to strike a balance between public service and the private life of someone in their mid-20s or 30s.

“With this new generation of elected officials, I think you have people who see the potential in public service to establish a new framework to how we approach these things, to be solution-minded and to bring a sense of optimism,” says Duluth’s Ness.

“Often, when we look at optimism as a source of weakness, but I actually see it completely differently. I think optimism is the fuel for a willingness to take on the big problems and to feel like we have a chance to actually solve those problems.”

The first step in running for office as a young person is convincing somebody—anybody—that you can do it. That usually starts with family. In 2011, when Holyoke’s Morse sat down with his extended family (his parents, grandparents, aunts, uncles—everyone) and told them he wanted to challenge Elaine Pluta, the 67-year-old incumbent mayor, they voiced their support. But Morse says he sensed a little skepticism. “I’m sure they thought, ‘We’ll support him, but I doubt he can unseat an incumbent mayor.’ Even if they thought I was crazy, though, they weren’t going to tell me so.”

Then comes convincing everyone else that you’re ready for the responsibilities of public office. “People would laugh,” says Pittsburgh’s Ravenstahl, who ran for City Council at age 23 in 2003 and even had the advantage of having a father who had been a local judge and a grandfather who had been a state legislator. “At least one person told me, ‘Look, I have kids your age. The last thing I would ever do is put them in that seat.’ There were days that were very discouraging.”

But the mayors overcame others’ skepticism by conveying long-term visions for their cities. “Experience is important for mayors, but it’s really not as important as inspiration and leadership,” says Stephen Goldsmith, professor of government at the Harvard Kennedy School and former mayor of Indianapolis (and a contributor to Governing.com). “A person will be successful as mayor if they’re able to galvanize enthusiasm and support for public goals. So in that sense, a young mayor is as capable as somebody older in filling that role.”

Many of these executives have already achieved significant successes. In Duluth, Ness was facing a structurally unbalanced budget and $290 million in unfunded retiree health-care benefits. So he offered his plan to resolve those legacy issues. “There were a lot of derogatory statements—that I just didn’t get it, that these were promises written in granite,” he says. “But I explained that we either have to have the courage to face this today or be faced with bankruptcy in the future.” In his first few years as mayor, Ness cut the city’s annual budget by more than 9 percent and implemented reforms, including increasing copays and deductibles, to retiree health benefits, changes he says will save Duluth $4 million annually. He won a court case in 2011 to go through with his plan.

THE MILLENNIALS IN THE MAYOR’S SEAT

Ithaca Mayor Svante Myrick: “People aren’t used to having unfettered access to public officials. But unfettered access is kind of what my generation is all about.”
Pittsburgh’s Ravenstahl campaigned in part on a promise to improve public schools. For years, he had watched friends with young children move away or send their kids to private schools because of public education’s poor reputation. Now he’s organized Pittsburgh Promise, a public-private partnership that awards college scholarships of up to $40,000 to public students who finish high school. So far the project has given out some $25 million to more than 3,000 students, and graduation rates are on the rise.

Alex Morse viewed Holyoke, a former paper mill town now facing 11 percent unemployment, as a dying city. He pledged to remake its economy around art, innovation and technology. Last year, he oversaw the ribbon-cutting at the Massachusetts Green High Performance Computing Center, a state-of-the-art energy-efficient computing facility, as a start down that path.

In Ithaca, Myrick has said he wants to create a more affordable, livable and sustainable city. That’s already resulted in plans for a 60-unit mixed-income housing project, an $800,000 commercial street rebuild with sidewalks and bike lanes, reforms to the zoning code to encourage denser development and a $10 million downtown redevelopment program. “Mayor Myrick is wise beyond his years,” says Stephen Philip Johnson, vice president of government and community relations at Cornell, an important constituency in a town-and-gown place like Ithaca. “He has been able to make the tough decisions that the reality of our economic times have required.”

In addition to these kinds of successes in somewhat traditional areas—education, fiscal reform, downtown redevelopment—there’s a definite shift in style among this cadre of young leaders. They’re injecting their cities with a hipper, cooler vibe that many residents say is bringing new energy and new attitudes about public service. Before Don Ness became mayor, he ran the Homegrown Music Festival (billed as “Duluth’s annual showcase of rawk and/or roll devil music”), and when the alt-rock band Wilco performed in Duluth last summer, Ness, a fan, gave the members keys to the city. Each of these mayors regularly speaks at local schools or colleges about their experiences and why a life of public service is worthwhile. Ravenstahl created the ServePBH initiative in Pittsburgh, aimed at getting youth to volunteer and improve their city. Morse was recently approached by a 19-year-old Holyoke resident who wants to run for City Council after seeing what Morse has done as mayor.

Youth can be a double-edged sword. Ness, who was first elected to the Duluth City Council in 1999 at age 25, remembers the strange looks he got when he walked into a local chamber of commerce meeting dressed in shorts and a T-shirt. But as soon as he started speaking, displaying intimate knowledge of the local economy and the state politics that would factor into their ability to get it going, the mood changed, he says. “I could feel the room turn. Folks had been playing wait-and-see, wondering, ‘Is this kid going to bring any real value or is it just a sideshow?’”

Manitowoc’s Justin Nickels: “I think people finally get it now. They accept that a 25-year-old can do a pretty darn good job.”
Manitowoc’s Nickels noticed similar doubts as he sat in on some of his first department meetings after taking office in 2009. Longtime city workers seemed to talk around him as if he weren’t even there. “I could tell sometimes that I wasn’t a part of their conversation,” he says. “But I think people finally get it now. They accept that a 25-year-old can do a pretty darn good job.”

And then there’s trying to have a social life. Balancing the role of running a city and living the life of a single 20- or 30-something can be tricky. Morse (who is gay) says that the biggest drain on his social life is fellow bar patrons asking if they can take a picture with him and post it on Facebook. In Manitowoc, Nickels recalls being on a date with another young professional, with roses set at the table’s center and candles lit, while half a dozen residents kept walking up and sharing their complaints about the city government. It can all be a little jarring, says Ithaca’s Myrick. “I’ve tried to adapt—I’m usually more comfortable with it than the people who are unlucky enough to go out with me.”

Sometimes the tug of war between political and personal life can have very real consequences. That’s true for any public official, of course, but especially for those unaccustomed to the limelight. Less than a year after he became mayor, Ravenstahl was criticized for appearing at a celebrity golf invitational sponsored by some groups, including a university medical center, that have frequent dealings with the city. Ravenstahl assumed office in 2006 when Mayor Bob O’Connor died and Ravenstahl was sitting council president—a promotion he was granted only because he was viewed, in his youth, as the least threatening candidate by other council members. Some dubbed him “The Accidental Mayor.” The stress of the position took a toll on Ravenstahl’s personal life. He and his wife, with whom he shares a 6-year-old son, separated in 2009, when Ravenstahl was 29. While Ravenstahl says he wouldn’t go back and change his mind about seeking public office, he acknowledges that the divorce has been one of the toughest unintended consequences of his decision to become a public figure at such a young age. “The hardest thing for me is how this job impacts my family and those that didn’t choose to have their name in the paper and be a public servant,” he says. “It’s something that I didn’t foresee or expect.”

In the years since he took office, Ravenstahl has grown into the position and become a stronger leader, says Pat Altdorfer, a political science professor at the University of Pittsburgh. “You play the hand you’re dealt. From that perspective, he did step up,” Altdorfer says. “Everyone’s got a learning curve, and I would certainly say he’s a better mayor today than he was when he first started.”

The bottom line, these mayors say, is that they don’t see their youth as the defining aspect of their leadership. Sure, they may be more connected on Facebook and Twitter than their predecessors were. And they may be more open to unconventional solutions and ideas, like Myrick’s pocket park in his parking space. But being an effective city leader is the same regardless of age. “I ran not because I wanted to represent the youth,” says Myrick, “but because I cared about this place.”
THE GREAT GAMBLE
ONE FISCAL GIMMICK HAS ALREADY CAUSED MULTIPLE CITIES TO DECLARE BANKRUPTCY. SO WHY DO SO MANY PLACES KEEP BETTING ON IT?

“It’s the dumbest idea I ever heard,” Jon Corzine told Bloomberg.com in 2008 when he was still governor of New Jersey. “It’s speculating the way I would have speculated in my bond position at Goldman Sachs.”

Corzine, who followed up his tenure as governor with a $1.6 billion investment debacle as chairman of MF Global, seemed to know a thing or two about risky ventures. In this case, he was speaking of pension obligation bonds. POBs are a financing maneuver that allows state and local governments...
to “wipe out” unfunded pension liabilities by borrowing against future tax revenue, then investing the proceeds in equities or other high-yield investments. The idea is that the investments will produce a higher return than the interest rate on the bond, earning money for the pension fund. It’s a gamble, but one that a lot of governments are willing to take when pension portfolio returns plummet, causing unfunded liabilities to run dark and deep.

Almost every fund has faced such liabilities from time to time, though current times have been more treacherous than others. As Paul Clancy, executive director of the Oregon Public Employees Retirement System (PERS) points out, since 1970 his state’s pension fund has suffered annual losses only four times. But three of those losses were in the last decade, and one, in 2008, was a catastrophic 27 percent decline.

Faced with such losses—and with a dearth of state and local revenue to make up for the shortfalls—POBs have become a favored tool to fix pension woes. Oregon is a big player in the POB market, along with scores of its cities, counties and school districts. Other major POB issuers include California, Connecticut, Illinois and New Jersey.

The bonds took on some notoriety this past summer when two California cities, Stockton and San Bernardino, went bankrupt. Generous pensions awkwardly propped up with ill-timed POBs contributed to both debacles. Over the years, returns on POBs have often fallen below the interest rate the state or locality paid to borrow the money, digging the liability hole even deeper. None-
When Oakland, Calif., launched the first pension obligation bond in 1985, it appeared to be a real-estate strategy. It qualified as a tax-free bond that could be issued at the lower municipal bond rates. A state or city could then pivot and invest the funds in safe securities—a corporate bond, for instance—at a slightly higher rate. “That was classic arbitrage,” Cleary says. “You were locking down the difference between nontaxable bonds and taxable bonds.”

The Tax Reform Act of 1986 ended that strategy by prohibiting state and local governments from reinvesting for profit the money from tax-free bonds. When the concept resurfaced, the strategy called for states or localities to issue a taxable bond and leverage the higher interest rate of that bond against higher return but riskier equity market plays. So long as markets boomed, the new tactic seemed savvy. “Some people call this arbitrage, but it’s not,” Cleary says of post-1986 POBs. “It’s really an investment gamble.”

Arbitrage occurs when prices for the same product differ between two markets, allowing a nimble player to exploit the difference. “Real arbitrage is free money,” says Andrew Biggs, a scholar at the American Enterprise Institute. “But it doesn’t hang around very long.”

Safe bonds and risky equities are not the same product, but public pension accounting currently permits state and localities to treat them as if they were. “They are counting the return on the stocks before the return is there,” Biggs says. “If you borrowed money to invest in the real world, you would factor the current value of the debt with the current real value of the stocks.”

Given the inherent risks and possible rewards, how have POBs fared? In 2010, a research team led by Alicia Munnell, director of the Center for Retirement Research at Boston College, ran some numbers to find out. The team took 2,931 POBs and categorized them into cohorts based on the year bond’s repayment schedule to calculate interest and principal payments issued by 236 governments through 2009. They used each issuer’s numbers to reflect the difference between nontaxable bonds and taxable bonds.

They then produced two composite graphs—one at the height of the market in 2007 and the second in 2009, after a crash and before recovery.

In general, bonds issued in the early stages of a stock boom performed well prior to the crash. Thus, POBs issued in the early 1990s were healthy, ranging from 2 to 5 percent net growth. Borrowings in 2002 or 2003 also looked good.

Those issued in the latter years of the 1990s or 2000, however, were in negative territory even before the 2008 crash, having suffered serial losses to the principal over the 2004-2002 downturn. After 2008, all POBs were under water—except those issued in the trough of the collapse, which by 2009 were already pushing 35 percent gains.

Oregon’s numbers mirror Munnell’s findings. Local government POBs issued in 2002 at the depth of that market collapse and managed by Oregon PERF gained an annual average of 8.84 percent through 2012, before principal and interest on the bond. Less lucky were bonds issued in 2005. The Springfield School District’s POB earned just 5.33 percent, for example. Since that bond carried 4.65 percent interest, it likely earned roughly one point annually—not much, but slightly above neutral. Oregon’s 2007 issuers earned just 2 percent on their investments through 2012, and are upside down today after debt service.

The same fate befell Stockton, Calif., which also came to market in 2007. Similarly, New Jersey issued a $2.8 billion POB in 1997—on the wrong side of another stock bubble. “The whole thing is the timing,” Oregon’s Cleary says. “You are trying to issue them when the market has bottomed out and when interest rates are reasonable, because really what you are doing is making an investment bet. If people thought when they did POBs that they were refinancing a debt or doing a locked-in arbitrage, rather than an investment play, I’m sure they have been very surprised by the results.”

And yet that is exactly how they were sold. When Oregon voted on new POBs in 2009, the voter education pamphlet argument in favor of issuance explicitly framed the choice as a “refinance” and cast the projected returns as money “saved.”

“Just like many homeowners are refinancing their home mortgages,” the pamphlet read, “the State should take advantage of these historically low rates, which can save Oregon more than $1 billion over the next 25 years. The money saved will help reduce cuts and protect services that all Oregonians rely on.”

Because POBs demand headroom between the interest an issuer pays to borrow and the high returns promised on resulting investments, their investment strategies tend to chase against

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**THE GREAT GAMBLE**

Faced with unsustainable pension liabilities, San Bernardino took a chance on pension obligation bonds. The California city declared bankruptcy last summer.

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**Because POBs demand headroom between the interest an issuer pays to borrow and the high returns promised on resulting investments, their investment strategies tend to chase against**
safer portfolios. Without a hefty “discount rate”—as the projected annual gain assumed by a pension fund is known—the pension bonds would not be possible.

In a 2012 paper, Andrew Biggs argues that the aggressive 8 percent discount rate used by many states overstates likely earnings and understates risks. A fund that required $100 million in 20 years and employed an 8 percent discount rate would be “fully funded” with $21 million. Biggs notes. But if that same fund were to gain only 5 percent annually, it would need $38 million today to be fully funded in 20 years.

Many experts argue that because public pension obligations are legally binding, pension funds should be discounted at close to zero risk on the front end—at or near the rates offered by government bonds. “While economists are famous for disagreeing with each other on virtually every conceivable issue,” wrote then-Federal Reserve Board Vice Chairman Donald Kohn in 2008, “when it comes to this one there is no professional disagreement: The only appropriate way to calculate the present value of a very-low-risk liability is to use a very-low-risk discount rate.”

In point of fact, the 8 percent discount rate may be on its way out. The Governmental Accounting Standards Board (GASB) is launching a complex hybrid discount standard in 2014, which will incorporate the assumptions states make with their funds. Some fear the GASB rule will only create more confusion. Bond rating Moody’s is taking a simpler tack in weighing government pension plans, having recently proposed to shift its pension discount rate down to the level of AA taxable bonds, which are now at 5.5 percent. “Currently, discount rates used by state and local governments are all over the place,” says Tim Blake, Moody’s managing director of public finance. “Most are in the range of 7.5 to 8 percent. We need a uniform rate.”

Not surprisingly, 5.5 percent is very close to the rate at which many POBs are sold to investors. With aggressive 8 percent discount rates now under attack by economists, oversight boards and rating agencies, issuers who counted on rosier outcomes have learned some hard lessons. Five years ago, when Connecticut State Treasurer Denise L. Nappier announced a new $2.28 billion pension bond, she noted that the state had “achieved a favorable borrowing cost of 5.88 percent, which is well below the 8.5 percent assumed long-term return on assets of the Teachers’ Retirement Fund. This will provide significant cash flow savings over the long term and a potential savings to taxpayers of billions of dollars.”

When the bond was issued in April, the Dow Jones average stood just shy of $13,000. By November, the market was in free fall. It bottomed out the following March at just over 6,600. Connecticut’s timing could hardly have been worse. As the market plunged, Pensions & Investments dug into POBs, singling out Connecticut.

The editors argued that POBs show obligations “that should have been paid as earned” onto future generations, along with the risk of the debt.

By 2010, with the market still emerging from the trough, Connecticut’s “pension holiday” over, Oakland’s City Council approved a new $210 million POB to be paid off in 2026—once again borrowing money—cash that it would have had in hand had it not borrowed the last time. And so, back where it all began, the POB wheel takes another spin. As columnist Len Raphael wrote in Oakland North, a local online newspaper, “That’s like a compulsive gambler telling you that he has to let it all red to make up for his past losses.”

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E ven as Connecticut licked its wounds, Boulder, Colo., was launching its own new POB, designed to clean up some tangled threads from pension programs long since closed to new employees. With the market down, Boulder’s CFO Bob Eichem was ready to take a chance. “POBs are not for the faint of heart,” Eichem says. “You have to understand them.”

Boulder’s bond, for a tame $9 million, was issued into a recovering market, and the city got a low 4.29 percent interest rate. Boulder also ran worst-case scenarios and decided it could absorb any likely loss.

“You’ve got to pay that debt every year,” Eichem says. “So if the market goes against you, you will have to decrease your other expenditures to make up for what the market did to you.”

With the bond money in hand, Boulder staged its investment. “There was great uncertainty in the market, as there still is,” Eichem says. The city put the funds in a holding account and “income averaged” them into the market over a year.

“That would hold you down if the market really rose in that year, but it would also protect you if the market really dropped,” Eichem says of the gradual strategy. After stringing out three-quarters of the fund through the year, Eichem put the remainder in when the market bottomed in early 2011.

“Issuing a POB may allow well heeled governments to gamble on the spread between interest rate costs and asset returns or to avoid raising taxes during a recession,” Alicia Munnell and her team wrote in 2010, warning that “most often POB issuers are fiscally stressed and in a poor position to shoulder the investment risk.”

“Good for Boulder,” says Munnell when told of how Eichem had gauged its risk. What would she tell others set on a similar path? “You better have deep pockets. It’s gambling, and you have to be able to absorb any losses.”

Munnell is less approving of Oakland. In 1997, San Francisco’s cross-Bay neighbor followed up its 1985 invention of the POB with a $417 million pension bond, designed to buy the city a 15-year “holiday” from its police and fire pension contributions.

The timing was poor. As noted earlier, bonds issued in 1997 were, on average, underwater in 2007, even before the stock market crash. And so was Oakland’s. In 2010 Oakland’s city auditor did a careful analysis of the 1997 POB and found that “the amount still owed by the City is approximately $250 million higher than the scenario where the POBs were not issued in 1997 and the same payments were made to the pension fund instead.”

With the “pension holiday” over, Oakland’s City Council approved a new $210 million POB to be paid off in 2026—once again borrowing money—cash that it would have had in hand had it not borrowed the last time.

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‘Can You Imagine Being 85 and Homeless?’

Poverty among aging Americans is getting harder to ignore.
If you are a senior citizen in Seminole County, Fla., you might consider yourself lucky. The county is home to the Seniors Intervention Group, a coalition of not-for-profit organizations and businesses dedicated to ensuring that the county’s older population doesn’t get lost behind closed doors in poverty and neglect. The group provides help ranging from cash assistance and transportation, to home repair, retrofitting and cleanup.

The genesis of the Seniors Intervention Group can be traced to a single person: Zach Hudson, who joined the city of Lake Mary’s police department in 2007. Shortly after arriving on his beat, Hudson began noticing something troubling. He’d go to a call involving an elderly resident victimized by fraud or some other crime and would discover what could arguably be described as a more serious issue than the one he was being asked to investigate: far too many seniors in Lake Mary who were just barely scraping by.

“I went to the home of a mother who was in her 90s living with her daughter who was in her 70s, and they had no electricity and very little food,” says Hudson. “They were cutting pills in half to save money.”

When he tried to get them help, he discovered that, in essence, there wasn’t any. No state, county or city agency was there to step in and pay the electric bill, fill the refrigerator with food or secure adequate medication. In matters of acute physical or mental health problems, says Hudson, there were some potential support services available. But when it came to simple, basic poverty—elders who had fallen through the cracks due to a lack of resources—help was hard to find.

By Jonathan Walters
“We have 10,000 people turning 65 every day,” says Hudson. “And the fastest growing segment of homeless are among the elderly. Can you imagine being 85 and homeless?”

“The data on boomer finances is troubling,” agrees Margaret Neal, head of the Institute on Aging at Portland State University in Oregon. “The fact that we just aren’t saving enough for retirement is concerning.”

That fact has set up an interesting tension when it comes to the study of aging in the U.S. On the one hand, there has been a considerable amount of work on how to make communities more livable and friendly for the elderly—how streetscapes, co-housing, public transportation, food supply, recreation centers, volunteer opportunities, continuing education and so forth can all be blended to make for a rich and positive aging experience. Less attention has been paid to the darker side of aging. Many elders are ill-prepared to shoulder the cost of retirement, and the gap between what seniors need to live on versus what they have might land squarely on state and local governments.

Take, for example, a recent report from Clark County, Wash., on the impact of the aging population there. Finalized last February, the report is an exhaustive but relatively upbeat assessment on what the county should be doing to prepare. It includes a wide variety of recommendations. Some would cost significant amounts of money (“Provide bus rapid transit or light-rail transit service to areas where the density and ridership will support it”); other recommendations would require new levels of intergovernmental coordination (“Develop a village to village program to encourage aging-in-place”); and others are flat-out hopeful exhortations (“Encourage the development of a geriatric mobile outreach program”). Still, the county has been able to
make progress on a handful of the report’s recommendations, says Marc Boldt, the county commissioner who pushed for the study, none of which have cost much money. They include a voluntary age-friendly building code, some park improvements and a new approach to subdivision planning that discourages cul-de-sacs. The county has also helped launch a Web-based service that connects elders who need help with things like shopping and lawn care with volunteers willing to step up.

But then the report gets much more real—and the recommendations a whole lot thornier—with the introduction of an “Elder Economic Security Index” for Washington counties. The index looks at the costs of independent living for elders, including their household size, health status, geographical location and whether they rent or own their home. Then it uses that data to calculate the level of income necessary to support an independent, age-in-place lifestyle. According to the report, “The Elder Index, with its modeled scenarios for older adults living in different circumstances, shows the difficulties low- and moderate-income elders confront in meeting their living expenses. In every county in the state, elders who live at the federal poverty level, or who are totally dependent on the average Social Security payment in 2009 need housing and health-care supports to make ends meet. Long-term care adds significant costs.”

As the Elder Index lays out, older people who own their homes outright, who are in relatively good health and who reside in areas where the cost of living isn’t too high can get by on a relatively modest amount of money. But throw in a mortgage and poor health, and the amount of income needed to live independently quickly skyrockets.

Looking at the looming fiscal crisis among the elderly and the limited government resources available, Boldt says, “I think we’re going to have to acknowledge that other cultures do this much better than we do” regarding intergenerational caretaking. “We’re where we are because our parents helped us, so maybe it’s time to help them out with things like housing, having a cottage in the backyard.”

When it comes to the story of aging in America, there are two bottom lines. The first is that everyone is getting older. That of course brings attendant health and mobility issues, as well as added costs. (According to one of the bleaker assessments on the American Medical Association website, by age 65, two-thirds of Americans will have at least one chronic disease and will be seeing seven different doctors; a fifth of elders will have five or more chronic diseases and will be tangled up with 14 doctors.) The second bottom line is that a huge proportion of our rapidly aging population simply isn’t going to have the financial resources to live out their lives in independent comfort and security.

The data on poverty—and potential poverty—among the elderly are sobering. AARP has documented an alarming increase in home foreclosures among those over age 50, with 2011 witnessing 1.5 million of them, a 23 percent increase from 2007. And the problem is getting worse. “Americans 65 and older sustained the largest increases in poverty of any group in 2009,” according to a 2011 AARP report on the relative readiness of local governments to handle their rapidly aging populations. Affordable housing opportunities—obviously a key alternative for middle- and low-income elders—declined from 2005 to 2011, the report said. Meanwhile, local governments facing their own fiscal difficulties have scaled back on things like property tax breaks for the elderly.

There’s a simple, fundamental reason for the looming economic insecurity among elders: They haven’t saved enough money. “It’s a very bleak picture,” says Alicia Munnell, director of the Center for Retirement Research at Boston College. According to the latest data, says Munnell, people ages 55 to 64 have approximately $120,000 total on which to retire. “You can imagine how long that’s going to last.”

It’s not the cost of living that’s really the problem here, says Munnell. It’s the cost of trying to stay alive. Things like the cost of

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’CAN YOU IMAGINE BEING 85 AND HOMELESS?’

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January 2013

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food, housing, heat and other day-to-day necessities will certainly contribute to fiscal hardship, says Munnell, but they’d be nothing compared to the cost of health care. Total U.S. health-care expenditures will surpass $3 trillion in 2014 and reach $4.8 trillion in 2021, according to the Centers for Medicare & Medicaid Services. “If we could somehow bend the health-care cost curve, that would make a lot of difference,” says Munnell. “Other than that I can’t see that this is anything but bad news.”

Meanwhile, Munnell’s center recently updated what’s known as the National Retirement Risk Index, which measures the share of working households that are “at risk” of an inability to maintain pre-retirement living standards upon leaving the work world.

They found that the working household risk index jumped from 44 percent in 2007 to 53 percent in 2010. That’s nearly a 25 percent increase. “Even if households work to age 65 and annuitize all their financial assets, including the receipts from reverse mortgages on their homes,” says the report, “more than half are at risk of being unable to maintain their standard of living in retirement.”

That finding squares almost exactly with what states now using the Elder Economic Security Initiative (EESI) have calculated by way of income insecurity among the elderly. Besides Washington, 16 other states have deployed the EESI, which was developed by the organization Wider Opportunities for Women. The EESI is an adaptation of another index the organization had developed around the time of welfare reform, says Acting President and CEO Shawn McMahon, when the organization decided to take on what it viewed as the fuzzy math of the U.S. Census Bureau’s poverty rate.

“We asked, ‘What does a family really need to be independent?’” says McMahon. “In the mid-2000s we realized we needed to ask the same question for elders.” The answer? A lot more. Fifty-two percent of seniors are economically insecure.

There are, of course, significant variables in all of this. Single women and minorities are disproportionately represented as income insecure. Meanwhile, one of the Retirement Center report’s key assumptions around the Retirement Risk Index is based on a figure that’s rapidly gliding north: that 65 is the magic and essential age at which Americans all throw in the towel. Another possible bright spot, according to data from the Institute on Aging, is that more than half of all new small business startups are being launched by those 55 and older.

But even given the likelihood that Americans will be working longer and retiring at an older age, poverty experts like McMahon despair over the relative readiness of states and localities to deal with the looming needs—and costs—associated with an aging population.

The pressure on states and localities will be especially acute in light of the federal government’s unwillingness to “reform any known system in favor of elders,” McMahon says. If anything, the feds are trying to figure out how to cap or at least better control entitlement costs, whether it’s Medicaid, Medicare or Social Security.

McMahon does, however, appreciate the fact that the issue of poverty among the elderly is at least starting to come up more often on the country’s radar. He cites, for example, a new law passed by the California Legislature requiring so-called “triple A’s”—area agencies on aging—to use the EESI as part of their long-range policy planning. Other states, he says, have used the EESI to make the case for things like increases in supplemental security income and home heating assistance.

Others are a little more sanguine. Matt Thornhill, who runs an elder-focused market research firm in Richmond, Va., called the Boomer Project, is working with AARP on amassing a database of state and local action related to dealing with the wave of aging boomers. It’s a sign, says Thornhill, that state and local governments are at least waking up to the demographic wave starting to roll over them.

But the question remains: Will the response to the needs of an aging population be a multisector and intergovernmental mosaic, or a haphazard mishmash that will inevitably leave the most unfortunate impoverished elderly to fall through the cracks?

“I wish I could say otherwise, but I think the current system is going to persist,” says McMahon, “with this mix of often inadequate private-sector donations, church charity and local nonprofit efforts to fill gaps that good incomes and governments used to fill.”

McMahon adds, though, that he sees “some hope” in the fact that more people are at least becoming more attuned to the historic demographic shift that’s occurring, and the financial challenges that will come with it. So even the most pessimistic agree that the message of a looming and huge group of impoverished seniors is starting to get through. That’s the good news. The very real bad news is that what many would like to characterize as the silver cloud of opportunity represented by rapidly aging boomers at the moment appears to be defined by a decidedly dark lining.

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More stories on aging at governing.com/generations
CONTROLLING THE COST OF GOVERNMENT

Stakeholders come together to discuss the transformation needed for a sustainable, modern government in today’s fiscal environment.
INTRODUCTION

The Times Call for Unprecedented Change

Have states and localities reached that infamous “tipping point” when it comes to managing the cost of government? While the Great Recession is over, the economy continues to sputter. The federal government’s stimulus programs have wound down. Congress is preparing to slash spending to take control of its deficit. And where does that leave state and local government with the ongoing fiscal challenges that started four years ago? It’s time to re-examine the entire approach to government, according to Donald J. Boyd, executive director of the Task Force on the State Budget Crisis at the Nelson A. Rockefeller Institute. No more short-term policy-making, he continued. “We are in a transformational time,” echoed David Adkins, executive director of the Council of State Governments.

Transformation, controlling costs

This year’s Summit differed from its predecessors with a heightened focus on managing costs rather than simply managing budgets. That transition requires transforming both operations and decisionmaking through greater transparency, sophisticated use of performance data, and communication about what the data means and how it informs public policy choices. Public officials attending the Summit agreed that much had changed in the intervening years—and there was more to do in the years ahead. “We can’t keep living in yesterday’s model,” urged Peter Auger, city manager for the city of Auburn Hills, Mich. Participants repeated the mantra that controlling costs for a sustainable, modern government in today’s fiscal environment requires heavy lifting. It’s time for officials to take a “deep dive” into budgets in order to reassemble them into workable processes, stated Robert Bobb, a former emergency financial manager of the Detroit school system, who also served as the president of the Washington, D.C., Board of Education and as a city manager for 30 years. Bobb noted that an important but often overlooked indicator is what your city is telling the capital markets, which may be a more complete disclosure than you hear at council meetings about future benefits and, at least by inference, future costs.

While transforming how public officials control costs was the overarching theme at the Summit, so too was the fact that the vast majority were buyers—sometimes leavened by a “long term”—affirms that these public servants see daunting challenges but are largely undaunted. They believe in what they’re doing and in the value of public service.

A pre-conference survey of members of the Governing Exchange, our readers panel, revealed a surprising optimism among public officials after a hard fiscal slog since the 2008 recession. Fully 84 percent said they were somewhat or very optimistic about the ability to make a meaningful contribution through public service. Moreover, almost two-thirds (62 percent) of respondents were optimistic about their jurisdictions’ fiscal condition in 2012.

Delegates at the Summit were asked if those optimistic findings were a stock, would they buy, sell or hold it. Seventy percent were buyers; most of the rest were holding (25 percent). Only a few (5 percent) said they were selling.

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Buy, Sell or Hold Fiscal Optimism

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Change that comes with transformation. As Mark Funkhouser, former mayor of Kansas City and the current director of the Governing Institute, explained, “A public official’s view of how people act shapes policy choices and political strategy.” That’s why the need to communicate and connect with citizens is so important in these transformational times. The following pages present a snapshot of what transpired and the ideas that energized the Summit participants.
Promises to Keep

Two of the largest financial challenges that state governments are grappling with—and will for some time to come—relate to their obligations to government employees.

Pensions and the “other” category

The rising cost of employee pensions is an expenditure that could lead to dramatically negative effects, according to Donald Boyd. Diane Oakley, executive director of the National Institute on Retirement Security, said there are no laws regulating how states fund their pensions and many states are using systems that are essentially 100 years old.

The value of most pension plans plummeted several years ago, leaving states and localities with sizable unfunded obligations for current and future retirees.

A continuing roadblock around this issue is that state officials tend to write budgets on an annual or biennial basis, and many state lawmakers also face strict term limits. Those factors conspire to create a situation that encourages state leaders to make short-term fixes rather than find long-term solutions.

“Political rhetoric is very much reflective of the here and now,” said David Adkins. State officials will have to resist that temptation as they restructure their governments in the wake of the recession.

The good news is that 45 states have made changes to their retirement plans to strengthen their assets. Rhode Island decided to tackle the entire problem at once and has completely overhauled how the state and employees contribute and how benefits are distributed, putting its pension system on the right track. The point, according to Oakley, is that transformation is possible and it should be recognized. “Look at Social Security,” she said. “We know the solutions to that system’s problems, but there’s no political will. Compliment the states for tackling the issue.”

Oakley cautioned attendees that the rise of defined-contribution plans, commonly known as 401(k)s or 403(b)s, in the public sector has come at a cost. “There’s a lot of buyer’s remorse with defined contributions,” she said. Many younger workers in government see the value in once conventional defined-benefit pensions; they don’t see it in defined-contribution plans.

Beyond pensions, there are OPEBs—other post-employment benefits—which by one estimate now represent a $2 trillion liability for state and local governments. Prior to the 2008 fiscal crisis, elected officials tended to increase hiring and begin new programs, rather than confronting the hard question of how to help pay the past-due bill for retirement medical benefits. Now, a number of states and localities have established and begun to pay into funds similar to pension funds to offset the looming OPEB liability.

Health care for retirees

The 800-pound gorilla in the state and local room is health care for workers and retirees, according to John Nixon, budget director for the state of Michigan, where the liability for health care costs is $80 billion statewide.

Data from the Pew Center for the States echoes this truth. According to Pew, states only have 5 percent of the funds needed to pay for their retirees’ health care and other non-pension benefits, such as life insurance.

According to Nixon, Michigan has a system where 13 percent of state funds cover a pay-as-you-go system. “We are adding more and more retired workers to the system, but have fewer active workers to help fund it,” he said. Although Michigan has reduced its overall unfunded liabilities by $20 billion, the state has a “lot of retired workers who are 52 years old; we have to cover them for the rest of their lives. That has to change,” said Nixon.

According to Pew, 17 states have not set aside any money to fund their retiree health-care liabilities, and only 7 states had funded at least 25 percent of health-care liabilities—Alaska, Arizona, North Dakota, Ohio, Oregon, Virginia and Wisconsin. Alaska and Arizona both have nearly 50 percent of their health-care liabilities funded.
Controlling the Cost of Government: A Guide for Public Officials

Since 2010, a total of 31 municipalities have filed for bankruptcy—Stockton, Calif., Harrisburg, Pa., and Boise County, Idaho, among them. The majority of Chapter 9 bankruptcy filings have been submitted by utility authorities, special districts and other taxing entities. Governing has been tracking this issue; the map to the right illustrates all municipalities filing for bankruptcy in the last two years.

In an Oxford-style debate at the Summit, public officials who had helped their communities through financial distress confronted the resolution: “Bankruptcy protection: A viable option to save municipalities from financial ruin?” Many attendees at the Summit said no, but the debaters’ positions—and the reasoning behind them—are instructive.

For Bankruptcy:

“For Central Falls, R.I., bankruptcy was the only option. There was no liquidation. It was about restructuring debt. Bankruptcy is about what the debtor can afford.”
Robert E. Flanders, Jr., State Receiver, City of Central Falls, R.I.

“Bankruptcy allowed Vallejo, Calif., a city where revenue had dropped $20 million in two years due to a bad economy, to continue to operate. This was a city with huge costs, but that couldn’t reduce expenditures, since over 80 percent of the budget covers public safety. Bankruptcy allowed the city to impose changes in contracts. Ultimately, bankruptcy should be safe, legal and rare.”
Robert E. Stout, Interim Finance Director, Town of Los Altos Hills, Calif.

Against Bankruptcy:

“Municipal bankruptcy is a stigma. Businesses don’t want to locate where a city is in bankruptcy. Residents will flee. It’s also expensive. Central Falls had to spend over $3.7 million for its bankruptcy problems. Due process is important and it disappears in bankruptcy. It’s a blunt instrument, which makes it so problematic. Government shouldn’t break its promises to its employees.”
Steven Kreigsberg, Director, Collective Bargaining and Health Care Policy, American Federation of State, County and Municipal Employees (AFSCME)

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“Fiscal challenges are the result of arbitrary limits we place around communities. Bankruptcy can exaggerate differences between cities. Municipal bankruptcy can further the politics of irresponsibility. It can let politicians off the hook.”
Dayne Walling, Mayor, City of Flint, Mich.

For more information and to view an up-to-date version of the map, visit www.governing.com/gov-data/other/municipal-cities-counties-bankruptcies-and-defaults.html.
In recent years, the cost of insuring public employees increased 52 percent, and employees have been picking up the tab, according to Governing health correspondent John Buntin. Moreover, for the second year in a row, the National League of Cities reported that 4 of every 5 cities (81 percent) ranked the cost of providing health care benefits to employees as the No. 1 stress on city budgets—ahead of other high-cost areas: pensions (77 percent), infrastructure (75 percent) and public safety (61 percent). For its part, the National Governors Association (NGA) is calling for new strategies to help contain employee health-care costs by “digging into claims in order to understand factors driving costs and potential solutions.” The NGA sees particular promise in “collecting and analyzing data to understand reasons for rising health-care costs, both current and past, [as] critical to inform decisions about changes in health plans offered to state employees.”

This reality is pushing many states and localities to find innovative solutions to lowering these costs. Chattanooga, once a city in decline, is now one of the fastest-growing urban areas in Tennessee. While the economy booms, government positions continue to attract workers because of their health-care benefits, said Mayor Ron Littlefield. As a result, city workers tend to be older individuals. “We have people on the payroll who have health issues,” he said.

With health costs rising 10 percent annually, Chattanooga has decided to create its own doctors’ clinic, in-house pharmacy and wellness program. The city provides incentives to encourage employees to join the city’s wellness program and to have access to lower-cost health care and prescriptions. The city works with a contractor to improve employee health and to help workers avoid costly hospital visits, and gives price breaks to employees who do not smoke and make other healthy living choices. The result, according to Littlefield, is that the city has “flattened its employee health-care costs.”

This is an area where governments are fundamentally changing their underlying philosophy and strategy in ways that benefit the public coffers and, ultimately, their employees’ health. When government has easy access to data, it can begin designing benefits and related incentives to help improve employee engagement, productivity and healthy choices.

Other states thinking creatively about health-care costs:

**Rhode Island** wanted to ease the impact of increasing health-care costs shared by employees. The state started a wellness program that gives credit towards premiums if, for example, an employee’s readings for blood pressure are in the normal range. The next outcome-based program involves BMI (body mass index).

**Connecticut** has an incentive program that adds a surcharge to employees’ health costs if they don’t participate in the wellness program.

**Michigan’s** wellness program, the 4x4 Plan, encourages everyone in the state (including state employees) to follow four healthy behaviors that includes monitoring key health measures, such as BMI and blood pressure. “Michigan has hundreds of thousands of employees and dependents and this could be a major way to get these [health] costs under control,” said John Nixon.
“We are living off infrastructure put into place 60 to 100 years ago. That inhibits and impacts our growth,” said Natwar Ghandhi, chief financial officer of the District of Columbia.

Indeed, state and local transportation is critical to America’s growth, but in a climate of budget cuts and an era of deficit reduction, investment in infrastructure can be relegated to a “nice to have, but not now” mentality. Infrastructure is also vitally important to U.S. global competitiveness—an area in which America is behind. “As a portion of GDP, spending on infrastructure has declined to less than 2 percent; in Europe they invest 5 percent; in China it’s 9 percent,” said Ghandhi. One hurdle to investing in infrastructure discussed at the Summit was the gas tax, which hasn’t seen an increase since 1993. “We have been vastly under-investing since then,” said Joshua Schank, president and CEO of the Eno Transportation Foundation. Schank suggested that states transition away from relying on the gas tax to something more sustainable. “They need an alternative approach,” he said.

The second roadblock is constituent trust (or mistrust) of politics. While trust is a key ingredient to getting voter approval for new infrastructure and transportation projects, lawmakers can fall short of providing the business case to support the need for more revenue. “We saw this happen when voters in parts of Georgia turned down a ballot measure to raise the sales tax to pay for new transportation initiatives,” said Schank. “The politicians hadn’t made a solid case for what the new taxes would build. Where the initiative did pass, there was transparency, accountability and a business case to support the need for more revenue.”

A positive point is that investments in infrastructure shouldn’t be that difficult to make if leaders are open and communicate clearly with constituents. “Money spent on infrastructure produces a tangible product that benefits the entire community,” said Keith Reester, director of Public Works for Loveland, Colo. “It also creates an environment that makes it easier for companies to do business. For the average citizen, it doesn’t just go into the black hole of government.”

Summit panelists agreed that state and local government leaders shouldn’t shy away from seeking alternatives for funding transportation projects and noted the potential of public-private partnerships that have seen success in Chicago, Indianapolis and San Francisco, among other cities. “There’s no simple funding solution to spending on infrastructure,” said Gandhi. “We will have to borrow. But it can be done through public-private partnerships.”

Infrastructure/Transportation Funding Solutions:
- Public-private partnerships are gaining traction at the local level.
- Targeted (and transparent) state and local gas and sales tax set-asides.
- Asset management: In Australia, the public sector has to demonstrate that it can fund the maintenance and repair of infrastructure assets, not just the initial build. In contrast, the American use of municipal bonds continually funds new projects and infrastructure but leaves maintenance to the vagaries of the budget.
- Don’t forget the vehicle-miles-traveled tax—much maligned, but possibly a more sustainable user fee for transportation.
Transparency and the Search for More Revenue

**Washoe County, Nev.** has seen its unemployment rate hit 13 percent and has lost between 30 percent and 50 percent of its assessed property value. Yet the county has been able to fund transportation initiatives. How did they do it? “We used transparency to help explain our problems to the voters and how the money was going to be spent,” explained Katy Simon, county manager. The county started by building a coalition of businesses and unions to help win over voters to the idea of $18 million per year in new fees.

“We focused on what we would spend the money on and how we would spend it. We explained how the money was spent and what results were accomplished,” said Simon. Transparency has to be understandable, according to Simon. Government has a tremendous amount of data at its fingertips, but it needs to present to the public a clear purpose and clear goal. “It comes down to managing knowledge and sharing it. Having information doesn’t make you right,” she said. “You have to be effective.”

**CONCLUSION**

“There is no silver bullet,” reminded Mike Eglinski, city auditor for the city of Lawrence, Kan. “Just many small areas that all have to be worked on to reduce costs.” Indeed, many small areas are where the effort to manage costs rather than managing budgets will stand or fall because there are costs embedded in every function and process in government. Another Summit attendee observed that public executives, managers and practitioners need tools to understand where the costs are; what they are; and when, how and why they are incurred so they can be better able to control those costs.

**Systems change over time**

Government is a system of systems but costs hide in the elements of each system, some of which stay constant over time and others of which change in dramatic ways in short order. Consider how government moves money and permissions now compared to a couple of decades ago. As recently as the mid-1990s, the warrant (or check) was the coin of the realm for paying public debts, those on public assistance and public employees. Much of the high-volume workload has shifted to electronic funds and benefits transfer, with payment cards increasingly becoming a part of the mix because they fit the bill for a range of applications where other methods may not.

In terms of governments’ back office, what was once a labor-intensive manual process of keeping the central ledger has long since been automated through enterprise resource planning (ERP) systems, which also handle the supply chain and human resources. ERP modernization now presents public agencies with additional choices—build it hosted by a third party offsite or buy it as a service from a cloud-based provider. The value of these systems or services has been extended through integration with analytics and business intelligence applications that move organizations a significant step closer to evidence-based decisionmaking.

Governments have become more aggressive in sharing services across agency and jurisdictional lines. As the name suggests, the shared services model often allows for cost savings by participating agencies that would have otherwise had to shoulder the full cost of ownership themselves.

But new sources of revenue aren’t the only solution, added Simon. “You need to have an eye on long-term sustainability. You need innovation, efficiency and rigorous honesty. Folks have to have a shared understanding of what government means.”

“How do you motivate elected officials to provide the best government that money can buy? The answer is to give citizens quality information so they can impress on others what is important to them.”

Mayor Karen Freeman-Wilson, Gary, Ind.

**ASKING DIFFERENT QUESTIONS**

Given the scope and rapidity of change in almost all dimensions of government and the services it provides, it can be useful to take a fresh and hard look at the underlying assumptions behind every program. These 10 questions emerged from the Summit as a way to begin rethinking strategy and developing a path forward:

1. Who makes up the population the program serves?
2. What needs should the program meet? Alone or with other programs?
3. Which of the needs being served have the largest impact on program costs?
4. What is the financial impact of the program's high-risk population?
5. Does the program use high-performing providers to deliver services? How can you tell?
6. What tools and resources are in place to support program beneficiaries?
7. When was the last time the design of the program and related service delivery mechanism were reviewed?
8. What are the program and service delivery goals over the next 3 to 5 years?
9. How does the program need to change to meet those objectives?
10. How is performance measured? How should it be measured?

Even a cursory read of the 10 questions reveals a key dependency for building stronger, future-oriented enterprise strategy: good data.

Communicating change
The public wants to be a part of the decisions that affect the health of their communities, their families and their own way of life. Citizen engagement with government is part of that equation; so is the more encompassing process of participatory democracy and its financial derivative, participatory budgeting. The International Association for Public Participation (IAPP) has helpfully mapped a spectrum of public participation — ranging from inform, consult and involve to collaborative and empower — with progressively increased levels of public impact with each phase. Summit attendees reported using all or part of the spectrum depending on the objectives of a particular initiative. (The spectrum can be found at www.iap2.org/associations/4748/files/IAP2%20Spectrum_vertical.pdf.)

Attendees also noted that the modern transparency movement dates back four decades and has enjoyed considerable attention in recent years as public accountability met Internet activism. Some are watching the Association of Government Accountants’ (AGA) Citizen-Centric Government Reporting Initiative that builds on the work done by states and localities to provide online checkbooks and the like. The Association says “that government financial information should be provided to citizens in forms that are clear and understandable, updated regularly and often, delivered to all, easy to locate, honest in breadth and technically accurate in detail.”

Summit delegates, as well as the AGA, share a conviction that citizens are the owners of government and citizens have a right to this information. Moreover, they are the ones that benefit from investments in public infrastructure and spending on public programs. Importantly, they share the ultimate responsibility for paying the tab for the cost of government.

Endnotes
3Citizen-Centric Government Reporting Initiative, 2012. (See www.agacgfm.org/advocacy---accountability/Citizen-Centric-Reporting-%28CCR%29.aspx.)

Resources
FLUCTUATING REVENUES
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Hundreds of jurisdictional boundaries weave through the rolling hills and rivers that make up Pittsburgh and its surrounding suburbs. The region is carved into numerous neighborhoods, each with its own identity. But what makes the area unique is that many of these communities also have their own governments and separate services.

In fact, a total of 35 suburbs share borders with the city. Other public entities responsible for a range of services—often referred to as “special purpose” or “special use” districts—span the region as well. In all, more than 250 local governments serve city and Allegheny County residents, making life for public officials—not to mention taxpayers—complicated.

Given this level of fragmentation and public concerns about high taxation, one might expect calls for consolidation. Yet this hasn’t happened in Pittsburgh. Indeed, it rarely has in most other metropolitan areas surrounded by a host of local governments and special-purpose districts. Figures from the 2012 Census of Governments signal no significant national shift toward consolidation in recent years. The survey, published in August, tallied 89,004 general and special-purpose local governments across the U.S. in 2012, down only slightly from 89,476 five years prior. Rather than merge, officials seem to be seeking answers to solve mutual problems cooperatively, but are doing so while leaving governmental boundaries and districts largely intact.

Robert O’Neill, the International City/County Management Association’s executive director, said last fall that continuing fiscal pressures sparked talks of consolidation in a few localities, but that this hasn’t resulted in any great push for mergers. Instead, municipalities explored tactics like shared services to curb inefficiencies, an attractive option for economic development, transportation and other large-scale initiatives, according to O’Neill.

Government fragmentation has long been tugged at by two competing interests. On the one hand, many argue consolidation cuts costs and allows officials to better coordinate efforts. Citizens, though, are often emotionally attached to their local governments.

Many governments are packed into dense areas of the Midwest and New England. The Census Bureau counted 6,968 governments—including special districts—in Illinois alone, the most of any state, followed by Pennsylvania (4,905) and Texas (4,850). Not surprisingly, rural states...
harbor the most units of government per capita, with North Dakota, South Dakota and Nebraska recording the highest number of governments relative to population.

Voters, along with some states’ rules and regulations, often impede consolidation. For most general-purpose government consolidations, residents of all affected communities must approve public referendums before a consolidation can proceed. In New York, only two of 18 votes for consolidation of towns and villages have passed since the state’s government reorganization law was updated in March 2010.

But are all these distinct units of local government necessary? Myron Orfield, who leads the Institute on Metropolitan Opportunity at the University of Minnesota Law School, doesn’t think so. Divided regions often experience disparity in quality of services. One of the most prominent such examples is the long-running statewide battles over education that pit cash-strapped school districts against their more affluent neighbors. Similarly, government fragmentation contributes to racial segregation in urban areas, Orfield says.

Another consequence of fragmented government is that competition among municipalities potentially hinders land use and economic development. “You have a lot of warfare between units of government to move shopping centers,” Orfield says. “They spend a lot of time fighting with each other.” By comparison, consolidated governments, such as the city-county systems of Indianapolis and Lexington, Ky., create more effective incentive packages to lure employers.

This doesn’t mean fragmented regions can’t successfully pursue ambitious projects, especially with involvement from nonprofits and the business community. It’s this type of alliance that has contributed to Pittsburgh’s revival, says David Miller, director of the Center for Metropolitan Studies at the University of Pittsburgh. “In a way, being so decentralized creates access into the civic community in ways that are remarkable,” he says.

Miller says centralized metropolitan regions with fewer local governments typically perform best economically, as long as the state affords them a broad range of powers. He assesses fragmentation using a “metropolitan power diffusion index” he developed, which factors both the number of governments and distribution of expenditures. By this measure, the Chicago-Joliet-Naperville, Ill., metro area is the nation’s most fragmented, with Pittsburgh close behind.

If there’s one state that’s a poster child for fragmented government, it is Illinois. The state’s nearly 7,000 total local governments far exceed any other state. The bulk of those—more than 4,000—are special-purpose units, dating back to a previous version of the state’s constitution that moved municipalities to create new governments to get around state-mandated debt requirements.

Today, Illinois still maintains a long roster of special districts. One law mandates coverage by a fire protection district for properties not served by municipal fire departments. Local boards oversee more than 20 streetlight districts. In some areas, elementary schools in multiple districts feed into a single high school.

But like Pittsburgh, the state has yet to experience significant consolidation. The state Legislature has explored the possibility of reducing special districts, forming a 17-member Local Government Consolidation Commission in 2011. However, consolidation is far more difficult to actually carry out, says Larry Syverson, executive director of the Illinois Municipal League. Some cities, for example, lack the capacity to provide adequate protection for allergy-prone areas if fire districts are eliminated.

Historical boundaries further explain why some areas have so many governments. In North Dakota, more than 1,300 sparsely populated civil townships stretch across the state, many of which are occupied by only a few families who’ve farmed the same land for generations.

Some state lawmakers have brought up the issue of consolidating townships, but the idea failed to gain traction. Part of the opposition stems from the state’s culture. Larry Syverson, president of the North Dakota Township Officers Association, says many residents cling to their local control, resisting interference from outsiders. “We’re just used to the idea that somebody has got to be taking care of these things,” he says, “so it’s either we have to roll up our sleeves and do it or the next guy has to.”

Which States Have the Most Governments Per Capita?

By Mike Maciag

BEHIND THE NUMBERS

Email mmaciag@governing.com

View new Census data for each state at governing.com/govcensus
Measure Beyond Measure

It’s harder than we thought to come up with an easy way to assess success.

Finding a simple way to see whether dollars are delivering a reasonable return on investment can be elusive for many government functions. Take preventive health care. Even when cities and states can effectively calculate the costs of keeping disease at bay, the actual savings may not be delivered for years or even decades, during which time the playing field can change entirely.

Still, we’ve long supported efforts to find the best (if not the perfect) means of using results-based measures to help upgrade performance for most governmental functions. Difficult as this may be, we’ve argued that, at a minimum, governments should go after the low-hanging fruit—the functions, services or actions that are simple to measure. Perhaps there might even be lessons that can be applied to apples higher up in the tree.

We haven’t changed our minds about this. As time marches on, though, we’ve been forced to acknowledge a somewhat frustrating possibility:

There may be very little low-hanging, easy-to-measure fruit out there for the plucking.

Exhibit A is weatherization. With billions of dollars spent on weatherization—many of them through the 2009 American Recovery and Reinvestment Act—it’s still unclear just how much good this approach to energy efficiency has accomplished. It seemed to us that measuring the benefits would be simplicity itself. Just take energy savings and divide it by the dollars spent.

We were wrong. It turns out that there are a number of areas of measurement relating to weatherization that aren’t “feasible for the states,” says Michael Blasnik, a weatherization consultant and a member of a team conducting a national weatherization evaluation led by the Oak Ridge National Laboratory. Blasnik cites measures such as broad economic and environmental impacts of weatherization efforts as among those that are far more within the province of the federal government than the individual states.

Turns out, data on many objectives aren’t very well developed in the states but are being pulled together for the national study. “Monetized values of emissions reductions is a complex issue in itself,” says Greg Dalhoff, another member of the Oak Ridge team doing the evaluation. “We are hoping to come up with those kinds of metrics in this national evaluation. If you wanted to have the states do this, it would be very expensive and difficult.”

Even at the federal level, multiple factors can be positively influenced by weatherization efforts, which don’t equate easily into dollars and cents. That’s because federal weatherization dollars are supposed to deliver significant benefits beyond reduction in energy usage. Societal benefits could include improved health and safety, reduced greenhouse gas emissions, reduced water and air pollution, water conservation, higher local employment, and increased local economic activity. An effort to pin this data down is in place, as the evaluation of the Recovery Act’s Weatherization Assistance Program plans to use primary data and a wide range of secondary data sources to estimate total non-energy benefits.

Simplicity isn’t the only issue. There’s a challenge that’s prevalent in a great many performance-oriented efforts: The money targeted to a particular goal may come from a variety of sources and be aimed at comingled missions. Any assessment of the cost-effectiveness of the Weatherization Assistance Program will fall short if it doesn’t take into account other sources of funding, including the Low Income Home Energy Assistance Program, individual utilities’ programs, state benefit funds, and various other national and state programs. In some cases, according to Dalhoff, subgrantee agencies received direct funding which may not be tracked by the state.
“So we have a wide array of funding sources with varying objectives,” Dalhoff explains. Those in turn are “measured against a wide array of benefits beyond simple client bill savings—benefits that are not easily monetized and for which monetized values are not readily available.”

One deceptively easy approach would be to use a methodologically strong model that would allow states or the federal government to forgo gathering actual energy bills from a representative sample of homeowners. But it turns out that experts are highly dubious of even this type of modeling approach. “Even with really sophisticated energy models,” says Joel Eisenberg, manager of the Oak Ridge evaluation project, “when you have all the information about the energy usage pre- and post-weatherization—when you plug those into models, the models tend not to reflect reality as much as we might like.” One problem, for instance, is that they tend to overestimate savings. “When you get to things like a residential structure with a changing household occupant population, behavior pattern and weather conditions, you need to be able to look at the real world,” Eisenberg says.

Ultimately, many of these weatherization measurement obstacles apply to a variety of other government programs. But one big challenge stands in the way of using almost all performance information. No matter how well the numbers are gathered and manipulated, the data itself is just a starting point. Appropriate analysis is the key to using this information.

Whatever the field, performance measurement is time consuming and complicated to do at the state level. Take a local agency that turns out to have lower savings in weatherization or any other venture than the rest of the state. That doesn’t mean it was a poor performer. “It could be that it just had fewer opportunities for saving,” says Blasnik, “and maybe other agencies should have saved even more because they had more opportunity for savings.”

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Urban Farming and Homelessness

Ending homelessness is no easy task. That’s one reason many eyes are on Miami. In the past decade, the Florida city has reduced its homeless population from 8,000 to 1,000. Part of that effort is Verde Gardens, a $17.2 million, 145-unit complex built for Miami’s formerly homeless residents. The live-work community is tapping into the sustainable eating trend by offering homeless people a place to live and a job on the community’s 22-acre organic farm, which sells produce to local restaurants. The job is really an apprenticeship, which pays $10 an hour and lasts eight months. The participants rotate around the farm learning the trade—the goal is to ultimately help residents get a full-time job on another farm. The housing complex—paid for by the state, a local homeless trust and a real estate nonprofit—also caters to children, with playgrounds and a nearby school. Chicago has a similar program in the works that offers paid internships on one of three urban farms.

Verde Gardens hopes to sell seedlings to support its residents.

Let’s Talk About Bullying

In an effort to identify the best ways to comply with anti-bullying legislation in New Hampshire, three rural schools are piloting a new program called Courage to Care. The program was developed using funds from the U.S. Department of Agriculture. Students meet with an educator once a week for nine weeks to go over lessons that focus on morals, ethics and good behaviors. The students are encouraged to continue discussions outside of the sessions between themselves and their parents and teachers. The program has already resulted in an increase in the number of reported incidents of bullying. In addition, other states including Kentucky, Missouri and Kansas, have expressed interest in adopting it. Currently, 49 states (all but Montana) have anti-bullying laws on the books and 11 states have pending legislation to strengthen existing statutes.

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Acting like a tech entrepreneur can improve government services.

Reichental says his city needed a better way to keep up with demands for new technology, so he reached out to its decidedly geeky population. “In government, we’re really faced with a history of projects that take a long time and when they’re done aren’t close enough to our requirements,” he says. “We need to look at ways to move from idea to execution much faster.”

Palo Alto put Ries’ concept into action earlier this year to finish a long-running website redesign. Although the project was nearly done, a continuous cycle of internal changes kept the city from wrapping it up. “We could have spent another year making it perfect,” Reichental says. But instead, the city released the unfinished site side-by-side with its existing website, inviting users to try it and offer a critique. Citizens eagerly tested out the new site and offered their feedback, which was used to fine tune the project. Not only was the project finished much faster, he says, the final product worked better too.

The concept doesn’t only work in Silicon Valley. The federal Consumer Financial Protection Bureau, created in 2010 by the Dodd-Frank financial reform legislation, used Ries’ principles to design new financial disclosure forms and create a “Know Before You Owe” website for financial consumers. The agency reportedly synthesized more than 13,000 user comments into the final products. The concept also helped the Obama administration launch the website healthcare.gov in just 90 days and at a fraction of the normal cost, author Ries said in an interview earlier this year.

After completing Palo Alto’s website, Reichental used the approach to design an online open data platform that gives citizens access to city spending information and other statistics. Next year, he expects to enlist residents’ help in creating a mobile application that will let them perform a range of city government transactions on a smartphone or tablet.

Based on his experience, Reichental offers this advice: Start with a few low-risk projects, make it very clear that you’re releasing an unfinished product and make it simple for users to submit feedback. The process, he adds, isn’t a good fit for heavyweight projects like replacing financial or human resources systems—it seems, it seems, will remain as slow and costly as ever. But Reichental says he’s at least considering whether Ries’ concepts can be applied to most new technology initiatives undertaken by the city.

He says the approach demands a new way of thinking from both the city and residents, but it’s becoming more commonplace. “Big name companies—Google and others—release their products in an early stage and they gather a lot of feedback. People are becoming conditioned to be more comfortable with it.”

So, perhaps it comes down to this: If you want citizens to be happier with your technology, let them tell you what they like.

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Embracing the Basics

Massachusetts has the highest credit rating it’s ever had. Its secret? Discipline.

As Massachusetts’ secretary of finance and administration, Jay Gonzalez has had a major role in helping the state achieve its highest credit rating ever. That’s a remarkable achievement when you consider that it occurred in a massive and deep recession. Indeed, in fiscal 2009 Massachusetts experienced the biggest drop in revenue—both in dollars and in percentage terms—that it had ever seen. Gonzalez took an unusual route to becoming point man for Massachusetts’ fiscal transformation. After getting his undergraduate degree in government from Dartmouth, he graduated from George-town Law. That left him with $80,000 in student debt, so instead of going into government, he went to work at a Boston law firm where he specialized in public finance. He'd just made partner when he began fundraising for Deval Patrick's campaign for governor of Massachusetts. After Patrick won, Gonzalez was surprised to find himself offered a position in the new administration as assistant secretary for capital finance. He accepted the job, and in October 2009 he was promoted to his current position.

The steps Gonzalez and his colleagues in Patrick’s administration took to get Massachusetts on a stable financial footing did not amount to some “Miracle on the Charles.” This extraordinary result was achieved by very ordinary means. When Gonzalez describes how Massachusetts managed its money in very tough times, you hear the basics: Working collaboratively with the Legislature, public employees and other players to develop sound financial policies, and then having the fiscal discipline to stick with them. For example:

• The capital budget went from being three Excel spreadsheets with no policy or transparency to a detailed five-year capital plan on the state’s website.
• A comprehensive debt affordability policy was developed that stands as one of the best of any state government.
• A long-term fiscal policy assures that the budget is structurally balanced by projecting long-term tax revenue, while budgeting only the sustainable portion of that revenue.
• Revenue in excess of the sustainable portion is put into the state's rainy day fund, which is now the largest of any state’s except for Alaska and Texas.
• The state's workforce has been cut by 8 percent, while historic concessions from public employee unions have resulted in forgone wage increases and furloughs that together have saved $267 million.
• Five transportation agencies have been consolidated into one with a savings of $125 million.

It shouldn’t be surprising that state officials in Massachusetts are proud of what they’ve done and that they don’t miss opportunities to let the world know about it. The reality is that public officials need to engage in a great deal of positive communication about their accomplishments. That’s simply the nature of the political process. So those of us who are trying to figure out what’s really going on must separate the bluster from the basic facts, and the best way to do that is to look for third-party verification. One of the last places you’d expect to find that is from officials of major cities within a state, given the natural tension between state and city governments. At a recent Governing event in California, for example, the city manager of Sacramento described the relationship between that state and its cities as “war.”

In that context, consider this: At the end of a long interview with Meredith Wennick, the chief financial officer of Boston, I asked whom else I should talk with while I was in town. Her immediate response? “Jay Gonzalez—I have a ton of respect for him. Really smart. He’s doing exactly what we need the state and the government to do.” For third-party verification, it would be hard to top that.
At 9,200 feet above sea level—and with elevations of 12,581 within the city limits—Taos Ski Valley, N.M., is the highest municipality in the United States. But the tiny town (year-round population: 60) has another distinction. It’s likely the only place whose mayor is also a full-time ski instructor. Born in Swindon, England, in 1941, Neal King (in yellow) moved to the area in 1992. He was first elected mayor in 2002, but he still teaches skiing six days a week. When civic duty calls, the mayor schusses his way to City Hall: “When needed, I just ski down and go into the village office.”—Zach Patton

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