GOVERNING

THE STATES AND LOCALITIES

November 2013

What to know about public-private partnerships

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Workers are hurrying to finish a $332 million renovation of the Kansas State Capitol by December.

FEATURES

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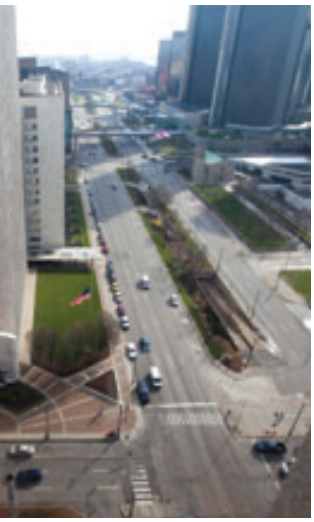
COVER ILLUSTRATION: MICHELLE HAMM; PHOTO: MOODBOARD/CORBIS

DEPARTMENTS



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Hard Times Ahead

On the first day of October, the day the new health insurance exchanges went live, I was in Seattle moderating a day-long summit on aging, hosted by Washington Gov. Jay Inslee. The event focused on four major areas: health care, long-term services and support, livable communities, and financial security. The goal of the summit was to come away with a list of priorities in those areas for the governor to look into. Perhaps not surprisingly, financial security generated the most discussion throughout the day.

The issue in Washington state, as in many states, is how to plan for a poor, aging population. Many of the experts in the room pointed to the cost of long-term care and services as a burden for the middle class and frequently an impossible one for the poor or "near-poor"—those who are ignored by federal programs because they're above the official poverty cutoff, but who are still unable to support themselves. One outcome of the recession is not just that people are working longer in life, but that they are less able to afford the costs associated with elder care. For many baby boomers, it may already be too late to promote individual savings as a means of preparing for long-term care. An idea that came up repeatedly was the need to establish a better measurement of poverty for state programs, one that does not follow the federal formula, which is in many cases unrealistically low.

Erin Waters, Publisher

This month, *Governing* takes a detailed look at this issue in a feature article on poverty and social services in Kansas and the standards established by that state (see "Hard Times," page 26). There are a variety of opinions as to who should qualify for support and what the appropriate poverty threshold might be, but there is common agreement that the threshold itself should be an issue, especially at a time of widespread economic stagnation.

I recently spoke to legislative leaders from around the country at the annual National Conference of State Legislatures meeting in Atlanta. When I asked what they'd been hearing the most about in their sessions, they cited hunger and poverty. The consensus was that these would easily be top-tier issues if legislators were not reluctant to admit that they were such huge problems. Perhaps the time has come to start treating poverty and hunger as the overriding state concerns they clearly are.

Governing will continue to explore this important issue, both in print and online. Please let me know what your community's top concerns by emailing me at ewaters@governing.com.

GOVERNING

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The PSO Zombie

The idea of combining the duties of police officers and firefighters is a lot like a zombie. No matter how dumb, ugly and destructive it is, it just keeps coming back. The time has come to put the public safety officer (PSO) zombie to rest once and for all. Yet, the article in your October issue ["The Price of Protection" in Urban Notebook] suggests that communities could benefit from the PSO concept.

Decades of evidence shows that PSO departments are a waste of time, money and resources. The perceived efficiencies and safety benefits are a mirage—not worth the cost or the risk. Cities like Winston-Salem, N.C.; Peoria, Ill.; Daytona Beach, Fla.; and Meridian Township, Mich., all tried PSOs and regretted it. These communities spent millions of dollars over many years test-driving various police/fire consolidation models before reality set in, and the separate departments were reestablished.

Fighting fires and conducting police work are completely separate professions requiring different training, command structures and response protocols. Combining them creates confusion, elevates risk and ultimately raises costs.

Benton Harbor, Mich., learned that combining police and fire functions is downright dangerous. They dismantled their program after a firefighter in late March was severely burned after running into a burning building by *himself.*

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Firefighters and police officers fully understand the fiscal challenges that communities are experiencing. Firefighters in many parts of the country have been asked to continue to protect communities with fewer personnel and resources, despite the risks to both public and firefighter safety.

There is a point, though, where local elected officials cross the line with unproven practices. While some might hope that fire and police consolidation could be the next big thing in public safety, the concept is in fact old, tired and dangerous. PSOs should be put to rest before anyone else gets hurt.

—Harold A. Schaitberger, General President of the International Association of Fire Fighters

> "If we only allow actuarially sound assumptions to rule the day & take politics out of the pension debate, then pensions will work."
>
> —Florida state Rep. Alan Williams, @Alan4Florida, tweeting from *Governing*'s Cost of Government Summit in Washington, D.C., about a session on the mounting costs of pensions, health care and other post-employment benefits.

One Size Doesn't Fit All

There are conflicting professional opinions concerning the tangible effects of "unbundling" parking from buildings across America ["Parking Lot Wars" in Urban Notebook, September 2013]. Some argue that eliminating or reducing off-street parking spaces results in businesses that cater to a generation that is consciously choosing to forgo the use of automobiles as a mode of transit in the core areas of our cities. Although Europe is a classic example of where this concept flourishes, a lot of American cities, with perhaps the exception of Manhattan, can't compete in terms of offering transit services and attractive pedestrian environments to its citizens in the way of regional mobility.

Parking policies are being debated in terms of which population should be served: those that "need" to drive versus those that "prefer" to drive. The reality is that even though cities may have transit service to serve peak travelers, there are very few city dwellers who have the time or the patience to choose a two- to three-hour transit trip over a 20-minute car ride.

The creation of parking minimums or the elimination of parking requirements is unexplored territory, but there will be the transitional period we are experiencing now. Thanks for raising awareness with the objectivity to know that there is no such thing as a one-size-fits-all solution for parking.

—Don Norte, Parking Services & Projects Officer, West Hollywood, Calif.

City planners and urban economists have analyzed this issue to death and—surprise, surprise—come to different conclusions. But in this case, that's a good thing. Because if ever there was a model example of how one-size-fits-all planning can destroy a place, off-street parking requirements is certainly one of them. As [author Tod] Newcombe sort of gets at, there is a direct link between the availability of and ridership levels on public transit and where parking is eliminated. Not providing off-street parking within an affordable housing development could easily end up hurting residents, depending on location.

—Bradley Clark on Governing.com

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IN THE STATES & LOCALITIES

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Caught Between a Shutdown and a Hard Place

WHEN THE FEDERAL government shut down Oct. 1, almost immediately state budget officials started to warn of the impact it would have on the way they do business. But noticeably silent were many Republican governors, who, for the most part, did not loudly criticize their House colleagues for their role in the fiscal standoff.

Indeed, Republican governors found themselves in a bit of a political pickle: They didn't want their own states to suffer from the effects of a shutdown, but many agreed with conservative Republicans in the House who had moved to defund the Affordable Care Act.

Moreover, while some Republican governors may very well have preferred to avoid a shutdown, they risked alienating conservative voters if they condemned it too forcefully. Case in point: The Republican Governors Association has had nothing to say about the situation.

But Louisiana Gov. Bobby Jindal, who heads the association, seemed to cheer on his House colleagues in a piece published by the conservative news website *The Daily Caller* on the first day of the shutdown. "We would like to see [Obamacare] repealed and replaced, not to score political points, but to save our nation's health care from higher costs and lesser care," Jindal wrote.

In the weeks leading up to the shutdown, Jindal had encouraged his Republican colleagues to "use every tactic, every option we can to repeal and replace Obamacare," as he said on NBC's *Meet the Press.*

Other GOP governors took a less fiery approach. Texas Gov. Rick Perry didn't advocate for a shutdown, and in the days leading up to it, he told *The Dallas Morning News* that Congress should be focused on fixing the health reform law rather than "drawing lines in the sand." But by the time the shutdown occurred, he didn't blame Republicans for attaching a policy provision to a routine spending bill. Instead, he said Democrats should have been more willing to compromise on Obamacare.

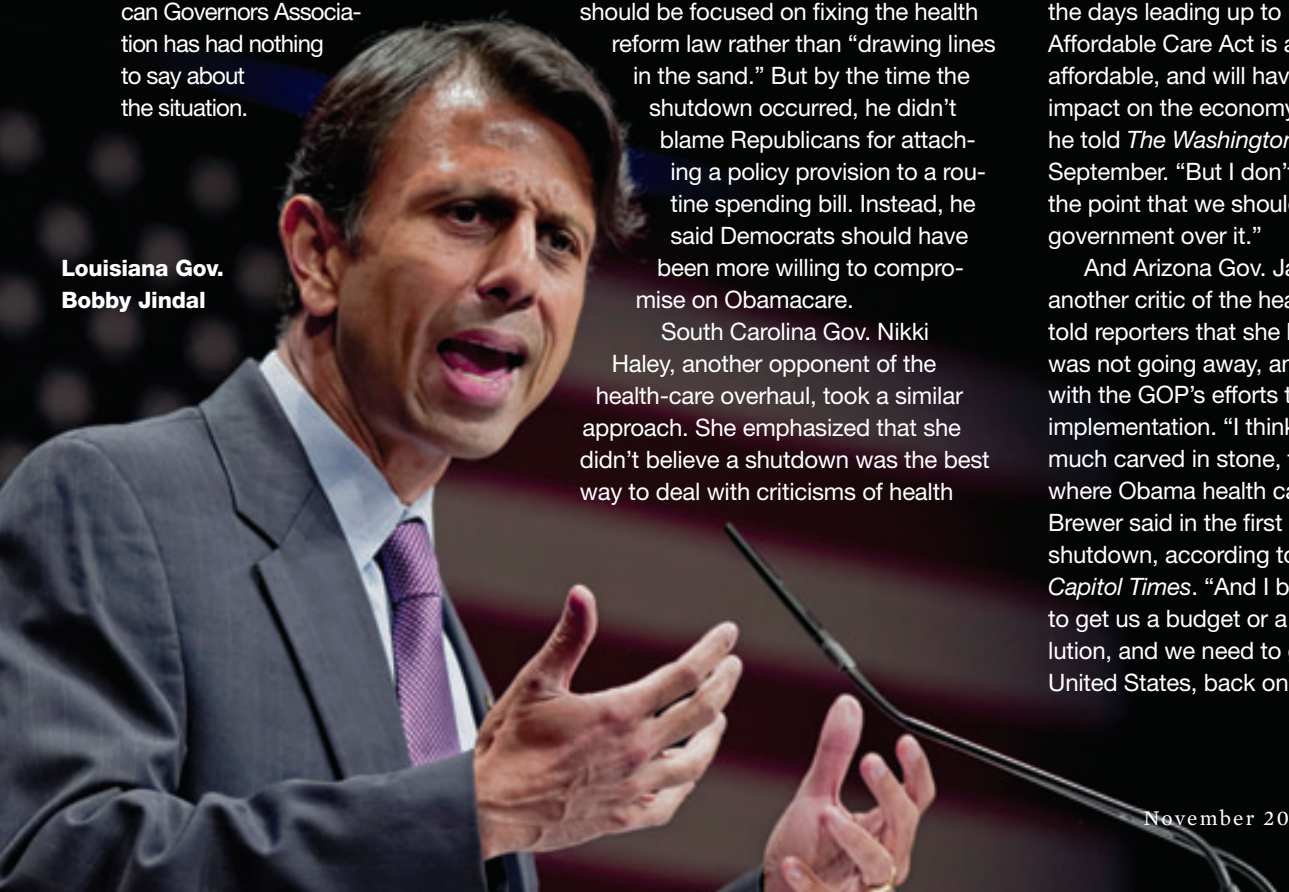
South Carolina Gov. Nikki Haley, another opponent of the health-care overhaul, took a similar approach. She emphasized that she didn't believe a shutdown was the best way to deal with criticisms of health reform. But in a Facebook post on Day 1 of the shutdown, she placed the blame squarely on President Obama. "It is inexcusable for the President to allow this to happen in our country," she wrote.

Some Republican state leaders did unequivocally oppose the fiscal gamesmanship in Congress. Through her position as chair of the National Governors Association, Oklahoma Gov. Mary Fallin urged Washington to avoid a shutdown. "Unfortunately, the possible consequences to state economies of a federal shutdown or not increasing the national debt limit are severe," she wrote in a letter that was also signed by Colorado Gov. John Hickenlooper, a Democrat.

Wisconsin Gov. Scott Walker, a vocal critic of Obamacare, also unambiguously opposed the shutdown in the days leading up to it. "I believe the Affordable Care Act is anything but affordable, and will have a negative impact on the economy of my state," he told *The Washington Post* in late September. "But I don't extend that to the point that we should shut down the government over it."

And Arizona Gov. Jan Brewer, another critic of the health-care law, told reporters that she believed the law was not going away, and she disagreed with the GOP's efforts to delay its implementation. "I think that it's pretty much carved in stone, the direction of where Obama health care is going," Brewer said in the first days of the shutdown, according to the *Arizona Capitol Times*. "And I believe they need to get us a budget or a continuing resolution, and we need to get America, the United States, back on track."

—Ryan Holeywell



Louisiana Gov. Bobby Jindal

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Lessons from the Nation's Most Independent CFO

DAVID KIDD

WHEN NATWAR GANDHI took over the District of Columbia's finances 13 years ago, the city was still under the thumb of a congressionally appointed financial control board, running a $518 million deficit with its bonds in junk status. Today, the city boasts 16 straight years with a balanced budget, has been out from under the shadow of the control board for a dozen years and holds a $1.5 billion rainy-day fund and a AA general obligation bond rating. It's a turnaround story that has earned many honors for the city's chief financial officer (CFO), including being named a *Governing* Public Official of the Year in 2007, and has been the envy of other cities struggling with their own fiscal health following the recession.

In February, Gandhi, 73, announced that he planned to retire but would stay on until his successor was named and had a chance to settle into the position. In late September, Washington Mayor Vincent Gray tapped Phoenix CFO Jeffrey DeWitt as Gandhi's replacement.

Earlier this year, Gandhi sat down with *Governing* to look back at his time holding one of the most unique public CFO jobs in the country. Here's a condensed and edited version of that interview. *—Liz Farmer*

Your office stands out from other CFOs because although you are appointed by the mayor, you cannot be fired without cause—and Congress has the power to overturn any firing. What has that meant for D.C.'s finances?

This is as independent a CFO [office] as you can get anywhere in the country. You can disagree with the mayor in the morning, you can still be in the office in the afternoon. Everywhere else you'd be sitting at home. With all that power and independence, the CFO is given a huge responsibility to assure that the city remains financially viable. This has been a $2 billion turnaround. Other cities that have gone through this experience, like New York and Philadelphia? None have been able to come back as fast and as well as this city has. Of course, the credit goes to the control board and elected leadership. But at the end of the day, it is the fiscal discipline that Congress imposed upon the city via a control board and chief financial officer that has assured the city remains financially viable.

That power has also earned you the nickname "Dr. No" because you can nix proposed bills and projects that aren't funded. How do you try to keep a good relationship with elected officials?

When a council member says, "I want to spend $100 million," I can understand his perspective. His notion is that, "What's the use of having a billion and a half dollars in your fund balance while I have homeless in my ward?" So my approach always is, "Let's sit down, let's understand and see how we can make it work without hurting the financial viability of the city." And many times it's not possible and we [must] say that. But I would say only when I have exhausted all the possibilities that it cannot be done, then I would say no.

Could other governments replicate your office's independence?

I don't think Congress or the president or any mayor or any governor would want to see a CFO of that power, because you are basically encroaching upon their prerogative, their powers and they don't like it. When we explain to other mayors, other municipalities that this is what it takes, they say, "No, no."

What is a new challenge facing CFOs today?

There is this sense that cities cannot simply go on the way that they have done in the past. There's this idea that the federal government has all the money because they have a printing press, states have all the power, cities have all the problems. This is where the rubber hits the road. ... [Meanwhile] you have people who can afford to leave cities for the suburbs and there is a gradual erosion of the tax base. The worst example of that is Detroit.

Any parting words of advice for your successor?

At the end of the day, it is your responsibility to make sure the city remains financially viable. And if you ever miss that, then you basically have no business being here. So you have to be obsessed about this.

For Some in Government, 'Effective' Is the New 'Efficient'

FOR A GENERATION NOW, the buzzword for government officials has been "efficiency"—faster and cheaper equals better. But that mindset misses the big picture, says Linda Langston, the county executive of Linn County, Iowa, and the current president of the National Association of Counties. "You can be really efficient at going 100 mph, but if it's in the wrong direction, what good does it do?"

Government was never designed to be efficient, she says, and leaders who tout efficiency are setting themselves up for problems. Instead, Langston's been pushing a new buzzword: "effectiveness." In other words, are programs achieving the desired results? A city-run health clinic can be efficient at getting clients in and out the door, she says. But if just the symptoms are treated instead of taking the time to address the underlying problem, that client will return again and again, costing more money in the long run.

"I do believe that government has an obligation to be effective at what we do," Langston says. "I think we do a disservice to ourselves and the public when people say government needs to be run more like a business." Besides, she adds, "no one in their right minds" would run a business that does everything governments do.

It may sound like a semantics debate. But Langston says that focusing on the endgame rather than the short term helps her have meaningful—effective, even—conversations with taxpayers. "Part of it is really encouraging those dialogues with those constituents and also using language that actually means something," she says. "I believe it's sloppy of us to make broad generalizations like 'taxes should be lower.' What we need is a more critical understanding of what those taxes go to."

—Liz Farmer

"While Washington waffles on immigration, California's forging ahead. I'm not waiting."

—California Gov. Jerry Brown, who last month signed into law nine new pieces of legislation expanding rights for immigrants, including a measure that prohibits law enforcement officials from detaining undocumented immigrants for transfer to immigration authorities if they are arrested for minor crimes.

SOURCE: *LOS ANGELES TIMES*; IMAGE: FLICKR/CHARLIE KAUO

THE BREAKDOWN

43.5

Median age in Maine, making it the oldest state in the nation. Utah is the country's youngest state, with a median age of just 29.9 years.

6

Number of states in which Texas is running ads to tout its low taxes in an effort to get businesses and families to move to the Lone Star State.

$9.19

Highest hourly minimum wage in the country, which is in Washington state. Under a bill approved in September, California will raise its minimum wage to $10 an hour starting in 2016.

35%

Drop in Minnesota's cigarette sales in July, the month it raised tobacco taxes from $1.23 to $2.83.

SOURCES: ASSOCIATED PRESS, WTOP RADIO, *LOS ANGELES TIMES*, U.S. CENSUS

One Office, Two (Sometimes Competing) Interests

WHEN TWO VACANCIES recently opened up in Oklahoma Gov. Mary Fallin's cabinet, she decided to combine them. It was an unusual step, but what made the move particularly controversial was the two offices she consolidated: the secretaries of energy and environment. That makes Oklahoma one of only a few states in which one executive oversees both cornfields and oil fields.

"Strong energy policy is strong environmental policy," Fallin said in a written statement, stressing that the merged agency would weigh both concerns equally. But some critics wondered whether one might end up trumping the other. After all, the oil and natural gas industry is responsible for some 300,000 jobs in Oklahoma, about 20 percent of the state's workforce.

As it turned out, Fallin's decision rankled both environmentalists and the energy industry alike. David Ocamb, director of the Oklahoma chapter of the Sierra Club, told a newspaper that the merger was "a disservice to the state" because the governor ought to have separate counsel on energy and environmental issues. Meanwhile the state's biggest oil lobby, the Oklahoma Independent Petroleum Association (OIPA), voiced qualms about Fallin's pick for the new position, Michael Teague, a former district commander from the Army Corps of Engineers in Tulsa. The association's president said it was unprecedented for the state's energy secretary to have no prior working experience in the oil and natural gas sector.

After the announcement, Teague says he heard from Oklahomans who either thought his appointment meant that environmental policy would take a backseat to economic development or that overall energy production would slow down. "Neither of those are true," he says.

Teague points to the lesser prairie chicken. The bird's population has been on the decline across the Midwest ever since homesteaders first arrived and began fragmenting its natural habitat. Teague supports a proposed conservation plan, which his predecessors helped draft. It would leverage public funds and assistance to convince ranchers to adopt conservation practices, and it would implement new voluntary guidelines for the oil and gas industry (such as avoiding the prairie chicken's nesting season) aimed at minimizing the impact of drilling. Teague says the prairie chicken plan previews how he will handle other issues in the future, balancing public and private interests.

FLICKR/U.S. ARMY CORPS OF ENGINEERS

Michael Teague, a former district commander in the Army Corps of Engineers, is Oklahoma's first secretary of energy and environment.

Massachusetts in 2007 became the first state to combine its energy and environment offices. The agency's current secretary, Richard Sullivan, had previously served as commissioner of conservation and recreation. The choice of Sullivan by Gov. Deval Patrick signaled that energy policy would be considered in concert with environmental concerns. The combined office has pushed a range of energy policies with an environmental bent, such as increasing the state's wind and solar power portfolio and creating cash incentives and rebates for reducing electricity use.

Teague, a Massachusetts native, called Sullivan for tips. The two had a 45-minute call, but much of the conversation boiled down to simple advice: "Just make sure everybody's in the room when you're having those discussions," Sullivan told him.

Teague attended an OIPA luncheon on his second day on the job to meet with members of the oil and natural gas industry. A week later, he met with representatives from the Sierra Club. On a host of issues, from greenhouse gas emissions to water quality, Teague says it makes sense to have one person in government reconciling the two interests, and he expects more states to consider hybrid positions in the future. "There's so much overlap," he says. "How can you not have those two in the same conversation? It really is a must."

—J.B. Wogan

By Alan Ehrenhalt

Meter Shock in Cincinnati

Privatizing parking meters was a disaster for Chicago. So why is Cincinnati doing it?

If you want to start a political argument in Cincinnati these days, bring up the subject of parking meters. There's an election for mayor Nov. 5, and while there are plenty of important issues on the table, the one that seems to excite voters the most is the question of who should run the city's parking system—the local government itself or a consortium of private companies led by the Xerox Corp.?

A few months ago, the city council voted narrowly to make a deal with the private companies, and so far that agreement has survived a pair of court challenges. If it continues to pass judicial muster, the city would receive a lump sum payment of roughly $90 million, plus a check for $3 million every year for the next 10 and probably 30 years. In return, the agreement would give Xerox the management rights to 5,000 metered spaces scattered around Cincinnati.

Most legal observers agree there is little to be done at this point to keep the deal from going forward, but that doesn't prevent it from being the fault line dividing the two candidates running for mayor.

One of those candidates is Roxanne Qualls, a fixture in city politics for nearly three decades, and a three-term mayor back in the 1990s when the mayoral office was largely ceremonial. A constitutional change a few years ago turned it into a position of real power, and Qualls, who is now 60 and serves on the city council, wants another shot at city hall. She has a long list of policy objectives that she would like to pursue, including investment in a streetcar system. But the one with the most political volatility is her support for turning over the parking meters to the private consortium. She backed it in council, and helped round up the votes to pass it 5-4.

Qualls has an active and articulate opponent, however, in John Cranley. Cranley, 38, was on the city council for nine years and now runs an inner-city development company. His arguments are simple, but contentious.

In Cranley's view, Xerox and the other companies wouldn't be offering to take the meters out of the city's hands if it wasn't a favorable deal for the private consortium and a questionable one for the city. He insists that rates would increase, hours of meter enforcement would expand and Xerox would be ruthless about issuing tickets in a way that the city never has been.

It's rather clear that rates will go up, and substantially. That is the fundamental element in Cranley's populist campaign. "We're talking about a massive increase in tickets for decades," he said recently. "It's a 100 percent hidden tax increase on the citizens."

Qualls believes that the opponents of the deal are offering spurious arguments, and that they know it. "There has been an intentional campaign of misinformation," she says. (Cranley did not respond to requests for an interview on the issue.)

But even supporters of the deal don't dispute that the cost of a parking space is about to go up in Cincinnati. Laura Brunner, CEO of the Port of Greater Cincinnati Development Authority, which would have some management responsibilities, has said it bluntly: "There is more money to be made by getting people to pay. You can't have zero enforcement, or people would stop putting money in the meters." A common assumption has been that parking in many places in Cincinnati will be twice as expensive by 2016 as it is now.

One reason for the increase is that Cincinnati has been doing a remarkably poor job of handling its parking system. In 2008, the city handed out 104,026 parking tickets. By 2012, through lax enforcement, that number had dropped to 64,857. It was estimated that in 2012, only 39 percent of the city's meters were under regular coverage.

That makes it clear why Xerox and its allies think they would be getting a good deal. They would step up enforcement, bring in substantially more revenue, turn $3 million a year back to the city and still end up making lots of money. That's why

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Xerox is now involved in parking enforcement and technology in 30 cities across the U.S. Estimates are that the bulk of the additional revenue under the new system would come from higher rates. But tougher enforcement would be essential to realizing that money.

Why is Cincinnati so eager to do this? The answer to that is simple. It wants the money up front. The lump sum payment from Xerox and its partners will amount to as much as $92 million on day one, along with the $3 million booster checks coming in every year. Cincinnati has had budget balancing problems dating all the way back to 2001. At the beginning of this year, city manager Milton Dohoney estimated that without the $92 million parking deal the city would face a $35 million budget gap for the coming fiscal year. Some 344 layoffs of government workers would have to take place.

Interestingly, the shortfall seemed to disappear after the city council voted for the parking deal, and Dohoney announced that the Xerox windfall could actually be spent on such appealing capital projects as a new freeway ramp, subsidies for a mixed use high-rise project and bike trails in city parks.

Even with all these debatable numbers being thrown around, it's highly possible Cincinnati would have gotten away with its parking deal unscathed had it not been for a word nobody in city government really wanted to mention. That word is "Chicago."

As my colleague Ryan Holeywell points out clearly in "Public. Private. Practical?" on page 34, it has now been five years since Chicago, under veteran Mayor Richard M. Daley, undertook what came to be the most ridiculed privatization deal in modern American urban government. It sold off ownership and management of 36,000 parking meters for 75 years for a lump sum payment of $1.2 billion. In the words of urban planning professor Donald Shoup of UCLA, the nation's leading expert on parking, "What Chicago did was like burning all your furniture to stay warm on a cold night."

That deal went wrong almost from the beginning. The consortium that bought the parking meters also bought the right to set rates, so that within a short time, Chicago had the highest urban parking charges in America, as much as $8 for two hours in a space in the heart of the Loop on a summer evening. The $1.2 billion lump sum payment helped with the city's budget problems for a couple of years, but by 2012 the money was all but gone, and Chicago was in a budget hole again. A nonpartisan inspector general called in to evaluate the situation concluded that the city could have obtained at least another $1 billion for the rights it sold off, and that it might have done best of all by keeping the meters as a public asset and simply raising the rates on its own.

> "It's highly possible Cincinnati would have gotten away with its parking deal unscathed had it not been for a single word: Chicago.

Chicago's parking contract cannot be dissolved. So Chicagoans are basically stuck with it for the next 70 years. Current Chicago Mayor Rahm Emanuel did work out some tweaks this year with the private consortium, eliminating parking charges on Sundays, for example.

To much of the rest of the country, the experience has delivered a forthright and perhaps overdrawn political lesson: No matter how badly you need money, don't mess with selling off the parking franchise; there is too much that can go wrong, and the potential for a painful backlash is too great.

Pittsburgh, facing a $250 million budget shortfall in 2010, and having been offered $450 million to transfer its parking operation to private hands, opted instead to turn down the money and bank on the $2 billion to $4 billion it hoped it could realize from parking over a period of 50 years. Los Angeles made a similar decision. Early this year, New York City, with the nation's largest inventory—85,000 on-street parking meters—abruptly scrapped plans to explore a privatization deal. All these cities, one might say, are suffering from a version of the Chicago syndrome.

Which may be too bad. Over the past two decades, cities all over the country have brokered deals to privatize a wide variety of local services that they weren't performing particularly well on their own. These run the gamut from garbage collection to parks to housing management. For the most part, they have been a help to the cities involved, not a hindrance.

Advocates of the Cincinnati deal like to point out that they studied the Chicago contract and learned some lessons about what not to do. Unlike Chicago, Cincinnati is technically leasing rather than selling off its parking meters and garages, so it will have some say over the raising of fees; meter rates won't double virtually overnight the way some of them did in Chicago. Still, there's no escaping the fact that over the next couple of years, Cincinnati drivers and city officials will have to brace themselves for a politically perilous case of meter shock. "The mistakes in Chicago engendered a lot of anxiety and fear," Qualls admits.

Whether or not the Cincinnati parking meter experiment turns out well or not, the near-term political consequences, at least, are likely to be substantial. On Sept. 10, Cranley won a surprising 55 percent of the vote in the mayoral primary. If that result is repeated on Nov. 5, it will be a sign that privatizing parking—five years after the Chicago debacle—is still too hot an issue for most cities to mess with. G

Email aehrenhalt@governing.com

By Paul W. Taylor

False Identities

Bad things happen when public officials use the Internet's cloak of anonymity.

The world of online public discourse has had its darker side for some time. One of the more unpleasant aspects is the act of trolling: posting inflammatory messages with the deliberate intent of provoking readers into an emotional response. But when public officials get involved in this juvenile act, it can become really messy.

That's what happened when a small cadre of misbehaving prosecutors posted anonymous comments relating to the allegations of corruption against former New Orleans Mayor Ray Nagin on the *Times-Picayune* website. One post about Nagin read, "You three stooges wrought upon this city one disaster after another."

Ultimately, the source of the comments was discovered and called out in a blistering 129-page ruling by U.S. District Court Judge Kurt Engelhardt that overturned convictions in two unrelated cases. Not surprisingly, defense attorneys were able to use the prosecutor's misconduct to win a reprieve in Nagin's corruption trial.

This act of trolling, described as an "online 21st century carnival atmosphere" in Judge Engelhardt's ruling, did not serve the interests of justice. But it did add to the growing litany of complaints about online commenting in general and raises concerns when public officials get involved in the act.

Some media outlets have shut down commenting completely, including *Popular Science*, which called them bad for science because "a fractious minority wields enough power to skew a reader's perception of a story." Notably, *The Huffington Post*, which has garnered more than 260 million comments in its eight-year history, ended anonymous commenting in an effort to raise the civility of online discourse. Others, including media and government sites, are moving commenting and discussions to their social media accounts, where commenters cannot be anonymous and the discussion can be moderated in an environment separate from where the content appears.

Chris Horner, a Washington attorney and senior fellow with the market-oriented Competitive Enterprise Institute, has been fighting anonymity, obfuscation and deception by public officials for years. He says the trolling prosecutors not only "angered a federal judge in a criminal case, which is never good, they also violated the Federal Records Act" because their online comments were directly related to active cases on which they were working.

Horner says adopting false online identities is still relatively rare, but reflects what he sees as an increasingly widespread willingness to avoid official channels to do official business. It may be an unintended consequence of moving "government over to private email accounts, private computers and even privately owned and managed servers," says Horner, but it "plays into the hands of those whose intent is to avoid detection."

Horner recently sued the federal Environmental Protection Agency for its failure to disclose information about thousands of nonpublic email accounts used by the agency. In his experience with public agencies from school boards on up to federal agencies, he sees deliberate efforts to make all or parts of public records hard to find and, harder still, to hold accountable the people who created them.

Horner says he has no problem with privatization. But in the three states where he has active cases, he sees evidence of attempts at "deliberate deception" by people who should know better. Try as they might, Horner says, "My BlackBerry made me do it" is not a legal defense. G

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By Peter A. Harkness

Shall We Overcome?

After 50 years, a new no-holds-barred states' rights movement has emerged.

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The celebration of the 50th anniversary of the March on Washington in August brought back a swarm of memories. As a student-journalist in Chapel Hill, N.C., in the early 1960s, I was witness to countless sit-ins, mass arrests and other gut-wrenching scenes.

Some of the scariest moments for me came on Saturday nights as robed and masked Ku Klux Klansmen paraded around with their burning crosses, cheering speakers who called blacks, Jews and Catholics unimaginable names. The Klansmen saw reporters as co-conspirators with the demonstrators. Jesse Helms, the soon-to-be U.S. senator, who at that time was a conservative commentator on a TV station in Raleigh, even labeled my colleagues and me at the University of North Carolina student newspaper, *The Daily Tar Heel*, a bunch of Communists.

Ironically, the political leadership in the state in those days was moderate and pragmatic. The governor, Terry Sanford, was best known for his commitment to improving public education and promoting economic development. He probably was one of the more accomplished governors in the country at that time, destined to go on to the presidency of Duke University and then a term in the U.S. Senate.

Sanford was moderate on race relations compared to his fellow Southern governors—a bunch of "states' rights Democrats" that rode the anti-integration fervor into higher office. Gov. Orval E. Faubus of Arkansas started the resistance in 1957, when he defied a federal desegregation order, sparking a school crisis in Little Rock and setting the tone for the South's resistance to integration for years to come. Five years later, Mississippi Gov. Ross Barnett defied a federal court order and stood in the doorway to block James H. Meredith from entering the University of Mississippi. The resulting confrontation was the sharpest clash between a state and the federal government since the Civil War. In subsequent rioting, two people were killed and hundreds injured. And Gov. George C. Wallace did the same thing at the University of Alabama almost a year later, two months before the March on Washington.

But aside from the race issue, these governors—like Terry Sanford—were considered moderately progressive. They worked to improve public education and shore up the social safety net. I couldn't help but think as I recalled covering these events that the rift between federal and state governments seems to have grown wider, encompassing an array of policy issues. Federal boots may not be on the ground—there haven't been riots and no one has been hurt—but the level of resistance by a number of states in the South and Midwest to federal policy on a wide range of issues has not been this pronounced in almost a half century.

The central issue is Obamacare, but there are plenty of other issues to oppose: rules for who is allowed to vote or immigrate, rules for environmental emissions from power plants, rules for common education standards and rules for a wide array of social

issues like guns, gay marriage, abortion, pot and so on. But health care is the centerpiece, and the resistance in some states is as strident as it is in the U.S. Congress.

At last count, 21 states have refused to expand their Medicaid systems to accommodate new enrollees even though the feds are paying all of the costs for the first three years, and 34 have refused to operate their own online insurance exchanges. A number of states have even enacted rules inhibiting so-called "navigators" from helping to enroll people in insurance plans or banning their city and county officials from helping in any way to phase in the new program.

> "The level of resistance to federal policy has not been this pronounced in half a century."

Paul Posner, a federalism scholar at George Mason University, agrees that the current tension between the states and the feds mirrors the 1960s, but this time, he notes, it's "to the states' fiscal detriment. Money is overshadowed by ideology and the need for state leaders to make a statement about their positions." While "passive resistance is not unprecedented," he says, "several states have gone beyond that to become active resisters to the health reform law."

That's the key difference. Fifty years ago, some of the Southern governors were active resisters on the issue of desegregation, but on most others they were more mainstream. Now on a broad array of issues, the states' rights movement is highly organized, heavily funded and uncompromising. In some cases, its tactics verge on sabotage of federal efforts. This isn't so much a policy disagreement about health care as it is a no-holds-barred war for the future direction of domestic policy in the country. G

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By Ryan Holeywell

Obamacare's 'Cadillac' Tax

Public officials must decide who pays the excise tax.

For years, the philosophy on compensation for public-sector workers has been fairly straightforward: The pay isn't always great, but the benefits are. But that's changing, and the political implications could be big for public officials.

Under the terms of the Obama health reform law, so-called "Cadillac" health insurance plans worth more than $10,200 for individuals or $27,500 for families face a 40 percent excise tax starting in 2018. The logic behind the plan is that rapidly exploding health costs are driven partly by overconsumption of health-care services by Americans who have little skin in the game thanks to low co-pays and deductibles. The goal is to tax the most generous Cadillac plans to drive people toward plans that make them contribute more. Taxes collected from those who stay in Cadillac plans could be used to fund other aspects of the law.

But these taxes are proving be a thorn in the sides of public-sector employers and workers, who have long understood that strong health-care benefits are often granted in lieu of less-than-stellar pay. Because the threshold is indexed to inflation—not health-care costs, which historically increase at a much faster rate—the assumption is that more plans will be subject to the tax each year. Already, it's started coming up in multiyear negotiations between governments and workers.

The Cadillac tax will be levied on health insurance companies, which many expect will pass the tax along to governments. That leaves government officials with a big decision: They can cut employees' health plans so they fall below the Cadillac threshold; pass the tax cost on to workers; or eat the tax themselves and make other budget cuts. Each choice has consequences. "Quite honestly, the decision is almost unmakeable for a local official," says Sonny Brasfield, executive director of the Association of County Commissions of Alabama.

The feds estimate that 12 percent of all insured workers will be in plans affected by the excise tax in 2019. It's hard to say how many of that percentage will be public-sector workers, but most assume they'll be impacted at a much higher rate than the average worker. Barbara VanEpps, deputy director of the New York State Conference of Mayors and Municipal Officers, estimates that at least two-thirds of her members' employees could be impacted. She says her organization is trying to educate both sides about the tax so that when it's time to negotiate, it's something employers and employees will understand.

Unlike private-sector CEOs—who might damage their relationship with employees but wouldn't risk losing their own jobs—the stakes are higher for government leaders who cut benefits. Politically powerful unions could cost officials their jobs if they're unhappy with potential health-care cuts. If taxes have to rise or other services are cut to pay the Cadillac fee, then elected officials will likely anger taxpayers. Essentially, state and local politicians are in the unenviable position of being thrown into a fight they didn't even pick.

The unions initially scored a victory by delaying the tax until 2018, and some cynics say they'll use the time to continue fighting for its repeal. But already its impact is starting to be felt. In Orange County, Calif., for example, the Newport-Mesa Unified School District reportedly predicts the tax could cost $2.3 million in its first year. (Three public unions—the American Federation of State, County and Municipal Employees; the American Federation of Teachers; and the International Association of Fire Fighters—didn't comment for this story.)

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By David Levine

The Shrinking Part-Time Workforce

Is health reform the reason municipalities are cutting employee hours?

Middletown Township, N.J., reduced the hours of 25 part-time workers. Bee County, Texas, announced it would allow part-time workers to clock in only 24 hours per week when the new fiscal year starts Oct. 1. Lynchburg, Va., administrators have cut hours for about 40 part-timers. Chesterfield County, Va., near Richmond, expects to cut the hours of "several hundred" part-time employees. Brevard County, Fla., libraries reduced hours for 37 part-time employees. And Chippewa County, Wis., will eliminate 15 part-time positions. So what's prompting this war on part-timers?

It's the Affordable Care Act (ACA), or at least that's what public officials in these cities are claiming. They say that the cost for mandated health insurance coverage on those working 30 hours or more per week is too much. And even though the mandate for such coverage was pushed back a year, until January 2015, they're moving ahead now with cuts. It raises the question then, is this smart fiscal planning or shortsighted political posturing?

So far, this "phenomenon" may be nothing more than a mirage. "I think it is incorrect to assume that a lot of public or private employers are changing around work schedules when it is still 16 months before [that mandate goes] into effect," says Gary Burtless, a senior fellow at the liberal-leaning Brookings Institution. That take is echoed by White House Council of Economic Advisers Chairman Jason Furman, who told *The Washington Post*, "Since the ACA became law, nearly 90 percent of the gain in employment has been in full-time positions."

Still, for those who are trimming part-time hours, Burtless is skeptical about the timing. "I think a lot of people already have this narrative in their minds that the ACA is a disaster and it will cause all kinds of problems," he says. "So every time something fits into that narrative, they use it as justification" for actions like these. Employers may also give an explanation that doesn't match their actual motivations. "That strikes me as being true where people talk about cutting back hours," says Burtless. "Why would that be induced by the ACA? Even if it were, why chop them down to 29 hours and not 20?"

There are also some questions about the financial benefits of this move. Since most employee benefits are fixed-cost, it doesn't matter whether they work 20 or 40 hours a week. Assuming the workload doesn't change, the employer would presumably have to hire more part-timers to get the job done. "If you have to have twice as many workers at 20 hours as you did at 40 hours," Burtless says, "then these fixed costs will increase your employment costs," offsetting much of the savings gained by not insuring them in the first place. "Some things you have to provide, and they cost something no matter what, period. The more employees you have, the larger those costs loom in your wage and compensation bill."

In most municipalities the ACA's 30-hour threshold wouldn't matter anyway. "I'm not sure that [30 hours] is the law in most municipalities. I think it may be 20 hours a week," Burtless says. "If people work 20 hours a week here at Brookings, we still pay their insurance."

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Regardless, contracts with public unions in many cities would prevent such cuts in the first place. "I can easily imagine that in municipal employment there may be negotiated rules that constrain public employers," Burtless says. Besides, the Employee Retirement Income Security Act rules protect against employers providing benefits that have especially high value to highly compensated workers, and not making them available to everyone else. "You can't have a system," he says, "where only certain employees have access to important benefits."

For Middletown's part, its administrator, Anthony Mercantante, told *The Washington Post* that it's the uncertainty that's driving his town to act now. "It's not something we can take on, particularly when we don't know some of the other ramifications of the Affordable Care Act. There are far more questions than answers right now." G

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By Elizabeth Daigneau

A Green Kickstarter

Looking for new funding venues, states and localities are turning to the general public.

Portlanders want a world-class off-road bicycling park. As it happens, there's an ideal, unused 38-acre parcel of partially wooded land on the east side of the Oregon city. Portland doesn't have the cash to develop such a park, but that's not stopping the state. It's testing a new kind of public-private partnership to move the project, known as Gateway Green, forward. If it's successful, it could drastically change how environmental projects are funded by states and localities.

In September, via a governor-appointed body called Oregon Solutions, the state partnered with crowdfunding site Indiegogo—similar to Kickstarter—to raise $100,000 for Gateway Green. The money will turn the master plan into the schematic designs needed to obtain building permits and construction financing. More than money, the campaign is about building momentum for the project. It's an opportunity for backers to show that Gateway Green is worth putting real money behind. As Oregon Solutions Project Manager Jim Jacks told *Bike Portland*, officials need to "build a reservoir of support to get the thing built over time."

Online crowdfunding has been around for a little while. But it's a new approach for governments, especially for environmental projects. Since the recession, revenue has primarily supported essential services; there hasn't been extra for new parks, energy-efficient retrofits or renewable energies. So states and localities have had to get creative.

This past January, the crowdfunding site Mosaic debuted a platform that lets individuals invest in solar power. Billy Parish, Mosaic's co-founder, sees the lack of a variety of alternative funding as the biggest constraint to clean energy growth. "If all we have are big banks, all we're going to get is big energy," Parish said in a TEDx talk in February. "If we want to see community-owned clean energy, we're going to need a new kind of financial system. We're going to need ... a system that looks more like an ecosystem."

Enter California and New York. They worked with Mosaic to launch the platform in their states. Here's how it works: Potential investors read facts about a prospective solar installation and decide whether to invest. If they back a project, their money is funneled to the developer. Mosaic charges investors a 1 percent "platform" fee annually. In turn, investors get part of their principal paid back to them monthly, plus interest.

As exciting as this idea is to many public officials, eco-crowdfunding raises questions. A project's ability to attract Internet investors may not be the best way to determine how worthwhile it is to a city as a whole. And over-relying on crowdfunding could leave some more-necessary environmental projects behind. "At a time ... when it is difficult enough to obtain funds," Sierra Club columnist Bob Schildgen recently wrote in *Sierra* magazine, "there's some danger that green crowdfunding might divert money and attention from worthy and credible efforts." G

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A rendering of the proposed Gateway Green project in Portland

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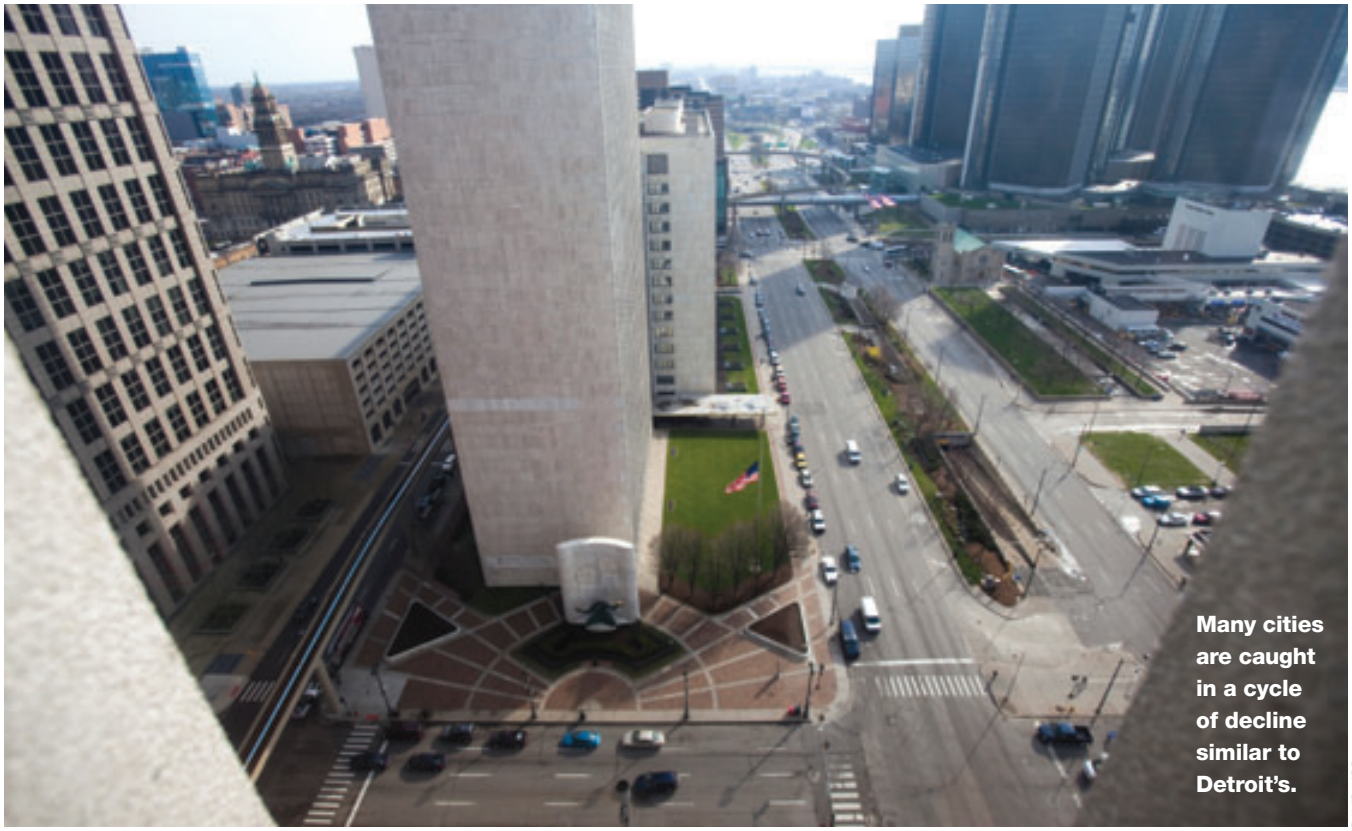

Many cities are caught in a cycle of decline similar to Detroit's.

DAVID KIDD

Stopping the Civic Decline Cycle

Troubled cities need to look honestly at their trajectory and forecast for the future.

Detroit's decline was obvious for decades. So why wasn't tough medicine applied earlier? It's easy to criticize Detroit, but the cold reality is that many cities have been caught in a similar decline cycle for a long time without taking forceful action.

The cycle of municipal decline looks the same in a lot of places. People and businesses leave, which causes tax revenues and quality of place to degrade. That, in turn, leads to tax increases and service cuts, which makes more people and businesses leave. This repeats in an endless cycle as a city slowly dies.

What sends a city into this cycle varies. Sometimes it is an external shock, such as deindustrialization. Other times, it can be simple life cycle effects from civic aging, or just plain bad decisions. But once caught in this cycle, it seems to be very difficult to get out.

Part of the problem is that growth and decline are both positive feedback processes. That is, they feed on themselves. Once people begin to believe there will be decline, they make decisions against investment and growth that perpetuate the cycle. After all, why move to or invest in a place that is perceived to be declining with no end in sight? As people and businesses leave, a city government's fixed costs, such as pension deficits and aging infrastructure, have to be spread across fewer and fewer taxpayers, making unit costs soar, which drives more people away.

How do you stop the cycle? The first step is to agree on what's considered "rock bottom," so public leaders can realistically know when they've stopped the cycle, or at least can credibly predict where it will end. From there you can start rebuilding.

University of California, Berkeley economist Enrico Moretti took a look at various ways people have attempted to do this in his book *The New Geography of Jobs*, and the results weren't encouraging. The only real item he thought was a winner was a so-called "big push" in which several large efforts were made and simultaneously backed up with huge expenditures. His signature example of a big push success was the Tennessee Valley Authority, which was created in the 1930s by the federal government to provide a massive boost of economic development to a Southern region hit particularly hard by the Depression. The big push strategy is what many cities have been attempting in their downtowns. And although it

has had some success, it has been modest, localized and achieved at such great expense that it isn't feasible to replicate outside of the fairly compact downtown area. What's more, given the current fiscal climate, the chance of a big push anywhere is close to nil.

One possible approach that has received far less attention than it deserves is restructuring government to get ahead of the decline cycle. Most cities seem to be in a perpetual state of budget crisis. Each year brings drama, service cuts and possible tax increases to close the gap. However, this seldom puts cities on a sustainable footing over the longer term. Few cities even seem to forecast their revenues and expenses more than a year or so into the future. And the fiscal machinery of government tends to be opaque in any case.

Rather than an endless stream of crisis management, cities should instead take a realistic forward look at their civic trajectory—medium-term revenue forecasting, demographic and economic forecasting, capital asset replacement cycles, and so on—and restructure the services delivered and revenues raised in order to create a sustainable baseline that can be defended over at least the medium term. This would enable cities to provide some degree of predictability to current and prospective residents and businesses about what their tax bills and services received will be. That right there will improve the business climate by reducing uncertainty and the, often correct, belief that most cities just don't have a handle on their problems.

This involves choices and leadership we don't see a lot in politics: a willingness to face financial problems boldly instead of deferring them; transparency; and a public dialogue about the tough choices that are needed to bring fiscal sustainability. That might be unpleasant, but it can't be that much worse than the endless drama over reduced library hours, deciding which firehouses to close, raising taxes and so on every year, with nothing but the prospect of more of the same for the foreseeable future. G

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URBAN NOTEBOOK

By Tod Newcombe

When Does State Intervention Work?

Camden, N.J., is a casebook example on how *not* to intervene.

A few months ago, Pontiac, Mich., came out from under state financial oversight. "I'm pleased," Gov. Rick Snyder declared, "to see Pontiac emerge as a financially stable city and return to local control."

Not all cities are as fortunate as Pontiac. While many cities survive and thrive thanks to state intervention, others struggle and some, like Camden, N.J., get worse. The city of 77,000 has received hundreds of millions of dollars in loans, grants and direct aid from the state over the years. Despite all the help, however, Camden, one of the poorest cities in America, remains in deep trouble, according to a July report on municipal financial challenges from the Pew Charitable Trusts.

Like Detroit and other beleaguered cities in the Midwest and Northeast, Camden fell on hard times during the second half of the 20th century as its industrial base shrank. It didn't help that public officials built a county waste plant and a prison right in the middle of the city, or that three of its mayors have been sent to prison for corruption over the past three decades.

But it turns out that state subsidies haven't helped either. They've actually exacerbated the city's problems, leading to government growth at a time when it should have been contracting along with its declining population and economic base. City spending shot up 20 percent between 2000 and 2008, propelled largely by big jumps in city employee salaries and benefits. Camden's annual city budget is currently $150 million, but its tax revenue is less than $25 million.

New Jersey is considered more proactive than most states when it comes to intervening and assisting local governments. At the other end of the spectrum is California. Three cities there have filed for bankruptcy protection and nine others have declared financial emergencies, yet the state has done nothing to help them.

Overall 19 states have enacted laws allowing state government to intervene in a city or county's financial crisis. The types of intervention vary among states, from quick and aggressive like Rhode Island, North Carolina, Pennsylvania and Michigan, to more measured, case-by-case approaches like Massachusetts, New York and Connecticut.

So what are the key factors to a successful state intervention? According to the Pew report, states should have a plan that returns day-to-day management of the city back to local officials as quickly as practical. This can reduce the tension that often arises when states intervene. Next, states and cities need to be proactive when it comes to detecting and tackling local financial problems. One way to do that is for troubled cities to adopt multiyear financial plans. States also have to weigh the costs and benefits of an intervention during tough economic times. And finally, interventions need to be designed to involve all stakeholders and be transparent when it comes to financial information. G

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FLICKR/BLAKE BOLINGER

Kansas City, Kan., resident Duce Hoegler sleeps in his truck on the spot where his house once stood. It burned down last year.

HARD TIMES

Can tough love help reduce poverty? Kansas aims to find out.

By Alan Greenblatt

Photographs by David Kidd

Barry Feaker can't keep up with demand. He runs the Topeka Rescue Mission, which provides poor people in the Kansas capital with the most basic necessities of life—food, clothing and shelter. He's doubled his shelter space, but the beds have already filled up with women and children needing a place to stay. The number of meals his army of volunteers dishes out has also risen steadily and quickly, from 147,000 meals in 2001 to 196,000 in 2008 and on up to 258,000 last year. Feaker's group sends home lots of meals too. The number of food baskets in 2012 surpassed the total given out during the previous four years combined; it has continued to rise this year.

The Topeka Rescue Mission is one of any number of private and nonprofit groups that are helping to take up some of the slack in a state that has been cutting assistance to the poor, even at a time when poverty rates are increasing. "People are still hungry at the end of the day," Feaker says. "You [can] cut them off assistance; they're still going to want to eat. We all understand this."

Former Army nurse T.J. Brown has struggled to maintain health coverage most of his life. "I really feel for the people who can't stay healthy long enough to get out of poverty," says the Topeka resident.

Feaker refuses to blame state policies for the problems that show up daily at his door, but they aren't helping—at least not yet. Republican Gov. Sam Brownback believes that the decades-old approach of trying to alleviate poverty through direct government assistance is badly in need of retooling. Brownback made the reduction of poverty, particularly among children, one of the centerpieces of his 2010 campaign. Since taking office, he has cut numerous programs intended to help the poor. The state's Temporary Assistance for Needy Families (TANF), or welfare, caseload is down by a third on his watch due to changes in eligibility requirements. Kansas routinely denies about three-quarters of welfare applications, which is more than double the rate in neighboring Missouri.

Most of the changes cut people off unless they find work or engage in some type of training. This is consistent with Brownback's overall philosophy. Rather than giving poor people a "pittance," he says, policies should prod them into finding work. "Our country has spent billions of dollars and decades supporting a welfare system that has shown no improvement getting people out of poverty," Brownback says. "Instead of focusing on spending more money on a system that creates dependency, we need to reform our welfare system to provide the opportunity for people to learn the skills to be self-sufficient, which is what we are doing here in Kansas."

Brownback isn't alone in seeking a new approach. Virtually all states have made cuts to social service programs in recent years, due to the traditional Catch-22 presented by recessions: Revenues dry up just as the need is increasing. But Brownback's motivation is not purely fiscal. Last month, he let a federal waiver lapse that had kept 22,000 Kansans on food stamps, at no cost to the state. Oklahoma and Wisconsin, along with a half-dozen other states, are making equivalent changes.

It's part of a renewal of the argument about how large a role the government should play in helping poor people get on their feet. For conservatives like Brownback, it's all about tough love. Giving people handouts only enables them to remain mired in poverty. "We want to continue encouraging self-sufficiency," says Phyllis Gilmore, secretary of the Kansas Department for Children and Families (DCF). "People who are working feel better, and then they work their way out of poverty, which has a generational effect and is good for the whole society."

Everyone agrees that jobs are the best anti-poverty program, but advocates for the poor say there just aren't enough of them to go around. Those that have been created since the recession often don't pay well enough for people to pay for rent, food and utilities, while still leaving something for transportation and child care. The result is that there are people who are working, but remain poor and may even be homeless. "Because we don't have the traditional safety net buffers, working-class families are finding it more difficult to climb out of poverty after the recession," says Shannon Cotsoradis, president of the advocacy group Kansas Action for Children. "People assume these programs are for the chronically poor, but that system also exists to help people who are struggling through no fault of their own."

The state will always want to help those in sudden and dire need, Gilmore says, but assistance programs were meant to be a bridge, "not a parking lot or garage where people just come and stay." Brownback's idea seems to be that if you make it more difficult to continue living in poverty, people will make more of an effort to lift themselves out of it. The co-chair of his Task Force on Reducing Childhood Poverty, Sherdeill Breathett, is a pastor at the state's largest predominantly African-American church and lived for a time on government assistance as a child. That kind of help did nothing to alleviate the squalor his family was living in. But he was fortunate enough to be taken under the wing of a

Barry Feaker of the Topeka Rescue Mission: "You [can] cut them off assistance; they're still going to want to eat."

Cross-Lines Community Outreach gardener Matt O'Malley pulls zucchini out of the center's garden.

friend's father. With his encouragement, Breathett hit the books and broke his habit of flunking courses, thereby setting his life onto the right path. Being shown how to take responsibility for himself was better than receiving any kind of free ride, he says. "I'm not saying there aren't some people who still fall through the cracks," Breathett says. "Under those types of circumstances, we need to help them, but not to keep them there."

Kansas has never been a particularly generous state when it comes to assisting the poor. It ranks 36th in terms of the average benefit given to food stamp recipients, and it's almost impossible for childless adults to qualify for Medicaid. Even those with children have a hard time qualifying: They can't earn more than a third of the federal poverty level, or $5,900 for a family of four. "We already have a tenuous safety net to begin with," says Anna Lambertson, executive director of the Kansas Health Consumer Coalition. "When it comes to health care and access to coverage, we have a virtually nonexistent safety net."

According to the federal definition of poverty, about 14 percent of the population in Kansas is poor. Those numbers get higher for children, particularly those under 5. Almost half the state's children qualify for free or reduced school lunch programs. Despite the need, Brownback has done everything he can to reduce caseloads. He's closed numerous regional DCF offices, making it harder for people to apply for programs in person. Once they apply, they are no longer assigned individual caseworkers to help them navigate the eligibility process. Instead, their case number is assigned to a color-coded team. (Unlike states that rely on counties to administer social service programs, the state of Kansas does most of the work of providing services itself.)

Gilmore says that much of the work of setting people straight can be done through the kind of "mentoring" that Breathett received. She points with pride to the state's job training programs, which she says can help play this type of role. But advocates for the poor report that it's difficult reaching a live person in the department, let alone having someone take you on as a protégé. "Now, it's almost impossible to get through to anybody at the DCF office," says Jake Howard, a former state caseworker who is currently at a community action agency in Ottawa, Kan. "You call and they say, 'We're going to get you through to the green team,' but inevitably no one will answer and no one will get back to you."

There's less help available, and less help in how to get help. That makes things particularly challenging for people who are new to poverty. One advantage the chronically destitute tend to have is an accumulated knowledge of the resources available to them. Those who are unaccustomed to hard times may not know where to turn when their circumstances slip due to a job loss or medical bills. Kansas, along with other places, is seeing a lot of what might be called post-recession poverty—families that are unable to bounce back to the kind of financial health they enjoyed in the recent past. They are unable to find jobs, or jobs that pay as well or offer as many hours of employment as they may have lost. "For that particular population, just that initial hurdle of them recognizing that they have to reach out—that's something they haven't experienced," says Hannes Zacharias, county manager of Johnson County. "It's been a shocking new reality for many citizens."

Johnson County has traditionally been one of the wealthiest jurisdictions in the state, but it's seeing an increasing number of residents slip into poverty. Among the Kansas City suburbs as a whole, poverty just about doubled—increasing 97 percent—between 2000 and 2011. That's an extreme example of a nationwide trend. Some of the growth in suburban poverty can be attributed to new populations, including immigrants. But most of it has to do with larger economic changes. Now, for the first time, there are more poor people living in suburbs nationwide than in the large cities. "The most suburbanized industries tend to pay low wages or have been hit quite hard by the downturn," says Elizabeth Kneebone, a fellow at the Brookings Institution and co-author of *Confronting Suburban Poverty in America*. "If we look to the jobs being created fastest in the recovery, a lot of those won't lift you above the poverty line, even if you're working full time."

Cross-Lines volunteer Cindy Gonzales hasn't had insurance since 2006: "I see a lot more people who would rather be working."

Cross-Lines' Susila Jones: "The demand is definitely increasing, but unfortunately the resources that we have are not increasing at the rate of the need."

That's one thing Brownback's critics don't like about his approach. Lots of people are working but still struggling, often due to circumstances outside their control. An engineer in Franklin County lost his job when his boss wouldn't give him time off for needed surgery. A man who relocated to Johnson County for a job after his home was damaged by the May tornado in Oklahoma is still not making enough to keep his four children out of homeless shelters. "If a job doesn't pay enough to keep a family out of poverty or to pay the basic bills, then that job is not the road out of poverty," says Tawny Stottlemire, executive director of the Kansas Association of Community Action Programs.

One of Brownback's primary concerns as governor has been encouraging job creation, largely through a policy of large income tax cuts. DCF Secretary Gilmore says that the economy in Kansas is "the best that it's been since 2008" and that she sees help wanted signs all the time. Any job, she says, can lead to better outcomes. "It may not be the job the person necessarily wants, but if they take the jobs that are available, they can be stepping stones. The opportunity is there."

But not all of Brownback's policies have actually encouraged work. Although he has made changes to programs such as welfare—to require more work—he has sought to eliminate the state's earned-income tax credit, which offers help to the working poor. The legislature hasn't gone along with that idea, but it has eliminated a tax credit that helped the poor with child care and another that gave them rebates on sales taxes paid on food. "In 2012 and 2013, while every other income group saw some tax break, our poorest Kansans actually saw a tax hike," says Annie McKay, executive director of the Kansas Center for Economic Growth.

At Cross-Lines Community Outreach, the wait for meals keeps getting longer. The Kansas City, Kan., nonprofit offers counseling, rental assistance and other aid to the poor, but the most pressing need is food. "People who used to come to us twice a year are now coming on a regular basis," says Susila Jones, the group's director of emergency services. "The demand is definitely increasing, but unfortunately the resources that we have are not increasing at the rate of the need."

Cross-Lines grows tomatoes, potatoes and other vegetables on its property in the Armourdale neighborhood, but the group relies heavily on donations of money and food. Churches and other local groups that used to look to provide help over the border in Kansas City, Mo., or even on overseas missions are now finding there's plenty of demand closer to home.

Many of the people who come for meals are working, but some have only found part-time jobs or have to piece together a small income doing things like recycling metal and other scraps. Others are homeless and aren't always able to hold onto identification cards they might need to apply for work. "The jobs that are created, people in poverty are not always able to fill," Jones says.

Mark Holland, the mayor of Kansas City, Kan., says he sees many signs of state neglect in his community. For one thing, the state-owned mental hospital fell into such a state of disrepair that it was shut down by the fire marshal two years ago. Holland says he's lobbied Brownback to accept the Medicaid expansion that is part of the Affordable Care Act. He calls the expansion the single most important thing the state could do to help the poor in Wyandotte County. Brownback's philosophy, the mayor says, doesn't account for the fact that people with mental health issues or chronic physical health problems may not be able to find or keep a job. "The question is, if people aren't able to work, should it be 'tough luck'?"

A third-generation Methodist minister, Holland underscores his disapproval of Brownback's approach by paraphrasing scripture, specifically Matthew 25: "I was hungry, and you cut my food stamps," he says. "I was sick, and you refused to expand Medicaid. People of faith need to remember Matthew 25." **G**

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PUBLIC. PRIVATE. PRACTICAL?

Public-private partnerships have become a popular way to finance transportation projects. But there are big questions to ask before entering into a P3.

By Ryan Holeywell

FLICKR/BILL SELAK

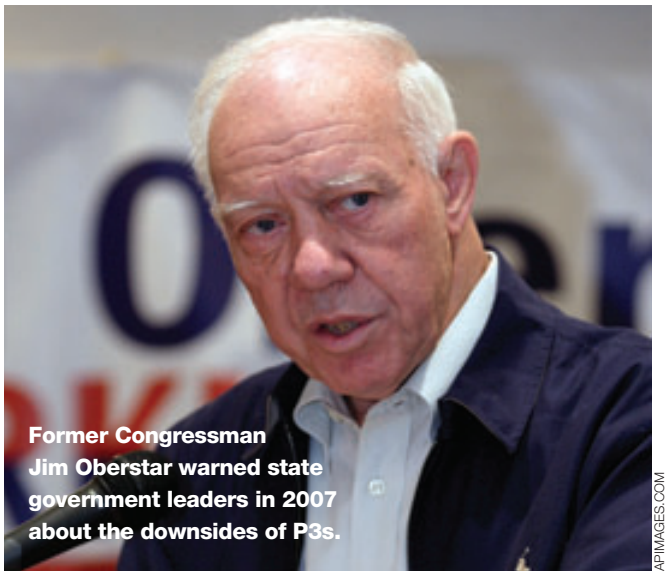
This spring, the Washington newspaper *Politico* published a column touting steps the federal government could take to solve the funding crunch that's led to underinvestment in infrastructure. Invoking imagery of Lincoln's railroads, Eisenhower's highways and Kennedy's space program, the authors concluded that governments must allow the private sector to play a greater role in building public infrastructure, lest America fall behind the competition. To illustrate the concept, the authors highlighted a deal the Puerto Rican government made with a private consortium to operate San Juan's airport for 40 years. "It's time," they wrote, "for government at all levels in the United States to partner with the private sector to bring our transportation infrastructure back to world-class levels."

A similar boost for public-private deals came this summer when a Senate subcommittee held a hearing on "innovative financing." Four of the five featured witnesses were there to press the feds to do more to facilitate public-private deals. Several of the witnesses discussed the daunting price tag for upgrading the country's infrastructure to a decent condition—$3.6 trillion by 2020, according to the American Society of Civil Engineers.

The message was clear: America's infrastructure is struggling, but the private sector can help. "No one wants another bridge to collapse, as did the I-35W Mississippi River Bridge," testified a Morgan Stanley official. That tragedy, which killed 13 people, underscores the need for expanded new, federally subsidized financing tools, he told Congress.

Public-private partnerships (P3s) are clearly on a roll. Last year's congressional highway authorization vastly expanded the scope of federal mechanisms that provide low-interest loans for projects that typically involve privatization. In addition, the number of states that have passed legislation to enable privatization is on the rise. Many people see P3s as a game-changer: the best, and possibly only, way to repair and replace the country's public works. "The only way we will be able to advance our system is with public-private partnerships," said Jeff Austin, a member of the Texas Transportation Commission, at a recent event in Washington.

As part of a deal that included a $615 million upfront payment, Puerto Rico will let private companies run Luis Muñoz Marín International Airport for 40 years.



Former Congressman Jim Oberstar warned state government leaders in 2007 about the downsides of P3s.

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Little, however, is said about the downside. The *Politico* column, for instance, did not point out that the airport deal was opposed by the governor and deemed so one-sided that critics have called it a "giveaway." (It also failed to mention that the authors' employer, Highstar Capital, was a partner in that very deal.)

There's a growing cadre of academics, activists, and state and federal auditors who question these public-private deals, but their voices aren't always heard. At that Senate hearing, for instance, none of those dissenting views was represented on the panel. Nor did the hearing highlight what the governments' own accountants say about P3s—namely that they are unlikely to solve the country's infrastructure funding gap and, in some cases, may carry risks for state and local governments. "Whenever I see advocacy [for P3s], I look for real economic analysis that justifies privatization," Cate Long, a municipal finance blogger for Reuters, recently wrote. "It's never there."

Increasingly, it seems the discussion of P3s isn't about whether it's wise for governments to enter the deals; it's about how governments can best facilitate them. Although former Congressman Jim Oberstar, who chaired the House Transportation Committee

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from 2007 to 2011, argued that P3 deals would trample the public's interest, today criticism from most lawmakers "has almost disappeared," says Robert Puentes, a P3 expert at the Brookings Institution. "It's not even political anymore."

To be sure, plenty of P3 projects are seen as successes. For example, Virginia's High Occupancy Toll lanes, which opened last year just outside Washington, D.C., were financed, designed and built by private firms, which will now operate them and collect tolls from drivers. Working with private partners allowed the state to complete the project far more quickly than it could have on its own, say advocates. Similarly, the $1 billion Port of Miami tunnel project, set to open next year, has been viewed as a largely successful public-private deal.

Still, there's a long list of P3s that turned out to be very bad for governments, cases in which public leaders failed to ask the right questions to ensure they were getting a good deal. These instances, in which governments ended up losing tens or hundreds of millions of dollars, provide a cautionary tale for anyone considering a P3. Given that history, and given the current enthusiasm for public-private partnerships, there's a basic question that states and localities ought to be asking: Are the deals accomplishing all they claim to?

When governments want to build a road, they typically use a process called design-bid-build: Engineers, working for the government or on a contract, design a project, and then construction firms bid for the right to build different pieces of it. Governments sell municipal bonds that allow them to borrow money cheaply to pay for the work. The system—at least theoretically—is intended to ensure that governments get the lowest price for building infrastructure.

With a P3, the design, financing, construction, operations and maintenance of a project can be rolled into one transaction. The deals are therefore incredibly complex. They are most common on major highway projects that cost hundreds of millions of dollars. Bidders are typically consortiums made up of major construction and financial firms.

Advocates for P3s say they make sense for four reasons. First, the contractors are involved in the engineering stage of a project, which means they can design features that will promote savings over a project's lifetime. Second, investors have their own money in the game, so they have a major incentive to come in on budget since every overrun eats into their profits. Third, because the deals include long-term maintenance components, they remove

Governments have sought to avoid "non-compete" clauses in P3s ever since a contract for express lanes on California's State Route 91 prevented work on adjacent lanes.

FLICKR/LUKE JONES

INCREASINGLY, THE DISCUSSION ISN'T WHETHER IT'S TO ENTER P3 DEALS, IT'S ABOUT HOW GOVERNMENTS

the temptation of governments to defer upkeep when times get tough. Fourth—and perhaps most important—governments can transfer risks to the private sector, such as the possibility that construction costs are higher or toll revenue is lower than expected.

The deals gained traction in Europe and Australia before they became prominent here, largely because their citizens are used to higher taxes in general and toll roads specifically. Moreover, the deals are easier to pursue in other parts of the world, where governments have more central authority. And finally, the U.S. is somewhat unique in that it allows municipalities to borrow money extremely cheaply on their own.

But the big firms involved in P3s abroad have been gaining a foothold in the United States. A few projects emerged here in the early 1990s. But the deals really got attention in the mid-2000s, when Indiana and Chicago took upfront payments in exchange for long-term concessions that gave private-sector firms the ability to collect tolls for decades. Today, those types of deals are less in vogue. It's now considered by many to be fiscally imprudent to sacrifice stable, long-term revenue for a one-time payment used to fund short-term needs. Instead P3s are typically used to build new roads or lanes, generally through arrangements where private companies pay for construction and maintenance, and in exchange collect toll revenue.

A slew of factors have made the deals all the buzz among transportation wonks and public officials. Warnings about the deplorable shape of America's roads and bridges have convinced the public of the need to build. But in the wake of the recession, state and local governments continue to struggle financially. Raising taxes is a nonstarter in many places, as is the notion of taking on additional debt through bonds. P3s have been portrayed in some cases as a solution to this dilemma, a source of "new money." "Politicians are at the point where people are crying out for enhancements to infrastructure, but they don't want to hear any proposals

WISE FOR GOVERNMENTS CAN BEST FACILITATE THEM.

for new public revenues," says Phineas Baxandall, a senior budget policy analyst at the nonprofit U.S. PIRG. "So anything that makes it sound like the money's coming out of thin air is a win-win."

The Council for Public-Private Partnerships, which acts as a clearinghouse for P3 advocacy and counts as its members such P3 players as CH2M Hill, Deloitte and United Water, phrases it this way: "By establishing public-private partnerships, government authorities have achieved goals that would otherwise go unmet because of budget limitations." The language taps into a state or local official's greatest concern—that they lack the wherewithal to build infrastructure. "It's perceived as free money," says Puentes of the Brookings Institution. "That perception has to be dealt with," largely because, Puentes and others say, the capital often comes at a cost that can exceed the expense of typical municipal borrowing.

The most attractive aspect of a P3 for many lawmakers is that the borrowed money may not count as debt the same way a municipal bond does. The distinction is hard to grasp since the same citizens ultimately pay for the project, either through tax dollars or tolls. A recent report from New York state Comptroller Thomas DiNapoli says that the deals can be viewed as a form of "backdoor borrowing" that helps lawmakers get around laws requiring voter approval for issuing certain types of debt. They can also act as an end-run around a jurisdiction's debt limit, imposed by statute or simply by the political realities of their state.

"A lot of the time public officials say, 'We don't have any money, let's do a P3,'" says Joshua Schank, head of the Eno Center for Transportation, a think tank. That's a misperception, and one that is fueled by private-sector firms who want to pump up the concept, but also, Schank says, "by public officials who want to escape the reality that if they want better infrastructure, somebody's got to pay for it, and that somebody's got to be taxpayers."

Yet a recent report from the U.S. Department of Transportation's inspector general said unambiguously that P3s are unlikely to reduce the infrastructure funding gap, since they don't increase funding levels. The only way P3s could be seen as generating revenue for state and local governments, the report concluded, is through whatever savings they might achieve through lower construction costs. But even those aren't certain.

"There are people who say P3s create money. That is largely not true, but it's not entirely untrue," says Geoffrey Yarema, a partner at the law firm Nossaman, who has served as an adviser on some of the country's largest public-private partnerships. "They don't produce funding, but they can reduce costs significantly."

But reduced costs aren't a certainty, according to the Congressional Budget Office (CBO). In a 2012 report, the CBO found that P3s have built highways "slightly less expensively and slightly more quickly" than the traditional approach, but the relative scarcity of data and uncertainty of existing studies on the topic "make it difficult to apply [those studies'] conclusions definitively to other such projects."

William Reinhardt, editor of the *Public Works Financing* newsletter, generally believes in the promise of the deals, simply because the public sector has a poor record when it comes to on-time, on-budget construction of major projects. But even he says it's hard to prove which method is best for a given project. "All my life I've been looking for the perfect example to compare one to another," Reinhardt says, "and you can't."

The challenge lies in how governments analyze potential P3 deals. To do so, they estimate the cost of traditional procurement compared to a hypothetical P3 offer. But the analysis can include some factors that are subjective, and it may not consider factors that can't be easily quantified. A recent California Legislative Analyst's Office (LAO) study of two P3 deals—one for the Presidio Parkway in San Francisco and one for a new courthouse in Long Beach—found that state officials were making assumptions that favored privatization. By the LAO's own estimates, traditional procurement would have saved $300 million on the two deals.

Julie Roin, a University of Chicago law professor, also questions whether the "risk transfer" argument carries any weight. Ostensibly, for the private sector to turn a profit, a deal only makes sense if the government overestimates its risk and underestimates the project's revenue potential. "It's not as if any investor is going

to accept risk without demanding compensation," Roin says. "You're just paying for the risk in a different way."

Watchdogs note that in entering into the deals, governments actually may take on all kinds of new risk they didn't face before—like the implications of entering into long-term deals that can constrain lawmakers' policymaking options for decades. In a famous case, the California Department of Transportation used a P3 to build and operate express lanes that opened in the center of California State Route 91 in Orange County in 1995. When the government wanted to expand parts of the roadway to alleviate congestion, it was blocked by a "non-compete" clause in the 35-year contract. Following litigation, the government ultimately bought out the private partner. Just seven years after the express lanes opened, the county's transportation authority paid $207.5 million for the $130 million project. That's a worst-case scenario, of course. Those who study P3s say governments have learned their lesson about non-compete clauses. But "compensation" or "stabilization" clauses—in which governments owe the contractor money for taking actions that could reduce toll revenue—continue.

Chicago got $1.15 billion when it leased its parking meters for 75 years, but whenever it temporarily closes a street the city must compensate the private partner for the lost revenue. When Indiana faced flooding in 2008, tolls were waived to evacuate people quickly, but the state had to pay the Indiana Toll Road's private concessionaire $447,000 for the lost revenue. Carpooling is generally viewed as a good thing—it reduces pollution and congestion—but Virginia could owe millions of dollars to a contractor if too many carpoolers use its tolled high-occupancy express lanes. "These reimbursements make governments the contractor's insurer and guarantor," says Ellen Dannin, a law professor at Penn State University. Moreover, provisions like those may give states a strong monetary incentive to avoid actions that would ordinarily be considered smart public policy. If governments face fines for doing what they think is best, there could be serious implications for the way they govern.

Indeed, governments are not typically known as incredibly nimble actors. But skeptics say these deals have the potential to make them even less able to adapt to changing needs. When governments are locked into long-term deals, it's hard for them to adjust their priorities. "Sixty years from now, we may totally want to redesign cities," says Donald Cohen, executive director of In the Public Interest, an organization that questions privatization and is funded by foundations, unions and individuals who generally oppose privatization. "But we're contractually tied with some entity ... to consider their interests first in many ways."

The CBO notes that P3s "can end up costing the government more than it anticipates" if it has to renegotiate a deal due to disputes over control. The New York comptroller in a 2011 report said that the deals may even cause uncertainty about such basic questions as who's responsible for snow and ice removal or accident repair. "Projects that seem worthwhile initially," the report found, "may turn out to be less beneficial than thought."

But Reinhardt of *Public Works Financing* doesn't buy those claims. "None of these issues are hidden," he says. "The advisers

President Obama, at the Port of Miami earlier this year, called for more private-sector financing of public infrastructure.

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"PEOPLE ARE CRYING OUT FOR ENHANCEMENTS TO INFRASTRUCTURE, BUT THEY DON'T WANT TO HEAR ANY PROPOSALS FOR NEW PUBLIC REVENUES. SO ANYTHING THAT MAKES IT SOUND LIKE THE MONEY'S COMING OUT OF THIN AIR IS A WIN-WIN." —PHINEAS BAXANDALL, A SENIOR POLICY ANALYST FOR BUDGET AND TAX ISSUES AT U.S. PIRG

on the public side are exactly as smart as the advisers on the private side. Believe me: Nobody is getting away with nothing." But others insist that even though governments employ consultants in the negotiations, the lawmakers themselves ultimately have to approve the deal. Legislators face a huge disadvantage since few of them have negotiated those type of deals in the course of their careers. And lawmakers focused on re-election may not be as concerned with the implications of a 50- or 75-year deal, since those implications may only be fully understood long after a lawmaker has left office.

Highway P3s are concentrated in certain regions and are relatively few in number. A 2012 Heritage Foundation paper says eight states accounted for 75 percent of the value of roadway P3s over the last 22 years. Since 2008, the P3 market has represented only about 2 percent of all highway investment. That said, P3s represent some of the biggest and most expensive projects out there. Critics and advocates alike say the trend will continue.

Where does that leave a state or local official? Schank of the Eno Center warns that the public and private sector have widely different goals that often aren't aligned. The problem, he says, is that the private sector comes to the negotiating table with less to lose than the government, and it is also more willing to walk away. That needs to change, critics argue, and a healthy degree of skepticism is needed to ensure the best outcome for the public.

Chicago Mayor Rahm Emanuel's approach to the potential privatization of Midway Airport is a case worth studying. Operating under the cloud of Chicago's widely panned parking meter transaction, Emanuel took an approach that emphasized protections for taxpayers. He insisted on a shorter-term lease of 40 years. He helped develop a "Traveler's Bill of Rights" designed to ensure reasonable parking and food prices at Midway. And he required the private partner to share profits with the city. After initially receiving interest from 16 firms, the city was left with one bidder and opted against privatization, citing lack of competition.

"It's a tool that can be valuable but needs to be used very carefully and with a complete understanding," says Bob Ward, New York's deputy comptroller for budget and policy analysis. He notes that public-private partnerships aren't the only way to do big projects. "We went to the moon without a P3." G

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Think

Three new books say leaders go about making decisions in all the wrong ways. But it's not too late to retrain your brain.

Public officials routinely make decisions of great importance. Sometimes these decisions are fundamentally political; they involve deciding between competing, if not conflicting, values. But more often than not, these decisions are analytic. Public officials have to find solutions to complicated problems. They have to attempt to predict future events and plan for them. They have to make decisions about whom to hire. Most public officials try hard to do these things well. Read the literature on psychology and decision-making, however, and an inescapable conclusion emerges: Most executives make determinations in ways that are all wrong.

Over the course of the past three decades, psychologists have used ingenious experiments to produce striking insights into how people think, form commitments and make decisions. Their work has had a profound influence on academic disciplines, such as economics, and has challenged the assumption that people should be understood as rational calculators of self-interest. Today, these insights are being used to transform another field—the field of public policy.

Every day, each one of us makes thousands of decisions automatically and well. A psychologist would say we make them intuitively. But public-sector leaders—and indeed, people in general—also routinely confront decisions that would benefit from more sophisticated thinking. Unfortunately, we often fail to recognize these circumstances, instead relying on intuition or snap judgments.

A generation of research has established that when it comes to truly complicated decisions, intuition is not our friend—not even if it's been informed by years of practice and

By John Buntin

experience. This insight is rooted in the work of two psychologists in particular, Daniel Kahneman and Amos Tversky. In 1979, Kahneman and Tversky began to conduct a series of experiments that documented the ways in which people making decisions fall prey to predictable biases. In 2002, their work won them the Nobel Prize in economics. In his new book, *Thinking, Fast and Slow,* Kahneman brings these insights to a broader audience. The result is a comprehensive taxonomy of how our intuitions mislead us, and how we might go about making better decisions.

Social psychologist Jonathan Haidt's *The Righteous Mind: Why Good People are Divided by Politics and Religion* extends these insights to the world of politics. In his new book, Haidt argues that politics are largely about moral "tastes" rather than about whose policies are analytically stronger. Understanding intuition, not marshaling facts, is how Haidt believes public officials can better do their jobs.

Duncan Watts' *Everything Is Obvious* shifts the focus from individuals to organizations. He describes the perils of what psychologists call "hindsight bias," argues that institutions may be the best way to avoid this, and includes a catalog of other decision-making errors leaders make. Read together, these books offer public officials a guidebook to how humans think—and how we can think better.

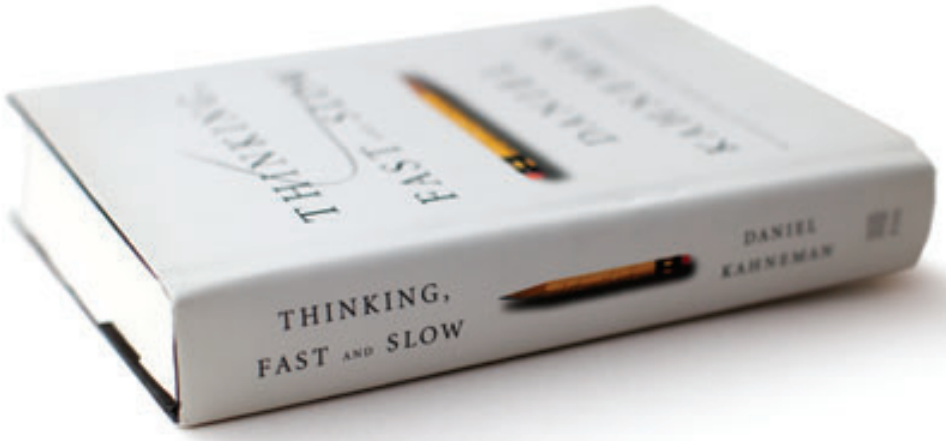
Kahneman's *Thinking, Fast and Slow* starts by introducing us to our minds. Note the plural tense: Kahneman argues that we should actually think of ourselves as having two minds, system 1 and system 2. System 1 is basically our intuition. It operates quickly and automatically. It handles the thousands of decisions we make every day with amazing ease. Almost everything we do is governed by system 1. But there is one thing system 1 is not good at, and that's making difficult, analytic decisions. Those tasks are handled by system 2, the conscious, reasoning part of our mind that appears when we are doing calculations or considering a thorny problem.

We have been trained to believe that system 2 is basically in charge. But two generations of research have shown that reason seldom plays a role in our decision-making. In fact, we go to great lengths to avoid reasoning. People "find cognitive effort at least mildly unpleasant and avoid it as much as possible," notes Kahneman. Using system 2, he says, is tiring: Force people to think, and they might get nasty. "People who are cognitively busy are also more likely to make selfish choices, use sexist language and make superficial judgments in social situations."

Perhaps then it's just as well that most of us are not cognitively busy. Still, that means that the majority of us rely on intuition, or system 1, to make decisions that really should be made by system 2. Even expert intuition informed by years of practice and experience fails here. While it can be used to make certain types of judgments quickly and reliably, expert intuition doesn't work when confronted with more complex scenarios, such as predicting world events. Numerous experiments have shown that while experts have greater confidence about their predictive abilities than nonexperts, they are no more likely to be accurate in their predictions than the uninformed. The average reader of *The New York Times,* for example, is as likely to predict the future of the Middle East as columnist Thomas Friedman.

Much of Kahneman's book is devoted to describing the different kinds of systematic intuitive errors people make. A series of succinct chapters marches readers through such tendencies as the halo effect, the propensity to ascribe impressions about observed attributes to unobserved attributes ("He arrived promptly at our meeting and was well prepared. We should hire him as our new IT person."); the anchoring effect, whereby the first figure mentioned strongly influences subsequent estimates or offers; availability bias, the tendency to worry about the fears that come to mind quickest without regard for actual probabilities; the exposure effect, where sheer repetition increases favorable feelings; and many more such dispositions.

The most powerful bias, however, is confirmation bias. We are tenacious in searching out evidence that validates our prior beliefs and ferocious at critiquing arguments that challenge them. We tend to be overconfident, which can be dangerous for organizations considering new initiatives. Fortunately, Kahneman has clear recommendations on how to correct these tendencies. Say, for instance, that we are putting in place a new IT system. Instead of developing a plan and estimating the likelihood of success based on our assessment of our team's competency and the challenges we must surmount, Kahneman would have us seek out another fact: How often do similar projects come in on budget? We may be 80 percent confident that we can bring a project in on schedule and under budget, but if that happens only 20 percent of the time on similar projects, Kahneman believes that we should



fire up system 2 and accept that our chance of success is significantly lower than our initial assessment.

The way most organizations run meetings is something else Kahneman would change. Who isn't familiar with this scenario: An important decision must be made, and so a working group is formed. Then a meeting is called to make a decision. This is where things go wrong. The first person speaks, and immediately the anchoring effect, confirmation bias, halo effect and other biases begin to kick in. Instead of bringing independent judgments to the meeting, participants begin to cluster around the first opinions expressed. And instead of considering diverse opinions and a wide range of possible outcomes, the group considers only a narrow range of options. Kahneman would have such meetings run in a very different fashion. He would have the meeting organizer ask participants to deliberate in advance and then bring short, written recommendations to the meeting. This leads to a broader range of recommendations less influenced by bias and social pressure. The result is better decision-making.

Kahneman's book is replete with insights and advice. However, the overall picture that emerges of people as decision-makers isn't very hopeful. We jump to conclusions quickly. We ignore evidence that doesn't fit our story. We are slow to seek out confounding evidence. We are suggestible. Kahneman has coined an acronym to describe this: WYSIATI, or What You See Is All There Is. By identifying the circumstances under which we make such errors, Kahneman hopes to give readers the tools to recognize when system 1 may be leading them to bad decisions or judgments. But he knows few will.

Haidt, the author of *The Righteous Mind,* shares Kahneman's belief that we should think of the mind as two systems. But where Kahneman speaks of system 1 and system 2, Haidt likens our mind to an elephant with a rider atop it. The rider corresponds to Kahneman's system 2. The elephant is system 1. Like Kahneman, Haidt believes the role reason most commonly plays is one of justification, not judgment. The job of the rider is "to serve the elephant," not control it. This is a source of concern to Kahneman. However, Haidt has no problem with this arrangement. That's because, to some extent, it reflects his different area of focus. Kahneman is concerned primarily with decision-making and how people err in making complicated choices. Haidt is interested in a different type of judgment: moral judgment.

Haidt makes a provocative claim about morality. He argues that moral judgments—and, by extension, political judgments—are like tastes. Just as some people prefer sweet food and others sour, so too do some people prefer to concern themselves with harm and fairness while others are more concerned with liberty, loyalty, authority and sanctity. Democrats have a taste for the first two values; Republicans have a more pronounced taste for the other values. Political partisans differ in their conception of fairness. For Democrats, the term summons up images of equality. For Republicans, fairness is about proportionality; meaning people should get what they deserve based on what they've done.

The implications of Haidt's argument are disquieting. Forget trying to convince someone to accept your political opinion via argumentation. Would someone who likes sour food really expect to convince someone who prefers sweet food to change her mind in response to some verbal argument? Much of what passes for political discourse is, in Haidt's view, a waste of time. Or rather, it is dialogue that serves a different purpose, which is not convincing the other side that you are right but rather binding partisans more tightly to their political teams by sharing common narratives.

Fortunately, there are more effective ways for politicians to approach the task of persuasion. "If you want to change people's minds, you've got to talk to their elephants," Haidt writes. "The main way that we change our minds on moral issues is by interacting with other people. ... If there is affection, admiration or a desire to please the other person, then the elephant leans toward that person and the rider tries to find the truth in the other person's arguments."

The title of sociologist Watts' book, *Everything Is Obvious*: How Common Sense Fails Us,* comes with an asterisk. That asterisk directs the reader to an upside-down footnote on the bottom of the cover that reads, "Once You Know the Answer." This, in short, is a book about hindsight bias.

Consider one of the business world's most famous case studies, the story of Betamax versus VHS. Sony was the first company to introduce a device, in this case Betamax, that could record and play video. The alternative technology embraced by its rivals,

VHS, was inferior in many ways. However, it was cheaper and supported by more manufacturers. As readers of a certain generation know, VHS won. But as strategy consultant Michael Raynor has pointed out, the most common interpretation of why Sony's Betamax lost is almost certainly wrong. Sony expected people to use their Betamax not to watch movies but rather to tape shows. Sony turned out to be wrong, but it was not as a result of bad planning. Indeed, most readers of this article probably have a digital video recorder attached to their televisions today. Sony's strategy wasn't unsound; Sony was simply unlucky.

The idea that luck and contingency rather than skill and effort play large roles in determining the success or failure of most undertakings is not a congenial one. People make sense of the past not by acknowledging complexity but by telling stories. The simpler the story, the more persuasive it tends to be. This can create a dangerous dynamic. When something goes horribly awry in the public sector, there is inevitably public outcry for someone to be held accountable. But our propensity toward hindsight bias lends false clarity to what was, in truth, unclear at the time, and the desire to tell a simple story takes over. That simple story often causes government agencies to respond by becoming even more bureaucratic. "Because adherence to standard operating procedures is difficult to second-guess, decision-makers who expect to have their decisions scrutinized with hindsight are driven to bureaucratic solutions—and to an extreme reluctance to take risks," writes Kahneman in *Thinking, Fast and Slow.*

Hindsight bias and our tendency to embrace simple stories about causation can also lead organizations to embrace the wrong types of leaders. "Leaders who have been lucky are never punished for having taken too much risk," notes Kahneman. "Instead, they are believed to have flair and foresight to anticipate success, and the sensible people who doubted them are seen in hindsight as mediocre, timid and weak. A few lucky gambles can crown a reckless leader with a halo of prescience and boldness."

Kahneman and Haidt have written fascinating, expansive books that will change the way readers approach decision-making and, in the case of Haidt's book, the arts of politics and persuasion. Watts' more focused book, while also thought provoking, is better suited for the management aficionado. All three authors offer the hope that self-awareness will lead readers to correct their behavior. All three authors also know enough to know this is unlikely to occur very often.

There is, however, one place for which there is hope—bureaucracies themselves. "We should not expect individuals to produce good, open-minded, truth-seeking reasoning, particularly when self-interest or reputational concerns are in play," writes Haidt.

"Organizations are better than individuals when it comes to avoiding errors, because they naturally think more slowly and have the power to impose orderly procedures," agrees Kahneman. "Organizations can institute and enforce the application of useful checklists, as well as more elaborate exercises, such as reference-class forecasting and the premortem," whereby decision-makers are asked to write a description of a policy or initiative's failure before it is implemented in order to identify potential problem areas.

Watts offers numerous suggestions for how organizations can avoid the kinds of decision-making errors that Kahneman catalogs. One of the approaches he champions is known as "strategic flexibility." Instead of developing a single plan for the future, Watts argues that organizations should formulate a portfolio of strategies, with the actual strategy chosen to reflect the individual circumstances the organization faces.

This, of course, is complicated and expensive, and it doesn't always work. Watts suggests that some organizations might fare better with a different approach, "measure and react." It's an approach closely associated with the Spanish clothing retailer Zara, which is known for identifying emerging fashion trends and producing clothes that reflect them quickly, often in a matter of weeks rather than years.

Haidt shares Watts' hopes for organizations. "If you put the individuals together in the right way, such that some individuals can use their reasoning powers to disconfirm the claims of others, and all individuals feel some common bond or shared fate that allows them to interact civilly, you can create a group that ends up producing good reasons as an emergent property of the social system," he writes. "This is why it's so important to have intellectual and ideological diversity within any group or institution whose goal is to find the truth or to produce good public policy."

At a time when the public sector is under unprecedented pressure to perform better with fewer resources, these are insights that no government leader should ignore. G

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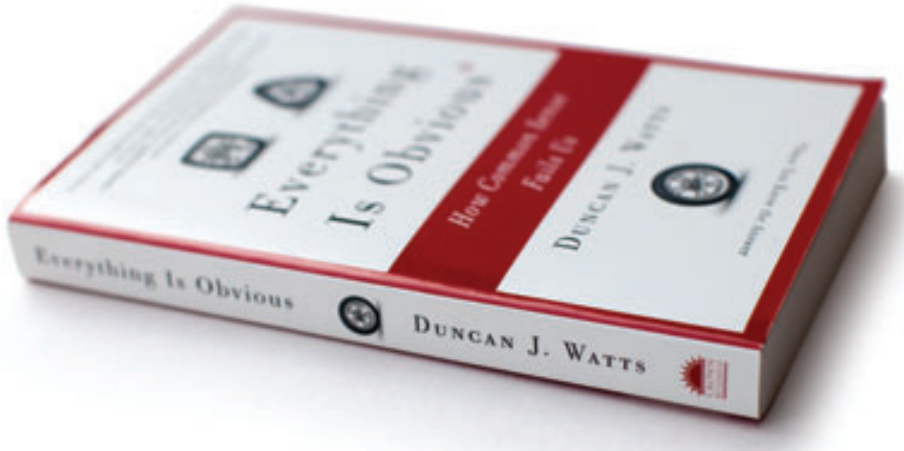

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Elizabeth Daigneau, Managing Editor

COLLEGE OF

Massachusetts is making a big bet on performance-Will that help the state close its job skills gap?

By Liz Farmer

RESULTS

-based funding for its community colleges.

GETTY IMAGES

In Massachusetts, the numbers just aren't adding up right. The state weathered the recession better than most, adding a healthy number of jobs and maintaining one of the lowest unemployment rates in the nation. But it faces a serious job skills gap: At the end of last year, roughly 250,000 people in the state could not find work while 135,000 positions went unfilled. It's a gap that has opened up in many places, but in Massachusetts the reality has had a particular sting. Here is a state that prides itself on its tech industry and top-notch universities, but it still isn't producing enough qualified graduates for the work that needs to be done.

Increasingly, the focus has turned toward Massachusetts' 15 community colleges as a key element in both the problem and the solution. For years, the colleges had been clamoring for a bigger appropriation and a new funding formula, but lawmakers were loath to grant more money without guarantees that it would be spent on addressing the workforce development gap. "The discussion moved more and more to the notion that access [to community colleges] is good and important but it is not enough," says the state's higher education commissioner, Richard Freeland. "We also need to really care about results."

Today, the state is in the first phases of implementing a high-stakes gamble, moving toward results-oriented funding for all its community colleges. It is one of the most aggressive such plans in the nation, and the state's education leaders hope it will generate a flood of homegrown talent filling homegrown jobs. Performance funding isn't new—a dozen other states have some form of it already in place, with others soon to follow—but Massachusetts has leapfrogged its counterparts. Most states that have tried performance funding in public higher education devote less than 10 percent of total expenditures to it. Massachusetts is setting aside half of its community college funds for that purpose. Tennessee is the only other state that goes that far. In addition, Massachusetts increased its community college funding by $20 million after years of cutbacks.

Whether these moves will give Massachusetts' community colleges better results than those in other states won't be known for years. But the Bay State's big step reflects a growing demand across the country for accountability in education funding that many believe will have a lasting impact.

Although performance funding has been a minor element of American higher education for more than 30 years, the form it's taking today is new and more consequential. In the 1980s and '90s, performance funding took the form of granting bonus money when goals were met rather than including it as a part of schools' base budgets. But bonus money dried up when the 2008 recession hit and states began looking at revamping their performance measurement programs to make the consequences more lasting.

Indeed, performance funding is now on the upswing across the country. Besides Massachusetts and Tennessee, 11 states have added performance criteria to their community college base budgets (some also are including universities), while four other states are transitioning to some form of it, according to the National Conference of State Legislatures.

Helping to push the trend is a political climate that has seen increased calls over the years for accountability in government spending, says Richard Kazis, vice president of Jobs for the Future, which promotes workforce development. "There's a sense that we shouldn't just fund institutions for getting people to sit in seats briefly; we should fund them for succeeding and moving people forward. How do you make the most out of each dollar? That's the philosophical underpinning—it's that we need to do better with public resources and to incentivize behaviors we want."

Massachusetts' new funding formula was created over the course of a year through the collaborative effort of college presidents, the state Department of Higher Education and other interested stakeholders. From now on, community college funding will be tied to each school's ability to improve graduation rates, contribute to the state's workforce needs and help more minority students thrive. Within three years, roughly half of each school's allocation after its base operating subsidy will hinge on these benchmarks. The other half will be determined by course credits completed, so that student population is still addressed as part of the total funding package. No campus will lose money the first year, giving administrators time to adjust to the new standards.

The new scheme replaces an antiquated funding system under which community colleges generally received money from the state based on the amount budgeted in prior years. In recent appropriations, increases and decreases in that funding had been imposed across the board without concern for how individual campuses might be growing. The result was that some campuses were being funded to the tune of nearly $6,000 per full-time student, while others received as little as $2,500 per student. Adding to college presidents' frustrations was the fact that the state had consistently cut funding starting with the recession, resulting in a major strain on resources, especially for the larger campuses.

Meanwhile, officials had been tinkering with various performance-funding models. A performance-based formula had been created some years before, although it was complicated and never put in place. But in 2010 the state launched the Vision

"STATES ARE RAPIDLY COPYING EACH OTHER. THERE'S AN ELEMENT OF FASHION INVOLVED," SAYS ONE POLICY EXPERT.

Project, which laid out its plan to become a national leader in public higher education. Over the course of a generation, the balance of enrollments in the state had turned toward public universities—in 1967, just 30 percent of undergraduates were educated at state schools but by 2010 that number had ballooned to 52 percent. But not all those public schools were meeting the new demands.

In 2011, a study commissioned by the Boston Foundation warned that Massachusetts' job skills gap would worsen if community colleges didn't churn out more qualified candidates. The report, which recommended outcomes-based funding, echoed a refrain from the state's business community, which was struggling to fill mid-level job openings that demanded associate degrees or trade certificates (which require less schooling than degrees).

The community college presidents, in their desire for a new funding method from the state, saw that the formula would have to include performance funding. "We very quickly found out that if we were going to get buy-in from those folks, performance was in some way, shape or form going to be wrapped into this," says Bill Messner, president of Holyoke Community College. "It's at that moment that the presidents [said], 'OK, if that's what we have to accept as the price of getting a rational funding formula, we'll accept that.'"

It took more tweaking to get all the presidents on board, but unity was critical from the state's point of view. "The legislative leadership was very interested," says Freeland, "in getting to a place where everyone was in agreement so we were not dealing with a divisive situation."

Some experts warn that performance funding should not be viewed as a panacea for the state's job gap ills. One of them is Kevin Dougherty, an associate professor of higher education at Columbia University's Teachers College. "States are rapidly copying each other," Dougherty says. "There's an element of fashion involved." And with that push, he says, some may be tempted to rush into a new funding system without considering possible side effects.

That was the problem in South Carolina, which still represents the best-known disaster among performance funding experiments. It jumped into performance measurement for higher education in 1996, and it tried to change too much too quickly. The state did not phase in a new formula but instead leapt to 100 percent performance funding for colleges and universities using a complicated system with dozens of metrics. "They built a system they couldn't deliver," says Kazis of Jobs for the Future. The funding formula was never embraced by university faculty and administrators, who were not included in the process of designing it. Administrators who tried to implement the program were overloaded with unfamiliar demands. After seven years, the program was abandoned.

It's a lesson that Massachusetts and Tennessee have both learned from. They are easing into their current programs and collaborating with the higher education community as they do so. Even with that, Dougherty warns that institutions under pressure to produce better results "may well be tempted to start going to easier ways" to produce those results. But in Tennessee, whose 100 percent outcomes-based funding formula uses 10 measurements weighted differently depending on each school's mission, the creators tried to anticipate any unintended consequences by actively searching their formula for holes. "We spent a lot of time on if somebody wanted to beat this, how would you do it?" says Richard Rhoda, executive director of the Tennessee Higher Education Commission (THEC).

And so far, it seems to be working. For example, the formula's designers realized that schools might be tempted to get their performance numbers up by admitting students more selectively. To prevent that unintended consequence, Tennessee awards a 40 percent premium on outcomes achieved by low-income or adult students. Massachusetts also gives extra credit for minority student achievement.

Simplicity in developing a new formula is key, says Russ Deaton, THEC's associate executive director. He cautions against the impulse "to find a more cleverly designed outcomes formula to try and one-up the last state. That temptation can lead all of us to build things that don't resonate with the government, the public or institutions."

It's too early to tell whether this new round of performance funding will pay off. Also up for debate is whose way is best. Massachusetts' investment of a significant portion of college funding in performance is a big endorsement by a high-profile state and it's a program many states will be watching. Others are awaiting Tennessee's study of its program and some early numbers indicate productive results. During the first two years of the new performance funding system, all but one of Tennessee's 13 community colleges increased the number of associate degrees awarded to low-income students. At the state's nine universities, all succeeded in increasing the number of bachelor's degrees awarded to low-income students.

Many states are reluctant to jump in as dramatically as Massachusetts and Tennessee are doing, with some of them placing an informal lid of 25 percent on the amount of community college funding that can be awarded on performance. THEC's Deaton, however, is encouraging other states to "go big" as Tennessee has. "It's worked here," he says. "We have not had the sky fall in on us. If you only leverage a small percent, our own experience has taught us that's a limited approach and you don't generate the leverage you need."

In Massachusetts, performance funding had to win over college presidents and other stakeholders before the 50/50 approach could be agreed upon. Freeland, the state's higher ed commissioner, cautions that Massachusetts' population is generally flat, which made opting for a funding formula focused on results (rather than traditional formulas based on student population) easier to sell. It may not work so well for states where enrollment is still in a growth mode, he reasons. But Freeland contends that it's worthwhile for all states to try bolder moves in the name of accountability. "To simply incentivize growth sends the wrong message to institutions," Freeland says. "It leads to too many students coming in the door and dropping by the wayside. That's not what our institutions ought to be caring about." G

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Instagov

Boston Fire Department
@bostonfire
Oct. 4
A majestic shot of Rescue Company 1.
~Photo Credit: Fine Art America~ #BostonFire
#Rescue1 #RescueCo1#RES1CUE
#Downtown #HeavyRescue #BostonsBravest
#RescueCompany #BostonStrong

After launching in late 2010, the photo-sharing service Instagram now has more than 150 million monthly active users. For many, the app is synonymous with beach selfies and artfully filtered food pics. But governments increasingly are using Instagram to connect with citizens, whether to push out important information, share the whereabouts of political leaders or just to post a pleasant photo. When viewed together, these public-sector Instagram feeds provide a snapshot of government life across the country.

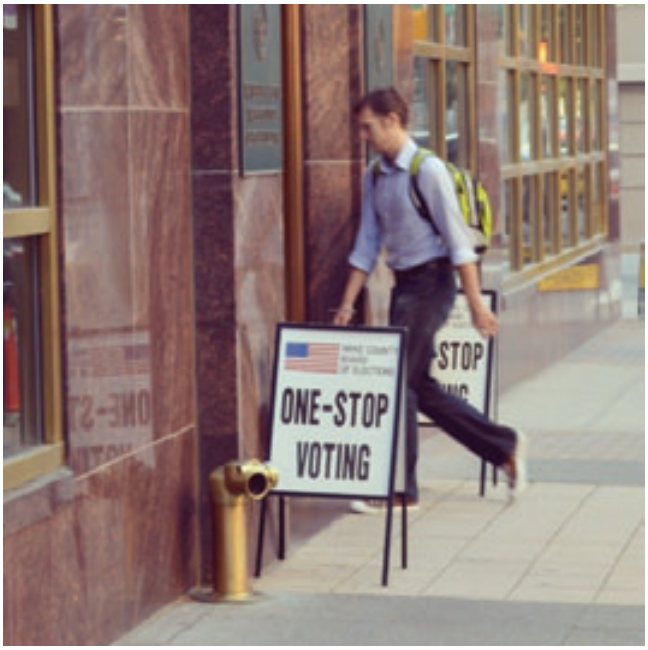
Bucks County, Pa., Tourism Office
@visitbuckspa
Sept. 30
Wow! Look at that stunning #BucksCounty fall foliage. This beautiful photo was captured by @vickiescookies at Lake Nockamixon.

Sugar Land, Texas
@Sugarlandtxgov
Oct. 1
We've got hot dogs! What are you eating at Sugar Land National Night Out? #sugarlandnno #slnnofood

Boston Public Library
@bplboston
Oct. 4
A view into the original Trustees' room in the McKim Building which opened in 1895. #bostonpubliclibrary

New York City Transportation Department
@NYC_DOT
Oct. 8
#MadeinNY Commissioner Oliver joined us to #bikesmart today with a helmet perfectly fitted to her head. Call 311 to get yours for free! #bikenyc

Carroll County, Md., Public Library
@libraryccpl
Sept. 27
Alpacas in the library! This is Ono, a baby alpaca that visited us this morning!



Wake County, N.C.
@wakegov
Oct. 4
Great to see people voting early! No wait right now @wakeelections in downtown Raleigh.

New York Mayor Michael Bloomberg
@nycmayorsoffice
Oct. 1
With Artist-in-Residence @questlove to open our new incubator in Dumbo, designed for the next generation of storytellers and creative artists.

Texas Gov. Rick Perry
@texasgovernor
Oct. 2
A view from the dam at San Angelo State Park.

Little Rock, Ark.
@citylittlerock
Oct. 3
Not a vintage photo, but this angle of #RobinsonCenterMusicHall could be any time from 1940 to present. #tbt

Seattle Mayor Mike McGinn
@mayormcginn
Sept. 30
Kale springs eternal. From this morning.

Chicago Mayor Rahm Emanuel
@chicagosmayor
Oct. 9
At Johnson Elementary this morning, just before the bell rang.

North Carolina Transportation Department
@ncdotcom
Aug. 21
View from the big rig #ftbragg #army #improvingtheeconomy #trucking

Problem Solver

OIL FUELS AMERICA'S NEWEST BOOMTOWN

Back in 2008, Midland, Texas, Mayor Wes Perry knew his town was about to take off. The city of nearly 150,000 in West Texas sits atop the Permian Basin, one of North America's largest oil reserves. For decades, much of the oil remained untouched, contained in hard-to-access rock formations deep beneath the surface. But one day Perry, an oilman himself, says he heard that hydraulic fracturing experiments were proving promising.

Midland has since transformed into the nation's latest regional boom, ranking at or near the top of the list of every major measure of recent economic and population growth. The latest Census estimates reported Midland's population swelled 4.6 percent in a year, topping all other metro areas. Job growth similarly expanded 6.4 percent over the 12-month period ending in July, the second largest gain nationwide, just behind Odessa, its next-door neighbor to the south.

Residents are already reaping the benefits. From 2009 to 2011 (the most recent data), Midland's personal income per capita jumped a staggering 25 percent—more than any other metro area, according to the U.S. Bureau of Economic Analysis.

But not surprisingly, Midland's influx of new companies and workers has come with its own set of growing pains. "Some are experiencing the financial successes," Perry says. "Plenty of other people are really not interested in change and growth."

This growth is evident everywhere. Roadways spanning the region's flat plains are more congested. Longer lines greet customers at restaurants and local businesses. And asking prices for rentals have doubled—the average monthly apartment rent climbed from less than $600 before the boom hit in 2007 to $1,110 in the second quarter of 2013, according to real estate research firm Reis Inc.

Would-be homeowners, too, have been pushed out of the market as home values soared. Finding affordable housing has been particularly difficult for school teachers just starting out, says Ed Zachary, the Midland Independent School District's executive director for human resources. The district created 135 teaching positions this school year to accommodate the higher enrollment that has accompanied the growth.

A local foundation stepped up to help defray housing costs for more than 130 teachers, contributing up to $500 per month in rental costs. Zachary says the district is also exploring the possibility of leasing prefabricated homes to employees at a reduced rate. In addition, Midland Memorial Hospital converted a number of unused rooms in its west campus into short-term affordable housing units for teachers and hospital staff.

Midland, like other oil towns, has also seen the proliferation of so-called "man camps" to house the transplanted oil workers.

Another obstacle local governments face is that rapidly expanding energy companies are poaching their workers. Zachary says some teachers and administrators have left for more lucrative careers in the oil fields. And Perry says the city has found it difficult to compete with private companies for truck drivers and mechanics, so they've offered signing bonuses and additional training as employment incentives.

A similar story is playing out in Odessa, a slightly smaller city about 20 miles down the interstate. There, the utilities department has filled only 14 of 43 budgeted positions as qualified workers pursue fatter paychecks in the energy sector. "We just can't retain and recruit employees to compete with private industry salary," says Andrea Goodson, the city's public information officer.

Midland is taking several steps to help alleviate the growing pains. Part of its strategy hinges on long-term investments in capital projects. The city, for example, is widening roads and trying to better synchronize traffic signals, but more than that, it is completely rebuilding roads instead of merely resurfacing them.

Still, the city faces problems getting some projects off the ground. Perry points out that demand for concrete in Midland has pushed up prices to among the nation's highest, forcing the city to put some construction plans on hold. While Midland is in a good position to borrow money to move these projects forward—the city is enjoying healthy tax revenues for the time being—Perry says he wants to avoid the debt trap. "We know this is a cycle," he says. "If we just went full bore and got everything done, that could come back to bite us when things slow down."

Hoxie Smith, director of Midland College's Petroleum Professional Development Center, estimates that the region holds enough oil to continue production at the current pace for at least 100 years. Production only recently plateaued in the area, he says, primarily because of a limited supply of skilled workers and capital investment required for new drilling operations.

As a longtime resident and president of an oil and gas firm, Perry remembers the oil bust that hit the region in the 1980s quite well. He knows his city's current boom won't last forever, either. "We know it was there one day and can be gone again," he says, "so we better be careful." G

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By Mike Maciag

6.4%
Job growth
Since July 2012, Midland ranks **second in the nation** in year-over-year employment growth.

4.6%
Population growth
New Census estimates indicate Midland's population jumped 4.6 percent in only a year, **more than any other metro area in the U.S.**

Midland Metro Area

1.7%
Job growth

0.7%
Population growth

U.S. Total

Rapid Growth

Midland ranks first or among the highest nationally in every major indicator of recent economic and population growth.

SOURCE: Population change refers to Census Bureau estimates between July 2011 and July 2012. Employment refers to nonfarm job growth from July 2012 to July 2013, as measured by the Bureau of Labor Statistics.

By Katherine Barrett and Richard Greene

Pass It On

Can governments do anything about the loss of know-how when employees retire?

About 80 years ago, Walt Disney realized that the Great Depression could prove to be very good to him. Not only were people eager for funny, short cartoons, but he could hire all the animators he needed for a song. After all, there weren't a lot of jobs out there. And that, in a nutshell, is how the Disney empire began.

A similar phenomenon has been taking place in cities, counties and states over the last few years. Despite all the pressures of the recession, one thing government entities didn't have to worry about was recruitment and retention. Even the long-threatened wave of retirements was more like a gentle ripple. Unable to afford to retire, employees stayed in place, leaving a workplace that was, in the words of Kraig Knowlton, director of personnel services in Kansas, "aging and aging and aging."

But now, as the economy improves, many people who had delayed retirement are heading out the door. At the same time, governments are facing renewed competition from the private sector for good workers. In many fields, the increase in turnover is still more of a threat than a reality, but in high-demand occupations like information technology, the challenges are well under way.

Oakland County, Mich., is one spot that's already feeling the pain. Right now it has a 20 percent vacancy rate for its information technology positions. The county knew it was facing a lot of retirements, but its succession plans have also been thwarted by private-sector raiders who have lured away the very people who were in line to take the positions vacated by retirees.

Phil Bertolini, deputy county executive and chief information officer for Oakland County, says a government like his needs strong succession planning to deal with the turnover issue; it needs to make sure institutional knowledge doesn't vanish when people leave; and it needs to ensure that the next generation of workers has the tools necessary to do their jobs well. "Anyone who turns a blind eye to this," he says, "is setting themselves up for disaster."

The effort to pass capacity down from generation to generation is often called knowledge transfer. "You have all this intellectual capacity that people bring and the years of experiences, nuances, contacts and connections," says Rob Carty, director of career services and next generation initiatives for the International City/County Management Association (ICMA). "If you have a city manager with lots of regional connections and relationships, when they leave the relationships go with them in many cases."

The kind of information that needs capturing goes beyond the sorts of data that can be documented—it's the nuances: how to negotiate with the city council; how to handle the concerned citizen who always shows up at council meetings; who to call to get the keys to the town snowplows.

Some governments are focusing not just on direct transmission of information from the departing employee to a new one, but also on looking for other ways to build up the expertise and knowledge of the people who are coming up in the organization. Ideas include:

- **Internal sabbaticals.** A person is put in a temporary new position to learn the ropes of something completely different from his or her normal job.
- **Talent exchange programs.** Communities switch employees, giving each the opportunity to participate in a "stretch position" for three months in another community to experience how it works. Often this can involve changing job duties and titles as well. A budget analyst, for example, might switch places with a management analyst or community relations specialist. "It's a great tool to foster internal staff development," says Carty. "The person comes back freshened up, with a new set of skills, positioned to advance within the organization."
- **Management fellowship or internship programs.** These can take a variety of forms, including one that ICMA runs to prepare future city managers through a one-year program that gives them diverse on-the-job training.

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- **Phased retirement.** This process enables retirees to wind down their work slowly rather than all at once. Minnesota established this program in 2009 through the Public Employees Retirement Association, which manages benefit plans for local governments. Whether an employee is permitted to take this route is completely up to each individual local government.

Notwithstanding these specific efforts, knowledge transfer is not something that should be done in reaction to someone leaving, but should be embedded through the organization—especially given the shift away from long careers in the public sector. "You should be documenting information anyway," says Oakland County's Bertolini. "Are you documenting procedures? Are you documenting your standards?"

As much as the call for knowledge transfer is significant today, its need is rapidly accelerating. For one thing, the recession dealt a blow to public-sector professional development. Travel was restricted. Training—notably leadership and managerial training—dwindled away.

What's more, public-sector workforce cuts led to axing a lot of so-called "step-up" positions that enabled people to steadily acquire the skills needed for a significant promotion by working for a while in a midway position.

Finally—and this continues to be the case in many places—it's difficult to consider spending on succession planning when there's still uncertainty about the budget and the future, as well as lots of restraints on hiring and promotion. G

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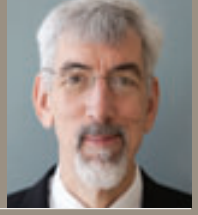

By Mark Funkhouser

The Crucial Fundamentals of Governance

One struggling city illustrates why they're so important.

Government finance professionals, especially those working in the municipal bond market, like to talk about "the fundamentals" when discussing the prospects of individual governments or of the market as a whole. But the term is largely undefined. I like to think the fundamentals encompass three elements: governance, debt and demographics. Bridgeport, Conn., is an interesting case to use to explore these crucial elements.

First, governance: Connecticut's largest city is the only city I've ever heard of where public employees are also members of the city council. Although the city charter prohibits members of the city council from holding any nonelected office or appointment paid out of Bridgeport's treasury, five of its 20 members are city employees; the council president also is the deputy director of the city's Department of Labor Relations. Bipartisan legislation closing a loophole in state law that allows these people to skirt the charter prohibition was defeated in the legislature's last session.

Regardless of what's legal or illegal, however, the weird arrangement in Bridgeport violates the most basic premise of effective governance: the principal-agent relationship. The city council represents the principals, and the city's employees are the agents, hired to carry out the work of the city. It is the job of the city council to control the purse strings and oversee the work of the agents on behalf of the citizens. But in Bridgeport, elected council members who are city employees are essentially voting on a budget submitted by their boss—the mayor—and it's asking a lot to expect them to effectively oversee their own work.

Second, debt: Elected officials and the media tend to pay a lot of attention to budgets, but it's wise to take a look at the audited financial statements as well. The budget is a plan for how the city's revenue will be spent, but the Comprehensive Annual Financial Report (CAFR) tells how those plans have actually worked out. And while it might be a little daunting at first, becoming familiar with the document will provide useful insights into the organization.

Bridgeport's 2012 CAFR shows a city with huge liabilities: $693 million in bond debt, $159 million in current liabilities, $214 million in unfunded pension obligations and a whopping $915 million in unfunded retiree health-care benefits. The city's total liability, $1.98 billion, is equal to $13,529 per resident. That might not sound so bad when compared to Detroit's per-capita debt of roughly $25,000. But Detroit is even unique among local governments going through municipal bankruptcies. Per-capita debt in the bankrupt city of Stockton, Calif., for example, is $3,425, while the figure for bankrupt Jefferson County, Ala., stands at $6,373.

Finally, demographics: Bridgeport's population of 146,425 has been fairly stable for decades, which is a good sign, but its massive debt load is carried by people who themselves are struggling financially. At $18,721, Bridgeport's per-capita income is barely two-thirds of the national figure of $27,334 and even further behind Connecticut's $34,849. Furthermore, the city's unemployment rate is 12.3 percent, compared to the national rate of 7.6 percent in August.

An upgrade of the ratings on Bridgeport's bonds last month was a hopeful sign, but a look at the fundamentals still shows a city in trouble. There are many reasons for its problems, but it's hard not to suspect that its out-of-whack governance structure is making it harder for the city to deal with its troubles and could be making them worse. It may be a good time to take a look at the fundamentals for your own city. G

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By Steve Towns

The IT Benefits of Obamacare

The first day of the health insurance exchanges was rocky, but not a failure.

Online health insurance marketplaces—a cornerstone of President Obama's Affordable Care Act—made their long-awaited debut last month. The opening, as you probably heard, was marred by technical glitches and overloaded servers.

The federal government's own exchange, healthcare.gov, which handles ACA insurance purchasing for 34 states, drew more than 8 million visitors in its first week of operation, according to the White House. The 16 state-run sites also saw a high volume of visitors. A few of them were temporarily shut down on opening day, and most experienced intermittent errors.

While health-care reform opponents pounced on the problems as evidence that the new law is unworkable, ACA supporters noted that people were creating accounts and enrolling in health plans despite the delays. They pointed to higher than expected website traffic as an indicator of the law's popularity.

Regardless of where you stand on Obamacare, however, you have to sympathize with the IT staffs charged with putting the health insurance exchange sites together. Not only are states and the feds rolling out the largest new social program in nearly 50 years under a tight timeline, but much of that deployment period has been fraught with uncertainty: First came a U.S. Supreme Court challenge to the health-care law. Then there was the 2012 presidential election, where Republican challenger Mitt Romney vowed to repeal the ACA if elected. And then came complaints that the feds were slow to create a crucial data hub that all sites would use to check eligibility. These events left states short on the details they needed to design their own exchanges.

Former Oregon CIO Dugan Petty called the Oct. 1 launch a success in light of the circumstances. "The business rules are being developed on the fly and it has been a constantly moving target," he said in an interview with *Government Technology*, *Governing*'s sister publication.

That sort of ambiguity wreaks havoc on any IT project, but especially on one as large and complex as the national rollout of health insurance exchanges. And from the start, state CIOs warned that the three-year deployment timeframe was alarmingly short for developing these sites and linking them to a federal data hub.

Still, as the ACA entered its second week of operation, there were signs that wobbly health insurance sites were finding their legs. Kentucky reported that more than 14,000 people had completed applications on its site, and almost 7,000 had enrolled in health plans. Maryland officials said they had added capacity and made other adjustments to the state's health benefits exchange, where nearly 14,000 people had created accounts during the first week of operation.

Even the federal government's healthcare.gov site appeared to be showing some improvement. Obama administration officials told *The New York Times* they had tracked down faulty software that made it difficult for people to establish user accounts, especially during high-traffic periods.

HEALTHCARE.GOV

Given the circumstances, the launch of the health insurance exchanges probably went as well as one could expect from an IT perspective, particularly for the state-run sites. Yes, the experience may have taxed users' patience, but millions of people visited the sites and thousands of them began the process of purchasing health coverage. The exchanges will get better as IT crews continue to work out the kinks, putting the focus less on opening-day website glitches and more on the ACA's long-term viability. For CIOs, however, the process will undoubtedly offer insights for future big IT deployments. G

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A New Framework

Looking at a city as a system — or a system of systems — can help community leaders reap large, previously unrealized rewards. Water, waste and energy systems — and how they can work together — is the focus of this issue.

How Ideas Drive What We Build

The same old problems need to be handled with fresh solutions. This issue uses the FutureStructure framework to highlight solutions to some of the challenges around transportation systems and the built environment.

By Frank Shafroth

Pension Referees

When a city is bankrupt, judges have a big say in whose bills will be paid.

Two battles over public money promises are intertwined in two cities, two states and two courtrooms. In Detroit and San Bernardino, Calif., past promises to fund public pension plans and other retirement benefits have become inextricably linked to the impossibility of paying those obligations. Each of the cities could pay its promised benefits today, but not all of its other obligations. Indeed, the cities may be able to pay off their promises to any given creditor or any set of obligations, but not all of them. The problem is not the pension obligations, per se, nor any other particular liability. Rather, it's the obligations combined with reduced revenue bases.

It's like the decisions you would have to make if you were short of cash but had to keep your car running. You would have to decide what trips you were going to make and which ones you weren't, lest you find yourself stranded in the middle of nowhere. For insolvent cities like Detroit and San Bernardino, there may be sufficient levels of money in the tank to make current pension payments, but the more difficult proposition is how to keep making them. This is especially the case in Detroit where, because of sharp reductions in the city workforce, employee contributions to pension funds are down. Beside owing retirees, the city also has promised payments to investors in its pension bonds or investors who bought its pension obligation bonds.

In a municipal bankruptcy, a federal judge makes the decision whether a plan submitted by the municipality and its creditors about whom to pay and how much is acceptable or not. The judge in effect acts as an official referee in a process to work out a plan to address a city or county's promises. What city official would want to be Solomon and weigh what service or promise is more essential than another? Cutting the baby in half is not a solution.

For municipalities, breaking fiscal promises through bankruptcy is not like doing so in a corporate bankruptcy. There, the factory or office doors can be closed and locked and the keys turned over to the court. The court then determines how to sell the assets and distribute the proceeds among all the creditors. In addition, there is the federal Pension Benefit Guaranty Corp. created by Congress to protect private-sector retiree benefits.

No such promises have been made by Congress for state and local benefits. Rather, the municipal bankruptcy process involves heart-wrenching decisions about ensuring essential municipal services and meeting promises made to employees. In both California and Michigan, pensions have been deemed by the state to be "guaranteed"—about as close to essential as voters and lawmakers can make a promise.

Yet for any insolvency to be addressed, the judicial referees try to balance the essential against the optimal. That means a determination that pension and post-retirement benefits should be linked to paying everything sustainable and affordable that can be paid *after* funding the recovery plan and essential services. They must also ensure that there is a dedicated source of payments for promised pensions for the future.

If California's and Michigan's protection of pension promises were to be honored in the unfolding judicial processes, the two cities would have no option but to sharply reduce their current workforces. Ironically, such reductions would erode the amount of money going into funds that ultimately support retiree pensions and post-retirement benefits. The reductions would also undermine the options for creating or developing a recovery plan that could stimulate the economy to create new jobs. What kind of a future would that leave for either city, its elected officials, its retirees or its employees?

All eyes are on San Bernardino and Detroit as places where some city promises could come to an end. Yet, in the processes ahead, how these promises are rejiggered will be critical to the respective governments' futures. Maybe the federal bankruptcy process will offer a way to hardwire affordable payments of pensions and benefits with a dedicated source of payment, and to create a safety net to ensure guaranteed benefits to retirees. Unlike a bankrupt corporation that can close its doors, the bankrupt city remains open, its services operating and its programs responsible to all its citizens. G

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Last Look

SUE STOKES/SHUTTERSTOCK

For eight years, Prada Marfa, an iconic art installation alongside a dusty highway off U.S. Route 90 near Marfa, Texas, has drawn thousands of art lovers and travelers alike. But the famous structure's days may be numbered. In September, the "pop architectural" stucco and adobe building was deemed a form of unlicensed advertising, akin to a billboard, by the Texas Department of Transportation (TxDOT). The ruling came after the agency made a similar determination for a nearby installation commissioned by *Playboy* magazine. That installation, which was ordered down, featured a black muscle car and a 40-foot-tall post topped with a neon-lit Playboy bunny. But unlike Playboy Marfa, the Prada building "was not a work commissioned by the fashion brand," wrote the artists, Michael Elmgreen and Ingar Dragset, on their blog. "The right definition of advertisement must be based on criteria more accurate than just including a sign which contains a logo." TxDOT gave no timeline for a final ruling. **—Elizabeth Daigneau**

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