



15th Annual Better Government Competition

Compendium of Winning Entries for 2006

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2006 Better Government Competition

2006 BETTER GOVERNMENT COMPETITION AWARD WINNER

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Chris A. Beecroft, Jr., Eighth Judicial District Court, Clark County, Nevada

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The Better Government Competition is a signature event for the Pioneer Institute and a vital catalyst for change in Massachusetts. Over the last 15 years, the competition has presented ideas that have saved the Commonwealth upwards of \$300 million. BGC recommendations have been implemented at every level of government services. The competitive contracting of highway maintenance; water treatment enhancements at Deer Island; new models for human service care; court reform; the preservation of affordable housing and other zoning reforms; the establishment of energy-efficient building guidelines; improvements to the child support system and other important innovations have been guided by the efforts of BGC participants.

While these efforts have made a difference for the people of Massachusetts, we face some disturbing trends. The Commonwealth has lost population, jobs and key businesses. Other states – and other nations – have made inroads into our traditional strongholds of education, finance, and technology. These troubling losses remind us that, in spite of our past successes, we must fight to stay competitive.

For 2006, our 15th Better Government Competition sought entries that would improve our competitiveness by streamlining government. This is a return to the theme of the first BGC, in 1991. In going back to our roots, we are not nostalgic. We are cognizant of Pioneer's many successes, and of the progress made on many fronts within the state. Throughout the 1990's, Massachusetts made real progress by implementing significant government reforms, ensuring a vibrant economy. The past few years, however, have been characterized by unsustainable budget growth, and by the unwillingness of our political leadership to address our high cost of living and doing business. This year's winners confront the underlying cost drivers of government services, and strive to improve quality as they control spending.

The 2006 Better Government Competition Award Winner is the **Short Trial Program**, submitted by Chris A. Beecroft, Jr. This comprehensive reform alleviates trial gridlock while providing fair and complete justice. The Program removes civil cases with a probable jury verdict value of \$50,000 or less from the regular trial docket, but guarantees litigants a trial date no more than 240 days from entering the program. It also applies measures to shorten the length and reduce the costs of the trial. The Short Trial Program is a fitting follow-up to the 1998 BGC winner, which also suggested trial reforms that would speed the delivery of justice.

The 2006 Runners-Up are all strong, timely proposals. **The State Comptrollers Benchmarking Initiative**, submitted by Patricia O'Connor, provides a performance measurement system with a meth-

odology and database to support finance, HR/payroll, procurement and IT benchmarking. Each state can then compare and improve its overall administrative efficiency.

The second Runner-Up, submitted by David B. Perini, promotes **Energy Efficiency in State-Owned Buildings** in Massachusetts. The Division of Capital Asset Management implemented “demand response,” a market-driven model that rewards facility managers for saving energy. This system encourages conservation, and also helps conserve tax dollars.

Statewide Health Insurance Coverage for Teachers, submitted by Alison L. Fraser, is the third Runner-Up. They propose a standard agreement on group coverage for all public school teachers across the state. By reducing discrepancies in benefit levels and costs, municipalities could save hundreds of millions of dollars on health care.

The fourth runner-up, State Senator Susan C. Tucker, proposes **Incentives to Reduce Fraudulent Auto Insurance Claims**. Drivers without incident in the past five years would be credited the savings from high-claim cities that reduce personal injury claims by 25 percent. The program has been implemented in Lawrence to resounding success.

In addition, the four **Special Recognition Awardees** have advanced some exciting ideas: promoting government agency effectiveness and cost-efficiency; de-institutionalization of senior citizens; a balanced approach to local environmental regulations; and a plan to ensure transparency, efficiency and quality care in the Massachusetts health-care system.

Shawni Littlehale is the director of the Better Government Competition. She deserves our thanks for the enormous amount of energy she has brought to the Competition this year and for the past nine years. Our goals for this year—to focus on government streamlining and to encourage more participation by private individuals and companies—are a reality because of Shawni’s unflagging efforts. As always, the long hours were characterized by Shawni’s usual humor and grace. Along with the winners, she is responsible for the high quality and responsible tone of this year’s event.

I would also like to thank Guillaume Buell and Michael Kane for their work on this year’s Competition.

The Competition profited from the involvement of a wonderful set of judges, who brought input from the Pioneer board, the public sector, private industry, the media and academia. Our deepest thanks to Jonathan Lee, President, Lee Capital Investments, LLC; Beth Lindstrom, former Director, Massachusetts Office of Consumer Affairs; Richard Lord, President, Associated Industries of Massachusetts; Cosmo Macero, Jr., Vice President, O’Neill and Associates (formerly of the Boston Herald); and Robert Stavins, Professor, Kennedy School of Government, Harvard University. This group of distinguished individuals did not come to Pioneer for the sandwiches, nor for the “plush cloakroom.” The evaluation process was a lot of work, but they executed it with patience, openness to new ideas, and invaluable insight. Thanks to our judges for their efforts.

We would like to extend our sincerest thanks to the many media outlets that have helped ensure broad-based participation in the Competition. Finally, we would also like to thank the universities across the country that have helped distribute the Competition guidelines, attracting many valuable entries from academia.

Our sincerest thanks to all of you.

—**Jim Stergios**

Executive Director

Implementing a Short Trial Program in the Commonwealth

**Chris A. Beecroft, Jr., ADR Commissioner,
Eighth Judicial District Court, Clark County, NV**

INTRODUCTION

The Massachusetts court system suffers from some of the same problems as that of Nevada, for example, its inability to dispense quality justice to civil litigants by getting cases to trial expeditiously and economically. In an effort to reduce its trial congestion, the State of Nevada has created a pioneering program, the Short Trial Program (STP), which was first implemented in the Eighth Judicial District Court in Clark County, Nevada (a general jurisdiction court in the nation's fastest growing county).

The STP removes civil cases with a probable jury verdict value of \$50,000 or less from the regular trial docket, but guarantees litigants a trial date no more than 240 days from entering the program. It also applies measures to shorten the length and reduce the costs of the trial. While its new expenses have been minimal, by reducing the average trial length from 2.5 days to seven hours and economizing on staff, it has, over three years, saved the district \$800,000 while hastening the delivery of justice.

The STP has been widely applauded by many of those who have come into contact with it, including judges, attorneys, and jurors. Other court districts in Nevada have been impressed enough by its success in alleviating gridlock and speeding the process of justice to adopt it themselves. Massachusetts can learn much from this pioneering program about how to break the gridlock and hasten decisions.

THE PROBLEM

The Eighth Judicial District Court in Clark County, Nevada has found itself buried under a deluge of cases for a number of reasons:

- It is a court of general jurisdiction;
- It serves the nation's fastest growing county, having more than

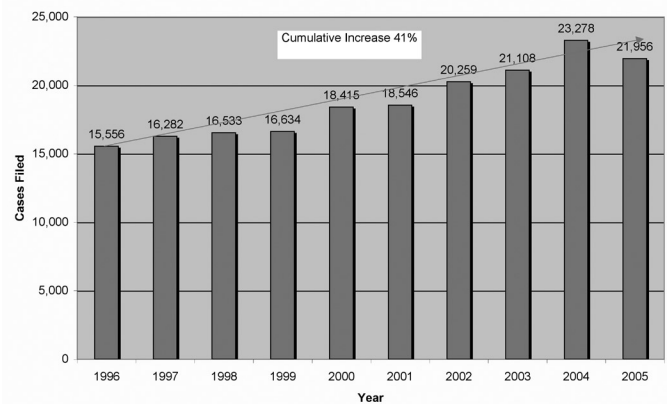
1.8 million residents and adding almost 4,500 new ones every month;

- Roughly 68 percent of the state's citizens live in Clark County;
- Almost two-thirds of Nevada's criminal cases and nearly three-quarters of the state's civil matters are heard in the District Court.

Growth in the number of civil cases filed in the District Court has only had to match the county's population growth to push it into gridlock. The number of civil cases filed has increased 41 percent from 1996 to 2005, from 15,556 to 21,956 (see Figure 1).

In 1992, the Nevada Legislature introduced the Court Annexed Arbitration Program to loosen up the congestion and provide a speedy and economical resolution to cases of lesser monetary value. However, civil case filings in the district continued to increase and cases were taking more than three years to get to trial. Despite the addition of more judges and courtrooms, and the introduction of mandatory arbitration, many cases of lesser monetary value still found their way to the regular district court track. Because such cases typically required two to three days of trial time (at the cost of thousands of dollars to the taxpayer), the backlog of cases awaiting trial was increasing exponentially. The state may have been providing litigants fair and complete justice, but neither expeditiously nor economically.

Figure 1: Civil Cases Filed 1996-2005



THE PROPOSED SOLUTION

The Nevada Legislature created the Short Trial Program in order to alleviate gridlock while providing a fair, economic, and expeditious trial. First, the measure strikes civil cases with a probable jury verdict value of \$50,000 or less from the regular trial docket.¹ Second, it guarantees litigants a trial date no more than 240 days from entering the program. Third, it practices measures that keep the length and costs of the trial at a minimum.

Once the legislature enacted enabling legislation and the state Supreme Court promulgated short trial rules, the Alternative Dispute Resolution (ADR) department worked with the court judges, court administration, and jury services to complete the implementation in 18 months. This time was used to develop program policies and procedures, test a pilot program of three short trials, train pro tempore judges,

¹ Virtually any civil case can be placed in the STP.

and generate support for the program in the local legal community. The Eighth Judicial District Court conducted its first short trial in June 2002.

The ADR office continues to administer the program, providing a staff member to coordinate trial dates with court administration and jury services, and supplying training and assistance to pro tempore judges. Pro tempore judges for the STP need not be district court judges, but must be an active member of the State Bar of Nevada, have the equivalent of ten years of civil trial experience (or be a retired jurist), and fulfill a minimum number of continuing legal education credits per year. They are selected for a particular trial from an approved panel by the parties' attorneys or by random selection.

Cases enter the program in one of two ways: 1) agreement (stipulation) of all the parties who have appeared in the action; or 2) automatic inclusion when voluntary mediation or mandatory arbitration has failed. The ADR schedules trials to take place and be completed no later than 240 days after they enter the program—the trial dates are firm and the program has a zero-tolerance continuance policy (continuances are only granted in situations involving “extraordinary circumstances”). Juries are smaller, usually composed of four members, occasionally six or eight.

Each side is allowed 15 minutes *voir dire* and three hours to present their respective cases, including opening and closing statements, presentation of evidence, examination and cross-examination of witnesses, and any other information to be presented, including rebuttal. Parties create a joint evidentiary booklet that contains photographs, facts, diagrams, and other evidence. Successful practitioners in the STP are also including in the evidentiary booklets reports containing medical opinions, testimony from independent medical examinations or medical records reviews, and information concerning accident reconstruction and biomechanical engineering. By limiting recoverable costs to \$500 per expert, parties are encouraged to use expert witness reports in lieu of live testimony. Because jurors are given the evidentiary booklet at the beginning of the trial, they are familiar with its contents before they enter the jury deliberation room. Partly because of this, cases conclude in one day or less and the average jury deliberation has lasted approximately 40 minutes.

A personal-injury motor-vehicle accident with modest damages illustrates the typical sequence of events. The venire of jurors is seated between 8:15 and 8:30 a.m. After introductions and general *voir dire* by the presiding judge, attorneys can exercise their fifteen minutes of *voir dire*. After challenges for cause are exercised, attorneys for each side are permitted to exercise their two peremptory challenges according to the Arizona method of juror selection. When the challenges are completed,

the presiding judge will state the names of the first four remaining jurors as the jury for the case. The jury list is prepared by the presiding judge and provided to the ADR Office, which faxes the list to Jury Services to ensure payment of the jurors' fees before the jurors leave for the day. Evidentiary booklets are distributed to the jurors. Attorneys then make opening statements, making frequent reference to the documentation contained in the evidentiary booklet. After a morning break, the plaintiff begins his or her case in chief. Generally speaking, the plaintiff is called to the stand to testify, followed by the defendant. Use of expert witness' reports is utilized in lieu of live expert testimony. After an hour recess for lunch, the defendant begins his or her case in chief, followed by any rebuttal evidence from the plaintiff. Jury instructions are read by the presiding judge, followed by closing arguments and plaintiff's rebuttal argument. The jury receives the case usually between 3:30 and 4:00 p.m. and will return with a verdict between 4:00 and 4:30 p.m. The parties may ask that the jurors be polled to ensure that the verdict is correct whereupon the jurors are then excused to return to Jury Services. The trial has been completed in one day or less.

COSTS AND BENEFITS

The financial costs to implement and maintain the STP are small. The only capital costs incurred at implementation included two sets of STP time clocks costing \$1060.00 and four judicial robes for pro tempore judges costing \$600.40. Since the parties pay all of the costs associated with the trial, including the fees for the jurors and judges, and the short trials require neither a bailiff nor a court clerk, the program costs Clark County taxpayers virtually nothing.

The program uses otherwise empty courtrooms to keep costs down. In the Eighth Judicial District Court, short trials are conducted on Thursdays and Fridays only, when courtrooms are supposed to be available. However, as the program has been catching on and more short trials are being scheduled, courtroom availability may become an issue. Dedicating small courtrooms to the program would be the ideal solution.

The benefits, financial and non-financial, however, have been enormous. From June 2002 to December 2005, 363 cases entered the STP. Of those, 307 were resolved, 179 by being settled or dismissed, 128 having been tried before juries. Every trial was concluded in one day or less, with an average length of seven hours. Since the average length of similar trials in the regular track is 2.5 days, and the cost per day for salaries for judges and staff and institutional expenses is about \$2,500, the typical trial costs \$6,250. Since STP trials cost virtually nothing and conclude in no more than a day, the program has saved judges 320

judicial days and the taxpayers \$800,000 (see Figures 2 through 4).

The STP has dramatically reduced time to trial for cases entering the STP when compared with those entering the regular district court track (see Figure 5.) For cases that bypass mandatory arbitration altogether, the STP virtually guarantees a trial in no greater than 240 days after it enters the program.

The program has performed so well at the district court level that the Nevada Supreme Court has amended the Justices Court Rules of Civil Procedure to require that the short trial format be used in Justices Courts for all civil matters filed on or after July 1, 2005 in which a jury has been requested. The Second Judicial District Court in Washoe County (encompassing Reno, Nevada and environs) has also adopted and implemented the STP.

RELEVANCE TO MASSACHUSETTS

Like the Eighth Judicial District Court, many of the court districts in the Commonwealth have massive case backlogs.

In 2003, The Visiting Committee on Management in the Courts, chaired by former Boston College President J. Donald Monan, S.J., delivered a report to the Massachusetts Supreme Judicial Council regarding the structure and operation of the Massachusetts court system and made recommendations for its improvement. The Committee concluded that while the courts of Massachusetts are “getting to the right answer,”² the process takes too long and is too expensive:

Our courts are drowning in managerial confusion. The impact of high-quality decisions is undermined by high cost and slow action. The administration and management of the Judiciary is uneven at best, and dysfunctional at

² *The Visiting Committee on Management in the Courts, Report to Chief Justice Margaret Marshall, March 2003, 7.*

Figure 2: Length of Time

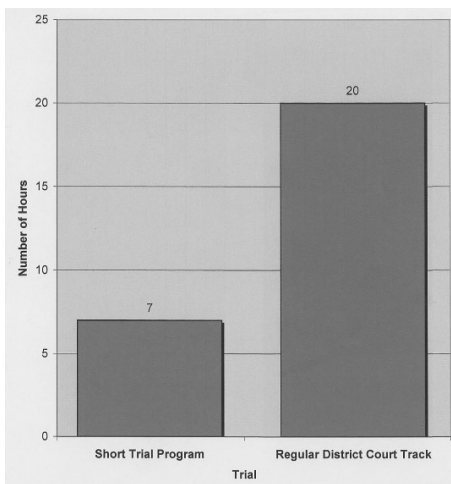
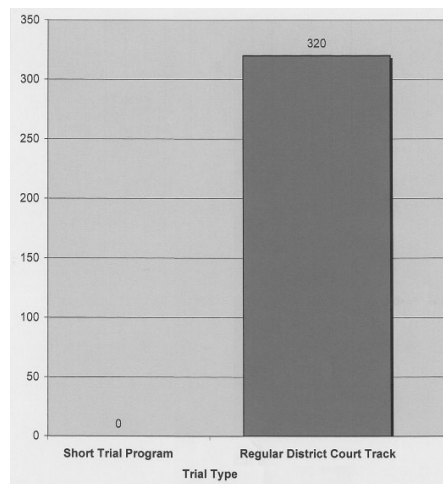


Figure 3: Judicial Days



worst....The public wants reasonably priced, quick, and courteous justice, but often receives the opposite.... Cases can languish for years and both taxpayers and litigants pay too much for justice. The people of the Commonwealth deserve a system

that delivers a sound answer in a timely fashion at a reasonable cost.³

For example, the Committee found that from 1994 to 2002, caseloads across the system remained flat while costs increased 79 percent and court personnel increased 25 percent. According to the Committee, “In spite of these additional resources, no noticeable progress has been made in delivering justice in a faster or more consistent manner.”⁴

The Committee concluded that the Massachusetts courts “must be transformed if they are to deliver the justice that the people of the Commonwealth deserve,” and that success would result in a court system “that performs to high standards of civility, timeliness, cost-efficiency, and decision-making, and a Commonwealth where citizens can rest assured they will receive the same quality justice from the islands to the Berkshires.”⁵

The Monan Committee was aided by the existence of many reports on the state of the Commonwealth’s courts, not the least of which was that by the Honorable Daniel B. Winslow.⁶ This study found, *inter alia*, that civil cases in Massachusetts, on average, take longer than two years to resolve. In fact, one out of eight civil cases takes longer than four years, and approximately 17 percent of cases pending in Superior Court are three to five years old or older: “Despite a decrease in caseload growth in recent years, from 1994 to 1996 Massachusetts’ courts consistently ranked among the worst in the nation for their ability to dispose of civil cases.”⁷

The problem is further confirmed by Barbara J. Rouse, Chief Justice of the Superior Court of the Trial Court of Massachusetts:

Available information indicates that of the approximately 37,000 active pending civil cases statewide, about 10

³ *The Visiting Committee on Management in the Courts*, 4.

⁴ *The Visiting Committee on Management in the Courts*, 8.

⁵ *The Visiting Committee on Management in the Courts*, 11.

⁶ *JUSTICE DELAYED: Improving the Administration of Civil Justice in the Massachusetts District and Superior Courts*, Pioneer Institute for Public Policy Research, 1998.

⁷ *JUSTICE DELAYED*, 7.

Figure 4: Cost to Taxpayers

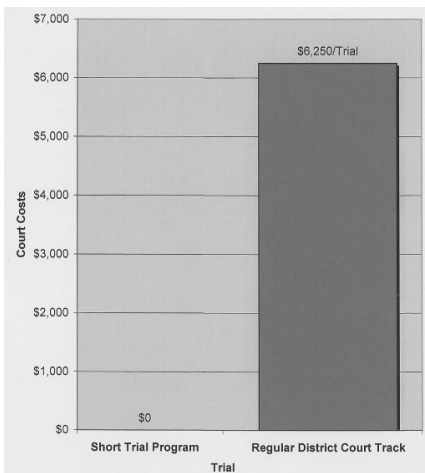
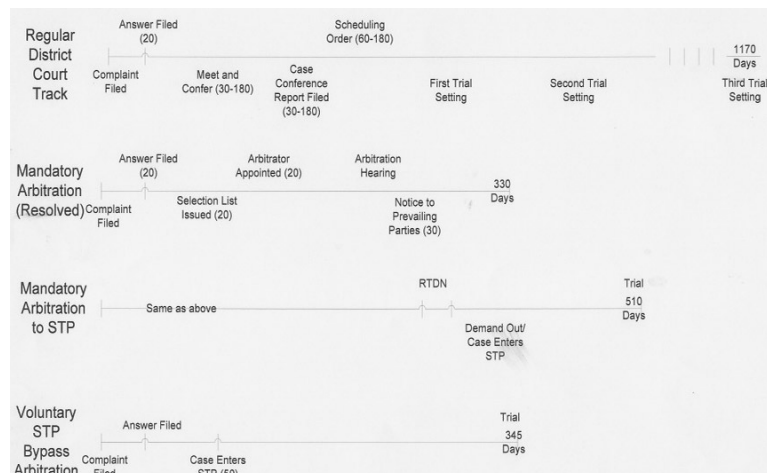


Figure 5: 8th Judicial District Court Short Trial Program



percent have a trial date scheduled in the future. Of cases with future trial dates, 60 percent have had one or more previous trial dates, and 22 percent have had four or more prior trial dates....The ramifications of elusive trial dates are many. The cases age, attorneys prepare multiple times, litigants suffer the emotional upheaval of anticipation and disappointment; the cycle repeats, litigation gets costlier, and the public loses heart and confidence in the court system and in the judiciary. We can and must do something about this.⁸

This bumping of trial dates, the ensuing backlog of cases, and the resulting economic, social and legal ramifications thus created, is the mirror image of what was happening in Nevada. To compound this, Massachusetts does not have a court connected system of alternative dispute resolution. With a proven record of accomplishment, at the district as well as justice court levels, Nevada's Short Trial Program, if implemented, has the potential to be an effective and helpful solution to Massachusetts' growing trial gridlock problem, at both its Superior and District Departments

PRAISE AND ENDORSEMENTS

The STP has received strong support and praise from everyone who has encountered the program—attorneys, pro tempore and district court judges, jurors, the court system, and the media.

Defending and prosecuting attorneys have both observed that by permitting admission of documents into evidence without live witnesses, the program has saved tens of thousands of dollars in expert witness fees and custodian of record costs. Moreover, one-day trials save a tremendous amount of time and expense, and smaller juries take less time and expense to reach a verdict than the larger traditional juries. According to one attorney: "The STP is a good forum for clients to have their day in court without the degree of downside financial risks associated with normal litigation." Another commented that it had wide application: "I have tried cases in Federal, District and Justice's Courts and can honestly say the format of the Short Trial Program can work for all types of non-complex litigation in all courts."

Attorneys also found that, with courtroom trials steadily declining, the STP provides an excellent resource for training and developing young lawyers, and a useful tool for attorneys to hone their trial skills and techniques, including the use of new courtroom technologies. An attorney who had participated frequently in short trials observed that "lawyers who have never seen the inside of a courtroom are honing their litigation skills to focus on the true merits of their cases. I speak

⁸ 49 *Boston Bar Journal* 8, May/June 2005, 8.

on behalf of all who have participated in the program when I say it has made us better lawyers.” Finally, and most importantly, the STP provides access to justice to litigants involved in smaller cases. As the past president of the Nevada Trial Lawyer’s Association, a pro tempore judge who is now a district court judge, said:

Years ago it was economically feasible for lawyers and their clients to resolve their smaller disputes through litigation and trial. However, as time passed it has become virtually impossible to fairly resolve the smaller claims because of the escalating and high cost of civil litigation. As a result, in today’s litigation climate and without the Short Trial Program, parties in the smaller cases are denied access to the courthouse and justice, simply because of economics.

District court judges likewise praise the STP, saying that diverting cases of lesser value from their dockets alleviates the case burden and allows greater judicial resources to be devoted to the resolution of cases of greater importance.

Juror questionnaires indicate that jurors are also pleased with the STP format. Many were so satisfied with the one-day trial that they said that they would be willing to serve again. Others found that with the smaller size of the jury, consensus was easier to reach. Some commented that because they received the evidentiary booklets before the trial, they were completely familiar with the evidence long before they enter the deliberation room: “This was invaluable. It made it easier to follow the attorneys and follow the testimony of the experts.”

According to the Clark County Board of Commissioners, the STP “is expected to save the county and future litigants millions of dollars in trial costs and expenses in coming years” and provides “a good example of how innovation can solve problems, save money, and... give people their day in court.”⁹ Finally, the *Las Vegas Review-Journal* newspaper has endorsed the STP.¹⁰

CONCLUSIONS AND IMPLEMENTATION

Using Nevada as a guide, the implementation of the STP program in Massachusetts should proceed in these three steps:

1. The Massachusetts Legislature should enact legislation to enable the state Supreme Court to adopt and approve a short trial format and process similar to that found in Nevada Revised Statutes Sec. 38.250 et seq.
2. The Massachusetts Supreme Court should appoint a committee of local attorneys, insurance representatives, local judges, and Supreme Court Justices to propose a working set of short trial

⁹ The Clark County Board of Commissioners, July 2, 2002.

¹⁰ Editorial, June 12, 2002, *Las Vegas Review Journal*.

rules to the Supreme Court for consideration and adoption, perhaps using as a partial template the Nevada Short Trial Rules as amended effective January 1, 2005.

3. A small staff must be appointed to handle administrative duties. For example, the program will need a court administrator to oversee all aspects of the short trial program, including formulation of local rules of practice and procedure, the processing of cases entering the STP, the collection of juror fees, the selection, appointment, and training of pro tempore judges (if used), the setting of trials, and the monitoring of cases in the STP to completion. Another staff member may be needed to coordinate the scheduling of trials with the court administration and jury services.

The program, as in Nevada, may take up to three years for total implementation.

The program faced only minor obstacles to implementation in Nevada, for example, some attorneys objected to the use of only four jurors and some objected to the lack of a right of appeal. In Nevada, these obstacles were overcome by amending the Short Trial Rules to provide that parties can ask for a six- or eight-member jury, and to provide that parties have a direct right of appeal of the final judgment to the Nevada Supreme Court.

Of course, the Commonwealth may face additional obstacles because of its own unique set of personalities and pressures. However, as the second state in, it has the advantage of not only learning from Nevada's experiences but, more importantly, from everything it has gotten right.

RESOURCE LIST

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Saltman Center for Conflict Resolution
Boyd School of Law
University of Nevada, Las Vegas
4505 Maryland Parkway, Box 451003
Las Vegas NV 89154-1003
phone: (702) 895-2358
fax: (702) 895-2482
<http://www.law.unlv.edu/saltman.html>

The Alternative Dispute Resolution Office for the Eighth
Judicial District Court, Clark County, Nevada, may be found at
www.co.clark.nv.us/district_court/ADR.htm

STP rules and forms may be found at
www.co.clark.nv.us/district_court/short_trial.htm

Justice Court Rules of Civil Procedure may be found at
www.leg.state.nv.us/CourtRules/

Benchmarking to Make State Government More Efficient

**Patricia O'Connor, Association Manager,
National Association of State Auditors,
Comptrollers and Treasurers**

INTRODUCTION

Benchmarking has long been used in the private sector as an effective tool to support operational change, improve processes, increase efficiency, and cut costs. In the private sector, benchmarking is used to gain a competitive edge. It gives companies a means of seeking insight from outside typical industry models and offers them the promise of moving and staying ahead of the competition. Many case study examples illustrate how companies have used benchmarking to reshape their business strategies based on proven practices centered on excellence. U.S. Steel is one such company:

Perhaps no industry has suffered more in the transition from the industrial era knowledge economy than steel, and indeed, U.S. Steel Corporation has experienced its fair share of pain in recent years. Yet while increasing numbers of its competitors have succumbed to bankruptcy, U.S. Steel, headquartered in Pittsburgh, Pennsylvania, has emerged a stronger, fitter and more successful company. Since 2001, it has doubled in size, to \$14 billion in revenue; its stock price has grown about 750 percent since 2003. Helping the firm succeed is its world-class finance organization, as benchmarked by The Hackett Group.¹

Benchmarking has been successfully used to increase profits by world-class companies in a variety of industries, from manufacturing to hospitality markets:

When Steven Porter talks about striving for organizational excellence, he doesn't limit his discourse to a mission statement and set of long-term objectives. Although the president of Atlanta-based InterContinental Hotels Group of the Americas recognizes the importance of lofty goals, he also points out that it's the day-to-day management of processes

¹ "Hackett Book of Numbers™
Insight," a publication of The
Hackett Group, May 25, 2006.

and practices that determine success. “It’s essential to support the growth objectives with solid business practices,” he says. After evaluating operations throughout the organization, Intercontinental Hotels Group built a framework for success. The end result of the initiative? The organization grew its net income by more than 1,500 percent in 2004 while slashing waste and overhead.²

Decisions based on benchmark study results may take many forms—reorganizations, mergers and acquisitions, or sometimes merely a simplification of processes:

At GE Energy, the largest of General Electric’s industrial subsidiaries, CIO John Seral says simplification will mean less cost and more effectiveness for the power generation giant. Late last year, GE Energy and the rest of GE began working with The Hackett Group to cut operational complexity. Ultimately, simplification is a common-sense solution. “The simpler your processes are, the better you interact with your customers because you have fewer errors and greater speed,” Seral asserts.³

Although it may seem logical to carry proven successes based on benchmark studies from the private sector to the public, the transition has not historically been so simple. Compared to the private sector, the public sector is organized in a much more idiosyncratic manner. As a result, not only has government failed to close the gap with private sector performance, it has fallen further behind, exacerbating public dissatisfaction. State governments that have attempted to undertake benchmarking projects have found that since each state approaches the task so differently, it has not been feasible to use benchmark results in any meaningful way to compare one state or agency to another.

In 2005, the National Association of State Auditors, Comptrollers, and Treasurers (NASACT) embarked on national project to bring benchmarking to the states. Working with the Hackett Group and Accenture, two consultancies with a long experience in benchmarking in the private and public sectors, it has begun to do the difficult work of creating standard definitions, protocols, and measures, and recruiting states as participants. While the program is young, it has already had some success in creating benchmarks and beginning to build a database in the areas of finance, HR/payroll, procurement, and IT. Massachusetts is one of the eight states participating, and, in August 2006, it completed the first stage of the project.

² “Business Finance: Winning Strategies for CFOs,” 2005.

³ From “Business to Business Magazine,” a publication of The Hackett Group, April 2004.

THE PROBLEM

In the private sector, benchmarking has become standard practice for helping businesses identify processes that need improvement and has enabled many of the world's most well-known and successful businesses to drive down administrative costs. However, although benchmarking studies target administrative areas (e.g., finance, HR/payroll, procurement, and IT) and government is largely administrative in nature, benchmarking has rarely been applied to the public sector. The conventional wisdom has been that state governments are organized and funded so idiosyncratically that benchmarking lacked application.

For a variety of reasons, functions and processes vary in the way that they are organized from state to state, to the point that the same processes may fall under different rubrics, categories, and chains of command. Sometimes these variations have their roots in organizational structure. For example, in many states, the state comptroller's office manages payroll and HR functions, while in other states they are handled by completely separate administrative offices. Variations may also result from differences in funding strategies. For example, some states fund administrative operations with general fund resources, while in others, administrative agencies are allowed to charge other state agencies to recover administrative costs. To complicate the matter further, these functions are sometimes performed and accounted for by private sector consultants outside of government.

Benchmarking is all about making comparisons, and comparability requires consistent definitions—apples must be compared to apples. Comparability also requires a consistent methodology, including how data are defined, collected, cleansed, validated, analyzed, and summarized into performance metrics. Discrepancies between definitions and methodologies can invalidate meaningful comparisons between states, which are, after all, the point of benchmarking.

Until recently, each state that adopted benchmarking had to independently establish definitions, determine methodology, and chart its own course. Not only has this been expensive, but the results have been unreliable. Without a coordinated multi-state program that creates a single, consistent set of definitions and methodologies, state governments will never be able to get the same benefits from benchmarking that the private sector has received.

PROPOSED SOLUTION

Inception, Objective, and Organization

Responding to this need, the Executive Committee of the National Association of State Comptrollers (NASC), an affiliate of NASACT,

created a Benchmarking Committee in March 2004 to investigate alternatives for a benchmarking program for state accounting and payroll functions. As it was considering its options, the Hackett Group and Accenture⁴ offered to conduct a pilot benchmarking project of four finance processes: cash disbursements, general accounting, external reporting, and performance management (management reporting).

Five states participated in the pilot project: Alaska, Arizona, Nebraska, Oregon, and Tennessee. The pilot confirmed the potential for a national project and helped identify some conceptual refinements. NASC's Benchmarking Committee recommended to its parent organization, NASACT, that a national project be launched, with NASACT serving as the primary contractor. Subsequently, NASACT issued an RFP to identify vendors to assist with implementing the national program. Two vendors responded to the RFP. After an extensive interview and examination process, NASACT chose The Hackett Group and Accenture as the successful bidder on the project in August 2005.

The objective of the benchmarking program is to provide a performance measurement system with a methodology and database to support benchmarking in these four areas: finance, HR/payroll, procurement, and IT. Each state will gain the ability to measure functional areas across a series of efficiency and effectiveness measures, giving it the information it needs to improve performance relative to state peers and world-class private sector performers.

Within a standardized methodology and framework, the program offers much flexibility. States can specify a schedule that meets their priorities and needs. They may choose to complete one or more of the four available benchmarks, and may include any number of their agencies in the process. Once a statistically valid number of states (seven per function) participate in the benchmarking process, states will be able to compare their results to data from other participating states and to world-class best practices. In addition, states may opt to perform a subsequent benchmark, referred to as a re-assessment, at a later point in time. This enables states to make "before and after" comparisons after enterprise resource planning (ERP) implementations or other internal business process improvements.

Eight states have contracted for one or more of the four benchmarks available through the program:

- Tennessee (finance, HR/payroll, procurement, and IT: initial and reassessment)
- Arizona (finance)
- Massachusetts (finance)
- Delaware (finance and procurement)
- Colorado (finance)

⁴ Accenture is the largest management consulting firm in the world, and has developed a significant practice in the public sector, especially concerned with government transformation. Since its inception in 1992, Hackett has dedicated itself to benchmarking the finance, HR/payroll, procurement, and IT functions in all types of organizations. Its database of 3,500 benchmarks contains some of the most recognized corporations in the world.

- Mississippi (finance, HR/payroll, procurement, and IT)
- Alaska (HR/payroll: initial and reassessment)
- Georgia (finance and IT)

Projects in Tennessee and Arizona were completed in June 2006. Massachusetts’ project was completed in August 2006.

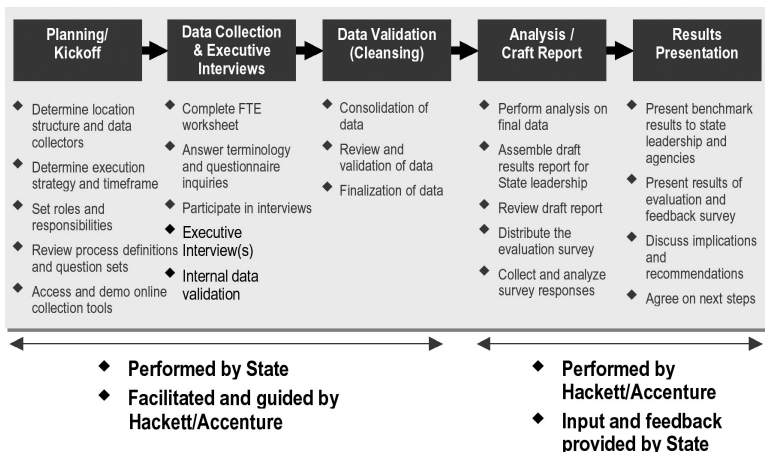
The benchmarking program has well-defined and effective partner roles. NASACT serves as the contracting agent and overall project manager for each state’s benchmarking project, develops the statement of work, and aids the state in developing its contract. Hackett/Accenture works with NASACT to identify prospective participants and define states’ desired benchmarks. It also works directly with the participating state to conduct the benchmarking process, analyze the data, formulate recommendations, and in some cases perform reassessments. NASACT and Hackett/Accenture employ monthly status calls to provide ongoing planning and to assess the program and make improvements as needed. They also work together to publish and present research from the benchmarking studies at scheduled NASC and NASACT conferences throughout the year.

Process and Measurement Categories

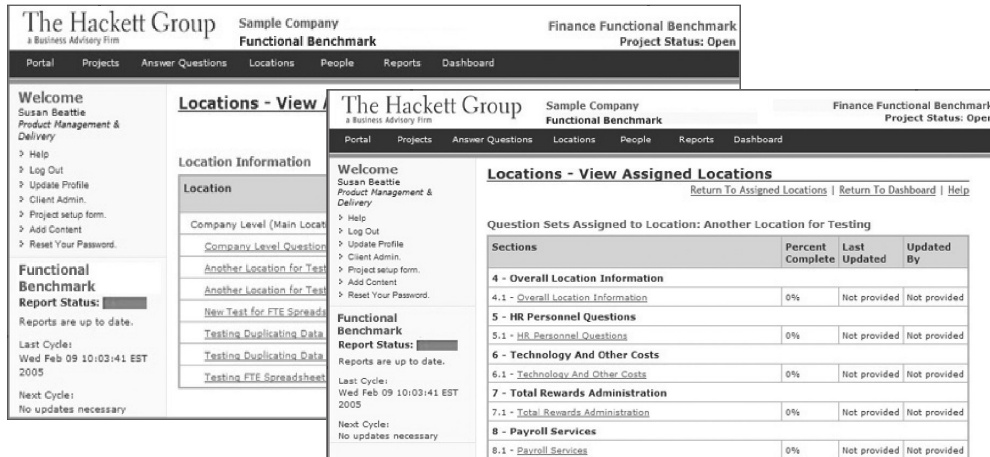
The workflow of the NASACT benchmarking program has a four-part sequence:

1. **Overall program management and development of state contracts.** Interested states exercise a statement of work, referring to the NASACT master contract with Hackett/Accenture. In it, a state indicates which of the four available functions it wants to benchmark, identifies the relevant state coordinators and contact people, and sets the schedule. All three parties are involved in varying degrees during this part of the process.
2. **Use of benchmarking tools with states.** Once the final contract has been approved and signed,

Hackett uses its benchmarking methodology and tools to begin a process that typically follows five steps: (1) planning/kickoff, (2) data collection and executive interviews, (3) data validation (cleansing), (4) analysis/crafting of a report, and (5) presentation of results. A typical benchmark study takes 12 weeks from initiation to completion. The following chart illustrates the process:



Following the initial planning phases, data collection begins. Hackett’s online data collection tool allows states to have any number of agency employees submitting data at the same time:



Data is collected for both quantitative and qualitative measures. Costs are organized and collected in major categories. This includes a full accounting for all state employee labor costs based on the business processes and activities employees actually perform, no matter which organization they may belong to or what their job description may be. Costs related to outsourcing, if any, are also collected. Technology costs represent the third category and any other costs, for example space or travel, comprise the final category. Other examples of quantitative data include transaction volumes and cycle times. Qualitative data is collected from interviews and stakeholder surveys and may include information about the alignment of the administrative function to support the mission of the program, error rates, and customer satisfaction.

3. **Evaluation of state feedback and program refinement.** At the completion of each state’s project, NASACT and Hackett/Accenture examine feedback from the state to identify ways to implement future program improvements.
4. **Development of research reports, findings, and special presentations.** Hackett/Accenture, with assistance from NASACT, works to extrapolate relevant and interesting data to present at NASC and NASACT conferences in order to promote the project and benchmarking in the public sector in general.

Because the partners worked together at the outset to modify the standard approach, data collection tools, and taxonomy so that they would apply to state government, NASACT’s benchmarking program is the only one that satisfies the unique requirements of state governments. Data and metrics are developed further at the level of a “process” within

the domain of an administrative “function.” A state that enrolls for a benchmark of a function, for example, finance, collects data for all of the processes under the finance function. This allows the development of performance metrics and apples-to-apples comparisons between the finance functions of the respective states. This approach also maintains the integrity of comparisons of state data to that of non-governmental organizations.

The finance benchmark focuses on eight discretely defined process groups:

Finance	Transactional	Compliance & Risk Management	Budgeting & Analysis	Management & Administration
	<p>Cash Disbursements</p> <ul style="list-style-type: none"> ▪ Accounts Payable ▪ Travel and Expenses ▪ Program Payables <p>Revenue Cycle</p> <ul style="list-style-type: none"> ▪ Credit ▪ Customer Billing ▪ Collections ▪ Cash Application <p>Account and External Reporting</p> <ul style="list-style-type: none"> ▪ Fixed Assets ▪ Interfund/Interdepartmental Accounting ▪ General Ledger Accounting ▪ Project Grant and Cost Accounting ▪ External Reporting 	<p>Treasury Management</p> <ul style="list-style-type: none"> ▪ Cash Management ▪ Capital and Risk Management <p>Compliance Management</p> <ul style="list-style-type: none"> ▪ Regulatory Compliance and Auditing ▪ Process Certification 	<p>Budget Preparation and Reporting</p> <ul style="list-style-type: none"> ▪ Long-Term Forecasting ▪ Annual/Biannual Budgeting ▪ Budget and Performance Reporting <p>Business Analysis</p> <ul style="list-style-type: none"> ▪ Department/Program Analysis 	<p>Finance Function Management</p> <ul style="list-style-type: none"> ▪ Function Oversight ▪ Personnel Management ▪ Policy and Procedures Oversight

The HR/payroll benchmark focuses on nine discretely defined process groups:

HR / Payroll	Transactional	Employee Life Cycle	Planning & Strategy	Management & Administration
	<p>Total Rewards Administration</p> <ul style="list-style-type: none"> ▪ Health and Welfare Administration ▪ Pension and Savings Administration ▪ Compensation Administration <p>Payroll Services</p> <ul style="list-style-type: none"> ▪ Time and Attendance ▪ Payroll Administration <p>Data Management, Reporting and Compliance</p> <ul style="list-style-type: none"> ▪ Compliance Management ▪ EE Data Management ▪ HR Reporting 	<p>Staffing Services</p> <ul style="list-style-type: none"> ▪ Recruiting and Staffing ▪ Exit Process <p>Workforce Development Services</p> <ul style="list-style-type: none"> ▪ Learning and Development ▪ Career Planning ▪ Performance Management <p>Organizational Effectiveness</p> <ul style="list-style-type: none"> ▪ Labor Relations Administration ▪ Organization Design and Measurement ▪ Employee Relations 	<p>Total Rewards Planning</p> <ul style="list-style-type: none"> ▪ Benefits Planning ▪ Compensation Planning <p>Strategic Workforce Planning</p> <ul style="list-style-type: none"> ▪ Workforce Gap Assessment ▪ Leadership Gap Assessment 	<p>HR Function Management</p> <ul style="list-style-type: none"> ▪ Function Oversight ▪ Personnel Management ▪ Policy and Procedures Oversight

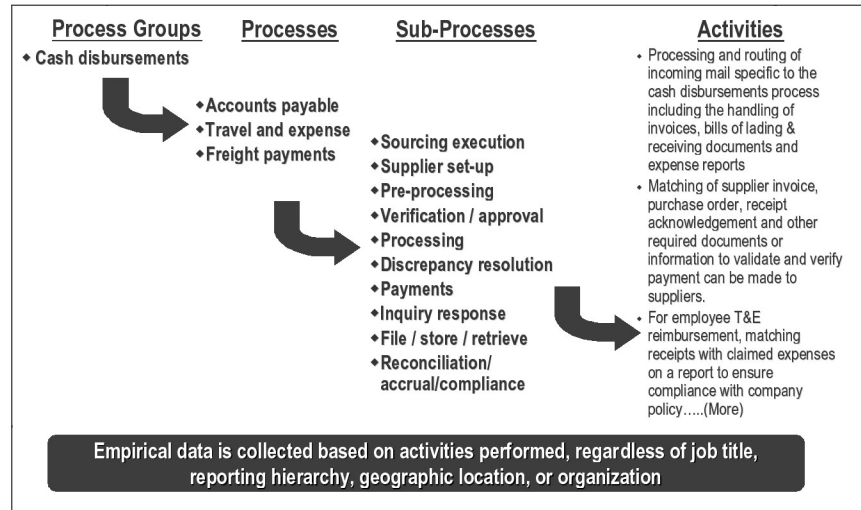
The IT benchmark focuses on eleven discretely defined process groups:

IT	Technology Infrastructure	Application Management	Control & Risk Management	Planning & Strategy
	<p>Infrastructure Management</p> <ul style="list-style-type: none"> ▪ Operations Management ▪ Security Management Administration ▪ Disaster Recovery <p>End User Support</p> <p>Infrastructure Development</p>	<p>Application Maintenance</p> <ul style="list-style-type: none"> ▪ Application Support ▪ Enhancement Delivery ▪ Upgrade Execution <p>Application Development and Implementation</p>	<p>Quality Assurance</p> <ul style="list-style-type: none"> ▪ Change Management <p>Risk Management</p> <ul style="list-style-type: none"> ▪ Audit & Compliance 	<p>IT Business Planning</p> <ul style="list-style-type: none"> ▪ Alignment ▪ Project Prioritization ▪ Communication <p>Enterprise Architecture Planning</p> <ul style="list-style-type: none"> ▪ Governance ▪ Standards Management <p>Emerging Technologies</p> <ul style="list-style-type: none"> ▪ Technology Evaluation
				Management & Administration
				<p>IT Function Mgmt</p> <ul style="list-style-type: none"> ▪ Function Oversight ▪ Personnel Mgmt ▪ Policy & Procedure Oversight

The procurement benchmark focuses on eleven discretely defined process groups:

Procurement	Operations & Compliance	Sourcing & Supplier Management	Planning and Strategy	Management & Administration
	Supply Data Mgmt. Requisition and P.O. Processing Supplier Scheduling Receipt Processing Compliance Mgmt.	Customer Management Sourcing Execution Supplier Management and Development	Function Strategy and Performance Management Sourcing and Supply Base Strategy	Function Management

All benchmark processes are further defined down to an activity level to ensure that data are collected, analyzed, and reported in a consistent manner. The graphic below is an example of details captured in the “cash disbursements” process group within the finance benchmark process.



Hackett’s benchmarks focus on measuring the drivers of world-class performance. Three types of drivers are collected and used to evaluate quantifiable and non-quantifiable factors that affect performance and costs:

1. **Performance Metrics:** Performance metrics represent an organization’s performance as measured by costs, productivity, resource allocation, and value. These metrics reflect measured performance compared with world-class organizations and the state government peer group in terms of efficiency (cost and productivity) and effectiveness (quality and value).

2. **Demand Drivers:** Demand drivers represent agency-related decisions that are beyond the control of most functional executives yet create demand for service from finance, HR/payroll, procurement, and IT functions. Examined here are issues of size (e.g., revenue/budget, employees) as well as complexity (e.g., agency structure, geographic structure, regulatory/statutory environment, and volatility).
3. **Structural Factors:** Structural factors represent the great variety of methods adopted to meet demand for services, such as agency practices, strategies, process-sourcing strategies, staffing levels, available skill sets, organizational structure, and the selection and implementation of technology.

There are approximately 250 questions and 100 key metrics produced as part of the deliverable from each functional benchmark. In addition to capturing key functional metrics such as cost and full time employees (FTEs), Hackett also defines how and where each organization compares to world-class performers.

The major deliverable to the states participating in the benchmark is a detailed, customized benchmark report. This report includes the following:

- State-to-state peer group
- Median of chosen Hackett peer group
- World-class metrics in Hackett database
- Analysis of the state under- and over-investment opportunities
- Analysis of use of best practices
- Recommendations of improvement opportunities and a high-level action plan (listing areas to explore that show opportunities for significant improvement).

As of August 2006, three states have completed their benchmarks: Tennessee, Arizona, and Massachusetts. Results from Tennessee and Arizona have been examined and are currently being shared. Results from Massachusetts have been delivered to the Commonwealth and are being reviewed by its leaders.

Even though only three states have completed the process so far, some interesting initial findings and observations have emerged:

- State governments can actually operate at a lower cost level than their private peers because they are not faced with many of the complexities that typically drive up costs for businesses such as operating in multiple jurisdictions or mergers and acquisitions. Thus benchmarking gives states a unique opportunity to create more value from their scale at a lower cost.
- Organizational fragmentation of processes exists.

- Low overall labor rates are masking inefficiencies of current processes, especially in transaction processing.
- Overall best practice utilization is low.
- States are under-investing in technology and/or not realizing the benefits it provides in improving both efficiency and effectiveness.
- States have lower quality levels and cycle times than peer organizations.
- The Treasury Management area is performing favourably as compared to peers.

Several key challenges and emerging trends for state governments also became apparent upon initial review of results from the three states.

Key Challenges:

- Current HR practices within government make it difficult to attract and retain appropriate talent.
- The lack of an appropriate level of technology investment is having an adverse impact on state government performance.
- A lack of overall standards and state governance of back office functions exists.
- States have significant process fragmentation among agencies/ departments.

Emerging Trends:

- An increased adoption and utilization of dominant best practices.
- A shift from transaction processing/administrative support to decision support/strategy development.
- An increasing need to replace old and obsolete technology with solutions that have functionality that effectively supports technology-enabled best practices.
- An increased utilization of shared services will help improve effectiveness and optimize cost structure.

And as can be expected, putting the NASACT benchmarking project concept into practice resulted in many lessons learned—lessons that should improve the project as time passes and additional states join. Some of the major lessons learned include:

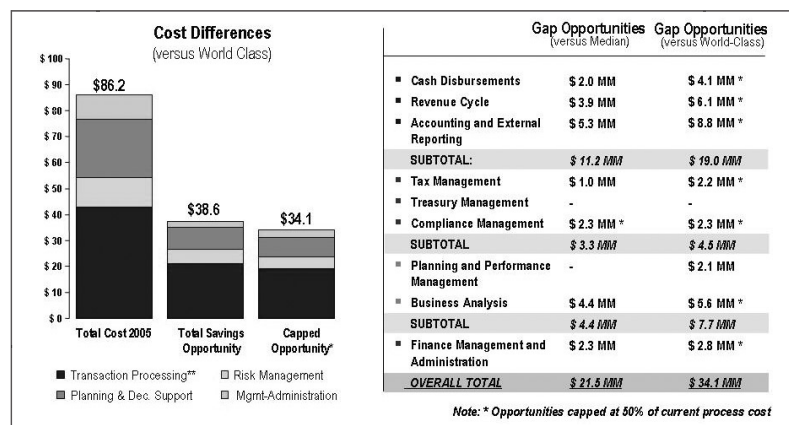
- There is a need to emphasize and sustain visible project support by state leaders.
- The ability to have data to support desired improvement initiatives is significant in efforts to drive change.
- Spending sufficient time during the planning and initiation phases of the project is crucial.

- Government is different from the private sector—customizing the benchmarking process to meet the needs of state governments has been and continues to be essential.

COSTS AND BENEFITS

Since the first Hackett/Accenture benchmarking study for Massachusetts has only recently been completed, the Commonwealth has yet to realize any gains from it. However, by finally having the ability to evaluate their functions against those of other states and world-class private companies, state executives will be able to identify weaknesses and devote thought and resources to remedying them. Benchmarking, however, is not only good for spotting underperformers, but its objective, quantitative profile also helps build consensus within and outside the state bureaucracy for change initiatives.

REPRESENTATIVE ANALYSES PROVIDED IN THE BENCHMARK REPORT



Because of the great strides that businesses have been making in improving efficiency, partly due to their implementation of benchmarking programs, state governments, especially in the core back office functions like finance, HR, IT, and procurement, are also being asked to do more with less, to be more efficient and effective. Benchmarking can give state functions the same boost in performance that it has given leading business organizations.

Benchmarking results identify, quantify, and prioritize improvement opportunities. As illustrated in the following chart, the performance of a state such as Massachusetts is compared to peer organizations and world-class performers, identifying areas where it exceeds or falls below the median. Furthermore, the potential cost savings are calculated, expressing in dollars the benefits of the state reforming its business practices to emulate the performance of organizations with median or world-class performance, respectively.

The comprehensiveness of the results and that improvement opportunities are translated into “dollarized” gaps enable states not only to compare themselves to peers and leaders, but also prioritize change and build a business case for change initiatives.

Benchmarking also provides a number of more specific benefits:

- It helps prioritize or re-prioritize key initiatives, quantifying with empirical data the methods and techniques most appropriate to each state’s situation.
- It ensures that standard metrics frameworks are used for accurate inter-entity comparisons.
- It helps forecast and define targets for major parameters such as cost and service levels.
- It identifies ways to improve and augment technology utilization.
- It provides insight into the improvement opportunities that will yield the highest ROI and prioritize best practices implementation initiatives.
- It allows for a broad understanding of costs and staffing levels to support prioritization efforts.
- It provides longitude and latitude—the ability to analyze systematic issues across the state and its agencies.
- It facilitates knowledge sharing with industry peers.
- It helps proactively identify issues related to internal controls.
- It supports efforts to mitigate tight labor markets.
- It provides data and context in order to determine which practices will yield the greatest return if implemented.

As for costs, Hackett’s fees and the extra work required of state employees to carry out the benchmark study are a whole order of magnitude less than the benefits a state can realize through a focused business transformation effort.

NASACT’s contract with Hackett/Accenture provides benchmarking services at a competitive price. States contracting for more than one benchmark receive an incremental discount.

Finance, HR/ Payroll, Procurement, and IT	Total SOW agreement fees	Percent discount realized	Realized price per benchmark
1 benchmark	\$80,000		\$80,000
2 benchmarks	\$144,000	10%	\$72,000
3 benchmarks	\$210,000	12.5%	\$70,000
4 benchmarks	\$272,000	15%	\$68,000

RELEVANCE TO MASSACHUSETTS

Massachusetts participated in a benchmark study for its finance function. The executive sponsor is Martin Benison, the Commonwealth’s comptroller, and the statewide coordinator is Kathy Sheppard, deputy comptroller. More than 100 agencies participated in the study, includ-

ing the major departments in the executive branch. The study was concluded and the Massachusetts benchmarking report delivered in August 2006. The Commonwealth is currently reviewing the results; however, based on preliminary examinations, it appears that the results will be valuable in two areas:

1) Balancing Accountability and Efficiency

Governments are continuously challenged to be more efficient, many times by adopting techniques proven in the private sector. At the same time, citizens deserve and expect high levels of accountability over the use of their tax dollars—a level of accountability not always encountered in the private sector. One of the great challenges for government financial managers is continually evaluating and readjusting this balance between efficiency and accountability. Massachusetts will use its benchmark results to identify where its costs are higher than peer states, whether as a result of inefficiencies or gaps in accountability. The benchmark results will also help the Commonwealth understand the effectiveness of its accountability activities and identify ineffective activities that can be re-engineered or in some cases eliminated.

2) Identifying Opportunities to Invest in Automation

Ultimately, the benchmark results will allow the Commonwealth to identify areas in which it can increase efficiency through the use of automation without necessarily compromising accountability. This information will be extremely helpful to the incoming administration as it works to modernize financial operations.

If the Commonwealth builds on the financial benchmark by completing additional benchmarking projects in purchasing, human resources, and information technology, the administration will be poised with a complete management agenda to improve its back-office operations.

CONCLUSION

The implications of this benchmarking program for state government are significant. For the first time, state governments have a common methodology, set of tools, and performance metrics that can give them a baseline of existing costs and productivity levels and an assessment of where the greatest opportunities for improvement lie. NASACT's benchmark program gives state governments a factual starting point for transformation initiatives that will apply market principles and best practices to the task of improving the efficiency of their business processes and the quality of their services. It is estimated that the savings that any one state will achieve from efforts toward greater efficiencies and effectiveness in its business processes

could be in the tens of millions of dollars. Extrapolated across the nation, the savings to state governments resulting from benchmarking projects would clearly run into the hundreds of millions of dollars.

Through this program, state governments now have their own way to make relevant comparisons with each other and with the private sector, and even more importantly—to adopt the best practices that have led to outstanding business performance.

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Andy Opsahl, “Does This Benchmark Make Me Look Inefficient?”
Governing Technology Magazine, February 2006, 23-28.

Database – Hackett database of over 3500 benchmarks (97% of Dow Jones Industrials)

www.accenture.com/Global/Services/By_Industry/Government/R_and_I/AssessmentofBenchmarking.htm

www.nasact.org

www.thehackettgroup.com

Managing Energy Demand in State-Owned Buildings

**David B. Perini, Commissioner,
Massachusetts Division of Capital Asset
Management**

INTRODUCTION

The government is by far the state of Massachusetts' largest real estate owner and building manager. The Division of Capital Asset Management (DCAM) alone owns or leases more than 5,500 buildings. Other state authorities like Massport and the State College Building Authority manage hundreds, if not thousands, more. With the rare exceptions of some sheds or barns, these buildings consume electricity for their lights, computers, elevators, security systems, and complex mechanical equipment. The Commonwealth of Massachusetts consumes more than 1.1 billion kilowatt hours of electricity each year.¹ The electrical bill in FY2006 for the executive branch of government alone (not including the court and university systems) was \$46.8 million.² If you add in the other big government power users such as Massport and the Turnpike Authority, the bill approaches \$100 million.

Many state facility managers have aggressively adopted measures to increase energy efficiency in the buildings they operate, including swapping from incandescent to fluorescent lighting, the installation of variable frequency drive systems, and the use of building control systems. They have also pushed energy conservation measures such as turning off lights and computers when rooms are not in use.

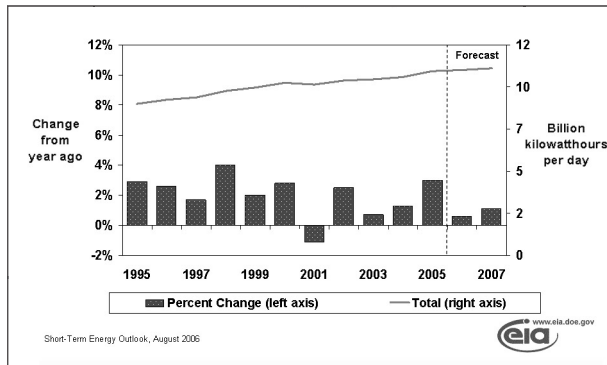
However, these efforts can only go so far. Demand on the grid is steadily rising and new power plants are not being built in any large numbers (see Figure 1).³ The cost of fuel is also rising. For some time, the electrical power industry has had programs in place that allow consumers to save money by reducing their energy demand during peak hours. Unfortunately, many state facility managers are not aware of the benefits of these programs, and others are discouraged from adopting them, since what they save is often deducted from their next year's budget.

¹ A&F Bulletin 11. Executive Office for Administration and Finance, August 11, 2006.

² Alvaro Pereira: email from Massachusetts State Department of Energy, July 31, 2006

³ Peter J. Howe, "Power Grid Will Push for Energy Conservation," *Boston Globe*, June 20, 2006.

Figure 1: Total U.S. Electricity Consumption Growth



THE PROBLEM

The New England region's electrical grid is operating with little excess capacity. The surge of demand associated with a summer heat wave could easily lead to rolling brownouts and blackouts. If natural gas deliveries are disrupted during the winter, many of the regions' electric power plants could find themselves scrambling to find other resources along the grid to supply customers.

Surges in demand also have an exponential effect on the wholesale cost of energy.

A five percent growth in demand over normal summer peaks may result in a wholesale cost jump of \$700 million annually, according to ISO-New England officials.⁴

On the other hand, after state facilities managers pay for electricity, they often have little left in the operations and management budget to maintain or improve the efficiency of their large, complex buildings. They also often have limited and inadequate systems for responding to energy emergencies like brownouts or system-wide power losses. Typically, they are mere victims of the emergency, and react by closing operations and sending employees home. Facilities that provide life-sustaining services, or that respond to natural disasters or terrorism also rely on their ability to "go off the grid" and run on emergency power. While these facilities may have protocols and emergency power, their preparedness is rarely tested or updated to accommodate growing power demands.

Unfortunately, the current state budgetary process actually discourages facilities managers from establishing energy conservation programs, since whatever they save is often subtracted from their budget the following years. The only incentive to conserve is short-term, i.e., to free up funds for some important deferred project in the facility during the current fiscal year. Moreover, since utility bills are often paid at a higher stratum within a state agency, many managers do not even know how much energy their buildings consume.

PROPOSED SOLUTION

In late 2005, DCAM, in consultation with the Executive Office for Administration and Finance (A&F), the Office of State Sustainability, and the Division of Energy Resources, created the Demand Response program. It is a market-driven model that not only reduces the risk of brownouts and blackouts but also generates revenue for state facilities.

⁴ Ibid.

It is still a small program, but it could be easily expanded statewide.

Demand response involves primarily load shedding, or the removal of demand from the local power grid. There are two ways to do this:

1. The employment of emergency generators and alternative fuel sources to provide electric power for a facility;
2. The implementation of load curtailment strategies such as shutting off or dimming a portion of the lights or electrical devices.

Because of the deregulation of the power markets across the United States, there are now incentives for facilities that can reduce their energy use on short notice. The electrical grid is managed by regional Independent System Operators (ISOs) that balance the supply and demand for electricity. Because energy cannot be efficiently stored, the deregulated markets are willing pay to push demand below supply. In New England, the markets will now pay facilities that are able to reduce their demand on thirty-minutes or two-hour notice according to kilowatt of demand reduced.

ISO New England implemented a demand response program in southwestern Connecticut in order to improve the reliability of its power grid there in 2004. Under a new contract, the Conservation Services Group helped to secure emergency energy resources for southwest Connecticut, including 125 megawatts of new generating capacity and up to 255 megawatts of demand-response resources such as emergency generators and voluntary load reductions.⁵ After Hurricane Katrina disabled much of the domestic natural gas infrastructure in 2005, ISO New England launched a program offering \$8–\$14 to facilities managers for each kilowatt they could shed from the grid in the event of an emergency.

DCAM plans to expand its participation in this program by enrolling as many state facilities as possible through the Massachusetts Facilities Manager’s Association. Facilities that are good candidates (See Figure 2) will be assigned an energy aggregator as a partner to facilitate the execution of the program through a statewide contract or group of contracts. Aggregators are commercial vendors and will be paid out of the program revenues.⁶ Together, the part-

⁵ Citizens Resources Group, “For the First Time, Energy Efficiency Contract Awarded to Help Reduce Energy Use,” Press Release, April 22, 2004.

⁶ DCAM initiated a Request for Response (RFR), received bids, and selected aggregators based on a number of criteria, including who offered the greatest percentage of refund.

Figure 2: Criteria for Participation

If you answer yes to at least two of the following questions you are a good candidate for demand response:

- Can you turn activate your energy generators on 30-min or 2-hour notice?
- Is your heating and/or cooling ventilation equipment controlled through a DDC building management system?
- Do you have the flexibility to switch fuels i.e. electricity to fossil fuel [steam]?
- Has your site had recent equipment upgrades or do you plan to have equipment upgrades in the near future?
- Is your energy bill \$750,000 or more per year?
- Is your organization working toward LEED, Energy Star or other nationally recognized certifications?
- Is your facility located within a load pocket, i.e., within I-495?

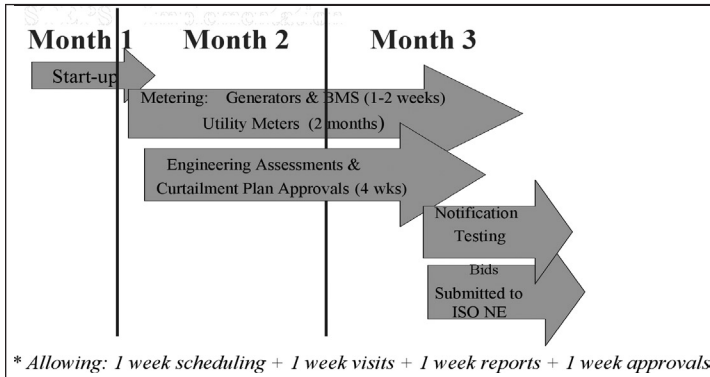
ners will analyze the ability of the facility to manage power resources, implementing upgrades where necessary, installing advanced meters, optimizing energy conservation, and establishing plans and protocols to respond to power emergencies.

Since the program is voluntary, its success will depend on the right incentives. With approval from A&F, DCAM has created an expendable trust that will collect the funds returned to the Commonwealth for distribution to the agencies of the participating facilities.

Facilities that save on their energy costs will no longer lose that money in the next year's budget.

Figure 3 illustrates the process for enrollment. Once enrolled, the facility merely has to be prepared to shed load on demand, while the aggregator-vender takes care of communication and the compilation of the load-shedding data.

Figure 3: Implementation Workflows



COSTS AND BENEFITS

The Demand Response program brings many benefits:

1. A new source of revenue for state facilities: Participating facilities are paid both for insuring the grid and for responding to a test or emergency. In essence, facilities can earn a great deal for little effort. For example, the Commonwealth received (and passed on) almost \$100,000 during three months in early 2006 for the participation of 13 facilities (see Figure 4). With the participation of a few hundred facilities, the state could save \$500,000 or more off the approximately \$100 million it is spending on electricity.

2. Reduction in energy costs: Electricity bills usually have two components, the hours of usage and peak demand. In the past, government has made the greatest effort on reducing overall usage. However, if a facility can also reduce its peak demand, it can achieve additional savings in two different ways. First, by reducing its spikes in demand it can negotiate better contract terms with its electricity suppliers because

Figure 4: Example of Participating Partner Statement

CONSUMER POWERLINE										
Partner Statement - Sebesta Blomberg										
Winter 2005 / 2006 ISO-NE										
ISONE Winter Supplemental Program - DCAM Sites		January			February			March		
Prices / kW		\$12.00			\$10.00			\$8.00		
Participating Facility	ISONE Asset ID	Average Reduction	Pro-rated Reduction	Gross Payment Received	Average Reduction	Gross Payment Received	Average Reduction	Gross Payment Received	Winter Total	DCAM Winter Total
University of Massachusetts	11350	0.169	0.121	\$1,452.00	0.845	\$8,450.00	0.650	\$5,200.00	\$15,102.00	\$13,742.02
MCI Shirley	11376	0.116	0.068	\$792.00	0.126	\$1,280.00	1.060	\$8,480.00	\$10,532.00	\$9,684.12
MASAC	11378	0.000	0.000	\$0.00	0.151	\$1,510.00	0.224	\$1,792.00	\$3,302.00	\$3,004.62
Souza Baranowski Corr. Fac.	11379	1.164	0.520	\$6,240.00	0.024	\$240.00	0.700	\$5,600.00	\$12,080.00	\$10,992.80
Bridgewater Complex	11380	0.774	0.442	\$5,304.00	1.233	\$12,330.00	1.300	\$10,400.00	\$28,034.00	\$25,510.94
MCI Norfolk	11383	0.011	0.006	\$72.00	0.883	\$8,830.00	0.679	\$5,432.00	\$14,334.00	\$13,043.94
Plymouth Correctional Center	11384	0.000	0.000	\$0.00	0.000	\$0.00	0.175	\$1,400.00	\$1,400.00	\$1,274.00
Tewksbury State Hospital	11385	0.530	0.223	\$2,676.00	0.390	\$3,900.00	0.300	\$2,400.00	\$8,976.00	\$8,188.16
Lemuel Shattuck Hospital	11386	0.137	0.078	\$936.00	0.476	\$4,760.00	0.429	\$3,432.00	\$9,128.00	\$8,306.48
Boston Pre-Release Center	11391	0.000	0.000	\$0.00	0.093	\$930.00	0.200	\$1,600.00	\$2,530.00	\$2,302.30
Month Total		2.901	1.456	\$17,472.00	4.221	\$42,210.00	5.717	\$45,736.00	\$105,418.00	\$95,930.38
CPLN & Sebesta Share		9%		\$1,572.48		\$3,798.90		\$4,116.24	\$9,487.62	
Sebesta Share		50%		\$786.24		\$1,899.45		\$2,058.12	\$4,743.81	

the supplier can more easily predict and plan for it. Second, if it is able to reduce its demand when the electrical grid is peaking, it will be able to reduce its electricity expenses throughout the year (see Figure 5). Most utilities base their prices on how much demand a facility is using when the entire system is peaking in order to make sure that everyone helps support the costs of building the power plants required for those few hot days in the year. The exact scope of these savings varies across the country, but demand costs can account for up to 20 percent of a facility's electricity cost.

3. **Readiness for emergencies:** Participants not only improve their ability to cope with emergency power losses, but they also insure the readiness of the New England grid. Enrolled facilities are assisted in improving the reliability of their emergency generators. By frequently testing the generators under full load, managers and aggregator representatives are able to discover and remedy mechanical problems before an emergency strikes. Second, the ensemble of demand-response facilities insures against a catastrophic grid failure, for a large electrical load can be removed from the grid within 30 minutes.
4. **Conservation of resources:** Load curtailment strategies are 100 percent green. They conserve electrical energy, and, if done on a large scale, they can reduce the need for new power plants and additional greenhouse gas emissions. Load shedding through the use of emergency generators may also be green, depending on the alternative fuel source.
5. **Performance improvement:** the program is designed to provide the right incentives to each agent. First, facilities retain the money they save by load shedding and conservation measures. Second, revenue sharing between facilities managers and energy aggregators ensures that they will work together to keep the generators and electricity-saving equipment working at peak efficiency and that they will closely monitor market prices and energy demand.
6. **Staff development:** facilities supervisors and employees gain experience and skills from the Demand Response program. For many of them, it will be the first time they gain an active awareness of the energy market structure and how they can engage with market mechanisms.

While there are also costs and friction associated with the program, most are minor. Much of the management and most of the work that goes into setting up contracts is done by DCAM. Facilities manager, of course, will have extra work to do to establish demand response protocols and to accelerate the maintenance schedule, which may also

require some overtime from staff and employees.

Jeff Quick, the Director of the Division of Resource Management at the Massachusetts Department of Corrections, mentioned some other possible snags. Sometimes, he said, the ISO will call for a test or demand-response event that either spans or occurs near a shift break. While it is better not to change electricians in the middle of an event, some employees will not want to be held over. Electricians may need some degree of cross training so that all can cope with a demand response event at the facility at any time.

Finally, there is the issue of change. Although the program is clearly a win-win, facilities management will still need to take the initiative and overcome resistance on the part of some. For many employees, the activities involved with demand response will appear to be more tasks on top of their already stretched schedule. That is why, to the extent possible, most of the management of this program should be centralized.

RELEVANCE TO MASSACHUSETTS

Prior to DCAM's effort, a few large commercial properties in Massachusetts had been using this program, as well as a few governmental ones. According to ISO New England data, there is a great deal of potential enrollment left in New England. More than \$100 million of demand response funds stand to be earned, and the challenge is to enroll as many strong candidate facilities as possible. As state facilities in Massachusetts learn more about energy rates, loads and costs, DCAM foresees them lowering their overall utility bills. This should have a positive long-term effect on taxes.

CONCLUSION

The potential to expand this program is huge, since the vast majority of the demand response funds have yet to be tapped.⁶ DCAM is presently conducting workshops with the Board of Higher Education and the Secretariat of Health and Human Services (HHS) to spark enrollment of more of the state's public colleges and hospitals.

As mentioned above, ISO New England has returned a total of approximately \$100,000 to the Commonwealth for participation in the Winter Demand Response program. In March 2006, the Peak Load Management Association gave DCAM its "Outstanding Achievement by an End User" award for establishing a program and bringing to market an electrical load of over 5 megawatts from 19 different facilities within a very short timeframe. Although DCAM and the state facilities proved that they could implement this program quickly,

DCAM prefers to take a more deliberative approach to enrolling facilities in the future, in order to avoid false starts and complications. There may be a need to involve the labor unions in the efforts to increase participation. This might alleviate some of the concerns related to shift change, overtime, and cross-training.

The genius of the Demand Response program is that it finds a way to bring together and satisfy a variety of needs from a number of different institutions. The utilities get insurance against surges in demand, consumers get protection from brownouts and blackouts, and the participating facilities get paid for monitoring and manipulating their power usage.

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Demand Response Advanced Metering Coalition
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Department of Energy, Energy Information Association
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A Statewide System of Health Insurance Coverage for Teachers

Alison L. Fraser

INTRODUCTION

School district superintendents and school committee members across Massachusetts are reporting budget distress. Even though Chapter 70 spending was increased by \$217 million for FY2007, non-discretionary spending and contracted yearly raises will once again mean increases in budgets that will significantly exceed revenue growth in many districts. Indeed, once these obligations are paid, there will be little left over to fund real education reform and improvement.

One of the major causes of this budget trouble is healthcare, which (as in other sectors of the economy) is making up an ever-greater portion of employee pay packages. Teacher contributions to their health insurance premiums often lag behind that of the private sector, and the taxpayers—who are hurting from their own health care premiums—are picking up the tab. Teachers typically contribute between 0 and 20 percent of their health insurance premiums, compared to 15 to 30 percent for state or private sector employees. Compounding the problem, healthcare is increasingly becoming an obstacle in collective bargaining negotiations.

Moreover, the district and municipal insurance groups to which these teachers belong tend to be small—most often, in our nearly one-million-student, 350-district state, numbering down in the tens and hundreds. Since the groups are so small, districts have little or no bargaining power with insurance carriers, so that the rates they pay are rarely, if ever, economical. Between low contributions and small pools, school employees' health insurance is absorbing a large share of most municipal budgets, and the situation is worsening yearly, as premiums continue to rise disproportionately to other expenses.

A standard agreement on group health care for all public school teachers across the Commonwealth, including them in the large pool of state employees in the state-administered Massachusetts Group

Insurance Commission (GIC), would save the municipalities hundreds of millions of dollars and could shift the focus of teacher contract negotiations to how to improve student performance. The money saved could both alleviate some of the current budget strain and fund innovative programs that would improve educational performance.

THE PROBLEM

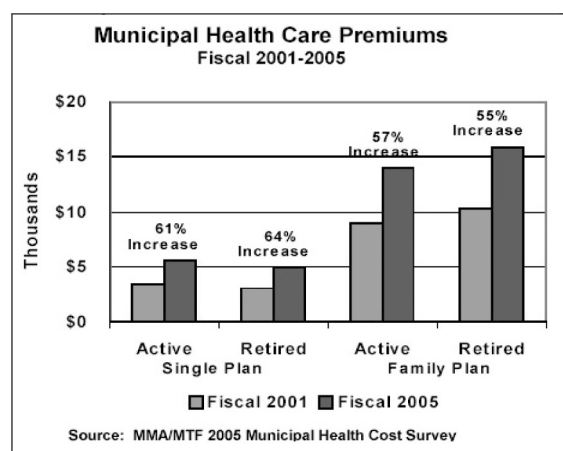
According to a report released by the Massachusetts Taxpayers Foundation in 2005, the cost of providing health insurance to municipal employees (including teachers) has risen by an average of 63 percent between 2001 and 2005, and is nearly double the annual growth of health care costs for employees at the state level, who are pooled together in a plan administered by the GIC (see Figure 1 below). The same report indicates that the share of local government budgets dedicated to employee health care costs has risen by 42 percent, from 7.4 percent to 10.6 percent, during the same period.

Additionally, and just as problematic, the subject of employee contributions to health care plans has become such a focal point of contract negotiations that it consistently dwarfs the issue that should be of primary importance in any teacher contract: the conditions and measures that will result in educational excellence, such as enhanced professional development, career ladders, and differentiated pay. While teacher contracts have always been mostly about working conditions, they should also leave some room for agreements on ways to improve education. An examination of more than 30 teacher contracts from across the Commonwealth, however, indicates the word “learning” is almost always omitted completely from these contracts, as are the words “achievement,” “success,” and even “student”—unless it is in a clause concerning class size.

Negotiations over employee contributions to health insurance policies have been the sticking point in many collective bargaining sessions, and the primary cause for teachers working without contracts for extended periods in various districts. For example, teachers in Springfield have been without a contract since 2002, and although there are many innovative educational reforms and condition changes on the table in the Education Association’s negotiations with the Financial Control Board, employee insurance contributions are a main issue of contention.

Worcester is another city where health insurance contributions stalled collective bargaining—to such an extent that the teachers were forced

Figure 1



to work for a year without a contract. The agreement that was finally reached in June 2006 appears to have brought the teachers in line with other collective bargaining groups in the city, but closer inspection tells another story: Existing teachers would pay 20 percent of their health insurance cost under the new contract, and new hires would pay 25 percent, the same arrangement police officers agreed to last year. In exchange, though, teachers will receive a bump in salary of \$1,350 in fiscal 2007, an amount designed to offset the increased health insurance costs. Nine of the 47 schools in Worcester have been declared underperforming, and the agreement that was eventually reached addresses the important issues of common planning time and class size, and gives teachers and administrators more flexibility in how they improve underperforming schools. These essential educational improvement matters should not have been held up for a year by health insurance negotiations.

This problem is not unique to Massachusetts. The start of the 2006–07 school year in Gary, Indiana and Detroit, Michigan were indefinitely delayed by teacher strikes based in large part on union disagreement with an increase in teacher contributions to health insurance premiums (in Gary it was an increase from 7 to 10 percent, in Detroit it was an increase to 20 percent). If insurance were not part of the collective bargaining agreement, teachers could be off the picket line and students in class for the first day of school, because negotiations would have centered on pay and the educational improvement initiatives that were proposed in both cities.

PROPOSED SOLUTION

A standard agreement on group health care for all public school teachers across the Commonwealth, including them in the large pool of state employees in the state-administered GIC, would both save the municipalities hundreds of millions of dollars by taking advantage of a larger pool and make room for the discussion of raising student performance by taking a divisive topic off the negotiating table. Moreover, besides saving cities and towns money, it will also make the local budgeting process more consistent and predictable. With mandated participation in the GIC system, school employee and retiree contribution percentages will be set once and in a fiscally responsible manner for everyone—not 350 times in 350 districts and subject to periodic change during agonizing contract negotiations.

There are favorable precedents for such a policy. The Massachusetts Teachers Retirement System (MTRS) covers all 74,000 public school teachers and 40,000 public school teacher retirees in the Commonwealth. Since 1914, all teachers have been required by law to pay into the system (M. G. L. c.15 s16). The employee contribution to this

system is non-negotiable and is currently set at 11 percent of gross pay for all new public school teachers. Employees with greater seniority pay as little as between 5 and 9 percent.

The MTRS has eliminated what could have been a major source of conflict from the negotiation process, especially since pensions are just as important to union members as health insurance, and because union members close to retirement often dominate the bargaining table. In 70 Massachusetts districts, the hornet’s nest of retiree health benefits has also been removed from the negotiating table. These school districts (none of them major urban centers) have chosen to participate in the Retired Municipal Teachers’ (RMT) program to take advantage of the financial benefits of belonging to a large insurance group. When member districts’ teachers retire, they enter a multi-district health insurance group administered by the GIC, which is aligned with the state employees’ health coverage program and contribution schedule for retirees. This successful arrangement alleviates the need for retirees’ health benefits to be part of the teachers’ contract negotiation process, as occurs in the other 280 districts, thus saving districts not only money on retiree benefits, but also this bargaining complication.

BENEFITS

While shifting the focus during negotiations to how to increase student performance is crucial, the strongest argument for teacher participation in the GIC is a fiscal one. As Figure 2 below illustrates, despite mushrooming health care costs over the last five years, because of economies of scale the spending on health care for Massachusetts state employees has risen much less than that of local and municipal employees, including teachers.

The GIC was established by the state legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth’s employees and retirees, and their dependents and survivors. The GIC also covers the insurance needs for housing and redevelopment authorities’ personnel, retired municipal employees, and even retired teachers in a small number of municipalities.

The 350 small groups, comprising 74,000 teachers, simply do not have the buying power and clout as one large group consisting of 270,000 state employees. Moreover, while most teachers’ contracts specify just one or two insurance options, the GIC administers a dozen different plans.

The FY06 appropriation by the state to pay for its 85 percent share of health insurance premiums for 270,000 employee members of GIC

Figure 2

Fiscal Year	Percent Increase	
	Local Employee Health	State Employee Health
	Appropriation	Spending
2001	--	--
2002	14.9	11.8
2003	14.3	3.1
2004	12.8	6.5
2005	10.1	5.2
Total change	63.2	29.2
Annual average	13.0	6.6

Source: MMA/MTF 2005 Municipal Health Cost Survey; MTF analysis of DOR municipal financial data

was \$1.0232 billion, which breaks down to approximately \$3800 per member,⁹ far less than school districts currently pay into employee health insurance. In some cases, this figure is even less than teacher contributions to their district plans.

Some school districts are paying more than \$20,000 a year per employee. Although Westport has bargained itself down to paying only 50 percent of the insurance premium for a town employee, it, because of its small pool of employees, pays more than \$9,000 per employee. Winthrop, another town with a 50-50 split, pays \$8670. Another small district paying astronomical contributions to health insurance is Nantucket, which, with its 90 percent employer contribution to Blue Cross/Blue Shield, pays nearly \$22,000 per school employee.

The larger districts fare no better, since they tend to pay larger portions (75–99 percent) of the premiums. A sampling of the current per capita health insurance costs for several urban Massachusetts school districts and an estimate of the yearly savings they would enjoy by participating in GIC follows:

District	FY06District Contribution	pprox. Total Savings Per Teacher with GIC
Boston	\$13,672	\$45,658,000
Brockton	\$11,934	\$9,061,000
Cambridge	\$20,200	\$9,758,000
Haverhill	\$13,702	\$5,396,000
Lawrence	\$16,645	\$11,740,000
Lowell	\$9732	\$6,856,000
Peabody	\$14,100	\$4,903,000
Springfield	\$10,820	\$16,202,000
Worcester	\$15,412	\$20,449,000

Suburban districts across the state are in the same situation as the urban districts, and in this time of especially tight budgets, even with the influx of new Chapter 70 money, they would also benefit from a statewide system of health insurance for teachers:

District	FY06District Contribution	pprox. Total Savings per Teacher with GIC
Acton	\$12,415	\$1,214,700
Lincoln-Sudbury	\$9457	\$780,666
Longmeadow	\$7313	\$857,172
Marlborough	\$13,481	\$3,399,000
Nantucket	\$21,663	\$2,500,820
North Adams	\$11,990	\$1,466,000
Weston	\$21,737	\$3,569,000

Districts should be making their insurance contributions to the larger GIC pool, instead of separate plans. By following the proposed plan to include their teachers in a statewide insurance pool administered by GIC, the savings realized in these 16 municipalities alone would be almost \$150 million per year. The savings from 350 districts would be proportionately greater. In a time in which more than one hundred Massachusetts schools have been identified as having more than half their students failing the MCAS for more than two years in a row, and when fewer than 40 percent of the students in our state are proficient in mathematics, and only 44 percent are proficient in English language arts (according to the National Assessment of Educational Progress), that money can be much better spent elsewhere.

CONCLUSION

The magnitude of the savings that would result from this policy change—money that could and should be pumped into targeted education reform—is quite astonishing, but there will be resistance from teachers unions as well as from the municipalities who will be saving all of the money. Local control is a precious thing in New England, especially when dealing with an intimate issue such as health care. Also, even though premiums under the GIC will be considerably less for most teachers (for instance, the 15 percent contribution to the state plan is significantly less than even the 10 percent [\sim \$1400/year] contribution a Peabody teacher currently makes, because of the economies of scale in the GIC), many will still object to letting the state set the percentage, especially when it is on paper higher than the presently bargained contribution.

A small number of retiree health benefits currently under the auspices of the RMT system may have to be adjusted under this policy, which could also be a concern, and may provoke objections from the Retired State, County, and Municipal Employees Association of Massachusetts. There will also have to be consensus about requiring all retirees to enroll in a Medicare extension plan, but this will no longer be a question for the negotiating table, as it is now.

These mainly emotional objections are far outweighed by the pragmatic and financial benefits of removing health insurance issues from collective bargaining agreements and entering teachers, retired teachers, and, indeed, all school employees in the state-administered GIC, with districts making their health insurance contributions to the state, rather than to prohibitively expensive individual district plans.

The hundreds of millions of dollars that would be saved by creating a standard agreement on group health care for all public school teachers and including them in the GIC would be better spent on educa-

tional reform and improvement. We will finally have the resources to improve the underperforming schools in the urban centers and to work on increasing the number of students doing proficient and advanced work in the economically crucial areas of math and science. We should not be throwing away district funds and hard-earned teacher pay on collectively bargained insurance plans and premiums when there is a viable plan available to us in the GIC, in which districts and municipalities can participating as equal partners with the state.

Including teachers in a statewide system of health insurance should just be a first step in reforming municipal health insurance policies. Once health insurance has been successfully removed from teachers' collective bargaining agreements, it should also be removed from all other municipal collective bargaining agreements: this will be the focus of further research.

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Using Incentives to Fight Fraud and Reduce the Cost of Auto Insurance

Massachusetts State Senator Susan C. Tucker

INTRODUCTION

Until a few years ago, the automobile insurance companies serving the city of Lawrence, Massachusetts were suffering under a deluge of claims for auto theft, reported accidents, and personal injury claims, and passing on their costs to the city's drivers, good and bad. However, after State Senator Susan Tucker investigated the problem, finding that much of the excess cost was due to fraudulent insurance claims, and helped draw the community together to fight insurance fraud with all the political, legal, and professional means at its disposal, the rates of auto theft, reported accidents, and personal injury have dropped greatly. However, while drivers across the state have gained lower rates, substantial rate relief has yet to come to Lawrence drivers directly, both imperiling the coalition and the progress it has made, and failing to encourage other urban areas to follow its example.

A statewide policy that earmarked some of the money saved by the insurance companies by reducing fraudulent claims in urban areas to urban drivers with good driving records would give Lawrence the support it needs to continue and complete its efforts and encourage other urban areas to follow its example.

THE PROBLEM

Expensive urban auto insurance not only costs drivers money, but it has social and political ramifications. First, it is a major reason why some families who have worked their way into the middle class decide to move out of the city. The money a family can save annually on auto insurance by moving out of the city is often the equivalent of a mortgage payment or two in another community. High urban insurance rates, then, undermine the investments the government has made to make our cities stronger. Second, it is a major obstacle to the efforts of Insurance Commissioner Julianne Bowler and Consumer Affairs

Secretary Beth Lindstrom to introduce more competition into the state's auto insurance system. Much of the resistance to reform has come from legislators in urban districts who are concerned that their constituents will be paying even more for insurance than they are now.

Because Lawrence is one of these urban areas, how it has reduced its cost to insurance companies, if not to its drivers yet, is of interest to other urban areas, and the state as a whole.

THE LAWRENCE STORY

In 2000, State Senator Sue Tucker, alarmed at what her constituents in Lawrence were paying for auto insurance, met with local police, the district attorney, insurance fraud investigators, the local bar association, the statewide chiropractors group, and state agencies like the Registry of Motor Vehicles and the Attorney General's office. Three relevant facts emerged from these discussions:

1. Lawrence's insurance rates were so high because its number of insurance claims was so high, and, therefore, reducing the cost of insurance depended on reducing its number of claims.
2. A small number of attorneys, medical clinics, and chiropractors, many from outside the city, had set up shop within the downtown area and conspired with some local drivers to file a growing stream of false accident and injury claims for over a decade unchecked. If they could be stopped, the claims and the cost of insurance would drop.
3. Everyone was blaming everyone else for the problem. Law enforcement blamed the insurance companies for passing the costs of the fraudulent claims onto consumers. Prosecutors blamed the local police for not investigating the accident scenes thoroughly. Attorneys blamed the state laws that ranked auto fraud as a simple misdemeanor and lacked specific prohibitions against paying people to stage accidents. Therefore, a successful resolution of the problem would require a broad policy that would bring all the parties together.

In the words of the *Eagle-Tribune* Editor-in-Chief William Ketter:

Fake accidents. Phony injuries. Fishy claims. Quick pay-offs. Repeat and pretend. That's the merry-go-round of automobile insurance fraud that nobody was stopping in the City of Lawrence and the state's other poor urban communities. The consequence: millions of dollars every year in unnecessary bodily injury costs that translate into among the highest auto insurance rates in the country for drivers throughout Massachusetts.

In January 2002, Senator Tucker used \$10,000 of her own money to mail every household in the city a leaflet inviting them to join her for a citywide forum explaining why the rates in Lawrence were so high and what needed to be done to bring those rates down. However, she found that the insurance rate-setting process and the connection between high rates and the problem of fraud were difficult to communicate to her constituents.

In fact, it was not until a 65-year-old grandmother was killed while participating in a staged accident on the night of September 4, 2003 that auto insurance fraud became headline news and the public was startled into making the connection between rampant fraud and exploding insurance rates.

The Insurance Fraud Bureau, the Lawrence Police Department, and the Essex County District Attorney quickly organized an aggressive team of investigators and prosecutors to pursue those engaged in filing suspicious insurance claims. Shortly thereafter, the *Eagle Tribune*, led by reporter Mark Vogler, published a powerful, in-depth series exposing the nature and severity of the fraud problem. Among the main findings were:

- Although law enforcement and insurance industry officials knew since at least 1990 that fraud was rampant in Lawrence, they had failed to mount a serious effort to combat it;
- Between 1993 and 2002, the number of chiropractic and physical therapy clinics in Lawrence had increased 550 percent, while the number of bodily injury claims rose 150 percent (see Figure 1);
- Four of the twelve top-billing chiropractic clinics in Massachusetts were located in Lawrence (see Figure 2);
- Some insurance companies were aggressively pursuing fraud while others with a greater market share in the city were doing noticeably less (see Figure 3).

Once the community was engaged, it provided the political will to motivate other agents. The state legislative delegation, led by Senator Sue Tucker, worked to pass new legislation that made auto insurance fraud a felony and outlawed the act of “running”—the lucrative practice of lawyers and medical providers paying for cases. In partnership with the local police and the district attorney, the insurance industry funded a task force to investigate and prosecute suspicious claims. The chiropractic and legal communities aggressively worked

Figure 1

THE BOOM YEARS: CLINICS, CLAIMS AND COSTS EXPLODE				
Year	Clinics in Lawrence	Injury claims per 100 accidents	Number of claims	Insurance loss total
1993	4	106	2,980	\$13.16 M
1994	5	106	3,038	\$13.68 M
1995	6	125	3,479	\$15.79 M
1996	6	111	3,611	\$16.93 M
1997	7	121	4,131	\$19.61 M
1998	9	114	4,170	\$20.40 M
1999	14	106	4,575	\$22.75 M
2000	16	128	5,313	\$26.74 M
2001	20	138	6,329	\$31.74 M
2002	20	141	7,035	\$32.75 M
2003	26	NA	NA	NA
INCREASE				
(‘93-‘02): 550% 33% 136% 149%				

Source: Automobile Insurers Bureau of Massachusetts, *Yellow Pages*.
Notes: Figure for clinics includes chiropractic and physical therapy clinics operating in Lawrence as listed in *Yellow Pages*. Actual number of clinics was higher. Figures for number of claims and loss amount include totals for bodily injury and personal injury claims.

Figure 2

TOP-BILLING MASSACHUSETTS CHIROPRACTIC CLINICS			
Local clinics in boldface			
Rank	Location	Name	Amount billed 2003
1	Lawrence	Lawrence Back & Neck	\$3.16 million
2	Springfield	Chiropractic Health Care Centers of Western MA	\$2.32 million
3	Lowell	First Spine & Rehabilitation	\$1.89 million
4	Dorchester	Champion Spine Centers	\$1.73 million
5	Brockton	New England Chiropractic	\$1.61 million
6	Dorchester	First Injury Chiropractic	\$1.53 million
7	Jamaica Plain	Hyde Square Chiropractic	1.47 million
8	Boston	Boston Community Chiropractic	\$1.47 million
9	North Andover	Kaplan Chiropractic	\$1.43 million
10	Lawrence	Advanced Spine Centers	\$1.29 million
11	Lawrence	Primer Chiropractic	\$1.23 million
12	Randolph	Barbati Chiropractic	\$1.22 million

None of the listed businesses is under investigation or accused of any wrongdoing.
Source: Automobile Insurers Bureau of Massachusetts

at weeding out the rogues in their professions who were perpetrating these claims. These combined efforts resulted in more than 150 arrests, ultimately saving the insurance industry \$30 million in claims, one of the factors behind the recent 8.7 percent statewide auto insurance rate cut.

Five years later, the situation has dramatically improved. Lawrence has reduced its rate of personal injury claims per 100 accidents from 141 in 2003 to 60 in 2005. There has been a 58 percent reduction in auto thefts and a 29 percent reduction in reported accidents. However, although Lawrence drivers were paying extra because of the rampant insurance abuse, their city's reduction of that abuse has only lowered their insurance to the degree it has lowered the cost to all drivers across the state: They, and especially those drivers with the best driving records, are still paying too much.

This lack of positive reinforcement not only threatens to undermine Lawrence's coalition against insurance fraud, but also hinders the

duplication of the community involvement behind Lawrence's success in other urban areas across the state. Under the current system, it takes four years for a community like Lawrence to experience fully the financial benefits of its achievement, making it hard to keep the public momentum and commitment to see through such a program. In addition, a significant time lag exists between the data used to set rates in Massachusetts and the data used to define territories, the key to defining the cost of an individual's auto insurance bill. The current territorial assignment and ratemaking process lack the flexibility that would encourage communities to begin and continue initiatives to reduce false claims.

THE PROPOSED SOLUTION

A statewide policy that returned some of the money saved by the insurance companies through a reduction of fraudulent claims in urban areas to urban drivers with good driving records would both encourage Lawrence to continue its efforts and spawn versions of its initiatives in other urban areas. It would encourage drivers with good records to become advocates within their communities for an aggressive crackdown on dubious claims. Without this citizen-based advocacy, there will not be the political will to see through the long-term reduction of insurance fraud.

The proposed incentive plan works as follows: excellent drivers that live in communities with personal injury claims more than twice the state-wide average will be rewarded if their community reduces its rate of claims by at least 25 percent. One-quarter of the total savings generated by this claim reduction would be credited to these drivers on their annual auto insurance bill—half in the first year after the 25 percent reduction and half in the following year. An “excellent” driver is defined as an operator who has been incident-free for the most recent six years.

In addition to earning a rating of “excellent,” eligible drivers must have registered their car in the city for the entire year the claim reduction occurred and must also keep their car registered in the community during the entire two-year period the credit is to be applied. Not only is this fair, but it also reduces the amount of credits insurers will have to issue because inevitably some of these excellent drivers will move away from the city during these three years.

No additional state bureaucracy would be needed to administer the proposal: it would be handled at the driver’s insurance company. Spreading the credit over two years buffers the costs to the insurance companies, and returning only a quarter of the savings acknowledges that non-urban, non-excellent drivers also have a claim to some rate relief.

What would this incentive mean for a city like Lawrence? To gain some idea, we will use the latest available data, from 2004. It shows there were 25,493 private passenger registrations in the city, of which 42.9 percent (11,130) earned the rating of Step 9, the best driver rating.¹³ Because the total amount of savings in Lawrence was \$30 million, one quarter of that sum or \$7.5 million would be returned to the city’s highest-rated drivers. Dividing this \$7.5 million by the estimated 11,130 highest-rated drivers equals \$674 per driver. Because the credit will be returned on the driver’s insurance bill over two years, these drivers will receive a \$337 credit each year. The other \$22.5 million in savings would be spread across the statewide pool, benefiting all Massachusetts drivers.

Figure 3

SOME INSURERS MORE AGGRESSIVE PURSUING FRAUD

Some insurance companies doing a relatively small amount of business in Lawrence have worked more aggressively with the city’s auto insurance fraud task force than some companies doing more business. Chart shows each company’s market share in Lawrence, the number of cases it referred to the task force that resulted in prosecution and the number of people charged as a result. So far, 60 have been charged in the crackdown. Numbers shown here add up to more than 60 because some cases were referred by more than one insurer. Other cases referred by insurers are pending.

Company	Market share	Case referrals	No. charged
Arbella Mutual	21.4%	0	0
Commerce	14.3%	0	0
Safety	12.9%	1	6
Liberty Mutual	11.0%	1	9
Plymouth Rock	10.2%	1	8
Metropolitan	6.7%	1	4
OneBeacon	5.6%	6	23
Hanover	4.3%	1	8
Travelers	3.8%	0	0
American Casualty	2.6%	0	0
National Grange	2.4%	1	6
Norfolk & Dedham	1.5%	0	0
Amica Mutual	1.3%	4	20
Pilgrim	0%	1	6
Others	Less than 2%	0	0

Source: Commonwealth Automobile Reinsurers, Lawrence Auto Insurance Fraud Task Force.

BENEFITS

Such an incentive plan should create these benefits:

1. After the two years during which the credit is paid, the state will have lower claim rates and genuine savings on auto insurance for all drivers. (Drivers across the state have already enjoyed an 8.7 percent reduction in their 2006 rates and recent news suggests that statewide drivers are in line for another significant reduction in their 2007 rates.)
2. Urban drivers with excellent driving records will have been made advocates for fighting auto insurance frauds within their communities.
3. Insurance companies will have fewer claims to pay out and will have strengthened consumer loyalty with highly-profitable “excellent” drivers in urban communities.
4. A meaningful reduction in high auto insurance bills for urban drivers would encourage families that have worked their way into the middle class to continue to stay and prosper in our cities.
5. Since lower claim rates in urban areas may minimize a potential spike in rates for urban drivers under a competitive system, there should be less resistance from urban legislators to a more competitive auto insurance system.

POTENTIAL OPPOSITION

1. Some insurance companies will resist returning any portion of what they gain from a reduction in payouts for fraudulent claims, arguing that these reductions may be short-lived or outweighed by increases in expenses in other categories. In contrast, other insurance companies will be amenable to this proposal since they recognize that they are only being asked to return 25 percent of their savings to the best drivers in the targeted urban areas. These insurance companies also understand that the most profitable drivers to insure in the entire state are these same excellent, claim-free, urban drivers because they pay high rates but do not file claims.
2. Suburban drivers, who are often cynically told that they are already subsidizing urban drivers, may object to the special reductions earmarked for urban drivers when urban communities reduce the number of false claims. However, the break received by urban drivers must be substantial enough to engage them in the effort to fight false claims or the reductions achieved in the last two years will be lost. If urban drivers do not receive meaningful relief, they will

not become politically involved, and unless they become politically involved, there will be no effort and no reduction in fraudulent claims, and the rates will remain the same for everyone. In other words, suburban drivers will only get a reduction if they allow urban drivers to receive a greater reduction.

RELEVANCE TO MASSACHUSETTS

Everyone acknowledges that the State of Massachusetts suffers from high insurance rates and high rates of fraudulent claims, and up until recently, it has been able to do little about either. Partly because of the aggressive policies discussed, both rates have dropped, and the preliminary 2006 data presented at the Division of Insurance's rate-setting hearing in August indicate another fall in accident-related claims, which should show up next year as another cut in insurance rates. While at some point insurance rates will bottom out after most of the fraud has been rooted out, we know we are not there yet since several major urban areas are still at an early stage of their fraud crackdown. That is why properly incentivizing our urban areas to intensify and sustain the pressure of these crackdowns will continue to pay large dividends for all Massachusetts drivers.

However, addressing the fraud issue alone will not be enough to reduce the statewide claims rate to the level it could be. Senator Tucker has recently introduced legislation S.656, *An Act to Reduce Auto Insurance Costs and Premiums in the Commonwealth*, which will examine a number of ways to improve safety on our roads and thereby further reduce insurance premiums: providing discounts for driver education and safety programs, identifying and redesigning the most dangerous intersections, and improving the enforcement of traffic violations.

CONCLUSION

Lawrence's story clearly illustrates that it is possible to dramatically reduce fraudulent claims by creating teams of law enforcement, insurance companies, and citizens to send a loud, clear, and sustained message that fraud will not be tolerated. Less fraud has meant large savings for drivers across the state.

The debate over the Massachusetts auto insurance system is only likely to get hotter in the months ahead. A statewide policy that uses financial incentives to encourage urban drivers to reduce claims will not only lower rates for all drivers in Massachusetts, it will also help address the fundamental political tension between urban and suburban drivers when reforms are proposed.

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Significant Improvement of Government Functions

■ Charter Agencies

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Team Leader, Accountability and Results

Iowa Department of Management

This Iowa program replaces traditional state bureaucratic structures with agencies that have greater administrative flexibility, but are held accountable for measurable customer benefits and cost efficiencies.

■ Reducing Senior Citizen Institutionalization

James C. Fitchett

President and CEO

ProVentive

A proposal to reduce unnecessary nursing home institutionalization of Massachusetts senior citizens by using a data-driven focus on health and social measures to improve the quality of preventive care.

■ Smart Growth Environmental Regulations

Kurt Gaertner

A proposal to retain local regulatory power over Title V wetlands, accomplish intended environmental and public health purposes, but ensure that these important local environmental regulations are not employed as obstacles to housing development.

■ Promoting Transparency, Efficiency and Quality in the MA Healthcare System

Dolores L. Mitchell

Executive Director

MA Group Insurance Commission

The General Insurance Commission in Massachusetts has embarked on a multi-year effort (Clinical Performance Improvement Initiative) to save enrollees tens of millions of dollars while improving the delivery of care by promoting transparency of information, greater efficiency and incentives for higher-quality care.

