

HIT THE GROUND RUNNING



PIONEER INSTITUTE 2010 AGENDA FOR LEADERSHIP



School Reform



Better Government



Economic Opportunity



Health Care



Middle Cities



HIT THE GROUND RUNNING

LEADERSHIP FOR A FOCUSED AND EFFECTIVE GOVERNMENT

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THIS IS THE STARTING GUN

When the electoral hoopla ends and voters wake up on November 3rd, the state will face serious challenges. Over the past decade, 300,000 jobs have been lost. The stimulus money and rainy day funds are gone. The state's real budget deficit remains and is coming due with a vengeance.

The next Governor, the new Legislature, auditor and treasurer face hard choices about policy, the role of government, and our futures. Newly elected officials will all have to lace up their shoes and hit the ground running. The size of the challenges – and yes, of the opportunities to move the state in the right direction – are enormous.

Hit the Ground Running is an agenda for the leadership Massachusetts needs over the next four years, whether in education and health care, or in budgets and job creation. Our blueprint for a prosperous and confident Massachusetts is based on years of research and a keen eye on political and economic realities. It presents an action plan for the budget deficit, education, government transparency, transportation, health care, how to rebuild cities, and job creation.

WHERE IS THE FINISH LINE?

The Commonwealth of Massachusetts has a glorious history, and its future is in our hands. We must live up to the promise and principles that have made this state and our country great. The quality of our leaders we entrust to the people. The quality of ideas is the work of Pioneer Institute. With an understanding of what, empirically, works and what doesn't, we seek to ensure our future prosperity and happiness. Get involved on our website, our blog, or contact us directly with your thoughts.

A handwritten signature in black ink, appearing to read 'James Stergios', located below the main text.

James Stergios
Executive Director



TOUGH BUDGET CHOICES AHEAD

Summary: The next budget from the Governor will have to address a structural deficit in excess of a billion dollars. A series of short-term plugs from the rainy day fund and the federal government have gotten us through the recession, but those sources are largely exhausted. To responsibly address our fiscal issues, the next Governor must enact reforms and make cuts that save money and reduce fixed costs. These include: 1) reducing headcount in state government to 2004 levels, 2) reducing compensation costs, 3) repealing the Pacheco law that limits the benefits of using the private sector, 4) lowering the threshold for communities to join the health insurance pool for state workers or, and 5) reforming the pension system.

When the next Governor of Massachusetts submits a budget to the Legislature this winter, he or she will have to address a deficit in excess of a billion dollars. Those budget decisions will define his or her term. Not only will it curtail what the next Governor can do, but the structure of Massachusetts' state government.

The projected deficit comes in the wake of a recession that began almost three years ago. For the most part, the Governor and Legislature have been able to weather the financial storm. State spending has held relatively steady over the past two years. But this is due primarily to withdrawals from the state's rainy day fund, huge and one-time federal stimulus, and a 25% increase in the sales tax.

The next Governor will not have these options at his or her disposal, meaning that the maintenance of current levels of spending will be difficult. The rainy day fund is nearly depleted, federal stimulus is set to expire, and the mood of the electorate makes further tax increases political suicide.

To date, the Governor and Legislature have been able to avoid making difficult decisions that could address the deficit. Those decisions no longer can be avoided.

Exacerbating the current situation has been state government's habit of rapidly increasing spending during years with strong increases in tax receipts, a habit exacerbated by our dependence on volatile capital gains taxes.

For example, state government's workforce grew by almost 10%, or 7,500 employees, during the brighter economic times between 2004 and 2008. That type of growth is unsustainable and once incurred politically difficult to prune back.

So it is time for tough choices. Some state leaders will be inclined to continue relying on incremental, across-the-board cuts. In the short term, that will result in underfunded, ineffective programs; in the long run, we will again see state government seek unsustainable increases in revenues to support a return to pre-deficit staffing and spending levels.

What to do? Here are five actions the next Massachusetts Governor can undertake to close over a billion dollars in the state budget deficit.

1. Reduce the state's workforce to a level equal to what it was in 2004.

State Payroll is among the largest areas of expense for the state. The current deficit requires that these costs be addressed, so short-term savings can be found and long-term sustainability achieved.

During previous recessions, state government relied on attrition and hiring freezes to control headcount, but neither of these is a long-term solution. Attrition is an ongoing process that occurs every year, good or bad; it will not achieve any real savings alone. Similarly, a hiring freeze only holds open an already unfilled position.

More recently, the state has played a semantics game to obscure the reality of state workforce numbers – moving employees to off-budget accounts and freely conflating “positions eliminated” with actual reductions in the workforce.

Cutting overall state employment levels to what they were in 2004 will allow state government to



maintain core services while containing costs. At an average compensation of \$53,436, eliminating 7,000 workers from the state payroll would result in savings of \$370 million.

2. Seek reasonable wage concessions from state employees.

Actuarial records suggest that the average annual salary increase for state employees ranges from 8% annually in their first year of employment to 4.5% after 20 years. As an instructive, but nonparallel frame of reference, average annual pay in the private sector in Massachusetts increased at an average rate of only 3.4% annually between 2001 and 2007.

Massachusetts public employees make as much, and typically more, than their private sector peers. According to data from the U.S. Department of Labor, state employees make an average of 15 percent more.

A closer look at the data reveals a more nuanced picture. Some occupations earn better compensation in the private sector. However, no average public sector wage was more than 10% below the private sector level of compensation. Conversely, certain public sector occupations received huge premiums – wages were 90% higher for service workers and 40% higher for transportation-related employees.

Moreover, these calculations only examine wages and other forms of salary; they do not account for the public sector's more generous pension, leave, and health benefits.

Comparable compensation is to be wished for; unfettered growth in state employee compensation is unsustainable.

3. Repeal the Pacheco law, which limits the state's ability to choose the most efficient way to deliver services.

Too often, our state and local governments have embedded obstacles in their procurement processes that make it nearly impossible to

achieve the efficient and cost-effective delivery of public services.

Every dollar wasted through inefficiency is a dollar that cannot be used for other purposes — education, public safety or services for the most vulnerable among us. This is most certainly true when facing a large deficit. Every dollar the next Governor fails to save by making state government more efficient is a dollar he or she will have to cut from a direct service program.

The most effective way for Massachusetts' state government to become more efficient is to reduce its supplier costs. To do that, the next Governor of Massachusetts must push the Legislature to repeal the Pacheco Law.

Enacted in 1993, the Pacheco Law prevents state government from achieving faster, better, and cheaper delivery of state services through outsourcing, lease arrangement, or outright privatization.

Outsourcing isn't easy. It requires the clear definition of objectives, effective state oversight, and protections from conflicts of interest. But repealing the Pacheco Law would allow state entities to access a full range of procurement options available to public entities across the country and around the globe.

To those who believe a word like "privatization" is invariably bad, governments the world over, even a Social Democratic government like Canada's, frequently partner with private entities to provide public services. The focus should be on the successful delivery of those services, not on how they are delivered.

This is no more important than in the context of transportation. Currently, in addition to a projected \$2 billion fiscal year deficit, the state faces a transportation maintenance backlog estimated to be \$17 billion. This includes the need to fix the state's roads, bridges and subways, an issue we highlighted in 2007. There is not enough room in the state's capital budget to meet this need and build new public transportation



projects, whether it is the Green Line extension to Medford, the Blue Line extension to Lynn or the Southeast Commuter Rail line to New Bedford and Fall River.

But if the Legislature were to repeal the Pacheco Law, the state would have options to employ Design-Build-Finance-Operate-Maintain and Design-Build-Operate-Maintain agreements. These options have elsewhere reduced lifecycle costs by up to 40%, while reducing delivery time by 25%. They are an essential tool if we are to address the state's underinvestment in maintaining its infrastructure.

Unfortunately, due to restrictions written into the Pacheco Law, our public servants cannot currently use them. Yes, the Legislature recently raised the threshold for contracts that must adhere to Pacheco Law restrictions, but it failed to repeal the law outright. At \$500,000, the threshold remains far too low for the needs of our most complex and expensive transportation and infrastructure projects.

Massachusetts has the most restrictive procurement measures of any state in the country. At a minimum, Massachusetts could save an estimated \$55 million annually if state government were free to employ a broader range of procurement options currently restricted by the Pacheco Law.

4. In the absence of direct aid, work with the Legislature to give cities and towns the flexibility to manage their costs.

The looming state budget deficit will make it difficult for the next Governor and the Legislature to hold local aid harmless. As their costs, particularly their employee health care costs, will continue to rise, there will still be less money available in the form of local aid for cities and towns to spend on direct services.

The 2007 Municipal Partnership Act gave them the ability to raise their meals taxes. It also included a provision that allows them to purchase health insurance for their municipal employees

through the state's Group Insurance Commission if 70% of their Public Employee Committees approve. It isn't enough.

There has been talk of lowering the threshold for approval from municipal Public Employee Committees from 70% to 50%, but the Governor and Legislature should eliminate it entirely and allow cities and towns to join by a majority vote of the city council, or board of selectmen, and approval of the mayor (or manager in Plan D and E communities).

The GIC is attractive for two reasons. First, its rate of cost growth is low compared to most cities and towns. This is due to its much larger purchasing pool and the resultant leverage it has with insurance companies. Perhaps just as importantly, the GIC has the ability to alter plan design without bargaining for it.

As a result, the rates that municipalities pay are usually higher and growing at a faster rate. Given the limits placed on them by Proposition 2.5, and the inability, due to the collective bargaining requirement, to react quickly to changes in the health insurance market, this disproportionate rate of increase is crowding out other municipal activities.

For much of the past decade, the GIC's annual average rate of growth was 8.1%. Most cities and towns suffered rates higher than this, in some cases considerably higher. Lowell, for example, during the five years from 2001 to 2006, saw annual increases of 19.1%. In a 2007 analysis, we determined that, at growth rates equal to those witnessed over the previous 5 years, Lowell would save \$445 million over ten years by joining the GIC. As context, Lowell's entire operating budget is roughly \$300 million.

GIC consolidation eases the pressure on local budgets, providing more money for direct services and reducing the need for higher taxes. The next Governor of Massachusetts must work with the Legislature to remove the last obstacles preventing cities and towns from joining.



5. Go beyond cosmetic pension reforms passed during the most recent legislative session so that the changes result in significant benefit cost containment.

Loopholes were closed as part of recent pension reforms, including the rule that allowed one day of service to count as one year toward a pension. But what should be three goals of any public pension system have yet to be attained: attracting and retaining a quality workforce, treating that workforce equitably, and ensuring that the system does not place an undue burden on taxpayers.

To begin, the system is needlessly complex. Benefits are calculated based on four factors—years of eligible service, the employee’s three highest years of compensation, his or her “group” or job classification and, finally, age at retirement.

Its complexity has allowed Massachusetts’ pension system to be abused for the benefit of select employees, in some cases at tremendous expense to the Commonwealth. It treats employees inequitably, conceals costs, making it easier to shift them onto future taxpayers, and distorts incentives.

Some of the problems affect only a small number of employees and impose negligible costs. Others impact tens of thousands of employees and impose huge costs. In total, these flaws raise the state’s liability by billions of dollars and increase the required annual payment into the pension system by more than \$125 million.

The bulk of this cost derives from Retirement Plus and other early retirement programs, but the all too common practice of moving employees into higher classification groups and granting raises leading up to retirement to help boost employees’ pension calculations add millions more.

There are ways to address the shortcomings. Some have suggested capping pensions at \$100,000. While this would address a small number of gross abuses, it would leave the vast array of unfair practices unaddressed.

Instead, the next Governor of Massachusetts should promote the following reforms:

- Enact pay-as-you-go language to require any change in benefits to be funded, in full, within three years. This would reduce the incentive to push costs onto future taxpayers. It would also discourage early retirement incentive programs and the practice of moving employees to higher classification groups.
- Tie benefits more closely to lifetime contributions. For example, an employee’s pension could be limited to no more than a multiple of the sum of total contributions and investment earnings. This change would stop a large salary increase late in one’s career from inflating one’s pension.
- Pro-rate pensions based on tenure in each group to eliminate large windfalls based on only a short service in Groups 2, 3, or 4 would ensure equity and mitigate the practice’s full impact.

These reforms would address many of the system’s current inequities. However, the pension system presents an almost irresistible target for the Legislature. For example, between 2001 and 2005, the Legislature passed almost 100 laws that dealt directly or indirectly with Chapter 32.

As long as the determination of pension benefits is rooted in the four dimensions of retirement age, eligible years of service, group classification, and the maximum three years of salary, it will be almost impossible to stop new exceptions and loopholes from being enacted.

Ultimately, what the next Governor of Massachusetts should be pushing for is to move from the defined benefit to a defined contribution or cash balance plan. In defined contribution plans, benefits are tied directly to contributions. This immediately eliminates the difficulties around classification and late-career salary growth. It would also make costs transparent.



Just as importantly, moving to a defined contribution or cash balance plan would remove the incentive too many state employees have to remain in jobs they no longer want. It would also make the pension system more attractive to younger employees, who are much more likely than their parents or grandparents to move from job to job, including in and out of government service.

The Governor cannot accomplish these reforms alone. The Legislature retains oversight over the pension system. The next Governor of Massachusetts must push and cajole the Legislature into doing something that is, in fact, against its individual members' best interests. It won't be easy, but it's the only way to ensure that the state's pension system is one that is equitable to employees and not an undue burden on taxpayers.



AIMING FOR THE BEST SCHOOLS IN THE WORLD

Massachusetts is, as former State Senate President Tom Birmingham has noted, a state that prospers by its wits. Our competitive advantage is our highly educated citizenry, produced by our world-class colleges and universities and our system of elementary and secondary public schools, which are now the best in the country.

The success of our students over the last decade on national and international tests stems directly from passage of the landmark Education Reform Act of 1993 (MERA). Then, the state agreed to pump billions directly into local school districts in exchange for high academic standards, innovation through charter schools, and accountability through rigorous testing for students and teachers and audits for local districts and schools.

Despite our success, challenges remain, particularly the persistent achievement gaps and the need to increase the number of Massachusetts students performing at an "advanced" level in math and science. This winter, the Legislature passed a new education law that lifted one of the caps on charter schools in underperforming districts.

In other areas, however, Beacon Hill has backed away from proven policy gains set in motion by MERA. Those reforms have given us the best schools in the country. The seven recommendations that follow will ensure that Massachusetts has the best schools in the world. That's a goal that is not only worth our historical commitment to education but, with the right policies, one that is within reach.

1. Massachusetts must ensure professional and accountable policy management and implementation.

A number of the changes Governor Patrick made to the Commonwealth's education governance structure will need to be amended, including the elimination of the position of Secretary of Education and the restoration of the independence of the Board of Elementary and Secondary Education (BESE).

From 1837, the Massachusetts Board of Education had been an independent policymaking body. In 2008, Beacon Hill re-created the twice-failed position of Secretary of Education, giving the Secretary a seat on the BESE, and therefore the Governor a direct vehicle for influencing the BESE's deliberations. The legislation further subordinated the BESE to the executive branch by reducing its power over the Department of Elementary and Secondary Education's budget.

Jealously guarded independence from politics allowed the Board to implement a series of difficult reforms in the wake of the 1993 Education Reform Act. Politicization of the BESE has led to the unfortunate policy reversals that have undermined key elements of MERA.



2. To ensure that our charter schools are of the highest quality, Massachusetts must have objective, professional management of the state's charter school office.

After the passage of MERA, the state created a charter school office to oversee the authorization process for new charter public schools. The application process for opening new charter schools in Massachusetts has until recently been among the most rigorous in the nation; as a result, Massachusetts is home to many of the country's best charter public schools.

Previously, the state's rigorous process required that a charter application meet all criteria, without exception, before being submitted to the Board for approval. In the past few years, a new standard has allowed an application to be brought to the full BESE if it substantially met criteria. The DESE must revert to the previous rigorous standard.

Given that charter applications to open new charter schools increased 300 percent this spring, it is essential that these applications be reviewed with a focus on student outcomes and not politics. The recent legislation loosened one of the statutory caps on charter schools; however, a statewide cap remains and, thus, only a limited number of charter schools. Each charter school approval must ensure that the most qualified applications receive charters. That must be achieved by a transparent and objective process.

3. The DESE has proven ineffective at technical assistance, inconsistent and incapable of accountability, and too often a haven of favoritism and patronage. The next Governor must conduct an independent top-to-bottom financial and qualitative audit of the DESE. The DESE's mismanagement of the School Building Assistance program led to the SBA's removal to the state Treasurer's office, where the program has been successfully managed. Similar mismanagement can be seen in the state's education data warehouse, which has not spun

off timely data reports to districts and teachers. In addition, the DESE has proven incapable of basic technical assistance on data management, curriculum alignment, and other important tasks. Finally, the DESE's audits have been prone to favoritism, such as in the audit undertaken in Fall River, where the superintendent (a former DESE official) was not cited for obvious financial mismanagement.

An audit of the DESE is needed. The audit should consult education reformers of differing opinions, district officials, former commissioners, lawmakers, policymakers, previous Board of Education members, previous department staffers, and the major state education trade organizations representing unions, school committees and school superintendents. The audit should outline the DESE's successes and failures, performance data, budgets and finances, and staffing, as well as its ability to support the work of the BESE.

4. While professionally implemented policy is important, it is at least as important that our schools be managed in an accountable manner.

The BESE must encourage local school districts to devolve the management and budgetary control of schools from central offices to the schools themselves, granting them greater autonomy in exchange for greater accountability.

A 2008 DESE report stated that only 57 percent of total education spending reaches the state's public school classrooms. That percentage is unacceptably low.

The Town of Barnstable offers a model. In 2004, school and Town officials made the decision to consolidate the financial and human resources functions of the school department with the Town's. In the process, they pushed control of the individual school budgets down to the principals. The results have been positive in terms of student performance, fiscal management, and transparency.



Superintendents should arm principals with clear academic goals and increased flexibility in exchange for accountability based on agreed-upon goals. But “flexibility” at the school level is synonymous with giving principals greater control over their budgets.

The DESE will need to provide effective technical assistance on such things as school-based management/budgeting and accountability tools. The Department could also provide technical grants that would help district offices make the transition from a top-down model to a true site-based one.

5. Like charter public schools, regional vocational-technical schools are schools of choice, have greater autonomy, are held to a higher standard of accountability, and have demonstrated great success over the past decade. The BESE and DESE should expand this model by creating incentives for districts with embedded vocational-technical schools to grant them more autonomy.

MCAS scores for the Commonwealth’s 26 independently managed vocational-tech schools rose 40 percent between 2001 and 2008. Six of the 10 most improved high schools on the 2008 MCAS were voc-tech schools. Graduation rates and MCAS scores at these voc-tech schools top state averages; and the dropout rate is less than half what it is in other public high schools.

At least part of this success stems from the autonomy independent voc-technical schools have to respond to student needs. Each voc-tech school has its own superintendent, school committee and control over budget. And within the parameters of the state’s academic and vocational-technical curriculum frameworks, schools are able to tailor their programs.

6. Every year, Massachusetts state and local governments spend approximately \$9 billion on public K-12 education. That’s more in two years than was spent on the entire Big Dig. Massachusetts must ensure that this

strong investment is spent wisely and efficiently by reconstituting an authentic and independent district and school audit function.

As part of the implementation of MERA, the state created an independent office of school accountability authorized to conduct audits of local school districts.

Until 2008, the state’s Office of Educational Quality and Accountability (EQA) functioned as an independent audit office for schools and districts, and conducted, on average, 50 school district audits annually. The reviews scrutinized MCAS data, leadership, curriculum and instruction, teacher and student assessments and evaluations, and financial operations. EQA sought to ensure accountability not simply to review expenditures and avoid mismanagement and fraud, but also to enhance student achievement.

In 2008, Governor Patrick all but eliminated the EQA and replaced it with a small unit inside the DESE which lacks independence. By statute, the new agency was to conduct 15-20 school district reviews every year; it has failed to meet even this low standard. Nor does this new unit inside DESE perform the same wide-ranging review or auditing functions as it once did.

There are larger, structural problems posed by the new agency, including conflicts of interest of a number of the agency’s 15-member Advisory Council (AC). The AC includes representatives of the very people the unit is supposed to audit: the school superintendents, the school committees and the state’s two teachers unions.

Massachusetts needs a more robust accountability office to assure taxpayers that their investment is being employed to good effect. Further, the audit office should be removed from the DESE and given true independence, relocating it within the State Auditor’s office, or perhaps, within the State Treasurer’s office.

7. Massachusetts must regain control over its academic standards and make changes that will enable the state to ensure



proficient grade-level reading by the third grade and increase the number of students performing at an “advanced” level in math and science.

For nearly two decades Massachusetts has focused on setting high academic standards and expecting students to meet them. The wisdom of this approach is evident in the fact that since 2005 Massachusetts has led all other states in both math and science, in both the 4th and 8th grades, on the National Assessment of Educational Progress (NAEP). In the most recent round of the Trends in International Mathematics and Science Study (TIMSS) exams, while the United States continued to lag behind our international competitors. Massachusetts’ students ranked among the highest performing countries, even tying for first in 8th-grade science.

This success is not limited to our wealthier, suburban communities; the Commonwealth’s commitment to high academic standards has also made a dent in the achievement gap. The Bay State’s African American public high school students outperform their peers nationally on the SAT.

The BESE’s adoption of inferior national standards this summer, in tandem with the state’s commitment to adopt a national student testing regime, must be reversed. The BESE should restore the state’s academic standards and work to improve them. The Governor and Legislature should support withdrawal from the Common Core Standards project and return the portion of the Race to the Top funds dedicated to implement inferior national standards and as yet undefined national tests.



GOVERNMENT TRANSPARENCY

Engaging citizens in their government requires more than happy talk. It takes arming them with information so they can see challenges for what they are and form reasonable opinions about how things should be improved. This is no partisanship to good information. States like Texas have taken strong steps to improve access to information. In December 2009 President Obama issued “The Open Government Directive”, which promotes “open government” in the Executive Branch.

Although here in Massachusetts some efforts have been made, particularly to disclose the use of ARRA (American Recovery and Reinvestment Act) funds, today much of the data presented to the Commonwealth’s citizens remains difficult to understand and decidedly not user friendly. Budget data is arranged under line items that are unfamiliar to the average citizen. Furthermore, data is primarily reported and presented by department, or other area of governmental structure.

Reports from state departments and agencies are written from a government perspective, based on what officials believe is important, not on what the public wants to know. To date, the call for transparency in Massachusetts government has resulted in a one-sided conversation. Government officials talk at citizens, but they do not know what they want to achieve by posting data. Are they seeking to impact the quality of the services they delivered? Do they want to change the culture within a department? Do they want to satisfy a constituency?

Ultimately, disclosing government data does not always result in an informed citizenry. Nor does making data available online constitute the full measure of government transparency.

These principles should drive the state’s effort to make government more transparent:



1. Disclose more comprehensive data and categorize it by input and output.

The Commonwealth and its various departments and agencies need to categorize input (resources or dollars allocated) and output data (how much was actually spent, how many clients were served, how many miles of road paved, etc.) separately.

A good example of this separation of input and output data is, on the input side, the FY10 budget (available on the Commonwealth's website) and, for outputs, Pioneer Institute's www.MassOpenBooks.org website. The state's online budget lets citizens know about an important input: how much money the state is planning to spend on specific line items in the upcoming year. Pioneer's website lets the public know about an important output: how much was spent, and with sorting, filtering and other search tools, allows users to look for exactly the type of information they need regarding public expenses.

2. Connect input and output data to outcomes.

What was achieved with the allocated resources? What impact has road repair had on the length of the average commute? Are "Shannon grants" reducing gang involvement in the Commonwealth's cities?

Connecting data to outcomes is particularly important for programs that serve clients directly. A homelessness program may have a large output (it may serve a large number of clients). Though this number is itself significant, the critical question is: what percentage of its clients the program is helping to secure the desired outcome (permanent housing).

Measuring outcomes and sharing them with the public allows citizens to know if resources are being effectively used and the ability to hold government accountable.

3. Make it a priority for state agencies to engage citizens in transparency efforts.

That means reaching out and asking citizens what government data they want. It means surveying people electronically on the formats they find most useful. Such a customer-focused effort can breach the gulf between a government that discloses information and what constituents actually want to know.

With these principles in mind, the state needs to take the following actions:

1. Create a robust, searchable website that discloses every state expenditure in as close to real-time as technically possible. For instance, the Texas Comptroller's website, Texas Transparency, offers an example of a searchable, data-rich site.

2. Post all documentation related to legislation online (including roll calls, amendments, and any changes made on the floor) in a timely manner in a searchable electronic format with adequate time for outside review.

3. Make all filings, judgments, and advisories made by state entities, including State Ethics Commission Statement of Financial Interest filings, available in easily searchable and downloadable formats online.

4. Reform the Massachusetts public records law to force more electronic disclosure and greater compliance. Electronic disclosure of records should be the default option. Regularly requested records should be disclosed online. The law should also be amended to require more prompt disclosure with strong, enforceable (and enforced) penalties for lack of compliance. Requests under the current law are frequently met with bureaucratic obfuscation through clarification requests or fee demands that are intended only to deter public inquiry.



We hear a lot of talk about citizen engagement, but it is usually an effort to get citizens to support a specific agenda. Citizens deserve access to what their government is doing – and ample information so that they can form their own opinions. Independently. Real transparency is a key building block to an informed citizenry and an accountable public sector.



MOVING PEOPLE, MOVING GOODS

Transportation may pose the greatest challenge for the next Governor of Massachusetts. Fiscal challenges abound: the MBTA is projected to have an operating deficit of \$550 million by 2014 (along with \$8 billion in debt) and the maintenance backlog for the state's transportation infrastructure is billions of dollars.

And as if those challenges weren't enough, in the wake of the transportation reform legislation passed last year, Department of Transportation officials are implementing a massive merger of different state agencies while overseeing a \$3 billion accelerated bridge repair program and millions of dollars in federal stimulus spending.

But in crisis lies opportunity. The Commonwealth took the first steps toward reform last year. The next Governor of Massachusetts must ensure that implementation is successfully completed, at the same time that accountability, performance measurement, and market reforms are used to maximize every scarce transportation dollar and assure a public deeply skeptical of the state's ability to spend transportation funds effectively.

Right now, the state's transportation funding gap is huge. It is not going to be leapt in a single bound. State transportation officials need to focus on concrete measures that will help close the gap steadily over time.

What follows are recommendations the next Governor of Massachusetts can follow to successfully implement transportation reform and begin to close the state's transportation funding gap:

1. Clean Off the Capital Budget: The next Governor of Massachusetts must stop borrowing money for payroll by removing the salaries of at least half of the transportation employees currently being paid with capital funds.

This will require the reallocation of operating funds, which will not be easy in the current recession. Fully implemented, this would create an additional \$120 million in annual bond capacity that could be used to reduce the T's \$8 billion debt or address the state's \$17 billion maintenance backlog.

It is easy to get into the habit of moving salary onto the capital budget, particularly when, like now, the operating budget is tight. It is akin to paying for the groceries with the credit card. It puts food on the table now, but increases the bill in the future.

The capital budget is designed to pay the cost of assets over the term of their life. Paying salary and for other non-capital items out of the capital budget only undermines the long-term health of the state's transportation infrastructure and our ability to maintain it.

2. Realize Personnel Savings From Reforms: The next Governor of Massachusetts needs to control headcount and compensation at the new Massachusetts Department of Transportation.

This doesn't just mean tackling the challenges of cutting employment levels to what they were in 2004 or seeking reasonable wage concessions from state transportation employees, as we outlined in the section on the state budget.

The next Governor of Massachusetts and the person he or she appoints as Secretary of Transportation will also be faced with the



challenge of finishing the implementation of the merger between the Massachusetts Highway Department, Massachusetts Turnpike Authority and certain assets from Massport and the Department of Conservation and Recreation.

Employees from each of these entities come to the new superagency with their own unions, contracts and pay scales. These will all need to be brought into alignment. The next Governor must make sure that this alignment does not end up costing taxpayers more.

3. Communicate Using Performance Measures:

Massachusetts' drivers and public transportation riders need to know what they're getting for the money they pay in taxes, tolls and fares. The next Governor of Massachusetts must increase accountability and transparency in our transportation system by presenting to the public meaningful performance measures in a format that is easily digested and understood.

Our transportation system lacks a series of global measures to determine its level of performance. Measures are needed to provide the public and public managers with tools to understand how the system and its various components – highways, railways and airports – are performing.

More importantly, these performance measures should be set and reported in a public process, one in which the Secretary outlines, on a yearly basis, what improvements have been made in key measures and what improvements are projected for the coming year.

4. Allow A Full Range of Competitive Contracting:

The next Governor of Massachusetts should insist the Legislature repeal the Pacheco Law.

There is just not enough room in the state's capital budget to address the \$17 billion maintenance backlog and build new public transportation projects. Private investment must be part of the equation.

If the Legislature were to repeal the Pacheco Law, the state would have options to employ Design-Build-Finance-Operate-Maintain and Design-Build-Operate-Maintain agreements. These options have elsewhere reduced lifecycle costs by up to 40%, while, it might be pointed out, reducing delivery time by 25%. They are an essential tool if we are to address the state's underinvestment in maintaining its infrastructure.

At \$500,000, the current threshold for contracts that must adhere to the Pacheco Law is far too low for the needs of our most complex and expensive transportation and infrastructure projects.



AFFORDABLE HEALTH CARE FOR SMALL BUSINESSES

Among the reasons cited for the 2006 Massachusetts and the 2010 national health care laws were high uninsurance rates and the ever-accelerating cost of health care. What is not as often discussed is health care's impact on the economy. This is due in large part to the peculiar nature of the American health care system, in which employer-based insurance predominates.

The impact of an employer-based system is magnified during a recession. Every dollar potential employers devote to benefits, is a dollar that can't be utilized to hire a new employee. This effect is felt most strongly by small businesses that historically create 75% of new jobs in Massachusetts. Health insurance cost increases for small businesses have run as high as 25% in a single year. Such cost increases are unsustainable. The 2006 health care reform was supposed to help address this. It hasn't, by a long-shot.

An independent authority, the Commonwealth Connector, was created to act as an insurance plan clearinghouse. It was to pair real choices with the



information and tools necessary for evaluating the plans. The theory was that in a transparent market, competition would put downward pressure on costs, and more people would be able to afford insurance. Reducing the number of uninsured people who rely on emergency rooms for primary care would further reduce costs. The theory was sound, but implementation has left many small businesses with unaffordable choices, restricting their ability to hire new employees, many of whom are recipients of state subsidized coverage.

Because the Connector has been unable to offer attractive options to small businesses, Governor Patrick and Legislature have set in place the infrastructure to impose price controls on private insurers. Such short-term responses are short-sighted at best. They do not control costs, and further restrict the number of plans private insurers offer. Ultimately, they lead to rationing.

Insuring more Massachusetts citizens in a way that is sustainable for the state and affordable to the people who employ our citizens will require the following actions:

1. Refocus the Connector's work, drawing lessons from Utah's health care reform.

The state should learn from the "Exchange" implemented in Utah, the only other state that operates a health insurance exchange. In Utah, consistent with its mission to promote small business growth, the Exchange is part of the Governor's Office of Economic Development. Massachusetts' next Governor should amend the 2006 legislation to fold the Connector into the state's Office of Housing and Economic Development. The Governor should also work toward the follow policy goals to help curb health insurance premium increases.

2. Legislatively change the composition of the Board governing the Connector so that it represents its core customers – those who employ our citizens. The 2006 legislation creating the Connector called for an 11-member governing board that is composed

largely of state agency and union representatives. As one might expect, given this leadership, the Connector has focused on providing heavily subsidized products to eligible enrollees. By law, the revenue used to finance the Connector comes from the plans it sells, and the uninsured, to which it could sell free or nearly free products, was the market most easily captured. About 90% of the Connector's operating revenue has come from the fees it earns selling state-subsidized plans.

In contrast, it took over two years to launch a small employer pilot program, which failed to reach its initial goal of just 100 employers. It has been replaced by a new program, but it offers few options, and many duplicate products available outside of the Connector.

3. Promote defined contributions through the exchange.

Move toward a defined-contribution system in which consumers are given a fixed amount of money to purchase their own health care in an exchange. Instead of each employer being forced to offer the same insurance plans in the same tier to all of its employees whether they are 65 years old or 35 years old, individuals could choose the level of coverage that best met their individual needs and preferences.

4. Set up a premium aggregator that allows contributions from multiple sources.

Coupled with a defined-contribution system, a premium aggregator can provide three robust benefits. First, it can reduce the administrative burden and costs of the normal premium payment process. Second, it can leverage all of the pre-tax contributions available to employees, such as contributions from multiple part-time employers or a spouse's employer. Finally, it can spread the cost of insurance across multiple employers, minimizing employees' out-of-pocket costs.

5. Implement risk-adjustment mechanisms.

A risk-adjustment system for carriers can reduce barriers to market entry and empower insurance companies to innovate with benefit designs. Risk-



adjustment mechanisms can protect individual carriers from being saddled with higher costs resulting from adverse selection (i.e., a carrier that insures a more costly group of individuals in a given year). Risk-adjustment mechanisms also dampen premium volatility for small employers.

6. Allow greater choice of health plans with information on price and quality.

Greater choice helps to tailor insurance to the employees' needs and to restrain costs by limiting overutilization. The goal should be to provide the broadest range of information in a user-friendly format to allow purchasing of insurance in "a transaction akin to purchasing an airline ticket online." But transactions need to be fully integrated and automated if they are to reduce paperwork, improve efficiency, and increase customer satisfaction. Currently, the largest technological challenge is that both the Commonwealth Care and Commonwealth Choice programs "remain operationally separated with distinct vendors responsible for enrollment, customer service, quality assurance, and billing."

7. Reduce the number of mandates. Small-sized employers should be allowed to choose high-deductible and mandate-lite plans. Given the desire for greater cost containment, legislators should revisit the mandated benefits and repeal those that impose unnecessary costs. Other states, such as Indiana, Utah, and Georgia, have acknowledged this concern by passing their own versions of low-premium, high-deductible plans or mandate-lite plans over the past five years.

8. Allow market forces to control the underlying health care costs. Focusing on consumers is critical to making the health care system more rational and efficient. A consumer-centered health care market would compel insurers to fundamentally alter their practices to offer better value than their competitors. Carriers would only remain viable if they offer better value coverage that is attractive to consumers.



BUILDING 21ST CENTURY CITIES

Over the past few decades Massachusetts has become a bifurcated state. There are Boston and its immediate suburbs, which receive the lion's share of legislative and media attention and the resources that come with that, and then the rest of the state, particularly the historic industrial cities like Fall River, Lawrence, Springfield and Holyoke.

Even when these cities get the capitol's attention, as was recently the case in Lawrence, the difficult decisions needed to put them back on stable footing are avoided. The state has to change the way it does business with them. To date the tools the state has given cities to help them manage themselves have all focused on the revenue side, including the ability of the Commonwealth's cities and towns to raise their hotel and meals taxes.

But new revenue doesn't address the huge challenges so many of our Commonwealth's older, industrial cities face. They were built in a different era for a different economic purpose and so much of their infrastructure, from the factories that lie dormant to the schools whose enrollment is declining, needs to be retooled. The next Governor has to leverage the excess capacity in our historic industrial cities to help them compete in the new century.

What follows are recommendations the next governor of Massachusetts can implement to reshape the state's relationship with its cities, treating them motors of economic opportunity and growth rather than the loci of social policy.

Create a "Race to the Top" for Massachusetts Cities

Just as President Obama and his Secretary of Education, Arne Duncan, have leveraged Race to the Top funds in exchange for state-level education reforms, the next Governor of Massachusetts should do the same for Massachusetts' cities.



1. Create a direct line to the Governor's office for city officials, a single point of contact who can coordinate state policy, thus easing the burden of red tape. Currently, Massachusetts' cities need to manage relationships with a large number of state programs. This often places the emphasis on bureaucratic process above achieving substantive results. The question is less what is being achieved by state aid than are the regulatory mandates being met.

2. Replace the current complex system of multiple revenue streams, contracts, scopes of service and regulations, with block grants. Cities seeking these block grants would need to commit to reform, but the new, streamlined partnership would be worth it. City officials would no longer have to chase dozens of state officials for small grants and spend countless hours meeting the reporting mandates that come with the grants, all the while citizens wait years for redevelopment efforts to gain traction.

3. Require reforms in exchange for block grants, including purchasing their employee health insurance through the state's Group Insurance Commission, allowing district schools to manage themselves with the same bureaucratic independence the state's successful charter schools have, and implementing a performance management system for delivering city services.

Bring Back Business and Entrepreneurs

An essential part of creating sustainable, well-governed cities is attracting the commercial tax base that will sustain them. This means bringing businesses back to our historic downtowns along with the entrepreneurs willing to invest in them. If we want new businesses and entrepreneurs to come back to our historic downtowns, we need to declare our cities open for business. Our older, industrial cities already come with higher infrastructure and other related costs. To be competitive, then, they will need to reduce the cost of doing business in other areas. This will require predictable regulation, including the following steps:

1. Enact true expedited permitting. In today's economy, speed to market is essential for new and expanding companies. A permitting process that can drag out over years, can be an enormous disincentive for entrepreneurs looking to start new businesses and for existing companies looking to expand in or relocate to Massachusetts.

This is just as important for small businesses in our cities as for large manufacturers and other types of firms. Many of our cities have large employers and educational and medical centers that can serve as anchors for local neighborhood business development, but it is small businesses like coffee shops, bodegas and restaurants that knit neighborhoods together and drive much of the local job creation we see in Massachusetts.

They also offer social mobility to new Americans. The Commonwealth should reduce the number of obstacles these inner-city entrepreneurs have to overcome to start the businesses that are an essential part of the American dream.

The Fort Devens Enterprise Commission provides a model for what can be achieved by an expedited permitting process. There, the permitting functions of a number of municipal agencies were rolled up into a single entity, creating one point of contact for developers and entrepreneurs to get all of the permits they need. At the former army base, the review and permitting of all development projects now takes less than 75 days.

The Commonwealth of Massachusetts should work with cities to adopt a uniform permitting code for small, "neighborhood" businesses, creating fast-track permitting that allows them to open and grow. Further, as one of the reforms required under a race to the top for Massachusetts' cities, municipalities seeking block grants would be required to develop and implement an expedited permitting process that mirrors in scope and intent the Fort Devens Enterprise Commission.

2. Set predictable, efficient and reasonable Brownfields rehabilitation standards. If we want empty lots and mill buildings to become



new businesses, we have to make them attractive to investors. That means predictable, efficient and reasonable Brownfields standards.

Passage of the Brownfields Act of 1998 was designed, in part, to provide this predictability, but a number of the changes in the regulations and policies governing Brownfields clean-up since then have undermined the intent of the law. We understand that regulations cannot be static. They must reflect current best practices, which themselves are constantly being evaluated and upgraded.

To ensure a reasonable and predictable environment for Brownfields clean-up, however, the Commonwealth can establish a standard practice that will, moving forward, grandfather all existing redevelopment projects in under any new regulations that are developed. At the very least this would mean that developers would not have to adjust mid-project to regulations that were not in place when the project was originally permitted.

3. Enable quality public schools, including a commitment to high-tech vocational education. Finally, whether at the local, state or national level, a competitive economy requires a dependable, educated workforce. (See Day 2 for our policy reforms to strengthen education)

4. Provide quality adult workforce training by creating an accountable single point of contact for all workforce training done by the state. State funding should be consolidated under a single agency to enable cities and the various non-profits engaged in the work to manage their relationship with the state.

Next, a common set of metrics and uniform processes for reporting data should be determined. This will create a sense of transparency and accountability, allowing the state to measure the effectiveness of the various programs with which it contracts and, in that way, ensure that it is getting the most for its money.

Massachusetts spent \$224.4 million in state and federal funds on workforce development in 2009. That doesn't include the portion of the hundreds of millions of dollars spent on public higher education which went to this purpose. But this money was spread across at least six state agencies, one quasi-public entity, and the multiple non-profits to which the state subcontracts to provide services to scores of different workforce segments. Currently, there is no comprehensible way that the state measures the effectiveness of the dozens of programs engaged in workforce development.

The persistently high unemployment that threatens the country's recovery from the recession all too dramatically demonstrates the need for better adult workforce training. Too many members of today's workforce are just not prepared for the new jobs being created. The Commonwealth needs to work in partnership with its cities to help these men and women become, like the companies that will employ them, competitive in the 21st century.



CREATING JOBS

The number of employed individuals peaked in the United States in December, 2007. Since then, the country has shed approximately 7 million jobs. Massachusetts has faced the same economic pressures, but Massachusetts has been shedding jobs for a much longer period of time. The fact is that the Commonwealth never recovered from the 2001 recession and has been shedding jobs ever since.

For the 13 years beginning in 1990, Massachusetts roughly tracked the country when it came to job growth. We lost jobs between 1990 and 1992, gained them during the rest of the decade, then



lost them again between 2001 and 2003. Between 2003 and 2007, however, the country, as a whole gained jobs while Massachusetts continued to lose them. The result is that between 1990 and 2007, the United States experienced a 26.6% net gain in jobs; Massachusetts experienced a net job loss of 0.3%, losing a total of 11,816 jobs in the process.

Massachusetts has systemic issues that differ from those faced by the rest of the country. The jobless recovery that Massachusetts suffered coming out of the 2001 recession is that the next Governor of Massachusetts must change the way we do business.

There are three ways jobs are created: new firms start up; firms already operating here expand; or firms operating somewhere else relocate. Conversely, there are three ways jobs are lost: firms either go out of business, contract, or relocate somewhere else.

In an average year, 670,000 jobs (17% of all private-sector jobs) are created or destroyed in Massachusetts. This is irrespective of economic conditions. Flux occurs in good times and in bad, and across practically all industries. In California, annual flux is roughly the same, but the number of jobs in California grew significantly from 2001 to 2007.

During the past decade in Massachusetts, more jobs have been lost to companies going out of business than gained from companies starting up. During the four years of the recovery from the 2001 recession, Massachusetts lost 321,751 more jobs from companies going out of business than it gained from companies that started up. That differs significantly from the recovery after the 1992 recession. From 1992 to 1996, start-ups created 210,834 more jobs than were lost by firm deaths.

Massachusetts clearly has an entrepreneurship problem. This is corroborated by the average size of start-up companies, which, prior to 2002, was 7.4 jobs, but which has since dropped by

half – to 3.7 jobs. Smaller start-ups have, in turn, contributed to a decline in overall average firm size. The Bay State is becoming a state of increasingly smaller firms. Though the state has experienced a 67% increase since 1990 in the number of companies operating here, their average size has shrunk 40%, from 16.69 to 9.96 employees. The combined effect is stagnant employment.

Exacerbating the trend is a precipitous 32% decline in the number of headquarters located in Massachusetts. In contrast, the number of branches grew 74%, while the number of stand-alone companies grew 75%. But because headquarters, on average, employ greater numbers of people, their loss has been acutely felt.

Firm relocation, a significant focus on the state's economic development policy, has played only a minor role in the overall trends of job growth and loss. In 2007, for example, the difference between the number of firms that left the state and the number that moved into it was only 195. This represents a net loss of just one-twentieth of one percent. The associated job losses amounted to just .08% of all jobs lost in the state. The industries where relocation to Massachusetts is the highest are mostly low tech, such as retailers. Industries suffering the highest relocation losses are higher-paying, knowledge-oriented services predominate.

The average size of firms operating in Massachusetts is shrinking. The number of firms headquartered in Massachusetts is shrinking. Firm creation is not keeping up with the number of firms going out of business. And the jobs we do seem to be attracting are low-paying retail jobs. If these trends continue, the state's economic prospects would seem to be bleak, as the quality of life of the state's residents declines and with it the tax base.

Here's what the next Governor can do to promote job growth in Massachusetts:



1. Focus on Improving the Business Climate, Not Picking Winners and Losers.

Economic development policy should place less emphasis on interstate relocation and more on creating a climate that is welcoming for all businesses, not just targeted industries or companies. Enticing companies to move to Massachusetts or providing special deals to keep companies here has been an economic development staple. This is like playing the lottery: The odds are long and, though some people win big, everybody else loses.

Right now, Massachusetts is losing. Many more firms have moved out in the last decade than have moved in, accounting for the loss of 24,088 jobs. Fortunately, as pointed out earlier, this is a small number in relation to overall job flux.

The state's largest gains come from states with high costs and high taxes. Not surprisingly, the largest losses are to states with lower taxes and business costs.

Any employment gains from relocation have been almost exclusively the result of a single large event – one big company changing locations. The data show this to be a rare phenomenon, however. Nearly 90% of relocating firms are too small to be noticed or courted and the majority of companies that moved to the state did not receive special incentives to do so.

2. Cut Business Taxes. Rather than maintaining one of the highest corporate tax rates in the nation, then granting breaks on that rate to favored industries and companies, Massachusetts would be better off maintaining a low, consistent rate across all industries and companies.

The best and easiest way to nurture both start-ups and existing firms is to reduce the cost of starting or expanding a business. The Tax Foundation ranked Massachusetts 47th out of 50 for corporate income taxes and 49th for unemployment insurance. Moreover, Massachusetts' rankings on these measures have only slid over time.

Given these rankings, it's no surprise that Massachusetts has seen a decline in the number and size of new businesses.

In addition to reducing business costs, low and consistent tax rates also enhance predictability for businesses and increase investor confidence in state government.

The impact of a lower corporate tax rate will be felt most by firms headquartered here. Since the relative size of headquarters makes them disproportionately important to employment levels, a lower corporate tax rate is essential if we are to help create and retain jobs.

Even during this decade of employment decline, the average size of firms headquartered in Massachusetts grew from 65.7 to 72.8 employees. On average, these firms are nine times larger than the average size of all Massachusetts companies.

Employment statistics from the last two decades bear this out. Whereas overall employment in the state declined only slightly between 1990 and 2007, the loss of headquarters accounts for the loss of 257,250 jobs. If Massachusetts had been able to keep the headquarters that left the state during that time, we would have experienced steady, if not spectacular, job growth.

3. Reduce the Regulatory Burden. Some regulation is needed to protect consumers and ensure a level competitive playing field. However, overly constricted markets are also generally less robust. This is precisely what has happened in Massachusetts over the last two decades. As pointed out earlier, the United States experienced job growth of 26.6% between 1990 and 2007, while Massachusetts lost 11,816 jobs.

Whereas the burden of the state's high cost of doing business weighs most heavily on large employers, regulation disproportionately impacts new entrepreneurs and small businesses looking to expand. They often can't afford the lawyers it sometimes takes to negotiate the regulatory environment. Nor do they have the cash flow to weather the extended time horizons that come with regulatory review.

The next governor should also work with state agencies to streamline the permitting process. A process that drags out over years can be an enormous disincentive for start-up entrepreneurs and existing companies looking to expand in Massachusetts.

As pointed out in the 21st Century Cities section of this document, the Fort Devens Enterprise Commission provides a model for what can be achieved by expedited permitting. There, the permitting functions of a number of municipal agencies were rolled into one entity, creating a single point of contact for developers and entrepreneurs to get all necessary permits. Review and permitting of all development projects now takes less than 75 days at the former army base.



