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POLICY BRIEFS

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Hard Choices for the Next Governor

What should the next governor do about the economy? Or health care? Or improving the performance of state government? Or dozens of other important issues?

To help foster informed discussion about these and other questions during and after the campaign, scholars associated with the Rappaport Institute have prepared the following short pieces on some important choices the next governor will have to make:

Development and Infrastructure

- **Eight Rules for Economic Development** by Edward L. Glaeser, Glimp Professor of Economics and Director, Rappaport Institute for Greater Boston.
- **Balancing Housing Options** also by Edward L. Glaeser.
- **Three Critical Questions About Energy** by Henry Lee, Lecturer and Jaidah Family Director, Environment and Natural Resources Program, Kennedy School of Government.
- **Transportation: Building the Right Projects and Building the Projects Right** by David Luberoff, Executive Director, Rappaport Institute for Greater Boston.

Social and Human Services

- **Opportunities and Minefields in Medical Care and Public Health** by David Cutler, Eckstein Professor of Applied Economics and Dean for the Social Sciences, Harvard University.
- **Improving Education By Inviting the Public to the Bargaining Table** by Paul E. Peterson, Shattuck Professor of Government and Director, Program on Education Policy and Governance, Harvard University
- **Regaining Control at the Massachusetts Department of Corrections** by Anne Morrison Piehl, Associate Professor of Economics, Rutgers University.
- **Will the Next Governor Own the Crime Problem?** by Christopher Stone, Guggenheim Professor of the Practice of Criminal Justice and Director, Program in Criminal Justice and Management, Kennedy School of Government.

Managing State Government

- **Two Suggestions on Managing State Government** by Robert Behn, Lecturer and Chair, “Driving Government Performance: Leadership Strategies that Produce Results,” Executive Education Program, Kennedy School of Government
- **Activity-Based Budgeting for Massachusetts** by Linda Bilmes, Lecturer in Public Policy, Kennedy School of Government.
- **Unfunded Retirement Benefits: The Multibillion Dollar Question** by Elizabeth K. Keating, Goldston Lecturer at Harvard Law School and Senior Research Fellow, Hauser Center for Nonprofit Organizations, Harvard University.

We hope these pieces help facilitate a more informed discussion about these issues both during and after the campaign.

Edward Glaeser, Director
David Luberoff, Executive Director

Development and Infrastructure

Eight Rules for Economic Development

By Edward L. Glaeser

Massachusetts' continuing economic vitality represents the triumph of human ingenuity over natural disadvantage. Many areas like Massachusetts that have a cold climate and aging infrastructure have been mired in economic decline. Thus far, through a continual process of reinvention, Massachusetts has so far found ways to be an important cluster of technological innovation in the post-industrial age. But reinvention is always uncertain and the next governor will have to set economic development policies during a period when the state's continuing economic vitality is far from sure. Here are eight principles that guide my thinking about what constitutes good local economic development policy:

1. **Do no harm.** State government should eliminate regulations and taxes that impose costs on firms and that don't generate enough benefits to justify those costs. Not all regulations are bad and we need taxes to pay for infrastructure and schools. Still, the new governor would do well to take a hard look at what can be done to reduce the government-created costs of doing business in Massachusetts.
2. **The costs of attracting new businesses can be too high.** It was easy to cheer when the state landed a Bristol-Myers Squibb manufacturing plant at Devens, but it was much harder to figure out if this was actually a good deal for the state. At least $30 million dollars in tax breaks and $35 million for infrastructure was needed to generate 550 jobs. With the state's unemployment rate under five percent, most of those jobs will be people moving from one job to another. I am not sure if this was a victory or not, but I am profoundly disturbed by the lack of serious debate over whether the project's benefits actually cover its costs.
3. **Creative workers aren't just employees they are also prospective entrepreneurs.** Increasing our workforce's human capital—either by educating our own or by attracting smart outsiders—pays off doubly by improving the workforce that firms today can hire and by increasing the supply of new firms in the future. A growing body of evidence suggests that people become more productive when they work around other educated people. This importance of human capital pushes us towards more investment in education, but also other policies like reducing barriers to new construction that could reduce the costs of living in Massachusetts.

Biotechnology may be the new, new thing, but if we tax other sectors to prod it onward, who knows what we are discouraging.

4. **Know your region's comparative advantage.** The state's comparative advantage is in idea-oriented sectors like technology, health care and financial services. Policies shouldn't directly subsidize those sectors, but the governor should make sure that these areas have the basic infrastructure they need to thrive. Just as importantly, the governor should not bet on non-creative sectors that don't need the regions skills. Routine manufacturing will always be cheaper to do elsewhere and it is a fool's errand to try to attract it to Massachusetts.

5. **Invest in idea-transmitting infrastructure.** Government intervention is most valuable in areas where private investors won't get the full benefits from their actions. Since most ideas tend to be in the public domain, private idea producers and transmitters don't get all the social benefit from their activities. This suggests a role for government in things like area-wide WIFI that helps spread and produce ideas.

6. **Innovation is unpredictable and government isn't great at picking winners.** The reason not to subsidize particular sectors is that unpredictability is the essential element of an innovation economy. Biotechnology may be the new, new thing, but if we tax other sectors to prod it onward, who knows what we are discouraging. Economic research shows that even Japan's vaunted MITI with its superstar bureaucracy generally supported less productive firms. Why should our state government be able to do better?

While vast tax breaks to a particular firm may be too much, good political leaders always need to listen to the problems faced by particular business leaders, such as obstacles to permitting new facilities in timely and reasonable ways.

7. **Most magic bullets aren't all that magical.** There are always new urban planning fads and some of them seem to offer quick fixes, like building a new coffee house or buying public art. Cities should experiment, but most of the time, improvements come from hard slogging. The long-run state of the Massachusetts economy depends on the hard work in education, infrastructure, housing and reducing taxes, not in any quick fixes.

8. **Rules are generally better than discretion, but the optimal amount of discretion isn't zero.** Much of the basic discussion has emphasized the value of focusing on fundamentals and then getting out of the way of dynamic entrepreneurs, but there is also a need for a direct line between the governor and business leaders. While vast tax breaks to a particular firm may be too much, good political leaders always need to listen to the problems faced by particular business leaders, such as obstacles to permitting new facilities in timely and reasonable ways. They need to respond to some of those problems because just as subsidizing biotechnology is a mistake, so is failing to provide the support it needs to grow.

Together, these eight thoughts push me towards a view of economic development that emphasizes ideas, with the big spending oriented towards basic government services but with some creative tinkering on the fringes. We must respect the importance of human capital by investing in schools and by opening up our housing markets. We must tie large-scale spending to rigorous cost-benefit analysis. But at the same time, the governor should be nimble and responsive and look for areas where a small amount of money or time might be able to be speculatively used to build something new.

Edward L. Glaeser is the Glimp Professor of Economics at Harvard and Director of the university's Rappaport Institute for Greater Boston. He is the author of several Rappaport Institute publications on economic development in the region, including "Smart Growth: Education, Skilled Workers, and the Future of Cold-Weather Cities" and "Reinventing Boston: 1640-2003."

Development and Infrastructure

Balancing Housing Options

By Edward L. Glaeser

Few decisions facing the next governor will rival housing policy in their impact, but the importance of housing is surpassed only by its contentiousness. The problem is that four powerful constituencies, each representing a different set of values, face off in the debate over new construction. All four have laudable goals, albeit ones that conflict mightily. The new governor will need to find the way between them.

Homeowners form the largest interest group. For them, unaffordable housing is not a problem; it increases the value of their portfolio. Moreover, since any new development brings some inconvenience, most homeowners prefer new construction in any community but their own. Antigrowth homeowners get ideological cover from environmentalists who do not care if housing is cheap or expensive as long as new homes don't eliminate green space. They don't much like cars, either.

On the opposite side, affordable housing advocates, who represent the poorest, count their victories in the number of inexpensive units brought to market, especially those that are subsidized. These friends of affordability have made a strange alliance with the friends of growth, a group that includes employers, builders, and the occasional cranky economist. The growth crowd wants the state to be able to attract new workers without paying a fortune to compensate them for extravagantly expensive housing.

In the quest to satisfy all four groups, the next governor has four big options in housing policy. The time-honored path of doing nothing is always easy and will be particularly attractive if housing slumps. This path represents victory for the homeowners who now have the upper hand in all but the largest cities. This policy is not perfect for environmentalists, as towns on the suburban fringe will continue to develop former green space, and it is a disaster for friends of affordability and growth because doing nothing means fewer units and ensures that Greater Boston will be a small, pleasant enclave for the privileged few.

The incentive approach seems to balance the need for growth with respect to home rule. Chapters 40R and 40S are great first steps, but since their bonuses are modest, their impact will be modest as well. Communities will need much better incentives than these to see a real effect.

The second approach is to build subsidized housing, either directly with public funds or by requiring new builders to include affordable units in new projects. This approach divides the affordable housing advocates from the pro-growthers, who argue that requiring subsidized units is a tax on new construction. Like any tax, it will reduce production, they believe, and ultimately make housing less affordable for those who do not live in the subsidized units.

The third approach expands Chapter 40B, the state law that allows state officials to override local zoning for developments that include subsidized units. Giving the state more power to override local zoning for other reasons could guarantee significant new construction. Of course, this policy would generate even more intense opposition than the already disliked Chapter 40B. The new governor should expect the homeowners of Lexington and Concord to give him or her the same treatment that they gave to King George. Environmentalists will be similarly livid. Daryl Hannah might come east and bring her Californian penchant for protesting development by climbing trees.

The fourth approach ties state aid to local construction, and thereby both provides incentives for communities to allow more building and compensates residents for the inconvenience of new construction. This path was pioneered by Chapters 40R and 40S, recent state laws that give extra funding to communities that allow the construction of dense, mixed-income housing near transit nodes.

Voters and candidates must remember that you cannot favor affordable housing and oppose new development. Restricting supplies always brings higher prices.

The incentive approach seems to balance the need for growth with respect for home rule. Chapters 40R and 40S are great first steps, but since their bonuses are modest, their impact will be modest as well. Communities will need much bigger incentives than these to see a real effect.

Just as important, 40R and 40S tie bonuses to a form of development that appeals particularly to environmentalists. Many friends of growth believe that these environmental restrictions ensure that the incentives will not be widely used.

Candidates who want to tie housing incentives to pro-density restrictions are friends of the environmentalists, not friends of growth. A middle course might reward all new construction but provide extra bonuses for "Smart Growth."

As voters face the election, they should at least demand that the candidates are clear and realistic about their vision for new housing. Voters and candidates must remember that you cannot favor affordable housing and oppose new development. Restricting supplies always brings higher prices.

Edward Glaeser is the Glimp Professor of Economics at Harvard and Director of the university's Rappaport Institute for Greater Boston. He is the co-author (with Jenny Schuetz and Bryce Ward) of "Regulation and the Rise of Housing Prices in Greater Boston," a report published in January 2006 by the Rappaport Institute and the Pioneer Institute for Public Policy Research as well as "The Economic Impact of Restricting Housing Supply" a Policy Brief published in May 2006 by the Rappaport Institute. A version of this piece appeared in the Boston Globe's *Ideas section on September 3, 2006.*

Development and Infrastructure

Three Critical Questions about Energy

By Henry Lee

Lacking indigenous energy resources, Massachusetts historically has had to import a high percentage of its fuels; first coal, then oil, and now natural gas. As a result, the state has struggled with energy prices higher than in the rest of the country, which in turn has influenced the shape of the state's economy and its high cost of living.

The next governor of Massachusetts must confront several critical energy problems, most of which relate to electricity.

In the late 1990s, the state implemented a series of policies aimed at restructuring its electricity industry. The idea was that consumers of all sizes would be able to choose their electricity providers and the subsequent competition would lower prices. Freeing generators from the yoke of regulation would catalyze ample investment in new and more technologically advanced alternatives. Over time, the region's economy, spurred by lower power costs, would become more competitive, creating additional jobs and greater economic growth.

This scenario did not materialize. Residential and small commercial customers have yet to enjoy choice. Elected officials, fearful of a consumer backlash if rates were allowed to fluctuate, intervened and capped prices. Investors, now leery of government intervention, stayed away and the price of power skyrocketed to over $0.20 per KWh in many areas of the state. As a result, Massachusetts faces the prospect of power shortages within the next three years.

The next governor will have to grapple with three critical questions. How can the state (and the region) attract needed investment in electric generation and transmission? Can the government change the negative perception that it is more difficult to site a facility in New England than any other region of the country? Finally, should the state be willing to consider other fuels, such as coal or nuclear, which would provide the diversity that some studies suggest will lead to lower costs, as well as greater supply security?

Can the government change the negative perception that is more difficult to site a facility in New England than any other region of the country?

Attracting new investment is hard because energy projects leave environmental footprints. One can reduce the size and impact of the footprint, but one cannot eliminate it. New plants, even coal-fired, are much cleaner than older ones. But even clean plants have impacts, and that means virtually all proposed new facilities arouse intense opposition.

One strategy is to induce new investment by making it profitable. In fact, the federal government, with the support of the region's governors, has already given the regional grid operator, ISO New England, permission to add a premium for reliable power, hoping that this "bonus" will attract new investors.

In light of this policy, the easiest course for the next governor would be to do nothing and hope that the incentives produce a desired level of investment. This is unlikely, however, because investors believe that it is virtually impossible to get a project built under the state's current procedures for siting new facilities.

The next governor could address investors' concerns by trying to streamline the permitting process, create a "pre-siting" process that would designate certain areas as suitable for energy facilities. Any of these efforts will be controversial.

Development and Infrastructure

If the next governor decides it is impossible to overcome obstacles to new facilities, particularly those that use coal or nuclear power, then she or he will be limited to three options: natural gas, renewables, and energy efficiency.

Additional supplies of natural gas can be obtained by 1) building additional pipelines connecting Massachusetts with producing regions, 2) building additional LNG receiving stations, or 3) importing gas from new Canadian LNG facilities in Quebec and Nova Scotia. The first is not attractive in a world of high domestic gas prices. The second requires strong leadership by the governor, since inevitably there will be opposition from various interest groups. The third is politically easier, but may be between 15-20 percent more costly than the second. The next governor will have to decide which option to pursue.

In recent years, governors have enjoyed an energy situation characterized by capacity surpluses and relatively low natural gas prices. The next governor will face very different circumstances.

Renewables have always been popular because of the perception that they leave a less visible environmental footprint. However, recent events (not only in this region, but also in Europe) have demonstrated that siting renewable options in densely-populated regions can be as difficult as siting conventional energy options. Further, only wind and biomass are presently cost competitive and both require significant acreage. The next governor will have to decide whether to aggressively pursue these options, and whether this support includes pursuing the siting reforms that are necessary to attract new renewable investment

Theoretically the lowest cost option with the greatest upside potential is energy efficiency. This is not a recent revelation. For over 30 years, both the state and the federal governments have extolled the virtues of efficiency. Yet much of this potential remains untapped. The challenge has been to find programs and policies that can induce millions of decision makers to buy more efficient appliance, install extra insulation in their homes, or pay the extra money for more efficient homes and buildings. Turning rhetorical support into concrete measures that will result in meaningful savings has eluded past governors, primarily because the implementation and information costs are large.

In recent years, governors have enjoyed an energy situation characterized by capacity surpluses and relatively low natural gas prices. The next governor will face very different circumstances. Shortages of both natural gas and electricity are real possibilities within the next term. The next governor, therefore, will have to make decisions about diversity of supply, future costs, responses to the threat of climate change, and the need for siting protocols. These decisions will affect energy availability and prices in Massachusetts for the next two decades.

Henry Lee, a Lecturer in Public Policy at the Kennedy School of Government, also is the Jaidah Family Director of the school's Environment and Natural Resources Program. He has also served as Director of the Massachusetts Energy Office and as Special Assistant to the state's Governor for Environmental Policy. He is the author of many papers and essays on energy, including "Dawning of a New Era: The LNG Story," a KSG Faculty Research Working Paper published in September 2005.

Development and Infrastructure

Transportation: Building the Right Projects and Building the Projects Right

By David Luberoff

The Big Dig's recent problems show that the next governor will be confronted by three big questions in transportation. First, is the state choosing the right projects? Second, does it have the right amount of money to build, operate, and maintain those projects? Third, will it build and then operate facilities in the right way?

Picking the Right Projects

July's fatal Big Dig accident is a stark reminder that badly built or poorly maintained transportation facilities can be fatal. The next governor, therefore, might ask the state's transportation secretary to bring together a first-rate team to assess the conditions of the state's whole transportation network (and perhaps other critical forms of infrastructure as well). Moreover, given that the Big Dig and several recently built transit projects have cost substantially more than what was estimated when they were being planned, the next governor might want to cast a similarly careful eye on the estimated costs (and benefits) of the several billion dollars worth of transportation projects that the state either is planning to build or is being urged to build in coming years.

On the surface, none of this is particularly controversial. But in practice, powerful interests will seek to shape this process to either aid or hurt particular agendas involving both the merits of specific projects and to either increase or hold down the estimated cost of both repairing and expanding the state's transportation infrastructure.

Having the Right Amount of Money

While we don't know exactly what is needed to fix potentially serious problems, getting the system up to a state of reasonably good repair and keeping it there, we can be almost sure, that the cost of this work, combined with the likely cost of the state's long list of planned, promised, or proposed transportation projects, far exceeds the funds currently available for that work. The next governor, therefore, must choose between angering those who oppose higher taxes and infuriating those who strongly support projects that are cancelled or even just delayed.

The next governor might want to cast a careful eye on the estimated costs (and benefits) of the several billion dollars worth of transportation projects that the state either is planning to build or is being urged to build in the coming years.

In addition to deciding how much money to make available for transportation, the next governor will also have to make some critically important decisions on how those funds will be raised and allocated. A system that fully funds projects with state and federal grants could be very popular, but could also lead those who benefit from such projects to get the state to build projects whose costs far outweigh their true benefits. This is less likely in a system where those who reap large benefits from projects — such as private landowners or particular localities — have to help pay for those projects because those beneficiaries would be much more likely to carefully assess a project's likely costs and benefits. However, such a system would be extremely controversial because it would be a significant departure from current practices. Moreover, such an approach could lead to underinvestment in projects that produce important widespread regional benefits or in projects that would greatly aid individuals and areas that lack the resources needed to support potentially valuable projects.

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Building and Managing the Projects Right

Finally, the Big Dig's problems underscore the importance — and difficulty — of making sure that needed work is being done properly, efficiently, and quickly. The next governor, therefore, must make important organizational, personnel, and cultural decisions. Organizationally, the governor can seek to centralize control in the transportation secretariat or devolve control to separate entities, such as the MBTA and Massport. The governor also has to decide the extent to which the state's powerful secretary of administration and finance will review transportation decisions.

Second, and at least as important, the next administration must decide what kinds of people will staff senior roles. In particular, they will have to strike a balance between those who have the technical skills needed to oversee complex projects and systems and those with the managerial and political skills needed to run large entities and deal with a variety of active and often contentious stakeholders concerned about various aspects of transportation policy.

And culturally, the next governor and his or her senior transportation officials will send important signals about what they most value and whether they encourage (or at least tolerate) conflicting views and analyses that might question existing policies and programs. The challenge is finding ways to do so without bringing needed work to a standstill.

David Luberoff is Executive Director of Harvard's Rappaport Institute for Greater Boston and the co-author (with Alan Altshuler) of Mega Projects: The Changing Politics of Urban Public Investment *(Brookings Institution Press, 2003).*

Social and Human Services

Opportunities and Minefields in Medical Care and Public Health

By David Cutler

Health care has been a major issue for all of the state's recent governors and it will be a major issue for the next governor as well. While many specific new issues are certain to arise, almost all of the next governor's decisions about health care in the next four years will fall into two broad categories: medical care delivery and public health. Both offer great opportunities and both can be political minefields.

Medical Care Delivery

Those who fund and provide medical care in Massachusetts (as everywhere) must grapple with three issues: access, costs, and quality.

Massachusetts does very well in access. Even before passage of the state's landmark health care law, only six percent of the state's residents (about 400,000 people) lacked health insurance, more than 50 percent below the national average. The new law will extend insurance coverage to most, perhaps all, of the uninsured. *Implementing that law will be a key issue for the next governor.*

High spending can be justified if the care that is received is worth it. But most studies suggest that the higher level of spending in Massachusetts is not buying commensurate health outcomes.

In particular, the next governor must be ready to address several contingencies. What will he or she do, for example, if insurance costs increase and the required premiums under the individual mandate become unaffordable? Will the governor be in favor of less generous coverage – fewer covered services, or higher cost sharing? Alternatively, will he or she try to raise taxes or postpone tax cuts to support the program? Either course may be necessary. Both are politically unappealing.

High costs are the counterpart to high rates of coverage. Massachusetts is not alone in having a cost problem; health costs have increased about the same rate in all states. But the problem is particularly acute in Massachusetts because Massachusetts has the highest per capita health spending in the nation – 25 percent above the national average. As a result, businesses complain that they cannot compete with firms in other states, while high health care costs forces some individuals into bankruptcy. Similarly, state officials must grapple with the fact that the cost of Medicaid and health insurance for state workers and retirees is responsible for increasingly large shares of state spending. And high costs could even undermine the new health care law's fragile financing system.

High spending can be justified if the care that is received is worth it. But most studies suggest that the higher level of spending in Massachusetts relative to other states is not buying commensurate health outcomes. Rather, we spend more on tests, procedures, and end-of-life care that is not providing enough return for the dollar. Indeed, health care quality as a whole is not up to where it should be. The Institute of Medicine estimates that medical errors kill up to 100,000 Americans annually, and harm countless more. Tests are unnecessarily repeated, prescriptions are misread, and doctors are not prescribing the best medicine for their patients. *The next governor must decide what he/she will do about the cost and quality of care.*

The governor has a number of tools to address these issues: the structure and content of the Medicaid program; the new Commonwealth Connector; the Cost and Quality Council mandated under the new legislation; the Group Insurance Commission (which insures state and many local employees); and others as well.

Two strategies are most prominent in the health policy literature. The first stresses the patient side: health care would work better if people were put in charge of their own care. In practice, this involves giving people information about the quality of medical providers and increasing the amount of money that people pay when they receive care, so they become cost conscious consumers. Governor Romney generally supported reforms along this line. Indeed, his original proposal for the new health care legislation (rejected by the legislature) involved insurance plans with high cost sharing.

The scale of the medical sector is so great that any change has major implications. The public is naturally wary about major disruption in health care, however, and no single strategy is universally endorsed by experts.

The second approach is provider-based. It stresses measuring and disseminating quality information, paying providers more for high quality care and less for low quality care, and encouraging or financing investment in medical information technology. This issue is not an either-or choice, but the Commonwealth will need to do something to address the cost and quality of health care.

Public Health

Just as important as medical care is public health. Five years after the terrorist attacks on New York and Washington, two years after the Avian Flu scare, and one year after Hurricane Katrina, America's public health infrastructure is generally believed to be unprepared for a major public health emergency. The next governor must decide how to manage the Commonwealth's public health infrastructure. What should be done in advance to guard against these threats?

Public health also encompasses the neighborhoods we live in and the way we live our lives. Massachusetts is generally a healthy state. Smoking rates in Massachusetts are well below the national average (19 percent of adults, compared to 21 percent nationally). Similarly, 54 percent of the adults in Massachusetts are overweight or obese compared to 60 percent nationally. Still, the trends are worrying. The share of Massachusetts's residents who are obese has nearly doubled in the past 15 years. The next governor will need to decide whether and how to address these personal health questions.

A governor who decides to take on these issues has many options: raising taxes on cigarettes or junk food; extending smoking bans throughout the Commonwealth; making changes to the public school environment; building more parks and recreation centers; and others. The governor will also want to develop some strategy about approaches to personal behavior.

Health care issues are among the most pressing problems of government, but also among the most difficult politically. The scale of the medical sector is so great that any change has major implications. The public is naturally wary about major disruption in health care, however, and no single strategy is universally endorsed by experts. Thus, the decisions the next governor much make are particularly difficult.

David Cutler is the Eckstein Professor of Applied Economics, Dean for the Social Sciences at Harvard, and a member of the Rappaport Institute's Advisory Board. He is the author of Your Money or Your Life: Strong Medicine for America's Health Care System *(Oxford University Press, 2004).*

Social and Human Services

Improving Education By Inviting the Public to the Bargaining Table

By Paul E. Peterson

The Massachusetts school accountability reforms have helped improve schools by opening up school performance to public gaze. Student performance has risen steadily, especially in 10th grade where students themselves are being held accountable.

Now is the time for the state to hold school boards accountable to the public as well. The next governor should ask the legislature to pass "Sunshine" legislature that requires school boards, when bargaining with representatives of school employees, to hold their bargaining sessions in public.

The next governor should ask the legislature to pass "Sunshine" legislature that requires school boards, when bargaining with representatives of school employees, to hold their bargaining sessions in public.

The gubernatorial candidates who propose to extend the Sunshine concept to the collective bargaining process will be taking on some pretty powerful vested interests. But by putting the issue on the public agenda, they also could do a great service for the state's children.

In Salem, Oregon, the idea is now being tried out for the first time. But most everywhere else, including school boards throughout Massachusetts, the public is shut out of the conversation. Nothing in state law prevents school boards from making quiet deals with union negotiators that place employee interests ahead of student well being.

Currently, the public gets a glimpse of the action only when strikes occur and both sides run to the public for backing. But strikes occur less now than ever before. Nationally, back in 1975 when teacher unions were first getting themselves into the collective bargaining game, there were 241 teacher strikes or near strikes. In 2004, that number was no more than 15.

Some may hail the quiet smoothness with which collective bargaining often proceeds. But when the public is shut out of the process, insiders gain the advantage

But changing these policies, or taking even more modest measures to enhance learning, is extremely difficult. In Boston, for example, a coalition of education and business leaders is currently calling for changes in union contracts so that assistant principals can be considered members of the management team, not a group with interests separate and apart from the school system. The reformers would also like to alter the uniform salary schedule so that the school board can take such creative steps as paying higher salaries to science and math teachers (where shortages in qualified instructors are particularly severe). And Governor Mitt Romney has proposed extra pay for teachers recruited to serve students in low-performing schools.

But none of this can happen without changes in collective bargaining contracts. As Samuel Tyler, president of the highly regarded Boston Municipal Research Bureau told *The Boston Globe*: "The system is not moving fast enough to deal with the problems that need to be addressed. We need to be able to achieve more through collective bargaining. We're trying to raise the bar of what should be expected out of this next teachers' contract."

The unions representing teachers and other employee groups are likely to oppose these measures. But what is the stance of the Boston School Committee and other school boards around the state? On this subject, the public is generally told next to nothing. When asked by the *Globe* reporter for their thoughts on reform proposals, for example, Boston's "school officials did not return several calls for comment."

Unfortunately, boards often are negotiating wimps, too concerned by the need to win their own re-election (when they are elected) or too willing to placate a mayor's electoral coalition (when appointed).

Too often the blame is placed on union negotiators for their intransigence. But one can hardly complain about union opposition to reforms that come at the expense of employee salaries, benefits, security, and autonomy. The fundamental and legitimate purposes of unions [are] to protect the employment interests of their members," says one former Ohio union official. His point is well taken. It's the school board's responsibility to bargain with as much firmness as that exercised by those across the table.

Unfortunately, boards often are negotiating wimps, too concerned by the need to win their own re-election (when they are elected) or too willing to placate a mayor's electoral coalition (when appointed). Employee groups wield political power both during political campaigns and at the ballot box itself. Unions representing teachers and the many other employees of a school district regularly endorse candidates, give campaign donations, and watch every board member's negotiating move. And school employees can be as much as four times as likely to turn out to vote in low-visibility school board elections, as are other registered voters.

Most of all, boards hate the publicity that comes with a strike. Boards must then explain to parents why their children are not in school. It's easier to take the broad, easy road than the narrow, conflict-ridden one.

Some say open negotiations will make it harder for union leaders to make concessions. But closed negotiations allow school boards to privilege the powerful with minimal public scrutiny. If open negotiations won't settle everything, at least the public will have a chance of knowing what's going on.

Paul E. Peterson is the Shattuck Professor of Government at Harvard University and Director of the university's Program on Education Policy and Governance. Peterson, who also is Editor-In-Chief of Education Next*, a journal of opinion and research on education policy, is the author or editor of 22 books, including* The School Money Trials *(Brookings Institution Press, forthcoming);* Choice and Competition in American Education *(Rowland & Littlefield, 2006); and* No Child Left Behind? The Politics and Practice of School Accountability (Brookings Institution Press, 2003).

Social and Human Services

Regaining Control of the Department of Correction

By Anne Morrison Piehl

The state's next governor can help the Massachusetts Department of Correction (DOC) address many challenges.

As in many other states, these challenges include the rapidly increasing costs of providing adequate care for inmates' medical and mental health needs, the expense of longer prison terms, an aging prison population, and the demands of preparing inmates so that, when they are released, they are prepared to construct new, hopefully pro-social, lives. As in other states, moreover, some of these challenges are the unanticipated or long-delayed consequences of "get tough" anti-crime legislation passed in the 1990s.

But the Massachusetts DOC also faces some unique and particularly intractable challenges. These not only include unusually high labor costs but also union contracts that make it hard for senior officials to effectively manage correctional facilities. As the state's Department of Correction Advisory Council noted in its final report, "the fiscal management of the department is closely linked with labor management and the rising costs of labor."

Like many large private sector firms and public agencies, the Massachusetts DOC has learned the hard way that seemingly modest contract provisions have significant long-term costs. Correction officers in Massachusetts, for example, are paid more than their counterparts in all but two other states and the state has the second highest staff to inmate ratio in the nation. State correction officers, moreover, take an average of 60 vacation and personal days per year and are paid for 52 of those days. Most Massachusetts taxpayers are private sector employees who would be thrilled with one paid day off per month, much less one paid day off per week. Combined, such provisions mean the state is spending close to a half billion dollars a year to incarcerate less than 10,000 inmates. Moreover, the growth in personnel costs is gobbling up larger and larger proportions of DOC's budget, leaving less and less for programs that help prepare inmates for life after they leave state correctional facilities.

The Massachusetts DOC also faces some unique and particularly intractable challenges. These not only include unusually high labor costs but also union contracts that make it hard for senior officials to effectively manage correctional facilities.

For the Department of Correction, however, the challenges resulting from past contract negotiations are much more serious than inflated labor costs. Over the past decade, fundamental management responsibilities, such as establishing post assignments, have been negotiated away in contracts with the Massachusetts Correction Officers Federated Union (MCOFU), the primary bargaining unit for line correctional officers. While these issues are common challenges in unionized workplaces, the extent to which the union and management are functioning as opposing forces in the DOC is extreme.

The inability for managers in the DOC to exert basic management rights limits the accountability of the government to the public and compromises the safety of the institutions. The next governor can help by having the state's Executive Office of Administration and Finance work with DOC to reduce excessive worker absenteeism caused by abuse of sick time and to provide better oversight of workplace accident claims. More broadly, basic management rights must be restored if other reform efforts in the Department are to be successful.

A new governor may also be able to make corrections more efficient and effective by reconsidering the division of responsibility for corrections among the state and its counties.

In addition to providing leadership on these challenges, the next governor will also have the opportunity to build upon the early successes of some recent reform efforts as well. The state's Board of Parole and the DOC have restructured operations to improve the transition of inmates from secure confinement to life in civil society. Former inmates generally have large social deficits — in physical and mental health, education, job skills, and substance abuse — that make them heavy users of state services across these domains. An entrepreneurial governor could develop an approach to coordinating services across agencies to yield improved services and increased government efficiency.

A new governor may also be able to make corrections more efficient and effective by reconsidering the division of responsibility for corrections among the state and its counties. Currently, only about 20 percent of those leaving correctional confinement in Massachusetts come from the DOC. The rest come from county jails operated by elected sheriffs. While the DOC deserves praise for its work to improve prisoner reentry, it will always operate at a geographic disadvantage relative to the sheriffs because county jails are located in and near urban centers while the state prisons run by DOC are generally in rural locations, far from potential jobs, housing, and family members.

Finally, a new governor is likely to be vexed by issues that have languished in the legislature for years. Issues such as sentencing guidelines and modifications of the current "system" of fragmented authority for supervising inmates following release have been the subject of substantial debate — but little action — for many years. Legislation that systematizes and clarifies the state's policies on core law enforcement topics would not only make positive changes, they also would increase government's transparency and legitimacy. Action in these areas, as a brief review of history shows, will require compromise, judgment, and a strong dose of political will.

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Social and Human Services

Will the Next Governor Own the Crime Problem?

By Christopher Stone

Because most of the larger cities in Massachusetts have high or rising levels of violent crime, the state's next governor (unlike his or her predecessors) must decide if they want to own the crime problem.

On the one hand, owning the crime problem is a risky political move. In Massachusetts, as in most of the country, policing primarily is a local not a state responsibility. As a result, the state's governors, like most of the counterparts, have often chosen to side-step crime problems, leaving police chiefs, mayors, and city councilors to face the difficult questions about increases in shootings, robberies, and homicides. Taking ownership of the problem would put the governor in a line of media fire that he or she might otherwise avoid.

On the other hand, the governor may come under pressure to bring state resources to bear because of the scale of the problem. The rate of violent crime is more than twice the national average in Boston and Lowell and more than three times the national average in Springfield.

In choosing a course, the next governor might recall the political gamble that Bill Clinton took when he ran for President the first time in 1992. That was the last time that violent crime was rising across the country. Crime and policing were not generally seen as issues for which presidents had responsibility, but Clinton understood that his predecessors had been leaving a lot of political value on the table. He made a campaign issue out of expanding America's police departments, promising to add 100,000 cops devoted to community policing. And, once in office, he built a bi-partisan coalition around his 1994 Crime Bill, the most comprehensive set of criminal justice reforms ever passed by Congress. The money he added to local budgets was tiny relative to local spending, but these were crucial, discretionary dollars. When it came time to run for re-election, crime was falling and he was able to cite a string of initiatives that had allowed local officials to succeed.

The governor is the elected official best postitioned to reverse the current growth in violent crime in the state's cities.

The next governor will have a similar opportunity. She or he can provide relatively modest, but critical, amounts of discretionary funding, following the helpful example of the legislature's Charles E. Shannon grant initiative that is helping Massachusetts cities with gang problems. The governor can go farther, using the formal (and informal) power of the office to coordinate the activities of disparate city, county, and state entities with responsibility for different parts of the criminal justice system. The governor can also help solve local crime problems by strategically deploying a wide array of state resources, from the state police to the state's criminal record systems.

Most important, the governor is the elected official best positioned to reverse the current growth in violent crime in the state's cities. Violent crime is still falling in America's biggest cities, where mayors and county leaders have authority and resources comparable to many governors. But in cities with populations between a hundred thousand and a million, local officials cannot do the job alone. They might control their own police departments, but those departments are not large enough to have the flexibility found in New York, Los Angeles, or Chicago. As a result, solutions in cities like Boston or Springfield require coordination among city police, county prosecutors and sheriffs, state police and corrections agencies, a wide array of public and non-profit services for victims and offenders, and an independent judiciary. Only the governor, working closely with key state officials, notably the secretary of administration and finance, has the span of authority to bring these resources together.

This wouldn't be the first time that state governments tried to coordinate criminal justice in the United States. Reformers in the 1960s and 70s created criminal justice planning agencies or commissions in almost every state. Their accomplishments are worth recalling, especially in the expansion of victim services and some of the early experiments with drug treatment and alternatives to incarceration; but they did not have the management tools to succeed at their coordination mission. They had lots of carrots, in the form of access to federal and state grant funds, but no sticks. As a result, many of these agencies spent too much time divvying up funds for pet projects and not enough time improving the performance of the state's criminal justice systems.

Another important precedent was the coordination of criminal justice in Boston in the 1990s to reduce youth violence. Operation Ceasefire and its associated projects taught the world that coordination can bring huge rewards, but the coordination proved unsustainable because no one—not the federal government, the state, the county, or the city—was in the lead. At a local level, one solution would be to share leadership across those four layers of government plus non-profit and religious groups. But only the governor is going to spur the creation of such coordinating quintets in multiple cities. If the solutions are not going to remain locked up in a single city here or there, gubernatorial leadership is necessary.

Why would the result of statewide coordination be better next year than in the past? The answer lies in the improvements in criminal justice management that have raced ahead during both the Clinton and Bush administrations. Today's criminal justice data systems give local criminal justice officials access to crime information from yesterday — not just six months ago — while they give federal officials the ability to enforce orders of protection nationally for victims of domestic violence whose protection used to end at the county line. Long story short: a revolution in management information has benefited local officials and federal officials but states have been slower to reap the rewards.

The state's next governor can use these new accountability tools in partnership with local officials to bring more effective coordination of statewide resources to bear on local crime problems. With real management information systems, the next generation of statewide coordination can focus on core safety and justice services — solving real problems of crime and violence. But the governor can only do so if he or she is willing to take the risk of being held accountable for crime, and, in doing so, recognizing that his or her success will depend not only the efforts of state employees but on those of local officials as well.

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Managing State Government

Two Suggestions on Managing State Government

By Robert Behn

Congratulations! You've been elected governor — the CEO of Massachusetts state government. Now what?

Let me make two suggestions: First, don't bother appointing the traditional Efficiency Commission. Second, do ask each department and agency in state government to create a specific target that it will achieve during the rest of this fiscal year, as well as stretch targets for FY'08.

Often, new governors (or new presidents or new mayors) appoint an Efficiency Commission. They fill it up with distinguished executives from the private sector and charge the group with rooting out fraud, waste, and abuse.

Let me make two suggestions: First, don't bother appointing the traditional Efficiency Commission. Second, do ask each department and agency in state government to create a specific target that it will achieve during the rest of this fiscal year, as well as stretch targets for FY'08.

The symbolism is great. It sends a message that you will not tolerate inefficiency — that you will "run state government as a business." People will suck it up.

But the commission will accomplish little. Sure, it will find all sorts of "waste," just like the Grace Commission appointed by President Reagan once did. But most of the "waste" it finds — just like most of the waste found by the Grace Commission — will have been mandated by legislation or regulations.

Such "waste" isn't the fault of mindless bureaucrats. It comes from conscientious state employees who follow the rules — every damn one of the rules.

Government is more "wasteful" than business because public managers labor under more constraints than their private-sector counterparts. Public executives who attempt to do their job, who attempt to achieve their agency's purpose, must cope with many more rules.

Of course, every single one of these rules was created for a very good reason: to ensure fairness. Each personnel rule, each procurement regulation, each budgeting constraint was designed to prevent the reoccurrence of some past mistake — usually the failure of some government employee to treat some citizen fairly.

Individually, each rule does make some sense. Collectively, they are a managerial nightmare. They do create waste. You don't have to be the CEO of a *FORTUNE 500* firm to figure that out. Any front-line worker in state government can tell you that.

So if you really want to eliminate waste, ask your employees. It won't take them ten months to find it. They know today. And they will be able to offer some very good suggestions for fixing these inefficiencies.

How can you ratchet up the performance of state government? To do this, ask each department and each agency to create an explicit target to be achieved during current fiscal year. Challenge the people in each unit of state government to commit themselves to accomplish something specific and significant in the remaining months of this fiscal year.

Personally approve each target. If an agency offers you a vague or trivial target, reject it. Ask the agency to come back with a meaningful target — something that is really important to citizens and that the agency ought to be able to do in the coming months. Something that reflects one of the agency's significant performance deficits.

During the spring, keep track of their progress. I know: You have to write your inaugural address, balance the state budget for this year and next, develop your legislative package, and get all this through the legislature. You have to do a lot in a very short time. But if you ask your key managers to accomplish something and then don't pay any attention to their work, they will never again take your exhortations to improve performance seriously.

You are now the CEO of state government. If you want to improve the efficiency and effectiveness of state government, don't ask a bunch of corporate types to nose around looking for waste. Instead, create serious targets, motivate meaningful performance, and acknowledge solid accomplishments. That's what a real CEO does.

At the end of June, hold a ceremony to announce the accomplishments of every agency that met its target. Ask the leadership team of each of these agencies to come forward and clearly explain what they have achieved. If you can instill in them and their agency some pride in their achievements, you can inspire them to do even more.

And you want to do precisely this. For FY'08, have each agency create some stretch targets. The current fiscal year has been a dry run. You have gotten people throughout state government thinking seriously about how to set and achieve a real target. Now you need to ratchet up the standards. Now you want them to stretch — to push themselves and their organization to make some significant progress.

Some managers and some agencies will get it. They will understand what you are trying to do. They will set useful targets — explicit goals that help them motivate their organization to improve performance. You should use them as models. Ask the top performers to explain their leadership strategies to their colleagues. Ask them to serve as mentors to other agency heads.

You are now the CEO of state government. If you want to improve the efficiency and effectiveness of state government, don't ask a bunch of corporate types to nose around looking for waste. Instead, create serious targets, motivate meaningful performance, and acknowledge solid accomplishments. That's what a real CEO does.

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Managing State Government

Activity-Based Budgeting for Massachusetts

By Linda Bilmes

What can the new governor do within one term that will benefit all state programs and attract nationwide acclaim? Introduce activity-based budgeting into the Commonwealth.

This may seem like an accounting technicality. In practice it is a dramatic step forward in management that can bring ground-breaking transparency and accountability to public finance and revolutionize public policymaking.

Activity-based budgeting may seem like an accounting technicality. In practice, it is a dramatic step forward in management that can bring ground-breaking transparency and accountability to public finance and revolutionize public policy making.

Several cities – including Somerville, Indianapolis, Milwaukee and Baltimore – have already used this approach. In each case, the result has been smaller budget shortfalls and improved city management. To date, however, no state has followed their lead.

Currently, Massachusetts uses a traditional line-item budget (as do other states and most local governments). The problem with this approach is that such budgets are almost useless as management tools. They contain information on spending within each department, but because most activities cut across departmental lines, they do not reveal how much it costs to actually get things done.

Consider, for example, a fire department. The true cost of responding to a fire involves not only the fire department, but also police, emergency medical personnel, utilities and public works. In addition, the fire department plays a big role in non-fire fighting functions such as education, medical assistance, search and rescue, and airport security. But a conventional budget for the fire department does not capture this whole picture. It simply lists the number of employees, salaries, overtime, and equipment costs for the department.

By contrast, activity-based budgeting means shifting the focus from such inputs (salaries, equipment and so forth) to outputs (such as the total cost of airport security). This shift makes it clear just how much money is needed to perform each activity and what the interdependencies there are across programs or departments. Once each activity is fully costed it is possible to set meaningful performance targets, to decide whether a service should be performed by the state or the private sector, to match fees (or subsidies) to true costs, and to set expectations for the public.

The steps involved in activity-based budgeting are simple but time-consuming. The main objective is to develop and agree a list of services being handled by each organization, to assign direct costs to each activity, and then to allocate indirect costs based on the amount of time and resources consumed by each activity. This approach is well entrenched in the private sector because companies must pay detailed attention to costs and allocate all indirect costs very carefully in order to determine true profitability.

In government, the main obstacle to implementing this approach is that most budget systems are not set up to capture the necessary information. The easiest way to overcome this obstacle is to enlist public employees or

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consultants to help figure out how much time is spent on each activity. In Somerville, for example, students from my Kennedy School of Government class on budgeting and financial management (with support from the Rappaport Institute), helped staff a cross-department exercise to map out city activities and figure out how much time and money was being spent on each activity. This approach highlighted numerous cases where spending in one area has consequences for another (for instance child nutrition programs and school absenteeism). The process also helped the city uncover and address problems, such as activities (e.g. the police detail program) that supposedly were fully funded by user charges but in fact turned out not to be covering their full costs.

We cannot simply rely on potential revenue growth, raiding the state's rainy day fund, or continually raising taxes and fees. Activity-based budgeting is one of the few techniques that can fundamentally make a difference.

Taken as a whole, this approach produced such dramatic results that Tom Keane, a former Boston City Councilor who is now a columnist for *The Sunday Boston Globe Magazine*, wrote a column in May noting that Somerville, which has often been derided and ignored by its larger and wealthier neighbors, now may be "the best-run city in Massachusetts." Other cities that have adopted similar practices, such as Indianapolis, Milwaukee, and Baltimore, have achieved equally dramatic improvements in city services and city finances. Based on the success in these cities, dozens of municipalities around the country are now exploring the potential of activity-based budgeting.

There is no doubt that activity-based budgeting can produce positive results. Its main drawback is that it is very time-consuming and can become outdated unless the city overhauls its management information systems. There are several software packages available that can be used to transpose a line-item budget into a parallel activity-based budget that shows how the taxpayers' money is really being spent.

The next governor should introduce activity-based budgeting in Massachusetts because the state has a structural budget shortfall that will only get worse as the state struggles to maintain services, adequately fund local aid, and pay for pensions and health care benefits. We cannot simply rely on potential revenue growth, raiding the state's rainy day fund, or continually raising taxes and fees. Activity-based budgeting is one of the few techniques that can fundamentally make a difference.

No state in the country has done this yet. Massachusetts should take the lead.

Linda Bilmes is a Lecturer in Public Policy at the Kennedy School of Government, where she teaches budgeting and public finance. She helped to introduce activity-based budgeting in the city of Somerville and has worked extensively with the public and private sector in this field. She served as Assistant Secretary and Chief Financial Officer of the US Department of Commerce during the Clinton Administration.

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Unfunded Retirement Benefits: The Multibillion Dollar Question

By Elizabeth K. Keating

Although candidates for governor often discuss taxes and spending, they rarely talk the expensive, but largely invisible, problem: what it will cost to provide promised pensions and health insurance to the 135,000 state employees, retirees, and survivors and how the state will fund those benefits.

The amounts in question are huge. As of June 2005, the state reported that it had a $3.4 billion unfunded pension liability. Moreover, the state recently announced an additional unfunded liability of $13.3 billion for other post-employee benefits (OPEB), mainly healthcare. Any money used to reduce these liabilities, of course, cannot be used for more visible and politically popular measures such as reducing taxes or increasing local aid. If the problem is not addressed, however, future governors will face even harder choices.

Pension Benefits

Public employees in the Commonwealth are covered by defined benefit (DB) pension plans. Fully vested employees receive a pension equal to about 80 percent of their final salary. This is not unreasonable given that Commonwealth public employees do not receive Social Security and contribute substantially to their own pensions. On average, contributions made by the state's workers provide about two-thirds of the cost of a "normal" pension and some employees, primarily office workers, provide almost three-quarters of these costs.

Before the mid-1980s, the public sector generally did not set aside funds to pay its share of future employee pension costs. When forced to recognize this obligation by new accounting standards in 1987, the Commonwealth disclosed a $7.4 billion unfunded pension liability for state workers. Via ongoing systematic efforts to address the problem, that liability has dropped to about $3.4 billion, so the pension plan for state workers is 83 percent funded. The figure does not include the unfunded liabilities for those public employees, who work for localities and other public entities and participate in retirement plans run by more than 100 separate retirement boards that are regulated and overseen by a state agency. Due to differences in employer contributions, administrative costs, and investment performance, there is considerable variation in the funding status of these local plans.

While continuing to fund the state's pension system, the next governor might consider three other changes that might reduce the state's pension liabilities. First, the next governor could reduce the many ways that some public employees "game" the system to either receive higher benefits or to retire early. Some, for example, buy back creditable years of service at relatively low cost or boost pay used to calculate pensions by working overtime or at a second job. The next governor could eliminate many of these practices by getting the legislature to amend the state pensions law.

Second, the next governor might focus on the fact that many of the more than 100 other retirement systems are in weak financial health usually because of below average investment returns, high administrative costs, and gaps in oversight. Investment performance might well be improved by requiring these boards to invest most or all of their assets with the state's Pension Reserve Investment Trust (PRIT) as are required of the state and teachers' pension funds. Administrative economies of scale and improved oversight could also be achieved by centralizing services and applying the Uniform Procurement Act to the local boards.

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Finally and most dramatically, the governor could follow the private sector's lead and try to replace the current DB plan with a full or partially defined contribution (DC) retirement plan. In this approach, state employees would be given choices about how much they want to set aside for retirement (probably with the state matching some or all of those contributions) and how they want to invest that money. However, defined contribution plans expose public employees to new risks, which may not be in the voters' long-term interest. In particular, the private sector experience suggests one-quarter will not participate in the DC plan, a high percentage will not contribute the optimal amount to benefit from their employer match, and most will make poor investment choices within the plan and also when the lump sum is distributed at retirement.

Health Care and Retiree Benefits

In addition to pensions, the Commonwealth pays 85 percent of the cost of retirees' health care as well as other post-employment benefits (OPEB). According to recent estimates prepared in compliance with a new accounting standard, the unfunded cost of fulfilling these commitments is about $13.3 billion. The Commonwealth's share of these costs, however, may be ultimately 25 percent lower because employees will cover 15 percent of these costs and Medicare Part D subsidies will likely cover about another 10 percent of the costs.

The next governor can respond to this information in several ways. The state could continue paying for retiree healthcare on a pay-as-you go basis. Alternatively, it could lower its liability substantially — perhaps to about $7.5 billion — by establishing an irrevocable investment trust and fully funding the trust for up to 30 years. Doing so, however, would mean current policymakers would have less money for tax cuts or programs.

Localities will also need to deal with their own OPEB liabilities. The next governor could help hold down their costs by consolidating the management of retiree health care benefits and encouraging them to participate in a joint trust rather than leaving it to local entities.

Finally, the next governor could follow the controversial course taken by many corporations and reduce benefits. Recent court cases and union contracts, as well as political considerations will limit the state's ability to alter terms for existing retirees and employees. However, the governor could try to limit future health care costs by having new state employees pay more than the 15 percent they will pay for health care after they retire. Similarly, the next governor could try to restrict eligibility for future employees or consider a defined contribution type plan with sufficient incentives for employees to contribute.

In short, the next governor faces the large but largely invisible challenge of paying the cost of promises made to current and former state workers and of making sure that public-sector employment is attractive in the future as well. While it will be difficult to find politically and financially sound ways to address these problems, they will worsen if left unaddressed. The state's success in reducing its unfunded pension liability shows that, while the task is difficult, it is not impossible.

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