



Reinventing **MAINE** Government

How Mainers Can Shape a Sustainable
Government and a New Prosperity



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With Joshua Weinstein and Philip Trostel

ENVISION MAINE

Commissioned by GrowSmart Maine

R E I N V E N T I N G M A I N E

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ENVISION MAINE

ENVISION MAINE is an independent, non-partisan think tank based in South Freeport, Maine and founded in 2009 to provide public and private research and strategic thinking on the major challenges and opportunities facing Maine. Envision Maine's goals are to help Maine people better understand the issues confronting the state, provide strategies for moving toward a more sustainable and vibrant economy, and to preserve the state's unique character and culture. It wrote and produced this report, through an agreement with GrowSmart Maine, a statewide based non-profit. For further information you can contact Envision Maine at AlanCaron@envisionmaine.org or visit our website at www.envisionmaine.org.

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GROWSMART MAINE is a statewide non-profit organization based in Portland. It was responsible for bringing the Brookings Institution to Maine in 2006, and for commissioning its report, *Charting Maine's Future*. It has also commissioned this report. Since 2006, GrowSmart Maine has been working to implement the recommendations of the Brookings report, with emphasis on building coalitions and promoting action in Augusta that protects Maine's quality of place and supports a new prosperity. For more information on GrowSmart Maine and how you can become a member, go to www.growsmartmaine.org.

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You've got to go out
on a limb sometimes
because that's where
the fruit is.

Will Rogers

Call to ACTION

The urgent need for new thinking and new approaches

Maine needs a 21st century government that is not just smaller, but smarter. One that is—like the rest of us—constantly learning to adapt to a changing world and to do more with less.

WHILE THIS REPORT is about reinventing government, its purpose is much broader -- reinvigorating the Maine economy, creating tomorrow's quality jobs and expanding confidence in the future. It is about creating a place where new ideas, new energy and new investments are propelling the state forward, and tomorrow's vibrant economy is finally unfolding.

Reinventing government won't, by itself, revitalize our economy. But it's a critical first step. Without that step, as difficult as it may be, we cannot expect to unlock a new economic prosperity for Maine.

Maine faces two great challenges today, which are closely interwoven. The first is a fiscal crisis in government that is unlike any we've seen in at least two generations, and that will be with us for many years to come. The second is a long-stagnant economy that discourages Maine people and limits investments in the future.

The budget crisis has announced itself through growing state deficits and a projected shortfall, next year, of as much as a billion dollars. Those deficits will get worse, in

coming years, as we absorb the delayed effects of an aging population, billions of dollars of unfunded pension obligations, rising health care costs and the unforeseen consequences of past political decisions. Those problems, in turn, will inevitably tumble down to critical programs, local communities and schools.

In this report, we have tried to get beyond anecdotes and ideology to a set of facts that can help Mainers honestly compare ourselves with similar rural states and the country. We have also looked at state, county and local government, schools and colleges as interconnected parts of a holistic, larger system, rather than as a series of independent silos.

The numbers are troubling, and the trends even more so. In category after category, Maine spends more on government than either similar rural states or the national average. In fact, we may spend as much as a billion dollars more.

The numbers are troubling, and the trends even more so. In category after category, Maine spends more on government than either similar rural states or the national average. In fact, we may spend as much as a billion dollars more.

There was a time when Maine could afford to 'reform' government, and to make small adjustments based on the ebb and flow of tax collections and the economy, combining small programs and trimming here and there. Those days are behind us. Today, we're in a new and per-

C A L L T O A C T I O N

manent fiscal crisis. Not for this year and next, or until the economy revives, but a fiscal crisis throughout the coming decade, and the one after, as baby boomers retire, health costs increase, and the full costs of decisions made over the last few decades come due.

The good news is that every crisis carries with it new opportunities. This may well be the best chance we've had in a generation to take bold action that can get our economy moving in a new direction. All the conditions are in place for us to succeed, if we act. If we don't, we'll continue on a path of declining energy and optimism, and risk a downward spiral in our economy.

Which road we take will be decided by you, and by the people you choose to send to Augusta. They can't do it alone. They will need the support of a wide cross-section of Mainers, up and down the state, who are willing to work together for a greater good, and to put aside yesterday's solutions and old differences in order to unite around tomorrow's promise.

The first step in a resurgence of Maine's economy is to get our fiscal house in order. The cost of government and, therefore, the cost of doing business and raising a family in Maine are unsustainably high. And we're getting a predictable result. Young people are leaving. Small businesses are struggling and tomorrow's employers are going elsewhere.

Over the last generation, global forces beyond the state's control have shrunk much of the industry that Maine has depended upon for 150 years, eliminating good jobs with benefits and putting stress on families and governments at all levels. All across the state, people have had to adjust. Now government must also.

We need government to do more with less so that we can free up resources, both public and private, for critical investments in tomorrow's prosperity. Old structures that cannot meet our 21st century needs, and that are inefficient and expensive, must change. Government also needs to help create the conditions that will make investments in the private sector grow and ensure that entrepreneurs and inventors can flourish.

If we don't get the government piece right – and we haven't for a long time – every strategy for prosperity that relies on additional public funding can only fail.

Let's imagine a government in Maine that is effective, efficient, flexible and transparent. A government that is open to change and innovation and constantly improv-

ing and reinventing itself. Where government employees see themselves as part of a real team, serving the people of Maine, and each one understands that every dollar wasted on inefficiency or spent unwisely is one less dollar for what matters, one less dollar to create a job outside of government and one less dollar for a new prosperity.

Let's imagine a government that focuses on the things that government can and must do – educating the next generation, maintaining critical infrastructure, protecting the character and quality of this place and our greatest asset – our powerful brand.

We can have that government – and a new era of prosperity in Maine – but it will take hard work, courage, determination and a new burst of creativity and energy all across the state, from the grassroots up.

It turns out that whatever you care about—whether it's jobs or people or the environment or social programs—the economy matters. A stronger economy is the only answer to our many problems.

The first challenge is to better understand what created this crisis, in the first place, not to affix blame but to fix problems. Then we need to move beyond lamenting what hasn't yet happened to dream of what could be. And to imagine a future as though we were constructing it from scratch.

The good news is that Mainers have a long history of adapting to new circumstances and challenges. We may be skeptical, but we're also resourceful and tenacious. When we put our minds to it, we expect to succeed, and we do, and have many times led the nation.

Now we need to explore some new and bold ideas and re-examine some old ones. Then we can mobilize the talent and energy and grit of Maine people to lift our sights out of the day-to-day crisis we're in, to a larger and more far-reaching conversation about where we're headed and how we intend to get there. It's time to put our minds, our hands and our voices to work, lifting ourselves up and setting Maine on a new course.

It turns out that whatever you care about—whether

it's jobs or people or the environment or social programs—the economy matters. A stronger economy is the only answer to our many problems.

BUILDING ON THE BROOKINGS REPORT

In 2006, the Brookings Institution, which is perhaps the nation's leading non-partisan think tanks, released what became one of the most-read studies in Maine history, *Charting Maine's Future*. It offered a hopeful vision of tomorrow's Maine, with a vibrant economy built around our native inventiveness and small businesses. A place where the character and quality of our towns and environment, combined with growing opportunities in a new 'innovation-driven' economy, would hold young people here and become a magnet for talented entrepreneurs, artists, investors and business leaders from around the world.

But Brookings posed a question that must be answered. How can a small state with limited financial resources make the investments needed to produce that brighter future, in the face of growing demands on government? Maine spends much more than the national average or other rural states on government, Brookings said, which leaves us with inadequate resources to build for tomorrow. They urged us to dig deeper into these problems and to use our limited financial resources more wisely and carefully. "Cut to invest", they said, and squeeze inefficiencies out of government to redirect the savings toward targeted investments in tomorrow's prosperity.

This report picks up where Brookings left off. It focuses on the first half of the "cut-to-invest" idea. We hope to follow it with another major report, next year, that will look at the investment side of that equation, focusing on how Maine can mobilize itself to usher in a new, innovation-driven, bottom-up prosperity for all. But first, we have to confront some difficult and unpleasant choices about what really matters, what is a "need" and what is a "want," and whether we can continue to afford the luxury of inefficiency.

A HANDBOOK FOR CITIZENS AND LEADERS

This report is a handbook for citizens who want to better understand the challenges we face – and do their part to brighten Maine's future. It focuses on how Maine can build a 21st century government, as the first in a series of big steps toward a new and widespread prosperity. It

looks at how government operates, at all levels, and how we stack up against other rural states and the nation. And it offers a series of bold recommendations for 'reinventing' Maine government.

IF IT WAS EASY, IT WOULD ALREADY BE DONE

The information and recommendations presented here, and the discussions that will follow, will be challenging. Many people will resist confronting these unpleasant realities. Others, who are deeply invested in the current structures of government, will instinctively resist change, out of habit or fear. We can expect that they'll challenge the data in this report, its assumptions and messengers. But the facts will not change. There simply isn't enough money to maintain the status quo and the way we've been doing things. Standing still is not an option.

We're not trying to address every problem Maine faces, in this report, or to answer every question on how change should happen. We're simply laying out what we see as some of the major issues to be addressed, as best we can see them, at this moment in time.

We also don't write this story with any joy. We are not "anti-government" people. We simply want Maine to flourish and the people of Maine to feel hopeful and confident about the future. Those who are looking for finger-pointing and partisan advantage in this report will be disappointed. We care less about scapegoats and party fortunes than we do about the people of Maine enjoying the better life they deserve.

We hope that future historians, writing of this decade, will be able to say that Mainers, when faced with unprecedented challenges and adversity, were able to confront what they had to do honestly and openly. And that we reinvented not only Maine government but Maine's economy as well, opening the door to a new era of prosperity, and a better life for Mainers in all corners of the state.



Alan Caron
President, Envision Maine

AN ACTION PLAN for the coming DECADE

Only a stronger economy can allow us to meet our many needs, change the demographic direction of Maine as an aging state, and pull the two Maine's together. All of the following recommendations are designed with that purpose in mind: to free up resources for targeted investments in tomorrow's prosperity.

1 ENDING UNFUNDDED LIABILITIES

Pay Our Bills on Time and Stop Adding More Unsustainable Obligations.

- Resist any effort to change the pension plan payment due date of 2028.
- For newly hired state employees, continue to allow early retirement with reduced benefits, but raise the eligibility age for full benefits to reflect our longer life expectancy.
- Automatically enroll all state employees in the state's tax-advantaged retirement saving plan, as an important supplement to traditional pension benefits, particularly for employees who still want the option of an earlier retirement.
- Change accounting procedures and legislative practices so leaders and the public know the full cost and effect of long-term obligations, not only for pensions but for all new bills.

2 A SMALLER, SMARTER LEGISLATURE

Limit the number of bills, shrink the legislature and shorten the sessions

- Allow no more than 5 bills in each two-year session from any single legislator, including co-sponsorships.
- Reduce the size of the legislature by 1/3 to 25 Senators and 75 House Members.
- Reduce the length of sessions by 50%.
- Impose lifetime term limits of 12 years on all Legislators.

3 A FLATTER, LEANER, MORE RESPONSIVE STATE GOVERNMENT

Create a 21st century government by gradually replacing outdated hierarchical bureaucracy with a flatter and more decentralized structure.

- Engage state employees, managers, elected officials and the public in a transformation of state government from the ground up.
- Measure and prioritize all functions of state government for value and efficiency, and eliminate outdated and unnecessary programs.
- Remove unnecessary and outdated red tape.
- Use competition to drive innovation and efficiency.
- Make service organizations accountable to their government customers.
- Manage buildings and other assets more efficiently.
- Constantly re-invest in improvements.

4 FEWER COUNTIES THAT DO MORE

Create Eight Combined Counties, Professionally Run and More Representative, to Become the Regional Service Delivery Provider of the Future.

- Replace the existing 16 counties with 8 New Counties.
- Set up New Counties to provide more regional services.
- Improve the professionalism of New Counties.
- Increase the number of New County commissioners to 9, to make them more representative of county-wide interests.
- Appoint, rather than elect, all county managers, officials and staff.

5 INCREASING COLLABORATION BETWEEN TOWNS

Expand and accelerate regional cooperation and, where it makes sense, develop greater regional service delivery.

- Help towns save money by sharing and regionalizing services, such as road maintenance, public safety, fire protection, valuation and communications. Investments need to be made to accelerate change.
- Measure cost savings, then demonstrate them.
- When New Counties are organized to better deliver services regionally, they should become the preferred delivery mechanism.

6 INNOVATING IN PUBLIC EDUCATION

Move Maine toward the national average on student-teacher ratios, further consolidate administration, evaluate performance and put all savings into the classroom.

- Transform public schools through innovation and experimentation.
- Move Maine toward the national average on student-teacher ratios.
- Reduce administrative expenses with a new round of district administrative consolidations, but this time put the savings back into the classroom rather than the state's general fund.
- Evaluate teacher performance, rewarding good teachers by bringing their pay to the national rural state average and removing under-performing teachers.
- Investigate the increase in non-teacher employment over the last decade and move the teacher/non-teacher ratio to the national rural state average.
- Create a statewide standard for special education programs that brings Maine closer to a national average.

7 A FULLY CO-ORDINATED SYSTEM OF HIGHER EDUCATION

Increase funding while coordinating overlapping systems, eliminating duplication and reducing excessive autonomy.

- Maintain separate University of Maine and Community College Systems but create one Board of Trustees with authority to coordinate and integrate planning and development of the two systems.
- Eliminate the current 40 year old funding formula that freezes campuses in yesterday's economy and needs, in favor of a system that rewards excellence and results.
- Establish a true University of Maine System rather than a network of largely autonomous campuses.
- Provide increasing amounts of future funding directly to students, and let them indicate which campuses are best serving their needs.

8 SLOWING THE CLIMB OF HEALTH CARE COSTS

Emphasize prevention, pay for health not sickness, increase competition and coordinate care

- Reduce chronic illness by focusing on changing personal behavior rather than just responding to the symptoms of that behavior. This recommendation applies to both government health care spending and the overall economy.
- Use the buying power of the government to negotiate lower costs, spur more competition, and produce better health, not more procedures.
- Encourage coordinated care organizations that succeed by promoting health and preventing illness.

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| | |
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The Hard WORK

Of Building a More Prosperous Future for Maine

Despite all of the challenges that Maine faces today our future is as bright and full of potential as it has been in decades—if we are willing to tackle our problems openly and honestly.

WE HAVE STRENGTHS in the very things the world is looking for in the 21st century. Resourceful, creative, hard-working, honest people. Pride in what we do. Safe and friendly communities, a world-class environment and neighbors who care about one another.

A new prosperity is within our reach. But to get there we need to dramatically change the way we do things.

TWO ROADS AHEAD

The next governor and State Legislature will look out at a landscape that includes over-extended and unsustainable governments, an aging population, ever-rising health care costs, an economy and schools too often geared toward yesterday rather than tomorrow, and growing public frustration and discouragement.

What is at stake here cannot be overstated. There are two diverging roads on the horizon. If we stay on the one

we've been on for the last half century or so, hundreds of thousands of Mainers will continue to struggle. More children will grow up in poverty. More will leave school. More will become discouraged or dependent. The quality of this place, its communities and environment will almost certainly decline. And what is now a trickle of younger people leaving will become a rushing stream.

There is a second road that we could choose to take. To get to that one, we have to redirect funds that are now leaking into the sands of inefficiency and put them into what matters. Educating the next generation. Retraining and retooling ourselves. Creating incentives for entrepreneurs and support for innovators. On that road, we can build a new prosperity that will make Maine the success story of the next decade, and a place that entrepreneurs and dreamers and inventors will point to on a map, in 10 years, and say, “That is where I should be.”

A NEW ERA OF SHRINKING RESOURCES AND HARD CHOICES

Maine governments are in trouble. State Government is facing a billion dollar budget deficit in the next budget, budget shortfalls for most of the next decade and a \$4.4 billion dollar obligation for unfunded pensions and health care plans.

We've built a government that we can't afford. In towns and cities across the state, Mainers have been debating wrenching changes in local services and schools. The domino effect of deficits and past policy decisions are now cascading from the federal level to the state and now to towns across the state, forcing hard, but in many cases long-overdue choic-

es, everywhere. At the end of that line stand taxpayers, who for many years have been paying some of the highest taxes in the country, relative to their incomes, and who simply cannot do more.

We can choose to ignore all the warning signs, hoping that the problems will just go away, or use the moment to propel the state forward. For those who want to maintain the status quo and ‘wait it out’, the prospects are dim. As we look ahead to the next decade, we should expect flat or declining resources for government, not more.

Our problems aren’t unique to Maine, of course, although our policy decisions and inefficiency have made them worse. Other states across the country are struggling to adjust to new fiscal realities. Some are adapting. Some are in denial. Others are teetering on the verge of collapse. All this is driven by the simple fact that over the last 25 years or so, government spending, public expectations and debt have grown to a point that cannot be sustained.

In many ways governments have begun to respond by making incremental adjustments to the status quo, nibbling away at budgets through across-the-board cuts, stretching out maintenance, deferring payments, imposing unpaid furlough days on workers or manipulating accounting rules. Too often, through across-the-board reductions, they’ve succeeded in equally cutting both the essential and the unimportant.

Thanks to federal bailouts in 2009, many of the really tough restructuring decisions were put off. A smaller federal bailout in 2010 will have a similar but smaller effect. But we can’t expect federal bailouts to continue next year or thereafter. The federal government has its own fiscal crisis to deal with.

REINVENTING GOVERNMENT ISN’T A CHOICE, ITS ALREADY HAPPENING

Whether we want it or not, government is already being restructured, as if in a slow-motion movie, one frame at a time. The driving force for change is not political posturing, party politics or wishful thinking; it’s simply hard facts and real numbers.

Because states and local communities can’t print money and pile up debt like the federal government can, and must balance their budgets each year, dwindling dollars are forcing change upon us. Not to say that the state,

Making One Maine Out of Two

Anyone who’s been in Maine more than a few days has probably heard about the two Maines. Usually it’s taken to mean northern Maine versus southern, or rural versus suburban. Sometimes it’s coastal versus inland, or people born here versus people from away. What ‘two Maines’ boils down to, though, is really two different economies.

One Maine is a place with a strong and diverse economy. It’s a terrific place to raise a family, with wonderfully vibrant communities, thousands of engaged citizens and volunteers, hard-working and dependable people, and a world class natural environment. It’s a place with the chance to turn our native resourcefulness and quality of place into a center of innovation, where new ideas, new products and new jobs are the foundation of a growing economy.

That Maine has the essential ingredients to become the place that people and entrepreneurs from around the country will flock to.

The other Maine is a place where for a half century or more the economy has been flat. Where for working families and the less educated, it has actually grown worse. It is the Maine where mills and agriculture and fishing jobs have succumbed to new technologies, new market demands and competition from overseas. Some of the areas in this Maine are places rife with hardship and hopelessness. Where stress and anger are on the rise, dropout rates and substance abuse are high and good jobs and optimism are scarce.

That second Maine can be found in northern, central, downeast or western Maine, but it also co-exists with the first Maine elsewhere, even in coastal communities and southern Maine.

Whichever Maine you feel you’re part of, this discussion touches us all. It holds the key to whether or not this state – as one state – will see a resurgence and whether our children and their children will be Mainers.

Some people still think the question now is ‘how do we maintain the status quo’? The real question is ‘Are we going to define our priorities and shape a new and more modern government, or just hang on through a wild ride and hope for the best’?

in particular, hasn’t found ways to go into debt – most notably through under-funded pension and insurance plans and by not paying its bills to hospitals —but the days of spending today and paying tomorrow are rapidly coming to a close.

Some people still think the question now is ‘how do we maintain the status quo’? The real question is ‘Are we going to define our priorities and shape a new and more modern government, or just hang on through a wild ride and hope for the best’?

In a rapidly changing world, the old ways of doing things and the pace at which we’ve been moving are leaving us further behind each day. Timid changes and small fixes only delay what must be done. It’s time to take some big steps forward.



10 MYTHS That Hold Us Back

One of the first things that Mainers need to do, if real change is going to happen in government, is to confront our tendency to operate in a kind of ‘fact-free’ zone.

MAINEERS CLING to cherished myths and argue them as though they were inscribed on stone tablets brought down from high mountains. These myths come from different sources. Some arise from ideological or partisan positions, superstitions and sometimes from plain wishful thinking. Whatever the source, they have long served as powerful brakes against Maine moving forward.

Here are a few of the most common myths that stand in our way.

1 WE CAN HAVE IT ALL

This is undoubtedly the most widespread and dangerous myth of all. It takes various forms and shapes, depending on where you find it. It allows us to pretend that we can have unlimited services from government – great schools and communities, good roads and colleges, generous social programs—and still have low taxes, even with a weak economy. Or that taxes are an unlimited resource for any ‘need’ defined as urgent. And there is the

old ‘local control’ notion that we can have one of everything in every town, and it won’t cost us more, because smaller is always better.

2 OUR CURRENT FISCAL PROBLEMS ARE TEMPORARY

For decades, government balance sheets rose and fell with the economy. About 10 years ago, that started to change. Now we find governments facing deficits even in good times. That’s because of long-standing structural changes that are happening all across the world, and also some very unique ones here. In Maine’s case, they include our aging population, rising health care spending, unfunded pension liabilities, our tendency toward a bigger ‘safety net’ than other states have, and the inefficient way in which services are delivered.

If you still think that everything will be fine the next time the economy comes back, we urge you to read the upcoming section on the Three Ticking Time Bombs. Every Maine citizen should understand those ominous trends.

3 WE CAN CHANGE SOMEONE ELSE’S PROGRAMS BUT LEAVE OURS ALONE

If Mainers can agree on anything, it’s this: almost everyone is in favor of cutting someone else’s government. Mainers across the state can wax eloquent about how someone else is to blame, and we should just cut their programs or their tax break or service. Political parties and candidates make a living off this one, of course, and voters fall for it every time. It’s as though politicians are saying, “What is it you want? We can give you that! It won’t cost

a thing, either. And, we'll cut government spending at the same time without making anyone unhappy."

Thinking that change can just apply to someone else avoids reality and costs us dearly.

4 IT'S ALL ABOUT WASTE, FRAUD AND ABUSE

This old chestnut has been finely roasted and relished for decades. It is mostly about politicians saying something without saying anything while blaming a faceless 'them'. Making speeches about 'waste, fraud and abuse' allows politicians to rail at government without being specific enough to lose any votes.

While there is waste, fraud and abuse in every human institution, and no doubt there's waste in Maine, we can count our blessings every day that the level of outright corruption and greed here, when compared to other states across the country, is remarkably low.

Maine has been stuck here for a long time. It's time to move on.

5 WE CAN CUT OUR WAY TO PROSPERITY

This is another staple of political talk: "If we'd just cut taxes and get government out of the way, we'd be fine!" There's a thread of truth in that, of course, just as there is in the next myth. But if it were really true, Alabama would have the most vibrant economy in the nation, and Zambia and New Guinea would lead the world. Economic reality is more complicated. Strong economies need good infrastructure, good schools, healthy communities, effective law enforcement and, in some cases, partnerships between businesses and government. Where those things are not being adequately provided, economies generally remain weak. The notable exceptions are those economies, like ours over the last two centuries, that rely heavily on the extraction of raw materials, at least until those resources are effectively used up or replaced with newer materials.

6 WE CAN INVEST OUR WAY TO PROSPERITY

The counter-view to the last myth is, not surprisingly, "we can invest our way to prosperity." That has become the predictable rallying cry of anyone who wants to add new programs and expand government functions, pass a

bond issue or otherwise defend a favorite program. Just like the previous myth, this one has a thread of truth at its core. We do need to invest in critical functions like infrastructure and schools. But the line between a true investment and simply more spending is dangerously blurred, and the "invest our way to prosperity" argument is poorly understood and too carelessly used.

The simple fact is that we need to both "cut" and "invest" our way forward.

7 ALL WE HAVE TO DO IS TAX THE RICH MORE

This notion allows many Mainers to overlook the fact that in today's world capital and people can and do easily move. And they have been moving - out of Maine. Young people are leaving. Wealthy Mainers are "residing" in other states half the year. Businesses aren't growing. New ones aren't coming. All of it drains our resources.

The fact is that Maine people are taxed out. Our taxes as a portion of our income are among the highest in the country and have been for too long, no matter how we quibble with the numbers. There simply isn't an endless pool of faceless "rich" people waiting around to be taxed more for the honor and privilege of living in Maine. Every tax increase drives more people out and accelerates a dangerous downward spiral in our economy.

8 IF WE KEEP DOING THINGS THE WAY WE ALWAYS HAVE, WE'LL BE OK

"We've always done it this way, and it worked pretty good, so we need to just keep doing it and we'll be OK." If only that were true. Mainers could once again graduate from high school and step into waiting jobs at factories, where they'd earn a good living assembling some of the best shoes or fabrics or paper products in the world, often-times working alongside their fathers. Or work at the sardine canneries where their sisters worked. They could fish just offshore and bring in full nets every day.

But that world no longer exists. Maine's – in fact, the nation's – last sardine cannery, the Bumble Bee plant in Prospect Harbor, closed in April after 100 years. Now something else is going to happen there. Just like the people who worked at the Hathaway Shirt Co. in Waterville, the Edwards Mill in Augusta, and the shoe plants in Lewiston, the people of Prospect Harbor can't keep

on doing what they've always done.

Times change for all of us, for economies and even for governments. Some of the old ways still work and have to be preserved, but others are no longer productive.

9 GOVERNMENT CAN'T BE CHANGED

If the Founding Fathers had believed government could not be changed, Mainers would still be paying taxes to Massachusetts and raising toasts to the queen. The fact is, government can and does change. The U.S. was a minor world power with a small federal government 100 years ago. Within a forty year period, through a great depression and two world wars, government was transformed. In Maine, counties were once the primary official government of Maine, public education happened in one-room schools and major local issues were almost always decided in town meetings.

Change is never easy, but it is constantly happening. Even areas with traditions of strong local governance have managed to change. Denmark had 86 counties and 1,300 municipalities until 1970. Today it has five regional governments and 98 municipalities. Closer to home,

changes have also happened in Quebec and New Brunswick. The people of those areas love their heritage as much as we Mainers love ours. Change wasn't any easier for them than it is for us. But they did what they needed to do.

10 IF ONLY WE HAD A STRONG LEADER

If you're waiting for Andy Jackson to ride his white horse over the next hill to drive the elites out of government and fight for the little guy, take a seat. It could be a while. The reality is, no single person can solve all the problems Maine confronts, no matter how intelligent, articulate or charismatic they are. We're a state with a strong tradition of popular will. We're a town meeting state. A referendum state. A place where leaders can move mountains, but only when we agree to let them - and then help. That isn't to say we don't need strong and effective leaders at all levels of government. We do. But none of them can do the job that needs to be done, without active public support from Mainers all across the state, in places large and small.



Guiding PRINCIPLES

For Reinventing Government

For Maine governments to become more efficient and modern, we'll need a fundamentally new approach to how it's organized and what it does, including the following:

1 Adjust Our Expectations of Government

The problem of inefficiency isn't entirely government's problem. We need to look in the mirror, too.

We are, in some ways, our own worst enemy. Unless Mainers take a hard look at what we demand from government, it cannot change. That's because we regularly want too much, we want it too soon, and we want it at little or no cost. Nothing else in these recommendations can occur unless we decide to change our expectations.

2 Push Government Leaders to Be Accountable for Future Effects

We need to change the inclination of public officials to seek short-term benefits without regard to long-term consequences, by changing accounting, budgeting and legislative practices to make the full costs of decisions known, when they are made.

The constant pressure to get re-elected encourages leaders to seek short-term benefits, like givebacks, bailouts, new

programs and ribbon cuttings, often at the expense of long-term solvency. This has left us with an over-extended and unsustainable government, pension and health care benefits we can't afford, infrastructure that we can't maintain, medical bills that aren't paid and budgets loaded each year with smaller ticking time bombs.

3 Budget for Results

Don't create annual budgets based on last year's budget. That just locks in place yesterday's structures and approaches.

When governments review budgets each year, they are generally looking at the cost of inputs – labor, overhead, materials. Too often, annual budgets are simply last year's budgets with some across-the-board adjustments, depending upon available resources. That approach permanently freezes in place yesterday's structures, and works against innovation. We need a new 'zero-budget' approach that constantly re-evaluates needs and funds programs that deliver good results for the dollar and eliminates those that don't.

4 Invest in Constant Improvements

Change costs money. New systems have to be built and people need to relearn how to work within them. It takes time, effort and resources.

Changing structures and systems doesn't always produce immediate results, and it often costs money initially. The short-term cost of reinventing institutions and program often becomes an excuse for inaction. Investing in change should become a permanent priority in government.

5 Measure Performance and Close Outdated Programs

Every level of government needs performance auditing and reviews that ensure that results will be improved.

When was the last time that a significant program of state government, in particular, was shut down? New programs are constantly created, but old ones are rarely eliminated. The cumulative effect is not only inefficiency, it's also programs that drift in the backwater of government, without real purpose or review. This creates a one-way direction for government – bigger and less manageable – and a bureaucratic structure that isn't focused on its critical mission.

The state has an Office of Program Evaluation and Government Accountability, or OPEGA, which analyzes various programs. It is far too small, and entirely constrained by political control by the Legislature, which tells it what to look at and what to avoid. To make intelligent decisions about which programs are delivering results most effectively, government leaders need the best data available. Without objective data on results—including how performance compares to other agencies—intelligent management decisions are virtually impossible.

6 Decentralize Government and Empower Employees

Public organizations and systems in Maine need to push authority down, encouraging those who deal directly with citizens to make more of their own decisions.

We need to empower employees to make more decisions about how to produce the best value for taxpayers, and to reward them when they do. State government, needs to become more ‘decentralized’, making it smaller and shifting some of its responsibilities to more effective regional governments.

7 Reward Excellence and Remove Incompetence

Move beyond a bureaucratic culture that makes it virtually impossible for government to grow and change. Too many managers in government today cannot manage. They don't have the tools or the power that the private sector has to elevate talent, to move people from where they are to where they're needed, and to constantly adjust teams and schedules to increase efficiency and improve results. Without a fundamental rethinking of

how government operates, and the removal of archaic and unnecessary restrictions, government cannot become more efficient and effective.

8 Use Competition to Drive Improvements

Require service providers within government to compete for their business, based on their performance and price. Competition is the fundamental force that gives public organizations no choice but to improve. Many governments across the country and globe now require their public agencies to compete with private firms every few years for the right to deliver particular services. No matter who wins the competition, savings of 10 to 25% are common.

9 Make government more accountable to taxpayers

Public organizations in Maine should treat those they serve—the parents whose children they teach, the people who line up to renew driver's licenses, the citizens they are trying to protect from pollution and the small business owner trying to get started — as they would customers in a business they owned.

They should listen to them, through surveys and focus groups; set standards of service and guarantee them to customers; provide redress when they fail to deliver; give customers a choice of service providers; and whenever possible, let customers take public dollars with them when they choose a different service provider.

10 Use Market-Oriented Strategies and Public-Private Partnerships to Solve Problems

To get better results with less money, Maine governments need to use the marketplace and partnerships to solve problems, not just government programs and regulation.

They need to use financial incentives—matching payments, tax incentives, vouchers, and the like—to drive other governments, private organizations, and individuals to behave in ways that solve societal problems. They need to pursue public-private partnerships whenever they are more cost-effective than government monopolies, engaging both nonprofit and for-profit partners in delivering public services.

When it Comes to SPENDING

Maine Stands Out

If Maine spending on government were at the national and rural state average, we would save over one billion dollars a year..

AS A PERCENTAGE of our income, Mainers spend about 13 percent more for state and local government than the national average, and 16 percent more than other rural states, making us the 6th highest spender in the nation in that category. Unfortunately, that doesn't mean that we get better results. In some cases, we simply spend more and get less.

If Maine spending were at the national level in just three categories, welfare and medicaid, K-12 education and solid waste management, we'd save over half a billion dollars each year. At the national average, we'd spend \$361 million less on welfare and medicaid, \$141 million less on K-12 education and \$29 million less on solid waste.

When we compare Maine spending to other rural states the numbers don't get much better.

HOW MAINE SPENDING COMPARES WITH OTHERS

| | % Above the national average | % Above the rural-state average | Cost Savings if we were at the Appropriate Average* |
|------------------------------------|------------------------------|---------------------------------|---|
| K-12 Education | 8% | 11% | \$141 million |
| Welfare and Medicaid | 69% | 101% | \$361 million |
| Unallocated Miscellaneous | 62% | undefined | \$205 million |
| Health, other than Medicaid | 125% | 80% | \$184 million |
| Higher Education - Non-Instruction | 7% | 16% | \$13 million |
| Corrections | 101% | 136% | \$100 million |
| Sewer | -10% | 14% | \$18 million |
| Local Government Administration | 17% | 10% | \$8 million |
| Legislature | 132% | 68% | \$8 million |
| Fire Protection | -13% | 10% | \$11 million |
| Solid Waste | 32% | 33% | \$29 million |
| General Public Buildings | 51% | 3% | \$3 million |
| TOTAL ADDITIONAL MAINE SPENDING | | | \$1.081 billion |

*The rural state averages were used in the comparisons for health, sewer, local government administration, legislature, fire protection and general public buildings. In these cases being rural noticeably affects cost levels. Otherwise, the national averages are used in these comparisons.

THE COST OF GOVERNMENT IN GENERAL

As a percentage of income, Mainers spend 15% of their income on state and local government, which ranks us 13% above the national average and 16% above the average of the similarly rural states.

In actual dollars spent, as opposed to a percentage of income, we rank 6th in the country. In this measure Mainers spend \$14.98 of every \$100 they earn on state and local government. The national average is \$13.21. We also pay 25 percent more than the New England average of \$12.03.

From 2002 to 2007 the trends moved in the wrong direction, as Maine moved slightly further away from the national averages of state and local government payroll and expenditure. Like other rural states, Maine provides relatively more public services through the state government than through local governments.

STATE GOVERNMENT

State government payroll, as a percentage of income, is 36% above the national average, reflecting a surprising number of public services for which expenditures are higher than national or rural averages.

One possible reason why Maine state government payrolls and expenditures may be higher than in the rest of the nation is that Maine's state government may be performing duties that are done by county or regional governments in other states. In other words, Maine's weak system of county government may force relatively more duties on to the state government.

State government payroll, as a percentage of income, is 36% above the national average

Although this may help explain some of the instances where Maine's state government seems to have higher-than-normal costs, it does not appear to be the whole explanation. In most of the services noted below, Maine's combined state and local government payrolls and expenditures are higher than in most states, and those services are primarily the duties of the state government in Maine.

The Legislature

Maine's state legislative expenditure relative to income is 132% higher than the U.S. average and 68% higher than the average of the similarly rural states. If Maine had the same legislative expenditure as a percentage of income as the average of the other rural states, \$8 million would be saved.

Welfare and Medicaid

Maine clearly has a high level of welfare benefits (predominantly Medicaid) in comparison to the rest of

The Source of Data in this Chapter

This source of data in this section is from a report released in June, 2010 entitled State and Local Government Payroll and Expenditure in 2007, which systematically examines interstate data on payroll and expenditure in 21 categories of state and local government services. The report (School of Economics Working Paper No. 588, University of Maine, June 2010) was written by Philip A. Trostel, a Professor of Economics and Public Policy at the University of Maine.

The data here updates a background analysis that Mr. Trostel wrote in 2006 for the Brookings Institution as part of their work in writing their widely-read study called Charting Maine's Future. In that report he examined state and local government spending in Maine in comparison to the rest of the nation using data for fiscal year 2002. His most recent report examines data for 2007.

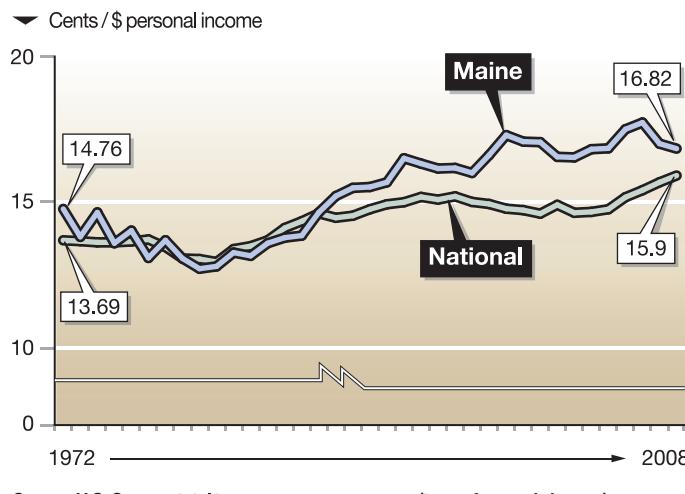
The intention of both this and the earlier report is to provide readily available factual information about Maine's state and local government spending practices, and to help replace anecdotes and impressions of wasteful government in Maine with more fact-based analysis. The new report systematically examines interstate data on payroll and expenditure in 21 categories of state and local government services.

All expenditure levels reported here are expressed as a percentage of personal income in the state and are net of revenues from both direct user charges and intergovernmental transfers from the federal government. Netting out these revenues is important for some service categories (such as higher education, welfare and Medicaid, highways, housing and community development, etc.) to provide an accurate picture of how service levels contribute to states' tax burdens.

Total expenditures reported here also do not include spending on quasi-private enterprises that are financed mostly through direct user fees, such as public hospitals, public utilities, public transit, and state liquor stores. The "total" reported here only includes services that contribute to tax burdens on a near dollar-for-dollar basis. Including quasi-private enterprises in the total would produce a misleading result and make comparison with other states inaccurate, since there are substantial differences across states in the public/private mix of these services.

For further information on methodologies and findings of the report, see *Appendix A* on page 74.

The Total Cost of Government, Maine State and Local vs. National State and Local



the nation and to other rural states. Maine's welfare and medicaid spending, as a percentage of income, is 66% higher than the national average, and it grew slightly faster than in the rest of the nation from 2002 to 2007. Maine's spending per single-female family (the strongest predictor of states' spending on welfare and medicaid) is 69% higher than the national average, and grew significantly faster than in the rest of the country since 2002.

It also appears that Maine has become unusually costly in administering these benefits. Maine was below the national average in public welfare payroll (the people and systems that deliver welfare and Medicaid payments) as a percentage of personal income in 2002, but in 2007 Maine was the 2nd highest in the nation and 68% greater than the average. Maine's public welfare payroll increased 45.9% since 2002. Nationally it decreased 13.2%.

If Maine's expenditure on welfare (including both administration and benefits) was the same as the national average, \$361 million would have been saved in 2007.

Health (other than Medicaid)

Maine's expenditure on health care relative to income is 125% higher than the national average and 80% higher than the average of the other rural states. If Maine's health expenditure (netting out federal transfers) was the same as the average of other rural states, \$184 million would have been saved (and the cost differential would be considerably larger if the national average was used as the benchmark).

Corrections

Maine's corrections cost per inmate is very high when compared to other states. Maine's annual expenditure per inmate is about \$93,500, while the national average is roughly \$46,400. Expenditures per inmate are also more than double the rural-state averages. Understanding how Maine spends so much can first be explained by this anomaly: while we have 67% fewer inmates than the national average, relative to residents, we spend just 25% below the U.S. average. If Maine spent at the national average in this category, it would save about \$100 million.

Other and Un-allocable

This is a catch-all category that Maine makes great use of. It includes everything that isn't in another category of spending, within census data. It is a budget category deserving of a closer look and a better understanding. For every \$100 we earn every year, we spend \$1.18 on this catch-all category, which is just slightly below the New England average, but 62% higher than the national average.

If Maine had the same 'other and un-allocable' expenditure relative to income as the national average, \$205 million would have been saved.

PUBLIC EDUCATION

Compared to the rest of the nation, Maine spends a high amount on primary and secondary education, more than \$1.9 billion in 2007.

Public education is by far the largest local government service. Nationally, 58.1% of total local-government payroll is in primary and secondary education. In Maine, primary and secondary education payroll is 71.4% of the total. In this ratio, Maine is 4th highest in the nation.

Expenditures per student in Maine are 8% higher than the national average, and Maine's payroll per student is 18% higher than the national average, despite per capita income in Maine being 11% below the national average. Maine's expenditure per student exceeds the average of the other rural states by 11%. If Maine's expenditure per student were the same as the national average, it would create \$141 million in annual cost savings.

After controlling for inflation, spending per student grew 9.3% in Maine, versus 8.9% nationally, from 2002 to 2007.

Compared to the national averages, Maine has 2.92 times as many school-district administrators per student

and 1.73 times as many school administrators per student. In these measures Maine is respectively the 5th and 2nd highest among the states. Moreover, Maine is higher than all of the similarly rural states in school administrators per student, and higher than all but one of the other rural states in school-district administrators per student.

Fire Protection

Maine's fire expenditure relative to personal income is 10% greater than the average of the other most rural states. If Maine had the same fire expenditure relative to income as the average of the other rural states, by a conservative estimate \$11 million would be saved.

From 2002 to 2007 Maine's spending on fire protection increased 19%, while the national average increased 8%.

Sewerage

Sewerage costs are greatly affected by density and are generally higher in rural states. But Maine's cost, when compared to the average of the other rural states, is 14% higher. If Maine had the same expenditure relative to income as the average of the other rural states, \$18 million would be saved annually. Spending on sewerage relative to income in Maine increased 14% from 2002 to 2007, compared to a 5% national increase.

Solid Waste Management

In the provision of solid waste management services Maine is high relative to the rest of the nation. Expenditure as a percentage of income on solid waste management in Maine is 32% greater than the national average and 33% greater than the rural-state average. If Maine had the same expenditure as a percentage of state income as the national average, \$29 million per year would be saved.

Where Maine Spends less than the National and Rural-State Averages

| | % Below the national average | % Below the rural-state average | Additional cost if we were at the appropriate average* |
|--------------------|------------------------------|---------------------------------|--|
| Higher Education | 18% | 37% | \$177 million |
| Parks & Recreation | 46% | 45% | \$68 million |
| Natural Resources | -6% | 52% | \$76 million |
| Libraries | 23% | 30% | \$10 million |
| Total | | | \$330 million |

*The rural-state average was used for Natural Resources, where being rural noticeably affects interstate cost levels. Otherwise the national averages are used in the comparisons.

Higher Education

While Maine spends heavily on K-12 education, as a percentage of income we spend 18% less on higher education than the national average and 37% less than the rural state average.

That isn't to say that the funds to higher education are well used. Maine has the nation's 2nd highest ratio of non-instructional payroll relative to instructional payroll in public higher education. For every \$1 going to instructional payroll, \$1.75 goes to non-instructional payroll in Maine, compared to \$1.15 nationally and \$1.04 in similarly rural states. Having fifteen separate university and community college administrations serving a cumulative student body of around 35,000 full-time equivalent students, in 2007, may indicate at least part of the problem.

If Maine had the national average amount of non-instructional payroll per student, \$13 million would have been saved in 2007.

Libraries

The provision of library services in Maine is relatively low in comparison to other states. Libraries expenditure as a percentage of income in Maine is 23% below the national average and 30% below the rural-state average. From 2002 to 2007, though, Maine's expenditure on libraries increased slightly more than its increase in income and slightly more than in the rest of the nation.

Judicial and Legal

In judicial and legal services relative to income, Maine has the nation's 7th lowest expenditure. Maine's level is 31% below the national average and 25% below of average of the other most rural states. Much, but not all, of this difference is evidently due to Maine's relatively low crime rate. After taking this into account, though, Maine still appears to be somewhat below the interstate norm in providing judicial and legal services.

Natural Resources

Maine's natural resource expenditure relative to income is 6% above the national averages, but 52% below the average of the other rural states. Relative to the rural comparison states, Maine does not appear to have unusually high costs in this service category. Moreover, Maine's provision in the category of natural resources declined significantly 2002 to 2007.

The Effects of Being a Rural State

It is sometimes asserted that Maine's higher-than-normal cost in providing some public services is an unavoidable consequence of being rural. That is, being rural to some extent creates an inherent cost disadvantage and excess duplication of services because economies of scale cannot be fully realized. That appears to be the case with spending on natural resources, financial administration, other

government administration and public buildings. Otherwise, the data suggest that rural states have more important cost advantages than cost disadvantages.

As a percentage of income, rural states generally spend less than on fire protection, sewerage, and housing and community development and judicial and legal cost (due to low crime rates). Maine's relatively low crime rate puts us 44th in crimes per capita and 31% below the national average, and creates an important fiscal advantage for the state. It allows Maine's spending relative to income to be low in police protection, corrections, and judicial and legal services. Nationally, 12.4% of total state and local government payroll goes to police protection, corrections, and judicial and legal services. In Maine, that number is 7.9%. The difference is a savings of \$312 million per year, or 0.7% of the state's personal income.



The Three Great Ticking TIME BOMBS

A Perilous Moment for the State

If the only challenges we confronted over the next 5-10 years were the habit of spending too much and large budget deficits each year, we might be able to muddle through. Unfortunately, we also have three major ticking time bombs that are converging to create enormous new challenges for the state.

OUR AGING POPULATION, coupled with \$4.4 billion dollars in unpaid obligations to public employees for pensions and rising health care costs for retirees endanger many of the things that we need government to do. In the not too distant future, we may not be able to adequately fund education, roads, public safety, the safety net or environmental protection. Without dramatic action to squeeze out inefficiency and prioritize needs, these three ‘ticking time bombs’ may well consume as much as half of the state’s budget within a decade.

The Aging STATE

Fewer Workers
and Growing
Needs.

1 in 5 Maine adults are now at or near retirement age. By 2030, it will be close to 1 in 3.

M AINE HAS AN AGING PROBLEM. A serious one. We’re the oldest state in the nation. The median age here is 42, which is 5 years older than the national average and 13 years older than the median age of Utah, the nation’s youngest state. Over the next two decades more people will be retiring and fewer people will be left to pay taxes that support public infrastructure, education, social programs and the environment. Estimates from the State Planning Office project that the number of Maine residents 65 and older will increase from 188,140 in 2003 to 335,602 in 2028.

The reasons why the state is aging can be traced to three things, all of which are tied to a weak economy, which has been unable to provide enough quality jobs to sustain our population mix.

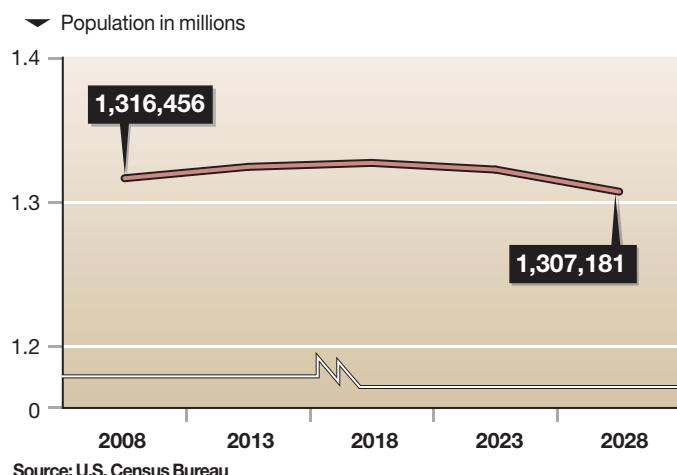
WHY MAINE IS AGING

- We now have the second-lowest percentage of residents younger than 19 in the country.
- We can't replace Mainers who die with a birth rate that is about 25 percent below the national average.
- Young people are leaving.

The first is that young people are declining as a part of Maine's population. Between 1990 and 2000, Maine was one of just five states that saw a decline (about 3 percent) in its under-19 population. As a result, Maine now has the second-lowest percentage of residents younger than 19 in the country and the number of Mainers in that age group is expected to drop from about 160,000 in 2007 to 135,000 in 2030.

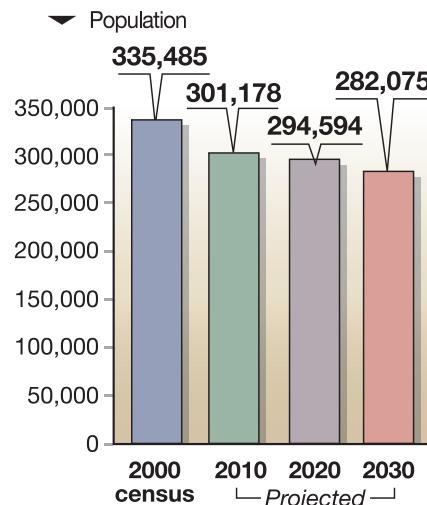
The second is that Maine isn't reproducing itself. According to a 2007 report by the State Planning Office, "Maine's birth rate is about 25 percent below the national average: 1.7 births per woman in 2000. Part of the reason that we're not keeping up is that we have the second-highest percentage of non-Hispanic white residents in the country, who tend to have lower birth rates than ethnic and racial minorities."

Population in Decline



The Population in Decline chart is hardly overstatement. It's projection showed a flat growth, or a slight population increase, through 2018. We now know that

Continued Declines in 19 and Younger Population



Source: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.

was optimistic. In 2009, Maine was one of three states – along with Michigan and Rhode Island – to see its population decrease. That happened because of low birth rates but also because new and younger people aren't coming here to replace the ones we're losing.

What this all adds up to is a looming crisis in public spending and government revenues that will drive further reductions and restructuring in government. As the baby boomers age, there are not enough younger replacement workers to balance the older population. That means fewer taxpayers carrying bigger burdens. Without massive changes, it is easy to see that the situation is becoming unsustainable, both fiscally and economically.

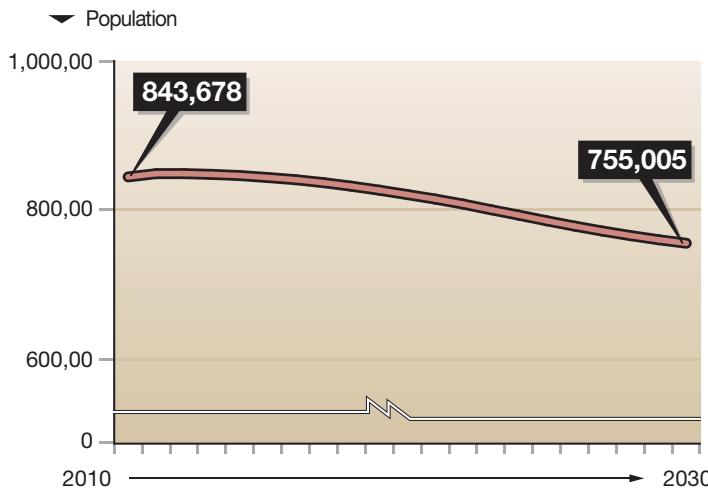
What does this trend-line mean for Maine government? Services targeted at children will diminish and those that serve older people will grow. School enrollments will continue to shrink, as will the number and size of schools. Health care costs, and the need for assisted living and nursing homes will continue to rise, while transportation and other in-home assistance programs will be under greater pressure.

Rural parts of Maine are already feeling the early advance of this wave of change. They've lost more young people than the rest of the state and their populations are already older. School enrollment statewide has declined

from about 240,000 in 1978 to about 185,000 in 2009. In rural parts of the state, some towns are having a difficult time keeping schools open. It's increasingly common, also, that towns that have relied on volunteers and elected officials to meet their 'staffing' needs are finding it harder and harder to manage as local volunteers age and aren't replaced with younger energy.

Working Population in Decline

20-64 Year-olds Will Decline for the Next Two Decades



Source: U.S. Census Bureau

The greatest challenge raised by an aging population, though, goes beyond the effects on government. Maine's economy could further shrink, if this phenomenon isn't reversed. With fewer workers available, it will become harder to meet the needs of in-state businesses for quality employees, and harder still to attract new businesses to the area.

In a 2007 column in the Bangor Daily News, former state economist Catherine Reilly wrote that Maine's lack of young people "jeopardizes long-term prosperity." She noted these points:

- Businesses are drawn to places with growing customer bases and ample workers.
- Without increases in productivity, fewer workers means slower economic growth.
- People between 25 and 34 are the most likely to pursue new entrepreneurial endeavors. "As Maine strives to compete in an innovation-based economy," she wrote, "the pool of most likely entrepreneurs will shrink."

WHAT CAN BE DONE?

There is only one answer to this ticking time bomb. We need to grow an economy that is creating more jobs, allowing younger people to stay here and attracting entrepreneurs and others from outside Maine.

Without a strong economy, everything else is window dressing and wishful thinking. If there aren't jobs to keep people here and attract new residents to Maine, we can't simply cheerlead our way forward by talking up our beautiful natural surroundings and small towns. Nor can we shame or even incentivize young people to stay here when they have brighter prospects elsewhere.

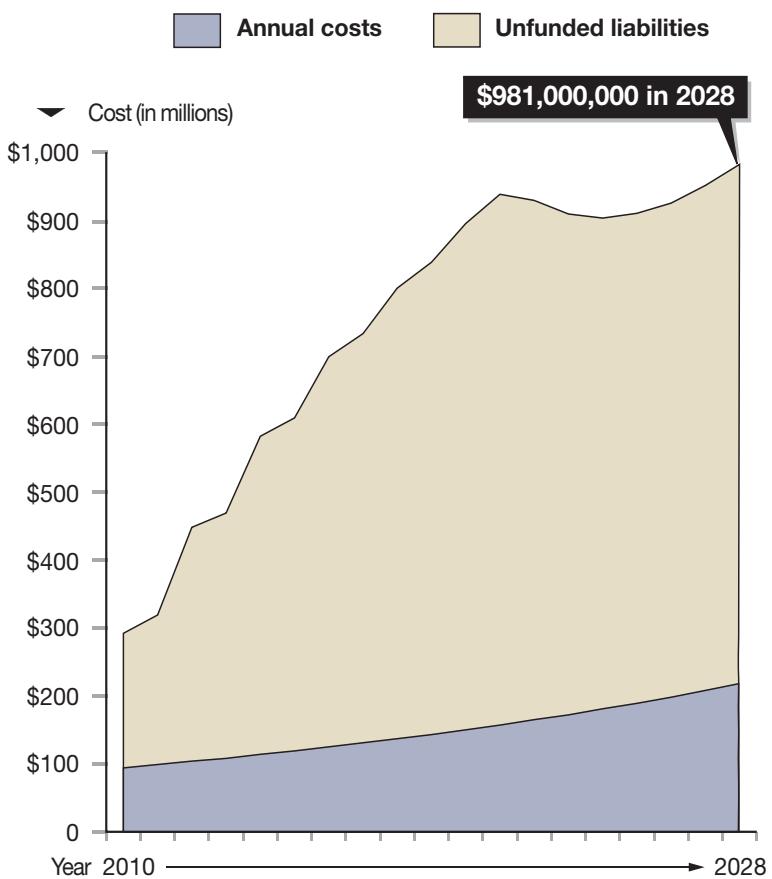


Unfunded LIABILITIES

Rapidly Increasing Payments are Coming Due.

The state will pay almost half a billion dollars next year for retiree pension and health care costs. Within a decade that figure will be closer to a billion dollars.

Maine's Pension Plan Liabilities



Source: Maine Public Employees Retirement System

UNFUNDED LIABILITIES are an onrushing train that too few Mainers understand, and that will dominate discussion in Augusta in the coming months and years. The state currently owes approximately \$4.4 billion for unpaid obligations for public employee pension and health care plans. Those costs now consume about 10% of state budgets, and could easily consume 20% within 6 to 8 years.

In the last budget, the cost was \$315 million per year. Those payments are about to dramatically increase each year from now on, to an estimated \$448 million by 2012, \$732 million in 2017, \$896 million in 2020 and \$938 million dollars in 2021. While these amounts also include the current cost of the plan, the majority of the increase is to pay the past debt or these liabilities.

Unlike other obligations that the state incurs, state employee and teacher retirement plan costs now must be paid by 2028, as a result of a constitutional amendment passed in 1995. That means that the cost of paying the unfunded liability comes off the top of the state budget, crowding out spending for education, roads, support to towns, social services and the environment.

How did we get into this mess? It started nearly 100 years ago in large part because politicians love to give things to constituents today and let someone else pay for it tomorrow. What did they give? Steadily expanding pension and health care deals to government employees and teachers, guaranteed against economic or investment downturns, that include the cost of 100% of retirement health care.

Maine's retirement system, like many states – and all New England states – offers its retirees a “defined benefit plan” rather than, like many private employers, a “defined contribution plan.” That means that they get paid the same pension whether or not their ‘investments’ go up or down. All

of the risk of low returns on investments are shouldered by the taxpayers. In most private sector plans, under a so-called defined contribution plan, such as a 401(k), employers set up individual accounts for retirees and contribute specific amounts of money into them at specific intervals. In those plans, the employee shoulders all of the risk of low returns on investments.

There was a time when private sector plans offered guaranteed benefits, but by and large the private sector has moved on. Not so government. As a result, public pension plans today are more generous than almost all plans in the private sector, primarily because of the age at which employees can retire, with substantial, guaranteed benefits.

It turns out that an early and generous retirement is one of the great perks of working for the government. Maine lets employees retire at 62, when life expectancy for men is another 20 years and for women another 23 years. With Mainers living longer than they once did, those retirement benefits have become increasingly unsustainable.

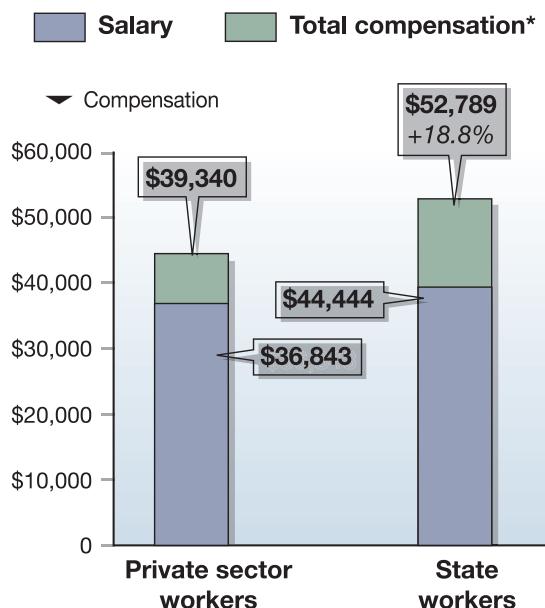
State retirees in Maine are entitled to 2 percent of their pay for each year they have worked. Employees who retire after 30 years with the government and who retire at or above their normal retirement age are entitled to receive 60 percent of the average of their top three year's salary, every year for the rest of their lives. Employees who work for 35 years get 70 percent per year, and so on.

Additionally, the state provides its retirees up to 100 percent of the cost of their single-person coverage health insurance, and provides teachers up to 45 percent of theirs.

According to a February, 2010 study by the Pew Center on the States, most states got themselves in this position the same way that Maine did - through policy choices and a lack of discipline. The state failed, for decades, to make adequate payments into its pension programs, while expanding benefits and offering cost-of-living increases without fully considering their long-term price tag or knowing how to pay for them.

Maine deserves some credit, though, for tackling this problem earlier than other states, including passing a constitutional amendment in 1995 that doesn't allow state government to backslide on the schedule of catching up to what it owes. In 1997, total pension obligations

State vs. Private Sector Compensation



Source: U.S. Department of Commerce Bureau of Economic Analysis

were 64 percent funded, with the State and Teacher Plan funded at 58 percent, a significant increase from an earlier low of nearly 30 percent. By 2008, these numbers were 80 percent and 74 percent. But the overall payment schedule was based on rosy stock market projections, and the market collapse a few years ago changed everything.

We're not doing so well when it comes to paying for retiree health insurance, either.

Currently, Maine pays 100 percent of its retirees' health insurance and 45 percent of retired teachers' health insurance. That is projected to cost \$1.53 billion for state employees and \$1.2 billion for teachers. Maine doesn't have nearly the money to cover that: According to the state's consultants, the unfunded liability as of June 30, 2009, was \$1.31 billion for state employees and \$999 million for teachers.

A March, 2010 report by a task force looking into the Maine state employee and teacher retirement plan explains that "pension funds rely on three sources of funding to pay for future promised benefits: 1) employee contributions; 2) employer contributions; and 3) invest-

ment earnings in the trust fund in which the contributions from employers and employees are invested.”

In other words, employees put money in, at a rate of 7.65 percent of their salary, and government puts money in, at a rate of 5.5 percent. The public employees retirement system takes that money and invests it.

When the stock market is doing well, the Maine Public Employees Retirement System does well. As of June 30, 2010, it had assets of \$8.9 billion, up from a low of

\$6.7 at the depths of the 2008 market crash. When the stock market drops, though, as it has over the last few years, the effects on Maine’s budget can be catastrophic.

As Pew reported, “Although investment income and employee contributions help cover some of the costs, money to pay for public sector retirement benefits also comes from the same revenues that fund education, public safety and other critical needs – and the current fiscal crisis is putting a tight squeeze on those resources.”

WHAT CAN BE DONE?

There are three different problems here. One is the political habit of paying for things in the future rather than when liabilities are incurred. The second is a state pension plan that pays people for a much longer period of retirement, because people live longer than they used to. And the third is a plan that puts all of the risk of a downswing in the stock market on taxpayers.

■ Resist any effort to change the pension plan payment due date of 2028.

Maine did the right thing when it passed a constitutional amendment forcing state government to pay its unfunded liabilities by 2028. We probably should have been paying more than we have since then, and now the payments are increasing steeply. Some will call for extending or over-riding that requirement. We shouldn’t do that.

■ For newly hired state employees, continue to allow early retirement with reduced benefits, but raise the eligibility age for full retirement and health benefits to reflect our longer life expectancy.

Maine’s pension and health care plan is beyond our means. We have to scale it back to something closer to private sector plans, but do it in a way that is fair to current employees. Start by changing the system, now, for new employees.

■ Automatically enroll all state employees in the state’s tax-advantaged retirement saving plan as an important supplement to traditional pension benefits, particularly for employees who still want the option of an earlier retirement.

Private pension plans rely on a combination of social security and investment accounts like 401ks. Maine needs to move in that direction, so that losses and gains in the stock market go to retirees and everyone has a basic security net –whether social security or some equivalent.

■ Change accounting procedures and legislative practices so leaders and the public know the full cost and effect of long-term obligations.

Maine can’t keep offering benefits to government employees – or anyone else for that matter – without knowing the full and honest costs of those benefits, and taking responsibility for them. At a minimum, the state needs to include five or ten year projections of all spending items in the budget, and change to accrual accounting, under which all future obligations incurred are counted as expenses.

Health Care COSTS

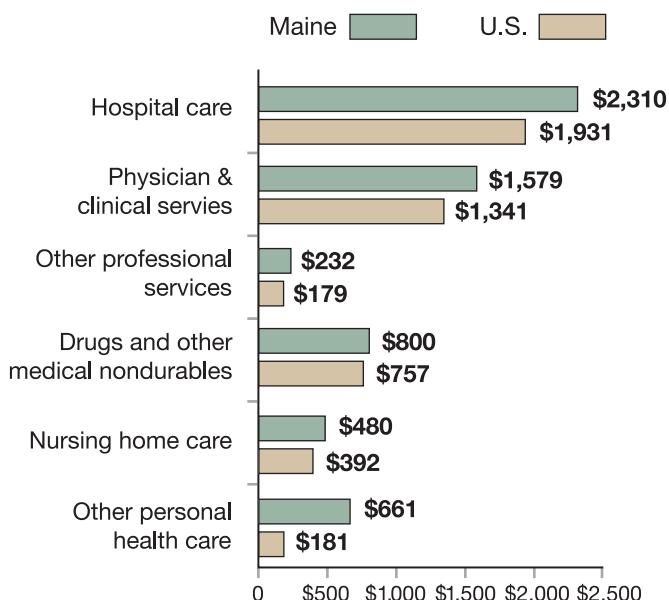
Are Crowding Out Other Needs.

The rising cost of health care is slowly bankrupting the country and states from Maine to California. Maine spends 24 percent more per person on health care than the U.S. average. In New England, only Massachusetts spends more. The state share of Medicaid, the largest single health care expenditure, rose from 4.9 percent of total state spending in fiscal year 1985 to 10.4 percent in 2008.

OUR SPENDING certainly isn't high because the rest of the country spends little. Since 1960, total U.S. health care spending has accelerated 10 percent a year—doubling every 7.5 years. Nationally, we now devote 16 percent of our gross domestic product to health care, almost double the European average. If current trends continue, health care (Medicare and Medicaid) will consume as much as half of all federal revenue within 15 years.

Yet all this money does not always buy us quality care. A Rand Corporation study found that patients receive the right care only about half the time. Between 48,000 and 98,000 patients die annually because of medical errors in hospitals. And almost one of every six Americans has no health insurance. (After federal reform is implemented in 2014, that number should drop to one of every 17.) The Institute of Medicine reports that 18,000 Americans die prematurely every year because they can't get the non-emergency care available to those with insurance, and many more suffer poor health because they lack care. Because of problems like this, the World Health Organization ranks the U.S. 37th in the overall quality of its health-care system.

Where We Spend More on Health Care



Source: Kaiser Family Foundation State Health Facts

We pay more and get less than other developed nations for three principal reasons.

1 Our health care system responds to illness rather than preventing it.

We spend most of our energy and money treating the symptoms of illness, rather than their causes. Yet our lifestyles are creating an epidemic of expensive, avoidable chronic conditions, such as diabetes and heart disease.

2 We pay for procedures, not for health.

Under the kind of payment system we use in America, a so-called ‘fee-for-service’ system, we reimburse doctors and hospitals for each medical procedure. They make more money by performing more services. If a hospital makes a mistake and the patient has to be treated again, the hospital generates more income. If a medical group figures out economical ways to keep its patients healthy, it goes broke. As a consequence, America leads the world in medical procedures, but is far behind in health.

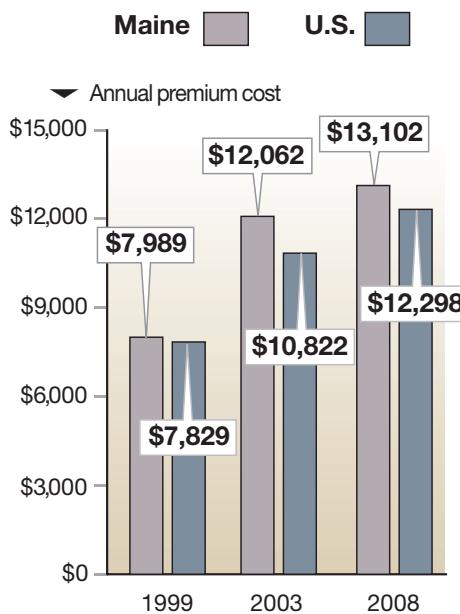
Doctors John Wennberg and Elliott Fisher at Dartmouth University have studied Medicare data for decades. Their research shows that in regions with more physicians per capita, rates of hospitalization and procedures are far higher—often twice the level of regions with fewer doctors. Yet this higher spending does not yield better outcomes or more satisfied patients—it yields just the opposite. Other studies show the same pattern with Blue Cross Blue Shield insurance. Wennberg believes that up to a third of the \$2.4 trillion we spend on health care each year is wasted on unnecessary treatments, overpriced drugs, and end-of-life care that yields nothing.

3 Our system is fragmented, but today’s problems demand coordinated care.

Our fragmented system of medical practices, hospitals, and insurance companies produces enormous waste. Complex administrative processes, such as billing, consume 25-30 percent of all health-care dollars. As the Maine State Health Plan reports, different doctors and hospitals treat the same conditions in very different ways, at very different prices. And because multiple specialists dealing with the same patient rarely coordinate their care, patients fall through the cracks and quality suffers.

Yet teamwork is more important today than ever before. Our medical institutions evolved to provide episodic or crisis care for acute illnesses, but the real burden has shifted to ongoing chronic problems that need continuing, coordinated care. “In fact,” report health-care experts Alain Enthoven and Laura Tollen, “about 45 percent of non-institutionalized Americans have chronic illnesses, and they account for 75 percent of personal health care spending.” More than 40 percent of them have more than one chronic condition.

Average Annual Health Insurance Premium Costs



Note: Family definition excludes employee plus one after 2001

Source: 1999, 2003 and 2008 Medical Expenditure Panel Survey (MEPS) insurance component

According to the State Health Plan, “Nearly 37 percent or \$1.2 billion of Maine’s increase in health spending from 1998 to 2005 is attributable to the leading chronic illnesses, which are often preventable: cardiovascular disease, cancer, chronic lung disease and diabetes.” Yet our health care institutions were not designed to provide coordinated care for chronic conditions.

Maine government has begun to take some steps in the right direction, over the last decade, by rolling out new strategies to prevent illness, studying alternatives to fee-for-service payment, and pushing hospitals to improve their quality and coordination and control their costs.

Between 2003 and 2008, family premiums paid by Maine employers increased only 9 percent (compared to 51 percent in the previous four years), with no increase in average deductibles, while employer premiums nationally increased 14 percent and deductibles grew by 31 percent.

The new federal reform bill could help in some of these areas, by taking the pressure off states like Maine

that have been trying to ‘go it alone’ through programs like Dirigo Health and expanding access to Medicaid. The federal health care legislation is designed to subsidize health insurance for an estimated 32 million Americans and change the rules of the marketplace so that insurance companies cannot deny coverage to people with pre-existing illnesses or cancel their policies when they get sick.

It also promises \$1 to \$2 billion a year for state and

local prevention and wellness programs, to attack underlying causes of illness. Medicare will launch demonstration projects to develop alternatives to fee-for-service reimbursement, and the bill offers financial support for states to experiment with new payment solutions and more coordinated care, among other things.

To take maximum advantage of these new opportunities, Maine should pursue three key strategies.

WHAT CAN BE DONE?

■ Reduce chronic illness by focusing on changing personal behavior rather than just responding to the symptoms of that behavior.

The single biggest driver of health care costs is our behavior. According to the U.S. Centers for Disease Control and Prevention, four big factors influence our health: personal behavior (diet, exercise, alcohol and tobacco use, etc.); the environment (elements in our air, water, homes, communities, workplaces and food); access to health care; and socioeconomic and genetic risk factors, such as poverty or a predisposition to heart disease or breast cancer. Of these four, personal behavior accounts for 50 percent of the variance in our health. The environment and risk factors account for about 20 percent each, health care for only 10 percent.

As a nation, we spend almost 90 percent of our public and private sector health dollars on treatment. Yet if we want better health, common sense tells us we must invest in changing behavior. We all know that smoking causes cancer, heart disease, and other health problems, and for 40 years our governments have been working to reduce smoking rates, with some success. But obesity, which leads straight to diabetes, heart disease, and other health problems, has become the 21st century epidemic. According to the Centers for Disease Control, by 2008 about two-thirds of Maine adults and one-third of our children are overweight or obese.

We also recognize that it is an uphill swim to get to and maintain a healthy weight, to keep our children free of toxins, to quit smoking, and to keep our youth free of alcohol. There are also populations who face huge disparities with many of these health issues. For instance, while Maine has enjoyed great success in reducing its smoking rates, people who are Native American, are gay or lesbian, have a mental illness, or live in poverty smoke at two to four times the rate of all adults in Maine.

The answers to addressing many of these health issues involve two overarching strategies: educating about and promoting personal responsibility for healthy behaviors and building health into the fabric of our society by making it easier for all of us to make healthy choices (sidewalks, multiuse trails, smokefree public places).

Maine’s leaders have begun to attack these health issues, over the last decade. They have created 28 local Healthy Maine Partnerships and eight public health districts, streamlined 150 grant programs down to 28, and asked the new districts to create improvement plans, including plans to prevent avoidable hospitalizations. If the plans fail, however, the state reforms have no teeth. We should create financial rewards for success and penalties for failure, for both public health districts and hospitals. The Healthy Maine Partnerships and the health care system (hospitals, health centers, physicians, etc) should also be required to

work closely together to improve health in the areas they serve. Maine is still at risk for having too many competing efforts that drain resources and reduce effectiveness. Additionally, those in community-based public health and those in health care have much to learn from each other on how to help improve the health of individuals as well as of the entire community.

State leaders should also pick the top five behaviors that undermine health—such as poor diet, inadequate exercise, smoking, drinking, and drug use—and lead massive public campaigns to change them.

The bottom line: If we invest in changing behavior today, we will prevent illness and save money tomorrow.

■ Use the buying power of government to negotiate lower costs, spur more competition, and produce better health, not more procedures.

Governments in Maine already purchase health insurance for more than one resident in three. The new federal health care legislation will raise that figure to about 45 percent. Why not use this vast purchasing power to steer the market toward higher quality and lower costs?

Maine should use every bit of leverage it has, as a consumer and purchaser of health care, to shift the market from fee-for-service reimbursement to a payment system that rewards providers for keeping patients healthier. This means using some form of “global payments,” which offer set annual payments to provide all care for an individual.

In a famous Rand Corporation study, group medical practices that charged a set, prepaid fee cost 25-30 percent less than those operating on a fee-for-service basis. The fundamental reason was that the prepaid physicians had clear financial incentives to become more cost-effective, as health-care experts Alain Enthoven and Laura Tollen explain:

Prepayment rewards doctors for keeping patients healthy, for solving their problems in economical ways, and for avoiding errors. It encourages superior ambulatory care for patients with chronic conditions, thereby reducing their need for hospitalization. In contrast, the fee-for-service payment system gives doctors powerful financial incentives to do more (and more costly) procedures, which may not be in patients' best interests, financially or clinically.

Entire delivery systems that receive set annual fees to care for patients, such as health maintenance organizations (HMOs), have similar incentives and even more weapons to improve quality, Enthoven and Tollen add. “[A] system prepaid for total costs can examine the full spectrum of care to find opportunities for cost reduction, not just shifting costs to other parts of the system. For example, a prepaid delivery system can evaluate new technologies for their cost-effectiveness and impact on quality and can deploy them as needed.”

Maine does not have a large number of HMOs or other prepaid delivery systems, but the new federal bill offers an opportunity to accelerate their growth. It will require Maine to create a health care “exchange,” through which small businesses and families earning less than \$88,200 can purchase subsidized health insurance.

What is an “exchange?” Think of it as a website where a pool of consumers can shop for the best deal on health insurance, in a market regulated by the state.

Experience shows that an exchange with 20-25 percent of the market can use its purchasing power to reshape the entire medical marketplace. To do so, Maine should create a purchasing pool involving several exchanges that use the same purchasing strategies—thus acting, in effect, as one pool.

1. The first would be the new federally required exchange, for small businesses and

individuals. Federal law allows states to combine these two markets into one exchange and include employers with up to 100 employees, both of which Maine should do.

2. The second could include most or all public employees and retirees, from state government, state colleges and universities, local governments, and school districts.

3. The third would include Medicaid (called MaineCare in our state) and the State Children's Health Insurance Program (SCHIP); it should be developed incrementally, for reasons we will discuss later. The state should invite private employers to join the pool as well, by creating a fourth exchange they could use until federal law allows expansion of the exchange for individuals and small businesses, in 2017.

The exchanges should then ask health insurance plans to compete for this vast market, based on both price and quality. Because one health insurance company, Anthem, now has 60-70 percent of the market in Maine, the exchanges might want to stimulate more competition by setting a limit on how much of their business one company could win. This would help enhance competition and might even lure new health plans into Maine.

Wisconsin's insurance program for state employees shows how these exchanges could structure the competition to bend the cost curve. Wisconsin defines a basic benefit package, asks health plans to submit bids specifying the monthly dollar amount they would charge individuals and families for this package, then ranks those bids into three tiers. Plans in tier one, which are low in price and high in quality, cost the least for state employees.

If they prefer a more expensive plan—because their family physician is not part of a tier-one plan, for instance—they are free to choose it and pay

part of the difference. The vast majority of members choose tier-one plans, and this fact creates an incentive for health plans to lower their prices. (Maine recently switched to such a tiered approach for state employees, but its financial incentives for picking a tier one plan are not as strong as Wisconsin's.)

Wisconsin put this three-tier approach into effect in 2003. In Dane County, which includes the state capital and the largest state university, the state employee plan covers more than 20 percent of the private (non-Medicare and Medicaid) market. State employees there have a choice of four high quality HMOs in tier one. By 2009, HMO premiums charged state employees in Dane County had fallen 16 percent below the average in the other 71 counties.

Wisconsin's experience indicates that both patients and doctors can be satisfied in such a system, as long as they have choices. It also demonstrates that a government can restrain costs by including just 20 to 25 percent of the non-Medicare, non-Medicaid market in this kind of "managed competition" arrangement. This is true because most health plans compete for that 20 to 25 percent, and when they strive to become more efficient to capture that market, the changes they make affect the rest of their business.

There are many wrinkles Maine could use to make such an approach even more effective. For example, to make consumers more careful about wasteful use of emergency rooms and doctors' offices, the basic benefit package could include a Health Savings Account. For more detail on this and other issues, see *Appendix B* on page 79.

■ Encourage coordinated care organizations that succeed by promoting health and preventing illness.

The exchanges described under step two would push hospitals, doctors, and insurance companies to create the kind of health care organizations that deliver better results for less money: integrated,

managed delivery systems that coordinate care for their patients. Federal reform requires Medicare to incentivize the creation of such organizations—dubbed “accountable care organizations” (ACOs) in the bill—by allowing them to share the savings they generate. Maine’s exchanges should piggy-back on this federal initiative by actively catalyzing the formation of ACOs.

According to Wennberg and Fisher, who helped develop the ACO concept, regions dominated by integrated, managed systems have costs up to one-third lower than other areas. Examples of such systems include HMOs like Kaiser Permanente, medical groups like the Mayo Clinic, the Cleveland Clinic, and Geisinger Health System, and emerging networks such as North Carolina’s Community Care, which serves 745,000 Medicaid patients. Some of these systems employ physicians as staff members, while others pay independent practitioners. Some, like Kaiser, are fully integrated, even owning their hospitals. Others, like Community Care, are virtual networks that knit together many private practitioners and hospitals to act as one coherent system.

Rather than charging fees for procedures, ACOs agree to care for all of a person’s health care needs for a set price per month. Delivery systems paid this way have a built-in incentive to bring down their costs. They embrace prevention, evidence-based care, electronic health records, a more cost-effective mix of doctors, nurse practitioners, midwives, and medical assistants, and other best practices.

These factors help such systems deliver higher quality as well. Their integrated nature also helps: Patients fall through the cracks less often. In the fragmented world of most private practices, when a physician refers a patient to a specialist, there is often no coordination. But integrated, managed systems typically require that every member have a medical “home”—a physician who acts as his or her primary caregiver and is responsible for coordinating his or her care. Maine has already

launched a Medical Home Pilot Project with 26 primary care practices. It could boost use of this model by requiring that every person buying through an exchange have such a medical home.

Some systems go even further, providing “case management” for patients who consume a great deal of health care. Nationwide, one percent of the population uses 27 percent of all health care dollars, and five percent consumes more than half of all medical expenditures. These are people with chronic conditions who require a great deal of care, often by multiple doctors. Sometimes the doctors are unable to coordinate the complex care. Sometimes patients are unable to comply with their physicians’ instructions—because they have behavioral or physical disabilities, for instance. As a result, they may not take their medications properly; they may not return for follow up visits; and they may not be following diet or exercise instructions. Case managers work with such patients to ensure they do what’s necessary to maximize their health.

Eventually, Maine’s exchanges could require that all bids come from integrated, managed ACOs. To give doctors and hospitals time to adapt, however, the exchanges could start by simply creating incentives for health insurance plans to shift from fee-for-service reimbursement of doctors and hospitals to lump sums for cycles of care for specific medical conditions (such as nine months of obstetrical care and delivery, a knee replacement, or a year of treatment for diabetes).

If medical groups had to compete based on price and the results they produced over a full cycle of care (which could be multiple years), they would face very different incentives. They would be rewarded not just for performing procedures, but for driving down their costs by eliminating errors, managing chronic patients more effectively, providing care in doctor’s offices rather than hospitals, helping their patients make healthy lifestyle choices, and the like.

To create this incentive, Maine could dock

insurance plans that stick with fee-for-service reimbursement in its rating system. To spur conversion to payment for cycles of care, it could create a web site on which physicians and hospitals would list their prices and outcomes for each cycle

of care, enabling health plans (and individuals) to purchase the most cost-effective options. The Maine Health Data Organization already does this for procedures.

For more detail on this proposal, see Appendix 2, p. 79.

Conclusion

Health care is complex, but the outlines of a better future are relatively simple.

First, we must keep toxins out of our environment and live healthier lifestyles—avoiding obesity, tobacco use, abuse of alcohol and drugs, risky sexual practices, and other behavior that leads to disease. Second, the state must use its enormous purchasing power, through a

ed, managed delivery systems that are accountable for keeping people healthy for a set monthly fee.

If we do these things, we will unleash tremendous innovation in our health care institutions. They will stop competing to deliver the most procedures and begin competing to dream up new, cheaper ways to preserve health.

This future is not pie-in-the-sky. It represents an emerging consensus among health care experts, and almost every idea in this chapter is already working somewhere in the country—many of them in Maine. All are achievable, with the proper application of political will. However, if we follow these steps, we will unleash tremendous innovation in our health care institutions. They will stop competing to deliver the most procedures and instead begin competing to dream up new, less expensive and better ways to improve health.

If we fail to meet the challenges to our health system, health care costs will continue to cannibalize our businesses, our governments, and our schools, devouring budgets the way Pac-Man once devoured computer graphics. As costs march upward, we will lay off police and teachers, eliminate extracurricular programs in our schools, defer maintenance of our infrastructure, and raise taxes. And, we will likely live shorter and unhealthier lives. That is a future none of us want.



series of coordinated exchanges, to force health insurance plans to compete based on their price and quality. Third, these exchanges must push the market to create integrat-

The Inefficient STRUCTURES of Government

**It's not the people in government,
it's the structures.**

**The people who work
in government care about
the state and its future as much
as anyone else. Sometimes more.**

**They're generally not any
more pleased with inefficient
government, than
taxpayers are.**

THEY ARE also our neighbors, our friends and our relatives. It is time to turn the discussion to the larger question of the structure of government itself and how it functions.

A SHORT HISTORY OF GOVERNMENT

In order to reinvent government, it helps to understand how it became what it is today. Why is the legislature the size it is? Why do we have 14 campuses of higher education? Why do we have almost 500 towns and 16 counties in Maine?

Most people would be surprised at how often government has evolved to reflect changing demands and expanding or contracting resources. Technology has

played a particularly large role. Throughout history, new advances in transportation, communications and organization have transformed the lives of individuals, companies, communities and – eventually, but usually last – governments.

Maine counties, at one point, were simply vertical stripes down the state. Towns were once immense distances from each other, by the technology of the day, and were expected to provide most, if not all, of the services that people needed from government. Governors in Maine, along with Presidents in Washington, had almost no staff.

HOW STATE GOVERNMENTS BECAME BUREAUCRATIC

Governments in the U.S. started by doing very little, and by today's standards they were incredibly limited and small. They began to grow in the 1830s, at about the time of the election of Andrew Jackson, who ran and won on a pledge to drive the elites and the aristocrats out of government, and return power to the people.

'To the victors go the spoils', declared Jackson. And that meant patronage jobs to supporters, preference in contracts, and influence. It also meant a change in what it meant to win elections, the rise of political machines and an expanding government.

The system of government that came to dominate in the 19th Century, not surprisingly, came to be known as the "spoils system." Tammany Hall and Boss Tweed in



New York City remain the spoils system's enduring symbols. But as the 1800s wore on, the spoils system brought rampant corruption and began to wear out its welcome. That fueled the rise of a wave of government reformers, from both parties, that became known as the Progressive movement. Over the decades around 1900, Progressive reformers like Republican Teddy Roosevelt and Democrat Woodrow Wilson rallied the public, fought the party bosses of the spoils system and eventually prevailed. They instituted a new way of organizing government that took power away from political 'tribes' and arbitrary and corrupt machines and put it in the hands of professional civil servants, operating under a set of rigid rules.

While Maine was largely spared the worst excesses of the spoils system, the state hasn't avoided the worst aspects of the solution that followed.

The Progressives' main cure for the ills of the spoils system was bureaucracy, which became the dominant system of American government in the 20th century. Odd as it sounds today, the word "bureaucracy" actually enjoyed a positive connotation then, because it overcame



that era's most pressing government problem: corruption and the abuse of power.

Reformers turned to industry for inspiration and models, copying bureaucracy from the private sector, where it represented the best and brightest in business management theory and practice, at that time. Henry Ford's assembly line was the epitome of bureaucracy. Other prominent features were hierarchy, specialization and monopoly.

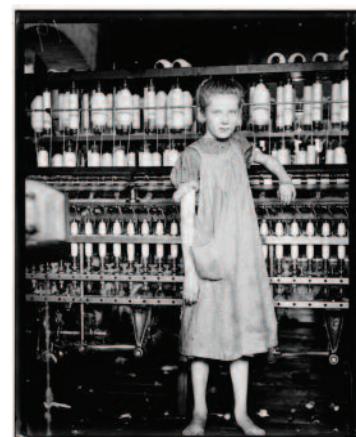
So remember this irony when you next hear complaints that government needs to run "more like a business." It actually is being run like a business—a business from 100 years ago.

While the spirit of the spoils system was tribal, the spirit of bureaucracy is mechanical. The task of bureaucratic leaders is to design and build optimal machines, keep them in good repair, and crank out uniform transactions free of taint.

Discretion had been the key to the bosses' ability to hire their relatives and friends, selectively deliver services, pocket kickbacks, and otherwise do what they wanted with public funds. To close any semblance of loopholes, and to promote "fairness," rules now had to treat everyone the same. Discretion by public servants had resulted in abuse, so discretion would be exorcised. Government workers needed to be shielded from political influence and pressure. Workers couldn't be hired or fired, punished or rewarded without strict rules.

Gradually, bureaucratic DNA replaced spoils DNA and reformers curbed the abuse and corruption. Money was spent according to the rules—though not everywhere or immediately, of course.

With the passage of time, bureaucracy's benefits began to decline. The private sector realized it first, in the 1970s and 1980s. Workers became more educated; they wanted to do much more than bolt part A to part B and send it on down the line for a 35-year career. Consumers became more affluent and demanded more from products and services and more in customer service. The industrial era gave way to the information age, and tech-



nology created amazing new products and services, along with the capacity to individualize them based on customer preferences.

By the end of the 20th century, the private sector had largely made the leap from the top-down, hierarchical, industrial model to a much flatter, more entrepreneurial, employee-empowered, and customer-focused way of doing business—though certainly not everywhere. Some industries, particularly among the largest manufacturers, resisted the change and paid the price—the ‘old’ General Motors being a prime example.

What about government? Without the pressures of customer choice and competition—and with powerful political forces protecting the status quo—government’s ability to change itself has lagged.

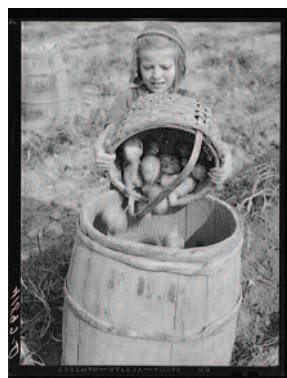
As the private sector transformed over the last four decades, the disconnect between the way the private and public sectors “did business” became more apparent. People became more and more frustrated with public bureaucracies. Many in politics simply railed against government and sought to “starve the beast” through repeated tax cuts. Citizens created anti-government, anti-tax movements. Today’s “Tea Party” movement is but the latest expression of the disconnect between the

way people live their lives and the way government seems to function.

Much of what is happening today mirrors the movements of a hundred years ago, when the public rose up and demanded that the spoils system change. Today the potential exists for a similar transformation. But the critics still too often mistake the problem as ‘government’, when a large part of it is actually ‘bureaucracy’.

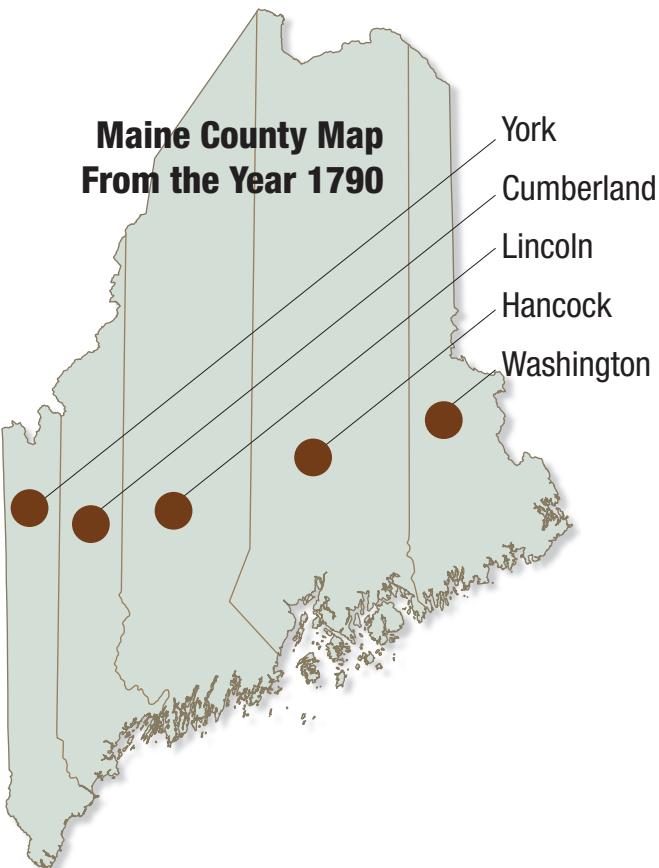
In most organizations, you get what you reward. In the public sector, we above all reward employees who understand and follow rules. We reward longevity over performance. We reward keeping your head down rather than your sights high. There is practically no incentive in government for employees and managers to innovate, to take risks, and to improve outcomes or efficiency. The downside of such behavior is often swift and severe. We fund the status quo, not innovation.

If government were a private company, dependent upon sales and investors, it would have fixed its problems years ago. But it isn’t. Instead, we have to create pressure for improvement through the political process.



American Models of Government

| Era | 19th Century | 20th Century | 21st Century |
|--|--|--|--|
| Model of Government | Spoils System | Bureaucracy | ????? |
| Most important (what people in the system feel most accountable for) | Loyalty | Rules | Value |
| Main tools | “Take care of our own” Patronage Money | Hierarchy Centralization Standardization Specialization Monopoly | Results Measurement “Customers” Networks Competition |
| Spirit | Tribal | Mechanical | Organic |



WHERE COUNTY GOVERNMENTS FITS IN

County government is an old form of government, with roots in the Anglo-Saxon period of Britain, when kings divided their realms into districts called “shires”, which later became counties. Over time, sheriffs emerged as the dominant officials of counties. (The word “sheriff” comes from “shire reeve.” The reeve was a royal official who kept the peace.)

Early American settlers, familiar with county government, brought that form of government with them. In 1634, the first county government in the New World was formed at James City, Virginia. Just two years later, Maine’s first county, York, was incorporated. Nine of Maine’s county boundaries existed by the time of our breakaway from Massachusetts, in 1820. The current 16 counties have

been in place since just before the Civil War, in 1860, when Knox County was carved out of Lincoln and Waldo Counties. In many cases,



A Tale of Two Organizations

A good way to understand the difference between bureaucratic structures and more entrepreneurial ones, in the 21st century, is to hold two organizations side-by-side: the Postal Service and Federal Express. The Post Office is built on the old bureaucratic model and FedEx on a newer, more adaptable one. The post office turns out essentially the same products for everyone. It finds change extremely difficult—thanks in no small part, to be fair, to political interference. It can’t close failing locations serving small populations, can’t change or reduce its hours of operation, is saddled with requirements to serve everyone, everywhere, and operates under rigid rules and job classifications. It’s slowly being killed by email and competitors.

FedEx, on the other hand, must stay nimble and responsive to survive. For FedEx employees, it’s all about what the customer wants and when they want it. Constant experimentation, trial and error and organizational change are in their DNA.

Ironically, with FedEx you pay more and you don’t complain. When the post office tries to raise rates another two cents, everyone grumbles.

The Postal Service made great sense in the last century, given the technology of the time. The people who work there probably work as hard as those at FedEx. But they are trapped in a bureaucratic model that doesn’t serve them or the public very well. Consumer expectations change. Technology changes. And organizations have to change. The public has been moving toward the FedEx model, right down to our cell phones, email and Internet purchasing. Too much of government is stuck in the post office model.

counties were incorporated well before towns were.

Each county was initially the place where important papers were held, as they are now, including records of land ownership, probate and deeds. County seats tended to be a day or two away – by horseback – from most municipalities.

Despite their history, counties in Maine are far less powerful and have far fewer responsibilities than counties outside of New England, where counties grew to become the regional government responsible for delivering a wide range of services. In Maine, and in New England, most services continue to be supplied by local and state governments.

HOW LOCAL GOVERNMENT TOOK ROOT

Even though the first official governments in Maine were county government, power and public participation happened at the local level. The reason why Maine has nearly 500 towns and cities is almost entirely a reflection of geography and technology. When towns were forming, and until about 150 years ago, travel and communications were limited by how far people could travel, with a horse or a boat, into town and back before dark.



Where the distance to town became too great, or crossed a river or other natural barrier, another town usually emerged.

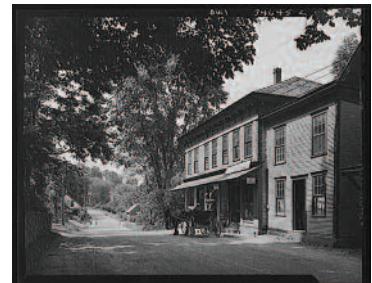
The size of towns was also limited by the communications technology of the time. How did people communicate over distances? Aside from word of mouth, there was a primitive early ‘internet’ in those days, even

before electricity and computers. That technology was the bell. The town or church bell could signal upcoming gatherings, attacks or fires. That tradition of “sounding the alarm” carried on well into the late 20th century with town-wide fire sirens and mill whistles.

These two technological limitations – in transportation and communications - is why the standard size of towns is approximately 6 miles by 6 miles. Limitations on travel and communications also meant something else, which is critical to the discussion of government today. It meant that almost everything that town residents needed had to be provided in their town. People couldn’t go two or three towns over for goods or school or town meetings. They needed one of everything, in the town they were in.

Today, of course, we don’t travel by horse, and most of us don’t live on family farms. We certainly don’t listen for the town’s bell for major news. Instead, we drive cars and trucks on fast roads, communicate by cell phones that beam our voices into space and across the world. And while we might have a home address in one town, few of us actually live, work, go to school, shop and worship solely within that town’s boundaries. We now live in regions and we live regionally.

But the habit of having everything in one town has been slow to change. The debate about school administrative consolidation and local dispatch changes illustrates how difficult it is to let go of that three century-old habit.



THE Legislature

Unwieldy and Over-Extended

Maine ranks 40th in total population in the country, but our legislature is the nation's 10th-largest. The cost of the legislature, relative to income, is 132% higher than the U.S. average and 68% higher than the average of similarly rural states. Part of the reason why is that the Legislature tries to tackle too many issues for a "part-time" citizen body.



THE KEY to understanding why the Legislature doesn't work well is to look beyond size and length of sessions to the number of bills and issues it tries to take up. Under the legislature's current rules, legislators, no matter how inexperienced or knowledgeable, can submit as many bills as they want each year.

That is an invitation to chaos and inefficiency.

The results of this over-extension should not be surprising. Unimportant work clogs the machinery of government, while critical issues languish or get pushed to the future because they would take up too much time. Programs and benefits to constituents or government employees, as well as tax breaks to well-organized interests, are created or extended without a good sense of their long-term cost.

It's not that legislators aren't dedicated and caring, or that they don't work hard. The Legislature is full of good, well-meaning people who are giving much to the state. But the system is failing legislators, and the rest of us, at the same time. The frantic schedule that results from taking up too many bills each year discourages strategic thinking and prevents prioritizing and promotes poor decisions. Over the long-term, extended sessions also make it difficult, if not impossible, for a representative cross-section of Maine people to participate in the system.

HOW THE LEGISLATURE IS ORGANIZED

Like every state except Nebraska, Maine splits its Legislature in two: A Senate, which has 35 members, and a House of Representatives, which has 151 members. That means each senator represents about 37,600 people and each representative has about 8,700 constituents. The state Constitution specifies the size of the House, but allows the Senate to consist of 31, 33 or 35 members.

All legislators in Maine serve two-year terms—unlike most states, where representatives serve two year terms and senators serve

Imagine Running Your Organization or Company This Way

Here's one way to look at the problem. Imagine that you are running a large corporation with 15,000 to 20,000 employees. You have a board of 151 people, most of whom have never run an organization of any size. Your board meets for more than 100 days each year and divides itself into 17 committees. It is also divided into 'caucuses' that are in constant opposition to each other.

Peculiarly, nobody establishes the agenda for the board. Instead, each member is allowed to add agenda items – as many as they wish - and each item requires a hearing before one of the committees, and perhaps in front of the entire board. Consequently, the board takes up 2,000 or so items each year. In any one of them, any board member, and for that matter anyone in the state, can come and speak.

The board makes lots of decisions – sometimes in very short time frames - including some of its most important ones during the last hours of the last day of its work each year. But the quality of the decision-making is often suspect. That leaves thousands of talented leaders and a cross-section of the state, including people who have experience running organizations, unable and unwilling to participate.

The company is a mess.

THE SIZE OF THE LEGISLATURE

Largest State Legislatures

| State | Population | Rank | House Size | Rank | Senate Size | Rank |
|--------------|------------|------|------------|------|-------------|------|
| N.H. | 1,315,809 | 41st | 400 | 1st | 24 | 23rd |
| Pennsylvania | 12,488,279 | 6th | 206 | 2nd | 50 | 6th |
| Georgia | 9,685,744 | 9th | 180 | 3rd | 56 | 4th |
| New York | 19,490,279 | 3rd | 150 | 7th | 62 | 2th |
| Minnesota | 5,220,393 | 21st | 134 | 9th | 67 | 1st |
| Mass. | 6,497,967 | 12th | 160 | 5th | 40 | 12th |
| Missouri | 5,911,605 | 18th | 163 | 4th | 34 | 17th |
| Maryland | 5,633,597 | 19th | 141 | 8th | 47 | 9th |
| Connecticut | 3,501,252 | 29th | 151 | 6th | 36 | 15th |
| Maine | 1,316,456 | 40th | 151 | 6th | 35 | 16th |

Eight legislatures have less than 100 members, as shown below.

| State | Population | Rank | House Size | Rank | Senate Size | Rank |
|----------|------------|------|------------|------|-------------|------|
| Arizona | 6,500,180 | 17 | 60 | 26 | 30 | 20 |
| Oregon | 3,790,060 | 27 | 60 | 26 | 30 | 20 |
| Wyoming | 532,668 | 50 | 60 | 26 | 30 | 20 |
| Hawaii | 1,288,198 | 42 | 51 | 27 | 25 | 22 |
| Nevada | 2,600,167 | 35 | 42 | 28 | 21 | 24 |
| Delaware | 873,092 | 45 | 41 | 29 | 21 | 24 |
| Alaska | 686,293 | 47 | 40 | 30 | 20 | 25 |
| Nebraska | 1,783,432 | 38 | N/A | N/A | 49 | 7 |

four year terms. Most legislative work is done in 17 committees, ranging from the Committee on Agriculture, Conservation and Forestry to the Committee on Utilities and Energy. Before a bill goes to the full House and Senate for a vote, it must first go to one of those committees.

Committees hold public hearings where interested parties have the chance to provide insight – and to argue for or against particular pieces of legislation. The Legislature has two regular sessions during its two year existence. The first year is a “long” session that usually goes from December to late June. The second year’s “short” session goes from January to late April.



SUBMITTING BILLS

In the first session, legislators may introduce pretty much any bill they'd like, and as many as they'd like. Typically, they collectively introduce 1600 to 2600 in the first session. In the second session, to introduce new bills, they must receive permission

from the 10-member Legislative Council, made up of the Senate President, the House Speaker and the majority and minority floor leaders and assistant leaders of both houses. The ability to ‘carry over’ bills from the first session, though, has become a major loophole in the constitutional intent that the second year should be just for emergencies.



TERM LIMITS

While the governor of Maine has long been subject to term limits, Maine is one of 15 states—and the only one in New England—to impose term limits on legislators.

Six states – Arkansas, California, Michigan, Missouri, Nevada and Oklahoma – impose lifetime term limits, which means that once legislators “termed out,” they may never run for House or Senate again. In Colorado, Montana and Wyoming, lawmakers must leave the legislature for at least four years before they may run again.

Maine legislators had no such restrictions until 1996, when voters passed a law to prevent legislators from serving more than four consecutive 2-year terms. The word “consecutive” is key: Legislators are allowed to serve as long as voters will allow them, but cannot

Legislative Pay in New England

| State | Base Pay | Session Per Diem Rate |
|---------------|---|--|
| Connecticut | \$28,000 per year | None |
| Maine | \$13,526 first session; \$9,874 second session | \$38 per day housing, or mileage and tolls in lieu of housing; \$32 per day for meals |
| Massachusetts | \$61,440 per year | \$10 to \$100, depending on distance to State House |
| New Hampshire | \$100 per year | None |
| Rhode Island | \$13,089 per year | None |
| Vermont | \$625 per week during session; \$118 per day for special sessions or interim committee meetings | \$93 per day for lodging and \$54 per day for meals for non-commuters; commuters receive mileage and \$54 daily for meals. |

serve more than eight consecutive years in the House or eight consecutive years in the Senate. A too-familiar pattern has emerged, where long-term legislators serve the maximum number of years in the House, then flip move to do the same thing in the Senate, and so on.

Most people would agree that term limits have allowed more people to serve in the legislature. But they have also decreased institutional knowledge by legislators and shifted power toward bureaucracies and the governor.



Legislative Pay

According to the National Conference of State Legislatures, Maine pays lawmakers \$13,526 for the first session and \$9,874 for the second. During session, they also receive a per diem rate of \$38 a day for housing (or mileage and tolls in lieu of housing) and \$32 a day for meals. Legislators also receive the state’s health and dental insurance and a retirement benefit.

WHAT CAN BE DONE?

Maine needs to reduce the legislature’s scope of work, so it can spend more time on critical issues and less time doing paperwork and running around frantically. That would also provide an enormously helpful side benefit of allowing a broader cross-section of the population to serve.

Allow no more than 5 bills in each two-year session from any single legislator.

No single action can more effectively improve the operations and quality of decision-making of the Legislature than to reduce the workload and prioritize what matters. Many states do this, in var-

ious ways, as does the federal government. Sometimes it's by an overarching committee designed for that purpose. Other times it's through legislative leadership or committee chairs. We think it's best to let each individual legislator decide what they see as their highest priorities. How the number of bills is limited isn't nearly as important as simply getting it done.

■ Reduce the size of the legislature by one third, to 25 Senators and 75 House Members, with three house districts in each Senate district.

In the twenty-first century, it simply isn't necessary to have a legislature this big. When people traveled by horse and communications were more difficult, it made sense to have many smaller districts. With cars, email, telephones and the internet, it just isn't necessary.

■ Reduce the length of legislative sessions by 50%.

If the steps above are implemented, the legislature won't need as much time to conduct its business. Sometimes smaller is better. Limiting the number

of bills that each legislator can sponsor to five in each two-year session would reduce the overall number of bills submitted by as much as 80%. That should allow the Legislature to cut its session time by 50% and still have more time for each bill.

■ Impose lifetime term limits of 12 years on all Legislators.

People inside government make a compelling case that term limits have weakened institutional knowledge and empowered the people who stay around the longest – bureaucrats, legislative staff and revolving door legislators. The public generally seems to have another view, which is that people who spend too much time in Augusta tend to lose touch with ordinary lives. Both arguments have merit. Term limits have reduced institutional memory in the legislature and removed good leaders prematurely. But that needs to be weighed against people who make government a career, blocking new blood, new energy and new ideas from entering the debate. All things considered, a longer term makes sense, but it shouldn't include a revolving door loophole that allows people to jump from one body of the legislature to the next.

STATE Government

A Slow-Moving, Outdated Bureaucracy

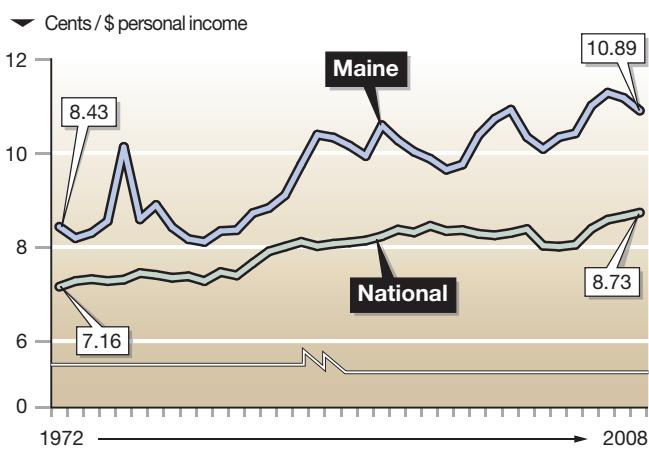
Maine has one of the most inefficient rural state governments in the country.

WITH ROUGHLY 20,000 full time employees, state government is by far Maine's largest single employer – and its largest, most diverse industry. It is roughly twice the size of our largest private employer, Hannaford Bros. Corp, and it employs everything from physicians and janitors to road crews, investigators, engineers, clerks of all types, prison guards, economists, counselors, detectives, geologists, judges, librarians...and a governor.



The Total Cost of State Government,

Maine State vs. National State



Source: U.S. Census, total town own-source revenue (taxes, fees and charges) as a percentage of aggregate personal income

State government pays some of those people pretty well – by the standards of central, western or northern Maine, very well. According to an analysis by the Maine Heritage Policy Center, 1007 state employees earned salaries and benefits worth more than \$100,000 in 2009. We pay \$70,000 per year to our governor—the lowest governor's salary in the nation. But we pay the Secretary of State \$83,844, the Attorney General \$92,248, the Treasurer \$83,844 and the Comptroller \$90,355.

The problems of state government are complex and difficult. They can't be solved by moving boxes around on an organization chart or cutting programs across the board. We need to rethink the scope of what state government does, then recode its bureaucratic DNA to incorporate new technologies, modern management approaches and the expectations of the 21st century.

A few decades ago, you could still find major corporations that were organized and run like state government. Think 1970s steel and auto companies and you won't be far off. Top down. Rigid work rules and classifications. It was almost impossible for managers to reward talent and remove incompetence. Few people could do someone else's job. Customer

service and quality were posters on the wall and little else. Despite decent pay, the culture was often deadening and morale was dangerously low.

Companies that operated that way and didn't reinvent themselves are largely gone now. A few were bailed out by government or foreign investors, which almost always forced them toward long-overdue changes. The rest collapsed or shrunk to irrelevance.

WHAT STATE GOVERNMENT DOES AND HOW IT'S FUNDED

Like other rural states, Maine provides relatively more public services through the state government than through local governments. Maine state government has more than 200 agencies, boards, departments and commissions that range from the Accountancy Board to the Workers' Compensation Board.

Maine's largest expenditure is education, followed by social services. A May, 2010 report estimated spending, *see chart at right*.

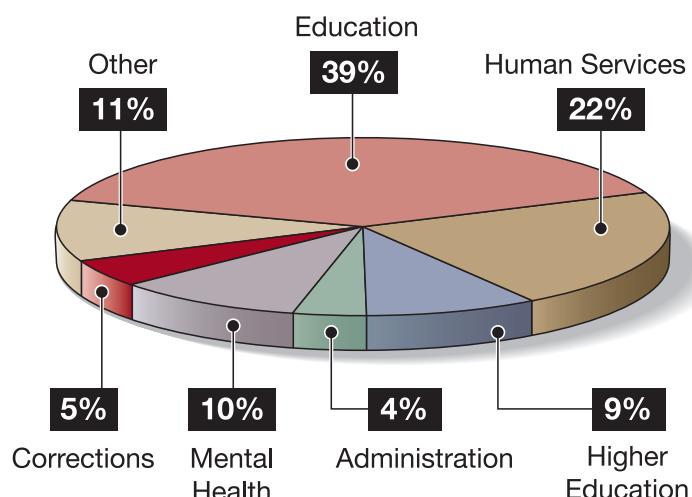
WHO IS IN CHARGE OF IMPROVEMENTS, OUTCOMES AND EFFICIENCY?

Listen to an elected official running for re-election and you're likely to hear of the new programs and activities created during their term. But if you ask them – or virtually anyone in government – when the last substantial program was closed down, you're likely to get a long pause.

Government sometimes seems frozen in time; able to add but not to subtract. Part of the problem is that state government rarely measures the efficiency of its work, and consequently doesn't know what to change, even if it could.

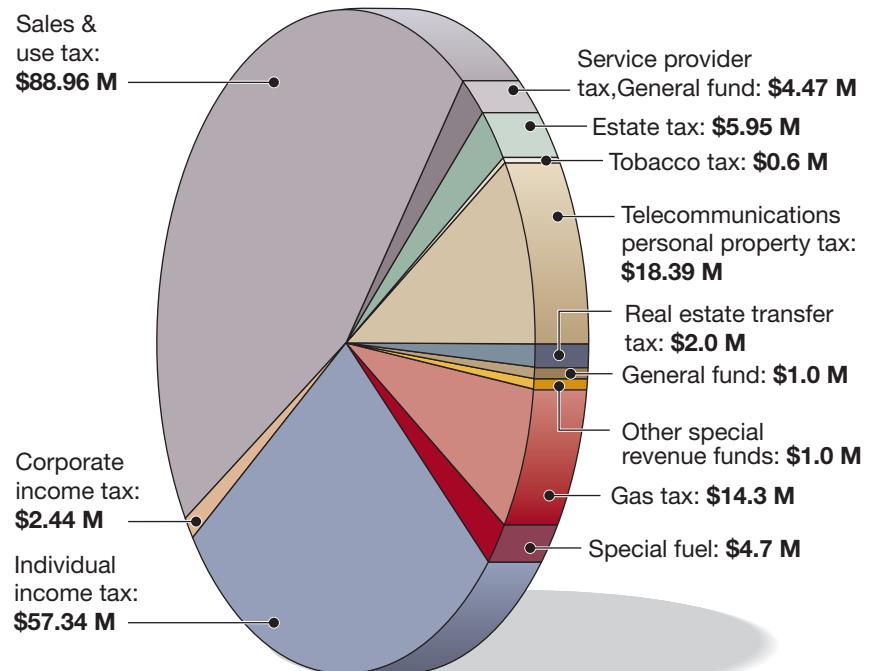
Ask someone in government: How many people in your agency have as their full-time job the task of ensuring that each dollar is spent within the rules? Then ask: How many people have as their full-time job the task of ensuring that each dollar produces the best

Maine State Spending, 2008 general fund



Source: State of Maine Compendium of State Fiscal Information, 2008

Revenue Sources Fiscal Years 2005-09



results for the people it serves? The contrast is always dramatic.

It's not that government doesn't care how the money is spent. It just cares that they are spent within the rules. Only one small fragment of government has as its primary responsibility looking at whether or not government is maximizing the results achieved with each tax dollar.

CREATING A FLATTER AND LEANER STATE GOVERNMENT

Most people who have looked at state governments across the country know that there is a better way to do things. The problem is getting there. There are powerful institutions that are invested in bureaucracy and the status quo. Some exist to benefit workers, or protect programs, while others have contracts with state government. Together, they tend to block change wherever they can. The status quo is good for them.

The main causes of inaction are predictable. Inertia. Fear. Lack of vision and confidence. And a media envi-

ronment hostile to risk-taking, which is essential to an entrepreneurial government. That isn't to say that all employees or organizations that benefit from government spending resist change. Many are just as frustrated with bureaucracy and inefficiency as the rest of us. And they have an important place at the table.

If you read the earlier section on history, you know that our current state government structure and culture is a product of reforms a hundred years ago that swept away corruption and abusive power by installing rigid bureaucracies and insulating them from political mischief. That system has since then evolved, primarily through labor and work rules, to an institution which functions about as inefficiently as creative human minds could imagine.

So what is the next stage of evolution for government, and how do we get there? Here are some steps that would help, based on successful transformation in other governments.

WHAT CAN BE DONE?

■ Gradually replace outdated hierarchical bureaucracy with a flatter and more decentralized structure.

This is not an overnight objective, but a long-range goal that needs to be kept squarely in front of decision-makers, to guide future changes in state government. It is about changing the 'DNA' of the organization of government so that it focuses on results.

■ Engage state employees, managers, elected officials and the public in a transforming state government from the ground up.

Most employees know how to save money. They see waste all around them. They are not often enough asked for their input, so they keep their mouths shut.

a) Finding efficiencies and lowering costs

Many organizations have dramatically

improved their productivity by training their employees in process improvement and empowering them to make changes, then sharing the savings they generate with them, through a "gainsharing" program. Consider San Jose, California's self-managed road marking crew—the people who paint the stripes and put the safety dots on the streets and highways. The city trained them to analyze the cost of everything they did, while also helping them develop the skills to work in a team. In a few short years, the team tripled its productivity, which translated into millions of dollars the city could spend on other priorities.

b) Improving operations

A small set of government processes, such as the Department of Motor Vehicles in many states, inflict high-profile pain on citizens. By identifying and fixing them, states can improve citizen satisfaction with government

services and save money. Maine should create process employee teams and train them in quality management, to improve their work processes. Other tools for larger improvements include business process reengineering and information technology.

■ Measure and prioritize all functions of state government for value and efficiency.

a) Beef up measuring results and audits

Maine government employs lots of people to spend money and track spending, but very few to independently review results and efficiencies through auditing and investigation. The one notable exception is the Office of Program Evaluation (OPEGA) that is controlled by the Legislature. OPEGA should be expanded and made independent of, and immune from, adverse budget action when it reports its findings.

b) Budget for Outcomes, Not Costs

Most budgets buy more or less of the status quo: they start with last year's numbers, ask for more to pay for rising costs, get denied, and cut costs and services to make the budget math come out. Budgeting for outcomes focuses on outcomes that citizens value, not costs. It starts with an agreement on total spending (the price citizens pay for government) and outcomes (the priorities citizens want from government). Programs don't make status quo budget requests, they make proposals to deliver specific results at a specific price. Through a ranking process, those proposals that deliver the most value for the money are included in the budget; those that deliver the least value are eliminated. The competition between programs for scarce resources drives creativity, as program managers look for new ways to deliver better results for less money.

This process should include all forms of spending, including all tax incentives and other subsidies, such as fees that do not fully

cover the cost of services. By examining subsidies, Maine's leaders could make conscious decisions about who should be subsidized and who should not.

c) Manage for Results

State governments needs to measure the results (outputs and outcomes) of all of its activities and review performance regularly with the relevant managers. Every unit of state government should have a "balanced scorecard" of performance goals, against which progress should be reviewed at least quarterly, to examine what is working, what isn't, and to learn how to improve results. Rewards should be established for high performance, with penalties for low performance.

d) Contract for Results

Performance contracts make contractors accountable for the results they produce by including rewards for high performance and penalties for poor performance. They shift the state's focus from paying for inputs or meeting specifications to producing outcomes. Performance contracts can be written for many relationships: The governor's office with cabinet secretaries, secretaries with departments, department heads with managers, state government with local government, and state government with private contractors. These contracts should be accompanied by simplification of reporting and red tape, to maximize performance. Opportunities to employ performance contracting exist in all aspects of state government, particularly human services, health care, construction, and maintenance.

■ Eliminate outdated red tape and unnecessary programs

a) Sunset all programs for full review every five years.

Times change and so do expectations of government. But we can't only grow government in response to new demands, we also need to

learn to shrink it, by allowing programs that are no longer serving a vital function, or that are duplicating other programs, to simply go away.

b) Create “Charter Agencies”

Agencies regularly complain about the red tape and bureaucracy that frustrates their ability to perform. Charter Agencies pioneer a new, bureaucracy-busting deal. Agencies wishing to be chartered commit to producing measurable improvements in results at lower costs. In return, they are freed from red tape by being given waivers to certain rules, as well as special authorities (for example, to borrow from a loan fund to invest in improvement). Iowa’s six Charter Agencies saved taxpayers more than \$90 million in their first three years, while dramatically improving results.

c) Reform Administrative Systems

Administrative systems, including budgeting, accounting, procurement, human resources and auditing are, in the current systems, the primary keepers of the bureaucratic rules. They are far more powerful than all the pronouncements made by elected officials or department heads. That’s why government employees often call those organizations “control agencies.” They were designed as an antidote to the corruption and administrative chaos that reigned 60-100 years ago, but they hamstring managers and employees, ignore results, and oftentimes create colossal waste.

Their first assumption is that people cheat and therefore must be controlled—that’s why it often takes as many as nine signatures to release an expense check. It’s also why drivers in some states can get a license renewed in 15 minutes, but it can take an employee seven weeks to get reimbursed for a travel expense. By modernizing these systems based on principles of flexibility and accountability for performance, the state can get significantly better results for less money.

■ Use Competition to Drive Innovation and Efficiency

Not every part of government can be subjected to competition. Some things should be exclusively done only by government. But there are still plenty of areas where internal and external competition can sharpen thinking, reduce costs and improve results.

a) Competitive Contracting

Competitive contracting opens up service delivery decisions to the power of competition. The most obvious method is simply outsourcing to the private sector. (This should not be done when it would jeopardize important public goals like safeguarding rights, create a private monopoly, or leave critical public capabilities like emergency services at risk). A better way, in most cases, is to allow public agencies to bid against their private competitors, an approach called “managed competition.” This typically yields 20-30 percent savings on its first iteration, no matter who wins.

If a full contracting process is not possible, the effect of outside competition can be simulated using a ‘bid to goal’ process that uses external benchmarking to set a target for internal bids. A labor-management team is then formed and asked to figure out how to meet that target. If its bid meets the goal, the contract proceeds. If not—or if the agency fails to deliver on the bid price—a second round invites outside bidders.

b) “Entrepreneurial Management” of Internal Services

Entrepreneurial management makes some internal service organizations “earn” their revenue by selling to other agencies, often in competition with private providers. Suddenly, survival depends on how well they please their fellow government customers and at what price. Many governments have turned their maintenance, printing, training, data processing, vehicle fleet, and other internal service

operations into competitive enterprises. Iowa, Minnesota, Milwaukee, the Edmonton school district, even Australia and the United Kingdom have used this approach, which can save 10 percent a year for several years.

■ **Make Service Organizations More Accountable to the Public**

The public often expects lousy service from government, and it too often meets their expectations. The public deserves better. State agencies that serve the public should ask what they want, then create service standards and guarantees, defining how long they must wait, turn around times, quality levels, and so on. To be effective, these must be publicized, and they must come with consequences, as part of the overall performance management system. When they are not met, agencies should be expected to make it up to the customer through some form of redress, such as refunding a permit fee. Publication of service standards acts as a pledge of accountability, motivating staff and building trust with clients.

■ **Manage Buildings and Other Assets More Efficiently**

In most jurisdictions, capital dollars are budgeted separately from the operating budget. Further, debt service, maintenance and operating costs are often not paid by the department or agency consuming the capital. The result is that capital (buildings, vehicles, machines, computers, etc.) looks ‘free,’ and departments want as much as they can get. However, a state could require departments to pay their own debt service, operating and maintenance costs out of their annual budgets, while also giving them the flexibility to

reallocate resources to support their capital/investment needs. Or the state could charge the departments a set asset fee (for example, 1.5 percent of the asset value per year) to cover some of these costs, as New Zealand does. This would reduce capital requests and encourage departments to sell unused and low value assets. To further encourage sales, departments should be allowed to keep -- or at least share -- proceeds from asset sales.

■ **Re-invest in Improvements**

In business, it takes money to make money. In government, it takes money to save money. Capturing savings while providing citizens with the same or better results requires changing the way services are delivered, financed and managed. This usually requires one-time, up-front investments.

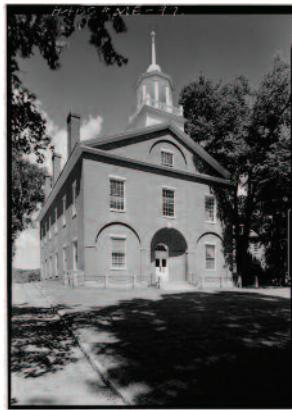
In the midst of fiscal crisis, finding money for such investments is difficult. The best approach is to fund change from the savings it generates. In Iowa, for example, former Democratic Governor Tom Vilsack cut a deal with the Republican-led legislature for the FY 2004 budget. He proposed broad opportunities for reinvention that were likely to save money, estimated the savings, and put a negative line item in the budget for ongoing savings of \$88.5 million, minus a one-time \$25 million investment to achieve them. The legislature agreed to make the eventual statute changes necessary to accomplish the reinvention. The savings were taken and the investments promised before the actual program changes were worked out. Vermont’s Republican governor and Democratic legislature did the same thing this year.

Maine's Sixteen COUNTIES

What Role Do They Have in the Future?

Maine needs more services to be delivered at a regional level, but most of today's counties aren't set up to take on a larger regional role, and too many towns and state agencies lack confidence in their ability to do more. So while many towns are working with counties, others are forming regional and multi-town collaborations. This chaotic pattern of change could become a fourth level of government, if we're not careful.

ASK PRETTY MUCH any schoolchild in Maine to name the Maine counties and he or she likely will start singing the "Maine Counties Song." Sung to the tune of Yankee Doodle, it begins, "The sixteen counties in our state are Cumberland and Franklin," and goes on to list the other 14. Ask the same schoolchild – or many grownups, for that matter – what the counties do, and you're more likely to get a stumped look.



County government in Maine – really in all New England – is a peculiar creature: Counties are physically large but have limited authority over the territory they encompass. They are governed by elected commissioners who, in some cases, cannot set budgets. They provide important services but can't pass ordinances or send tax bills directly to their residents.

New England has a tradition of limited county government. State and local governments in the region have far more authority than counties. The three southern New England states have even more limited county government than Maine. In Connecticut, Rhode Island and half of Massachusetts, counties are exclusively geographic areas; they do not have governments.

Maine's Constitution says very little about the state's counties. In fact, the Constitution uses the word "county" or "counties" only four times. The Constitution says that sheriffs, judges of probate and registers of probate "shall be elected by the people of their respective counties." In addition to an elected sheriff, judge of probate and register of probate, each county elects a register of deeds; a county treasurer; and a three-member board of commissioners (except York, which has five commissioners). County officials are elected to four-year terms. Unlike local government, most county elections are party-based, which can be a cause of friction with towns, which are generally non-partisan.

The counties, of course, employ other people, as well. Each county has an emergency management agency, communications department and, depending on the county, some others. The most populous county, southern Maine's Cumberland, employs 406 people and has a budget of \$40 million. The least populous county, western Maine's Piscataquis, employs 76 people and has a budget of \$4 million.

Otherwise, county authority – such as it is – is

THE SIZE AND COSTS OF COUNTY GOVERNMENT

| County | Year Incorporated | Number of Employees | Current Annual Budget (in millions) | 2006 Population | Square Miles |
|--------------|-------------------|---------------------|-------------------------------------|-----------------|--------------|
| Androscoggin | 1854 | 122 | \$9.84 | 107,552 | 470 |
| Aroostook | 1839 | 149 | \$4.38 | 73,008 | 6,672 |
| Cumberland | 1760 | 406 | \$40.2 | 274,598 | 836 |
| Franklin | 1838 | 72 | \$4.3 | 30,017 | 1,698 |
| Hancock | 1789 | 110 | \$6.63 | 53,797 | 1,589 |
| Kennebec | 1799 | 175 | \$10.6 | 121,068 | 868 |
| Knox | 1860 | 110 | \$7.35 | 41,096 | 366 |
| Lincoln | 1760 | 85 | \$10.2 | 35,234 | 456 |
| Oxford | 1805 | 75 | \$5.65 | 57,118 | 2,078 |
| Penobscot | 1816 | 210 | \$14.7 | 147,180 | 3,396 |
| Piscataquis | 1838 | 76 | \$3.96 | 17,585 | 3,967 |
| Sagadahoc | 1854 | 80 | \$8.24 | 36,837 | 254 |
| Somerset | 1809 | 199 | \$10.8 | 52,349 | 3,927 |
| Waldo | 1827 | 95 | \$7.45 | 38,715 | 730 |
| Washington | 1789 | 95 | \$5.9 | 33,288 | 2,569 |
| York | 1636 | 170 | \$19.5 | 202,232 | 991 |

granted by the state Legislature. They are allowed to enact their own charters and through the creation of agreements with local communities can deliver virtually any service. Counties are funded primarily by property taxes, although they collect other money from fees they charge for services. Of the sixteen counties, 12 now have full-time professional managers.

So what do counties do? Registers of deeds collect real estate transfer taxes and handle real estate documents. Probate Courts are responsible for wills, name changes, adoptions and certain other legal matters. (A past proposal to transfer responsibility for real estate matters to the Secretary of State's Office gained little traction. Several proposals to have the state take over probate courts have also failed.)

Additionally:

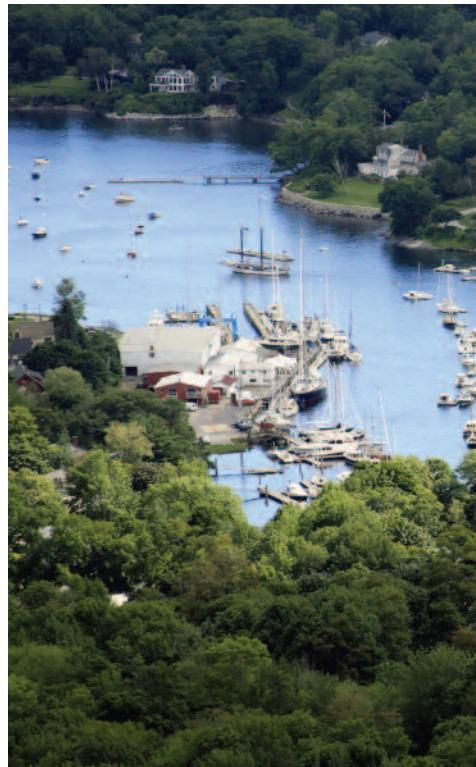
- Sheriff's deputies patrol roads and handle law enforcement for unorganized territories and for many towns. Just this past February, voters at a special town meeting in Bethel decided to disband their police department and contract with the Oxford County Sheriff's Office for service.
- Counties provide most of Maine's District and Superior courtroom space.
- All 16 counties share a "risk management pool" – a self-insurance plan providing property and liability coverage.
- Hancock, Knox and Oxford County operate county airports. Aroostook, Somerset and Washington Counties help fund airports.
- Until 2008, counties operated jails. They now substantially fund the newly created state/county unified corrections system, which is overseen by the State Board of Corrections. The state operates jails, but counties own them.

- In unorganized territories – parts of Maine that have no municipal governments of their own – counties maintain roads and provide police service and garbage disposal.

FRiction BETWEEN COUNTIES AND LOCAL GOVERNMENT

Maine gives "home rule" to municipalities, but not to counties. That means the Maine constitution says that powers not specifically given to the state belong to municipalities. Cities and towns are allowed to pass local ordinances, but counties are not.

State law prohibits counties from sending tax bills directly to residents. Instead, counties bill individual municipalities for services, and towns then bill citizens on behalf of counties. In some counties, budget committees made up of municipal officials have the authority to



reject county budgets. As a result, tension occasionally erupts between commissioners and budget committee members.

COOPERATION BETWEEN COUNTIES AND MUNICIPALITIES

While tension exists between counties and municipalities, the two forms of government do occasionally and successfully work together. Although some municipalities continue, for example, to maintain their own public safety answering and dispatch services, counties, increasingly, are handling that task.

In Cumberland County, the county communications center provides dispatch service for 13 of 28 municipalities. The largest of those municipalities is Windham. Gorham, which began making use of the county's dispatch services in 2005, claims to have saved \$1 million dollars by working with the County. In the years since, officials estimate Gorham has saved \$1 million. Gray is also saving about \$200,000 per year by contracting with the county dispatch center, and Casco, Naples and Raymond have recently jumped on board. Additionally, 10 counties are the sole "Public Safety Answering Points" or

dispatch centers for their individual municipalities.

Counties have expressed a willingness – even a desire – to provide creative new services.

For Example:

- Cumberland County is the only county in New England to have its own community development block grant program. Of the county's 28 municipalities, 24 participate. The program, overseen by officials from each of the 24 participating communities, received \$1.4 million from the federal Department of Housing and Urban Development in 2007 and again in 2008, to disperse. Among other projects, it funded \$30,000 toward a playground in Harrison, \$65,000 for septic system replacements in Harpswell and \$200,000 toward a sewer leach field reconstruction in Bridgton.
- A number of counties operate their own solid waste management systems. Lincoln County has operated a recycling program for 20 years. Franklin, Oxford, Penobscot and Piscataquis Counties have regional solid waste planning commissions. The former Regional Waste Management in Cumberland Coun-



ty, now called Ecomaine, is owned by 21 municipalities, has another seven “associate members” and services an additional 10 contract members, including municipalities in Androscoggin, Kennebec, Oxford and York Counties.

Maine has other examples of regionalization, as well.

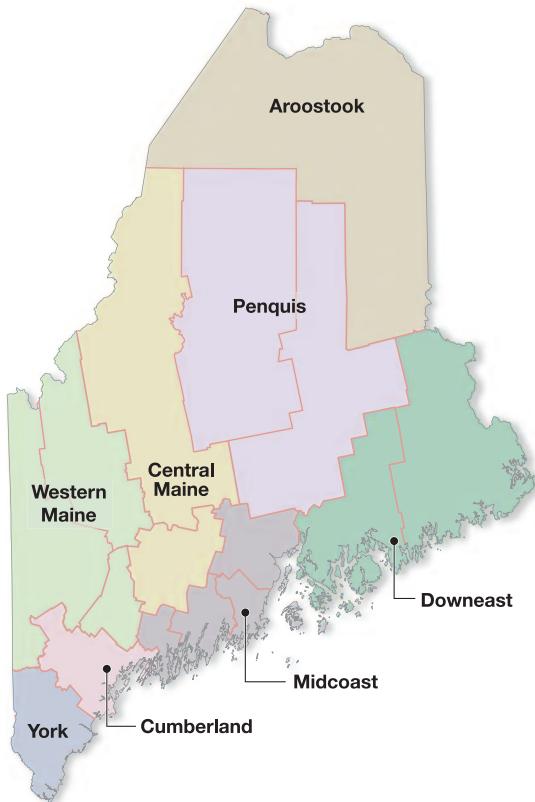
- Until 1975, each county had its own elected county attorney, who prosecuted crimes. In 1975, the county attorney system was replaced by a district attorney system. Under the new plan, the state created eight regional Prosecutorial Districts. Of the eight, three – Aroostook, Cumberland and York – cover a single county each. The others are:
 - Androscoggin, Franklin and Oxford Counties
 - Kennebec and Somerset Counties
 - Penobscot and Piscataquis Counties
 - Knox, Lincoln, Sagadahoc and Waldo Counties
 - Hancock and Washington Counties

HOW COUNTIES WORK ELSEWHERE

In many Southern and Western states, counties handle major responsibilities for human services such as welfare, food stamps, child protection, and health care. Los Angeles County, with 9 million residents, 110,000 employees and an annual budget of \$23.6 billion, is larger than many state governments.

New England’s reliance on towns and cities, rather than on regional governments, hasn’t made counties irrelevant, but has made it more difficult for them to emerge as true regional service providers. The problem is not so

Eight Proposed Counties



much that counties don’t have the authority to engage in more regional activities - they could provide far more services than they do now, through agreements with towns within their county and with the state - but towns and state agencies haven’t turned to counties, in many cases, to do that. Many town and state officials seem to have a widespread lack of confidence in the ability and readiness of counties to do more than they do now.

WHAT CAN BE DONE?

■ Replace the existing 16 Counties with 8 New Counties

Just as is the case with the Legislature districts, the old district lines have very little relevance today. We have eight counties with over 1,500 square miles of territory, while eight others are less than 1,000 square miles. The largest county, Aroostook,

is 6,672 square miles, which is equivalent to 258 miles x 258 miles. The smallest is 254 square miles, or the equivalent of 16 miles x 16 miles. The boundaries of counties, when they were established, had more to do with land grants and the limitations of travel by horse or boat than anything else. Now you can travel through 3-4

counties, in some cases, with a two hour car ride.

We need counties that better reflect the way the state has developed, economically and demographically, and that better reflect the way that economic ‘regions’ of the state have developed.

The state also needs to agree on where those regions are. Currently, state government agencies have a mind-numbing array of ‘districts’ that they work within, in many cases only barely related to current counties lines or administrations. At the same time, towns are increasingly cooperating with other towns, and sometimes with counties, to create new regional collaborations. If you put all of those things on a map, overlaid, you’d have the definition of chaos.

The best way to begin to seriously move toward regional service delivery – where it makes sense – is to re-imagine counties. We can start by combining some of the smaller ones, and others that cross natural regions.

■ Set up ‘New Counties’ to provide more regional services

Few counties are ready to emerge as the regional service deliverers of tomorrow, providing regional solutions to problems like road maintenance, plowing, public safety, communications or administration. If they were, more of those activities would already be provided by counties. Counties need to be re-organized to step into a new and more challenging role.

■ Improve the professionalism of New Counties

One part of preparing New Counties for a larger regional role is to ensure that they are better staffed, trained and organized to take on greater responsibilities. This means new and higher staffing expectations, training and goals, consistently applied across all counties. All counties should also have professional management.

■ Increase the number of New County commissioners to 9, to make them more representative of county-wide interests

Part of the disconnect between counties and towns is the fact that most towns, even the smallest of them, have 5-9 elected officials to run and administer the town. Most existing counties have only 3 commissioners. One way to make counties more representative and responsive, and to increase the confidence that towns and the state have in counties, would be to increase the size of their boards to 9. This is an area where the representative body of government, unlike the Legislature, is simply too small.

■ Appoint, rather than elect, all county managers, officials and staff

One way to ensure a transition to professionalism is to move beyond the anachronistic notion of electing staffers for the county. We don’t elect the head of the local police force, or the librarian in town, and we shouldn’t be doing that for counties, either. Let’s elect commissioners to oversee counties, and leave the hiring of professionals and managers to them.

LOCAL Government

Can We Afford One of Everything Everywhere?

Local government in Maine, if you include schools, employs about twice as many people as state government. If you take out schools, local government is about 2/3 the size of state government.

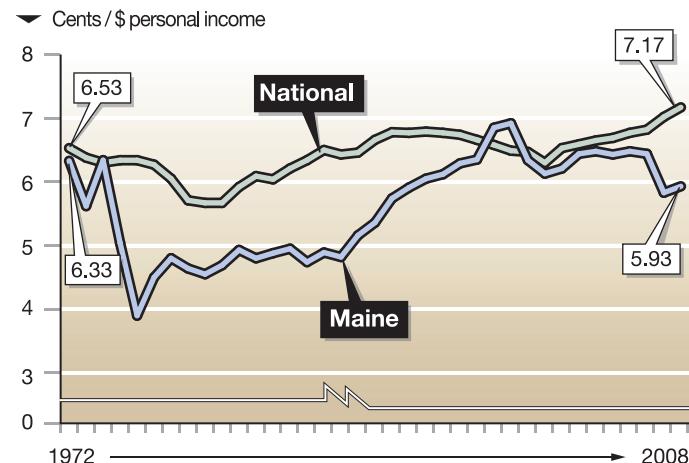
A GOOD DEAL is made about how many towns we have (just under 500) and how expensive there are, or at least seem to be to local taxpayers. The numbers, though, tell a more complicated story. If you took schools out of local budgets, which represent 71% of local budgets, the remaining 29% of spending—on public works, public safety and municipal services—matches up well with other local governments across the country. In fact, Maine town services cost 33% less than towns in other rural states.

That isn't to say there isn't more that can be done through collaborations and regional service delivery, to bring costs down and improve services at the same time. The key is to figure out how to help towns do that, and how to evolve a system that has been working well, in many areas, for more than two centuries.

HOW MANY TOWNS DOES MAINE HAVE?

If you ask 5 agencies in Augusta or Washington how

The Total Cost of Local Government, Maine Local vs. National Local



Source: U.S. Census, total town own-source revenue (taxes, fees and charges) as a percentage of aggregate personal income

many towns and cities Maine has, you're likely to get five different answers. The U.S. Census Bureau says Maine has 489 local governments. The Maine state government website lists 491 cities, towns and townships. They range from Portland, which has a population of just more than 64,000, to Frye Island, which has no year-round residents (the island is in Sebago Lake, which freezes in winter, making the island inaccessible by ferry).

We do know that Maine has more local governments than any other state in New England—roughly one town, township or city for every 2,500 people, and more than one local elected official for every 800 people. Massachusetts, which has a population five times larger than Maine's, has 138 fewer governments. At the time of the last national Census of Governments, the nation averaged about one local government for every 5,500 Americans. Still, when Maine is compared to similarly rural states across the country, four out of five have more towns per capita, and a high number of towns isn't unusual for small rural states.

Why do we have so many towns? It is mostly

about the horse. Towns were created to accommodate how far citizens could travel by horse or cart from the farm to town and back, before dark. The answer isn't much more complicated than that.

HOW MANY PEOPLE WORK FOR LOCAL GOVERNMENT?

Most cities and towns in Maine are small – about half of all Mainers live in towns with populations of less than 5,000. Local governments in Maine have 258 professional managers or administrators, 114 police departments and 405 fire departments. Many also have public works departments and recreation departments.

Especially in the smaller towns, local officials do a pretty good job of keeping costs down. But studies in the last decade make it clear that once a town gets to a certain size, somewhere around 2,500, costs begin to climb as residents demand more services and the limits of voluntary services are reached. That is one of the reasons why it's difficult to generalize about the 'cost' of towns. Small towns with limited services and many volunteers have very low costs. Rapidly growing communities with expanding demands for services, on the other hand, can quickly become very expensive to run.

HOW DO WE PAY FOR LOCAL GOVERNMENT?

Cities and town collect about 85 percent of their income from property taxes; in 2009, that worked out to \$1,750 per year for each Mainers, or 4.8 percent of personal income. Most of the additional 15 percent of municipal revenue comes from excise taxes on motor vehicles and boats.

The nonpartisan Tax Foundation in Washington, D.C., estimated in 2007 that Maine

How Much Local Control is there, Really?

Local control is a cherished concept in Maine. Discussions of politics and government often include a reverent tribute to its importance. When people use the term 'local control', they tend to be talking about different things. To some people it means local government where elected officials are more accessible. To others it means local spending and programs that employ people in town.

Whatever the definition, in the 21st century local control isn't exactly what it used to be. We still elect people at the local level, and they have lots of meetings and make plenty of decisions, but more and more matters are outside of their control. Here's why. When people lived, worked, shopped, learned and played in one town, it was a lot easier to exert 'local control' over events. Now, of course, while we all reside in one town or another, we rarely do everything in that town. We may live in one town but work in another. Perhaps we shop in still another town or go to school somewhere else. With modern transportation and communications, we increasingly 'live' in regions. That may be one of the reasons why interest in local politics seems to be declining in many towns and cities across the state.

Decisions that we used to think were locally controlled are now decided elsewhere. The federal and state government set environmental standards. State funds direct and influence school decisions. Major transportation decisions are often made in Washington and Augusta.

Even local priorities such as zoning aren't really fully under the control of local communities. The flow of traffic today almost always extends across municipal boundaries, and the decisions that one community makes to site a development can often have major effects on neighboring towns. Consider, for example, the Maine Mall, which draws traffic from many communities and affects traffic in nearby municipalities. Those nearby municipalities have no "control" over South Portland's decisions about the mall – even though those decisions directly affect them. Nor does South Portland have anything to do with decisions affecting them that are made in Scarborough or Portland.

When it comes to the important, money-driven decisions, many issues that affect our day-to-day lives are not decided by our – or any single – local governments. Towns and cities more often react and respond to others, rather than control their destinies. What towns are left with, that they do control, really boils down to providing local services like police, fire, road maintenance and dispatch.

had the ninth highest per-capita local property taxes in the country. Five of the 10 states with the highest per capita local property rates were in New England (the sole New England state not in the top 10 is Vermont, which has one of the lowest per capita local property tax rates in the nation).

States with the Highest Per Capita Local Property Taxes 2007

| Rank and State | Local Property Tax Per Capita | Per Capita Income and Rank |
|------------------|-------------------------------|----------------------------|
| 1. New Jersey | \$2,484 | \$49,194 - 2 |
| 2. Connecticut | \$2,312 | \$54,117 - 1 |
| 3. New York | \$1,663 | \$47,385 - 4 |
| 4. New Hampshire | \$1,928 | \$41,512 - 8 |
| 5. Rhode Island | \$1,858 | \$39,463 - 17 |
| 6. Wyoming | \$1,797 | \$43,226 - 6 |
| 7. Massachusetts | \$1,710 | \$49,082 - 3 |
| 8. Illinois | \$1,591 | \$40,322 - 16 |
| 9. Maine | \$1,537 | \$33,722 - 35 |
| 10. Wisconsin | \$1,484 | \$36,047 - 25 |

Maine has the lowest per capita income on this list, and its property tax burden is 4.55 percent of personal income. Connecticut, with the highest per capita income in the nation in 2007, had per capita property taxes equal to 4.27 percent of personal income. New York's rate is 3.44 percent.

REGIONAL COLLABORATION TO IMPROVE EFFICIENCY AND LOWER COSTS

When Maine organized its towns, distance and weather made travelling by horse difficult, so people needed to have everything they used most in one place.

As Maine moved into the automobile era and more people moved from farms to towns and from towns to suburbs, we began to live more “regionally.” But it has been a struggle for towns to adapt to these new regional realities.

Most people still want everything to be done in their town, but they also want lower taxes. With shrinking public resources, frustrated taxpayers and growing pressures on towns as the population has aged and volunteers

have dwindled, many have been seeking out new ways to reduce costs. One of the most obvious ways has been to cooperate in service delivery, either through multi-town agreements or through their county.

Over the last 20 years, Mainers in virtually every corner of the state have been discussing how to regionalize more services. It’s been a difficult and complicated discussion, to say the least, mostly because there isn’t any ‘one-size-fits-all’ approach. Some small towns that rely on volunteers have costs far lower than larger service centers. For them, regionalizing service delivery might actually drive up their labor costs, though it might save them in other ways or improve services overall. On the other hand, larger towns and cities reflect an entirely different set of problems, as they tend to build and maintain independent, redundant public safety, public works and fire protection services, in some cases almost directly beside each other.

In other parts of the country, counties are the natural regional level of government. But many towns have been reluctant to turn to counties to provide more of their services. The reasons for that go beyond a desire to maintain local control of services. It is also a result of widespread perception among local officials, fair or otherwise, that counties have archaic organizational structures, unclear and unpredictable management systems and limited oversight from voters.

That lack of confidence in counties, by both state and local officials, is leading to a patchwork of local collaborations by towns, and a myriad of regional definitions by state agencies. The Maine Department of Environmental Protection, for instance, has broken the state up into four regions. The state Department of Transportation has broken Maine up into five regions. The Department of Health and Human Services has divided Maine into eight regions.

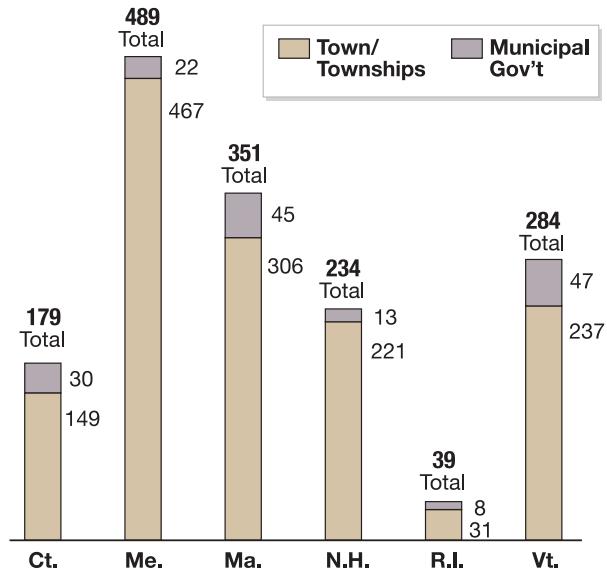
Here are just a few examples of recent efforts to collaborate, which seem to be accelerating across the state:

- Recently, the towns of Falmouth and Yarmouth agreed to have Falmouth handle their public safety dispatching, while Freeport contracted with Brunswick.

Local Governments in New England, 2002

- Fort Fairfield, Limestone, Connor and the Limestone Development Authority share fire department personnel and equipment in an inter-local relationship called Aroostook Fire District #1.
- Interest by city and town managers and business leaders in Rockland, Camden and Belfast resulted in a regional group to address the economic development needs of the area.

That trend will need to expand and accelerate, given the demographics described under the Ticking Time Bombs section.



Source: U.S. Census

WHAT CAN BE DONE?

- **Help towns save money by sharing and regionalizing services, such as Road Maintenance, Public Safety, Fire, Valuation and Communications. Investments need to be made to accelerate change.**

Most towns in Maine are pretty close to the ground and have done a good job of holding down costs. There are exceptions, of course, particularly in some of the suburban areas in faster-growing southern Maine and in some service center regions. Many towns have been working to regionalize services, where they could and when they had a good partner. And most towns will do more, if they can see savings for their taxpayers. But change involves more than creative ideas and courage. It also costs money. The state should create financial incentives and assistance for towns to implement more regional service delivery.

- **Measure cost savings, then demonstrate them**

There are many instances in which an economy of scale will lower costs to taxpayers. And there are undoubtedly some that won't. Many people have assumptions about savings, on one side or the other,

that aren't borne out by investigation or fact. Regionalizing services can't be done simply because it intuitively make sense, or for its own sake. It has to be done where it can improve services and lower costs.

To enable that to happen, Maine needs independent and trustworthy research on where savings can occur, by regionalizing, that would provide the same or better services. Absent that neutral, trusted data, it's hard for anyone to move forward, and we end up with little more than competing anecdotes and strongly-held opinions.

- **When New Counties are organized to better deliver services regionally, they should become the preferred provider of regional services.**

The last thing the state needs is to continue down its current path of a mishmash of county, regional, quasi-regional and multi-town districts. To the extent possible, the New Counties ought to handle regional service delivery. That isn't to say there won't be times when multi-town cooperation will work better, but that shouldn't become the beginnings of a fourth layer of government.

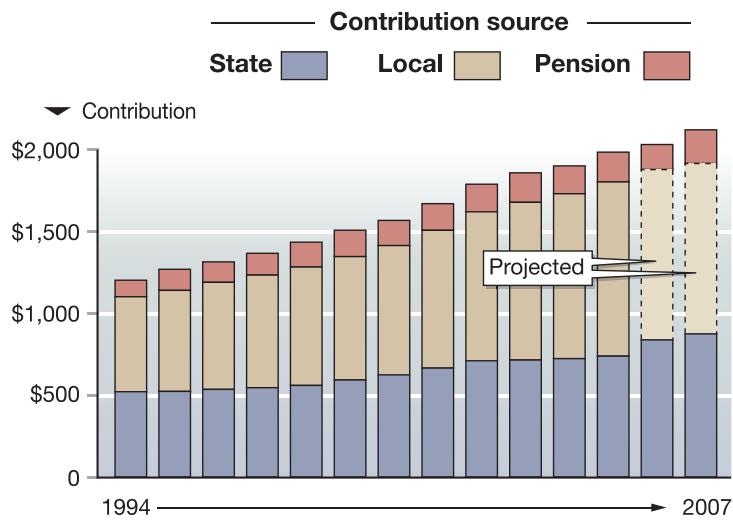
PUBLIC Education

High Cost, Falling Enrollments and Declining Results

Mainers have made a big and critically important investment in public education over the last 30 years. Maine now ranks 4th highest in the nation in the percentage of local government payroll devoted to education.

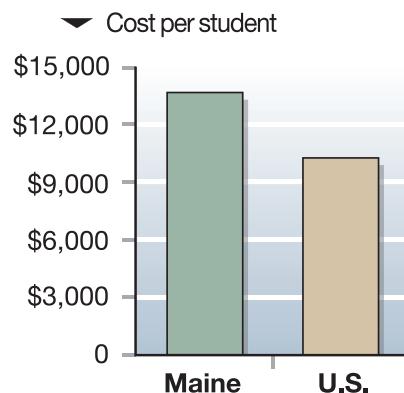
While those investments in public education need to continue, and perhaps even expand with more attention on early childhood development, streamlining and refocusing the system – and getting more return on our investment - is essential.

Maine's Commitment to Education



Source: Maine Department of Education

Estimated Per-Pupil Public K-12 Expenditures, 2008



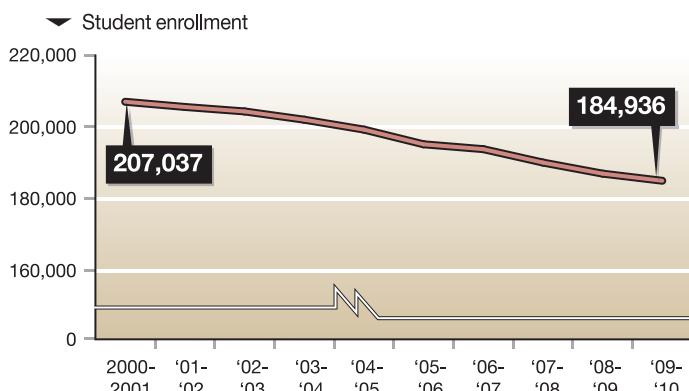
Source: CQ Fact Finder 2009

In 2008, Maine spent \$2 billion, in combined state and local dollars, on K-12 education. That worked out to \$13,513 per student – 25 percent more than the national average of \$10,259 per student, and more per student than all but nine other states. During the last few years, eighth-grade math scores plummeted from 1st place nationally a decade ago to 24th place in 2007. The dropout rate increased from 3.09 percent in 1998 to 5.17 percent in 2007.

In 2009, only 37 percent of Maine's eighth-graders tested as "proficient" in reading – which means 63 percent failed to meet standards. That same year, only 36 percent of our fourth-graders tested "proficient" in reading. Maine college-bound seniors scored below the national average in mathematics, writing and critical reading on the 2008 SAT taken by 11th graders. Part of the reason is that in Maine all students take the SAT, along with New York and Massachusetts. But both of those states scored much better than Maine.

It's tempting to attempt to blame our high cost for public education on geography, since some parts of Maine are so sparsely populated. It's also wrong. Maine ranks 38th in population density nationally, with 42 people per square mile. Alaska, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oregon, South Dakota, Utah and Wyoming each have

Maine K-12 Public School Student Enrollment



Source: <http://www.maine.gov/education/enroll/attending/statefallpub.htm> (by SAU)

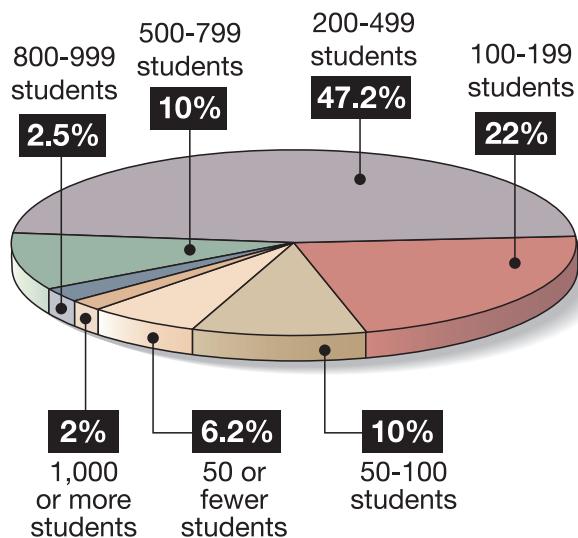
lower population density than Maine, and in the 2003-2004 school year, each of those states spent less per student than did Maine.

DECLINING ENROLLMENTS BUT GROWING STAFFING

Between the 1997 and 2009, enrollment in Maine schools fell from 213,867 to 184,936 in 2009. But districts did not make commensurate reductions in their teaching or administrative staffs. In fact, net spending per student grew 9.3 percent between 2002 and 2007 (versus 8.9 percent nationally). If we're spending so much money and getting such poor results, what are we doing wrong? The numbers and experts point to several areas of concern:

Enrollment of Maine Schools, 2007-08

Breakdown of school size by student enrollment.

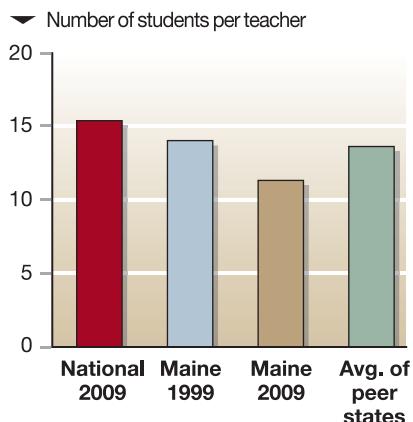


Student-teacher ratios

Maine has the second highest ratio of teachers to students in the country, with 11.3 students for every teacher. The national average is nearly 15.8 students for every teacher.

Other rural states, including Iowa, Kansas, Montana and South Dakota, perform as well or better than Maine on the National Assessment of Educational Progress and have a ratio of about 13.5 students per teacher. A decade ago, Maine's ratio was closer to those states – about 14 students per teacher.

Estimated Pupil-Teacher Ratio, K-12, 2009



Source: CQ Fact Finder 2009

Teacher to non-teacher ratios

In 2009, about 16,000 teachers worked in schools in Maine, along with roughly 22,000 non-teachers: administrators, aides, nurses, custodians, and other staff. Most of the growth in funding of schools in recent years has gone to non-teacher employment.

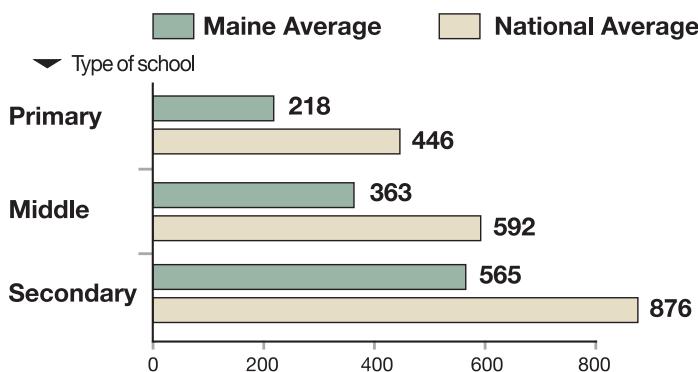
The Number of School Districts

Maine people have long valued local control of school departments, even when it has prevented them from taking advantage of economies of scale. In 2007, the Maine Legislature passed a school reorganization law that reduced the number of school units from 290 to today's 215. Of the 215 school units in Maine, 40 do not operate schools of their own, but instead send students to schools in neighboring districts. Of the 178 school units that actually operate schools, 60 have fewer than 25 teachers.

2006-2007 Average School Sizes

In many cases, excessive local control comes not only at the cost of economies of scale, but of quality. As the Maine Center of Education Policy and Applied Research reports, “There are approximately twice as many lower performing, less efficient schools and school districts as there are higher performing, more efficient schools and districts; lower performing districts are only about 1/3 the size of higher performing districts, yet the lower performing districts have approximately 25 percent more

Average School Sizes, 2006-07



staff per pupil; system administration costs per pupil in lower performing districts are 80 percent higher than they are in higher performing districts.”

Special Education

Our percentage of students designated as special education students is 30 percent greater than the national average, and we now rank 3rd in the country in that category.

Research by the Maine Center of Education Policy and Applied Research shows that Maine’s comparatively high poverty levels do not account for the high incidence of students in special education here. Rather, our identification guidelines make more students eligible for special education than do national guidelines. Further, guidelines are inconsistently applied even within the state. The same student would be placed in special education in one district, but not in another.

Maine children with special needs deserve appropriate services, and the state should continue to ensure that they receive such services. But the way we do that should make sense. Former Maine Education Commissioner Sue Gendron estimates that if the state’s identification

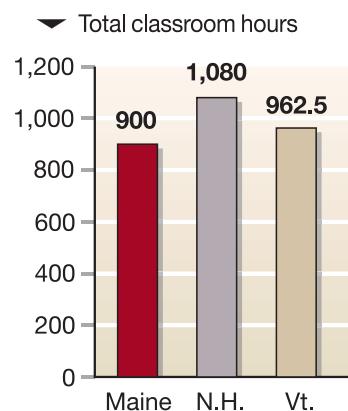
guideline matched the national average, Maine could save more than \$60 million per year.

Two factors may be driving this high use of special education in Maine schools. One is the desire to get more money into the local system. The other is the absence of ‘alternative’ schools, forcing parents toward a special education designation to get additional services for their child.

Length of school year

Maine’s allows its school year to be as short as 175 days per year. The national average is 180 days, both of which are well short of the federal government’s suggested 200 days per year.

Required School Year Hours



Source: Council of Chief State School Officers, 2006

The ‘One Size Fits All’ Dilemma

We have public schools built largely on a “one-size-fits-all” model, because they must try to meet the needs of all students in their community. We once thought this was the only fair way to provide public education: to treat every student the same. But educational psychologists have long since proven that there are multiple forms of intelligence and multiple styles of learning—which means a one-size-fits-all school may be profoundly unfair to the majority of its students.

To deal with this reality, many states have created hundreds of alternatives to the traditional public school: charter schools, alternative schools, magnet schools, even “second chance” schools for those who

have dropped out or are in danger of doing so. Yet Maine has very few alternative schools. This may be one reason why school districts have classified so many Maine young people as needing “special education”—because they don’t fit the typical school model, and there is nowhere else to put them.

Maine cannot afford to educate only 37 percent of its students to proficiency, if we are to thrive in today’s globally competitive information economy. We need to tap the talents of every student. We can only do that if we provide alternatives that fit the learning styles of every student. In

Maine cannot afford to educate only 37 percent of its students to proficiency, if we are to thrive in today’s globally competitive information economy.

a rural state like ours, this is no easy task. There are limits to how many alternatives we can provide in much of Maine, because of the way people are thinly spread in some areas, although the Internet offers wonderful opportunities for distance learning, and many states are far ahead of us in taking advantage of those opportunities.

As we create more alternatives, we need to know which ones are working and which aren’t. Maine has made a good start on collecting and analyzing data that permits Mainers – policymakers, educators, parents and other interested parties – to track performance. But we need a better system of identifying failing schools. Our current standardized tests only provide a snapshot of how each grade level is doing each year, compared to how the grades above it did last year and the year before. Since some age groups are better students than others—particularly in small schools—this data tells us nothing about how students are progressing from year to year.

We should take a hard look at creating a testing approach that tells us whether our students have done a year’s learning in a year’s time. In Tennessee, for instance, principals get data showing the average gain of students in every teacher’s class, every year. Some teachers regularly help their students gain more than a year, some less. Principals use this information to meet with teachers, give them the training and coaching they need to improve, and ultimately remove them if they prove incapable of helping students make adequate progress.

Tennessee’s data shows that in elementary school, if a student has a poor teacher for two years in a row, he or she rarely recovers. No state can afford to let its students fall behind and never catch up. Yet in Maine, we do not even measure how much learning each teacher’s students have done each year.

WHAT CAN BE DONE?

■ **1. Move Maine toward the national average on student-teacher ratios.**

Ten years ago we had teacher/student ratios at the national average. Even though we’ve dramatically lowered the numbers of teachers to students since then, our test scores are about what they were then.

Class sizes and student/teacher ratios matter, especially if you’re talking about the difference between 15 students per teacher compared to 30 students per teacher. But despite all the strong feelings about student/teacher ratios there is very little compelling, independent evidence that it makes much difference below a certain point,

especially after the first few grades.

There isn’t any reason why Maine’s student/teacher ratios should be among the country’s smallest. We can do the job with ratios that move us closer to the national average, and pay more attention to how those classrooms work.

■ **2. Reduce administrative expenses with a new round of district administrative consolidations, but this time put the savings back into the classroom rather than the state’s general fund.**

Maine still has far too many administrators and

school districts for the number of students we have. It is one of the reasons that we pay our teachers far less than the national average. We need to keep working on the problem of too many school districts, and to put savings from administrative consolidation into the classroom.

■ 3. Investigate the increase in non-teacher employment over the last decade and move the teacher/non-teacher ratio to the national rural state average.

For reasons that are difficult to understand, increased spending in public education in recent years has produced a disproportionate increase in non-instructional payroll, in public education and higher education. Maine needs to better understand where that money is going and why we need more support staff than other states do.

■ 4. Evaluate teacher performance, rewarding good teachers by bringing their pay to the national rural state average and removing under-performing teachers.

This has been an area of great debate for many years. Both sides of the debate make good points. But we can't possibly improve schools in Maine – or government as a whole – without knowing who is doing good work and who isn't, and without having the ability to reward the best teachers and to remove the worst. The state needs to agree on a way to measure performance and on practical ways to constantly improve the system. Kids can't afford a year or two working with a bad teacher, just because the politics of protecting every teacher from evaluation and consequences has won out.

■ 5. Create a statewide standard for special education programs that brings Maine closer to a national average.

This is another area where we're way outside the norm, with a growing percentage of Maine students being designated for special education. That costs Maine too much and it is no service to some of those kids. There isn't any reason why our per-

centage of special education students should be higher than other rural states or, for that matter, the national average.

■ 6. Transform Public Schools Through Innovation and Experimentation

If public schools only work for 37 percent of our students, we need to create new models that will help more students succeed. We can do so through several avenues:

- Maine should pass a charter school law that encourages teachers, parents, community members, community organizations, colleges, and even businesses to create new schools. Four-fifths of all states now have such laws, and 1.5 million students attend more than 5,000 charter schools in the United States. Most charter schools operate independently of any school district, with far fewer rules; they use their flexibility to create longer school days, more rigorous academic programs, workplace internships for all students, and many other innovations that heighten their effectiveness.

But along with the increased flexibility should come increased accountability: if their students are not learning, their charters should not be renewed. The most successful state programs do this: they charter a school for five years, and at the end of the period perform a rigorous evaluation. If the students are not making adequate progress, they close the school. Massachusetts offers an excellent model of charter accountability.

- Maine should create "second chance" schools for students who have dropped out or at risk of doing so. Here Minnesota offers an excellent example. It has a large sector of alternative schools that cater to students who have dropped out, to students who have had children, to students who work full-time during the day, and so on. (In Minneapolis, one quarter of the system's graduates came from these

schools in the 1990s.) Most of these schools are run by nonprofit organizations, on contract with school districts. They are small, and they handcraft their efforts to meet the needs of their students.

To encourage the rapid formation of such schools, Maine should empower and incentivize districts to act, but the state should act also, contracting with nonprofit organizations to run second chance schools wherever they are needed.

- Maine should create its alternative schools in a way that increases the pressure on existing schools to improve. The state should pass legislation that gives every parent the right to choose their children's public school and requires all public funding for a student to move with that student when he or she leaves a school district for another district, a charter school, an alternative school, or a second-chance school.

When this is done in other states, the effect is clear. When the Pioneer Institute hired education experts to study Massachusetts' approach to school choice a decade ago, they found that when districts lost 3-5 percent of their money to competitors, their leaders usually responded by figuring out why parents were leaving and making reforms to alleviate the problem. Other studies, done nationwide, have shown the same pattern. Not all superintendents and principals respond to competition by innovating, but most do. And we desperately need innovation in our public schools if we are going to make them effective for more of our students.

- Maine should do more with distance learning. We should create a distance learning program available to all students at all schools in the state. By chartering a distance learning school or by contracting with a distance learning organization. For rural students in particular,

quality courses taken over the Internet can significantly expand their opportunities—and therefore their engagement with education.

- Maine should create a "Postsecondary Options" program. Minnesota's program, launched in 1986, allows juniors and seniors in high school to take college courses for both high school and college credit. The program costs nothing: public funds leave the high school and follow the student to their chosen college or university.

This innovation quickly became wildly popular with students: those who were bored with high school; those who needed more demanding courses; those who were worried they wouldn't be able to afford college; and those who just didn't fit in high school. Some took only a few college courses, while others attended college full-time.

The state auditor's office found that by 1994-1995, participation was up to 6 percent of Minnesota juniors and seniors (12.5 percent in the Twin Cities). Not all were high performers in high school—60 percent were B, C, and D students. At the University of Minnesota, 50 percent were from the inner city. Most took their college courses very seriously; on average, they had a higher grade point average than college freshmen at all postsecondary institutions except technical colleges. Some 73 percent students said they were "very satisfied" with their experience, and 95 percent of parents said they would "probably" or "definitely" encourage their children to participate again.

Even more impressive was the effect the competition for students and dollars had on the high schools. By 1996 almost two thirds of secondary schools provided at least one course for college credit, and 38 percent of high schools provided courses under contract with colleges. Overall, the percentage of Minnesota juniors and seniors who took an advanced placement exam had tripled.

- Maine should consider creating a “Recovery School District,” to take over schools where students repeatedly fail to meet state standards.

Louisiana’s Recovery School District may be the most important innovation in American education today.

Merely invoking the phrase “most important” is bold among the policy wonks and professionals who spend their lives in the thick of this kind of stuff, but what the RSD is doing is enormous and effective. It creates a mechanism to shut down failing schools and reopen them under new management – often charter school management – with new educational models. If the new management fails, it too is shut down and replaced with management that has a proven record elsewhere. The idea is to turn underperforming schools into successful ones.

In 2003, Louisiana voters, fed up with underperforming schools, passed a constitutional amendment authorizing a new Recovery School District to take over schools that were deemed “academically unacceptable” for at least four consecutive years. After Hurricane Katrina wiped out much of New Orleans, the new district began creating charter schools – public schools that operate without many of the regulations that apply to traditional public schools, but do have “charters” that establish their missions, programs, goals, students served, methods of assessment and ways to measure success – in The Big Easy.

It also has taken over failing schools in other parts of the state - either contracting with a successful charter school operator to take over the school or hiring an experienced turnaround specialist as principal.

RSD schools all develop “School Recovery Plans,” that outline how they expect to turn around the underperforming schools and why the changes will improve the way students perform. Today 70 RSD schools are open in New Orleans. Of them, 33 are traditional public

schools and 37 are public charter schools. The RSD also has two charter schools in Caddo Parish, 11 charter schools in East Baton Rouge Parish and one charter school in Pointe Coupee Parish. Another 33 schools eligible for placement in the district are operating under Memorandums of Understanding with the state Department of Education. If those 33 do not improve, they will be placed under the RSD.

The RSD is showing results: Test scores have improved in every grade and every subject in the two years that scores are available. RSD students have achieved double-digit gains in half the grades and subjects and growth that outpaced overall growth in 25 of 30 categories in Louisiana’s assessment programs.



HIGHER Education in Maine

Fragmented, Uncoordinated and Inefficient

Few public investments are more critical to a strong economy and rising incomes than higher education. Yet we spend 18% less than the national average and 37% less than other rural states on higher education, as a percentage of our incomes. And it is poorly spent.

M AINE'S HIGHER EDUCATION system is too fragmented, it doesn't function in a coordinated way and it's extremely inefficient. The best evidence of its inability to adapt to a changing world is the funding formula that allocates funds to the seven colleges of the University System. The formula is virtually the same as it was 40 years ago, despite massive changes in the economy, enrollments, programs and demographics.

Perhaps nowhere else in Maine government can you see the effects of 19th century needs, technology and structures driving government inefficiency than in higher education.

The state has a total of 17 campuses (seven UMS colleges with 10 campuses and seven colleges of the Com-

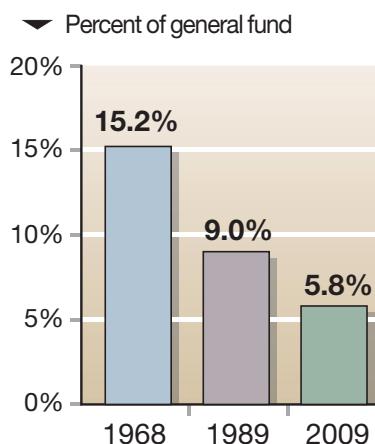
munity College system, plus 17 satellites) of those campuses, broken into two autonomous networks. The overall public higher education system in Maine includes three components: The state university system, the community college system and Maine Maritime Academy. The three are separated more by history and organizational culture than logic. The University of Maine 'system', despite its name, is essentially a confederation of seven highly independent colleges, with ten campuses, which seem to work together mostly to ensure that no particular college is allowed to grow at the expense of others.

MAINES COMMITMENT TO HIGHER EDUCATION

The surest way to see what a state's priorities are is to look at the way it spends money. By that method, it's clear that Mainers care about K-12 public education but, oddly, not so much about higher education. And higher education should be one of the state's strategic assets, to support new business growth, improve the skills and knowledge of people in Maine and attract new businesses.

Maine's spending per full time equivalent student is 14 percent lower than the national average and 12 percent lower than the average of other rural states. After taking into account interstate differences in per capita income and the number of potential college

Percent of Maine General Fund Appropriated for the University System



students, Maine ranked 44th among states in state support for higher education over the period 1980-2005, 29% below the national average.

A SYSTEM IN NAME ONLY

The University System

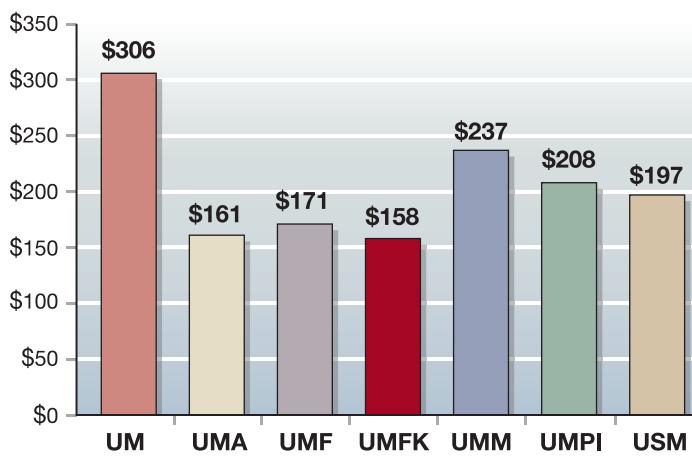
The university system includes seven universities on 10 campuses, with an additional nine outreach centers. Maine's largest university is its flagship, the University of Maine in Orono. The state's second-largest university is the University of Southern Maine, which has campuses in Gorham, Portland and Lewiston/Auburn. Maine's sole law school, the University of Maine School of Law, is in Portland and is administered by USM. Maine's third-largest state university, the University of Maine Augusta, has two campuses – one in Augusta and one in Bangor.

The chief executive officer of the university system is called the chancellor. He answers to a 16-member Board of Trustees. The state commissioner of education is an ex-officio member of the board. The other 15 are appointed by the governor to 5-year terms.

The trustees have authority for the university system. They appoint the chancellor and each university president, approve the establishment and elimination of academic programs, confer tenure on faculty members, set tuition rates and operating budgets and perform other functions. The Legislature directs money from the state General Fund to the trustees, who decide where that money will go.

Since the establishment of the state university system in 1968, trustees have used the same funding formula to distribute money to individual campuses. They have generally allocated about 50 percent of their total funds to the University of Maine in Orono, around 23 percent to

State Subsidy Per Credit Hour



the University of Southern Maine and the remainder to something called "systemwide services" and to the five other state universities: The University of Maine Augusta, University of Maine Farmington, University of Maine Fort Kent, University of Maine Machias and University of Maine Presque Isle.

Major Revenue and Enrollment at the Maine State University System

| | University of Maine | UMaine Augusta | UMaine Farmington | UMaine Fort Kent | UMaine Machias | UMaine Presque Isle | University of Southern Maine |
|---|---------------------|----------------|-------------------|------------------|----------------|---------------------|------------------------------|
| FY 2010 state appropriation (thousands) | \$85,001 | \$13,977 | \$10,462 | \$4,312 | \$4,371 | \$6,466 | \$42,180 |
| FY 2010 tuition/fees (thousands) | \$111,306 | \$20,497 | \$19,630 | \$7,129 | \$5,132 | \$7,743 | \$71,963 |
| Opening fall Full time enrollment 2009 | 9,653 | 2,776 | 1,954 | 723 | 561 | 1,062 | 6,971 |
| State funding per student | \$8,806 | \$5,035 | \$5,354 | \$5,964 | \$7,791 | \$6,089 | \$6,051 |
| Tuition and fees per student | \$11,531 | \$7,384 | \$10,046 | \$9,860 | \$9,148 | \$7,291 | \$10,323 |

Source: University of Maine System

Maine Community College System

Colleges, appropriations, headcounts and funding per student

| | Central Maine CC | Eastern Maine CC | Kennebec Valley CC | Northern Maine CC | Southern Maine CC | Washington County CC | York County CC |
|---------------------------------------|---------------------|---------------------|-----------------------|----------------------|----------------------|-------------------------|-------------------|
| FY2010 State Appropriation (millions) | \$6.97 | \$7.21 | \$5.09 | \$7.07 | \$12.24 | \$4.57 | \$3.99 |
| Headcount Fall 2009 | 2,720 | 2,105 | 2,298 | 1,129 | 6,261 | 450 | 1,398 |
| State funding per student | \$2,563 | \$3,425 | \$2,215 | \$6,262 | \$1,955 | \$10,156 | \$2,854 |

Source: Maine Community College System

The Community College System

The community college system includes seven 2-year schools and eight outreach centers. A president serves as the chief executive and answers to a 15-member Board of Trustees, which consists of 13 appointed members, plus the state commissioners of education and labor.

Tuition at all of Maine's community colleges is \$84 per credit hour. A two-year associate degree averages \$3,300 per year in tuition and fees.

Maine spends more of its higher education dollars than 48 other states on non-instructional areas. For every \$1 of instructional payroll in Maine, \$1.75 goes to non-instructional payroll. Nationally, the figure is \$1 to \$1.15. In rural states, the figure is \$1 to \$1.04.

The basic mission of the Maine Community College System is to provide associate degree, diploma and certificate programs 'to create an educated, skilled and adaptable labor force which is responsive to the changing needs of the economy of the State and to promote local, regional and statewide economic development.'

Maine Maritime Academy

Maine Maritime Academy, in Castine, is a state-run college of engineering, business, science and transportation,

which is independent of any other system. The President answers to a 16-member Board of Trustees, all of whom are appointed by the governor to 5-year terms.

The school fiscal year 2010 budget includes, among other revenues, \$8,467,000 in state appropriations, \$11,910,000 in tuition from undergraduates and \$257,000 in tuition from graduate students. Tuition for in state students for the 2010-2011 academic year is \$8,280 per year. Through the New England Regional Student program, residents of other New England states that do not offer similar academic programs, plus residents of Quebec, the Maritime provinces and Puerto Rico, pay \$12,420. Other out-of-state students pay \$17,000. About 860 students are enrolled at the school.



THE COST OF NON-INSTRUCTIONAL SPENDING

Maine spends more of its higher education dollars than 48 other states on non-instructional areas. For every \$1 of instructional payroll in Maine, \$1.75 goes to non-instructional payroll. Nationally, the figure is \$1 to \$1.15. In rural states, the figure is \$1 to \$1.04. If Maine were at the national average, we would have saved \$13 million in 2007.

Maine also does not appear to do well in using its public support for higher education to produce college graduates and research. In college degrees from public institutions relative to state support, Maine ranked 49th--27% below the national average--over the period 1980-2005. In terms of both research grants and doctorates awarded, Maine ranks near the bottom as well.

Consequently, Maine's potential college students and their families face relatively expensive college educations. Over the period between 1994 and 2001, average in-state tuition and fees at Maine's public colleges was 50% higher than the national average and the 4th highest in the country, but without the corresponding quality. Obviously not all college educations are equal, and some families are willing to pay for expensive college educations. But economic decisions are about value and quality relative to price, and high costs are a bigger obstacle to post-secondary education in Maine than in the rest of the country.

Despite having a high school graduation rate well above the national average, Maine has a below average rate of college participation (53.9% in Maine versus 58.4% nationally).

WHAT CAN BE DONE?

Higher education is one of the areas where Maine needs to increase its commitment, to at least the national average and preferably beyond. But, as is the case with K-12 spending, Maine people aren't likely to support increasing investments in higher education until the system is dramatically reformed, reorganized and streamlined.

■ **Maintain separate University of Maine and Community College Systems**

While a compelling argument can be made that the University System and the Community Colleges should be merged into one system, they have unique and distinct purposes and cultures that warrant independence. That doesn't mean, however, that they should operate in isolation from each other. Although some progress has been made in collaboration between the two systems, they should be operating in a fully coordinated way, under a single oversight Board.

■ **Eliminate the current 40-year-old funding formula that freezes campuses in**

yesterday's economy and needs, in favor of a system that rewards excellence and results.

We need to rethink the way public dollars go to specific campuses, under a rigid, outdated and unchanging formula. Today's formula needs to be replaced with a far more flexible approach that recognizes changing demands in the marketplace, student needs and desires and campuses that excel. The rigidity of the existing formula has more to do with the politics of protecting institutions than it does enhancing the education of Maine college students.

■ **Establish a true University of Maine System rather than a network of largely autonomous campuses.**

The current University 'system' is hardly a system at all. It is a collection of largely autonomous campuses with far too little overall coordination and collaboration. The frozen funding formula is a good illustration of how individual campuses have worked primarily to sustain the status quo, over all else. There needs to be an overarching management

of the university, which is able to reshape the system, as needed, to meet the demands of a changing world.

■ Provide future funding directly to students and let them and the marketplace – rather than politics – decide which campuses are best serving their needs.

As the state is able to increase its commitment to higher education, new and additional funding should be provided in the form of vouchers

to students, rather than additions to the current funding formula. Funding students directly, and allowing them to use that funding at the campus of their choice, will reward the best administrators and professors and course offerings. This is essentially the way that private schools operate, in competition with each other. We should find a way to let the marketplace decide which campus are best meeting the needs of students, which should grow and which should not.



How You Can Help Shape the FUTURE

Before we expend too much energy lamenting our difficulties, we should imagine the challenges earlier Mainers confronted, and perhaps take some encouragement from their example.

OURS IS HARDLY the first time that Mainers have confronted confounding challenges. The state has survived many periods of immense economic and technological change that have generated enormous hardships, opened new opportunities and rippled through government.

Imagine the effects of industrialization, electrification, mechanization, refrigeration and new theories of management on Maine, over the last hundred years. Or the mobility of jobs and capital that arose as computers, satellite communications and global competition expanded, during our lifetimes. All have been accompanied by stress and difficulty, but also stirred creativity and leadership and pointed to new opportunities.

Here are just a few examples. There was a time

when Maine was one of the great shipbuilding capitals of the world, an industry that supported thousands of people felling and moving trees, shaping ships and boats and moving goods to every corner of the world. But with the appearance of steel and steam, that industry was unable to quickly adapt and began a long decline. Thousands of people also once worked in the woods and on farms with horses and hand axes, or fished in coastal schooners with nets and lines. It was a world that they could barely imagine would ever change. Yet most were gradually replaced by more efficient machines and technology, a process that continues even today.

There was once, in Maine and across the country, a vast set of businesses providing lighting to homes and schools and workplaces, supplied by whaling ships and candle makers. Their world faded away with electrification and light bulbs. Mainers were among the nation's top providers of ice, sending shiploads to southern regions and the Caribbean, engaging hundreds of ships and their crews, ice cutting teams, farmers with their horse-driven transport teams and chandlers along the Kennebec and other rivers. All were wiped out in less than a decade by the invention of refrigeration.

In our own time, over the last few generations, tens of thousands of Mainers who worked to keep the mills going and supply them with raw materials, services and technical skill have lost their jobs and their companies to new technology and the flight of manufacturing, first southward and then overseas.

All these changes have been painful, confusing and even frightening to the people who lived through them. Many happened swiftly and without warning. All changed the course of Maine's future.

Today we confront a new set of challenges: in technology, in transportation, and in the globalizing economy. As with any change, whether in the natural world or in human society, those who adapt will survive and flourish. Those who wait for the past to return, will fail.

HERE IS HOW YOU CAN HELP

There are many steps that Maine must take to create a more sustainable government and a new prosperity. As this report has discussed, we have problems large and small. None of them will be easily fixed and no actions will be universally embraced. But each problem can be solved if Mainers have a full and open discussion of what must be done - and then come together behind determined action and effective leadership.

Be Part of the Conversation

In Maine, big changes only happen after we've all thought about and talked it to death and then finally, reluctantly, decided. Reinventing government isn't a choice: it's happening already, in slow motion, across countless budget meetings and debates, in towns from Frenchville to Kittery. In ten years, we will have a government that looks much different than it does today.

Don't Just Support Reinventing Someone Else's Government

Virtually everyone in Maine is in favor of a smaller or smarter government, as long as it doesn't in any way affect them. We can't do it that way. We can't just change someone else's government or streamline someone else's cherished program. We're all going to need to adapt to the new realities of less money and more to do.

Don't Settle for Talk - Insist on Action

We need a full and robust discussion about how to move forward as a state, but discussion can't go on forever and become an excuse for inaction. The world is not going to wait to take jobs from us, and the ticking time bombs outlined earlier in this report will get worse every day that we don't defuse them.

Challenge Candidates and Leaders

When candidates ask for your support, press them on what they intend to do in response to the ticking time bombs, the outdated structures and systems of government, and the need to build a more sustainable prosperity. High level platitudes are not going to serve you or Maine. Put their feet to the fire.

Support Tough Decisions

The changes outlined here won't happen unless you and many others push, across party and geographic lines, for a new approach to government in Maine. And even with that, they won't happen overnight. It won't be easy. We can't have it all. Not everyone will see a "win/win," at least initially. But the tide can rise and all the boats with it, if we set ourselves to do the work that must be done.

Stick with it. Keep pushing. A brighter day is coming!

STAY CONNECTED

ENVISION MAINE

Box 231, South Freeport, Maine 04078
(207) 865-9511 | www.envisionmaine.org

Appendix A

FURTHER DETAILS ON THE STATE AND LOCAL SPENDING

Comparison Rural States

An important problem in evaluating levels of costs is finding appropriate benchmarks. For instance, one could compare current levels to past levels. Or one could compare Maine's levels to the national averages. A norm for comparison is needed, but rarely is there an unambiguously ideal norm. Past levels are clearly problematic norms because economic conditions are always changing. Levels in other states are better norms, but there are clear problems with this as well. For example, other states obviously might not have ideal levels any more than Maine does (although the differences from the ideal levels may average out across states).

Nonetheless, benchmarks must be chosen in order to evaluate levels of cost. The primary benchmarks emphasized in this report are national averages. This has the advantage of being a simple and obvious benchmark. But states clearly differ in many important dimensions.

Location and geography are obvious ways that Maine differs from most of the rest of the nation. Thus, it is practically standard practice to compare Maine to the New England average. the New England averages are not emphasized in this study because it is essentially a comparison to Massachusetts and Connecticut because 70% of New England's population lives in these two states (45% of New Englanders live in Massachusetts alone). Moreover, these states bear little resemblance to Maine in terms of population density and income. In the 2000 Census, 25% of Maine's population lived in urban areas, compared to 87% in Massachusetts and Connecticut together. Per capita income in Massachusetts and Connecticut was 47% higher than in Maine in 2006-07.

A potentially important dimension where Maine differs considerably from the rest of the

nation is in the degree of urbanization. Moreover, this dimension could be particularly important for the issue of possible unnecessary fragmentation and duplication in the provision of government services. Rural areas are likely to have more difficulty in capturing economies of scale. Indeed, the blame for Maine's perceived high costs of local government is sometimes placed on this factor.

Comparison States

TABLE 1

| | Urban Percentage & Rank | Population Density | Population | Income |
|---------------------|-------------------------|--------------------|------------|-------------|
| Maine | 24.6% 48 | 42.6 38 | 1,314 40 | \$34,422 33 |
| United States | 68.3% | 84.8 | 299,827 | \$38,622 |
| New England | 74.6% | 226.8 | 14,246 | \$46,953 |
| New Hampshire | 44.7% 36 | 146.1 20 | 1,311 41 | \$42,194 9 |
| Vermont | 17.3% 50 | 67.1 30 | 620 49 | \$36,986 21 |
| Rural-State Average | 23.9% | 30.3 | 1,158 | \$35,968 |
| Mississippi | 23.9% 49 | 62.0 32 | 2,909 31 | \$28,677 50 |
| Montana | 26.0% 45 | 6.5 48 | 951 44 | \$33,142 41 |
| South Dakota | 25.8% 46 | 10.4 46 | 792 46 | \$34,981 27 |
| Wyoming | 25.5% 47 | 5.3 49 | 518 50 | \$46,052 5 |

"Urban percentage" is the proportion of the population living in densely settled territories (at least 1,000 people per square mile) that contain at least 50,000 people, and is from the 2000 U.S. Census. The other numbers are for FY2007. "Population density" is people per square mile, "population" is in thousands, and is from the Census Bureau, Population Division. "Income" is personal income per capita, and is from U.S. Bureau of Economic Analysis. "Rural-State Average" is the average of five states (other than Maine) with the lowest urban percentage. The whole numbers to the right of the ratios in italic are the state ranks.

Maine is much less urban than most states. As noted above and shown in Table 1, less than 25% of Maine's population lives in areas classified as urban. In the rest of the country more than 68% of the population lives in urban areas. Thus, in addition to the comparison to the national averages, this study compares Maine to states that are the most similar in their urban/rural compositions. To be specific, Maine is compared to the five most rural states (other than Maine): Mississippi, Montana, South Dakota, Vermont, and Wyoming. The rural-state averages reported in the tables are the average values for these five states.²

Table 1 shows population density as well. In this measure, Maine is the most similar to Oregon and Colorado. Total state population is also included in Table 1. The rural comparison states are generally similar to Maine in this respect. Montana, South Dakota, Vermont, and Wyoming have smaller populations than Maine; while Mississippi is larger.

Per capita income is also shown in Table 1. Maine's income per capita in 2006-07 was 10.9% below the national average. Three of the five rural comparison states are roughly similar to Maine in per capita income, while Mississippi is considerably lower and Wyoming is much higher. Thus, average per capita income among the five rural comparison states is 4.3% above Maine's.

Clearly there is plenty of room to legitimately argue over the choice of comparison states. Per capita income could be particularly important, thus perhaps Mississippi should not be in the comparison group. Or population density might matter more than urban percentage, hence the low-density Western states perhaps should be excluded from the comparison group. The problem is that there is no simple way to devise a true comparison group. States differ in practically an infinite number of potentially important dimensions.

Rather than use some combination of ad hoc rules, this study uses just one simple objective dividing line between the comparison states and non-comparison states: the five states (other than Maine) with the lowest urban percentages. The comparison group that it creates is obviously debatable. But a more complicated criterion (say, states ranked between 30th and 35th in per capita income) or group of criteria will not solve this problem.

Measures and Comparisons

Understanding relative levels of state and local government services and costs is made more difficult by the multitude of legitimate ways of presenting the results. There is no single measure that is unambiguously the best way to examine the data. For example, some studies examine state and local governments combined, while other studies only examine local governments. Some articles emphasize government spending per capita, while others emphasize government spending per dollar of state income. Some publications emphasize government employment, and others emphasize government expenditure. Moreover, reasonable arguments can usually be made for using each of these measures.

To the extent possible, this study uses a consistent framework to examine each category of state and local government employment and spending. A consistent analytical framework is applied to each government service category for three important reasons. First, a consistent methodology is easier to understand and follow than a changing one. Second, a consistent framework facilitates comparison across categories. Third, by eliminating the choice of measure to emphasize, the potential for subjectivity is reduced. Thus, the choice of measures is guided primarily by the ability to apply them consistently across states and across categories of government services.

For various reasons, though, it is inappropriate to only apply a uniform framework to every government service category. Services usually differ in important dimensions. Thus, some extensions to the basic framework are necessary to best illuminate how the service is being provided. For example, the availability of data allows examination of subcategories of services in some instances, but not in others. Some services are provided exclusively by local governments or state government, while others services are provided at both levels.

Also, for some services, but not all, there are obvious ways to improve the measures of services and costs. Indeed, an ideal measure would be the cost per unit of output. Moreover, an ideal measure such as this would also account for differences in service quality and differences in prices across states. Such data do not exist, which is part of the reason why there are various (imperfect) measures of government costs. In some instances, though, data are available to construct rough measures of cost per unit of output. In education, for instance, there are data available to examine cost per student. In corrections one can examine cost per inmate. In highways one can examine cost per mile of roads.

Except for the handful of cases where there are obvious better measures such as those above, this study emphasizes three measures of state- and local-government costs: payroll as a percentage of state personal income, full-time equivalent (FTE) employment per capita, and net expenditure³ as a percentage of state personal income. Fortunately, these measures usually yield a fairly consistent picture. There are some important exceptions, however.

There is clear reason to emphasize expenditure. Expenditure is the bottom-line contribution to the tax burden. There are a few potential problems with just looking at expenditure, though. Cost can vary for reasons other than inefficiency. First, interstate differences in the cost of living can clearly create differences in service cost. Labor and land are clearly more expensive in Connecticut than in New Mexico. Similarly, one would think that Maine winters create higher costs of maintaining highways than winters in Florida. Second, some expenditure categories include transfer payments, such as welfare programs and college scholarships. Although transfer payments obviously contribute to the tax bur-

den, they do not indicate possible inefficiency in providing government services. Third, some expenditure categories include federal programs administered through states, such as Medicaid. Federal programs administered through states do not indicate possible inefficiency in providing state and local services.

This study, however, attempts to remove the influence of federal programs by reporting expenditure net of intergovernmental transfers from the federal government. Attempt is also made to remove some of the influence of cost-of-living differences by reporting net expenditure as a percentage of state personal income.⁴ All else the same, income is higher in higher-cost regions. A second reason for emphasizing expenditure as a percentage of income, as opposed to per capita, is that economic choices depend on income. To stress only net expenditure per capita is like assuming every family has the same quality of housing regardless of income.

FTE employment, however, is reported per capita rather than per dollar of state income because wage rates differ considerably across states.⁵ FTE employment has both important advantages and disadvantages. It has the advantage of being the closest thing to a physical measure of inputs into the production of government services. Thus, relative FTE employment provides a somewhat direct indication of possible redundancy and excess costs in service provision. It also avoids the problem of transfer payments that are included in expenditures. FTE employment has potential problems, though. Real wages differ across states, thus it may be rational, not inefficient, for low-wage states to employ relatively more workers in state and local government (similarly, in some instances such as fire protection in rural areas, some employment is essentially volunteer labor). On the other hand, though, not all workers are equally productive. A FTE employee with an advanced degree is not the same as one without (this appears to be particularly important for teachers).

For these reasons, payroll⁶ as a percentage of state personal income receives the most emphasis in this study, particularly in regard to measuring possible unnecessary redundancy. This measure at least partly accounts for state differences in the cost of living, real wages, and worker qualifications. It also does not include transfer payments, and does not include federal intergovernmental transfers for the most part.

This study also puts the most emphasis on combined state and local government payroll, employment, and net expenditure. State and local government costs are also examined separately, but are not generally emphasized. The reason is that there are some important instances of variation in the jurisdiction of services. For example, elementary and secondary education is typically provided at the local level. In Hawaii, however, it is provided at the state level. Thus, if one only looks at local government expenditure, then Hawaii appears to have by far the leanest public education system in the country. But this would clearly be a silly conclusion. Although, this is an extreme example, there are numerous instances of these types of jurisdictional differences.

State and Local Government Service Categories

The categories and subcategories of state and local government services are dictated by the availability of comparable cross-state data. The U.S. Census Bureau, Governments Division provides employment and payroll data for 41 categories and subcategories of services (31 categories and 10 subcategories). They provide direct expenditure data for 38 categories and subcategories (26 categories and 12 subcategories). Altogether, there are data for 49 categories and subcategories (31 categories and 18 subcategories).⁷ The latest year of complete data is FY2007.

Many of these 49 separate categories and subcategories are likely to indicate misleading pictures of relative state and local government costs. For example, one of the larger categories is Hospitals, but states differ widely in their public/private mix of hospital services. Moreover, well over half of the costs of public hospitals are covered by direct charges. Well over half the costs of public utilities (water, sewerage, electricity, gas) and transportation are financed through user charges as well. Moreover, there are also significant differences in their public/private mix across states. Thus, the following categories are not examined in this report: Hospitals; Air and Water Transportation; Water, Electricity, and Gas Utilities; Transit; and State Liquor Stores.

To confine the scope of this analysis to a manageable dimension, several additional categories and subcategories are not examined. The purpose of this report is to scruti-

nize Maine's provision of public services. Thus, social insurance benefits and subcategories of Public Welfare expenditures are not examined. Public employee pensions are not examined either, because they are not assigned to specific public services. Interest on debt is not studied. Nor does this report examine current operations versus capital outlays subcategories of expenditures.

Just about all other state and local government costs are studied in this report. The 21 categories of state and local government services examined in this report are listed in Table 2. These account for 96.4% of total state and local government employment in Maine, and 89.8% of total state and local government employment nationwide. The primary category excluded in Table 2 is Hospitals. Public hospital payroll is 6.2% of total state and local government payroll nationally, and 2.1% in Maine. The other significant exclusions are Public Utilities (1.8% of the national total and 0.9% of the Maine total) and Transit (1.7% or the national total and 0.1% of the Maine total).

The 21 categories of services are divided into three types of service functions: those that are provided primarily by local governments, those that are provided primarily by state government, and those provided by both levels of government.

There are eight "local functions" in this report. For these categories at least three-fourths of combined state and local government payroll is local both nationally and in Maine. These eight functions in decreasing order of importance (in Maine) are Elementary and Secondary Education, Police Protection, Fire Protection, Parks and Recreation, Sewerage, Solid Waste Management, Housing and Community Development, and Libraries. Altogether, these local functions account for 55.8% of total state and local government payroll in Maine,

TABLE 2
Percentage of Total State- and Local-Government Payroll

| | Maine | United States |
|--|----------------------------|----------------------------|
| Local Functions | | |
| Elementary & Secondary Education | 45.07% <i>99.9%</i> | 38.18% <i>99.1%</i> |
| Police Protection | 4.80% <i>79.0%</i> | 6.86% <i>88.4%</i> |
| Fire Protection | 2.27% <i>100%</i> | 2.73% <i>100%</i> |
| Parks & Recreation | 1.00% <i>77.4%</i> | 1.28% <i>86.7%</i> |
| Sewerage | 0.94% <i>100%</i> | 0.82% <i>98.2%</i> |
| Solid Waste Management | 0.71% <i>100%</i> | 0.60% <i>97.4%</i> |
| Housing & Community Development | 0.63% <i>100%</i> | 0.66% <i>100%</i> |
| Libraries | 0.41% <i>100%</i> | 0.61% <i>99.5%</i> |
| State Functions | | |
| Higher Education | 10.86% <i>0.0%</i> | 12.83% <i>17.1%</i> |
| Natural Resources | 1.84% <i>2.7%</i> | 1.10% <i>20.0%</i> |
| Employment Security Administration | 0.50% <i>0.0%</i> | 0.49% <i>0.0%</i> |
| Other Education | 0.39% <i>0.0%</i> | 0.58% <i>0.0%</i> |
| Mixed State & Local Functions | | |
| Highways | 5.94% <i>40.7%</i> | 3.20% <i>53.3%</i> |
| Public Welfare | 4.69% <i>9.5%</i> | 2.81% <i>54.9%</i> |
| Financial Administration | 3.49% <i>44.4%</i> | 2.46% <i>56.2%</i> |
| Corrections | 3.02% <i>31.4%</i> | 4.38% <i>35.6%</i> |
| Other Government Administration | 2.46% <i>65.9%</i> | 1.76% <i>79.1%</i> |
| Health | 2.31% <i>14.3%</i> | 2.59% <i>57.0%</i> |
| Judicial & Legal | 1.62% <i>17.3%</i> | 2.96% <i>56.6%</i> |
| General Public Buildings | 1.00% <i>64.1%</i> | 0.64% <i>74.8%</i> |
| Other & Unallocable | 3.51% <i>25.2%</i> | 2.96% <i>53.8%</i> |
| Sum | 96.44% <i>65.5%</i> | 89.84% <i>72.3%</i> |

Numbers are for FY2007 state and local governments combined, and are derived from data from the U.S. Census Bureau, Governments Division. The numbers in italic are the fraction of the function payroll (expenditure in the case of General Public Buildings) from local government. The sums (excluding General Public Buildings) are less than 100% because several functions (mainly public hospitals, public utilities, and transit) are excluded.

and 51.7% across the country.

Four of the service categories are classified as "state functions". These four functions in decreasing order of importance (in Maine) are Higher Education, Natural Resources, Employment Security Administration, and Other Education. At least three-fourths of combined state and local government payroll is state for these service categories. Together these state functions account for 13.6% of the total government payroll in Maine, and 15.0% nationally.

The remaining nine service categories are "mixed functions". In either Maine or across the nation, at least one-third and no more than two-thirds of the combined state and local government payroll is local. These functions in decreasing order of importance (in Maine) are Highways, Public Welfare, Financial Administration, Other Government Administration, Corrections, Health, Judicial and Legal, General Public Buildings, and the catch-all category Other and Unallocable. Most of these categories are predominately state functions in Maine. Nationally, however, most of these categories are local or mixed functions.

Overall, Maine provides these public services more at the state level than the rest of the nation. 65.5% of the combined payroll in these 21 service categories is at the local level in Maine, compared to the nation-

al average of 72.3%.

Table 3 reports data from fiscal year 2006-07. This is the latest census year for the local-government data. Information from all local governments is collected only every five years, and data for intervening years are based on samples of local governments. As a result, in some instances there is considerable year-to-year variation in the numbers, and clearly much of this variation does not measure real changes.

²Hence, the rural-state average is an unweighted average and excludes Maine, while the United States and New England averages are weighted averages (i.e., larger states such as California and Massachusetts affect the averages more than small states) and include Maine.

³To be specific, net direct expenditure is examined in the case of state governments. That is, state grants to local governments are not included.

⁴State personal income data are from the U.S. Bureau of Economic Analysis. Income from third quarter 2006 through second quarter 2007 are matched to the FY2007 data. This study follows the Census Bureau's approach of using state personal income to normalize state spending levels. Arguments could be made for using other measures of income such as gross state product. To confine the analysis to a reasonable dimension, only the most standard approach is followed.

⁵Population data are from the U.S. Census Bureau, Population Division. Population estimates for July 1, 2006 and July 1, 2007 are averaged and matched to the FY2007 data.

⁶Payroll data are collected in March only. To conform to income data the payroll data are converted into annual amounts.

⁷State personal income data are from the U.S. Bureau of Economic Analysis. Income from third quarter 2006 through second quarter 2007 are matched to the FY2007 data. This study follows the Census Bureau's approach of using state personal income to normalize state spending levels. Arguments could be made for using other measures of income such as gross state product. To confine the analysis to a reasonable dimension, only the most standard approach is followed.

Net Expenditures Summary

TABLE 3

| | Maine | United States | Rural -State Average | Cost Differential (in millions) |
|--|----------|---------------|----------------------|---------------------------------|
| Total percent of income | 14.98% | 13.21% | 12.96% | |
| Elementary & Secondary Education (per student) | \$9,961 | \$9,234 | \$8,978 | \$141 |
| Police Protection (per crime) | \$6,777 | \$7,425 | \$8,484 | |
| Fire Protection (percent of income) | 0.28% | 0.32% | 0.25% | \$11 |
| Parks & Recreation (percent of income) | 0.17% | 0.32% | 0.32% | |
| Sewerage (percent of income) | 0.33% | 0.37% | 0.29% | \$18 |
| Solid Waste Management (percent of income) | 0.26% | 0.20% | 0.20% | \$29 |
| Housing & Community Development (percent of income) | 0.08% | 0.11% | 0.09% | |
| Libraries (percent of income) | 0.07% | 0.09% | 0.10% | |
| Higher Education (per FTE student) | \$10,552 | \$12,223 | \$12,013 | \$3 |
| Natural Resources (percent of income) | 0.15% | 0.14% | 0.32% | |
| Employment Security Administration (percent of income) | 0.01% | 0.00% | 0.02% | |
| Other Education (percent of income) | 0.33% | 0.32% | 0.43% | |
| Highways (per million vehicle miles) | \$36,946 | \$35,817 | \$37,585 | |
| Public Welfare (per single mother) | \$15,926 | \$9,406 | \$7,935 | \$80 |
| Financial Administration (percent of income) | 0.42% | 0.34% | 0.47% | |
| Corrections (per inmate) | \$93,490 | \$46,418 | \$39,627 | \$100 |
| Other Government Administration (percent of income) | 0.30% | 0.24% | 0.29% | \$16 |
| Health (percent of income) | 0.91% | 0.41% | 0.51% | \$184 |
| Judicial & Legal (per crime) | \$3,038 | \$3,423 | \$4,095 | |
| General Public Buildings (percent of income) | 0.18% | 0.12% | 0.18% | \$3 |
| Other & Unallocable (percent of income) | 1.18% | 0.73% | -0.52% | \$205 |

Numbers are for FY2007 state and local governments combined, and are derived from data from the U.S. Census Bureau, Governments Division. "Total" excludes quasi-private enterprises. Unless there is evidence of systematic cost differences in rural states, the U.S. average is used as the norm. (a) In the Other payroll subcategory. (b) In payroll only. (c) In the Legislative and local subcategories.

⁵Population data are from the U.S. Census Bureau, Population Division. Population estimates for July 1, 2006 and July 1, 2007 are averaged and matched to the FY2007 data.

⁶Payroll data are collected in March only. To conform to income data the payroll data are converted into annual amounts.

Appendix B

LOWERING HEALTH CARE COSTS THROUGH INNOVATION AND PREVENTION

How would reforming the payment system work in Maine?

Public employees make up 8.7 percent of our population, and another one percent already participate in Dirigo Health's exchange. Eleven percent more do not have health insurance but have to buy it under the new federal law. Assuming most will purchase through the new exchange, these groups would add up to 20 percent of the population—which translates to a third of the non-Medicaid, non-Medicare market. Since more participants would increase the system's power to control costs, the state might offer private employers guaranteed prices for several years, to induce them to join.

Another 25 percent of Mainers are covered by Medicaid, though not all should be included in a purchasing exchange right away, because some are in nursing homes and some have complex physical and/or mental problems. But if half of Medicaid recipients were included after a few years, the entire pool would represent a third of all Mainers—plus employees of any businesses or nonprofits that joined.

Eventually, Maine should shift its Medicaid nursing home population to managed care for fixed prices purchased through the exchange. This would provide incentives for health plans to find the most cost-effective setting for each person, whether in their residence, a nursing home, a rehabilitation hospital, a chronic long-term care hospital, or a day program. Oregon, Arizona, Florida, Texas, and Wisconsin have already proven that such programs improve quality and cost-effectiveness.

This approach would no doubt face political resistance from public employee groups that feared their health benefits would not be as generous under a statewide system. But their benefits could be preserved in a statewide exchange, by supplementing the standard insurance package. By banding together with other public employees and the other exchanges, they would give Maine real power to bend the cost curve—helping them as well, in the long run. For every citizen's sake, Maine needs that power.

Health savings accounts (HSAs) could also be useful

elements of the benefit package. By creating a \$1200 annual deductible and offering an \$800 annual health savings account, for example, the state could give residents an incentive to shop carefully for health services, as well as expanded choices, since they could use the HSA to buy services not covered by the benefits package. To make this more effective, Maine would need to help consumers understand the price of different medical services, perhaps by requiring that providers post their prices on a state sponsored web site.

The clearest danger of this approach is that health plans and providers could make money by simply withholding care from members, such as by refusing certain procedures or making it difficult to schedule appointments. Plans that did this would quickly lose most of their subscribers, of course. (Typically, exchanges such as this allow purchasers to switch plans once a year.) To prevent such behavior in the first place, Maine could include points for quality in the formula used to rank health plans (as the state employee plan already does). It could also generate quality and customer-service rankings of the health plans sold through the exchange each year and make them available to the public. This would create a powerful market incentive for plans to deliver sound customer service.

To protect against “adverse selection,” in which unlucky health plans attract older or sicker people who drive up their costs, each individual covered by the state exchanges would be “risk-adjusted”—meaning that the price the state paid to health plans would reflect the individual’s degree of risk upon entry. (For the exchange required by the federal bill, this is mandated; Maine should do it for each exchange.) In addition, the federal bill provides reinsurance for health insurance plans through 2016, to cover the cost of catastrophic cases. Maine would be wise to continue funding this. Without risk adjustment and reinsurance, health plans would submit higher bids, to limit their risks.

With at least a third of all Mainers purchasing health insurance through the exchanges, the tiering strategy employed by Wisconsin would put enormous pressure on health plans to keep costs down and quality up, while preserving choices for exchange participants.

How would promoting coordinated care organizations work in Maine?

Purchasing through exchanges, based on fixed monthly prices for all care, would drive hospitals and doctors in the direction of creating accountable care organizations. As a second step, the exchanges could solicit bids directly from these emerging ACOs—bypassing the insurance companies entirely. Because most physicians in Maine are now employed by hospitals, it's most likely that hospitals would create ACOs. But to keep market share, some enterprising health insurance companies might do so as well, in alliance with particular hospitals. The exchanges could speed this process by giving ACOs bonus points in the ranking system. As they gained market share, the state could also shift more of the Medicaid population—which is primarily cared for under fee-for-service reimbursement—to ACOs.

The biggest barrier to success with this strategy may be the fact that many hospital systems in Maine have the equivalent of geographic monopolies. Health insurance companies already complain that hospitals can virtually set their own prices, because there are no competing hospitals in many geographic regions that patients could use instead. Hence hospital-based ACOs may have so much bargaining power and so little competition that the exchanges can't force them to get more cost-effective.

To deal with this problem in 2003, the Baldacci administration and the legislature considered several options, including “global budgets” for hospitals that would cap their annual revenues. They chose to use voluntary “self-regulation” by hospitals instead: the hospitals agreed to cap their cost increases at 3.5 percent per year. This has worked fairly well, helping to slow health care inflation in Maine.

When the exchanges face this issue, Maine will have three basic choices. First, it could repeal the antitrust exemption given the hospitals in 2003, break up the hospital conglomerates and force competition in each region. Second, it could continue with voluntary self-regulation. Or third, it could accept the reality of hospital monopolies and treat them like utility monopolies: create a regulatory body to control their prices, either by requiring approval of rate increase or by establishing global budgets. Given that we are talking about a marketplace that will only emerge over the next 5-10 years, it is hard

to say today which of these strategies will prove the wisest course.

Another key step toward integration and coordination is the ability to use electronic health records (EHRs) to access any patient's medical record, at any hospital or medical office in the state. According to a 2004 report by the President's Information Technology Advisory Committee, one out of five lab tests in the U.S. must be repeated because previous records are not available, and one of seven hospital admissions occurs for the same reason. The price tag for all of this needless repetition is enormous: redundant hospital admissions alone cost \$30 billion a year. A statewide EHR system would prevent such waste.

Most integrated providers now have EHR systems, but some physicians and hospitals still do not use them, and most systems can't interact with one another. If a patient from Portland shows up in the emergency room at Franklin Memorial Hospital in Farmington, his or her medical record is not available. Fortunately, Maine is already attacking this problem: roughly half its people and hospital admissions and a third of its physicians are part of a new HealthInfoNet system, which connects 15 hospitals and 2000 health care providers. The Obama Administration has awarded a stimulus fund grant of \$4.77 million to Maine, most of which will help expand the system. By 2015, HealthInfoNet's leaders hope to include all the state's hospitals and 80 percent of its medical practices.

Unfortunately, there is no long-term plan to pay for this expansion. If Maine wants to realize the efficiencies offered by a statewide EHR system, it must create a secure funding stream for HealthInfoNet. Another obstacle is funding for small medical practices that cannot afford to purchase the technology needed to participate. To help them, the state should share their costs. And to create a powerful incentive, it should announce that beginning in 2015, providers not on HealthInfoNet will no longer be reimbursed by state programs such as MaineCare and state employee and retiree health insurance.

NOTES

One of the goals of this report was to strike a balance between data citations and readability, and to translate information for people who might not normally have access to it. Toward that end, we decided early on not to pepper the document with numbers and letters pointing to particular citations.

The bulk of the data in this report is from the U.S. Census, from the report by Philip Trostel, outlined in the ‘Maine Spends’ section, and from sources noted with charts and graphs.

Some additional sources occur primarily in the Unfunded Liabilities, Health Care, Counties and Higher Education sections. Details on those sources, and the page where data appears, are below.

UNFUNDED LIABILITIES: ADDITIONAL INFORMATION

- Employees are vested in the retirement plan after five years of service.
- For retirement purposes, the state averages an employee’s top three years of salary and delivers benefits based upon that sum. If, for example, someone works for 30 years, and his or her top three years of pay are \$50,000, \$55,000 and \$60,000, that person’s pension will be based on the average of those three numbers, or \$55,000. That retiree will receive 60 percent of \$55,000, per year, which works out to \$33,000 per year.
- Maine is one of 14 states that do not cover teachers and/or state employees for Social Security benefits. State retirees’ benefits are in place of Social Security benefits.

COUNTIES: ADDITIONAL INFORMATION ON THE CHART SHOWING THE BUDGETS AND SIZE OF COUNTIES

This data was developed by Joshua Weinstein, through discussions with county officials. The number of employees is approximate, and includes full-time and part-time people. The Kennebec County budget numbers are from the 2009 budget, since the county is shifting from a calendar year to a fiscal year.

HIGHER EDUCATION

PAGE 67, ‘*Maine ranked 44th among states in state support for higher education over the period 1980-2005, 29% below the national average*’ According to data in P. Trostel and J. Ronca, “A Simple Unifying Measure of State Support for Postsecondary Education” *Research in Higher Education*, 50 (3), 215-247, 2009.

PAGE 69, ‘*Maine also does not appear to do well in using its public support for higher education to produce college graduates and research. In college degrees from public institutions relative to state support, Maine ranked 49th—27% below the national average—over the period 1980-2005.*’ See P. Trostel and J. Ronca, “A Simple Unifying Measure of State Support for Postsecondary Education” Wisconsin Center for the Advancement of Postsecondary Education Working Paper WP007, 2007.

PAGE 69, ‘*Maine’s potential college students and their families face relatively expensive college educations (over the period 1994-2001 average in-state tuition and fees at Maine’s public colleges was 50% higher than the national average and the 4th highest in the country)*’. P. Trostel and C. Reilly, “Background Report on College Affordability in Maine” Maine Margaret Chase Smith Policy Center (prepared for Maine Compact for Higher Education), 2003.

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HEALTH CARE

PAGE 29, ‘*We spend 24 percent more per person on health care than the U.S. average; of the New England states, only Massachusetts spends more.*’ Governor’s Office of Health Policy and Finance with the Advisory Council on Health Systems Development, *Maine’s 2008-2009 State Health Plan* (Augusta: Governor’s Office, April 2008), p. 20.

NOTES

PAGE 29, ‘Since 1960, total U.S. health care spending has accelerated 10 percent a year—doubling every 7.5 years’. “Table 1: National Health Expenditures Aggregate and per Capita Amounts, Percent Distribution, and Average Annual Percent Growth, by Source of Funds: Selected Calendar Years 1980-2002,” U.S. Centers for Medicare & Medicaid Services (formerly the Health Care Financing Administration), <http://www.cms.hhs.gov/statistics/nhe/historical/t1.asp>, January 2004. The exact average annual increase in total spending on health care from 1960-2002 was 10.19 percent.

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PAGE 30, ‘Yet this higher spending does not yield better outcomes or more satisfied patients—it yields just the opposite.’ ‘Other studies show the same pattern with Blue Cross Blue Shield insurance.’ Maggie Mahar, “The State of the Nation’s Health,” Dartmouth Medicine, Spring 2007, 27-35, www.dartmed.dartmouth.edu/.

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Health Care Administration in the United States and Canada,” *New England Journal of Medicine* 349, no. 8 (Aug. 21, 2003): 768-775 (www.nejm.org).

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PAGE 30, ‘about 45 percent of noninstitutionalized Americans have chronic illnesses, and they account for 75 percent of personal health care spending.’ Alain C. Enthoven and Laura A. Tollen, “Competition in Health Care: It Takes Systems to Pursue Quality And Efficiency,” *Health Affairs*, web exclusive, September 7, 2005, W5-427. They cite C. Hoffman, D. Rice, and H.Y. Sung, “Persons with Chronic Conditions: Their Prevalence and Costs,” *Journal of the American Medical Association* 276, no. 18 (1996): 1473-1479. Enthoven is a professor at Stanford Business School who has long written about health care policy; Tollen is a senior policy consultant at Kaiser Permanente’s Institute for Health Policy.

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PAGE 30, ‘Nearly 37 percent or \$1.2 billion of Maine’s increase in health spending from 1998 to 2005 is attributable to the leading chronic illnesses, which are often preventable: cardiovascular disease, cancer, chronic lung disease and diabetes.’ Maine’s 2008-2009 State Health Plan, op. cit., p. 10.

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a nation, we spend almost 90 percent of our (public and private sector) health dollars on treatment. Institute for the Future, *Health and Health Care 2010: The Forecast, The Challenge*, 2nd Edition (San Francisco: Jossey-Bass, 2003).

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PAGE 32, ‘For example, a prepaid delivery system can evaluate new technologies for their cost-effectiveness and impact on quality and can deploy them as needed’. ‘Enthoven and Tollen, “Competition in Health Care,” 421-2.

PAGE 32, ‘What is an “exchange?” Think of it as a website where a pool of consumers can shop for the best deal on health insurance, in a market regulated by the state. In Maine, Dirigo Health already operates just such an exchange, for about 12,000 residents.’ Dirigo Health Agency, *Annual Report 2008* (Augusta, Me.: Dirigo Health Agency, 2008), 31.

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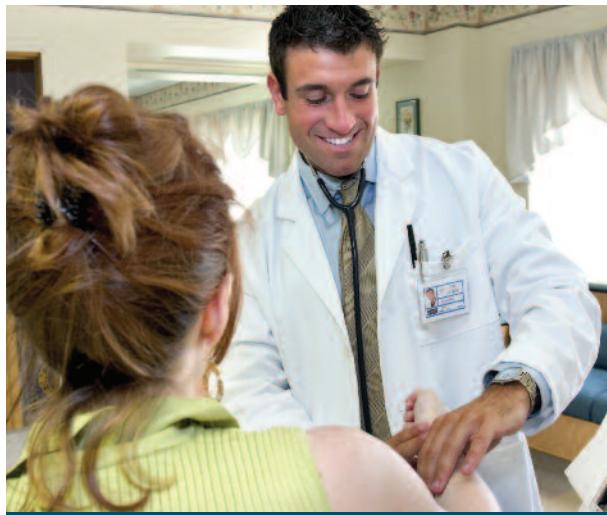


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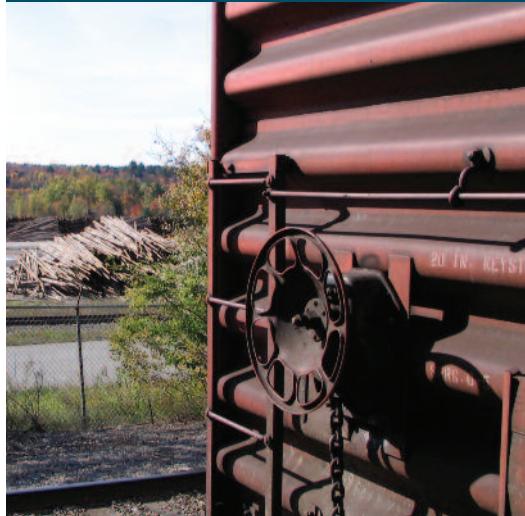
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