

The Baker's Dozen
13 ways to save taxpayers more than \$1 billion

1. Reduce construction costs by increasing competition - Between \$75M to \$100M in savings

Public construction projects should be open to all bidders. Competition is important to ensure the best deal for the taxpayers. Only 20 percent of the construction industry is comprised of union workers, therefore project labor agreements exclude 80 percent of the market from bidding on projects. Several studies estimate that PLAs add at least 12 percent to overall project costs. This is significant considering that the state spends nearly \$1 billion per year on capital construction projects plus another \$600 million in municipal aid for the School Building Assistance program.

2. Lower health care costs for cities and towns - \$100M in savings

Municipal health insurance relief is needed to provide communities with the power to update their health insurance plans outside of the collective bargaining process. State law must be amended to allow municipalities to join the state's Group Insurance Commission without union approval. Cities and towns must also be given the same authority that the state has to change, update and modernize the design of municipal health insurance plans, provided the plans are comparable to the state plans offered to state employees.

3. Implement real pension reform - \$50M in savings

The current pension system is unaffordable, unaccountable and unsustainable. It is unfortunate that it took three years for the current Governor to file a pension reform bill and the Treasurer believes that the current system is working fine as it is. The fact that taxpayers and future pensioners face an unfunded liability that exceeds \$22 billion didn't happen by accident. Reforms must be enacted now to control costs and eliminate overly generous payouts for state workers.

4. End union control of public contracts – Between \$75M to \$100M in savings

The Pacheco Law, passed in 1993, is the strictest-in-the-nation anti-privatization policy. The law severely limits the state's ability to provide cost-effective services by allowing unions full control on the delivery. This law has required the government to perform services well beyond its core mission because all contracts over \$500,000 for outside entities to provide services must be reviewed and approved by the State Auditor. The Auditor uses restrictive legislative conditions when reviewing the outside contracts. Absent repealing this law, these restrictions must be modified to allow for greater flexibility in making determinations.

Many states have used competitive bidding to save money and improve services. For example, Florida has used competitive sourcing more than 130 times, saving more than \$740 million. These are opportunities for Massachusetts too. Examples include:

- Highway maintenance
- IT infrastructure
- Vehicle fleet management

- Medicaid billing
- Toll collections
- Professional licensing
- Maintenance in state parks
- Building management and maintenance
- Parking garage operations

5. Consolidate and shrink state government – At least \$400M in savings

The state is facing a \$2.5 billion structural deficit – the result of the Governor and Treasurer relying heavily on one-time funds for three budget cycles. The state has lost three valuable years to simplify and restructure the way the state does its business and reduce state spending to adapt to the loss of the one-time federal and rainy day funds. There are many opportunities to reform the way the state operates, allowing for a significant reduction in the state’s workforce. The opportunities are endless but here are two examples:

1) *Licensing, Certifications, Permits and Registrations*

There are more than 100 state agencies that actively administer more than 1,000 licenses, certifications, permits and registrations. Just think about the redundancies and inefficiencies within this disconnected structure - including more than 1,000 state employees that have roles in administering these licenses. At a minimum, each secretariat should collapse its licensing responsibilities into one office to enforce consistency, streamline oversight and coordinate functions more efficiently.

2) *Health and Human Services*

Health and human services are delivered through a complicated structure of disconnected programs and bureaucracies that are responsible for health care, disability services, rehabilitation services, social services, income assistance, child care assistance, juvenile justice and family services.

The collection of health and human service programs - each designed to respond to a specific need or crisis – consumes more than 50% of the state budget, involves 17 agencies, 139 regional and local offices, more than 40 special taskforces and employs 23,000 state workers.

For the 1,200 providers delivering services for state agencies, the lack of coordination and the dysfunctional purchasing practices are considered part of the cost of doing business, with each agency enforcing separate and often conflicting requirements for licensing, data reporting, rate setting, etc. If streamlined, this stock of resources could be organized to comprehensively deliver assistance to support clients in achieving their maximum self-sufficiency at a much lower cost to the taxpayers, without cutting services.

Redundancy examples within health and human services include: 1) multiple medication administration and reporting policies across HHS agencies,

resulting in increased costs for providers; 2) multiple processes for intake, authorization, and billing for services; 3) No connectivity between agencies on case management which leads to duplication and an uncoordinated effort to help customers towards self-sufficiency.

6. Reform Medicaid - Between \$175M to \$250M in savings

The state spends approximately \$9 billion per year on Medicaid, which represents 25 percent of the state's budget. Last year, Medicaid spending increased by more than \$1 billion. According to an op-ed by the Pioneer Institute, 35 cents of every new tax dollar pays for Medicaid. Clearly, status quo is not an option. Enrolling Medicaid recipients into managed care plans is estimated to save the state up to \$1 billion over five years. This budget saving option can not be ignored any longer.

7. Require proof of legal residency for state benefits – Between \$10M to \$25M in savings

Applicants applying for state services should be required to verify their legal status in this country. It is only fair that recipients of state services should be required to prove to state agencies they are in this country legally before obtaining government benefits. Currently, there is no uniform policy that requires the state to verify the legal status for those applying for all state services including public housing, unemployment benefits, workers compensation, and welfare. Although conservative estimates were used for this purpose because the data does not exist, this new requirement could produce significant savings considering the amount of money the state spends each year on these programs.

8. Conduct forensic financial analysis for benefits eligibility – Between \$10M to \$20M in savings

State agencies need to consider more than just tax returns when determining individuals' eligibility for public benefits and services. A lifestyle analysis quantifies the living expenses of individuals - such as credit card bills, recreation activities, auto loans, grocery bills - and compares the expenses to known sources of income. If the money spent during the period analyzed exceeds the known funding sources, it is quite possible that there is another source of income. The state should conduct this analysis on a pilot basis for a few services – such as public defendants and public housing - before individuals are deemed eligible for the benefits.

9. Eliminate costly duplication of services for Medicaid and Medicare – Between \$50M to \$70M in savings

Massachusetts is one of a handful of states that offers an integrated Medicare and Medicaid program for dual eligible seniors through managed care. This program is voluntary, and since it was created in 2004, only a small percentage of seniors have opted to join. Six year later, there are still more than 100,000 dual eligible seniors that receive care outside this program through traditional fee for service plans. Because service providers using the fee for service plans are not authorized to share information about patients' care, the fragmented system is expensive and does not offer patients the best possible care. The state should offer incentives to seniors to

enroll in the Senior Care Options Plan. The state should also pursue a shared savings model with the Federal government to share the savings from moving seniors into the managed care plans.

10. Bring welfare reform in line with Federal standards – Between \$50M to \$75M in savings

Massachusetts was once a welfare reform leader, moving more people into the workforce with the goal of attaining self-sufficiency. However, today Massachusetts is out of compliance with the Federal law because the large portion of those who receive benefits are exempted from the work requirements. Working under a Federal ten-year waiver that expired in 1996, Massachusetts boosted its work participation rates by placing the difficult-to-employ in a state-run welfare program. The state must move more welfare recipients into the workforce to comply with Federal standards and ultimately reduce the state-funded portion of welfare benefits.

11. Offer incentives to state agencies to collect state revenues – Between \$15M to \$25M in savings

Some state agencies are authorized to retain a portion of the revenues they collect as an incentive to collect what is owed to the state. For example, the State Parole Board collects parolee supervision fees and is authorized by law to retain a portion of the fees collected. The trial court collects and retains fees collected from probation services and court fees. Some agencies do a better job at collecting the fees than others. The state should increase, by 10 percent, the amount of fees state agencies are allowed to retain in order to provide incentives to collect the revenues owed to the state.

12. Charge inmates room and board – Between \$10M to \$40M in savings

There are more than 23,000 inmates in Massachusetts within the control of the Department of Correction and Sheriffs' Departments. It seems reasonable and logical to charge these inmates a nominal daily room and board fee to help off-set the costs of incarcerating them. Inmates that are unable to pay should have their bills forgiven for good behavior after they are released. The Bristol County Sheriff's Department has shown that this program can work, collecting \$750,000 from inmates and forgiving bills for those with good behavior after released, before a court ruled that the state must pass a law permitting the collection of the room and board.

13. Restructure overly generous public employee retiree benefits– Between \$50M to \$100M in savings

Similar to pension reform, the state must also reform the “other post-employment benefits” provided to state employees. The state is facing a \$15 billion unfunded liability due to the overly generous benefits – namely health benefits – provided to state employees upon retirement. Reforms include:

- **Increase Minimum Eligibility** - State employees become eligible to receive health benefits with just 10 years of state service. The state should increase

the minimum number of years to be eligible for health benefits from 10 years of service to 15 years of service.

- **Increase Age Eligibility** - State employees can begin health coverage as early as age 55. The eligibility age for retiree health benefits should be raised from age 55 to age 60.
- **Change Contribution Rates** - State employees contribute only 15 percent towards their health insurance premiums upon retirement, regardless of how many years they worked for the state. The employee contributions should be based on a tiered system depending on how many years they worked.