



Maximizing Federal Support and Opportunity for the Commonwealth of Massachusetts



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Tufts Health Plan launched the Tufts Health Plan Foundation in 2008 with the mission to improve the health and wellness of the diverse communities we serve. Through its community investments, the foundation has given more than \$18 million to Massachusetts and Rhode Island nonprofits that improve healthy living with an emphasis on older adults. The foundation funds programs that move communities, particularly the most vulnerable, toward age-friendly standards using the domains established by the World Health Organization. For more information, visit tuftshealthplanfoundation.org.

LETTER FROM THE FUNDERS

The Barr Foundation, the Blue Cross Blue Shield of Massachusetts Foundation, the Boston Foundation, and the Tufts Health Plan Foundation joined with ADS Ventures and commissioned Jobs for the Future to examine how the Commonwealth can maximize federal resources on behalf of its residents, particularly low- and middle-income individuals. Jobs for the Future researched the challenges and opportunities for the Commonwealth and provides in these pages a short list of potential areas in which Massachusetts can receive new or increased reimbursement for ongoing programs. The report also identifies previously untapped federal grant programs and seeks to assist State House leaders in the design of an infrastructure that will more effectively import federal resources while exporting Massachusetts' public policy innovations.

This report is intended as the beginning of a conversation, and we are encouraged that the Legislature has already signaled its willingness to participate. The Senate, under the leadership of Senate President Stanley Rosenberg, has begun examining how to more effectively deliver services to the people in the Commonwealth within the existing revenue structure—in other words, how to do more with less. Both the House and Senate have created committees on intergovernmental affairs, and we hope that this research and the discussion it engenders will be a valuable tool to Chairs Mark Cusack and Linda Dorcena Forry as they work with their colleagues to address the opportunities and challenges moving forward. In addition, Massachusetts has long been the beneficiary of a federal delegation in the U.S. Congress that has been the most effective and influential in the nation. We continue to have outsized influence due to the talent of the current delegation in Washington D.C., and this asset can and should be fully utilized by ensuring that the state has the necessary resources and infrastructure.

While the subject of this report is how our state legislature can better partner with the federal government, the process reminds us how important it is for government to partner effectively with philanthropy. Philanthropy has the ability to take on issues in a nonpartisan, nonpolitical manner in order to foster a conversation around a shared goal—improving the lives of the people in the Commonwealth we call home. We are all rightfully proud of our state, but we share the challenge of providing resources and opportunity to those whom our economic recovery is leaving behind. It is our hope that working together, we can ensure that Massachusetts maximizes every opportunity to provide the services our residents deserve.



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I. INTRODUCTION

This report is designed to outline potential ways the Commonwealth of Massachusetts can increase the total funding it receives from the federal government. It is not designed to be comprehensive, but illustrative of some of the opportunities that the Legislative and Executive branches of state government, working together, could pursue to increase various sources of federal funding. We have identified a short list (15 out of 1,322) of opportunities for the state to receive new or increased reimbursement for ongoing programs; increased funding for grant programs in which the state currently participates; and new federal grant programs in which the state is not currently participating, but where the state may want to consider seeking funds.

The contents of this report are not intended to be a final recommendation for legislative or executive action, but seek to start a conversation about the potential for the Commonwealth to increase its capacity for pursuing federal funding. This report is intended to serve as a proof of concept that, with a shared commitment and close coordination between the Governor, the state's constitutional officers, and the Legislature, the Commonwealth can create a system to capture federal funds and reimbursements that is second to none. This report identifies federal funding for the state, its localities, and its most vulnerable individuals and families in an effort to address the leaderships' shared commitment to reducing economic inequality and promoting upward social mobility.

Since the 19th century, Massachusetts has led the nation in working with the federal government to strengthen the social safety net. Throughout the 20th century, and now into the 21st century, Massachusetts has implemented innovative programs in health care, the environment, housing, education, economic development,

workforce training, and transportation. As a result, Massachusetts has significantly outperformed the national average in most measures of receipt of federal funding.

As of the date of publication of this report, there are 1,322 active opportunities for federal funding available to the public entities in the Commonwealth. There are various ways to analyze how well the state performs on each of these opportunities, and on federal funding, overall. Massachusetts does relatively well in total federal funds received per capita. In 2012, the Commonwealth ranked 18th in the nation, receiving \$1,944 per person in federal transfers to the state budget.¹ However, when viewing the percentage of the state's budget that is directly funded by federal dollars, the Commonwealth ranks in the bottom third of all states. In 2001, Massachusetts received approximately 20 percent of its annual revenue from the federal government, while the national average was closer to 26 percent. By 2003, the state's federal revenue fell to an estimated 17 percent of the state's revenue, while the national average climbed to just over 30 percent. In 2004, our federal revenue jumped back to nearly 26 percent, while the national average held steady at approximately 32 percent. This pattern has continued ever since, with Massachusetts' federal revenue never exceeding 32 percent,² and at no time reaching the national average. In 2012, the most recent year for which data was available, federal funding accounted for approximately 28 percent of the Commonwealth's budget, below the national average of 32 percent. For the past 15 years, Massachusetts has consistently ranked in the bottom 15 states as measured by percentage of the state's budget derived from federal funds. *(Please note: these percentages are based on the federal fiscal year, which runs October 1 through September 30.)*

In many instances, the state is handicapped in its ability to pursue federal funding opportunities because the federal funding structure is ever changing and highly complex. Oftentimes, funding opportunities—whether grants or reimbursements—require a minor change in state law and/or the ready availability of scarce matching funds, necessitating coordination between the legislative and executive branches.

While the state government has worked well with the Massachusetts Congressional delegation on both major projects and numerous smaller funding opportunities, there are neither formal nor informal structures in place for coordinating, communicating, and cooperating with the federal delegation across the entire spectrum of the 1,322 funding opportunities. The Massachusetts delegation is particularly well situated to influence upcoming reauthorizations and major pieces of legislation (e.g., health care funding) in the current Congress. Despite the fact that the entire delegation will serve in the minority for the 114th Congress, their Committee assignments, expertise, and personal influence leave them well positioned to advance the state's interests.

The 2010 Congressional ban on earmarks hit Massachusetts especially hard. The Commonwealth's federal delegation had been one of the most effective in the country in directing funding for major state infrastructure projects and bold innovations in service delivery. However, the Massachusetts Congressional delegation has adapted well to the end of earmarking, as evidenced by the recent successes securing \$216 million for dredging Boston Harbor and \$996 million to extend the Green Line into Somerville.

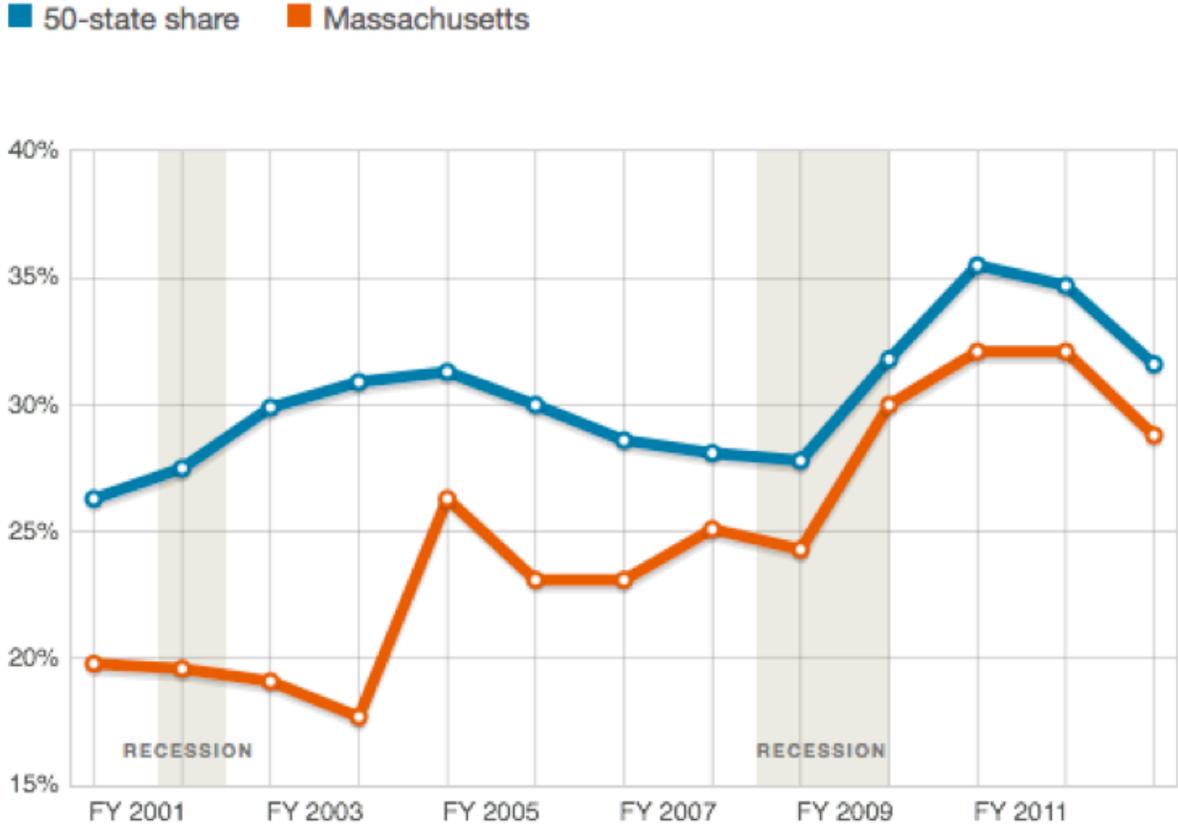
Federal reimbursement formulas are rapidly evolving as the federal government seeks to ensure that increasingly scarce federal dollars are used in the most cost-effective way possible. The Commonwealth has adapted reasonably well to these changes in the federal funding environment, but should continually assess its existing structure, across the executive and legislative branches, to assure that Massachusetts has the resources, capability, and IT infrastructure to maximize opportunities and make the pursuit of federal funding as efficient and effective as possible.

With new leadership in the Legislature and a new Administration, now is the ideal time to set a common agenda so that all branches of the Commonwealth's government work together when responding to federal funding opportunities. From monitoring the status of a grant announcement or award, to advocating for funding opportunities likely to benefit the state and Massachusetts residents and

sending updates on pending reauthorizations, the federal delegation's involvement is key to the state's success in this effort. A proactive and synchronized

approach across all branches and levels of government will ensure the greatest chances for success.

Figure 1. Percentage of State Revenue from Federal Funds, FY 2000–12



Source: The PEW Charitable Trusts. *Fiscal 50: State Trends and Analysis*.

II. THE COMMONWEALTH'S CURRENT STRUCTURE FOR PURSUING FEDERAL FUNDING OPPORTUNITIES

OVERVIEW

In Massachusetts, federal grants provide approximately one quarter of the revenue for state spending on public programs and services.³ As in most states, Massachusetts' agencies and departments currently identify, apply for, and spend federal funds in a largely decentralized manner, without a unified understanding of opportunities, awards, and performance, neither in real time nor in hindsight.⁴ The state has recently made great strides toward streamlining processes and increasing efficiency, as described below. However, much work remains to be done to maximize success in this area.

PROGRESS TO DATE

Following the 2008 financial crash, the state established the Office of Commonwealth Performance, Accountability, and Transparency (CPAT) to assist in the administration of federal American Recovery

and Reinvestment Act (ARRA) funds.⁵ Housed in the Executive Office for Administration and Finance (ANF), the CPAT includes a Federal Grants Management Office (FGMO) tasked with providing guidance on the uniform guidelines and procedures that all state agencies should follow in seeking and administering federal grants.⁶ Shortly after its creation in 2012, the FGMO quickly determined that the Commonwealth had a weak understanding of the details of federal funds received, or their subsequent use.

As a result, the FGMO worked collaboratively within the Executive Branch and with the Legislature to institute a number of important reforms that have increased oversight and transparency. For example, the FGMO had no knowledge, on a very basic level, of the grant applications submitted by state agencies and departments. In 2012, ANF worked with the Legislature to pass a statutory requirement that any state agency or department applying for a federal grant submit a Notice of Application to ANF.⁷ Implemented in October 2014, this reform will provide improved information on the number and type of grants that state agencies and departments apply for, along with a more complete understanding of the Commonwealth's ability to identify and compete for federal funding opportunities.

Each time an agency or department receives a new federal grant they must obtain a new account number to administer the funds. Previously, the Comptroller's Office provided the account number directly. Now, both ANF and the Comptroller's Office jointly assign such new account numbers, providing the FGMO increased visibility to the type and amount of federal funds flowing into the state.

The FGMO has also undertaken a first-in-the-nation Enterprise Grants Management System (EGMS), which seeks to increase oversight and coordination, while cutting administrative costs involved in grants management. EGMS grew out of detailed discussions with program and fiscal staff across secretariats, which identified the need for streamlined and automated processes. This system will assist the FGMO in managing and supporting federal grants at the state level and will provide an integrated business process to assist state agencies in identifying opportunities, submitting applications,

and managing federal funding.⁸ Eventually, EGMS will track and monitor grant applications, status, and progress in order to enhance the ability of the Commonwealth to pursue and manage federal funding.⁹

The system will initially support the 31 executive branch agencies that have active federal grant awards, with the goal of scaling the system to support federal funding management for non-executive agencies, independents, and higher education.¹⁰ EGMS will seamlessly interface with existing Commonwealth systems, including the Massachusetts Management Accounting Reporting System (MMARS) and the CommBUYS procurement system. Implementation activities include data migration for active federal grant awards, training (e-learning and classroom), help desk, and hands-on support during and after rollout to all user agencies.¹¹

The FGMO completed its initial launch in December 2014, and has scheduled three additional software releases, each with increasing functionality: (1) June 2015; (2) October 2015; and (3) March 2016.

While these reforms represent a strong start to modernizing the state's federal grant processes, some work remains to close the remaining gaps in the system. The following overview of the major phases of the federal grant process highlights key challenges.

FEDERAL GRANT PROCESS OVERVIEW

The federal government typically provides grants to state and local governments by way of competitive grants¹², formula grants¹³, or entitlement grants.¹⁴ The process to identify, obtain, and spend federal grants varies depending on the type of grant, but will include some combination of the following five major phases: (1) identification; (2) application; (3) award; (4) management; and (5) closeout. The process is decentralized and almost nothing is automated, with 90 percent of state agencies and departments still entering information manually.¹⁵ While best practices exist and EGMS will result in a more streamlined and automated process, the Legislature and Governor will need to address some

outstanding gaps in the process. The following discussion of these five major phases relies heavily on information included in the *Enterprise Grants Management System: Business Process Analysis* and Requirements report prepared by Collaborative Consultants for ANF.

IDENTIFICATION

This stage consists of the state agency or department sifting through the landscape of available federal funding, and determining which specific opportunities will provide value to the Commonwealth.

In order to identify federal funding opportunities, agencies typically look to commonly available resources, like the website [Grants.gov](https://www.grants.gov). This website serves as a key resource and clearinghouse for competitive grant opportunities. Agencies also engage with federal funders in a more informal manner. Approximately 80 percent of the state's federal grants are continuing grants, meaning that state agencies have often developed close working relationships with these federal funders. Frequently, federal funders will provide grant opportunities directly to the Commonwealth's agencies by way of informal outreach.¹⁶

The central challenge in identifying federal funding opportunities remains the lack of dedicated staff. At many state agencies and departments program and operational staff search for opportunities on an ad hoc basis.¹⁷ Across all secretariats, only one department—the Department of Public Health—has a Grants and Development team tasked with the grant application process, which includes identifying grants that will benefit the Commonwealth.¹⁸ However, even a team dedicated to full-time grant application cannot review and digest the entire landscape of federal funding opportunities. As a result, even DPH has difficulty identifying and pursuing the full range of grants, particularly competitive grants.

Not only do state agencies and departments lack dedicated staff to identify opportunities, they lack the resources to determine with specificity which opportunities are appropriate from both a programmatic and fiscal standpoint. For example, many federal grants require the contribution of

matching state funds. This matching requirement can severely limit the ability of a state agency or department to successfully procure a federal grant. Moreover, a failure to meet matching requirements may lead to a grant reduction, grant reversion, or disallowed costs, sometimes at tremendous expense to the state. At the majority of state agencies and departments, program and fiscal staff operate in distinct silos, with little to no visibility to one another. The disconnect between program and fiscal staff often results in program staff identifying and applying for federal opportunities without vetting the funding requirements with fiscal staff. Should the agency or department win a grant with a matching component that the fiscal team has not accounted for, the state may not have the requisite match to fulfill the grant. This situation leads to wasteful reversions and increased administrative costs to the agency, with no return.¹⁹

In addition to matching requirements, state agencies and departments may choose not to pursue federal funding opportunities due to the lack of staff and resources necessary to support the program that would receive the federal funding. The state operating and capital budgets limit the amount of personnel that agencies and departments can hire. Once hired under a federal grant, state agencies and departments cannot transfer employees to the operating or capital budgets without considerable difficulty, if at all. As a result, the state may decide to forgo pursuing federal funds if the agency or department does not believe that they will have the staff and resources to meet programmatic goals.²⁰ Because they often have little visibility to payroll and staffing decisions, program staff may spend valuable time and resources pursuing funding opportunities that the state does not have the resources to fulfill. Better coordination and collaboration between program and fiscal staff will assist state agencies and departments in identifying appropriate funding opportunities, limiting unnecessary draws on staff time and resources.

APPLICATION

"This stage of the federal grant lifecycle begins with a federal agency announcing the availability of grant funds for either competitive or formula grants. Each federal agency announces the funding

opportunity per their preference (e.g., Grants.gov, Federal Register, listservs). Once the state agency identifies a federal grant opportunity, a team reviews the grant guidelines, determines if the grant is appropriate for the State and the agency has the capacity to perform activities to meet stated goals, develops the grant application, conducts reviews of the application, and finally submits the application to the federal agency.”²¹

A select number of federal agencies publish forecasts for grants expected to be completed in the upcoming fiscal quarter or year. But such forecasts are exceedingly rare among federal agencies, and even for those agencies that do provide forecast documents, there are often new funding opportunities added that are not included in the recent forecasts. For these reasons, developing state relationships with federal agency personnel, and leveraging the federal Congressional delegation, are both critical to tracking upcoming grants and their requirements. Developing such personal relationships can also provide the Commonwealth with insight into agency and Congressional priorities that often influence awards, but may not be expressly included in the grant solicitation.

“Depending on the type of the federal grant, there are three main paths a state agency may follow in applying for a federal grant.

- ▶ *For a Competitive Grant, the state agency must research and collect information to support a compelling grant application and indicate the exact dollar amount requested.*
- ▶ *For a Formula Grant, the federal agency determines the maximum amount available for Massachusetts based on formula calculations. The state agency creates and submits a proposal for how the agency proposes Massachusetts will use the funds.*
- ▶ *For an Entitlement Grant, the federal agency provides the amount awarded to Massachusetts under the grant.”²²*

While the Grants.gov system has been very effective in rationalizing the federal competitive grants process, there is not complete standardization across agencies.²³ Each federal agency has its own system to communicate funding opportunities,

requirements for grant applications vary, and some federal agencies have unique applications and tools that states must use to apply for a grant.²⁴ Partially due to this lack of common processes and standards, state agencies and departments, already limited in terms of resources and technical support, do not have the capacity to pursue competitive grants efficiently.²⁵

Further aggravating the lack of a standardized application process on the federal level, no standardized application process exists on the state level, either. Program staff search and apply for federal funding opportunities on an ad hoc basis, largely without input and oversight from fiscal staff and agency heads. Authors of the grant application do not always have visibility to the status of the application in the internal review and approval process.²⁶ The lack of visibility often results in delays, leaving the author largely outside the process and unable to advocate for the application’s timely submission. This administrative burden and potential for undue delay adds an additional layer of complexity to an already complicated process, discouraging applications.²⁷ Because of the difficulty of obtaining internal approvals, and the time required to seek these approvals, state agencies and departments will often submit applications without the required approvals, necessitating back-end due diligence, decreasing transparency, and creating confusion at the individual agency and department level.²⁸ A standardized process and increased oversight would ease this administrative burden, and prevent applications from moving forward without the required fiscal review and managerial approvals.

Each agency, department, and secretariat operates independently when applying for federal funding opportunities. This lack of coordination can result in a failure to identify, apply for, and win attractive opportunities. This situation is most apparent when grant criteria require a different entity or individual to apply for the grant than the entity or individual who will actually administer the grant. In such instances, a lack of interagency coordination and cooperation may result in missed opportunities.²⁹

Further complicating the application process, state agencies and departments often store the necessary information (e.g., performance metrics, census

information, fiscal data) on multiple, disparate systems (e.g., federal systems, local agency systems, agency websites, Commonwealth systems, and agency shared network drives).³⁰ As a result, collecting accurate and compelling information becomes a time consuming and often-arduous process. What's more, most state agencies and departments do not have a searchable repository for accessing prior grant applications, meaning that they must start de novo with each grant.³¹

AWARD

"This stage of the federal grant lifecycle begins with the state agency receiving a grant award notification from a federal agency and contains the set-up activities the state agency performs to begin spending the grant funds."³²

"While this stage tends to be a standard process across all secretariats, there remain significant problems with...delays in the federal agencies' release of funds to the state (e.g., the award letter)."³³

The award process, though seemingly straightforward, can account for significant delays for federal grant recipients, resulting in a compressed period for grant performance. By state law, agencies cannot spend or disburse any grant federal funds without a final Notice of Grant Award (NGA) from the federal government, even if preliminary award notifications (via phone, email, etc.) have previously been made. While this is a common sense policy, in practice delays in federal paperwork mean that frequently the formal grant award letter from the federal agency "can arrive weeks or months after the start of the grant period."³⁴

Once the formal award letter has arrived, the state agency or department may receive its appropriation as provided for by the Legislature in the annual state budget (in the case of anticipated or recurring awards), or must wait for the Treasurer to accept the funds on behalf of the state (before the 2012 Commonwealth Finance Reform legislation, agencies had to wait for supplemental appropriations to be made by the Legislature).³⁵ Even with this new streamlined grant award process, agencies frequently must still wait several weeks to receive

permission to disburse grant funds after receipt of an NGA from the federal government. Another delay arises after funds have been formally received. Once a state agency or department has received grant funds, sub-recipients and vendor contract set-up can take anywhere from four to six weeks, and personnel hiring anywhere from six to eight weeks. These delays, when compounded, leave the state with a truncated grant period, during which the state agency or department must scramble to make up for lost time, often at the expense of programmatic goals.

Further streamlining the award process would allow state agencies and departments to maximize time and resources during the grant period, resulting in a better value for the Commonwealth. While to a large extent, these delays are contingent on the federal government, state agencies should pursue any and all strategies to "hit the ground running" as quickly as possible once federal funds are received. The state may also want to consider a system through which, specifically on formula grants, agencies may spend a small percentage of grant funds before a final NGA has been received.³⁶ This would help to minimize the impacts of federal award delays on program performance.

MANAGEMENT

"This stage of the federal grant lifecycle begins once the grant is set-up in MMARS and program teams are allowed to start spending/dispersing the grant funds and concludes when the [end of the] grant period is reached. Within the award management stage the state agency plays two roles, the first is as a grantee/recipient of a federal grant. In this role the state agency submits progress (programmatic and fiscal) to the federal agency and monitors the overall progress and status of the grant. In the second role, the state agency serves as a grantor of the federal grant to its sub-recipients and vendors."³⁷

As grantee and grantor, state agencies face significant challenges in managing federal funds efficiently.

"Each federal agency has their own process and format for submitting progress reports which may also vary [within the federal agency] based on the type of grant."³⁸ These separate systems

dramatically increase the administrative burden associated with managing federal funding, drawing precious time and resources away from program activities. Similarly, federal agencies often have different processes and methods for monitoring grantee performance and progress. While the state must live with these disparate federal systems, the Commonwealth can and should pursue efforts to standardize state systems and processes.

On the state level, program and fiscal staff do not have a central, integrated system to assist in monitoring and advancing federal spending and project progress.³⁹ “Program and fiscal staff do not have a central automated integrated view of grant spending (e.g., grant award amounts, encumbrances, expenditures, payroll, account receivables and draw funds).”⁴⁰ While most agencies have local tools or spreadsheets to assist in the collection and dissemination of spending information, program teams typically do not have direct access and remain wholly reliant on fiscal staff to provide this information.⁴¹ As a result, program staffers frequently do not have visibility to the amount spent or the amount remaining under a federal award. Without this information, program staff cannot properly plan and, consequently, cannot maximize value for the Commonwealth.

Even fiscal staff does not have direct access to all of the financial information necessary to carry out a federal award. Program and fiscal teams across all state agencies maintain a local application or tool to monitor grant award, payroll, and encumbrances for the grant project.⁴² To accurately account for the payroll allocation, program and fiscal teams must have access to current and future salaries, as well as changes to fringe and indirect spending scheduled to occur during the spending period. Currently, program and fiscal staff do not have direct access to this information.⁴³ Moreover, no single resource exists that contains the required purchases under a grant and the associated asset tracking, so that the state agencies or departments can easily locate equipment and capital assets for inspections or audits.⁴⁴

“Program and fiscal staff do not have a single integrated information system to query current and past grants to respond to inquiries or requests

related to grant spending for various points in time, grant outcomes, or information related to sub-recipients/vendors.”⁴⁵ Even more basic state accounting transactions do not allow for monitoring of federal spending across multiple state fiscal years.⁴⁶ Fiscal staff must process additional accounting transactions due to delays in grant funding, and to support grants that span state fiscal years.⁴⁷ Further adding to the administrative burden, state accounting codes do not cleanly map to federal project codes. As a result, fiscal teams at each state agency and department must create and maintain cross-reference tables. When a federal agency changes the Catalogue of Federal Domestic Assistance (CFDA) number during the award period, as happens frequently, the Commonwealth must change the appropriation number within the state’s accounting system. This seemingly simple process can take upwards of four to six weeks, during which time the state cannot access the federal funds, not even to support the personnel and contracts under the award.⁴⁸

When faced with such significant administrative burdens, state agencies and departments may conclude that they simply do not have the resources to complete a federal award. In these situations, remaining funding may revert to the federal government and the state agency or department must absorb the amount previously spent under the award, in addition to the staff-time and resources dedicated to support the award. Such reversions present a significant cost to the Commonwealth, both in terms of staff-time and resources, and in terms of lost opportunity.

A lack of coordination between the Executive Branch and the Legislature may also lead to missed opportunities and costly reversions. Some federal awards require changes, technical or otherwise, to state law. The Legislature typically has little to no visibility regarding opportunities for federal funding or the management of federal grant awards. As a result of this disconnect, required legislative changes often do not come to the fore until the state has missed the opportunity or is faced with a reversion. In such situations, the Legislature may not have the opportunity to act and, further, may not have the time or ability to perform due diligence.⁴⁹

State agencies and departments also face several key challenges in their role as grantor. The majority of state agencies and departments do not have a central repository that contains information that would allow program staff to quickly identify and/or exclude potential sub-recipients and vendors.⁵⁰ For most agencies the solicitation and selection of sub-recipients and vendors is a manual, decentralized process. While some agencies⁵¹ either have their own programs, or implement commercial systems to support selection and management of sub-recipients and vendors from award announcement to closeout, no enterprise-wide system exists.⁵² As a result, selecting and monitoring sub-recipients and vendors remains a mostly manual, paper-based process that consumes staff-time and resources.⁵³

The sub-recipient and vendor reimbursement process also remains a mostly manual process. Each state agency and department must collect reimbursement information from the sub-recipient or vendor, in order to enter such information into MMARS for payment or reimbursement. A handful of state agencies maintain an automated interface between the sub-recipient or vendor system and MMARS. For example, DHCD's Intelligrants system directly interfaces with MMARS. However, these systems are the exception, not the rule.⁵⁴

Some agencies have developed their own systems, or implemented commercial systems to assist in grant management activities. For example, the Department of Conservation and Recreation (DCR) hired a consultant to develop a database that integrates grant-spending information. The Department of Public Health (DPH) has its own accounting system that tracks multi-year grant spending in a single view. Both the Department of Elementary and Secondary Education (DESE) and the Department of Housing and Community Development (DHCD) have implemented grant management systems to manage their sub-recipients and vendors from announcement to closeout.⁵⁵ Despite these piecemeal solutions, grant management remains a mostly manual, decentralized process. The lack of common processes and streamlined systems to facilitate coordination and oversight increases the cost to the Commonwealth to administer federal funding opportunities.

CLOSEOUT

"This stage of the federal grant lifecycle begins with the end of the grant award period. It contains all the activities performed for final reporting to the federal agency, closure of sub-recipient and vendor contracts/agreement and final financial reconciliation of the grant."⁵⁶

Federal agencies each maintain a unique closeout procedure. In some instances, the submission of the final reports imply closeout.⁵⁷ In other instances, the federal agency will provide a formal closeout letter, which indicates that the state has met all grant requirements.⁵⁸ "In cases where a formal closeout letter is received, it may take several months (18+) to receive the closeout confirmation."⁵⁹ The lack of a standardized process on the federal level generates programmatic and fiscal uncertainty on the state level.

Further complicating the closeout process, "[r]eceipt of the final reports and reimbursement requests from sub-recipients/vendors is a time consuming process and is mostly manual."⁶⁰ While some state agencies and departments utilize commercial products to support this process,⁶¹ the majority provide notification to sub-recipients and vendors at closeout manually.⁶² Moreover, "[c]ommunication of documentation retention or policies following closeout with sub-recipients/vendors is a manual process."⁶³ The lack of a standard, automated method of communication with sub-recipients and vendors at closeout presents an additional administrative burden to state agencies and departments. The extreme difficulty that state agencies face in using manual processes to closeout federal grants that include sub-recipients and vendors creates a disincentive for state agencies and departments to pursue grant programs that require sub-recipients and vendors.

CONCLUSION

The Commonwealth has identified and instituted a number of important reforms that will increase the state's ability to compete for federal funds. Individual state agencies and departments have also developed their own business practices on an ad hoc basis that have streamlined processes and increased

efficiency to a certain extent. Key challenges remain, however. The lack of both oversight and streamlined processes throughout all state agencies and departments has resulted in the state missing out on a number of attractive opportunities as outlined in the next section, Identified Opportunities.

III. IDENTIFIED OPPORTUNITIES

According to the Catalog of Federal Domestic Assistance, there are 1,332 active forms of federal grants, contracts, loan guarantees, reimbursements, and other funding opportunities for which states, public universities, quasi-publics, or other semi-governmental institutions are eligible.⁶⁴ The following section identifies a number of opportunities for the state to increase, or more efficiently utilize, its share of federal revenues, by either seeking funding from a program or federal reimbursement that the Commonwealth has not previously pursued, or by improving its practices in order to capture a higher percentage of the federal money to which Massachusetts is eligible. The included opportunities are culled from a number of topics, and range in size from the hundreds of thousands to tens of millions of dollars. As such, the following examples should not each be viewed as equivalent opportunities, nor should they be seen as an exhaustive list of available federal funding opportunities. In fact, some of the opportunities will result in very little or no additional revenue directly to state coffers, but will otherwise result in advancing public policy goals valued by state policymakers, particularly through increasing federal government spending to needy localities or individuals, rather than directly to state coffers. The identified opportunities represent a cross-section of ideas at which policymakers and program officials could look more closely, should the Commonwealth embark on a concerted effort to maximize its share of federal dollars.

Note: The fact that an opportunity is listed in the following pages should not be viewed as an indictment of any state agency or agencies for not pursuing the funding. As we have outlined elsewhere in this report, state government must consider a number of factors before

deciding to pursue a federal grant, or to seek to otherwise increase federal program funding to the Commonwealth. These factors should be (and likely are) considered by state agencies for each of the identified opportunities. As a result, the following section should be considered illustrative of the kinds of federal funding opportunities of which the Commonwealth could be taking better advantage, rather than prescriptive of the specific areas in which the Commonwealth should act immediately to maximize federal revenues.

A. SOCIAL SAFETY NET

1. FOSTER CARE—ADOPTION INCENTIVES

Foster care is a vital public service provided by the Commonwealth to protect children who find themselves in one of the deepest possible misfortunes: with parents who are unwilling, or unable, to care for them. Over the past several years, there have been significant deficiencies uncovered in the Commonwealth's foster care system, primarily at the Department of Children and Families (DCF). These very public issues have shaken the public's faith in the foster care system, and raised concerns about the safety of the children under its care. The intent of this section is not to pile on additional criticisms of DCF, nor to suggest a universal fix for all of the problems that have been identified within the Department. Rather, it is to raise awareness of available federal incentives that can significantly leverage the state's investment in improving the foster care system. At a time when the state is struggling with a severe fiscal shortfall, the Commonwealth can potentially generate millions of dollars in additional federal revenue by improving its adoption outcomes in the foster care system.

Adoption Incentives

Since FY98, the federal government, through the Administration for Children and Families (ACF), has offered incentives to states that improve their performance in transitioning children out of the foster care system and into permanent adoptions. Established by the Adoption and Safe Families Act of 1997, the incentive program has been reauthorized twice, most recently in the Fostering Connections to Success and Increasing Adoptions Act of 2008.

That law made fundamental reforms to Title IV-E of the Social Security Act, which provides payments to state's to support for foster care and adoptions.⁶⁵ The 2007 legislation placed a renewed emphasis on encouraging adoption of older and special needs children, and also included revised system-wide performance bonuses for states that are able to exceed their historical performance in adoption placements.

The 2008 adoption reforms established new baselines for determining eligibility for incentive payments through the adoption program. Since then, incentive payments have been based on exceeding state benchmarks set during FY07 in three adoption categories: total adoptions, older child adoptions (over age nine), and special needs adoptions.⁶⁶ States are eligible for additional incentives if they exceed their highest ever adoption rate (defined as the number of placements divided by the total number of foster children for a given fiscal year). Incentive payments are also contingent on several planning and reporting requirements, including submitting annual data into the Adoption and Foster Care Analysis and Reporting System.⁶⁷ The reforms provided for incentives of between \$4,000 and \$8,000 for each child placed above the various state benchmarks, as well as a formula to determine incentive payments for states that achieve their highest ever adoption rate. Incentive payments are authorized up to \$43 million annually, the ceiling set in the 2008 reauthorization, although in practice the \$43 million ceiling was slightly exceeded in FY09 and FY12, and was not entirely reached in other years.⁶⁸

Massachusetts' Performance

Since 1998, Massachusetts has received just \$447,126 of a total \$450 million, or one tenth of one percent, of the total funding available through the program.⁶⁹ This is the lowest incentive payment received by any state in the nation. Worse, since the 2008 reforms to the incentive structure, Massachusetts has received only \$9,126 in incentive payments through the program, despite a total of over \$228 million having been distributed.⁷⁰ In practice, this means the state has been able to surpass the number of adoptions it completed in 2007 only once since, in 2013.⁷¹ Massachusetts

has also been unable to surpass its highest ever adoption rate in the six years for which incentive payments have been paid out under the 2008 rules.

Massachusetts' underperformance is particularly troubling given the relatively low bar the state had set for itself. For its adoption rate, the state's reimbursement is contingent on surpassing a baseline of just 7.2 percent, the third lowest in the nation.⁷² The Commonwealth's failure to improve their adoption placement rate since the 2008 reforms were implemented has resulted in a significant loss of incentive payments. Indeed, both Alabama and Wyoming, the only states with lower baseline rates than Massachusetts, have received significant funding on a yearly basis through the adoption incentive program. Since 2008, Alabama has received \$4.13 million and Wyoming has received almost a half million dollars.⁷³ On the other hand, Massachusetts was one of only six states and the District of Columbia (DC) that received virtually no money from this incentive program. The difference for the other five states and DC is that they had an average highest-ever adoption rate of 14.12, almost twice that of the Commonwealth. At a time when the federal rate of adoption approaches 12 percent, Massachusetts' underperformance is striking.⁷⁴

Conclusion

The prospect of increased federal revenue to the Commonwealth is not, nor should it be, the primary driver behind the reform efforts that are currently underway. However, state policymakers should be aware that improved outcomes from DCF could have the added benefit of increasing federal revenue by way of adoption incentive payments. At a time when new leadership is evaluating how to handle the issues plaguing a troubled state agency, any and all ways of boosting program-specific revenue should be closely examined by state policymakers. The potential for the state to garner significant financial incentives from improving the Commonwealth's foster care system can provide powerful leverage for the investment of state resources in improving the foster care system.

2. RESTORATION OF THE ABILITY TO BENEFIT PROVISION

In today's economy, a postsecondary education and industry-recognized credentials have become necessary for individuals to secure good jobs, and for employers to meet their skill demands. But with skyrocketing costs, financial assistance is the key to making postsecondary education feasible for many. Until 2012, the federal government provided financial assistance to qualified students through the "Ability to Benefit" (ATB) provisions in Title IV of the Higher Education Act. In 2012, however, through the Consolidated Appropriations Act, 2012, Congress eliminated ATB for students without a high school diploma or its equivalent, even if they could demonstrate college readiness.

The Impact of the Loss of ATB and its Reinstatement

The loss of ATB threatened the economic mobility of low-skilled adults and youth seeking postsecondary credentials to improve their job prospects, and undercut efforts to address America's skills gap. The elimination of ATB prevented thousands of students from accessing much-needed postsecondary credentials. It slowed the advancement of America's workforce. And it halted the development of innovative strategies in a growing number of states for helping low-skilled students attain the postsecondary credentials they need to find good jobs and careers.

Through ATB, innovative strategies enabled lower skilled students to co-enroll in adult and postsecondary education and training, so they could begin to earn postsecondary occupational credit at the same time they were developing basic educational and English language skills—often concurrently working toward completing a high school equivalency degree. These co-enrollment strategies accelerated the time required to earn credentials that met employers' skill needs. Recent studies showed that students in these programs outperformed similar students in earning college credits and certificates, and in persisting to program completion and good jobs.⁷⁵

Because the majority of ATB students are low-income, Pell Grants are a critical source of funding for postsecondary education and training. Requiring that ATB-eligible students get a high school diploma or its equivalent wastes time and taxpayer money, and frequently results in the student dropping out of the program, often before accessing and certainly before completing a postsecondary credential.

This year, in the Consolidated and Further Continuing Appropriations Act, 2015, Congress reinstated ATB for students who do not have a high school diploma or its equivalent, but who are enrolled in an eligible career pathways program. Students who meet this requirement can be determined eligible for Pell grants if they either pass an approved test or successfully complete 6 hours of college credit. The legislation also makes this eligibility retroactive—back to July 2014.

ATB in Massachusetts

Massachusetts has a number of successful programs and statewide initiatives that offer career pathways with accelerated access to credentials and employment. With the restoration of the ATB provision, a far greater number of Massachusetts' residents without a high school credential may be able to gain access to these programs. For example, funded by the U.S. Department of Labor Trade Adjustment Assistance Community College and Career Training grant, community colleges across the state developed training programs leading to industry-recognized credentials in high-demand fields. Many of these programs were designed to build students' foundational skills in the context of technical training. A variety of other initiatives, including the new Career Readiness Initiative in the Executive Office of Labor and Workforce Development (EOLWD), are designed to build foundational skills in preparation for career training and employment. The potential these programs have to broaden access to postsecondary education and training would be limited without the restored ATB provision.

In order to assist Massachusetts' residents in successful use of ATB, we recommend a scan of the current career pathways programs offered across the Commonwealth to determine which programs

serve students without a high school credential in college-level courses. The Commonwealth should work with these programs to develop strategies to increase Free Application for Federal Student Aid (FAFSA) completion and submission rates to increase the number of eligible students receiving federal financial aid through Pell benefits.

Conclusion

The elimination and subsequent restoration of ATB has caused great confusion among students and institutions that could participate in the program. Currently, there is no accepted, comprehensive list of career pathway programs in the state that are eligible for ATB students. The Commonwealth can provide a valuable service by initiating a cooperative effort between career pathway programs, philanthropic institutions, private companies, and the state Department of Education, Board of Higher Education, community college network, and EOLWD to ensure maximum utilization of ATB career pathway programs by Massachusetts students. Additionally, should the Commonwealth decide to pursue this opportunity, it would likely be of interest to the Ad Council, which could boost the state's efforts tremendously.

3. SCHOOL LUNCH PROGRAM

Food insecurity is a major health issue for low-income families in the Commonwealth. According to a 2013 study by researchers from Boston and Clark Universities, an estimated 16.5 percent of Massachusetts' children experienced some degree of food insecurity in 2011, well above the national rate of 12.7 percent.⁷⁶ Data from Project Bread indicates a large spike in food insecurity in Massachusetts since the recession, and research suggests that there has been no corresponding drop in the inflated numbers of vulnerable children and families, despite the recovering economy.⁷⁷ A related problem is the lack of healthy food options available to lower-income families, even if they do not technically fall into the category of "food insecure." There is a wealth of research available on the poor nutrition that children in low-income families receive, and likewise significant data on the knock-on effects that poor nutrition has on childhood development.⁷⁸

A number of government programs and charitable organizations work to combat hunger and poor nutrition for low-income children and families. Government programs include the SNAP and the Special Supplemental Nutrition Program for WIC, and the National School Lunch Program (NSLP). Of these, NSLP is among the most effective in reaching school-age children.

Since 1946, federal funding has been available to provide nutritious school lunches to low-income students through NSLP. Most recently expanded in 1998, NSLP provides low-cost or free lunches to more than 30 million children each school day.⁷⁹ School lunches are provided via both cash subsidies and food donations from the United States Department of Agriculture (USDA), which administers the program at a federal level. Due to the federal funding for the program, school lunches must meet specific federal guidelines for nutrition, which are based on the federal Dietary Guidelines for Americans. The 2010 Healthy, Hunger-Free Kids Act imposed further nutrition restrictions on NSLP, in which 94 percent of schools in the United States currently participate.⁸⁰

For children, free or reduced price lunch through the NSLP is determined by family income. Children living in households up to 130 percent of the federal poverty level are eligible for free meals, while students between 130 percent and 185 percent of the poverty line pay \$0.40 per lunch. Further accommodations are made for children in foster care, and children from families that are eligible for SNAP.⁸¹ A related program, the School Breakfast Program (SBP) provides meals before school for the same groups.

Massachusetts Students: Underutilizing the NSLP and SBP

In 2012, the Center for Social Policy at UMass Boston, the Massachusetts Budget and Policy Center (Mass Budget), the Massachusetts Law Reform Institute, and the Eos Foundation released several reports on the state of NSLP participation in the Commonwealth. Their reports found that a significant number of children in Massachusetts did not eat the free and reduced breakfasts and lunch to which they were entitled. According to the report, free and reduced lunch participation was 81 percent

in October 2011, meaning, controlling for attendance, that 19 percent of those enrolled in free and reduced price lunch did not eat the lunch to which they were entitled. Breakfast suffered from even worse participation, with non-participation rates at an estimated 65 percent.⁸² These non-participation rates stem from a number of factors, including stigmatization of free and reduced program participants and the costs associated with reduced price meals (nominal though they may be). Report data backs up both points: free and reduced lunch participation is lower for poor students in wealthy schools than those in poorer schools, and reduced lunch participation rates are consistently lower than free lunch participation rates.⁸³

Under participation in the NSLP and SBP has a deleterious effect on student performance for children who should be receiving two nutritious meals at school every day (in some cases, these are the most nutritious meals students will receive over the course of the day). It also has a negative impact on school finances, since the USDA reimburses between \$2.58 and \$3.21 per lunch provided, and between \$1.32 and \$1.93 per breakfast provided, depending on the financial need of the school district. Mass Budget et al. estimate that the school lunch under participation rate alone costs Massachusetts school districts up to \$30 million annually in missed meal reimbursements. Similarly, boosting lunch participation could result in as much as \$73 million in additional federal meal reimbursements to the Commonwealth. Combined, a concerted Commonwealth-wide effort to boost free and reduced meal participation could recoup some or all of that money, and simultaneously ensure better nutrition for children from poorer families, as well as higher student performance. The Commonwealth should start such an effort by identifying those districts with the lowest free and reduced lunch participation rates, and taking steps to encourage those districts to boost their rates.

Direct Certification of SNAP-Participant Children

In addition to boosting participation of students already enrolled in the NSLP and SBP, Massachusetts should take steps to ensure that all students eligible for NSLP are enrolled. One method

of doing so is by providing “direct certification” for students receiving SNAP and Temporary Assistance for Needy Families (TANF). Since the 2008-2009 school year, school districts have been required to establish systems to directly certify SNAP students in the NSLP and SBP, to avoid time-consuming applications for families, and to make sure no SNAP-eligible students are missed. Despite this nationwide requirement, however, state implementation has lagged. As of 2013 in Massachusetts, only 84 percent of SNAP-eligible children are directly certified for free meals, in the bottom third of all states, and well below the national average of 89 percent.⁸⁴ Some or most of the 16 percent of children not directly certified may still be traditionally enrolled in NSLP/SBP via the application process, but it is likely that many students are left out, denying them benefits to which they are entitled.

Over the past several years, Massachusetts has made improvements to its direct certification rate, increasing the percentage of SNAP students directly certified from 78 to 84 percent from the 2011-12 to 2012-13 school years. The Commonwealth should continue to work with school districts and improve Massachusetts’ direct certification rate, and aim to match states like New York, Michigan, the District of Columbia, and others that have achieved 100 percent direct certification. This will ensure that as many NSLP/SBP-eligible children are enrolled as possible, and also improve federal reimbursement to local school districts, which will provide meals more efficiently.

Community Eligibility: Another Way of Improving Student Nutrition, and of Increasing Federal Reimbursements

The Community Eligibility Provision (CEP) is the most powerful tool for expanding free student meal delivery, and by extension, federal reimbursements through NSLP/SBP. Since the 2012-2013 school year, CEP has allowed school districts in high-poverty areas, or individual schools that serve high-poverty populations, to provide free meals to all students regardless of individual financial need, provided that more than 40 percent of the school or district’s population has been directly certified as eligible for free meals via SNAP/TANF.⁸⁵

Beyond the positive effects for students of receiving free lunches automatically, without unnecessary paperwork, school districts also stand to gain from enrolling in CEP. The program allows districts to tap into higher federal reimbursements, and the rate of reimbursement increases based on the percentage of the district’s students directly certified into NSLP/SBP. Although a district is eligible for CEP if 40 percent of its students are directly certified, reimbursement rates increase until a district reaches 62 percent community eligibility, at which point all of the district’s meals are provided at full cost by the federal government.⁸⁶ This is both a financial boon to the district, as well as a valuable service to students in high-poverty areas.

Several Massachusetts school districts have begun to participate in the CEP program, but there are several other high-poverty areas of the state that are eligible, and have not signed on to the program. In addition, individual high-poverty schools are eligible for CEP designation, even if their school districts do not qualify at large. The Massachusetts Department of Elementary and Secondary Education’s Office for Nutrition, Health and Safety Programs annually publishes a list of agencies and schools that are potentially eligible for the CEP program, based on their level of direct NSLP certifications.⁸⁷ The most recent list, published in April 2014, identified several large school districts that do currently participate in CEP, most notably the Boston Public Schools. However, districts that did not participate, and approach the 62 percent threshold for full federal reimbursement, include Fall River Public Schools (58 percent certification), Holyoke Public Schools (75 percent certification), Lawrence Public Schools (99 percent certification), New Bedford Public Schools (63 percent certification), Springfield Public Schools (71 percent certification), and Sunderland Public Schools (73 percent certification).⁸⁸ A number of other districts are eligible for lower levels of reimbursement, as are numerous high-poverty individual schools located in lower-poverty school districts. The Commonwealth should work with these districts to remove whatever obstacles are preventing them from enrolling in the Community Eligibility Provision, and encourage all of the state’s eligible districts to enroll in the CEP.

Conclusion

There are several concrete steps that Massachusetts' school districts could take to improve participation in their school breakfast and lunch programs. The current setup of the SBP and NSLP allows Massachusetts school districts to dramatically increase federal reimbursements for free and reduced price meals by taking three actions. First, districts should encourage free and reduced school breakfast and lunch participation. This could result in tens of millions of dollars in increased reimbursements annually. Second, the Commonwealth should work with school districts to improve direct certification rates, and match peer states that currently far exceed Massachusetts. Improving direct certification rates will also allow more school districts to take advantage of the Community Eligibility Provision, which could result in further increases to federal meal reimbursements. The Commonwealth has a supporting role to play in these suggestions, since school districts themselves will be the direct beneficiaries, but can play a prominent role in disseminating best practices, and in prodding school districts to better serve their students by maximizing participation in the school breakfast and lunch programs. These changes would have important positive impacts on school finances, but also on child nutrition, which has ancillary impacts on educational achievement, and thus is essential to ensuring that Massachusetts' public schools remain first class.

4. TANF WAIVER OPPORTUNITY

Temporary Assistance for Needy Families is a federal block grant designed to help poor families with dependent children achieve self-sufficiency. Administered by the Administration for Children and Families (ACF) within the U.S. Department of Health and Human Services (HHS), TANF replaced a similar federal program, Aid to Families with Dependent Children, in a 1996 federal welfare reform law.⁸⁹ On an annual basis, TANF provides over \$17 billion in federal funding to the states annually, and in fiscal year 2013, provided almost \$500 million in federal contributions to the Commonwealth.⁹⁰

TANF Work Requirements

Federal regulations require states to meet TANF work participation rates to ensure that a specific

percentage of families (50 percent for single parent families, 90 percent for two parent families) receiving TANF include a member engaged in work activities, for a specified number of hours defined by federal law.⁹¹ Although under federal law and state policy, all TANF recipients are expected to engage in work activities, states must at least remain above these two thresholds in order to avoid financial penalties in the form of decreased grant payments. The purpose of the work requirement is to discourage dependency on federal benefits, although in practice, the low-wage jobs for which many TANF recipients are qualified do not provide sufficient wages to move workers off of TANF and other benefits. Many strategies to transition TANF recipients into higher-paying jobs, including vocational training and other education, are severely limited under TANF, and in many cases cannot be counted toward the program's work requirement. Some experts have argued that this limitation "can heavily constrain a state's ability to use training and education, even where the evidence shows stronger employment outcomes for those who complete such programs."⁹² This limitation is of particular concern in a state like Massachusetts, with a well-acknowledged skills gap, which means that many unemployed individuals (including TANF recipients) are not qualified for current job openings in the Commonwealth.

In 2012, the Obama Administration announced a change in federal work requirement policy.⁹³ Under Section 1115 of the Social Security Act, ACF announced its intention to offer waivers with regard to certain provisions of federal welfare programs, including TANF.⁹⁴ The announcement would allow states to temporarily waive work participation requirements and establish pilot programs to test new strategies of boosting employment outcomes for TANF recipients, and decrease overall dependency on the program. To date, no Section 1115 waivers have been granted by ACF, although several states have reportedly expressed interest.⁹⁵ Congressional Republicans were angered by the waiver announcement, and in March 2013, the House of Representatives voted to block the Administration from issuing waivers. The measure never passed the Senate, however, meaning the Administration retains the authority to issue waivers under Section 1115.

Proposal: Pursue a TANF Work Requirement Waiver

The Commonwealth has an inherent financial and social interest in transitioning as many TANF recipients as possible from public benefits to higher-paying jobs. However, recent data has shown that the Commonwealth lags behind the nation in so-called “workfare” (work participation rates) for TANF recipients.⁹⁶ Policymakers should pursue strategies to ensure that as many qualified TANF recipients participate in the workforce as possible. At the same time, policymakers should also acknowledge that not all TANF recipients are immediately qualified for jobs that would enable them to transition off of public assistance. For that population of TANF recipients, the Commonwealth should aggressively pursue strategies to provide workforce and vocational training, with the goal of building welfare-to-work pipelines in industries for which there is currently a skills gap in Massachusetts.

To that end, the Commonwealth should explore pursuing strategies that would allow greater flexibility in administering the Commonwealth’s TANF program. This would allow policymakers to test new strategies of improving the Commonwealth’s track record of putting TANF recipients back to work. This should also include a work requirement waiver under Section 1115 of the Social Security Act. Such a waiver would allow Massachusetts to conduct a targeted pilot project aimed at testing alternative methods of administering the TANF program, with the goal of creating better outcomes for recipients, while reducing overall dependency on the TANF program. By allowing enhanced job training and education to supplement some of TANF’s traditional work requirements, the Commonwealth can endeavor to transition families from a cycle of welfare dependency into higher skill, higher-paying jobs.

A hypothetical waiver demonstration project could be conducted in limited geographic areas, or statewide. Federally, ACF has signaled its interest in pilots that would include more efficient means of promoting employment entry, retention, advancement, or access to jobs that offer opportunities for earnings and advancement

that will allow participants to avoid dependence on government benefits. The following are ACF-provided examples of projects that Massachusetts may want to consider:

- “Projects that improve collaboration with the workforce and/or postsecondary education systems to test multi-year career pathways models for TANF recipients that combine learning and work;
- “Projects that test systematically extending the period in which vocational educational training or job search/readiness programs count toward participation rates, either generally or for particular subgroups, such as an extended training period for those pursuing a credential. The purpose of such a waiver would be to determine through evaluation whether a program that allows for longer periods in certain activities improves employment outcomes;
- “Projects that improve coordination with other components of the workforce investment system, including programs operated under WIA/ WIOA, or to test an innovative approach to use performance-based contracts and management in order to improve employment outcomes;
- “Projects that demonstrate attainment of superior employment outcomes if a state is held accountable for negotiated employment outcomes in lieu of participation rate requirements;
- “Projects under which a state would count individuals in TANF-subsidized jobs but no longer receiving TANF assistance toward participation rates for a specified period of time in conjunction with an evaluation of the effectiveness of a subsidized jobs strategy;
- “Projects that demonstrate strategies for more effectively serving individuals with disabilities, along with an alternative approach to measuring participation and outcomes for individuals with disabilities; and
- “Projects that test the impact of a comprehensive universal engagement system in lieu of certain participation rate requirements.”⁹⁷

A TANF waiver would not provide any additional federal reimbursement dollars to Massachusetts, but would allow the Commonwealth a great deal of flexibility to design an innovative program to meet the needs of a changing job market. A targeted pilot with a small population, if successful, would likely reduce overall expenditures in the TANF program by more quickly transitioning families off of aid. In addition, a pilot could also present an opportunity for Massachusetts to leverage its national leadership in Pay for Success programs, and the many effective job training nonprofit organizations that have pioneered Pay for Success in the Commonwealth. Adoption of a Pay for Success model could ensure that a private nonprofit assumes the risk for the program's success, and minimize the Commonwealth's exposure. Given the size of the TANF program and the past success of Massachusetts' nonprofits in pioneering welfare to work programs, this seems like an opportune time to determine whether job training and education for TANF recipients is a "program that works."

Conclusion

With a continually (albeit gradually) improving economy and overall employment situation, the time is right for the Commonwealth to explore innovative new strategies for addressing several persistent problems in the job market, including the skills gap and the proliferation of low-wage work in the Commonwealth. By engaging with nonprofits, the Commonwealth could spread the risk factor of a TANF pilot, and pursue an evidence-based, Pay for Success methodology in TANF, a program that is ripe for such a strategy. Particularly if the pilot is successful, the Commonwealth will prove that it is at the forefront of innovative new strategies to improve government services, and provide results for vulnerable populations, while still stressing the importance of work in the TANF program.

Any pilot that seeks to temporarily alter TANF work requirements is likely to be controversial. As we have seen at a national level, it will open the Commonwealth to inevitable charges that Massachusetts is seeking to water down or eliminate the work requirements that are part of welfare. While employment is an undeniably important part of TANF, work that does not reduce overall

dependence on TANF has no public benefit and perpetuates the cycle of dependency that the work requirement is intended to alleviate. State policymakers should not be daunted in pursuing workforce development strategies that could pay huge dividends for TANF-dependent families, by helping them transition into higher-paying jobs, and off of government assistance. Finally, the waiver opportunity allows the Commonwealth to pursue a pilot that is targeted to a small population, and which will have to prove its effectiveness in order to continue in the future. Such a pilot is not an example of weakening a federal entitlement program, but rather an example of innovation and experimentation, the results of which could greatly strengthen the TANF program by reducing overall dependence on it, and by helping to improve the lives of recipients in the Commonwealth.

5. EARNED INCOME TAX CREDIT

The federal government offers a number of tax credits to help encourage home ownership, incentivize higher education and investment in new technologies, and subsidize the costs of raising children, among many other purposes. Perhaps the most important tax credit for low-income individuals and families, however, is the Earned Income Tax Credit (EITC). Originally born from welfare reform movements in the 1970s, EITC provides a cash tax credit to certain low-income individuals (and especially families) who have earned legal income, meet several age and residency requirements, and cannot be claimed as the dependent of another tax filer. EITC has become one of the country's largest anti-poverty programs, and one of the federal government's largest direct cash transfer programs.⁹⁸ It is designed to provide a greater incentive for individuals with low-income to work, and has been considered a powerful method of diverting federal expenditures from traditional cash handouts towards an incentive-based program.

The EITC was created by the Tax Reduction Act of 1975. Originally an extremely modest credit, the EITC was intended to offset the Social Security taxes of low-income workers with children, and provide an increased incentive to work. Since then, the EITC has been expanded in 1986 (in the famous tax compromise between Speaker Tip O'Neill and

President Ronald Reagan), 1990, 1993, 2001, and most recently in the stimulus bill in 2009, which expanded credits for married couples and families with three or more children. The American Taxpayer Relief Act, which averted the 2012 “fiscal cliff,” extended the stimulus bill’s changes until 2017.⁹⁹

The IRS estimates that in 2013, approximately 27 million tax filers claimed the EITC nationwide, receiving an average credit of \$2,407.¹⁰⁰ In Massachusetts, approximately 406,000 filers received an average credit of \$2,050.¹⁰¹ Eligible individuals may claim the credit regardless of whether they owe any income tax or have taxes withheld from their pay. In 2014, the EITC provides maximum credits ranging from \$487 to \$6,044 depending on marital status, income and family size (larger families are eligible larger credits). According to the most recent data from the Congressional Joint Committee on Taxation, the program had an estimated cost of \$69.2 billion in 2014.¹⁰²

Efficacy

The EITC enjoys broad bipartisan support, and has been expanded by every president since Ronald Reagan, generally as an add-on to broader tax legislation. Regardless of whether the attached piece of legislation broadly raised or lowered taxes, both parties have considered the EITC a valuable piece of public policy. Research from the Brookings Institution,¹⁰³ the Center on Budget and Policy Priorities,¹⁰⁴ and the National Bureau of Economic Research¹⁰⁵ has found that EITC not only successfully incentivizes work in the short term, but also has a positive knock-on effect on family incomes and child education and health, long beyond the (generally brief) period in which a low-income family actually claims the EITC. And the EITC is an effective tool in combating poverty: According to the Census Bureau, EITC expenditures lower the effective national poverty rate by an estimated 3 percent (lifting 6.5 million people out of poverty), and when combined with the related Child Tax Credit, lower the child poverty rate by 6.7 percent (3.3 million children).¹⁰⁶ Only Social Security keeps more Americans out of poverty, and no other program keeps more children from poverty.

EITC in the Commonwealth

Starting in the 1990s, a number of states began supplementing the federal EITC with a similar credit to state income tax. Today, approximately half of all states have enacted a state-level EITC. The Commonwealth has allowed low-income workers to claim a credit on their state taxes since 1997. That credit (termed simply the Earned Income Credit, or EIC, in state documents) uses the same eligibility criteria as the federal credit but provides a smaller payment to families. This credit originally equaled 10 percent of the federal EITC, but was increased to 15 percent of the federal rate in 2001. At 2013 rates, the maximum credits ranged from \$73.05 to \$906.60.¹⁰⁷ In fiscal year 2015, the EIC is budgeted to cost the state \$132.9 million, a slight increase from FY14.¹⁰⁸

Effect of EITC Non-Participation

Despite EITC’s positive effects on incomes for low-wage workers and families, the credit could be even more effective, particularly in the Commonwealth, if more eligible families claimed it. According to the IRS, the EITC is claimed by approximately 79 percent of those eligible for it, meaning that more than 20 percent of those taxpayers who are entitled to the credit do not claim it.¹⁰⁹ There are likely several reasons for this low participation rate, including a general lack of financial literacy, lack of awareness of the credit, or the mistaken belief that claiming EITC makes recipients ineligible for other forms of government assistance (in fact, money received through EITC is not included in calculations to determine eligibility for Medicaid, SNAP, or other entitlements).¹¹⁰

In the Commonwealth, the 406,000 EITC claimants in 2013 received \$833 million from the federal government.¹¹¹ Although there are few reliable numbers available for non-participation rates at the state level, the IRS’ best guess is that Massachusetts lags behind other states in EITC participation. In 2011, IRS estimated that the calendar year 2010 claim rate for EITC was 77 percent in Massachusetts, ranking the Commonwealth 35th nationwide, and well behind states like Mississippi, which had a claim rate of over 85 percent.¹¹² Even assuming that

Massachusetts has closed the gap with other states since 2010, and now matches the national average claim rate of 79 percent, that would leave approximately 106,000 Massachusetts tax filers missing out on the EITC. With an average tax credit of \$2,050,¹¹³ Massachusetts could boost EITC receipts by upwards of \$200 million, if it maximized its EITC participation rate.

Increasing the EITC participation rate would result in added costs to the Commonwealth, due to Massachusetts' EIC match. At a 100 percent participation rate, assuming an added \$200 million in federal tax credits, the state would be subject to \$30 million in added costs annually, a substantial sum. However, the proven positive impacts of EITC nationally, and at a more local level, would likely justify this added expense, especially when considering that for every \$1 in added costs to the state, the federal government would be putting \$6.67 in the pockets of Massachusetts taxpayers. Increased recoveries from sales, excise, and other state taxes would defray some of the costs of the increased EITC rate.

Conclusion

Since 1975, the EITC has been a widely praised tool for lowering the effective poverty rate and providing an added incentive to work for low-wage workers. Many states, including Massachusetts, have recognized the value of the EITC nationally, and have further compounded its positive effects by providing a percentage match on state income taxes. Given the proven positive impacts of the credit, Massachusetts should act aggressively to promote the EITC, to ensure that as many taxpayers as possible claim the credit.

Several states, and many cities and other local areas (including Boston¹¹⁴) have already engaged in similar campaigns to promote EITC and other tax credits.¹¹⁵ The Commonwealth would be wise to look to these efforts, and undertake a similar effort in Massachusetts. Another program with which the state should pursue a closer partnership is the Volunteer Income Tax Assistance (VITA) program. VITA, funded by cooperative grants from the IRS, offers free tax preparation assistance to

taxpayers who "make \$53,000 or less, persons with disabilities, the elderly and limited English speaking taxpayers who need assistance in preparing their own tax returns."¹¹⁶ Massachusetts receives just under \$200,000 annually for operation of the program, which currently spans 11 sites in the Commonwealth.¹¹⁷ Although VITA's budget has declined nationally, Massachusetts could pursue increased funding through this program. The Commonwealth could also fund complementary programs independently, using VITA as a model. Massachusetts, through the Department of Revenue, should also work with the IRS to pursue other innovative strategies for boosting EITC participation.

Although a 100 percent participation rate is likely out of reach, smaller increases in EITC participation would still increase federal funding to the Commonwealth, and have positive impacts on household income and labor force participation. There would be modest costs to the Commonwealth with any increase in EITC participation, but the costs would be dwarfed by the benefits of added federal money flowing to Massachusetts' taxpayers, and partially mitigated by upticks in state consumption taxes. Most of all, however, encouraging EITC participation will ensure that the Commonwealth continues to reward work, and help lift hard-working families out of poverty.

B. HEALTH CARE

1. LEAD POISONING REIMBURSEMENT

Over the last half-century, we have made tremendous strides in the detection, prevention, and treatment of lead poisoning, particularly in children. The facts are indisputable: the effects of lead poisoning, such as brain damage, developmental delays, and decreased cognitive function, can be detrimental, and detection, especially in children under the age of five, is critical to effectively fighting the illness. Over the past several decades, the federal government has significantly increased its role in reducing exposure to lead, including the 1972 phase-out of leaded gasoline, the 1978 Lead Paint Disclosure Act, the President's Task Force on Environmental Health Risks and Safety Risks to Children, the Department of Housing and Economic Development's creation of Healthy Homes Grants,

and the establishment of Medicaid waivers for the replacement of windows in homes at high risk for lead paint. And while these efforts have had a significant impact on mitigating the problem, as of 2010, two startling facts remain: over half a million U.S. children below the age of five have elevated blood lead levels (BLL), defined by the Centers for Disease Control and Prevention's (CDC) as 5 mg/dL or above;¹¹⁸ and only 66 percent of children were screened for lead during 2008-2009.¹¹⁹

At the start of the movement to address lead poisoning in children, Massachusetts was at the forefront in creating prevention and treatment regulations, systems, and policies. However, as the rest of the country has continued to address the problem, Massachusetts has not updated its policies, leaving many high-risk children and their families without the resources they need to prevent or treat lead poisoning. In fact, according to the CDC most recent statistics, only 210,791 of the 442,592, or 48 percent, of Massachusetts children aged five years and younger were tested for lead poisoning. And of these 210,791, 3.59 percent were confirmed to have blood lead levels (BLLs) greater than 5 mg/dL, and 0.32 percent were confirmed to have BLLs greater than 10 mg/dL—the highest rate in the country. These statistics mean one thing: It is time for Massachusetts to re-evaluate how it tests for, prevents, and treats childhood lead poisoning. And in doing so, there are federal resources available to bring the state back to leading the fight against childhood lead poisoning.

Federal Reimbursement Policies

Housing-related illnesses, mainly childhood lead poisoning and asthma, cost the nation over \$50 billion dollars each year.¹²⁰ As a result, state and federal governments have made prevention of these illnesses a priority, creating programs, policies, and funding that emphasize early detection and prompt follow-up for high risk children aged five years and below.

However, federal funding explicitly allocated for childhood lead poisoning has been reduced over the last few years, which means states are looking at alternative ways to secure funding for services that prevent and treat lead poisoning. And while direct funding to programs like the CDC's Healthy Homes

and Lead Poisoning Prevention has decreased, Medicaid reimbursements are increasingly covering lead poisoning services, and several states have successfully expanded their prevention and treatment of the illness through increased and improved billing codes.

Section 1905(a) of the Social Security Act requires all Medicaid-enrolled children under five years of age receive blood lead screening as part of the Early and Periodic Screening, Diagnostic and Treatment (EPSDT) services. Under the current Medicaid guidelines, states are able to define their practice settings, including the flexibility to authorize payment to providers offering lead poisoning prevention interventions outside of the traditional settings. Furthermore, the Centers for Medicare and Medicaid Services (CMS) allow any practitioner licensed by the state to become qualified to provide EPSDT services. According to the National Center for Healthy Housing, "for a child with lead exposure, this might include connecting the child's family to resources for lead hazard control or to neuropsychological testing or educational interventions."¹²¹

In July 2013, CMS released new guidelines on the definition of preventative services in 42 CFR §440.130(c) to be consistent with section 1905(a) (13). The clarifications, which went into effect on January 1, 2014, allowed for coverage of preventative services recommended by a physician or licensed practitioner, as opposed to previous guidelines, which required the services to be provided by the physician or licensed practitioner.

Finally, in the State Medicaid Manual: Definition of "Preventative Services," CMS notes that "investigations to determine the source of a child's elevated blood lead level are patient oriented, and therefore, covered."¹²²

Massachusetts' Reimbursement Structure

A 2014 survey conducted by the National Center for Healthy Housing queried all 50 states to assess their Medicaid reimbursement policies for lead poisoning and asthma. Forty-nine of the states, including Massachusetts, responded to the lead poisoning questionnaire, revealing that 18 states, or 36 percent, reported lead poisoning follow-up services

already in place as a required service, and seven states, or 14 percent, reported that all services were in place as an optional service within the state.¹²³ Massachusetts has neither required, nor optional, services in place.

Proposal: Create A Medicaid Reimbursement Policy for Blood Lead Testing

Massachusetts currently has the 1905(a) waiver in place, but does not include any actions outside of laboratory blood screenings. This program should be substantially increased to scale the state's ability to prevent and treat childhood lead poisoning, and to secure additional Medicaid reimbursements for these services. We recommend that DPH work with the state Medicaid office on reimbursement policies and billing codes for point-of-care lead poisoning testing, as well as preventative and follow-up/investigative and treatment services. Other states have seen these measures prove successful in more effectively and efficiently addressing the needs of children at high risk for lead poisoning, and using Medicaid resources to make up for the reduction in direct federal funding.

In Texas, the State Medicaid Agency was able to classify childhood blood lead surveillance and follow-up as a reimbursable Medicaid service through the Medicaid Administrative Claim Process and the Enrollment Claim Process. Despite reimbursement having been secured as recently as 2011, the state now receives Medicaid reimbursement for over 40 percent of the staff costs for childhood blood lead surveillance, data management, case coordination, provider and parent education, and environmental lead investigators.¹²⁴ This number is expected to increase as the state increases the number of eligible children who are tested for lead poisoning.

In Georgia, the state was faced with reducing its childhood lead poisoning program by nearly 60 percent as a result of decreased federal funding. However, the Georgia Department of Health worked with the Georgia Department of Community Health, Medical Assistance Plans Division to create billing codes allowing reimbursement of lead inspectors. According to the Association of State and Territorial Health Officials, "considering that approximately 80

percent of lead inspections conducted in Georgia are for children covered by Medicaid, this revenue ensures that most of the state's highest-risk children receive appropriate attention" and the state now has approximately 50 certified healthy homes staff and 30 certified lead inspectors.¹²⁵

It would also be worthwhile to explore reimbursement of routine point-of-care testing for elevated BLLs at well child visits with physicians or licensed practitioners at Women, Infants, and Children (WIC) Clinics, to ensure Massachusetts is testing as many children as possible, and to ensure any elevated BLLs are flagged for immediate discussion on treatment and investigations of the source. In Wisconsin, a pilot program was conducted in 2010 via the Milwaukee Health Department (MHD) WIC program to determine the effectiveness and cost savings in point-of-care testing for lead poisoning. The pilot was so successful that the number of children MHD tested went from 25 in 2009 to 3,897 in 2010 and 4,704 in 2011. Half way through the pilot, the state purchased an additional seven point-of-care devices with the funds received from Medicaid reimbursement for the tests performed. In the end, Medicaid covered 87 percent of the costs for lead testing in Milwaukee WIC Clinics.

In Massachusetts, these services should all be reimbursable by Medicaid, and simply require the state to ensure the correct amendments are filed with CMS and billing codes are assigned.

2. HEALTH PROFESSIONS OPPORTUNITY GRANTS

Health care is a large and growing sector in the United States. As the U.S. population ages, and health care spending continues to increase, the Bureau of Labor Statistics projects that health sector employment will grow by 30 percent by the end of the decade.¹²⁶ The need for qualified individuals in the health care field, and the largely well-paying jobs that are created in the sector, have made health professions a key focus for workforce development efforts at both the state and federal levels. Federally, HHS administers the Health Professions Opportunity Grants (HPOG). Authorized by the Affordable Care Act (ACA), HPOG

funds organizations that provide education and job training to TANF recipients and other low-income individuals, preparing them for occupations in the health care field that pay well, and are expected to either experience labor shortages, or to be in high demand in the foreseeable future.¹²⁷

A wide range of organizations are eligible for HPOG, including state entities, workforce investment boards, institutions of higher education, and other nonprofits and community-based organizations. Grantees are afforded significant flexibility in defining which “other low-income individuals” they serve, and existing projects have expanded to a wide range of populations, including “individuals without a high school diploma or GED, incumbent workers, Supplemental Nutrition Assistance Program (SNAP) recipients, and disadvantaged and at-risk youth.”¹²⁸ HPOG grants may be used to train participants for a wide range of careers. To date, according to ACF, the “most common training programs include those for nurse aides, home health aides, licensed and vocational nurses, registered nurses, medical assistants, pharmacy technicians, and phlebotomists.”¹²⁹

Through two rounds of funding, entities in 23 states have received almost \$330 million in grants through HPOG.¹³⁰ Program participants enroll in a variety of training and education programs that result in an employer or industry-recognized certificate or degree, and training programs take place in a variety of settings, including the classroom, workplace, and via distance and online learning. HHS also requires grantees to collaborate with state and local agencies in order to support HPOG-funded programs, including workforce investment boards (WIBs), the state agency responsible for administering TANF (in Massachusetts, the Department of Transitional Assistance [DTA]), and state apprenticeship agencies.¹³¹

Like many ACA-funded projects, HPOG’s authorization will run out at the end of FY15. However, after two rounds of grants, \$58 million remains available for a final round of grants. HHS expects to make approximately 35 grants in this final grant round, which will be solicited in Spring 2015.¹³²

Proposal: EOLWD Should Lead an Effort to Secure HPOG Funding in the Final Round

No Massachusetts entity has yet won a grant through HPOG. The Commonwealth has a large and well-developed health care sector, which is supported by a variety of public and private health professions training-related programs.

EOLWD has identified health care occupations which are both expected to be in high demand, and, also where there are likely to be significant labor shortages. In addition, there is a large need and interest among frontline health care workers in upskilling programs. EOLWD can identify appropriate workforce training, health care institution, and educational providers who could collaborate on a state-led response to the next round of HPOG funding. With state leadership in assembling appropriate partners, Massachusetts will be well positioned to submit a very competitive application.

C. WORKFORCE DEVELOPMENT

1. WORKFORCE INNOVATION AND OPPORTUNITY ACT

The recent enactment of the Workforce Innovation and Opportunity Act (which replaces the Workforce Investment Act that was enacted in 1998) provides opportunities for new directions in the Commonwealth’s workforce development activities beginning with the program year starting July 1, 2015, for which planning must begin now.

The new federal law that authorizes workforce development, adult education and vocational rehabilitation programs was enacted on July 22, 2014. WIOA provides a number of opportunities for innovation and for building a high quality, comprehensive workforce development system that Massachusetts can take advantage of.

Connections between Workforce & Regional Economic Development Efforts. The new law increases emphasis on cross-system alignment, strategic planning, performance measurement, and data collection/utilization. It also requires local areas to align regionally—convening system stakeholders, planning, and providing services on

a regional basis. The new statute can be seen as an opportunity for reinforcing the workforce system's relationships with economic development across Massachusetts, as well as for better aligning multiple programs around regional priorities.

Development/Expansion of Sector-Based

Initiatives. The law requires workforce systems to focus training on high demand industry sectors and occupations; increases emphasis on the use of Labor Market Information (LMI) to identify such high demand industry sectors (e.g., health care, advance manufacturing); expects local workforce boards to convene, facilitate, and leverage system stakeholders; and encourages local boards to use intermediaries and/or Industry partnerships to carry out sector training initiatives. The new law provides incentives for states and local communities to convene industry partnerships that support robust sector-based initiatives that meet the skill needs of high demand industries.

Development of Career Pathways Systems.

WIOA requires state and local workforce systems to establish career pathways systems that provide a combination of rigorous and high-quality education, training, and other services that align with the skill needs of industries in the State or region; prepare individuals to be successful range of secondary or postsecondary education options; include counseling to support an individual in achieving the individual's education and career goals; provides education offered concurrently with and in the same context as workforce preparation activities and training for a specific occupation or occupational cluster; accelerates the educational and career advancement of the individual; enables the attainment of a secondary school diploma or its recognized equivalent, and at least one recognized postsecondary credential; and helps an individual enter or advance within a specific occupation or occupational cluster.

Communities in Massachusetts that are part of the federal Youth CareerConnect grant, with JFF as a partner, are building a good start on leveraging federal, state and local resources to expand pathways from secondary through postsecondary education (grades 9-14) with work-based learning and STEM opportunities in high demand fields; and Massachusetts as a whole is working on youth career

pathways in high demand and growing industry areas through its involvement in Jobs for the Future's the Pathways to Prosperity State Network. This work better positions Massachusetts to meet its postsecondary performance metrics under the new WIOA law, where postsecondary outcomes will likely carry more weight than under current law.

Expansion of Out-of-School Youth Activities and Opportunities.

WIOA dramatically changes the focus of its program for disadvantaged youth, requiring that 75 percent of youth funds be dedicated towards serving out-of-school youth of which 20 percent is prioritized for work-based activities such as internships). By doing this, states and local areas will need to rethink how services are provided under the Act. The age of out-of-school youth is extended up to age 24 in the definition—increasing opportunities for partnering between adult education and WIOA, especially if focusing on career pathways. Youth can be considered out-of-school youth even if they have obtained their high school diploma or equivalent, if they are at a low basic skills level or are an English Language Learner. WIOA emphasizes postsecondary education and training outcomes for youth in performance indicators and emphasizes career pathways approaches for out-of-school youth that provide connections with postsecondary education.

Boston is well poised to implement these changes in the law, since they currently dedicate a significant amount of WIA Youth resources to out-of-school youth. Boston, through the work of the Boston Private Industry Council, can serve as a leader and example in the state and around the country on leveraging federal, state, and local resources to build pathways to postsecondary and career success for youth. However, even Boston will likely face the need to make some changes in funding and program structure to meet the expectations of the new WIOA focus on out-of-school youth and postsecondary outcomes, without leaving the least-prepared youth behind.

Additional Flexibility. In addition to the above-described provisions in WIOA, the law expands flexibility afforded for local workforce programs, including: Transfer authority between Adult and Dislocated Worker programs; up to 20 percent of funding may be used for incumbent worker training; and up to 10 percent for transitional jobs

for the establishment of work history. All of these provisions provide opportunities for Massachusetts to further align and enhance its workforce education and training efforts to support economic growth and development, and to better ensure that all of its citizens can benefit from these programs through the attainment of industry-recognized credentials and family sustaining employment and careers.

A few other new directions in the WIOA include:

- Restores the 15 percent funding reservation at the state level to allow states the flexibility to address specific needs and promote innovations such as Pay for Performance
- Pay-for-performance training contracts for adults and youth (local boards may use up to 10 percent of funds)
- Eliminates the “sequence of services” and merges “core and intensive activities” into a combined “career services” approach and ends the requirement for the exclusive use of vouchers in adult training programs so that states and localities can better target investments to the specific skills demands of businesses
- New opportunities to utilize prior learning assessments to advance more rapid credentialing of workers
- Incorporate more effective statistical techniques, such as regression analyses, that can help minimize disincentives for delivering services to populations with significant barriers.

Although the U.S. Department of Labor will be writing regulations governing the new law for as much as another year with the initial Notice of Proposed Rule Making expected in early 2015, Governors can take action immediately to adopt the Pay for Success provisions by submitting an amendment to their current state plan. The Department of Labor can approve such amendments and implementation of Pay for Success strategies now.

2. DIVERSITY IN THE HIGHWAY CONSTRUCTION WORKFORCE

Women and minorities are underrepresented in highway, street, and bridge construction, where employment is projected to grow by more than 20

percent by 2022. Creating sustainable pathways into construction careers fills critical hiring needs for industry, while improving economic security for those workers, as these jobs typically provide family-supporting wages with good benefits. Activities to improve recruitment and retention of women and minorities and retention in skilled construction jobs are widely known, but dedicated funding for such activities is scarce. Federal transportation policy offers states the ability to dedicate a small percentage of their federal highway reimbursement into programs supporting activities that improve women’s entry into, and success in, the construction trades. This section highlights federal opportunities for funding for diversifying the highway construction workforce using existing federal dollars, and includes examples of how two states, Maryland and Oregon, are using this funding to improve diversity in the highway construction workforce. The section also includes a description of how Massachusetts can build on existing diversity policies to take advantage of this highway workforce opportunity.

The Lack of Diversity in the Highway Construction Workforce

Highway, street, and bridge construction includes a range of occupations, such as operating engineers, heavy truck drivers, pile drivers, carpenters, painters, and construction laborers, with many of the relevant skills also in demand in other segments of the construction industry. The federal Bureau of Labor Statistics projects that highway, street, and bridge construction employment will increase by 23 percent through 2022—adding 67,500 jobs across the United States.¹³³ This estimate does not include job openings created by retiring workers, which are also prevalent in the industry. In 2012, almost one in five skilled construction workers were 55 years or older, and more than half were 45 years and older.¹³⁴ Women are a key labor pool that can help this sector meet its hiring needs. Women currently make up fewer than three percent of all construction workers.¹³⁵ To promote increased participation of women in the industry, the federal government requires that contractors receiving federal funds for construction projects make good faith efforts to ensure that women work a minimum of 6.9 percent of total paid hours.¹³⁶ While some contractors have had success in exceeding these targets, the statistics

indicate that many construction employers fail to meet even this moderate target, or they employ no women at all.

Federal Support and Funding for Diversity in the Highway Construction Workforce

There are a number of federal initiatives and programs targeted at increasing the number of women and minorities in the construction workforce. The Federal Highway Administration (FHWA) requires state highway agencies to certify that apprenticeship, skill improvement, or other workforce programs are available and registered with the U.S. DOL or the appropriate state agency.¹³⁷ FHWA notes “states are expected to require highway contractors to make every effort to enroll minority and women trainees and apprentices in those trades and careers in which they are underrepresented.”¹³⁸ In this instance, the definition of “women” includes all women, irrespective of their race or ethnicity. Apprenticeship programs must also set participation goals for minority males; these are set in relation to the composition of the workforce in the local labor market.

Federal highway funding is potentially a more substantial and reliable source of funding for states to use to improve pathways for women and minorities into construction jobs, if they choose to do so. The FHWA On-the-Job Training Support Services (OJT/SS) Program has a \$10 million annual fund through the U.S. Department of Transportation, and requires State Transportation Agencies (STAs) to establish apprenticeship and training programs targeted at moving women, minorities, and disadvantaged individuals into journey-level positions, in order to ensure that a competent workforce is available to meet highway construction hiring needs, and to address the historical underrepresentation of these groups in highway construction skilled crafts. States can receive an allocation of funding from the U.S. DOT \$10 million annual fund for OJT/SS under 23 USC Section 140(b).¹³⁹

Funding to support the STAs' OJT/SS Program and other transportation workforce activities is also available through the Highway Trust Fund Core Program (HTFCP). State Transportation Agencies may obligate funds from the four primary

highway funding programs—the National Highway Performance Program (NHPP), the Surface Transportation Program (STP), the Highway Safety Improvement Program (HSIP), and the Congestion Mitigation and Air Quality Improvement (CMAQ) Program—for surface transportation workforce development, training, and education. For FY14, the total funding for the four core programs is \$36.64 billion. This includes: \$21.9 billion for the NHPP; \$10.1 billion for the STP; \$2.41 billion for the HSIP; and \$2.23 billion for the CMAQ program. These four core fund programs provide the primary federal funding that the states use to support their managed capital investment highway programs. HTFCP OJT/SS funds may be used to support a broad range of training and education activities, including training for state and local transportation agency employees (excluding salaries), university or community college support, and outreach to promote surface transportation career awareness, among others.

State Appropriations of Federal Funds to Support Highway Construction Workforce Diversity

As noted above, four different programs can be used to support highway construction diversity through HTFCP: NHPP, STP, HSIP, and CMAG. However, only a small number of states are known to have recently used funds from these programs to help promote diversity in construction careers. The FHWA Office of Civil Rights does not keep comprehensive information on states' use of funds for diversity; it is aware of seven states (Alabama, Arkansas, Connecticut, Delaware, Michigan, Rhode Island, and Vermont) that used STP funds for this purpose between 2005 and 2012. Since the reauthorization of the federal highways program in 2012, the Office of Civil Rights is aware of two states, Rhode Island and Michigan, using STP funds.¹⁴⁰ Based on data compiled by an independent researcher, between FY92 and FY02, 29 states, Washington, D.C., and Puerto Rico made use of STP funds to support women's access to the highway construction industry.¹⁴¹

In recent years, two states—Maryland and Oregon—have passed legislation to permanently dedicate a portion of their federal highway construction funds for training and support services for women and

minorities. While a state Governor may request an allocation of funds for this purpose from the U.S. Secretary of Transportation without legislation, the legislative route provides potentially greater continuity and accountability than a less formal approach. Maryland provides an example of a state with a general emphasis on greater diversity, while Oregon has a more targeted focus on gender diversity.

Maryland: BuildUp Program

In 2012, Maryland passed a bill to permanently commit 0.5 percent of the state's federal surface transportation and bridge building funds to training and related services for women, minorities, and other targeted populations. The state is dedicating \$1.1 million annually to these types of services, based on its current federal allocation.¹⁴² The law requires an annual report from the Maryland Department of Transportation and the Governor's Workforce Investment Board to Maryland's Assembly detailing the construction training, support services, and skill improvement programs provided with these funds. The report includes the individuals and organizations that received training and services, as well as the results of the training in each workforce investment area. During the first year, these funds primarily supported one initiative, the BuildUp program, which targeted traditionally underserved groups, including women, veterans, and ethnic minorities, as well as under- or unemployed or otherwise economically disadvantaged individuals. The program consisted of 36-80 hours of technical instruction (depending on the provider) and covered topics such as introduction to carpentry, computer-aided design, and blueprint reading. One-quarter of first-year program participants were women.¹⁴³

In 2013, responsibility for administering the program was passed to Maryland's Department of Labor, Licensing, and Regulation, and the project was redesigned as a 15-week training program combining highway construction skills training with comprehensive case management and employment services. The 2013 report does not include participant data by gender.¹⁴⁴

Oregon: ODOT/BOLI Initiative

Oregon recently developed a comprehensive program to improve both gender and racial/ethnic diversity in its highway construction workforce. In 2009, Oregon passed a bill on Highway Construction Workforce Development, which mandates that state agencies use federal surface transportation funds for activities to increase diversity in its highway construction workforce. The law provides a detailed list of program activities aimed at helping individuals enter construction training, including pre-apprenticeship programs and retention services for trainees. The law stipulates a detailed biannual report to Oregon's Legislative Assembly on program activities and performance outcomes.

Proposal: Use Federal Highway Funds to Support Diversity in the Commonwealth

The Commonwealth could consider following the example of Maryland and Oregon to increase diversity in the highway construction workforce. Jobs in highway construction are projected to show strong growth in coming years. Highway jobs, unlike many growing occupations, also offer the potential of family-supporting wages and, through apprenticeships, a pathway to acquiring industry-recognized qualifications without incurring student debt. Pre-apprenticeship programs and support services for apprentices are proven methods for increasing women and minority success in construction jobs and growing their access to these well paying jobs where they are currently underrepresented. Federal funding for highway construction provides a potential source of support for these programs.

By using a portion of the Commonwealth's federal highway allocations to develop and implement similar approaches, Massachusetts can improve diversity in the highway construction workforce. Industry stakeholders, including industry associations, unions, community-based organizations, and education and training providers, should work with state transportation officials to explore the use of federal transportation funds to replicate these efforts of Oregon and Maryland.

The Commonwealth is already actively focusing on leveraging public contracts to promote fair access to construction jobs. In the City of Boston, for example, the Boston Residents Job Policy (BRJP) sets specific workforce goals for construction projects; with the goal of 50 percent of total work hours in each construction trade designated for City residents, 25 percent for minorities, and 10 percent for women. These goals are very similar to the goals included in a number of project labor agreements in use across the state. In addition to its annual plan, the BRJP also requires contractors to submit a pre-contract Boston Residents Construction Employment Plan detailing their plan for complying with the BRJP requirements.¹⁴⁵

The BRJP also includes a requirement for data sharing; the Boston Redevelopment Authority posts all contractors' compliance data for projects on their website. In fact, Boston is one of the few locations publicly posting compliance data on construction contracts by trade, sex, and by minority status. Data show that 82 percent of the 4,218 contracts listed did not employ women and 90 percent failed to meet the 6.9 percent target for women. The 10 percent of contracts that exceeded the federal goal (including 161 contracts where women provided 20 percent or more of hours worked) together accounted for 22 percent of hours worked by women between 2009 and 2013.¹⁴⁶ This data clearly demonstrates an opportunity for improvement.

Conclusion

Federal highway funding has the potential to be a key source of funding for Massachusetts to use to improve pathways for women, minorities, and local residents into construction jobs. The Massachusetts Department of Transportation's (MassDOT) Office of Civil Rights website states that "equal opportunity and diversity shall be protected and affirmatively promoted in all [MassDOT's] programs, activities, and services."¹⁴⁷ In that light, underrepresentation of women and minorities in the highway construction workforce deprives those groups of opportunities to achieve economic security by securing good paying jobs in a growing field. A concerted effort on the part of the Commonwealth to expand women and minority representation in the industry will help fill job openings in a growing

industry, and supplement similar efforts at both the federal and local levels to ensure diversity in the construction workforce. While permanently dedicating federal revenue to this purpose will not increase the Commonwealth's overall federal highway funding, it would serve a valuable public policy purpose, and help fulfill MassDOT's own stated goals of affirmatively promoting diversity and inclusion in Massachusetts.

3. PERFORMANCE PARTNERSHIPS FOR OPPORTUNITY YOUTH

Across the United States, approximately 6.7 million young people between the ages of 16–24 (approximately one in six of this age group) are neither in school nor participating in the labor market—a population often referred to as "disconnected youth" and now known as "opportunity youth."¹⁴⁸ Federal attention to this population surged with the 2010 creation of the White House Council for Community Solutions (the Council), comprised of philanthropic, business, and community leaders from across the country. The Council undertook a yearlong effort to study cross-sector policy and practice solutions for this population of young people, resulting in a 2012 report, *Community Solutions for Youth Opportunity*, to the President calling for systemic change to support the success of this demographic.¹⁴⁹ Following the release of this report, federal agencies have made a concerted effort to allocate additional funds available to states to address the specific needs of this unique population.

How Massachusetts is Working with Opportunity Youth

In 2012, President Obama's Director of the Domestic Policy Council, Melody Barnes, left the White House to found the Aspen Forum for Community Solutions (the Forum). Housed at the Aspen Institute, the Forum is dedicated to supporting collaborations that enable communities to effectively address their most pressing challenges. The Forum's first initiative is the Opportunity Youth Incentive Fund (OYIF), a collaborative of over twenty foundations that are pooling resources to support community-level collective impact efforts on behalf of opportunity youth in 21 communities across the country, including Boston.¹⁵⁰ The Boston opportunity youth

project is co-led by the Private Industry Council and the Boston Opportunity Agenda, and is focused on building pathways for opportunity youth who have attained a high school credential, either a diploma or its equivalency, but have not gone on to postsecondary education or family-sustaining careers, and lack opportunities to do so.¹⁵¹

New Funding for Opportunity Youth

The Consolidated Appropriations Act of 2014 authorized the creation of up to 10 Performance Partnership Pilots (P3) for opportunity youth.¹⁵² Given Boston's participation as one of the 21 communities participating in the Aspen Forum's OYIF program, Boston is clearly a leading candidate to pursue a pilot site agreement with the federal government. In addition to localities, states are also eligible to be selected as pilot sites. Each P3 program will enter into an agreement with the federal government in which the selected locality, tribe, and/or state will be granted broad flexibility in how to use discretionary federal funds, while agreeing to be held accountable for specific, measurable outcomes.

This flexible approach is designed to assist opportunity youth, defined in the legislation as "individuals between the ages of 14 and 24 who are low income and either homeless, in foster care, involved in the juvenile justice system, unemployed, or not enrolled in or at risk of dropping out of an educational institution."¹⁵³ Virtually all federal regulations, compliance measures, program priorities, and reporting requirements for individual federal youth programs can be waived in a P3, in order to promote a more holistic and comprehensive, evidence- and outcomes-based approach to meeting the needs of such youth. While there is no upward limit on the amount of federal funds that can be repurposed in such pilots, it is estimated that the typical amount of annual federal funding that would be dedicated to such partnerships is \$13 million.¹⁵⁴

The Consolidated and Further Continuing Appropriations Act of 2015 extended the ED, DOL, and HHS P3s for disconnected youth authority to 10 additional pilots in FY15 (making a total of 20 pilot opportunities currently open for application).¹⁵⁵ The

10 pilots in FY14 will receive start-up grants between \$400,000 and \$700,000.¹⁵⁶ It is expected that the 10 projects funded in FY15 will receive the same average funding.

Conclusion

The City of Boston has made great strides in addressing issues related to disconnected youth in recent years, but the Commonwealth has thus far lacked a coordinated strategy for addressing the issue. Federal dollars are available for this purpose for the first time, and Massachusetts should take advantage of this opening. In addition to the modest funding available to the state through the P3 program, the ability to waive numerous bureaucratic impediments and administrative costs will allow the Commonwealth to test innovative new strategies and direct money to programs rather than administration. It is also anticipated that foundation funding will be closely coordinated with federal funding, which will open up opportunities for the Commonwealth, and that the Obama Administration will repurpose additional discretionary funds to this program, if it appears to be gaining traction. Opportunity youth are not only struggling to advance, but are oftentimes also lost in the transition out of the foster care system. By recognizing Massachusetts' weakness and collecting additional federal funds to support these youth, the burden on the state's budget is relieved and an untapped workforce is engaged. By expanding Massachusetts' federal funding footprint beyond Boston, especially in the lowest-income cities often plagued by substance abuse and addiction, the state can provide stability and social mobility for opportunity youth.

4. NATIONAL AND COMMUNITY SERVICE SOCIAL INNOVATION FUNDS

The National and Community Service Act of 1990, as amended by the Serve America Act of 2009, created the Social Innovation Fund (SIF) and Pay for Success grant programs (PFS).¹⁵⁷ Administered by the Corporation for National and Community Service, these programs seek to encourage investment in effective social interventions, with an emphasis on data-driven, proven outcomes.

Social Innovation Fund Grants

As the name suggests, SIF grants seek to promote social innovation, defined as “the development of a potentially transformative practice or approach to meeting critical social needs.”¹⁵⁸ Recipients may use grant awards to support programs focused on improving measurable outcomes in the following priority areas: (1) Economic Opportunity, defined as “[i]ncreasing the economic opportunities or economically disadvantaged individuals;” (2) Youth Development, defined as, “[p]reparing America’s youth for success in school, active citizenship, productive work, and health and safe lives;” and (3) Health Futures, defined as “[p]romoting healthy lifestyles, and reducing the risk factors that can lead to illness.”¹⁵⁹

The Corporation awards SIF funds to existing intermediary organizations, which will, in turn, award sub-grants to nonprofit community organizations.¹⁶⁰ In order to secure funding, intermediaries must demonstrate “the ability to identify innovative solutions and successfully invest in growth and replication; a track record of using rigorous evidence to select, invest in, and monitor the growth and progression of their grantees; expertise and demonstrated impact in the proposed issue area(s) of focus; and depth and breadth of relationships with stakeholders in the issue area or region of focus.”¹⁶¹ Eligible applicants include states and local governments, public or private nonprofit institutions and organizations, tribes, and U.S. territories.¹⁶²

The program requires a 100 percent match from both SIF intermediaries and sub grantees, with the goal of “attract[ing] and leverag[ing] private donors to match Federal dollars, bringing [in] new resources to support promising organizations.”¹⁶³ SIF awards are provided for periods of up to 5 years, funded annually as a continuation grant based on the availability of appropriations, compliance with grant conditions, and satisfactory performance.¹⁶⁴

Since the first round of funding in FY11, the SIF program has provided over \$227 million in funding to organizations in 13 different states.¹⁶⁵ Over \$50 million in SIF grants went to work in FY14, primarily supporting programs that invest in innovative local activities that improve low-income communities.¹⁶⁶

SIF appears to have strong bipartisan support and even in a constrained federal fiscal environment is likely to continue to receive funding. In fact, the Corporation anticipates that they will make up to \$50 million available in FY15.¹⁶⁷

Massachusetts organizations have received 12 SIF grants totaling \$52.4 million and ranging in size from \$1 million to \$10 million.¹⁶⁸ These grants have gone to support programs at: New Profit, Inc.; Jobs for the Future; the Boston Foundation; and GreenLight Fund, Inc.¹⁶⁹ While the Commonwealth itself has not received SIF funding, SIF grants to Massachusetts organizations amount to approximately 23 percent of total SIF awards, second in the nation.¹⁷⁰ New York organizations have received the most awards with \$66 million or 29 percent of total grant awards.¹⁷¹

Pay for Success Program Grants

The Pay for Success program seeks to “advance and test emerging Pay for Success models[.]”¹⁷² Recipients may use program funds only in areas aligned with the SIF’s priorities, namely: Youth Development, Economic Opportunity, and Healthy Futures. Eligible applicants include public or private nonprofit institutions and organizations, state and local governments, tribes, and U.S. Territories.¹⁷³ The program requires a 100 percent match, and is typically awarded for project periods of three years or more.¹⁷⁴

The Corporation provided the first round of PFS grants in FY14. The eight awards totaled \$12 million, and went to organizations in six states.¹⁷⁵ Awards ranged in size from \$750,000 to \$3.4 million, with New York organizations capturing \$4.4 million or 36.25 percent of total grant awards.¹⁷⁶ Massachusetts organizations received approximately \$3.8 million, or 32 percent of total awards, with \$1.9 million in funding going to the President and Fellows of Harvard College and \$1.9 million in funding going to Third Sector Capital Partners, Inc. (Third Sector).¹⁷⁷

SIF and PFS in Massachusetts

The Commonwealth has collaborated with a number of NGOs, public and private not-for-profit organizations, and private investors to undertake

three Pay for Success projects: (1) the Massachusetts Homelessness Initiative; (2) the Massachusetts Juvenile Justice Pay for Success Initiative; and (3) the Massachusetts Adult Basic Education Initiative. A number of these entities have received SIF and/or PFS awards.

The Massachusetts Homelessness Initiative consists of a public-private partnership between: the Massachusetts Housing and Shelter Alliance (MHSA), which will act as the service provider; the Corporation for Supportive Housing, which will invest \$500,000; Santander Bank, which will invest \$1.25 million; the United Way of Massachusetts Bay and Merrimack Valley, which will invest \$1.75 million; and the Commonwealth, which has dedicated additional rental vouchers specifically for the program and which will provide up to \$6 million in performance payments to investors based on programmatic metrics.¹⁷⁸ These investments will expand MHSA's Home and Healthy for Good low-threshold housing initiative, an outcome-based strategy that seeks to reduce homelessness and the associated strain on state resources. "The goal of the program is to stabilize the lives of up to 800 longtime homeless individuals—nearly half the state's chronically homeless population—by providing them with permanent housing while at the same time reducing the amount of taxpayer money that would otherwise have been spent on shelter, Medicaid, and other emergency services for these individuals."¹⁷⁹

The Massachusetts Juvenile Justice Pay for Success Initiative will support Roca, Inc.'s efforts to reform the juvenile justice system, reduce recidivism, and improving employment outcomes.¹⁸⁰ "At the project's target impact of a 40 percent reduction in days of incarceration, the project would generate \$21.8 million in budgetary savings to the Commonwealth that fully offset the cost of delivering services. At a 65 percent decrease in days of incarceration, the project would generate \$41.5 million in gross budgetary savings for the Commonwealth."¹⁸¹ Public sector partners include: ANF, which will manage disbursement of success payments from the Social Innovation Trust Fund; the Office of the Commissioner of Probation and the Department of Youth Services, which will make referrals; and the Office of Labor and Workforce

Development, which will measure employment outcomes.¹⁸² Private sector investors include: the Goldman Sachs Social Impact Fund, which will loan \$9 million; Living Cities, which will invest \$1.5 million; the Kresge Foundation, which will invest \$1.5 million; the Laura and John Arnold Foundation which has provided a \$3.7 million grant; the Boston Foundation, which will provide a \$300,000 grant; and New Profit, Inc., which will provide a \$2 million grant.¹⁸³ Other private sector partners include: Third Sector, which will act as an intermediary and provide program support; Sibalytics, LLC, which will track outcomes and report on progress; the Public Consulting Group, which will serve as the independent validator; and the Harvard Kennedy School Social Impact Bond Technical Assistance Lab, which assisted in developing the procurement and data analysis strategy for the project.¹⁸⁴ The state will provide success payments to investors if Roca's services produce positive societal outcomes and savings for the Commonwealth.¹⁸⁵ The Commonwealth has committed to contribute up to \$27 million in performance payments, and the endeavor has secured a first-of-its-kind grant from the U.S. Department of Labor for \$11.7 million.¹⁸⁶ Up to \$10.8 million of this grant will provide additional success payments, and the remainder will fund evaluation and other administrative costs.¹⁸⁷

The Massachusetts Adult Basic Education Initiative will invest approximately \$15 million in services designed to improve employment outcomes and increase attainment of postsecondary degrees or certificates.¹⁸⁸ Jewish Vocational Services (JVS) will act as the service provider.¹⁸⁹ Social Finance, a Boston-based intermediary, will subcontract with Jobs for the Future and will provide project management and fundraising support.¹⁹⁰ "If this PFS project succeeds in transitioning participants to employment, higher paying jobs, and higher education, the Commonwealth will achieve increased tax revenue and savings from reduced reliance on safety net services and reduced incarceration costs."¹⁹¹

Other state and local governments have followed in Massachusetts' footsteps. For example, Michigan recently released an RFP for the design and development of a program to improve birth, health and other outcomes of mothers and infants in

Michigan's Medicaid population.¹⁹² And, the City of Chicago has announced a \$16.9 million Pay for Success initiative to provide early childhood educational services.¹⁹³

Recommendation: Review and Strengthen Current State Structure Supporting SIF and PFS Programs

Massachusetts has become the nationally recognized center for social impact funding and Pay for Success. Massachusetts is home to a variety of NGOs that are leading the country in implementing SIF and PFS programs. Massachusetts has also become the center for organizations that are developing support services, acting as fiscal intermediaries, and participating in advocacy for SIF and PFS programs. These include New Profit, Third Sector, the Harvard Social Impact Bond Technical Assistance Lab, and Social Finance U.S., among others.

In 2012, the Massachusetts Legislature established the Social Innovation Financing Trust Fund and tasked the Fund with "funding contracts to improve outcomes and lower costs for contracted government services[.]"¹⁹⁴ The Secretary of ANF administers the Fund and may enter into Pay for Success contracts aimed at "the achievement of specific outcomes based on defined performance targets[.]"¹⁹⁵ The Legislature further pledged the full faith and credit of the Commonwealth in support of payments under any such contracts, not to exceed \$50 million.¹⁹⁶ ANF has housed the Fund within CPAT, and has resourced the program with annually rotating fellows from the Harvard Kennedy School.

As both private and public sector funding for SIF and PFS programs grows, Massachusetts should review the structure, location, and mandate of the state entity that manages Massachusetts participation in these programs, along with the state entity that serves as the fiscal agent for these complex financial transactions. While CPAT and ANF have performed admirably to date, as the number, amount, and complexity of SIF and PFS programs increases, so will the likelihood that SIF and PFS programs will become a significant distraction from the core mission of ANF to manage and control the state's finances. In addition, the major challenge facing SIF and PFS financings is

the need to simplify and reduce the transaction costs incurred with each SIF or PFS financing. The Legislature and the Executive Branch should review the state's structure to manage these financings and to inform strategy for future participation in SIF and PFS. Specifically, the state will need to engage a state agency or quasi-public that has the expertise and capacity to undertake complicated, private-public sector underwritings. Finally, the Legislature and the Executive Branch should establish clear structures and processes to interagency cooperation and coordination on SIF and PFS projects. Such structures and processes will facilitate communication between agencies and departments engaged on both the programmatic and fiscal ends of these complex transactions.

D. REAUTHORIZATIONS

At the federal level, public policy is frequently authored with sunset provisions, through which major federal programs are scheduled to expire in a given number of years. Almost all federal agencies operate under policy that requires Congress to reauthorize key powers and programs either annually or every four or five years. There are several prominent examples of reauthorizations at the federal level, such as the National Defense Authorization Act (NDAA), which has reauthorized national defense policy annually for over 50 years,¹⁹⁷ and the so-called "Farm Bill," which sets federal agricultural policy every five to six years.¹⁹⁸ But there are a number of smaller reauthorizations that occupy a significant amount of Congress' time as well, including one recent controversial example, legislation to reauthorize the Export-Import Bank of the United States, which stalled in mid-2014.¹⁹⁹ Reauthorizations provide Congress with an opportunity to direct Administrative actions, and restructure and refocus the federal government and its policies on a particular issue.

Despite the general gridlock that has characterized Washington since 2010, Congress has completed several major reauthorizations in the past several years, including the WIOA, which reauthorized federal workforce development policy,²⁰⁰ and more recently, the Child Care Development Block Grant (CCDBG) Act of 2014, which made significant changes to federal early education policy.²⁰¹

However, the recently concluded 113th Congress also left a number of long-delayed reauthorizations incomplete, including the Elementary and Secondary Education Act (ESEA), the Higher Education Act (HEA), a long-term surface transportation reauthorization, and several other reauthorizations that could have impacts on the Commonwealth.

Child Care Development Block Grant

The CCDBG Act reauthorized the Child Care and Development Fund (CCDF), the primary federal funding source devoted to providing low-income working families with help paying for and improving the quality of child care in the United States.²⁰²

The Commonwealth of Massachusetts receives well over \$100 million annually through CCDF, with further supplementary funding (over \$90 million in 2014) transferred from TANF every year.²⁰³

CCDBG is the major federal funder of child care in the Commonwealth, and funds not only subsidized child care services, but also the state apparatus that supports quality improvements at early childhood education and care programs across the state.²⁰⁴

CCDBG's reauthorization at the end of 2014 presents both opportunities and challenges for the Commonwealth. The reauthorization increases allocations to the CCDF every year until 2020, from a total of \$2.36 billion in FY15 to \$2.75 billion in FY20.²⁰⁵ The increases to CCDF in the coming federal fiscal years means the state should see larger CCDF allocations, but at the expense of increased reporting requirements. CCDBG imposes a number of new requirements on states seeking funding through the CCDF. Prominent among these are comprehensive new health and safety requirements for child care providers, new online transparency and consumer information requirements, changes in eligibility determinations, quality improvement provisions, and changes in CCDF plan formulations and waiver eligibility. The Commonwealth's successful implementation of these requirements is key to its continued receipt of this vital funding source, and also emblematic of the types of impacts that reauthorizations can have on state policymakers and programs.

Reauthorization of the Elementary and Secondary Education Act

ESEA is the major piece of federal legislation affecting public schools. Since its original enactment in 1965, it has outlined the major federal policies for public education, and provided the largest federal pots of education money to states and municipalities. The 2001 ESEA reauthorization, No Child Left Behind (NCLB), imposed a number of new requirements on states, the most obvious of which were annual student assessments, with every school required to demonstrate "adequate yearly progress" (AYP).²⁰⁶ AYP was so unsuccessful that approximately 80 percent of Massachusetts' public schools were failing to keep up with it as of 2013, and the Commonwealth and over 30 other states have sought waivers from AYP and other NCLB mandates.²⁰⁷

Reauthorization of ESEA has long been a priority of the Obama Administration, which has called on Congress to rewrite the law every year since 2010. The Administration's most recent proposal would seek the development of comprehensive reform and improvement plans to raise student achievement, and close achievement gaps. The proposal would expand investments in evidence-based approaches to improving student outcomes, including \$165 million for a new round of grants under the Investing in Innovation (i3) fund to provide incentives for the development and expansion of innovative strategies and practices that have been shown to be effective in improving educational outcomes for students. In addition, the reauthorization plan would restructure current ESEA program authorities to reduce the number of programs administered by the Department of Education, focus more closely on desired program outcomes, and expand state and local flexibility to achieve those outcomes. The proposal would consolidate roughly three dozen existing authorities into 11 new programs that use competition to identify high-quality proposals and projects, give communities greater flexibility to select the activities and reforms that meet their unique needs, and expand the role of evidence in federal funding decisions.²⁰⁸

On the Congressional side, the Chairmen of both the House Education and Workforce Committee (Rep. John Kline, R-MN 2) and the Senate Health, Education, Labor and Pensions (HELP) Committee (Sen. Lamar Alexander, R-TN) have signaled that overhauling NCLB is their top priority. Republicans are bound to have different policy priorities from the Obama Administration, but the appetite for tackling ESEA reauthorizations at both the executive and legislative levels suggests that the long-delayed reauthorization may be completed in the 114th Congress.

Republican priorities for ESEA reauthorizations include stronger school choice provisions, decreased accountability measures (including allowing states greater flexibility in setting standards for their own schools), and reduced testing overall, one of the most frequent criticisms of NCLB.²⁰⁹ Republicans would also more aggressively shrink the federal education footprint. Rep. Kline's 2013 ESEA proposal would have eliminated 70 federal programs, almost double the Obama Administration's proposed number, and would have forbidden the federal government from requiring states to adopt specific academic standards (such as Common Core, a top Obama Administration priority) to qualify for federal education reimbursements.²¹⁰

Proposal: Leverage the Massachusetts Federal Delegation to Inform ESEA and other Reauthorizations

With conflicting priorities between a Democratic Administration and a Republican Congress, public debate over reauthorization of the ESEA is likely to be contentious. Regardless of whether the final compromise legislation more closely resembles Democratic or Republican proposals, however, the reauthorization will undoubtedly have drastic public policy implications for the Commonwealth, particularly as Massachusetts debates replacing the Massachusetts Comprehensive Assessment System (MCAS) with the Partnership for Assessment of Readiness and College Careers consortium's standardized testing regime. The standardized test issue, as well as the potential for issues like school choice and charter schools to be addressed in an ESEA reauthorization, demands the close attention of state policymakers.

Massachusetts is well positioned to have an important seat at the table during the ESEA reauthorization debate. In the House, Rep. Katherine Clark is a new member of the Education and Workforce Committee, and in the Senate, Sen. Elizabeth Warren sits on the HELP Committee. While in the minority, both members should have an issue for input in the reauthorization, particularly Sen. Warren, where Republicans will need several Democratic votes to pass a reauthorization.

As is explored in more detail in Section 5 of this report—Recommendations for Structural Changes—the Commonwealth should work to ensure coordination between state and federal policymakers, so that the Commonwealth's unique characteristics and needs are understood in the drafting and debate of an ESEA reauthorization.

Conclusion

CCDBG and ESEA are two examples of important federal policy reauthorizations that have impacts on the Commonwealth. They represent only two of dozens of reauthorizations that could have policy implications for Massachusetts, including several that have a good chance of passing the new Congress. Therefore, it behooves the Commonwealth to be increasingly aware of and active in influencing these and other reauthorizations in the coming years. A strong effort, in conjunction with the Commonwealth's federal delegation, will at best allow the state to construct favorable federal policies and shield Massachusetts from harmful federal legislative provisions, and at worst provide the state with sufficient awareness and notice of potentially complicated new federal requirements to prepare to deal with them in the least harmful manner possible.

E. COMMUNITY DEVELOPMENT

1. HUD STRONG CITIES, STRONG COMMUNITIES NATIONAL RESOURCE NETWORK

Since July 2011, the Strong Cities, Strong Communities (SC2) initiative has sought to “strengthen neighborhoods, towns, cities, and regions around the country by enhancing the capacity of local governments to develop and

execute their economic vision and strategies.”²¹¹ Nominally operated by the Department of Housing and Urban Development (HUD), SC2 provides expert interagency teams from the federal government to a number of partner cities across the nation. These teams support host communities, and provide a range of technical assistance and guidance to help impoverished communities improve their fortunes. So far, two SC2 cohorts have been selected, with a total of 13 communities receiving SC2 assistance nationwide, although none thus far in Massachusetts.²¹² Since establishing the program, the federal government has sought ways to expand the reach of SC2 beyond its minimal footprint, despite the scarcity of federal revenue.

National Resource Network

In fall 2014, HUD established a new program to expand the reach of SC2, the National Resource Network (NRN). NRN is capitalized with \$10 million in federal and foundation support, and will host a cadre of subject matter experts from the public and private sectors. These experts will be made available to local leaders to help them with economic development issues, although in a less comprehensive capacity than the existing SC2 program. NRN will make a range of services available to communities through a Request for Assistance process, through which cities can solicit the Network’s services.

NRN will be managed by a consortium of experts selected by HUD through a national competition, and includes strategic partnerships with organizations that have expertise in key policy areas including economic development, community development, fiscal and operational policy, workforce development, education and training, criminal justice, and more.²¹³ NRN’s private sector partners include: Enterprise Community Partners; Public Financial Management (PFM); HR&A Advisors; New York University’s Robert F. Wagner Graduate School of Public Service; and the International City/County Management Association (ICMA).²¹⁴ The NRN also includes over a dozen strategic partners and other subject matter experts available to provide direct assistance to cities,²¹⁵ and will provide technical support on projects of up to one year in length,

and up to \$500,000 in total cost (the federal government will cover 75 percent of this cost).²¹⁶

Cities of more than 40,000 residents are eligible to apply for the program, provided they meet at least one of the following criteria:

- “A 2013 annual average unemployment rate of 9 percent or more, as measured by the Bureau of Labor Statistics;
- A population decline of 5 percent or more between 2000 and 2010, as measured by the U.S. Decennial Census; or
- A poverty rate of 20 percent or more (excluding students enrolled in undergraduate, graduate or professional school), as measured by the 2010-2012 American Community Survey.”²¹⁷

The consortium will open to additional cities (beyond a current pilot of eight cities) in 2016.

Proposal: Identify and Work with Eligible Massachusetts Cities to Engage NRN

In Massachusetts, Fall River has served as a pilot location for the NRN, and it will open to a number of other cities in the Commonwealth next year. Before the program’s official expansion, however, the Commonwealth should work to evaluate the needs of other communities that may be eligible to work with the NRN.

There are 36 cities within the state with populations above 40,000 residents, based on 2010 Census numbers,²¹⁸ including 24 of the Commonwealth’s 26 Gateway Cities.²¹⁹ Additionally, the NRN has signaled an interest in using a regional approach by working with cities within a geographic region that share similar challenges, and are interested in working together to develop a common agenda to address these challenges. For regional applications, only one city in the joint request is required to meet the application criteria.²²⁰

The NRN will evaluate requests for assistance based on a number of criteria, including demonstration of buy-in from city leadership, ability to leverage additional funding and resources, and partnership with other key stakeholders in the community.²²¹ State officials should work with municipal officials across Massachusetts, particularly in the

Commonwealth's Gateway Cities, to identify cities and regions with particular needs that the NRN may be uniquely qualified to solve. When appropriate, the Commonwealth should explore providing all or part of the 25 percent match that NRN projects will require, or providing other assistance that cities or regions may need in completing their applications. Although the total dollar value of the NRN projects will be relatively small, the targeted technical assistance provided by NRN could be extremely valuable to cities across the Commonwealth. The state should also work with Fall River officials to share their experiences as an NRN pilot city. Disseminating this knowledge may help other cities in the Commonwealth when requesting assistance from the NRN.

Conclusion

The Strong Cities, Strong Communities National Resource Network will provide a unique opportunity for cities in the Commonwealth to receive valuable technical assistance from experts in a number of subject areas. NRN will provide an excellent complement to existing efforts to strengthen cities in the Commonwealth, most notably the Gateway Cities program. As the federal government prepares for the program's launch, the Commonwealth should work to identify eligibility and foster applications from cities in need of assistance by providing support, up to and including making matching funding available to cities and regions applying for assistance. The Commonwealth should also work with the City of Fall River to share best practices in program application with other Massachusetts communities.

IV. CURRENT TRENDS IN FEDERAL FUNDING

The landscape for federal grant and reimbursement funding has changed dramatically in recent years, particularly since the passage of ARRA in 2009. The federal government is increasingly rewarding applicants and programs with proven return on investment (ROI), and is increasingly favoring innovative collaborations and consortia. The following section outlines some of the key trends in federal funding. It covers areas where Massachusetts is leading the nation, and makes recommendations for areas where state policymakers could benefit by learning from the best practices of other states and localities.

A. PERFORMANCE-BASED FUNDING

The single most pervasive and powerful trend in federal funding is the use of performance-based funding (also known as evidence-based funding; the two terms are used interchangeably in this report). Performance-based funding gives preference in federal grants and reimbursements to states, cities, towns, and other entities that can produce rigorous metrics proving both success and ROI. A Pew-MacArthur Results First Initiative report estimated that in 2009, the federal government granted \$5.5 billion in funding through programs with performance-based metrics. Among these programs were the Workforce Innovation Fund, the i3, and the Maternal and Infant Early Childhood Home Visiting (MIECHV) program—which requires 75 percent of its granted monies to go to performance-based programs and to “evaluate the impact on key outcomes.”²²² Another key facet of evidence-based funding opportunities (such as i3 and WIF) is that they utilize a “tiered evidence” framework to allocate funds: proposals supported by limited evidence receive the smallest grants, and proposals with the most rigorous evidence can receive large

grants that enable expansion across the country. Accordingly, it is important that applicants have a deep understanding of what evidence exists and how it can be incorporated into the design of their project.

This trend has accelerated dramatically since 2009, and is now widespread within ED, HHS, and DOL—three agencies key to the Commonwealth’s federal funding. It enjoys broad bipartisan support, and there is widespread agreement among observers that the trend will continue to grow rapidly across an increasing range of federal agencies.

1. HOW PERFORMANCE-BASED FUNDING WORKS

Performance-based funding requires performance-based policymaking. While performance-based policymaking requires a significant investment of time and resources to measure and prove success, it is critical to the Commonwealth’s ability to successfully apply for federal funding.

In order to effectively govern on an evidence-based platform, the Commonwealth must perform a number of important functions that prove the state’s programs attain strong performance and ROI. These functions include: (1) program assessment; (2) budget development; (3) implementation oversight; (4) outcome monitoring; and (5) targeted evaluation.²²³ This “cradle to grave” approach allows the state to use the best available data on programs to guide policymaking decisions that, in turn, positively impact applications for federal funding. A long-term commitment to this level of performance-based policymaking can result in a virtuous circle of improving outcomes, in which past assessments inform future policymaking rounds. This often results in increased funding from the federal government. Figure 2 maps out this process.

2. HOW MASSACHUSETTS RANKS

Massachusetts is already working to increase the state’s use of evidence-based policymaking, and does successfully compete for performance-based funding. This section is not included to imply that

Figure 2. Steps in Evidence-Based Policymaking



Source: The Pew-MacArthur Results First Initiative²²⁴

the state's efforts to enhance its evidence-based policymaking, or performance in evidence-based funding, are subpar. However, it is important to note that despite the state's early efforts to increase its evidence-based policymaking, when compared nationally, the Commonwealth still tends to rank with "mixed results."²²⁵ According to the Pew-MacArthur Results First Initiative, an organization with whom Massachusetts is currently engaged to expand its evidence-based policymaking, the Commonwealth lags behind states like New York and Washington in both producing cost-benefit analyses, and using them to assess program and policy options.²²⁶

3. WHAT OTHER STATES ARE DOING

As the federal government has increased its commitment to funding evidence-based programs, many states have begun to implement systems to improve program tracking and analysis, and to make program tweaks to ensure the delivery of desired outcomes. Most states do not have a comprehensive analysis, or assessment of impact and results, for all of their federally funded programs. But this, too, is starting to change. The Mississippi legislature, for example, passed a bill last year requiring the Legislative Budget Office and Joint Committee on Performance Evaluation and Expenditure Review to categorize programs in the state's Departments of Corrections, Health, Education, and Transportation as "evidence-based, research-based, [and] promising practices."²²⁷ This change will allow policymakers in Mississippi to better assess how the state's programs work, which ones have the strongest results, which ones need improvement, and how well the state is poised to maintain and increase federal funding from evidence-based programs.

Connecticut is another state that has aggressively moved towards performance-based policymaking. In 2005, Connecticut piloted the Result-Based Accountability (RBA) system, after finding that a \$20 million annual investment in early reading programs was having no positive impact on reading skills.²²⁸ Since then, the state has implemented evidence-based changes to the early reading program, and has broadened the RBA system to other agencies of state government. And in New Mexico, the Legislative Finance Committee routinely

holds hearings to evaluate program effectiveness. These hearings consist of "program evaluations, agency performance report cards, and cost-benefit analyses...to support its budget and legislative recommendations."²²⁹

4. CONCLUSION

Currently, performance-based funding mainly affects grants. This mechanism has proven successful, and is highly likely to grow and expand across federal government programs. As stated earlier in this section, the Commonwealth's policymakers are aware of this trend, and are actively engaged in enhancing the state's evidence-based policymaking. However, this trend will be a determining factor in a rapidly increasing percentage of the programs through which the Commonwealth receives federal funding. Given that thus far the state's efforts to increase evidence-based policymaking, while fruitful, have lagged behind some of the highest performing states, it is important for Massachusetts to place a priority on increasing its capacity for performance-based policymaking.

B. PAY FOR SUCCESS

Pay for Success (P4S) is an innovative variant of performance-based policymaking. It is designed to ensure that government only pays for measureable results by bringing together the philanthropic and private sectors to provide the initial cost for social service providers. Once the providers demonstrate measurable results, the government reimburses the investors and provides a pre-negotiated return. The government only pays if the objectives are achieved. Funded by Social Impact Bonds, P4S contracts build upon nonprofit expertise, private sector funding, and rigorous evaluation. The aim is to improve outcomes and reduce costs by creating incentives for service providers to demonstrate success, and financial penalties for programs that cannot deliver results. Private investors assume financial risk, and government is able to produce a higher return on taxpayer investments.

In the FY12 budget, the federal government allocated \$100 million to fund P4S initiatives across seven program areas including workforce development, education, juvenile justice, and care of children with disabilities.²³⁰

1. CURRENT INITIATIVES IN THE COMMONWEALTH OF MASSACHUSETTS

Massachusetts is leading the way with P4S pilot initiatives in the juvenile justice system, adult basic education classes, and support for affordable housing as a means to end chronic homelessness. In 2012, the state legislature launched the Social Innovation Financing Trust Fund (the first of its kind in the country), allowing Massachusetts to invest in up to \$50 million in P4S contracts.

In January 2014, Governor Patrick announced the launch of a \$27 million Juvenile Justice Initiative. The seven-year initiative represents the largest financial investment in a P4S contract in the country, and will provide job training, support groups, educational counseling, and other services to 929 at-risk young men aged 17 to 23 who are either currently in the probation system or exiting the juvenile justice system. The project aims to improve the lives of young people, reduce crime, promote safe and strong communities, and save taxpayer dollars. Funding for the initiative comes from the Commonwealth (up to \$27 million over seven years), the DOL (an \$11.7 million first-of-its-kind P4S grant, which will extend the project another two years, if proven successful), and \$18 million in private financing (\$9 million in loan financing from the Goldman Sachs Social Impact Fund; \$1.5 million in loan financing from the Kresge Foundation; \$1.5 million in loan financing from Living Cities, and \$6 million in grants from the Laura and John Arnold Foundation, New Profit, and the Boston Foundation).²³¹

In February 2014, the Commonwealth announced plans for the second P4S initiative, a \$15 million Adult Basic Education (ABE) Initiative, designed to serve individuals on the waitlist for ABE and English for Speakers of Other Languages (ESOL) programs. The initiative aims to improve participants' employment outcomes and increase postsecondary degree or certification attainment over a six-year period.²³²

In December 2014, the Patrick Administration announced the launch of a third P4S initiative aimed at reducing chronic homelessness, by providing an additional 500 units of supportive housing for up to 800 individuals over 6 years. If

successful, the initiative will improve the quality of life for participants, while reducing the utilization of government-funded emergency services, including shelter and Medicaid. The \$6 million project leverages \$1 million in philanthropic funding and \$2.5 million in private capital investments from Santander Bank N.A., the Corporation for Supportive Housing (CSH), and the United Way of Massachusetts Bay and Merrimack Valley. If successful, the Commonwealth will make up to \$6 million in payments to repay investors, and give them an appropriate return for the risk that they have assumed.²³³

2. CONCLUSION

Massachusetts has been recognized as the national leader in P4S. The state's reputation and expertise in P4S is a valuable platform for the state to continue to lead the nation in securing P4S funding. The Legislature and governor will need to work closely together to ensure that as P4S programs proliferate, the state has the infrastructure to manage the increasingly complicated financial transactions.

C. COLLABORATIVE GRANTS

As a reaction to constrained resources and a desire for increased accountability in grant funding over the last few years, the federal government has sought to reduce the total number of grant recipients, and increase the average size of grant awards. As a result, for applicants to be successful, they must increasingly pursue collaborative grants, either with multiple states, or multiple entities inside a single state. In many instances, there is the potential for numerous governmental entities from Massachusetts to jointly pursue the same grant, and, in other instances, it has required the Commonwealth to look to neighboring states for collaborations.

At the regional level, the recent health care legislation created a mandate for greater interstate collaboration, including the need for a comprehensive health information exchange (HIE). By working together, states were able to identify barriers to interstate HIE, and develop regional solutions. In 2010, the State Health Policy Consortium was established to equip states with

the necessary resources to effectively implement HIE across states. A 2014 study conducted by the Research Triangle Institute showed that the interstate policy consortium was an effective model for fostering advancements in HIE across state lines.²³⁴ Massachusetts' leadership in the interstate HIE network led to increased funding for the state.

Early childhood education, specifically grants from ED, serves as another example of successful interstate collaboration. In this case, states have worked together on the development of Kindergarten Entry Assessments (KEA). Massachusetts is part of a seven state consortium awarded a \$4.7 million grant in 2013, allowing the Commonwealth to implement a new KEA system, and, together with the other states, improve the existing multi-state assessment system.²³⁵

At the intra-state level, the Working Cities Challenge, an initiative to revitalize small and medium sized post-industrial cities in Western Massachusetts, was also launched in 2013. Originating from the Boston Federal Reserve, the idea is to bring together leadership from the public and private sectors to design local solutions to the challenges these cities face. A partnership between government and philanthropy, the initiative looks for leadership and collaboration from the cities, without prescribing external programs. In this way, the collaboration showcases a funding model that is increasingly focused on sustainable and measurable solutions, as well as performance-based policymaking.²³⁶

1. BEST PRACTICES FROM OTHER STATES

California recently launched the LA n Sync initiative in order to coordinate funding opportunities within the greater Los Angeles region. Recognizing that funding opportunities were being lost because the academic, civic, nonprofit, business, and government agencies were not working together to identify, pursue, and win major grants, the program was launched in 2013 to ensure that the LA region is able to take advantage of all available funding opportunities. Objectives of LA n Sync include:²³⁷

1. Identify significant government and charitable funding opportunities;
2. Connect key members of the civic community to form and foster new partnerships;

3. Provide technical support for submitting grant applications, including access to professional grant writers, letters of support, and strategies to raise matching funds; and
4. Proactively work with state and federal government officials and national philanthropic foundations on behalf of the Los Angeles region.

LA n Sync not only identifies major funding opportunities, it also fosters partnerships across sectors, provides technical assistance for preparing grant applications, and lobbies federal government officials for funding on behalf of Los Angeles County. The initiative has been praised for its ability to pursue funding opportunities in a more coordinated manner, and is anticipated to secure greater funding for Los Angeles County.²³⁸ It is a model we recommend the Commonwealth explore.

2. CONCLUSION

As Massachusetts looks for new ways to garner additional federal funding, it will need to continue to pursue partnerships with other states in order to meet federal funding requirements, as well as better coordinate intra-state efforts to identify, request, and receive funding. In the latter case, such coordination requires state leadership to identify the state's strongest applicants for endorsement, and, when necessary, encourage partnerships between multiple organizations in the state. This will require greater collaboration among leadership to maximize funding opportunities for the Commonwealth.

D. INCREASED STATE/LOCAL MATCH AND PARTICIPATION REQUIREMENTS

State and local governments receive a number of grants from the federal government to supplement their budgets and support federally mandated programs like Medicaid. A number of these grants include matching requirements that obligate states and localities to contribute a portion of their own revenue in order to receive federal funds. In 2013, the Congressional Budget Office wrote, "some such provisions may cause state and local governments to spend more on a program than they otherwise would and may constrain their ability to spend their own revenues according to their own policy priorities."²³⁹

The primary strain that matching requirements cause on state budgets is for federally mandated, open-ended programs, like Medicaid, which can distort state and local budgetary priorities by consuming a large portion of the overall budget. For example, in Massachusetts, Medicaid (MassHealth) will comprise as much as 27 percent of the total state budget in FY15, crowding out other priorities. Other federal programs that require a state match include TANF, NSLP/SBP, and a large percentage of competitive federal grants.²⁴⁰

Over the last few years, federal policy has increasingly recognized the need for states to have greater flexibility in administering federal programs. As a result of this, the federal government has increasingly set up procedures to grant waivers to states, allowing states to test innovative approaches and more cost effective methods. Oftentimes, waiver provisions are not well known, but can provide great value to states. While the requirements for state matches are not likely to disappear anytime soon, the increasing use of waivers allows states to tailor their programs to address local conditions, use best practices, and meet state requirements.

1. REQUIRED GRANT MATCHES

In federal programs where the state is not obligated to accept funding, like discretionary grant programs, states are sometimes confronted with difficult choices before they can accept federal funding. With federal grants increasingly requiring state matches to be obligated directly from existing state funds, program officers hoping to fund a new program in the Commonwealth via a federal grant must identify available state matching funds to avoid reductions or reversions in a grant award. While sometimes the hurdle with a matching requirement is the money itself, more often than not the hurdle is an unclear process within the executive branch on how to approach securing a match. As stated earlier in this report, matching requirements can severely limit the ability of a state agency or department to successfully administer a federal grant, and can be costly to the state.

2. CONCLUSION

Matching requirements attached to federal funding for entitlement programs, as well as for smaller

discretionary grants and programs, can pose a major problem for state budgets. Although required matches are generally small when compared to the amount of federal funding that they will unlock, they can nevertheless cause already tight state budgets to become even tighter. When considering the pursuit of any federal funding opportunity, state policymakers and program officers should be cognizant of the costs to the Commonwealth associated with pursuing that opportunity.

Recent federal decisions to allow states to utilize waivers to adapt federal program administration to state circumstances pose an opportunity to improve the administration of programs with required state matches, potentially making them a more attractive use of state money. The state ought to explore and evaluate all opportunities to pursue such waivers, and more closely align such programs with state priorities.

Finally, the Commonwealth should consider instituting a more formal structure for making decisions about grants that require matching funds. Improved communication within agencies will clear up some of the confusion about what matching funds are available, and for what purposes. Such a structure will ensure that state matches are provided on a timely basis, when the state determines that a program is cost effective and in the state's best interest. While it is important for Massachusetts to take advantage of as many opportunities as possible for federal funding, it is also important for the state to consider the potential impact such funds may have on distorting the existing priorities for the state.

E. PUBLIC-PRIVATE PARTNERSHIPS

Public-private partnerships (PPP) between government, philanthropy, and business have the potential to leverage matching funds and achieve greater social outcomes for the Commonwealth of Massachusetts. The past decade has seen a rise in the number of formal partnerships between sectors, proving that effective collaboration can garner much-needed support, financial and otherwise. By developing PPPs, governments facing ever-tighter budgets are able to build additional support to address public challenges, and leverage

Figure 3. Medicaid (MassHealth) as a Percentage of the State-Funded Budget

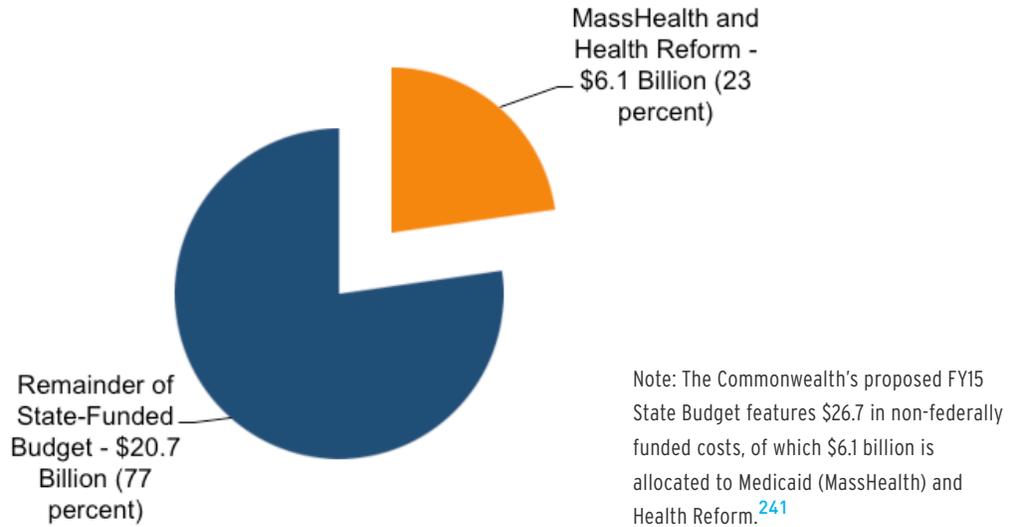


Table 1. Top Federal/State Matching Fund Programs

Government Program	Federal/State Relationship	Match Requirement
Medicaid	States have flexibility to determine eligibility requirements and thus have some control over the number of eligible participants and fiscal obligation to the state.	Federal matching levels vary from state to state and are determined in part by per capita income. In MA, the match is 50 percent (1:1). ²⁴²
Temporary Assistance for Needy Families (TANF) Program	States have flexibility in how to use TANF funds and determine eligibility requirements.	States must spend 75 percent of "historic state expenditures on qualified state expenditures" in order to receive the federal block grant and 100 percent if it wants to qualify for contingency funds. In MA, this equates to \$358.9-\$478.6 million per year. ²⁴³
School Lunch Program	Grants are based on the number of meals distributed within the state in the previous fiscal year, multiplied by the federally set reimbursement rate for each type of meal. States are required to contribute matching funds equal to 30 percent of the federal funds they received in 1980 in order to receive federal funding. Accordingly, the dollar value of the state's match has not changed since 1980.	MA spends approximately \$5.4 million a year for the school lunch program in order to receive the federal match of \$155 million in child nutrition funds, a match of 3.5 percent. ²⁴⁴

the competitive advantages of business and philanthropy, including fewer restrictions and more flexibility in funding a broad range of activities.

For many years, the government, philanthropy, and business have worked together in an ad hoc capacity, partnering on specific projects on an inconsistent basis. In the past decade, these relationships have become more strategic and formalized. Offices of strategic partnerships (OSPs) have developed at the local, state, and federal level. While each office is uniquely structured, they provide models for how to facilitate cross-sector partnerships.²⁴⁵

Establishing a formal structure for a partnership can often take years to build, with many challenges along the way. The University of Southern California Center on Philanthropy and Public Policy published a study in 2012 examining strategic partnerships across federal, state, and local government. The study found that in all six cases studied, a champion, someone who understands the value of public-private partnerships (such as the mayor, governor, or a state senator), initiated a formal relationship. Another common organizational feature at the State and local level is the presence of an advisory committee demonstrating wider community buy-in.²⁴⁶

1. PPP MODEL IN MASSACHUSETTS

In 2014, the Boston Foundation, one of the largest community foundations in the nation, received a \$2.7 million grant from the federal government's Social Innovation Fund to expand college completion efforts. The Social Innovation Fund was established in 2009, combining public and private resources to increase the impact of innovative, community-based solutions that have measurable evidence of improving the lives of people in low-income communities within the United States. The grant represents a partnership between the federal government and a community foundation, aimed at supporting up to 1,000 graduates of the Boston Public Schools. The new initiative will build on the "Success Boston" model, a collaboration between the City of Boston, the Boston Public Schools, the Boston Foundation, Boston Private Industry Council, UMass Boston, and dozens of other Massachusetts colleges and universities.²⁴⁷

2. BEST PRACTICES FROM OTHER STATES

California has been a leader in public-private partnerships, demonstrating the potential for success, as well as providing models for how to structure and formalize multi-sectorial relationships. In recent years, both government and philanthropy have taken the lead in implementing a formal relationship between the sectors.

In 2009, the City of Los Angeles, under the leadership of former Mayor Villaraigosa, created an OSP to promote collaboration and foster communication among the city's foundations, non-profits and the Mayor's office. The model was successful in creating partnerships to address shared goals of reducing poverty and eliminating homelessness.²⁴⁸

Similar OSPs are emerging at the city, state and federal level. Table 2 (on page 47) highlights four of these offices.²⁴⁹

From the philanthropic perspective, foundations appear increasingly interested in collaborating with government and business in order to increase their social impact. In 2011, the Conrad N. Hilton Foundation (a California-based private foundation, herein referred to as "the Foundation") took a leadership role in bringing funders and local government together to address the issue of chronic homelessness, by increasing the availability of affordable housing in Los Angeles County. The Foundation initiated a Funders' Collaboration, bringing together government, business, and non-profit service providers to create a more coordinated approach to funding permanent supportive housing for the chronically homeless population. The initiative aims to align funding priorities, make collaborative funding decisions, and create a single funding application process for providers.²⁵⁰

3. CONCLUSION

A strong relationship between the public and private sectors is a proven method to leverage federal and private funding, and to garner widespread support for policies that reduce poverty and address social challenges. Massachusetts is blessed with a very large philanthropic sector, and, as a result, already has some active and successful PPPs. In addition, many of the priorities

for Massachusetts-based foundations coincide closely with the Commonwealth’s programmatic priorities. The experience of other states with more formal mechanisms to encourage PPPs, such as the creation of Offices of Strategic Partnership (OSPs), could be useful models for Massachusetts. Regardless of its structure, public-private partnerships offer a relatively low-cost method to coordinate government, philanthropic, and business

initiatives, and to ensure that Massachusetts has access to the maximum possible revenue sources to enhance the Commonwealth’s priorities. As both the state and foundations look for ways to increase the impact and scalability of programs that work, public-private partnerships will become increasingly important for the continued success of the Commonwealth’s public policy efforts.

Table 2. Offices of Strategic Partnerships at the State and Local Level ²⁵¹

Name	Founded	Organizational Structure	Mission/Purpose	Key Strategies
Denver Office of Strategic Partnerships	2004	<ul style="list-style-type: none"> ➤ Housed within the Office of Economic Development. ➤ Funded by city general funds, a grant, private donations and two other foundations. 	“To leverage the best of Denver’s public and nonprofit sectors to engage in innovative and collaborative work.”	<ul style="list-style-type: none"> ➤ Build relationships, understanding and capacity for the city and nonprofits. ➤ Work with city agencies and nonprofits to support collaborations. ➤ Leverage and coordinate resources around nonprofit space sharing and nonprofit access to government funding.
The Philanthropic Liaison to the City of Newark	2007	<ul style="list-style-type: none"> ➤ Quasi-governmental position inside the office of the mayor. ➤ Funded by eight foundations. 	“To serve as a bridge between the administration of the Mayor and the philanthropic community, helping both entities to address the pressing issues of New Jersey’s largest city.”	<ul style="list-style-type: none"> ➤ Leverage connections between public and private entities to increase the impact of philanthropy in Newark. ➤ Identify and share information across sectors. ➤ Match philanthropic foundation interests and the priorities of the city.

Name	Founded	Organizational Structure	Mission/Purpose	Key Strategies
Los Angeles Office of Strategic Partnerships	2009	<ul style="list-style-type: none"> ➤ Located within the Office of the Mayor. ➤ Funded by foundations (50 percent) and the city (50 percent). 	<p>“To develop a shared agenda between the City, nonprofits, philanthropy and other sectors to maximize resources and impact.”</p>	<ul style="list-style-type: none"> ➤ Connect city agencies with nonprofit and philanthropic partners around shared priorities. ➤ Attract and leverage philanthropic resources for joint projects and initiatives. ➤ Streamline government processes for engagement with the nonprofit and philanthropic sector.
Office of Foundation Liaison for the State of Michigan	2003	<ul style="list-style-type: none"> ➤ Housed inside the Office of the Governor. ➤ Funded by 17 private foundations, in-kind support and \$24k/yr from the State. 	<p>“To identify and broker strategic partnerships between the state and foundations to encourage the success of programs or policy reforms that would improve the lives of Michigan residents.”</p>	<ul style="list-style-type: none"> ➤ Connect city agencies with nonprofit and philanthropic partners around shared priorities. ➤ Attract and leverage philanthropic resources for joint projects and initiatives. ➤ Streamline government processes for engagement with the nonprofit and philanthropic sector. ➤ Educate state officials about foundations. ➤ Forge relationships and support the development of partnerships between the state and foundations. ➤ Attract new federal grant dollars. ➤ Respond to opportunities for new local and regional public-private partnerships.

V. RECOMMENDATIONS FOR STRUCTURAL CHANGES TO IMPROVE THE COMMONWEALTH'S FEDERAL GRANTS PROCESSES AND PROCEDURES

As outlined in the preceding sections, the Commonwealth has not participated in some federal funding opportunities that would have provided significant benefit in terms of services and revenue to the state. This section outlines actions that, if implemented, will assist in increasing the flow of federal dollars to the state and in maximizing the use of awarded funds. Specifically, the state should seek to: (1) implement the EGMS system; (2) identify and implement further enterprise-wide system improvements; (3) streamline intra-agency processes; (4) increase staff resources, support, and training; (5) improve coordination across secretariats; (6) improve communication between the Executive Branch and the Legislature; (7) engage the UMass System, through the Donohue Institute at UMass Amherst and/or the McCormack Graduate School of Policy and Global Studies at UMass Boston, as a resource to analyze and evaluate the state's success in securing federal funds, and the effectiveness of the state's use of federal funds; (8) make preparations for the 2020 United States Census to increase counting efficiency; (9) consider establishment of a

Legislative Committee on Intergovernmental Affairs; and (10) enhance advocacy and outreach to the Massachusetts federal delegation.

IMPLEMENT EGMS

The FGMO developed EGMS to serve as an enterprise-wide system that will collect accurate, reliable data on all federal grants within and across agencies and secretariats.²⁵² This system will support data-driven decisions related to grants, federal spending, and state spending, as well as help avoid the reversion of expiring grants, allowing agencies to jointly address the impediments that cause reversions.²⁵³ EGMS will also provide real-time, actionable information to allow the state to address situations such as sequestration, federal shutdowns, and other such dramatic shifts in federal funding.²⁵⁴

EGMS consists of a number of system enhancements. It will provide workflow capabilities and dashboard tracking for key activities within the federal award lifecycle.²⁵⁵ To support the identification and application phases, the system will contain a central repository of current and past federal funding opportunities that is searchable and contains grants from all secretariats.²⁵⁶ Integrating data will enhance cooperation across secretariats and will enable project and fiscal staff to obtain more direct access to current, timely and consistent information.²⁵⁷ Storing information centrally will also lessen the administrative burden of performing audits and historical analysis.²⁵⁸ To support the management and closeout phases, EGMS will enhance the ability of state agencies and departments to act as grantors in selecting and managing sub-recipients and vendors from the announcement of funding to closeout.²⁵⁹ The system will include a statewide sub-recipient and vendor repository that contains common information related to each entity as well as their award funding history.²⁶⁰ This common capability for agencies to select and manage sub-recipients and vendors will help to identify eligibility and suitability in an efficient and consistent manner. Managing sub-recipients and vendors centrally will also serve to reduce administrative hurdles and eliminate bottlenecks in the process.²⁶¹

EGMS has tremendous capacity to streamline the federal award lifecycle, increasing the Commonwealth's ability to identify, compete for, and manage federal funds. This central workflow management and data repository will harness the power of transparency and visibility to motivate state agencies and departments to maximize efficiency, identifying and implementing best practices.²⁶² The system will only realize its full potential, however, if state agencies and departments utilize its capabilities. The state should support completion of this important project. Further, as has occurred throughout the implementation of all other enterprise-wide fiscal and accounting systems, the state should require state agencies and departments to use EGMS.

IDENTIFY AND IMPLEMENT FURTHER SYSTEM IMPROVEMENTS

While EGMS will have a significant impact on streamlining and standardizing system processes, the state should look to identify and implement further system improvements that will eliminate redundancies and reduce administrative burdens. For example, the state should modify the MMARS accounting system to allow agencies and departments to set up expenditures spanning multiple state fiscal years.²⁶³ The state should also enhance MMARS to allow state agencies and departments to identify grants that allow rollovers from fiscal year to fiscal year, and then automatically perform any such rollovers at the end of each fiscal year.²⁶⁴ An enterprise-wide asset management database, allowing state agencies and departments to track investments in and the condition of equipment and other assets should also be created. Such a system would enhance the ability of state agencies and departments to respond to audits and other inquiries, and increase the ease of doing so. Moreover, such a system would assist the state in maximizing investments in equipment and other capital assets, ensuring that the use of federal and state funding provides the best value to the Commonwealth.

STREAMLINE PROCESSES

The state should seek to make processes and procedures for the federal award life cycle

more effective and efficient.²⁶⁵ A number of Commonwealth policies and procedures around the grant management lifecycle and accounting transactions add additional complexity, effort and time to activities within the lifecycle.²⁶⁶ There is a tremendous discrepancy in the capacity and efficiency of various state agencies to secure and process federal funds. FGMO should identify those state agencies with best practices, and establish procedures to migrate these best practices across secretariats.²⁶⁷

Implementing EGMS and other system enhancements will assist in streamlining both intra-agency and interagency processes. For example, allowing reviewers of a grant application to review and approve the application's concept early in the grant development process will assist in eliminating the use of staff time and resources in pursuit of opportunities that will not provide the best value to the Commonwealth.²⁶⁸ Additionally, establishing a standard process and forms, as appropriate, will assist state agencies acting as grantors in working with sub-recipients to identify, apply, and execute federal awards.²⁶⁹

In order to maximize often-truncated award periods, the state should consider allowing a percentage of spending to take place on existing formula grants prior to receiving the official notification of award.²⁷⁰ Alleviating or eliminating this administrative hurdle will allow state agencies and departments to spend valuable time and staff resources on achieving programmatic goals, providing services, and maximizing value to the Commonwealth.

Finally, the state should consider establishing a Commonwealth funding pool from which to draw match funds.²⁷¹ This funding pool could be funded via new appropriations, or redirected from current operating funds. This resource would assist state agencies and departments in segregating matching funds, providing increased awareness of the availability of matching funds, and segregating money set aside for matching federal funds from other programmatic purposes, thereby enhancing the state's ability to meet matching requirements and to prevent costly reversions.

INCREASE STAFF RESOURCES, SUPPORT, AND TRAINING

Additional, dedicated staff would improve the state's prospects for successfully applying for new federal funding opportunities and managing current awards.²⁷² Ideally, each secretariat would create a Grants and Development team tasked with managing the federal funding lifecycle, including identifying and applying for competitive grants that will benefit the Commonwealth. With ever-increasing constraints on state resources, however, the state should consider the return on investment for such an increase in personnel costs, and perhaps look first toward providing additional resources, support, and training to existing personnel.

The state should elevate and resource the FGMO to act as a technical assistance center to support state agency and department personnel in successfully managing the federal funding lifecycle.²⁷³

The FGMO should provide state agencies and departments with instructive materials, including a fact sheet or guidelines for working with different federal agencies (e.g., systems used, policies and procedures) and FAQs on common procedures (e.g., grant setup in MMARS, checklist for closing out a grant).²⁷⁴ The state should install and support a dedicated pool of grant writers within the FGMO to directly assist staff at the secretariat and agency level in crafting compelling grant applications. The FGMO should also define a process to submit and integrate key grant attributes and data points into EGMS to provide visibility to the core grant information across secretariats.²⁷⁵ The FGMO should also develop a list of standard federal funding definitions for use across the Commonwealth's agencies and departments. At a very basic level, this shared terminology will assist in intra-agency and interagency coordination and collaboration.²⁷⁶ In order to further maximize coordination and collaboration, the FGMO should institute regular educational programs and/or seminars for personnel across secretariats. These systems and seminars will serve to educate existing personnel, establish and deepen intra-agency and interagency relationships, and provide valuable feedback in identifying and implementing standardized best practices.

IMPROVE COORDINATION ACROSS SECRETARIATS

The state should seek to identify and implement additional best practices to improve collaboration and grant spending outcomes across secretariats.²⁷⁷ Streamlining processes and procedures, standardizing terminology, and establishing regular educational systems and seminars will greatly enhance coordination between state agencies and departments. For example, the state should establish regularly scheduled communications across secretariats, reporting on federal funding status and progress and discussing business practices at each agency and department that increase efficiency. In order to maximize staff time and resources, the state should consider scheduling these regular communications to coincide with the educational seminars discussed above. The FGMO should guide these communications, hearing agency concerns and mediating across secretariats, where appropriate.

IMPROVE COMMUNICATION AND COORDINATION BETWEEN THE EXECUTIVE BRANCH AND THE LEGISLATURE

The state should also seek to improve communication and coordination between the Executive Branch and the Legislature. While ANF currently submits quarterly reports to House and Senate Ways and Means, breaking down the amount and use of federal funding received,²⁷⁸ the Legislature has little visibility to the federal funding process and future landscape. In addition to the quarterly ANF data reports, the FGMO should submit regular reports to the Legislature. Such reports should detail the Commonwealth's efforts to increase federal funding, summarizing successes and identifying opportunities for improvement. These reports will ensure that the Legislature remains aware of the status of federal funding and is able to readily assist via legislative action, when necessary.

In addition to these reports, the state should establish regular communication between the Legislature, the FGMO, and relevant personnel across secretariats. In order to provide the most value, the state should organize such

communications topically (e.g., health care, education), and should ensure the involvement of relevant legislative policy and fiscal staff. As discussed above, such communications will assist in enhancing communication and coordination. The Executive must identify and communicate instances where statutory changes or other legislative actions are required in a short time frame. The Legislature, for its part, must be organized to analyze and act upon these requests in an expedited fashion.

To further enhance communication and coordination between the Executive Branch and the Legislature, the FGMO should provide the Legislature with access to and training on EGMS. As partners in supplying services and maximizing investments, the Legislature should have equal visibility to the federal funding process. Providing such access will further streamline processes and enhance the communication requisite to facilitate legislative engagement and the resulting solutions, when required.

MANAGE STATE EFFORTS TO ENSURE AN ACCURATE 2020 UNITED STATES CENSUS COUNT

Each year, the federal government uses data from the decennial United States Census to determine the distribution of more than \$400 billion in federal financial aid to state and local governments.²⁷⁹ While the vast majority of this assistance is allocated to states based on a few large formula grant programs, census data is also used to define the eligibility criteria of potential beneficiaries, to determine interest rates on federal loan programs, and to evaluate selection preferences for project applications.²⁸⁰ Therefore, as the largest recipients of census-related funding, it is in states' best interests to ensure the accuracy of their census data.

The United States Census Bureau is responsible for producing a wealth of data for use by other federal agencies. In addition to the decennial census, the Census Bureau also produces other products that are used to determine federal funding allocations. Among these important surveys are the Bureau's American Community Survey (ACS), which provides annual socioeconomic data, and the Current

Population Survey (CPS), which provides monthly data on unemployment and poverty to the Bureau of Labor Statistics.²⁸¹ Both the ACS and the CPS help fill the gap between decennial censuses, and inform many of the datasets produced by other federal statistical agencies. These datasets include the per-capita income data produced by the Bureau of Economic Analysis, and the Fair Market Rent (FMR) calculated by the Department of Housing and Urban Development among others.²⁸² Federal assistance programs that use information from these census-derived surveys and datasets are considered to be census-based.

With so much funding relying on population counts and other data derived from the decennial census, the accuracy of the 2020 Census will determine how a significant percentage of federal assistance, especially formula grants, will be distributed over the next decade. Leading up to the 2010 Census, this assertion was tested and proven in several studies and reports. A report by the Brookings Institution found that, in FY08, “215 federal domestic assistance programs used census-related data to guide the distribution of \$446.7 billion, 31 percent of all federal assistance.”²⁸³ In addition, the study found that census-guided grants accounted for 74.7 percent of all program grant funding.²⁸⁴ A similar study by the U.S. Government Accountability Office found that, of the 10 largest federal assistance programs in the fiscal years 2008 and 2009, all relied at least in part on census-related data. In FY08, the study found that this funding accounted for \$334.9 billion, or 73 percent of all federal assistance, and, in FY09, it climbed to \$478.3 billion, representing 84 percent of all federal assistance.²⁸⁵

Noting this relationship and hoping to illustrate the long-term effect of census discrepancies on federal assistance programs, PriceWaterhouseCoopers examined the effect that the 2000 Census undercount had on federal funding from 2002-2012. Analyzing eight federal programs, they found the undercount to be responsible for a loss of \$4.1 billion in federal funding—with Medicaid alone accounting for 92 percent of all reallocated funds.²⁸⁶ For each additional person counted in the 2000 Census, Brookings Institute estimated that most states would receive an additional Medicaid reimbursement

of between several hundred and several thousand dollars.²⁸⁷

Still, when looking at this data it is important to remember that factors other than population can effect census-related grant funding. Hold harmless provisions and caps, small state minimums, and funding floors and ceilings are all factors that can render grant funding unaffected by population change. For instance, in the case of Massachusetts, higher population counts due to better census participation would be unlikely to positively affect Medicaid reimbursements due to the Commonwealth’s relatively low Federal Medical Assistance Percentage.²⁸⁸ This does not mean, however, that Massachusetts would not benefit from better participation in the decennial census. In fact, though Massachusetts is relatively well counted, the PriceWaterhouseCoopers study estimated that Suffolk County would lose \$58 million in federal funds between 2002-2012 as a result of its high undercount in the 2000 Census.²⁸⁹ For policymakers, this realization begs the question of who is typically undercounted and how can undercounting be minimized so that federal funding might be maximized.

Since a substantial percentage of federal funding is allocated based on census data, and that states are by far the largest recipients of these funds, state governments are the major beneficiaries of full census participation. Unfortunately, the populations that are often most important in determining federal assistance such as students, prisoners, people of color, and low-income Americans are repeatedly undercounted in the decennial census. This can be attributed in part to the fact that collection methods are less effective in low income areas, lower education, low English language proficiency, and illiteracy can make the census difficult to fill out, few are aware of the importance of the census, and some fear that the census may be used by officials to deport, incarcerate, or deprive them of social welfare.²⁹⁰ Despite a widespread national push to address these issues, the usual hard-to-count populations were once again missed in the 2010 census. According to the Census Bureau’s Accuracy and Coverage Evaluation, renters were undercounted by 1.1 percent, the black population was undercounted by 2.1 percent, and the Hispanic

population was undercounted by 1.5 percent.²⁹¹ As in previous censuses, students, prisoners, and the homeless also proved difficult to accurately count.

Though the Census Bureau's post-enumeration survey did not measure a statistically significant undercount in any state, the abovementioned studies and reports are just a few that prove even these statistically insignificant undercounts can have very significant effects on federal funding. For this reason, states hoping to increase federal assistance, especially in the form of formula block grants, should identify their hard-to-count residents and ensure that they are motivated to participate in the census. In Massachusetts, a state with over 150 public and private colleges and universities, special attention should be paid to ensuring that students—who are usually also renters—are accurately counted. There remains some confusion regarding the enumeration of student populations because, before 1950, college students were counted in the states where their parents lived. In 1950, though, persistent undercounting of students prompted the Census Bureau to change the residency rule so that college students were counted at the on-campus or off-campus residence where they live and sleep most of the time.²⁹² Therefore, making sure that students are properly enumerated in the state where they attend college, rather than the state where their parents live, could significantly boost population counts in college towns. This might prove especially true in counties like Suffolk County where an extremely high concentration of colleges and universities is combined with a damagingly low level of census participation.

A study by the poverty statistics branch of the United States Census Bureau suggests that, in addition to boosting population counts, student census participation can also significantly impact state and county poverty rates.²⁹³ The 2013 study examined the effect that college students residing off campus without a parent or relative had poverty rates by comparing state and local poverty figures to figures as they would have been if the students were excluded. The study found that, while student exclusion would result in modest poverty rate reductions at the state level, the exclusion of students could have a statistically significant effect at the local level. For instance, in Massachusetts

the study found that the exclusion of off campus students would result in a 3.3 percent poverty rate reduction in Hampshire County, a 2.9 percent reduction in Suffolk County, and a 2.9 percent reduction in Middlesex County.²⁹⁴ Narrowing the geographic focus still further, the study found that Boston poverty rates would decrease by 3.4 percent, Cambridge rates by 3.2 percent, and Brookline rates by 5.1 percent. This data implies that increases in student population can profoundly impact funding contingent on local socioeconomic indicators. For this reason, policymakers should follow best practices to ensure that all students are counted in the decennial census. Students present a variety of challenges when it comes to collecting Census information. Often, students operate under the misconception that they should be counted where they plan to live at the end of the semester, rather than where they are on April 1st. Additionally, many international students believe that they are exempt from filling out the Census if they are not U.S. citizens. Even the Census Bureau's follow-up interviews to low-response areas are often ineffective with student populations, because they occur during the time period when college students are typically moving housing.²⁹⁵

Fortunately, the year leading up to the 2010 Census saw a concerted effort by universities nationwide to increase student Census participation. At Northwestern University, a campaign that included e-mail and social media blasts, competitions with cash prize incentives, and the hiring of 30 students as on-campus census enumerators raised on-campus student census participation to 98 percent and resulted in the estimated gain of \$48 million dollars in federal and state funding to the City of Evanston.²⁹⁶ Other universities such as Penn State placed census drop boxes on campus to simplify the mail-in process, while universities like the University of California at Berkeley entered students who completed census forms in raffles to win prizes such as textbooks.²⁹⁷ Throughout the country, hundreds of thousands of governments, businesses, and organizations partnered with the Census Bureau to raise awareness and reach hard to count populations.

One of the most effective campaigns that arose from these partnerships was the Census on Campus

campaign, aimed at increasing Census participation among the million college and university students in the Boston area.²⁹⁸ The campaign brought liaisons together from participating institutions to conduct campus outreach initiatives and facilitate communication between colleges and Census staff. Among other things, these liaisons distributed promotional materials, facilitated the formation of Complete Count Committees on campuses, and promoted participation in campaigns such as March to the Mailbox in which students and community members marched through low response areas raising awareness. The Census on Campus program became the model for similar campaigns throughout the nation, and was deemed largely effective by the Census Bureau.

The Bureau did recommend, however, that to improve the impact of awareness campaigns, Complete Count Committees should be formed and begin planning as early as 3 years before the 2020 Census, so that funding for outreach could be worked into budgets. If Massachusetts takes this recommendation into account, builds upon the 2010 success of initiatives such as the Census on Campus program, and extends outreach to specifically target off campus students, student response rates should rise in 2020. The 2020 Census will also be the first taken in the era of pervasive use of social media. Massachusetts should be a leader in using social media to increase Census participation, particularly on college campuses. Boosting student participation in the Census will elevate population counts and poverty rates, and result in increased federal funding to areas with high concentrations of colleges and universities.

While Massachusetts was well counted in the 2010 Census, certain counties within the Commonwealth, especially those with large minority and student populations, could benefit from state coordination of local efforts to promote greater census participation. The Commonwealth should concentrate on census awareness outreach in counties with high student, renter, and minority populations, and should consider evaluating these areas to guarantee that outreach is effective and census data is being collected in the most effective manner. With the increasingly widespread use of sample surveys like the American Community Survey

to inform formula funding, Massachusetts should work to ensure that populations are accurately portrayed not only in the decennial census but also in these sample surveys. Although sample surveys cannot be used to adjust census results for the purpose of allocating House seats, they can be used for congressional redistricting and in the distribution of federal funds. By prioritizing efforts to ensure the collection of accurate census data in Massachusetts, the Commonwealth will not only guarantee a potentially greater and more equitable flow of federal funds, but also fair congressional apportionment and more informed public policy.

ENGAGE THE UMASS SYSTEM, THROUGH THE DONOHUE INSTITUTE AND/OR MCCORMACK SCHOOL

The state should also engage the UMass System through Donohue Institute and/or the McCormack Graduate School of Policy and Global Studies, to analyze and evaluate the amount of federal funds flowing to the state, and the resulting return on investment. An independent analysis of the state's federal funding successes and opportunities will enhance transparency and accountability. This independent analysis will provide the Executive Branch and the Legislature with an important overview of the federal funding landscape and the Commonwealth's position within it, enabling the state to identify areas of opportunity that will assist in maximizing federal funding and the resulting benefit to the state. These analyses can also review the overall cost to the state of various federal funding sources, and both their economic and social impact.

CONSIDER ESTABLISHMENT OF A LEGISLATIVE COMMITTEE ON INTERGOVERNMENTAL AFFAIRS

The Legislature should independently develop expertise in the federal funding process. While the Legislature has had Federal Financial Assistance Committees in the past, those committees were discontinued because of questions about overlapping jurisdiction, effectiveness, and relevance. With the new federal funding

environment, the creation of FGMO, and the increasing importance of the Legislature's capacity to quickly analyze and approve minor statutory changes to facilitate the pursuit of federal funding opportunities, the Legislature should consider creating a committee dedicated to intergovernmental affairs. This Committee should include both fiscal and policy staff, and should coordinate directly with fiscal and policy staff in the Ways and Means Committees, ANF, the Comptroller's Office, and across secretariats. The Committee should assist in crafting, enacting, and implementing solutions that will enhance the efficiency of the federal funding lifecycle and maximize value for the Commonwealth. The Committee should also spearhead outreach and advocacy to the federal legislative delegation. Such a committee would play a pivotal role in increasing the flow of federal funds to the Commonwealth and enhancing the position of the state at the federal level.

ENHANCE ADVOCACY AND OUTREACH TO THE MASSACHUSETTS FEDERAL DELEGATION

The state should seek to enhance advocacy and outreach to the Massachusetts Federal Delegation. These communications would serve to reduce state administrative burdens and increase the flow of information, and resultant federal funding. A legislative Federal Funding Committee would be well positioned to coordinate and conduct such outreach.

The state has a demonstrated interest in affecting federal policies and processes related to the federal funding lifecycle. For example, Federal Award Identification Numbers do not interface with state accounting systems, forcing each state to create their own numbers and coordinating translation system or tool. Increased coordination

between the state and federal governments will assist in alleviating this unnecessary administrative burden. Additionally, states remain hampered by the often-significant delay in receiving federal grant award letters. Streamlining the process to issue such letters on the federal level will allow states to maximize the award period, increasing return on investment for both the state and federal governments. The implementation of the federal Digital Accountability and Transparency Act (DATA) necessitates increased coordination between the state and federal governments. The DATA Act consists of the nation's first legislative mandate for data transparent, requiring the Department of the Treasury and the White House Office of Management and Budget to transform U.S. federal spending from disconnected documents into open, standardized data, and to publish that data online. The federal government plans to implement the DATA Act in 2015, which will require states to report on the use of federal funds on the state level. Massachusetts should position itself to provide feedback on the implementation of the DATA Act to ensure that reporting requirements align with state systems, minimizing administrative burdens. There are likely to be significant problems with the rollout of the DATA Act in 2015. The Commonwealth will need to coordinate closely with the federal delegation to ensure that the rollout is informed by the state's current practices and capabilities, and is done in a manner that does not penalize the Commonwealth during the process of aligning data systems.

The Massachusetts Federal Delegation has a well-deserved reputation for close coordination and cooperation with state policymakers on large projects and the highest priority issues for the Commonwealth. With the 1,332 funding opportunities, the state needs to put in place systems to better engage the delegation across the full range of funding opportunities, where appropriate.

VI. CONCLUSION

This report has reviewed the Commonwealth's federal funding strategy and identified some examples of current opportunities and emerging trends in federal funding that state policymakers may want to consider. Over the past decade, the federal government has increasingly imposed conditions on the federal funds it distributes to states. While this movement started during the Clinton Administration, and was embraced by the George W. Bush Administration, it has dramatically accelerated during the Obama Administration. ARRA and the Affordable Care Act (ACA) were the primary geneses of the changes in funding trends that have continued to emerge and develop since 2009. Simultaneously, federal funding streams have become less reliable and predictable, a symptom of Congressional gridlock that has resulted in a stream of patchwork reauthorizations, dysfunctional appropriations processes, and short-term fixes.

Despite the Congressional dysfunction that has characterized Washington since the split Congress took over after the 2010 midterms, there is broad bipartisan consensus that federal funding should only go to the most effective and impactful programs, especially in an era of shrinking federal budgets. Even with a Republican-controlled Congress, funding trends that force the Commonwealth to provide matching funds, closely monitor the efficacy of its programs, and generally provide the greatest value possible when seeking and disbursing federal dollars are likely to continue and, indeed, accelerate. Although some measure of Congressional gridlock and dysfunction may persist for the remainder of the Obama Administration, federal spending will continue to represent a significant portion of the state's budget.

The broad scope and evolving nature of federal programs and priorities, as well as the increasing complexity of applying for federal funding, require a coordinated commitment from the Commonwealth to ensure that every state agency and department is effectively

evaluating and pursuing these opportunities. Such a commitment requires constant vigilance on the part of policymakers, and transparency and accountability from state agencies and departments.

In many instances, increasing federal revenue to the state, cities, towns, or individuals often requires state resources up-front, including hiring of grant writers, data collection, or matching state funds. While considering any potential opportunity, whether a grant, reimbursement, or another form of funding, it is important to also consider the cost of resources required to successfully pursue an opportunity against the value and potential impact of said funding. We do not suggest that the Commonwealth chase after every federal dollar, but it should be broadly aware of each opportunity, and have clearly identified cost/benefit priorities and strategies prior to pursuing any federal funds.

In this report we outline some ideas for internal structural changes and policies that can position the state to successfully capture increased federal funding in instances where the Commonwealth's policymakers decide the value and impact are worthwhile. These changes are currently neither defined statutorily, nor by past or common practice. But as we have stated throughout this report, there are clear ways in which the Legislature and the Executive branch can support one another in efforts to capture increased federal funding. In addition to creating a more productive environment, implementing these structural and policy changes can make the legislative and budgetary processes and commitments easier, particularly alleviating last minute, ad hoc efforts to secure state match funding or tweak existing laws and regulations in support of new federally-funded programs, as is current state practice. Such efforts position the Commonwealth to receive additional federal funding, and in doing so, will help strengthen the social safety net, create new avenues for upward mobility of residents of the Commonwealth, and relieve fiscal burdens for cities, towns, and even parts of the state budget.

Several of the federal funding opportunities available to the Commonwealth align well with the shared priorities of the Baker Administration and the Legislature. For example, both Governor Baker and key legislative leaders have demonstrated a commitment to work toward providing increased

access to, and quality of state services, while containing or reducing costs through improved transparency and accountability. The federal funding opportunities and structural changes outlined above will ensure that the state has the resources and capabilities to provide quality programs and services, along with the transparency and accountability to provide maximum benefit to the Commonwealth.

In addition to the internal changes in the way the various branches of state government interact, there is an important role for the Massachusetts federal delegation. Although in the minority in both Houses of Congress, and lacking in the seniority that Massachusetts has historically enjoyed, the delegation remains well positioned to advocate on the Commonwealth's behalf. Due mainly to Congressional dysfunction, federal funding is increasingly determined by agency actions and instructions from the executive branch. The Commonwealth's federal delegation enjoys close ties to the Obama Administration and many of the Cabinet's officers and agency heads. The state's federal delegation, by its expertise, relationships, and leverage, has a great capacity to both monitor and influence federal funding priorities at an agency level, and to provide intelligence on key factors in federal funding decisions. It is critical that state leadership improves the process through which the federal delegation receives feedback, concerns, priorities, and updates on initiatives from the state, and through which the federal delegation provides the Commonwealth with updates and intelligence on items like upcoming reauthorizations, changes in agency practices, and key factors in funding decisions.

There is also a strong likelihood that the new Congress will be more effective in passing legislation than in the previous two sessions, particularly given the Republican desire to prove that it can effectively govern in advance of the 2016 Presidential election. It is also clear that while there will be major fights over policy issues like energy and immigration policy between the Obama Administration and the Congress, there is also significant common ground. For example, while their top priorities may vary, both parties agree that there is a backlog of overdue reauthorizations that need to be brought

to the floor this Congress, including but not limited to ESEA, the Higher Education Act, a surface transportation reauthorization, the Federal Aviation Authority reauthorization, the America COMPETES Act, and many others. In addition, a number of expiring tax credits, including the New Markets Tax Credit and other credits that promote growth and development in the Commonwealth will also need to be reauthorized, regardless of whether the Congress tackles comprehensive tax reform. It is also highly likely that health care legislation, funding, and regulations will undergo significant changes—legislation that is likely to have a major impact on the state, and federal funding. In each case, Massachusetts has defined interests, and the Commonwealth's federal delegation will be key in communicating and advocating for the state's priorities.

Massachusetts has historically performed well in its pursuit of federal funding. We expect this to continue over the next several years. But the state has an opportunity to capitalize on the continued shifts in federal funding mechanisms. With the newly elected legislature and governor, the Commonwealth has an opportunity to set new priorities, establish new visions, and promote closer coordination within the government. These initiatives are critical to the success of any effort to increase the Commonwealth's ability to secure federal funding, ease the strain on state budgets, and improve access to services for Massachusetts residents. This requires the state, which has historically been reactive, to be proactive in its federal funding strategy.

ENDNOTES

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