Transforming Public Governance Institutions

Public administration is in a period of transformation, perhaps not anticipated nor desired, but unrelenting. President Trump's actions are highly visible and often challenged in courts, but similar tensions in peer nations suggest broader forces. Analysts of long-term changes in societies and political systems flag this as a period of turbulence. In critical areas, including infrastructure, federal finances, weather resilience, disaster recovery, health, housing, and providing opportunities for success, societal outcomes in the US lag peer nations and our history. Success in single organizations and programs does not translate into societal success. The dominant institutional design of multiple federal programs and agencies related to a policy issue, often mirrored in similar state and local agencies, fails to deliver desired societal outcomes, while increasing transaction costs, diffusing responsibility, and increasing opacity to citizens. Moreover, when future liabilities for pensions and health care are included, the federal and state governments are in deep fiscal strain, with forecast constraints on future tax revenues. Returning to the past and even improving current programs and public agencies is insufficient. Transformation is required, including shifting focus and incentives from federal organizations and program outputs to people in substate areas and societal outcomes, one of which is wealth creation. Some innovations in this direction are visible. NAPA should lead this transformation, with suggestions provided.

National Academy of Public Administration

Working Group on Transforming Public Governance Institutions

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A Call to Action: The Urgency for Public Governance Institutional Change in the United States

Transforming Public Governance Institutions (TPGI) is a distinct framing and ambition to address issues confronting the United States of America, many of which are shared with peer economically advanced and formally democratic nations. This Working Group shifts from a focus on improving public programs and organizations to a focus on redesigning public institutions. Public governance institutions warrant critical attention today and more than they have received by policy makers, public administration professionals and scholars in the recent past.

Specifically, the Working Group is inviting NAPA Fellows to contribute to this effort to:

1. Create a shared meaning (Bennis 1985, pp. XXV) about transformational change. This approach places a premium on developing clarity at how institutional design played out in the past to deepen the shared understanding about the contemporary challenges, as well as creating, engaging, and refining strategies for the future.
2. Identify and pursue strategic issues on which to initiate engagement through HUBs, designed to be vehicles for the Academy to learn, act and impact.
3. Engage the challenge of reorienting policies, programs, incentives, and accountability systems from program outputs to societal outcomes, central to the proposals here and in those of Walker (2025a) and Moynihan (2025).

The speed with which President Donald Trump, in his second term, has changed policies and institutions long championed by the public administration community, including the Senior Executive Service and Inspectors General, revealed unanticipated fragility and has startled and alarmed many public administrators and scholars. He has also challenged expected separation of powers between Article 1 legislative and Article 2 executive branches, abolishing agencies, halting, or diverting uses of Congressionally appropriated funds, and proclaiming emergencies to impose tariffs on nations. These actions involve direct questions of constitutionality, and legal challenges are pending to all, with challenges to use of emergency authority to impose tariffs *(Learning Resources v. Trump, and Trump v. V.O.S. Selections, Inc.)* and to power to terminate employees of independent agencies (Trump v. Slaughter*)* before the Supreme Court*.*

Beyond actions of President Trump, strong forces in the structure of the economy, demographic changes, global conflicts for power, and changes in belief systems, compel attention to and change in public governance institutions. Indeed, five analyses of long-term dynamics in societies project this time to be especially perilous for modern nations. Foment and instability are visible in many nations, suggesting challenges will face this nation regardless of who is president.

Specific to the United States, former Comptroller Walker (2025a) argues: “The federal government has grown too big, promised too much, subsidized too many, undercut states’ rights, and has lost control of the budget. It lacks a comprehensive strategic plan despite a law requiring one, does not have a set of key national outcome-based indicators, has many outdated systems, processes, and controls, and is not managed to achieve specific outcome-based results. As a result, it is bloated, flying blind, in growing mountains of debt, and without a modern instrument panel. This is a prescription for disaster.”

Public administration is in a period of transformation, perhaps not anticipated nor desired, but unrelenting. The challenge is to engage the moment strategically and as effectively as possible. The new strategies should recognize five imperatives: (1) the need for effective implementation of public policies remains, (2) the current US Supreme Court is establishing the constitutional boundaries of acceptable institutions for the foreseeable future, (3) technology and global dynamics will change economies and societies, including in the United States, (4) intergovernmental capacity will be of increasing importance, and (5) public finances will tighten as an aging population requires more services and a slower increase in the labor force simultaneously reduces growth in public revenues (Congressional Budget Office 2024).

The current decline in positive vs. negative assessments of career civil servants, from 61%-39% in 2018 to 52% - 46% in 2022 (Pew Research Center 2022), is a prompt for public administration as a field for self-examination. In addition, the development of the administrative state is now called into question by interrelated ideas challenging judicial deference to agencies (Beermann 2024), advocating for nondelegation of congressional authority (Wallison and Yoo 2022), and for a unitary executive (Ginsburg and Menashi 2010). This set of ideas informs advisors to President Trump and conservative judges and justices.

This moment also requires humility regarding the success of past institutions and public policies. Success at the organizational or program level is not success in societal outcomes. When unfunded liabilities (especially for health care and pensions) are included, the federal government, and state and local governments, are deeply in debt. The Congressional Budget Office (2026) observes "…the deficit There is a moral rationale for embracing the challenge of transformation. Professionals and scholars should shift to transforming public governance institutions.

Why focus on "public governance institutions"?

This Working Group focuses on Transforming Public Governance Institutions, shifting from the frequent focus historically and today on improving programs and organizations. We share a similar problem identification with Pahlka and Greenway (2024, p. 1) that negative results and incapacities in-public administration delivery "…are not the result of lack of diligence by our nation's public servants. Our administrative structures, processes, and ways of working are simply no longer fit for the job that we need them to do." However, the Working Group looks for problem solving traction in the re-design of public institutions, rather than in improved organizational approaches.

Another significant driver for this Working Group is to effectively engage the current challenges to the administrative state. It is important to recognize the extent and variety of institutions and policies included to avoid over-simplification. To illustrate, 17 independent regulatory agencies (e.g. Board of Governors of the Federal Reserve System, Securities and Exchange Commission, Consumer Financial Protection Bureau) are listed by name at 44 U.S.C section 3502(5) and over 55 permanent independent agencies and government corporations are identified in the United States Government Manual (National Archives and Records Administration 2025). And the Administrative Procedures Act applies to a much broader range of agencies. Wherever the Supreme Court approves changes in pre-2024 institutions, the issue of new institutions arises. If agencies cannot be "independent," what institutions provide for marshalling professional expertise to make effective decisions (including formal regulations) that provide sufficient stability to support needed decisions by firms and individuals? Independent agencies will each have histories of previous reforms, litigation, and relationships with interested parties which will shape how they engage in change now. If tax revenues are crimped, what policies and what implementation processes succeed with diminished funds or provide opportunities to generate revenues specific to a public purpose?

Simply reinstating the past, including reversing initiatives of President Trump, is not a good future strategy for two reasons. First, it does not engage factors in which the administrative state emerged, including the relevance of congressional committees, subcommittees, and processes, and the concentrations of economic resources and power in many sectors. Second, it misses the opportunity to assess agencies and policies from the perspective of contribution to meeting desired societal outcomes in education, health, and economic opportunity, among others. Possible changes should also be assessed in how they address pressing fiscal constraints. The Congressional Budget Office (2026, p 3) states: "Deficits are large by historical standards. The deficit totals $1.9 trillion in fiscal year 2026 and grows to $3.1 trillion in 2036. Relative to the size of the economy, the deficit is 5.8 percent of gross domestic product (GDP) in 2026 and increases to 6.7 percent in 2036. Deficits averaged 3.8 percent of GDP over the last 50 years." Separately, fraud and improper payments should be addressed. The Government Accountability Office (2025) reports the "…federal government loses between $233 billion and $521 billion annually to fraud, according to GAO's government-wide estimates based on data from fiscal years 2018 through 2022. Additionally, federal improper payment estimates have totaled about $2.8 trillion since FY 2003—and the actual amount may be significantly higher…"

To provide a common reference, Public Governance Institutions are defined here as by North (1990), the "…humanly devised constraints that shape…" authoritative collective choice and action, including:

- ✓ Constitutions and formal governments they create (national, state, substate)
- ✓ Policies which shape capacity for collective choice and action (e.g., Congressional Budget and Impoundment Control Act of 1974; federal devolution of funding responsibilities for Medicaid, and SNAP to states and counties; civil service systems; state permissive authority for sub state units and finance)
- ✓ Court decisions which shape capacity for collective choice and action (e.g., Loper Bright Enterprises v. Raimondo, 603 U.S. 369 (2024))
- ✓ State ballot initiatives and propositions which affect capacity for collective choice and action

Earlier periods of transformation of public governance institutions combined theoretical and political components and that should be expected now. Whatever institutional designs are advanced will only be considered, legitimatized, and implemented through political processes. As the ideas of Goodnow (1900) and President Taft's Committee on Economy and Efficiency (1912), supported developing a national budget, creation of the Executive Office of the President (President's [Brownlow] Committee on Administrative Management 1937), followed by efforts to assess and restructure federal departments(1949), further changes in department organization and career civil service (1955) (National

Archive, Commissions on the Organization of the Executive Branches of the Government [Hoover Commissions] 2025), and for council-manager forms of local government (Childs 1952). These works were also arguments about societal impacts and the roles of citizens, elected officials, and professionals with expertise (Appelby, 1945). At the founding of the profession, institutional design and implementation were the major focus (Roberts, 2013). The efforts provided intellectual frameworks and proposals that were advanced by presidents, members of Congress, local government officials, and those interested in reform early in the 20th Century, illustrating historically that ideas and proposals have impacts.

Transforming public governance institutions requires shifting from any expectations that either the past choices, initiatives dominated by the federal/national government, or simply a focus on bureaucracies, is sufficient. Various approaches to this end are visible. New local authorities and financing systems have been developed in California, with spreading use. Design of more effective public institutions calls for sustained efforts to systematically learn from current sub-national and federal transformation efforts and to develop intellectual arguments to inform and guide transformation.

The National Academy of Public Administration should seek funding and develop internal capacity and partnerships to become the visible champion of transforming public governance institutions, facilitating their success, and serving as the node for learning at a systemic level. Transformation should be expected and sought at all levels of government – federal, state, and local – and actions by all will be required to address problems of economic opportunity and climate change, among others. While the federal role is diminishing, a shift from directive to permissive policies may occur. States and substate governments are experiencing citizen demands to address economic and climate related issues and transforming public governance institutions will be important responses in the next decades. HUBs which focus on specific issues, such as developing resilience to extreme weather events, joining action and learning, will be a key feature of this effort.

This strategy is consistent with the charter of the National Academy of Public Administration (1984) which includes as purposes:

- ✓ "(2) foreseeing and examining critical emerging issues in governance, and formulating practical approaches to their resolution;
- ✓ (3) assessing the effectiveness, structure, administration, and implications for governance of present or proposed public programs, policies, and processes, and recommending specific changes;
- ✓ (4) advising on the relationship of Federal, State, regional, and local governments, and increasing public officials', citizens', and scholars' understanding of requirements and opportunities for sound governance and how these can be effectively met;"

Current Challenges Driven by Longer-Term Dynamics

Research on patterns of change in political systems/societies organized by Mehlman (2025a) supports that challenges now confronted are not a fleeting moment or short term in duration. Huntington (1981) analyzed cycles of "moral convulsion" with distrust in institutions leading to an uprising of elements of society to forge new institutions, including the Revolutionary Period, Jacksonian Uprising, the Progressive Era, and the Protest Era, and predicting a moral convulsion about now, which Mehlman labels "Modern Populism." Friedman (2020) analyzes "institutional" (80 year) cycles (1787-1865; 1865-1945; and 1945-2020) and "socio-economic" (50 year) cycles (by presidents: Washington, Jackson, Hayes, Roosevelt, and Reagan). He argues the cycles are currently overlapping for the first time in the history of the nation. Howe (2020), extending earlier analyses of Howe and Straus (1997), emphasizes the changing social moods of generations (20-year cycle), with larger, more divisive periods of civic upheaval every fourth cycle, which Howe argues is happening now. Turchin (2016) argues that the interaction between indices of well-being and political stress predict an "age of discord" in this period, with the years before the United States Civil War showing similar patterns. Dalio (2020) focuses on finances of nations dominant in different time periods, resulting in attention to the rise and fall of the Dutch, English, and American "reserve currency empires," plus other significant historical empires. Mehlman (2025a, p 3) summarizes the conclusion of Dalio's prediction as "…an archetypal big shift in relative wealth and power in the world order" is occurring now.

Separately, Mehlman's (2025b) analysis of parallels between the 1920s and 2020s suggests the United States is in similar turmoil in the two periods. He finds parallels in six dimensions: Conservative Counterrevolution, Retreat from Globalization, Immigration Backlash, Technological Transformation, Revolution in Military Affairs, and Asset Bubbles Fuel Rising Disparities.

Professional efforts to improve the performance of governments and patterns of change have focused on six areas with multiple examples and rich analytic literatures for each: (1) Organizational management and leadership; (2) Organization attributes and operations; (3) Cross-organizational relationships; (4) Public policies; (5) Institutional attributes, affecting sets of organizations and personnel (The World Bank focuses on civil service, public financial management, revenue administration, anticorruption); and (6) formal governments, which can make authoritative decisions, possess capacity to raise revenues and issue debt, to act (to hire, to enter contracts, to sue), and set geographical boundaries within which they exercise authority.

Public professionals and scholars also work across these six areas. As examples, Pahlka (2023) argues that efforts to change organizations can fail when they do not engage rigidities that develop in institutions and conformity to process blocks desired changes, Moynihan and Lavertu (2012) conclude that leader's commitment to performance increases use of performance information and reported program improvements, while the Organization for Economic Cooperation and Development (OECD) (2025) argues that national governments must adopt a "whole of society" strategy to achieve green climate goals, aligning public and private institutions, policies, and organizations to achieve their goals. While valuable contributions to improving society are made in each of the six areas, the analysis of eleven examples of transformations below concludes that institutionalization requires formalization, with likely increased durability from reforms to agencies, to policies, and then to public governance institutions.

Significant changes have political dimensions and are commonly contested, if not in the moment, over time. Political support is expressed for desired changes in authorizing legislation, appropriations or other ways to secure financial resources, and "political" support through challenges that arise in policy implementation. That we often seek to improve management and leadership, rearrange organizational structures, or revise cross organizational relationships is evidence that goals remain imperfectly achieved and/or remain politically contested.

Sorting out entry points for action gains importance given the challenges the United States faces in several societal outcomes. Among those, current public policies and institutions are failing in education of youth, provision of opportunity to achieve economic security, adequate health care, and affordable housing (adapted from Kirlin 2025a).

1. Forty years after Gardner's America at Risk (1983) spurred additional federal action on K-12 education, achievement gaps by place, race, and poverty remain high, US students lose ground in international comparisons as they progress through grades, and waves of reform in curricula, standards, and more, had modest effects, despite a larger national role and tripled inflation adjusted expenditures per child (Bowen, *et al* 2023).
2. Opportunities for households to improve their economic status have atrophied in parts of the nation (Chetty, *et al* 2014, Jetty, *et al* 2022, Collier, 2024), and participation in the labor force declined from 67% in early 2000 to 62% in August 2025 (Federal Reserve Bank of St. Louis 2025a), with a steeper decline for men (75% to 68%) (Federal Reserve Bank of St. Louis 2025b).
3. The United States spends $13,442 per capita on health care compared to $7,393 average of comparable nations (PPP adjusted). But "The U.S. has experienced stagnant life expectancy growth for decades. Between 2010 and 2019, life expectancy in the U.S. only grew by 0.1 years compared to an average increase of 1.2 years in peer countries, partially due to higher mortality rates for suicides and overdoses, as well as the increasing burden of chronic diseases like diabetes, kidney, and liver disease." Life expectancy at birth is 4.1 years shorter than comparable countries, and the gap between men and women is wider in the United States (Rakshit and McGough, 2025).

4. Housing stock, composition, and price are the result of federal, state, and local actions, examined more closely below. “The Federal Housing Finance Agency’s national House Price Index, a gauge of how selling prices for single-family homes have changed over time, was 57.8% higher in July 2024 than it was in July 2019. For comparison, the Consumer Price Index – which measures price changes for a broad range of consumer goods and services – rose 22.8% overall between September 2019 and September 2024… [while the] Federal Housing Finance Agency’s state-level house price indices have increased for every U.S. state and the District of Columbia, by anywhere from 22.6% (D.C.) to 82.3% (Maine) between the second quarters of 2019 and 2024 (Pew 2024). Lee and Yoo (2025) conclude that the “…cohort born in the 1990s will reach retirement with a homeownership rate roughly 9.6 percentage points lower than that of their parents' generation. The model also shows that as households' perceived probability of attaining homeownership falls, they systematically shift their behavior: they consume more relative to their wealth, reduce work effort, and take on riskier investments. We show empirically that renters with relatively low wealth exhibit the same patterns. These responses compound over the life cycle, producing substantially greater wealth dispersion between those who retain hope of homeownership and those who give up.”

The primacy of public governance institutions is evident when assessing progress toward critical societal outcomes in these four areas of education, economy, health, and housing: in each area there are multiple levels of governments making relevant policies, with the number of public organizations involved is in the hundreds, or thousands in K-12 education. Improving a single organization, or a single relevant program, benefits those touched, but does not scale to societal impact.

Institutional Typology of Reform Efforts

Efforts to improve and reform government are very common, from those initiated without public notice by single public managers, to presidential initiatives (e.g., Government Performance and Results Act), or major Supreme Court Decisions (Lober Bright v Raimondo), with a pattern described as the “tides of reform” (Light, 1997). Additionally, examples of societally important program success exist that are not reforms. In the past decade, as examples, the successes of Operation Warp Speed (D’Souza 2023) and implementation of CHIPS (Ruiz 2025) have been noted, but neither led to reforms though they may serve as models, especially for high-stakes startups. Figure 1 is a typology of government reform efforts, distinguishing between seven possible levels at which they occur applied to twelve examples of reforms. Brief discussion of the examples illuminates the typology.

1. Humphrey's Executor v. United States, 295 U.S. 602 (1935) established the power of Congress to restrict the President’s powers to remove an agency (FTC) commissioner, the premise for later independent agencies.
2. The 1964 Civil Rights Act banned discrimination by race, color, religion, sex, and national origin, outlawing segregation in public places, schools, and employment, while also stopping unequal voter registration rules and discrimination in federally funded programs. The Act shapes government hiring and program operations.
3. Section 8 of the Housing and Community Development Act of 1974 introduced subsidies for low-income families, elderly persons, veterans and disabled individuals to rent housing in the private market. It represented a shift in strategy from reliance on public housing, requiring program and organizational changes to be institutionalized in HUD and new relationships with private landlords.

5. Medicaid waivers (1981) provided under Section 1915(c) of the Social Security Act (42 U.S.C. § 1396n(c)) authorize the federal government to waive certain provisions of Federal Medicaid law to allow states to provide home and community-based services in lieu of institutional care to qualifying individuals. The Kaiser Family Foundation (2025) reports there are 67 active waivers across 47 states. The Government Performance and Results Act (1993) required federal agencies to define missions, set long-term goals, establish performance measures, and report

progress annually. It was strengthened by the GPRA Modernization Act (GPRAMA - 2010) and is institutionalized across the federal government, and results can be used in allocation of bonuses to individual federal employees.

6. The Veterans Administration "Vision for Change" (1995) advanced by Undersecretary for Health, Dr. Kenneth Kizer, proposed a blueprint and reengineering of VHA including organizational restructuring (e.g., decentralized, regional network-based management), a shift toward primary care, performance measurement, and quality improvement, with substantial positive effects (Jha et. al. 2012).
7. California's Proposition 13 (1978), a citizen initiative passed by voters, reduced property tax assessments to 1974 levels, capped property taxes at 1% of assessed value, limited annual assessment increases to 2% (or inflation, whichever is lower), and allowed reassessment to market value only upon a change in ownership or new construction, and required the State to allocate property taxes among local governments. Most other states adopted property and/or sales tax limits subsequently.

Figure 1. Typology of Government Institutional Reform, by Level Where It Occurs

Examples	date	Organ-ization	program	strategy	policy (law, court, or initiative)	agency level institutional effects	policy level institutional effects	public governance institutional effects
Humphrey's Executor	1935				X			federal
1964 Civil Rights Act	1964				X			Federal. states
Section 8 Housing	1974	X	X	X	X	HUD		
Medicaid Waivers	1981	X	X	X	X	CMS	federal, states, county	state
Government Performance and Results Act	1993	X	X	X	X		federal	
Reform Veteran's health administration	1995	X	X	X		VA	federal	
CA Proposition 13	1998				X			California
Affordable Care Act	2010			X	X	HHS, CMS	federal, states	
Weather Ready Nation	2011	X	X	X		NWS		
CA Enhanced Infrastructure Finance Districts	2016				X			California
Loper Bright v Raimondo	2024				X			federal
Base Realignment and Closure (BRAC)	1988, 91, 93,95, 2005	X	X	X		BRAC	Federal	Federal, local

8. The Affordable Care Act (2010) "…affects virtually all aspects of the health system, including insurers, providers, state governments, employers, taxpayers, and consumers. The law built on the existing health insurance system, making changes to Medicare, Medicaid, and employer-sponsored coverage. A fundamental change was the introduction of regulated health insurance exchange markets…which offer financial assistance for ACA-compliant coverage to those without traditional insurance sources. (Ortaliza, McGough, and Cox 2025)." Medicaid accounts for 19 percent of state general fund expenditures, and with federal matching funds, Medicaid makes up 30 percent of state budgets, on average the largest category of funding (Peter G. Peterson Foundation 2025).
9. The "Weather Ready Nation" initiative was launched in the National Weather Service (2011) to increase user understanding and accelerate local action in response to forecasts of dangerous weather events, featuring a focus on "impact-based decision support services" by NWS personnel and established "Ambassadors" among key local authorities and others. It dramatically reduced fatalities from dangerous weather events. (Uccellini and Hoeve 2019).
10. California enacted permissive legislation allowing local governments to create Enhanced Infrastructure Finance Districts (EFID) (2016). The transformative features of this legislation are freedom to select mission, to set geographical boundaries, and to access multiple financing sources.
11. Loper Bright v. Raimondo (2024) overturns Chevron deference of courts to interpretation of legislation by agencies, returning powers to Congress.
12. "The Base Realignment and Closure (BRAC) process has been the primary means by which DOD and Congress determine how to dispose of military infrastructure. In 1988, Congress established an alternative legal mechanism for the closure or realignment of military installations by granting temporary authorities to an independent commission for the review and approval of basing changes recommended by the Secretary of Defense, known as a Base Realignment and Closure Commission. Since 1988, Congress has authorized five rounds of base closures: 1988, 1991, 1993, 1995, and 2005. The last of these authorities expired in 2006 (Congressional Research Service 2025).

Of the twelve cases, four were institutionalized at the agency level, two at the policy level, and six in public governance institutions. "Institutionalization" is widely recognized as providing continuity, but with the possibility of change (Peters and Pierre 1998, Cloutier, *et.al.* 2015, U.S. General Accountability Office 2019) and that institutions can also include cultural norms of behavior (Selznick 1984). The attraction of reforms that are "institutionalized," is the expectations of both continuity and greater impact, which plausibly increase as reforms are institutionalized at increasing scale of impact, from agency, to policy, to governance institutions.

Wealth creation in places as a goal, including addressing inequities in opportunities

Shifting from a perspective of income and taxation at the national level to a perspective of wealth in sub national place is important in transforming public institutions. It addresses the reality of very constrained public finances based on taxes, incentivizes governments to develop strategies that increase wealth, the basis of opportunities for citizens, and provides financial resources (including, but not limited to, taxes) for public action. In important ways it acknowledges the reality that most of the dynamism in the nation's society and economy originates in cities and becomes expressed in the different trajectories of regions in attracting capital and people (Jacobs 1984a, Hall 1998). Acemoglu & Robinson (2012) found that democratic institutional designs and private property rights at the national level provide the context for growth or decline, work that was awarded the Nobel Prize for Economics in 2024.

Wealth Is not simply the aggregation of individual incomes, national GDP or measures of state or regional economic output, or levels and patterns of capital investment. The World Bank (2021) defines wealth as "…net economic assets, and human, and natural, capital." For the economy, the shift is from current economic activity to economic assets (capital) that can be allocated in the future. Human, and natural, capital are also factors of wealth. Human capital includes overall demographics (size, working age fraction, fertility rates), skills (education, skills, including on-the-job training) (Becker 1975), cultural dimensions that affect work force participation and expectations of work week and aspirations

(Heckman and Kautz 2012), and health. In earlier work, the World Bank (1997) concluded that governance institutions contributed to economic and societal development. Effective governance institutions are critical factors in wealth creation. Wealth creation is a dynamic, sustainable goal and a foundation with which to address wicked problems.

The overreliance on investment alone explains why many left-behind places in both rural and urban areas have not prospered over the past several decades, and why these programs are now under intense criticism. The rigidity of systems and lack of openness also help explain the decline in economic growth in prosperous regions and our inability to address the problems they face, including homelessness, economic disparities, difficulty responding to disruptions, and the inability to address these problems. Even when they do make progress, they seem to be narrow and short-lived. In summary, growth and wealth creation is not just an economic challenge but a governance challenge.

Considering impacts on economies of states and areas within states, the national government took several significant actions before World War II. Those included five major acts (1879,1880,1917,1923,1928) (U.S. Army Corps of Engineers 2025) establishing the analytic, authorizing, and financing structures to allow the US Army Corp of Engineers to control floods and improve water transportation in the Mississippi River drainage (approximately 41 % of the continental United States), providing land grants, loan subsidies, rights of way, and natural materials for construction of railroads (Pacific Railroad Acts of 1862 and 1864), the Homestead Acts (1862) transferring ownership of lands acquired in the Louisiana Purchase to private owners, and the Morrill Land Grants program (1862,1890) to create institutions of higher education in states. Procurement in WW II created hubs of industry, technical competence, and research at several locations in the nation (Hooks and Bloomquist 1992, Gross and Sampat 2020, Garin and Rothbaum 2025).

While there is retrospective evidence of substantial, lasting impacts of federal initiatives on regions though World War II and the National Interstate and Defense Highways Act (1956) is recognized as having transformative effects (Boarnet and Haughwout 2000, Shatz *dis*., 2011), more recent initiatives are siloed and implemented by at least ten agencies, and almost always require articulated state and local government actions for success. The shift from opportunity creating infrastructure (railroads, flood control and navigable rivers), or permissive policies (homesteads or land grants), to policies which targeted narrower goals and combined grants and regulations, were not as effective. (Turner, *et al*., 2021) reviewed 33 federal place-based policies launched between 1965 and 2017 (ten now inactive), with conclusions that include "bridging across multiple policies poses significant challenges," "programs invite community input but generally have not aimed to build community power," "few … have advanced comprehensive systems change," and "evidence about place-based programs impacts and effectiveness is weak."

The proliferation of programs with limited impacts had broader, institutional effects. The "silos" in the proliferation of policies, departments, independent agencies, and quasi-governmental entities (Congressional Research Service 2011) set a dysfunctional institutional matrix for success in achieving desired societal outcomes (Heclo 1978, Skocpol 2004, Pahlka, 2023). They concentrated power nationally, increased transaction costs, and introduced rigidities which are a barrier to change. Jacobs (1984a, 1984b) argues that capital cities benefit as policies intended to improve disadvantaged places and people require increased regulations, contracts, and oversight, benefiting from "transactions of decline."

In the absence of seeking wealth creation, but instead pursuing narrower policies, barriers to change were created. Path-dependence on certain technologies, as Unruh (2000) argues is the case for fossil-fuels, or for certain policy approaches, seen in a disease focus and insurance tools in US "health" policies (Jencks and Schieber 1991, Campbell and Sheppard 2020, Hammond, Johnson, and Serna 2025), or for industry-altering regulations to engage "super-wicked" problems of global climate change (Levin, Cashore, Bernstein, and Auld 2012), constrain future choices, and dramatically increase political effort required for change.

Breaking these patterns requires developing new strategies, securing political support, and then sustaining effort. Starting points for this effort are available in recent work by economists. Jetty, *et al.* (2022) find that governed places determine the future economic and social well-being of individuals, elevating the importance of places with governance capacity. Chetty, *et al.* (2014) provide empirical evidence supporting Jacob's (1984a, 1984b) critique of targeting support to disadvantaged substate places and sobering, realistic evidence of what to expect. The beneficial effects are intergenerational opportunities received by the young with improved human capital who leave and migrate to areas with robust economies. This is the finding also of Parker *et al.* (2022). Federal place-based economic policies have positive effects for children who migrate in adulthood. Paul Collier (2024) examines "left behind" places" across the world, finding challenges in powerful path dependencies and failures of centralized polices that undercut local problem solving. He recommends five strategies: devolve authority and capacity to the place level, adopt "case-led" adaptive policymaking, invest in the social foundations of productivity (individual skills and institutional trust), build state capability where needed, and moral and political leadership to coordinate common purpose and overcome fatalism.

It is important to recognize that substate institutional change is already underway in the United States. Especially important is state permission to create local governance institutions with capacity to act at the scale and with boundaries that fit current needs. These substate entities need both authority and access to financing sources. It is self-defeating to accept counsels of despair such as concluding there are no possibilities to address wicked problems (Levin *et al.,* 2012). Political systems DO make decisions in these contexts and CAN seek the best knowledge on which to act. To avoid paralysis that "science" is insufficient, acknowledge that scientific knowledge is commonly incomplete and contested, and move forward by use of California's statutory standard for science to inform decisions: "best readily available scientific information." (CA Fish & Game Code § 2856 (2024))

Dynamics of Transformations

"Transformation" and its variants transforming or transformative are used as aspirational goals in public administration. Examples include the National Performance Review (1993) seeking to transform the culture of government, advocates of a social equity perspective (Frederickson 1990), of the promise of collaboration (Torfing and Ansell 2014), or of beneficial impacts of data, evidence and Artificial Intelligence (Goldsmith *et al.* 2021). Transforming is certainly used here as an aspiration, to address the challenges facing society to which public administration institutions, policies, programs, and individuals must respond, achieving impact through transformational change. And each of the examples in Figure 1 could also be considered transformative, again with varied scale of effect.

Institutional transformation can also be recognized retrospectively, seen in two analyses of results of the extensive growth in numbers of federal agencies. Skocpol (2004) found the growth of federal programs and agencies transformed civic organizations from local, community-focused and volunteer run to national organizations run by professionals and narrowly focused on single issue reflected in a federal program. Heclo (1978) argued that "issue networks" dominated by technical professionals are critical for the working of the federal government and are a barrier to effectiveness and to change. Agencies compete for advantage in an issue network, keeping issues, potentially simple to solve, complex instead, primarily to gain power and influence by virtue of their own specialized expertise, supported by narrow interests. Agencies thrive by continuing differentiation and processes of talking rather than actions. By virtue of their regulations, program designs, and grants, fragmentation and conflicts cascade downward to state and local governments, policies, and programs. These two assessments of the dysfunctions resulting from the current matrix of multitudes of federal agencies with overlapping authorities must inform efforts to transform public institutions.

Identifying opportunities for transformation, implementation efforts, and systematic learning will be facilitated by developing a conceptual framework on the actual "doing" of transformations. Figure 2 is a starting point, which should be modified as learning accumulates. It shows the structure of goal and proximate goals for transformative efforts on the horizontal axis, and possible tools of transformation on the vertical axis. Three cases illustrate the use of Figure 2 to inform efforts to transform institutions.

Figure 2. Conceptual Framework of Goals and Tools for Institutional Transformation

Goal: achieve specified, measurable, societal outcomes

	Clear responsibility to achieve the desired societal outcome	Clear link to authorizing elected official (s)	Clear assignment of roles among federal, state, local governments and non-public actors	Effective for specified people and places	Minimize transaction costs for actors and for citizens	Established routines for learning and adapting from experiences
Tools of action						
Enlist champion(s) elected official(s) in relevant jurisdictions						
Clear value proposition(s) to all actors						
Identify and specify desired measurable societal outcome						
Policies and program design, focused on place and people						
Incentives for actors to achieve societal outcome						

Clarify and simplify decision rights

Sufficient financing mechanisms

Clear impact versus process standards for action and compliance

Think, test, learn, act, assess, adapt strategy

Selective use of extraordinary processes to act on wicked problems

EFID - Case Study 1

California's pioneering state permissive authority to allow local areas to create Enhanced Infrastructure Finance Districts (EFIDs) can illustrate use of the initial conceptual framework of transformation. These new entities have great discretion of purpose, in establishing geographical boundaries within which to exercise authority, and varied financing sources. The EFID statute is a transformation of a long arc of substate areas choosing among permissive state authorities to incorporate municipalities, create single purpose special districts, Joint Powers Authorities, or other distinct local government entities (Foster, 1999). Maryland (State of Maryland 2013) has a related initiative.

The creation of authority for EFIDs began with local elected officials confronting problems, encouraged by a few professionals with deep experience in California local government, enlisting state legislators as co-champions. Governor Jerry Brown supported and signed the Act. The common language to move the effort for new legislation forward emerged in defining and refining the measurable societal goal sought.

The "specified, measurable societal goal" is to create new capacity for California local governments to address problems for which responsive policies are beyond their current geographical boundaries or financing capacity. Examples of EFIDs design range from infrastructure for sea level rise, to homeless populations, each of which commonly cross existing governmental boundaries and which strain traditional revenue sources. Progress is measured by the increased capacity for action by local governments. EFIDs have the normal operational powers of a government: to collect revenue, accept grants, to expend funds, and to enter contracts. The governing body consists of representatives of participating local governments who contribute financially and of a public member of the project selected. Their actions are structured through an adopted "Financing Plan," detailing expected accomplishments and financing associated with activities to achieve them. Most work will be through contracts, not employees.

In this case, the incentives for the parties are to craft and then use a more flexible local government entity, as described above.

The standards for action and compliance are built into the institutional design: relating money directly to actions and outcomes and involving affected parties into the decision-making process. Linking money directly to outcomes creates a decision-making process based on effectiveness to create a basis for reporting and tracking effectiveness.

There is clear evidence of a "think, test, learn, act, assess, adapt" mindset here. The EFID legislation (2016) was followed by a Community Reinvestment and Investment Districts (2018) and Climate Resiliency Districts (2022), each with elements that expanded and refined authority to address issues encountered in the earlier acts. More than twenty such districts exist and others are in formation (California Association for Local Economic Development 2025). In response to the devasting 2024 fires, the County of Los Angeles worked with the Legislature to authorize disaster-focused revisions to Climate Resilience Districts (SB782, 2025), with powers including rebuilding infrastructure. The development of new districts has been through an iterative process of systemic learning, facilitated by the regional structures of the League of California Cities and well-engrained habits of articulation and cooperation within regions. One public finance consulting firm has participated in many of the districts created to date, an important resource for sharing lessons learned across the districts.

Federal Finances - Case Study 2

A second illustration of the conceptual framework is offered in the proposals of David Walker (2025a, 2025b) for transforming the Federal Government, focused on avoiding a major debt crisis as "current fiscal and monetary policies are unsustainable", with a recommendation for "Better planning, transparency, accountability, and results orientation, combined with citizen education and engagement are essential elements to achieving the needed major transformational changes" (Walker 2025a).

In the conceptual framework of Figure 2, Walker's societal outcome goal is a sustainable fiscal system for the United States Federal Government, and a summary outcome measure is national debt. As in the EFID case study, progress is made by using the tools. In the first tool of "enlisting champions," some individual elected officials appear interested. As an example, Senators Warner (D) and Chambliss (R) lead a "Gang of Six" who mobilized a group of 45 senators to push for a "responsible fiscal plan" in 2025 (Warner 2025). The challenges to addressing the politics of budgeting are illustrated by the Congressional passage of the "Social Security Fairness Act (2024)" which extends social security benefits to state and local employees previously excluded, shortened the time until the Social Security Trust Fund is exhausted by approximately six months (Committee for a Responsible Federal Budget 2025). The bill passed the House 327-75 and the Senate 76-20 and was signed by President Trump.

Until political leaders effectively engage the issue of budget sustainability, little progress will occur. Walker (2025a) has proposed the following policies:

- ✓ Stop the Bleeding - Reduce the Fiscal 2025 Spending Base
- ✓ Streamline and Transform Government – Implement a government-wide strategic plan
- ✓ Stabilize the Patient - Statutory Fiscal Sustainability Commission– Fiscal Commission Act
- ✓ Cure the Disease - Federal Fiscal Responsibility Amendment through a Convention of States to Propose Amendments

Transform critical incentives for public organizations – Case study 3

Though not as succinctly presented as Walker's suggestions above, six changes in critical incentives to public organizations can be extracted from Moynihan's blog (2025). Across all governments, the changes would be transformative as they require substantial revisions of existing formal policies to shift incentives toward societal outcomes. Elevating outcomes over outputs is central also to Walker's call for a strategic plan.

- ✓ Reverse proceduralism
- ✓ Increase competence to achieve societal outcomes
- ✓ Build trust among citizens by succeeding in achieving desired societal outcomes (illustrated with the VA, one of the few direct services of federal government)
- ✓ Reduce/eliminate fraud (and procedures may be part of this effort)
- ✓ Focus accountability on societal outcomes
- ✓ Understand participation processes advantage interest groups, so use sparingly to avoid agency capture

These six changes are now statements of desired results and specific actions for achieving them must be developed, including possibly by the TPGI Working Group. Elected officials must be enlisted to champion this initiative.

Why Place Matters for Institutional Design

Significant societal issues all have critical features that vary by place and public action involves federal, state, and local government actors. In each societal outcome, multiple public policies, private industries, nonprofit organizations, households, and citizens interact in a "complex functional system" (Kirlin 1996). These complex interactions make action possible, while past policies and interdependencies create "path dependence" (North, 1990) that requires great effort to overcome inertia (Unruh, 2000 Jencks and Schieber, 1991; Campbell and Shore-Sheppard, 2020; Hammond, Johnson, and Serna, 2025; Levin, Cashore, Bernstein, and Auld, 2012). Additionally, pressing issues often have geographical boundaries that do not match the boundaries of existing governments, with overlaps of partially relevant authority common. This occurs often in any issue where land uses are important, including most natural resources, resilience to disasters, housing, or economic growth issues. A case on housing illustrates the issues.

Housing - Case Study 4

The importance of place and the constraints of path dependence can be illustrated in housing, where formal societal goals include adequate affordable housing for all and home ownership is culturally and economically a defining element of success in entering the middle class. All levels of government have been active, with multiple public policies.

Zoning, specifying allowable uses on specific parcels, was promoted by the federal government beginning in 1922 (Standard State Zoning Act-SZEA) with the goal of establishing single-family detached home zones, and was upheld as constitutional by the Supreme Court in 1926 Other forms of low-density residences (duplexes, triplexes, four unit structures, townhouses, small apartments, accessory dwelling units, and cottage court units) that had previously been constructed in mixtures with single-family detached houses were excluded. Single-family detached house zones spread widely among local governments, encouraged also by states, and became dominant.

Federal programs supporting mortgages actively discriminated based on race: “Of prime consideration to the [FHA] Valuator is the presence or lack of homogeneity regarding types of dwellings and classes of people living in the neighborhood.” (FHA, 1936: Sec. 252). The federal mortgage programs also favored newer subdivision properties over existing housing stock in central cities and older close in suburbs (Hanchett 2000). Issuance of building permits by local governments was originally a ministerial action, but states began to make them discretionary in the 1950s-1960s, often also requiring public hearings for subdivisions of multiple units above a threshold number.

President Roosevelt initiated acquisition of land and building multifamily housing projects for lower income families through a housing division in the Works Progress Administration in the early 1930s. In 1937, that effort was replaced with creation of a United States Housing Agency and a new Low Rent Public Housing program (Congressional Research Service 2019). The Congressional Research Service (CRS) (2019) organizes today’s federal housing assistance to low-income households in three categories:

rental housing assistance, federal assistance to state and local governments, and housing finance and ownership assistance. CRS identifies 21 separate programs, many administered by the Department of Housing and Urban Development (including the Federal Housing Administration), but also by the Department of Agriculture, Department of Veterans Affairs, Federal Home Loan Banks, Department of the Treasury, and Internal Revenue Service. As there are an additional four specialized programs within Section 8 housing assistance and three distinct programs (designated by section of code) within USDA Rural Rental Assistance Programs, the actual count of distinct federal housing assistance programs for low-income recipients is at least 27. Approximately five million housing units were eligible for federal rental assistance in 2016.

In addition to these income eligible programs, the federal government has other roles, including "… financial industry regulations as they affect both residential and commercial lending…facilitating a secondary market for mortgages through the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac [and] the government agency Ginnie Mae." Impacts of regulations, environmental and others, on production and price of housing often find that the costs are a fraction of total project costs, with uncertainty and time delays having impacts (Braconi 1996). Pinto and Peter (2024) analyze how government policy "made housing expensive and scarce" and advocate using market forces to increase housing supply.

Regional variations in impacts are important. California has the highest median priced housing in the nation and construction of housing units falls far short of forecasted need. In California state laws require rental and purchase projects to provide 20% of the units to be affordable and that all infrastructure and supporting amenities be funded by fees on projects. These transaction costs are funded by purchasers or rental payments using higher cost mortgage or equity funding.

The delays caused in permitting and environmental processing add to the cost of the units, making housing in California more than 30% more costly than the national median cost. Ward and Schlake

(2025) report a RAND analysis of costs of producing multi-family housing in California, Colorado, and Texas which found large differences. Production costs per net rental foot were 2.3 times higher for market-rate housing in California compared with Texas, and publicly subsidized rental housing was four times as costly in California as Texas market rate units. The differences were attributed to time delays, much higher development fees, requirements to use union labor, and "unusually large" engineering and architectural fees, likely the result of "highly prescriptive" requirements. The cost differences are consequential. "Halving the difference in market-rate production costs between California and Texas could reduce rental prices for new apartments in California by roughly 15 percent. Additionally, if California had Colorado's production costs for publicly subsidized affordable apartments, the roughly $1.25 billion in recent spending by the state's four largest funding programs would have produced more than four times as many units. The overlay of federal and state policies and programs along with actions at the local level is a major contributor to the failure of the housing marketplace to provide affordable housing." (Ward and Schlake 2025)

The State of California's recent efforts to increase housing production and affordability have changed almost all regulations on housing, including planning (increase housing unit obligations), zoning (Density Bonuses), Accessory Dwelling Units (ADUs) and Small-Scale Projects (more ministerial approvals), reduce parking requirements (near mass transit), expand housing in non-residential zones (override commercial or retail zoning near mass transit), entitlement review (streamline and increase ministerial categories), and California Environmental Quality Act (exemptions for select categories of housing – low income, near transit, Permanent Supportive for homeless) (Fulton, *et al.*, 2023).

Examination of the path dependencies in housing reveals nearly 30 federal policies and programs, more than two-thirds of which target low-income household. Despite this large effort, only about a quarter of eligible households are served by the income-qualified federal housing programs (Olsen 2003; Harvard

Joint Center 2025). State and local governments are involved in all also, as evidenced in California. The institutional design is not addressing the societal problem.

One powerful strategy is permissive authority to create political authority and financial capacity for action, well-illustrated in history of state permissive authorities for local governments to incorporate as municipalities and to create a wide variety of districts, joint powers, and other entities, each with associated powers regarding public finances.

Substate institutional change as an example of transforming public governance institutions

The arc of creating new substate institutional forms illustrates the effectiveness of permissive state provisions to join authority and finance capacity to act. States allow creation of municipalities or equivalents, a wide variety of special districts, and Joint Powers Agreements, among others, all with specifications regarding geographical boundaries, requirements for decision structures, specified powers of action, and of financing instruments. States similarly create permissive authority for a variety of debt instruments for use by units created, from general revenue to a variety of revenue-specific debt instruments. Multi-Functional Special Districts and Enhanced Infrastructure Financing Districts (EFIDs) are a logical extension of this arc but stripped to the essentials of setting boundaries to fit one or more goals, grants of authority to make decisions related to those goals, with broad access to revenue sources and to instruments of finance. Table 1 shows creation of new institutions, 1970s-2020s (Kirlin 2025b):

Table 1. Growth in types of substate units, 1970s-2020s

	Municipalities	Special districts (does not include education)	"Other" multi-function special districts	Home Owner Associations	Business Improvement Districts
1970s	18,517	23,885	122	10,000	
1980s	19,076	28,588	785	36,000	
1990s	19,279	31,555	1,044	130,000	
2000s	19,429	35,052	1,627	240,000	404
2010s	19,519	38,266	4,188	323,600	1,001
2020s	19,491	39,555	5,227	362,000	2,000
% change, 1970s-2020s	5.26%	65.61%	4184.43%	3520.00%	395.05%

Not shown in Table 1 are counites and equivalents as their numbers are effectively unchanged (1950=3103; 2020=3143). Note the differences between the growth in traditional general-purpose municipalities and more specialized units. Counties are exhaustive of all territory in a state and cannot overlap so once they are created in a state, their number rarely changes. Municipalities are not exhaustive but cannot overlap, and historically their number increased along with population growth.

- ✓ municipalities plateau (5.26 %)
- ✓ special districts increase (65.61 %)
- ✓ “other” multi-function districts explode (4128.43 %)

- ✓ Home Owners Associations increase nearly as fast (3520 %)
- ✓ Business Improvement Districts increase substantially (395.05 %)

There are no usable data on the numbers of Neighborhood and Community organizations created over time. They do not fit with those newly created entities included in Table 1 as they have no financing authority but are expressions of desire to address issues of place. Neighborhood entities are created by cities and counties, sometimes with consultative roles (e.g., land use, public safety). Cities may have many of these Neighborhood and Community organizations that endure over decades, with some having deliberative powers such as in the 90 neighborhood councils created in Los Angeles as part of a city charter revision (Musso *et al*. 2007). Community organizations emerged in the 1960-70s and continue usually as efforts to empower communities, where foci include human capital, social services, and public safety.

HUBs as a Strategy for NAPA

Institutional redesign needs to confront the challenges outlined above of the misalignment of various current institutions with societal needs, including overcoming dysfunctional path dependencies, the need to align with placed based, complex functional systems, and the need to create the wealth that can sustain funding for newly designed institutions.

Recently, the National Academy of Public Administration has developed HUBs as a catalyst for research and implementation of institutional redesign. These HUBs share four attributes: (1) Focus on actions to address an issue/problem in a defined geographic sub national place. (2) Emphasize capacities of public institutions to make decisions and to act including organizational competencies and access to financial resources, including specific funding sources. (3) Require engaging in a complex functional system, with multiple actors and varied interrelationships affecting outcome of any initiative. (4) Commonly assume sufficient knowledge of the problem and plausible policy to develop effective responses, coupled with the capacity to learn from action to clarify and improve knowledge to inform decision making and action.

NAPA Extreme Weather Resilience HUB - Case Study 5

The National Academy of Public Administration is launching a HUB focused on institutional design for adaptation to increase resilience to extreme weather events. NAPA is inviting partners and external funding to expand the initiative. Extreme weather events — typically hurricanes, floods, and wildfires affect all areas of the nation, with 403 weather and climate disasters since 1980 with damages of $1 billion or more (CPI adjusted) (National Centers for Environmental Information 2024). The projected revenue needs for building resilience to climate change by 2050 are estimated up to US $38 trillion, compared to 2023 US GDP of $28 trillion, with increased attention to "adaptation/resilience" versus "mitigation" costs (Kotz, Leverman & Wenz 2024; Wellington Management 2025).

As one example, the City of New York is identifying "flood protection districts" to increase resilience to storm surges and sea level rise, anticipating that most financing required will be generated locally (Lee 2025; City of New York 2021). In a second example, the County of Los Angeles is moving forward in creating a disaster recovery-focused Climate Resilience District (Dugan 2025) for financing replacement of infrastructure destroyed by extreme heat in the Palisades fire and burial of power lines to reduce future fire risk with a bond secured by increased property tax revenues. That case is examined below.

Mission The National Academy of Public Administration's Extreme Weather Resilience HUB's (the HUB) mission is to drive transformational changes in governance structures that enable local communities and governments to implement adaptive solutions and work effectively to navigate the increasing challenges of extreme weather events. Communities become resilient, having made decisions and completed projects that manage the risks of extreme weather events, allowing the community to thrive economically and socially over time. The HUB achieves this through designing and piloting governance structures with the legal authority to make needed decisions, competencies to implement those decisions, and capacity to generate revenues to implement their decisions. Those governance structures will be place-focised at the geographical scale which matches the extreme weather event of concern and driven to complete adaptation projects competently, within an adopted financing plan and timeline. Defining the boundaries of the needed governance structure to fit an extreme weather threat in a specific place will very frequently not match boundaries of existing local governments. The HUB will focus largely on projects within the United States but may also participate in projects abroad.

County of Los Angeles Disaster Recovery – Case Study 6

In the middle of winter, January 2025, warm and dry Santa Ana winds of over 100 mph spread wildfires over a large geography that resulted in damages of $70 billion and 38 deaths, the costliest fire disaster in Los Angeles County history and possibly in the nation. Embers from trees in the surrounding areas travelling miles spread the fire quickly and widely. Los Angeles Board of Supervisor Chair, Kathyrn Barger led the effort to seek emergency modification (SB782, 2025) streamlining the establishment process of Climate Resilience Districts (CRD) and provided permissive authority to address the mitigation cost needed to reduce risk, and cover specified expenditures to prevent future risks. Changing weather conditions are significantly increasing the risk and intensity of these events resulting in significantly higher cost and reducing availability of insurance.

This strategic move to deal with risk mitigation enables transformational financing programs that will enable the new CRD to deal with the fast-rising leverage issue -mitigation of risk. In the past the immediate action has been to rebuild the area as quickly as possible, leaving the area exposed to the high-risk and causing insurers, particularly the reinsurance companies, to back away from these areas. The insurance industry, a key partner in the HUB, has noted that the CRD legislation created the capacity to form community mutual risk pools that could partner with the industry to deal with this leverage issue, a use of the contractual dimension of the CRD. Additionally, the industry is assisting in bringing non-admitted insurance companies (not part of the state regulated system, but recognized by the state), that use AI to assess physical metrics of wind, slopes and soil dryness in actuarial analysis, to participate in these areas. The transformational investment strategy is made possible by the institutional design of the CRD approach of designing public joint ventures that work in tandem with cross-sectorial contract partnerships.

Appendices

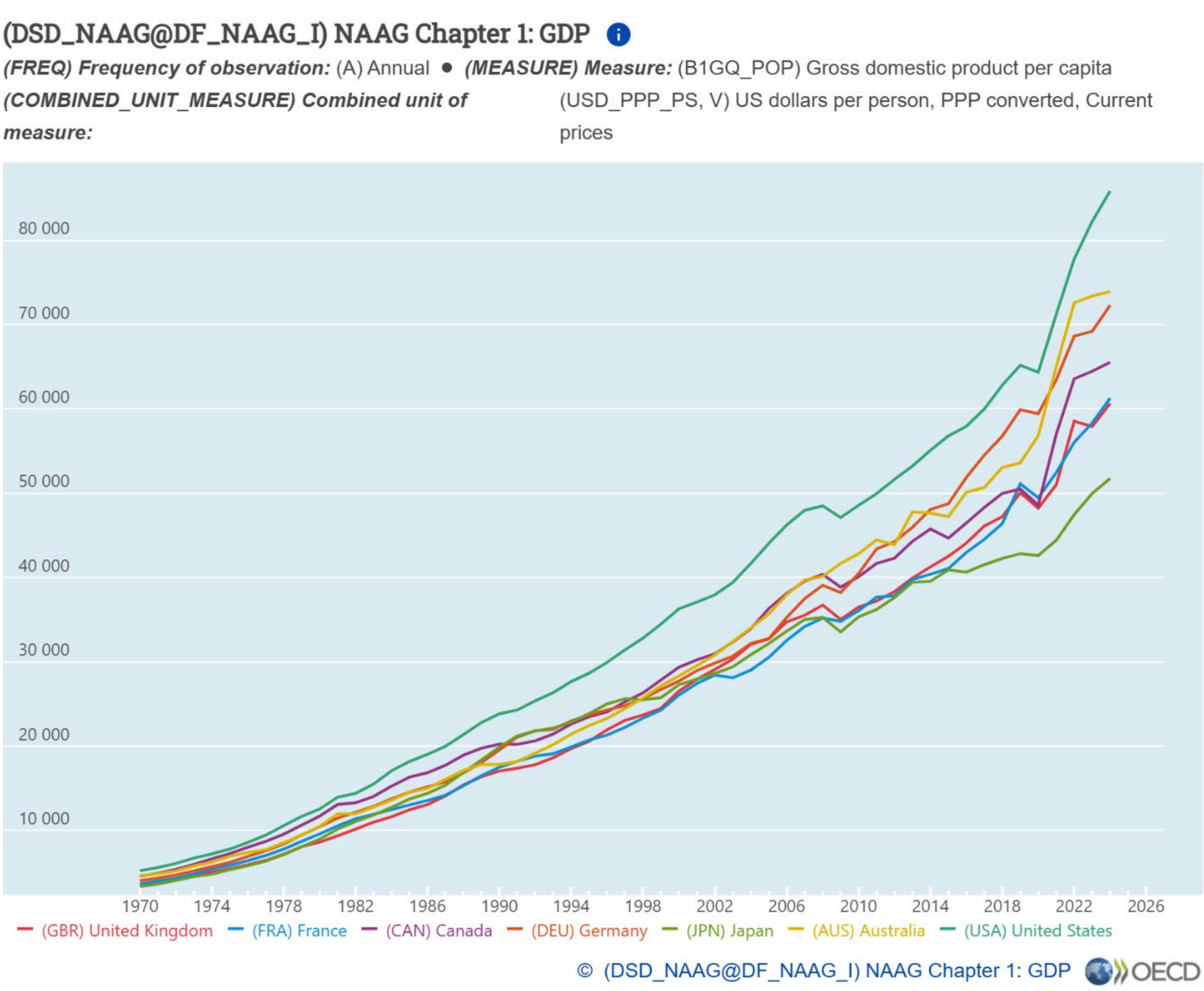
The need to identify, assess, and test strategies to transform current institutions is pressing. Strategies should be developed at levels of government -federal, state, local – and in major policy systems, such as health, housing, or adaptation to climate change. Many strategies will cross governmental levels, but the focus should be on institutional changes, not on improvements in operations of a single agency or program. The Appendix materials provide context and support the need for transformation, rather than incremental improvements of current systems and practices.

A.1. Comparatively, the United States has done very well economically, but faces economic challenges, leading to constrained public finances

Figure A-1 is a comparison of GDP per capita of the US vs selected peer nations in US dollars adjusted for Purchasing Price Power (PPP), 1970-2024 (OECD 2025). Not shown on the figure are the values for 2024, from the highest down:

Nation	U.S. dollars, 2024
United States	85,832
Australia	73,922
Germany	72,295
Canada	65,533
France	61,258
United Kingdom	60,620
Japan	51,673

Figure A-1. GDP/Capita US and peer nations, 1970-2024



The strong economic performance of the United States receives attention, seen in Luhnow and Fairless's (2025) arguments that "Europe is Losing" with its nations have fallen "far behind" in economic dynamism, technology, and economic and diplomatic influence.

Challenges are predicted in sustaining economic performance and financing governments

McKinsey (2025) focuses on the impacts of slower population growth and an aging population on economic performance in the United States, predicting it will slow. The OECD (2025) projects increasing fiscal challenges from the same factors for member nations, including the United States. The Congressional Budget Office (2025) makes similar projections regarding demographics, economic performance, and fiscal strain in the United States. Other analyses show similar structural constraints on public finances. Debt is 122 % of GDP and current deficit is 6.3 % of GDP (Federal Reserve Bank of St. Louis, 2024). An aging population reduces growth of the labor force, projected to drop from .8% annually for the past 30 years, to .4% for the next 30 years, slowing growth in the economy and government revenues (Congressional Budget Office 2024).

States are required to adopt balanced budgets and the Pew Research Center's ongoing "Fiscal 50" project analyzed state fiscal balance of revenues and expenditures over a fifteen-year period (2008-2022). To address the variability in states, the summary fiscal health data used is total revenues (state and local) as a percentage of total expenditures. The 50-state median revenue was 103.6% of expenses over the 15 years. Additionally, each census region accumulated a long-term surplus, with the median for the West leading at 105.2%, followed by the South (104.3%), Midwest (104.1%), and Northeast (101.7%). However, six states had revenues less than expenses over 15 years, listed in ascending order of shortfall: New York, Hawaii, Massachusetts, Connecticut, Illinois, and New Jersey.

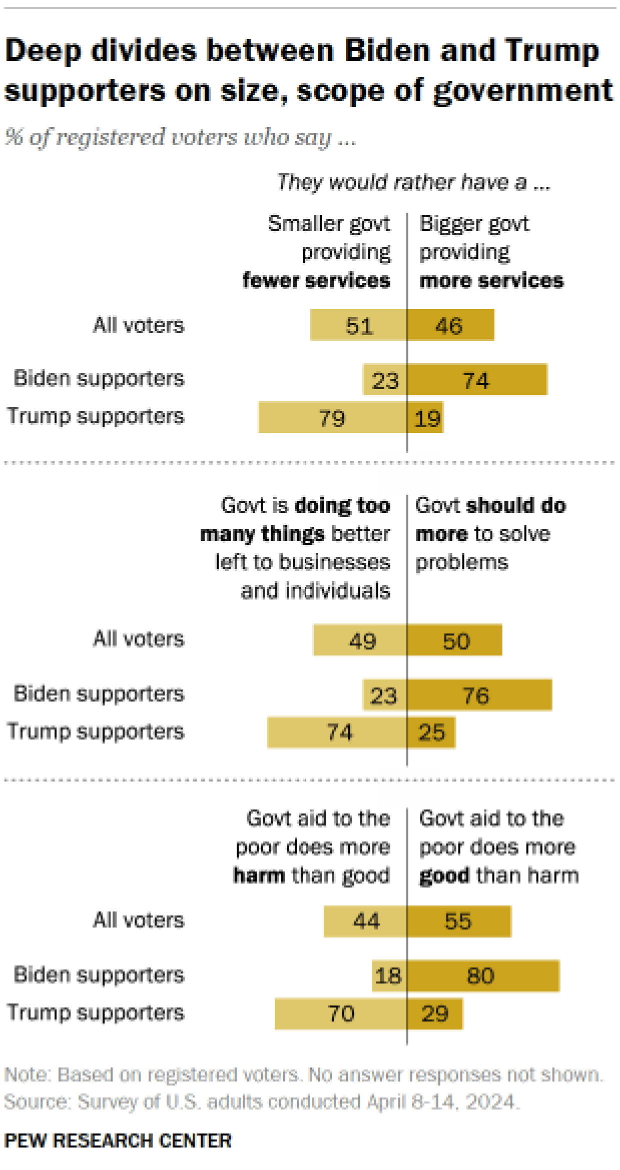
When full liabilities for pensions and OPEB (other post-employment benefits, such as health and life insurance) are included, the fiscal situation of states is more constrained. Truth in Accounting (2025a) publishes a report which includes data provided in compliance with the accounting standards upgrade from the Governmental Accounting Standards Board (GASB), requiring states to disclose their liabilities related to pension benefits (GASB 68, effective fiscal years beginning after June 1 2015) and retiree health care benefits (GASB 75, effective beginning fiscal years beginning after June 1 2017) on their balance sheets. That analysis concludes that “Collectively, all fifty states had $2.1 trillion in assets available to pay their bills. However, their total debt, including unfunded retirement benefit obligations, reached $2.9 trillion. This debt includes $840 billion in pension liabilities and $492 billion in other postemployment benefits (OPEB), primarily from retiree health care costs.” (Truth In Accounting 2025a, p 7) In ascending order of debt burden per taxpayer, the five “sinkhole” states were California-$17,400, Massachusetts-$25,400, Illinois-$37,000, New Jersey-$42,500, and Connecticut-$44,300.

A similar calculation including unfunded liabilities (especially for Social Security and Medicare) increases the debt of the United States from $37.2 trillion reported by the US Treasury (2025) to $158.6 trillion, equivalent to $974,400 for every taxpayer (Truth in Accounting 2025b). The Penn Wharton Budget Model calculates “Complete Measures of U.S. National Debt” differently but to an equivalent result: “Focusing only on explicit debt is misleading due to significant underfunding of OASDHI [Social Security and Medicare] programs. Adding explicit debt ($26.2 trillion) and implicit obligations ($65.7 trillion) brings total federal indebtedness to $91.9 trillion, or 340% of 2023 GDP. Extending tax and spending projections to cover all current and future generations, the infinite horizon fiscal imbalance is $162.7 trillion, or 6.6% of the present value of all future GDP.” (Penn Wharton 2025, p 5)

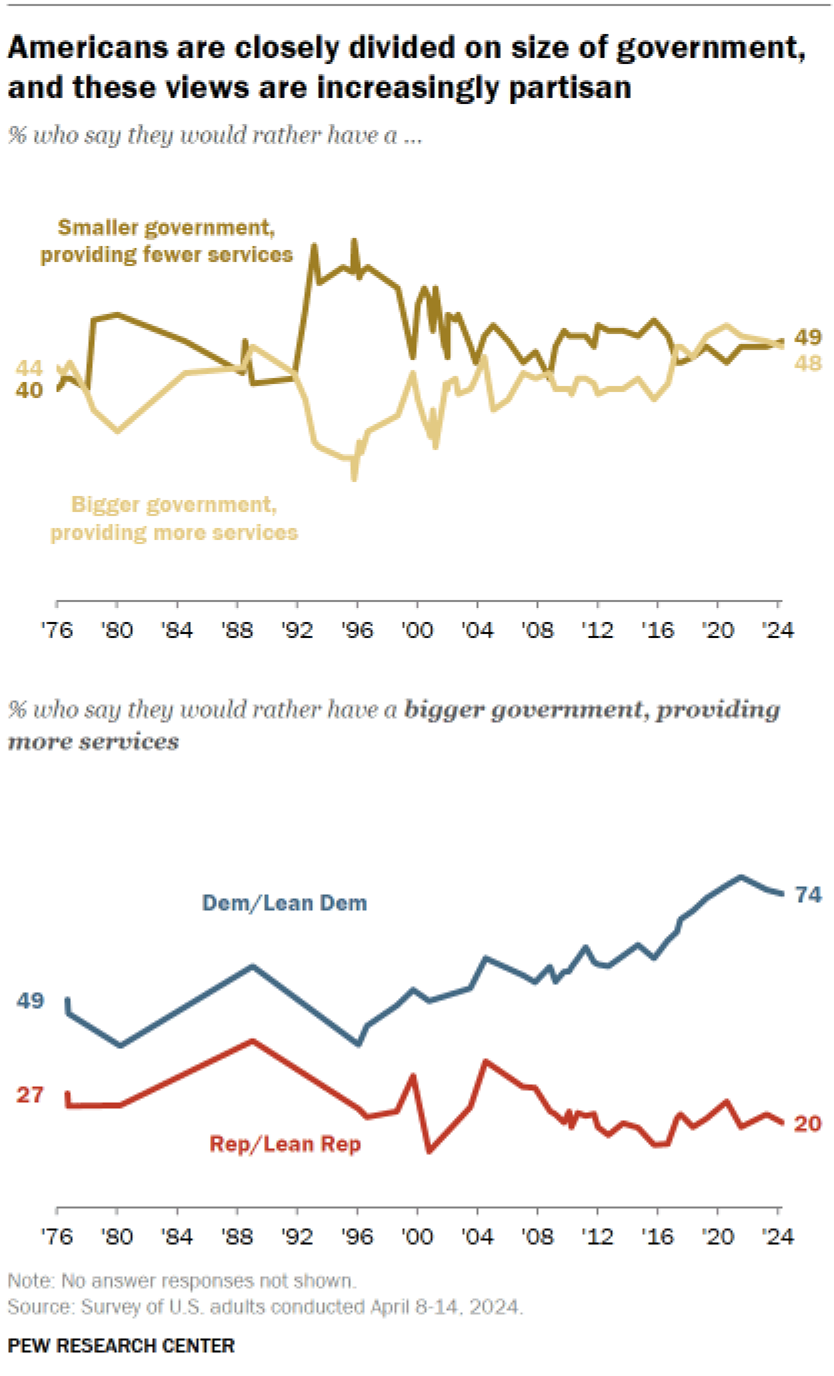
In summary, current revenues are inadequate to meet current obligations of the federal government and the current finances of states vary. However, when unfunded liabilities are included, both the national and state government financial situation worsens. Moreover, future revenues will diminish because of demographics. Approaches to addressing pressing issues based on expectation of increased public expenditures from current revenue sources are unlikely to succeed. Peer nations face the same challenges, illustrated when German Chancellor Merz stated “the welfare state that we have today can no longer be financed with what we produce in the economy.” (Editorial Board, *Wall Street Journal* 2025).

A.2. Citizen division and pessimism must be recognized and addressed to achieve transformational changes

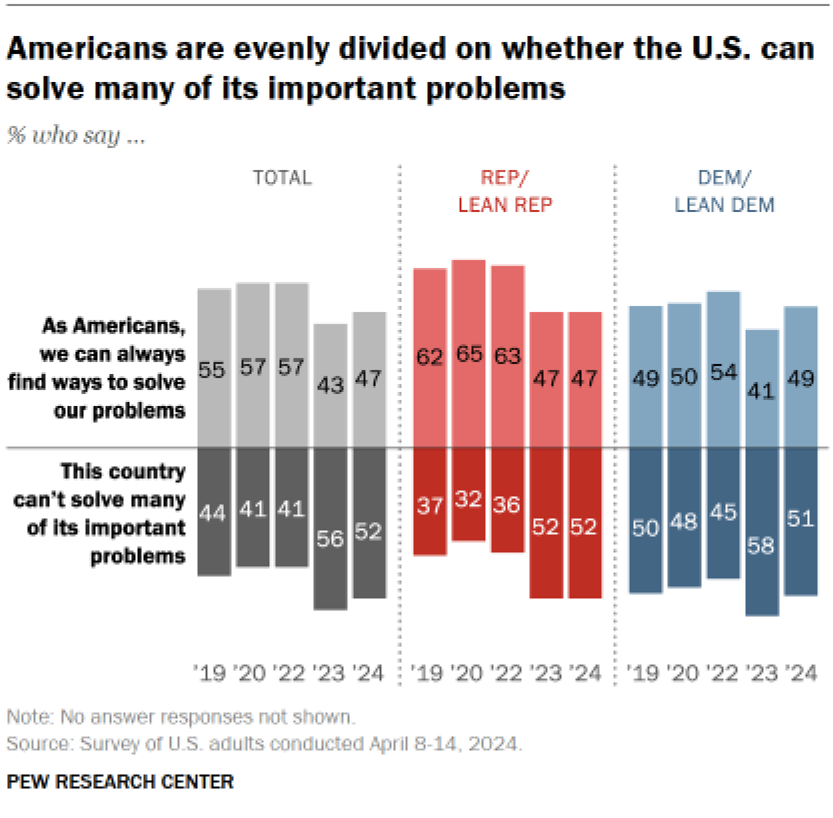
Citizens in the United States are divided about the size and scope government, not optimistic about the nation, and have mixed expectations about citizen capacity to work together. Pew (2024, p 3) surveys show partisan differences regarding the preferred scope and size of government and the performance of government.



The differences are increasingly partisan (Pew 2024, p 7).



Republicans/Lean Republican have more positive expectations about the capacity of the nation to solve important problems than do Democrats/Lean Democrat respondents. In four of five years surveyed, they reported more positive expectations. (Pew 2024, p 7)



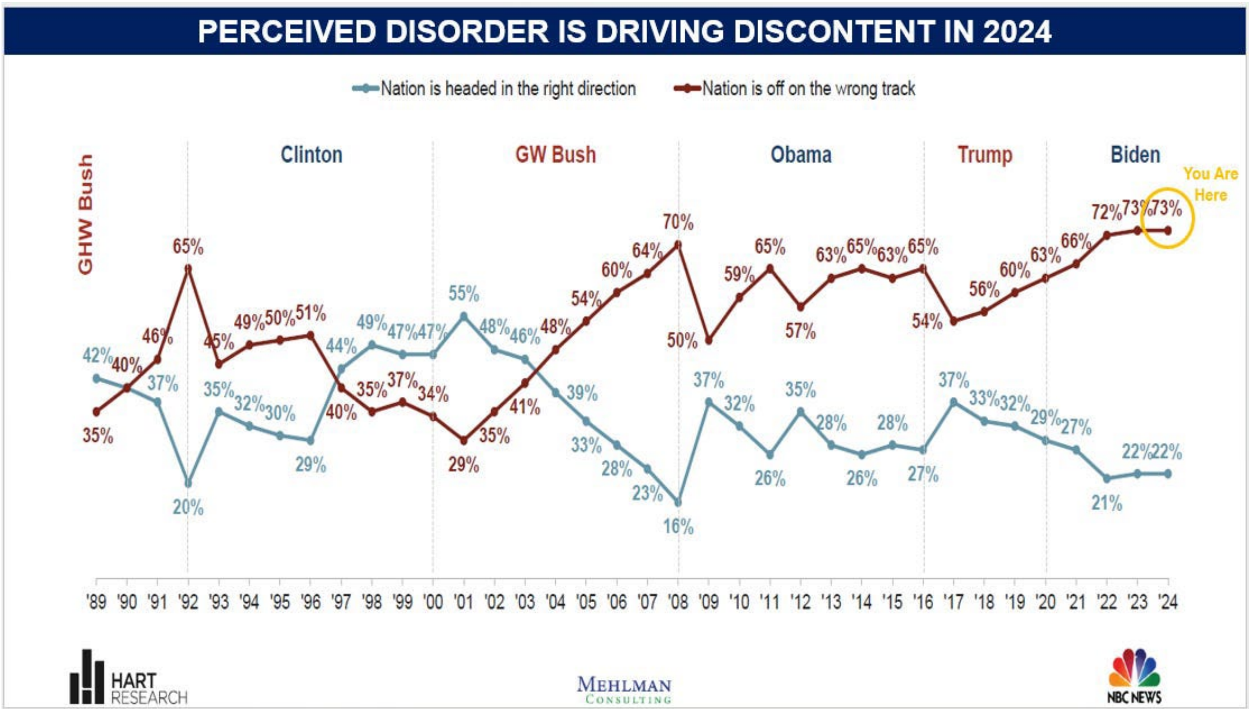
However, young adults are notably pessimistic about the country's ability to solve problems. About half of Americans (52%) in 2024 said the U.S. cannot solve many of its important problems, while 47% say it can find a way to solve problems and get what it wants. Six-in-ten adults under age 30 (62%) say the nation cannot solve major problems, the highest share in any age group and sixteen points higher than two years ago. (Pew 2024, p 6)

Relatedly, Cox (2025) reports on a survey by the Center on American Life finding:

> Overall, Americans have a generally positive view of their fellow citizens. For instance, 57 percent of the public say they have a fair amount or a great deal of confidence that Americans honestly report their full income when paying their taxes. Nearly six in 10 (58 percent) members of the public say they have at least a fair amount of confidence that Americans can work together to solve community problems (58 percent) or that they will generally treat others with respect (59 percent). More than six in 10 (63 percent) say they have a fair amount or a great deal of confidence that Americans will do what they can to help those in

> need. Two-thirds (67 percent) of the public say they are confident that Americans will obey federal and state laws, although a smaller portion (56 percent) believe this is the case when Americans disagree with those laws.
>
> However, Americans are far less confident that their fellow citizens are willing to compromise on issues important to them. Only 42 percent of the public say they have a fair amount or a great deal of confidence that Americans will compromise on the issues they care about.
>
> Liberals have a far more negative view of the American public than conservatives do. Fewer than one in three (31 percent) liberals believe Americans are willing to compromise on important issues, compared with nearly half (48 percent) of conservatives. Just under half (49 percent) of liberals believe the American people can work together to solve community problems, a view held by nearly two-thirds (64 percent) of conservatives. Only 49 percent of liberals are confident in their fellow citizens' capacity to treat other people with respect; in contrast, more than two-thirds (68 percent) of conservatives are confident in the American public's capacity to do this.

From a different perspective, Mehlman (August 2024) analyzed responses to the survey question "is the country headed in the right direction?" or "off on the wrong track" to illustrate increased pessimism over time. https://brucemehlman.substack.com/p/six-chart-sunday-29-whos-the-change?utm_source=publication-search



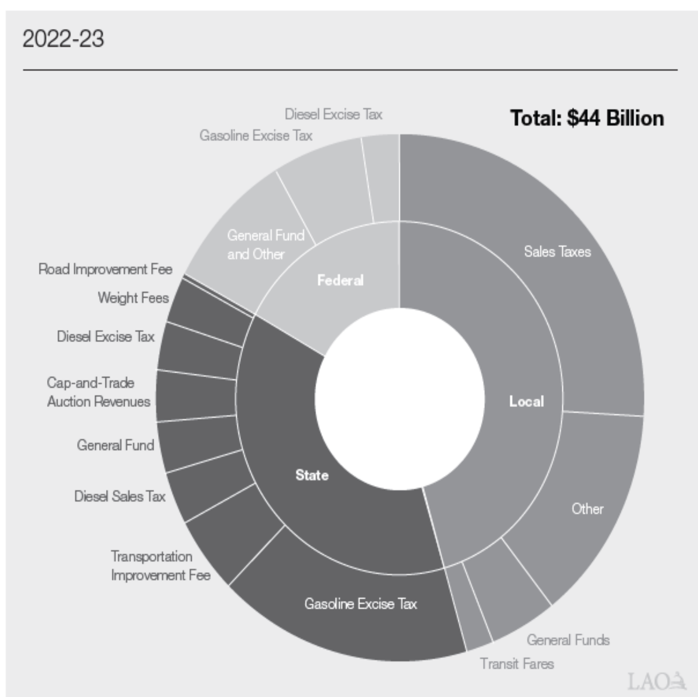
This sentiment is reflected also in a WSJ/NORC survey (2025, p 7) responses about opportunities for the next generation. In response to questions "How confident are you that your children's generation will be able to…"pay unexpected medical expense" or "buy a home," fifty-five percent of respondents were "not very/not at all confident" regarding the unexpected medical expense and sixty percent regarding buying a home.

These surveys suggest that governments must earn support and trust from citizens. That is unlikely to be achieved by promises alone. Performance in moving forward on critical societal goals is a plausible strategy to that end, as noted by Moynihan (2025).

A.3. Permissive authority as a strategy to support institutional transformation

Introduction of permissive authority to make formal decisions and to access a new revenue source can have substantial effects which rise to a level of institutional change. California’s Local Option Sales Tax for transportation and Tax Increment Financing for infrastructure and housing are examples. Twenty-five counties in California have “Local-Option Sales Taxes (LOST),” which are voter-approved rates on top of the state sales tax, devoted to specific transportation projects. In FY 2020-21, these summed to more than $5.8 billion. The California Legislative Analyst Office (2025) concludes that total federal, state, and

Transportation Funding Comes From Various Sources



Transportation funding in California comes from federal, state, and local sources. In 2022-23, we estimate that transportation funding in California local transportation expenditures in 2022-23 totaled $44 million. Federal funds were about one-fifth, state funds about one-third, and local funds slightly less than half. The LOST revenues equaled 13% of the total, about two-thirds the amount of federal funds. Two analyses found institutional level impacts on transportation projects funded: a slight reduction in Vehicle Miles Traveled (Barbour and Thoron 2025) and increased political accountability to county voters (Wachs, Marks, King, Lederman, and Guy 2020).

While federal funds are about one-fifth of total government spending on transportation, they are significantly less in government spending on housing in California. To illuminate the importance of state permissive authority to access authority and finances to address housing, this analysis focuses on the 2001-2008 period, when good data are available. In FY 2008, California received $39.3 million in CDBG funds from the federal government (Department of Housing and Community Development, State of California 2025) and $81.7 million in federal Low Income Housing Tax Credits (Treasurer, State of California 2008), for a total of $121 million. In contrast, total Tax Increment revenues available to local Redevelopment Agencies in FY 2008-09 were $5.7 billion. The State was also allocating bond funds approved by voters in 2002 (Proposition 46) and 2006 (Proposition 1C) and had allocated approximately $1.8 billion of Proposition 46 funds and approximately $1.1 billion of Proposition 1C funds by 12/31/2008. Allocating Proposition 46 and 1C funds equally over the years since passage, RDA and State bond funds approximated $6.6 billion in 2008, more than fifty times the federal LIHTC and CDBG funds received that year.

The use of Tax Increment Financing (TIF) in California reveals widespread adoption by cities, counties and some special districts between first availability in 1952 and elimination in 2012, mostly by Redevelopment District Authorities (RDAs). In 2012, there were over 400 RDAs created mostly by cities, then numerically by counties, and a few joint powers authorities, with nearly 800 project areas with an estimated $5.2 billion of increment revenue. RDAs had statutory obligations directing 20 percent or more of tax increment received to the State Low- and Moderate-Income Housing Fund and to meet targets if they built new or replaced housing. When RDAs directly built housing, 30 percent or more had to be affordable and 50 percent or more of these units had to be for very low-income households. These units were most of the affordable and very low-income units built in the state during this period.

In the FY2001-FY2008 period, RDAs created 63,600 new affordable housing units, of which approximately 44 percent were at very low-income levels. California voters approved Proposition 46 Bond (2002) and Proposition 1C Bond (2006). In the comparable 2001-2008 period, approximately 26,600 affordable housing units and approximately an additional 4,300 units designated by program to very low-income households were created with funds from these two bonds, though some other programs also provide very low-income housing (California Department of Housing and Community Development, various years). An analysis of an earlier period includes data on rehabilitation of units. In the singe fiscal year of 1994-1995 RDAs spent $3.3 billion to build approximately 4,311 very-low or low-income units and rehabilitated 4,016 housing units (Dardia 1998, p 85). In summary, before elimination, local RDAs created just more than twice as many affordable and very low-income housing units as two state bond-financed programs and additionally rehabilitated thousands of additional units.

Analyzed as institutions, the statutes providing permissive authority for Redevelopment Authorities and Tax Increment Financing were widely used by California Cities and Counties for infrastructure, improvements, and housing in area designated as "blighted." The RDAs provided most of the new affordable and very low-income housing constructed with State and locally generated funds during the 1952-2012 period and rehabilitated additional housing. Ending the authority to create RDAs in 2012 dramatically changed the institutional matrix of publicly supported housing construction and rehabilitation in California. While there were complaints that some RDAs were stretching definitions of blighted areas and some not doing enough housing projects, the immediate trigger to terminate RDAs was a projected State $13 billion structural deficit for FY2012-13 (Legislative Analyst Office 2012). "The

State's main motivation for dissolving RDAs was to reallocate redevelopment funds back to school districts, a step that would then reduce the need for the State to backfill these budgets (Governor's Office of Planning and Budget 2020 pp 19-20).

The new institutional matrix is structured by state bond funds, local bond funds, and appropriations from general funds when possible and provides reduced funds that would have been available if RDAs still existed. More decision making moved to state level where difficulties and high transaction costs (Reid 2025) in moving projects through different processes grants, loans and federal Low Income Housing Tax credits led Governor Newsom to create a new Housing and Homeless Agency. It only partially addresses current fragmentation and duplication (Reid 2025; Christopher 2025).

Discussion of public housing must take place within the context of construction of housing by the private sector, as it is intended to meet needs not met by private actors. In 2015, the California Legislative Analyst Office (2015, p 3) reported that "Beginning in about 1970, however, the gap between California's home prices and those in the rest country started to widen. Between 1970 and 1980, California home prices went from 30 percent above U.S. levels to more than 80 percent higher. This trend has continued. Today [2015], an average California home costs $440,000, about two-and-a-half times the average national home price ($180,000). Also, California's average monthly rent is about $1,240, 50 percent higher than the rest of the country ($840 per month)."

This pattern continues. Johnson and McGhee (2024, p 2) report "…California's median value for owner-occupied housing…is $753,000… more than twice the national median value and the state's median rents remain about 50% higher." Among the consequences of higher prices are lower homeownership rates (fourth lowest among states) and substantially higher rates of renters paying over half their income in rents than the national average. "But the gap in housing stress between California and the rest of the country has been growing most among the middle class. It is a sign of the severity of the housing crisis that one in six middle-class renters in California are now spending over half their income on housing." They also conclude that high housing costs contribute to increased homelessness and drive Californians to leave the state, with "…the net outflow has been highest among precisely the lower- and middle-income Californians who have been hit hardest by the cost crisis."

Levin, Botts, Tobias, Kendall, and Yee (2025) report that the most recent point in time survey found 187,084 unhoused individuals in California, an increase of nearly 40% in five years. "That means 24% of the country's entire homeless population lives in California. Of those, an estimated 123,974 are "unsheltered," meaning they sleep outside, in tents, in cars or in other places not meant for human habitation. Nearly half of the country's unsheltered homeless population resides in California, making the Golden State the epicenter of the crisis nationwide."

A major factor in California's shortfall in housing was dramatic slowing of construction of housing in coastal areas where two-thirds of the state population live. In the 30 years between 1940 and 1970 the housing stock in those areas increased 200 percent, but in the 30 years between 1980 and 2010, the housing stock increased by only 34 percent (California Legislative Analyst's Office 2015, pps. 10-11). One reason is that preparation of sites for development and building of housing has become subject to increased requirements, numbers of permits required, and greater discretion by regulators across the nation, with California often leading the nation in requirements.

Longtin (1999) analyses evolution of these regulations over 150 years, finding the greatest change occurring in the 1970-1980 decade. Federal acts focused on environmental pollution, including waste (1970 and 1976) water (1972), noise (1972), and clean air (1977). California often enacted state statutes in the same areas, but other changes had larger effects, including required subdivision consistency with mandated long-term comprehensive land use plans of cities and counties (1972), a tightened the Subdivision Map Act (1974), and adoption of the California Environmental Protection Act (1970) which the Mammoth decision (1972) of the California Supreme Court applied to public approvals of private projects such as subdivisions to build housing . The Coastal Protection Act (1972) Proposition passed by voters imposed new planning requirements and restrictions on land uses adjacent to the coast. The impacts of these laws were amplified by court decisions on delayed vesting, tight ripeness criteria, short statutes of limitation, strict judicial review, and limited remedies. Local growth control restrictions adopted by city councils or local initiatives created further barriers to housing construction in specific locales.

The cases illustrate the necessity to develop strategies to change the complex functional system relevant to any policy area (Kirlin, 1996). Both the transportation and housing cases examined seek to achieve results in the complex functional system of the built environment, including at least:

- ✓ land use and construction permitting authorities,
- ✓ an ecosystem of federal and state regulations of environmental issues and workforce use,
- ✓ another ecosystem of organizations establishing standards for all elements of construction (e.g., grading and evacuation, electrical, plumbing, and wood, steel, or concrete construction),
- ✓ insurance industries,
- ✓ construction firms,
- ✓ supply chains of construction materials,
- ✓ finance of construction,
- ✓ finance of users,
- ✓ and demographics and economic status of users

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