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# **Commission on Enhancing Agency Outcomes**

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Final Report to  
the Governor, President Pro Tempore of the Senate,  
and the Speaker of the House  
State of Connecticut

Pursuant to Public Act 09-7  
September Special Session

December 30, 2010



# Commission on Enhancing Agency Outcomes Members

## By Virtue of Office

**Senator Gayle Slossberg, Co-Chair**  
Government Administration and Elections  
Committee Chair

**Representative James Spallone, Co-Chair**  
Government Administration and Elections  
Committee Chair

**Senator Michael McLachlan**  
Government Administration and Elections Committee Ranking Member

**Representative John Hetherington**  
Government Administration and Elections Ranking Member

**Senator Toni Harp**  
Appropriations Committee Chair (or designee)

**Representative John Geragosian**  
Appropriations Committee Chair (or designee)

**Senator Dan Debicella**  
Appropriations Committee Ranking Member (or designee)

**Representative Craig Miner**  
Appropriations Committee Ranking Member (or designee)

**Senator John Kissel**  
Program Review and Investigations Committee Chair (or designee)

**Representative Mary Mushinsky**  
Program Review and Investigations Committee Chair (or designee)

**Secretary Robert Genuario**  
Secretary of the Office of Policy and Management (or secretary's designee)

## By Virtue of Appointment

**Representative Robert Megna**  
Speaker of the House Appointee

**Representative Russell Morin**  
Speaker of the House Appointee

**Senator Bob Duff**  
Senate President Pro Tem Appointee

**Senator Gary LeBeau**  
Senate President Pro Tem Appointee

**Chancellor Emeritus William Cibes**  
House Majority Leader Appointee

**Shelley Geballe**  
Senate Majority Leader Appointee

**Representative Vince Candelora**  
House Minority Leader Appointee

**William Aniskovich**  
Senate Minority Leader Appointee

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## **Commission on Enhancing Agency Outcomes Key Events**

**March 3, 2009:** Commission on Enhancing Agency Outcomes established via P.A. 09-2, Sec. 9, An Act Concerning Deficit Mitigation Measures for the Fiscal Year Ending June 30, 2009.

- Goal to reduce state costs and enhance quality and accessibility of state services by:
  - identifying functional overlaps and other redundancies among state agencies; and
  - promoting efficiency and accountability in state government:
    - by identifying ways to eliminate such overlaps and redundancies;
    - making such other recommendations as the commission deems appropriate
- Consider merging state agencies such as (1) the Departments of Mental Health and Addiction Services and Social Services, and (2) the Connecticut Commission on Culture and Tourism, portions of the Office of Workforce Competitiveness and the Department of Economic and Community Development
- Findings and recommendations report due by July 1, 2009, to legislative leaders and the governor
- Each agency under consideration by the commission to provide, in a timely manner, testimony, data and any other information or materials the commission requests for purposes of its review and deliberations
- Administratively staffed by GAE personnel and nonpartisan legislative staff
- Terminate on the date findings and recommendations report submitted or July 1, 2009, whichever is later.

**March 18, 2009:** Commission meeting: Organizational

**April 24, 2009:** Commission meeting: IBM representative and consultant connected to IBM presented information about electronic approaches to state government infrastructure, cost savings, and efficiency improvements, as well as to enhancing human services efficiency and effectiveness.

**April 27, 2009:** Commission public hearing in New Haven (7:00 p.m., New Haven City Hall)

**April 30, 2009:** Commission public hearing in Danbury (7:00 p.m., Danbury City Hall)

**May 27, 2009:** Commission meeting: Office of Child Advocate made presentation entitled *Lessons From Across the Country: Improving Human Services Delivery* (with case study of the Allegheny County (PA) Department of Human Services).

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**September-October 2009: CEAO amended and reconstituted as described below**

**September 8, 2009:** Biennial budget for FYs 2010-2011 enacted; Sec. 56 repealed and amended one subsection of the original public act (PA 09-02 (Sec. 9)) that authorized CEAO, specifically subsection (g) that set reporting requirements and termination dates. The original findings and

recommendations report due by July 1, 2009, was changed to an initial report due by July 1, 2009, with periodic reports also to be submitted. The commission termination date was changed to June 30, 2010.

Another section of the biennial budget made CEAO responsible for budget lapses in each FY (FY 10-\$3 million; FY 11--\$50 million) (P.A. 09-3 June Special Session, An Act Concerning Expenditures and Revenue for the Biennium Ending June 30, 2011)

**October 2, 2009:** Implementer bill for biennial budget enacted; included a strike all amendment to PA 09-02, Sec. 9, which changed CEAO responsibilities, membership, reporting requirements, and duration

- agency specific merger references deleted and changed to general consideration of agency mergers and streamlining state operations
- added Legislative Program Review and Investigations Committee (PRI) co-chairs to CEAO membership, and requires PRI to assist the commission, within existing budgetary resources, as determine by PRI (i.e., loan PRI staff)
- Initial report to identify subjects for further review due by February 1, 2010
- Full report in findings and recommendations due no later than December 31, 2010.
- CEAO termination date December 31, 2011.

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**November 30, 2009:** Newly reconstituted commission met: Members received a document called Proposed Areas of Focus, which was a preliminary list of all the ideas gathered by the commission to date, requiring further review.

**December 14, 2009:** Commission public hearing in Hartford to seek feedback on the CEAO preliminary list and receive additional ideas for savings and service improvements.

**December 17, 2009:** PRI committee votes to direct PRI director to assign some PRI staff upon the completion of the 2009 PRI projects to assist CEAO in developing the initial report required no later than February 1, 2010.

**January 22, 2010:** Commission meeting - Reviewed the preliminary Proposed Areas of Focus list, re-organized by topic area, along with ideas from December 14 public hearing.

**January 27, 2010:** Commission meeting - Reviewed draft initial report and made changes

**February 1, 2010:** CEAO Initial Report identifying subjects for further review delivered to legislative leaders and the governor.

**March 18, 2010:** Commission meeting—Staff presented summaries on ideas about: implementing the LEAN process; the City of Middletown providing water to Connecticut Valley Hospital; longevity payments to state employees; and moving additional state agencies to the DAS SmART unit. Information was also provided on the attrition rate for state employees, along with a comparison of 2010 bills to consolidate economic development agencies. General

discussion on what commission wanted to focus on and get more information about, based on Initial Report.

**April 7, 2010:** Commission meeting – Staff presented summaries on ideas about: requiring direct deposit of all state payroll checks; pursuing a Section 1115 Medicaid Waiver for SAGA and fully implementing the state’s drug recycling program. Information was also provided about state employee compensation compared to private sector compensation, along with an inventory of all Connecticut permits and licenses. General discussion on what commission wanted to focus on and get more information about, based on Initial Report.

**June 21, 2010:** Commission meeting – Staff presented a summary about the proposal to close Cedar Ridge Hospital, and provided further information on direct deposit, discussed at the previous meeting. Also, staff provided material from the gubernatorially-established State Post-Employment Benefits Commission, which staff was monitoring for CEAO (the PEB Commission was operating during the same time period as was CEAO). General discussion on what commission wanted to focus on and get more information about, based on Initial Report.

**July 28, 2010:** Commission meeting – Staff presented further information about possible expansion of the DAS SmART Unit, direct deposit, including costs and legal concerns about mandating direct deposit, and Cedar Ridge closure

**August 11, 2010:** Commission meeting -The Commission on Aging and the Connecticut Business and Industry Association presented information on the state’s long-term care situation based on the State’s Long Term Care Plan and a report by the Regional Institute for the 21<sup>st</sup> Century. The commission agreed to send a letter to the governor asking for priority action on long-term care solutions.

**September 15, 2010:** Commission meeting – Staff presented: a summary on increasing Medicaid generic drug use and cost reduction; description and analysis of selected state personnel statistics, based on staff use of CORE-CT; information about CREC administrative costs (see OLR memo in Appendix U); and further information about expanding the drug recycling program. The commission also received a letter from DAS containing its analysis of further SmART unit expansion, as requested by the commission.

**November 22, 2010:** Commission meeting – Based on commission work to date and the February 1, 2010, initial report, staff presented a draft list containing: thirty-two proposals to achieve potential savings, fifteen additional proposals to enhance outcomes but not necessarily save money, and four areas for further exploration.

Also, staff provided additional reports, most pertinent to proposals on the draft list: Long-term health care costs; selected state expense areas (e.g., contracting and purchasing (based on CORE-CT information)); Department of Revenue Services audits, collections, and enforcement of tax obligations; personnel statistics for human services agencies; Temporary Assistance for Needy Families (TANF) emergency fund update; Department of Motor Vehicles Function Overhaul; corrections and community-based services; selected Department of Children and Families (DCF) family intervention programs; posting state agency regulations on-line; streamlining charitable

gaming within Division of Special Revenue; economic competitiveness in Connecticut; energy efficiency in state buildings; federal assistance for veterans; inpatient inmate medical services payment; and state employee retirement statistics. A report on the prescription drug purchasing program by the Department of Social Services was also provided to the commission.

**November 29, 2010:** Commission meeting – Commission discussed and took action on the draft proposal list presented at the last meeting. The commission accepted many of the proposals as written, amended some, and chose to not vote on some.

**December 15, 2010:** The commission received a draft of the final report. The commission voted to accept the report with some changes, which were discussed at the meeting. There were 13 members who voted in favor of accepting the report, and one member voted in opposition. (See letter from OPM Deputy Secretary, Michael Cicchetti, regarding reasons for opposing the report, contained in Appendix W.) The commission decided that in addition to legislative leaders, the report should be transmitted to Governor-elect Malloy and the newly appointed Secretary of the Office of Policy and Management. Also at the December 15 meeting, the CEAO Republican members presented a letter to the chairs outlining proposals, in addition to those contained in the report, where cost savings might result. (see Appendix X)

## Commission on Enhancing Agency Outcomes Final Report

### Background

**Commission charge.** The Commission on Enhancing Agency Outcomes was first established in February 2009 by legislation enacted by the Connecticut General Assembly to mitigate the FY09 state budget deficit (P.A. 09-2, Sec. 9). The authorizing language articulated the goal of the commission —“*to reduce state costs and enhance the quality and accessibility of state services.*” To achieve that goal, the commission was directed to:

- identify functional overlaps and other redundancies among state agencies; and
- promote efficiency and accountability in state government:
  - by identifying ways to eliminate such overlaps and redundancies;
  - by considering the merging of state agencies and streamlining state operations; and
  - by making such other recommendations as the commission deems appropriate.

Commission activities. Under its initial charge, the commission met five times from March to May 2009, including two public hearings in New Haven and Danbury, and three commission meetings: an organizational meeting; a second meeting which focused on electronic approaches to state government infrastructure and other information technology issues; and the third on ways other area of the country had improved human services delivery.

While the initial legislation had not required a specific amount of cost savings for the commission to identify, the 2010-2011 biennial budget approved in August 2009 gave the commission a bottom line: it was responsible for budget lapses in both FY10 (\$3 million) and FY11 (\$50 million). The August legislation, however, did not assign any staffing to the commission to help it identify these cost savings or to assist the commission as it carried out its charge.

However, provisions contained in the implementer bill for the 2010-2011 budget changed several aspects of the commission including:

- deleted agency-specific merger references; changed to general consideration of agency mergers and streamlining state operations;
- added Legislative Program Review and Investigations Committee (PRI) co-chairs to CEO membership, and required PRI to assist the commission, within existing budgetary resources, as determine by PRI (i.e., loan PRI staff);
- imposed a reporting date to identify subjects for further review, due by February 1, 2010;
- included a reporting date of findings and recommendations, due no later than December 31, 2010; and

- imposed a termination date for the commission of December 31, 2011.

With a clearer legislative charge, an established schedule with deadlines, an expanded membership and assigned staff, the commission resumed its work in late 2009. The CEO held four meetings and one public hearing between November 2009 and January 2010, in preparation of its initial report, which was delivered to legislative leaders on the required date, February 1, 2010.

Between February 2010 and the end of November 2010, the commission met eight times, and held its final meeting to vote on acceptance of the report on December 15, 2010. The commission voted to accept the report, with 13 members voting in the affirmative and one in the negative. This final report fulfills the commission's requirement to submit findings and recommendations by December 31, 2010. Access to all commission public hearing testimony and meeting materials is available on the commission website at: [www.cga.ct.gov/gae/ceao/default.asp](http://www.cga.ct.gov/gae/ceao/default.asp)

**Commission membership.** The commission's 19 members include: the chairs and ranking members of the Government Administration and Elections Committee (GAE), the chairs and ranking members of the Appropriations Committee, the chairs of the Legislative Program Review and Investigations Committee, the secretary of the Office of Policy and Management (OPM), and eight legislative appointees. The GAE chairs are the chairs of this commission.

As provided in P.A. 09-7 September Special Session (Sec. 49), full-time, permanent, nonpartisan professional staff from the Legislative Program Review and Investigations Committee (PRI) are to be on loan to the commission to assist in carrying out its duties. In addition to two PRI staff, nonpartisan professional staff from the Office of Fiscal Analysis, Legislative Commissioners' Office, and Office of Legislative Research also provided assistance to the commission.

## **Proposal Exploration**

**Source of cost-saving ideas.** The commission's February 1, 2010 initial report to the Governor, President Pro Tempore of the Senate and the Speaker of the House (Appendix A), identified 51 proposals. The proposals were submitted at public hearings (held in Danbury, Hartford and New Haven), through presentations (by the Office of the Child Advocate, and IBM), and by commission members and other individuals. The proposals were further organized into subject areas relevant to state government such as personnel/agency or function, consolidation or mergers, contracting and purchasing, and revenue maximization: federal and state.

The initial report served as a roadmap for the commission's work leading to this final report. (Four other areas to review were added shortly after completion of the initial report). In addition to establishing an agenda for the commission, the initial report has prompted action both legislatively and in the executive branch. Indeed, the following items from the February report were implemented or initiated in the early spring of 2010:

- *Inclusion of state-administered general assistance (SAGA) program participants under Medicaid through a state plan amendment (CT became first state to submit an amendment to include this population); **estimated savings: \$38.6 million annually***
- *In April, 2010, contracting legislation contained in P.A. 10-3 allowed the state to purchase off already existing contracts. In May, DAS used this authority to join the Western States Contracting Alliance (WSCA) and its contract for purchasing routine maintenance and repair products; **estimated savings: \$2.7 million***
- *In March 2010, DAS issued a Request for Proposals and awarded a contract for procurement of professional services to facilitate LEAN methodologies and services. Agencies have begun accessing services from the seven companies named in the award.*
- *Some small, separately budgeted agencies were merged into DAS – including the Insurance Purchasing and Risk Management Board, the State Properties Review Board, and the State Marshal Commission.*

**Related commission activities.** Throughout the process, CEAO has collected proposals for reducing costs, merging agencies, consolidating functions, and improving outcomes from various sources, including public hearings, as well as presentations to the commission on various topics. Commission staff researched each major area, meeting with agency staff, preparing numerous written reports that summarized key information, and often proposing recommendations to achieve cost savings, and/or enhance outcomes. Staff also prepared general background information relevant to state government for the commission in such areas as state employee attrition, retirement, and human services agency statistics.

At its July 2010 meeting, the commission also developed a draft working bill containing many of its administrative recommendations, like time and attendance record conversion for state agencies, the LEAN steering committee, electronic deposits for employee checks and electronic paystub information, and authorization for agencies to use “reverse auctions” for services.

Additionally, the Commission on Aging and the Connecticut Business and Industry Association presented information on the state’s long-term care situation. The commission also monitored the governor’s Post-Employment Benefit Task Force that was meeting throughout most of 2010 and gathered additional information on this topic.

**Co-occurring activities.** As the work of the commission was taking place, other activities were simultaneously occurring such as the work of the above-mentioned Post-Employment Benefit Task Force, and the Municipal Opportunities and Regional Efficiencies (MORE) task force, convened by the House Speaker to make recommendations to assist towns in reducing expenses through greater shared services or cooperative purchasing of health care insurance and the like. Legislation – for example, P.A. 10-167 and P.A. 10-174 -- to make it easier for towns to implement such cost-saving measures and offer financial incentives to municipalities, passed effective October 1, 2010.

Additionally, some of the proposals in the February report and/or recommendations contained in this report are already under exploration by the executive branch, prompted, it

appears, by the work of the commission (e.g., Medicaid coverage for inpatient services for DOC inmates).

In other cases, proposals were discussed and analyzed, and for various reasons, not recommended by the commission. For example, a suggestion for the City of Middletown to provide water to Connecticut Valley Hospital was determined to be more costly than maintaining the current arrangement (see summary sheet in Appendix T). Also, the commission did not address a number of proposals in the information technology/automation category because a separate PRI study on e-government is currently underway, and because the commission proposes an in-depth evaluation of the state's broader technology structure and capabilities is required.

## Report Organization

Following this Introduction is a list of 30 potential savings ideas ultimately recommended by the commission. The total estimated savings in **FY 11** from these proposals is **\$228,941,015 - \$229,941,015** and **\$241,145,570 - \$247,658,418** for **FY 12**. (Appendix W contains a letter from the CEAO Republican members to the CEAO co-chairs, presented at the December 15, 2010, meeting, outlining additional areas in which there is potential for cost savings.) The commission also developed a second list of 15 proposals that have the potential to enhance agency outcomes, but may not directly save the state money, as well as 17 additional areas that merit further exploration.

The remainder of this report consists of six sections, each describing a particular savings area. The sections first begin with a discussion of the area and related commission recommendations. Supporting documents (summary sheets) providing detailed analyses, letters and information submitted by agencies and others are contained in appendices at the end of the report. Also contained in the Appendices is the commission's February 1, 2010 initial report (Appendix A) which includes: the 50-plus proposals that the commission explored over the course of 2010; a synopsis of the public hearing testimony received on the various initial proposals; letters from Senator Debicella and Senator McLachlan proposing mergers and consolidation of various state agencies and departments; and the co-chairs' written response to the letters requesting further development of the proposals.

*Section I* describes proposals related to *personnel/agency or function consolidation or mergers*, including consolidation of back office functions, and merger of several economic development agencies, with an emphasis on a business case management approach. The appendices related to *Section I* provide information on state employee and retiree compensation and benefits. *Section II* contains *administrative proposals* such as substituting electronic means for current paper methods. *Section III* describes *contracting and purchasing proposals* including use of multi-state purchasing pools for prescription drugs and other large expense areas and call for modernization of the state's procurement practices.

*Section IV* contains *Medicaid cost-savings or federal revenue maximization proposals* such as reducing Medicaid prescription drug costs and controlling long-term care costs. *Section V* identifies *state revenue maximization proposals* including increased tax collection efforts to

produce additional revenue by the Department of Revenue Services and reductions in energy use and costs through conservation and greater implementation of energy efficiency projects by state agencies. Lastly, *Section VI* contains a discussion of areas the commission believes will enhance outcomes but require further exploration.

Potential Savings Identified by Commission on Enhancing Agency Outcomes

<b>Proposals that Produce Savings</b>	<b>Annual Potential Savings</b>	<b>FY savings could occur in</b>
<b>Personnel/Agency or Function Consolidation or Mergers Proposals</b>		
1. Move additional state agencies to DAS SmART Unit (assumes 50% resource transfer of HR/Payroll/EEO/business office positions)	\$1,200,000	FY 11
2. Consolidate Charitable Games Unit into other Division of Special Revenue Units and eliminate the currently vacant Charitable Games Unit Head	\$101,015	FY 11
3. Establish a working group to de-institutionalize residents at Southbury Training School (including promotion of community care, and cost-benefit of private vs. state employees staffing)	Significant	FY 12
4. Establish a working group to de-institutionalize patients at Riverview Hospital (including promotion of home and community-based care, and the cost-benefit of private vs. state employee staffing)	Significant	FY 12
5. Adopt a (manager+supervisor) to (employee) ratio of 1:10 at human services agencies, to be phased in within one year of adoption of this recommendation	\$52,727,971	Phased in beginning in FY 12
6. Consider a 1:10 (1 manager+supervisor to every 10 employees) ratio for the remainder of the executive branch agencies	\$119,319,536 (potential)	TBD
7. Consolidation of back office functions of human services agencies (savings based on 10% to 28% reduction in HR, payroll and EEO personnel costs)	\$1,396,026 - \$3,908,874	FY 12
8. Consolidate all economic development agencies (including DECD) into one agency. (Much of the savings would not be in General Fund but in quasi-public agencies' operating expenses, but this would allow for more funding to business). Also would enhance outcomes for business -- all financing and economic development programs in one location	\$4,200,000	FY 12
<b>Adjustments to State Employee Compensation and Benefits</b>		
9. Provide all the information the commission has collected to the new administration, and those who will be responsible for negotiating on these matters	Significant	
<b>Administrative Proposals</b>		
10. Require "direct deposit" of state employee and retiree payments (or by pay card), and electronic advice statements (employee may opt out) (savings based on banking, postage, and printing cost reductions only; savings from reduction of positions determined unnecessary currently unknown )	\$180,257	FY 11-FY 12
11. Convert executive branch agencies with paper time and attendance systems to an electronic format (assumes elimination of 60 of the current 120 payroll positions)	\$3,321,780	Begin in FY 12, or phase in during FY 11-FY 12
12. Convert business entity filing with Secretary of the State from paper and regular mail to electronic method (savings based on costs of paper, envelopes and postage only)	\$240,000	FY 11
13. Reduce use of postage (by 10%)	\$2,000,000	FY 11

14. Require Office of State Comptroller to make electronic payments to vendors that receive more than 100 checks a year, and to continuously review payment and invoice processes for opportunities to convert to electronic	\$5,000,000 to \$6,000,000	FY 12
<b>Contracting and Purchasing Proposals</b>		
15. Implement TOP\$ (a multi-state purchasing Medicaid purchasing pool)	\$6,000,000 to \$7,000,000	FY 11
16. Reduce payments for Medicaid Drug purchasing through joining Medicaid purchases w/Caremark or adjust DSS reimbursement rates	\$70,000,000	FY 11
17. Reduce costs of Purchase of Service (POS) contracts through consolidation of human service contracts, relieving providers of administrative burdens of contracts with multiple agencies	Unknown	FY 12
18. Changes to Personal Service Agreements (PSA) including fewer long-term contracts, restrictions on contract amendments, greater outside evaluation of need, and greater use of contingency contracting	\$37,600,000	FY 12
19. Modernize procurement practices in routine purchasing area through: reverse auctions; job-order contracting; on-line bid submission; purchasing cooperatives and existing contracts with other states; and expanded use of contingency contracts	\$38,000,000	FY 11
<b>Medicaid Reductions or Federal Revenue Maximization Proposals</b>		
20. Fully implement drug recycling program (assumes participation by Medicare Part D recipients)	\$2,400,000	FY 11
21. Expand the fall prevention pilot program statewide to all elderly in Connecticut (anticipated future Medicaid cost avoidance)	\$2,500,000	FY 11
22. Reduce Medicaid prescription drug costs by: 1) increasing generic prescription use by 5%, and 2) lowering the current CT prices for generic drugs to at least the national average prices for generic drugs. (CEAO estimated savings are net of what is already claimed in the state budget for Medicaid drug cost reductions)	\$24,500,000	FY 11
23. Shift from fully state-funded to Medicaid for inmate inpatient services (savings based on all inmates hospitalized at John Dempsey Hospital shifted to Medicaid)	\$4,000,000	FY 11
24. Transfer veterans from Medicaid to VA or Department of Defense medical benefits	\$2,000,000	FY 11
25. Adopt an aggressive long-term care re-balancing strategy that allows CT to participate in PPACA's "State Balancing and Incentive Payment Program"	\$34,000,000	FY 12
26. To achieve the savings in 29 above, the state should establish a goal of reducing nursing home beds to national average bed ratio (1:22 elderly population) by 2017	Unknown	
27. DSS should aggressively pursue amending TANF Emergency Contingency Fund applications to obtain \$76 million in one-time federal stimulus funding (*revenue would be shared with co-applicants, e.g., towns and community providers)	\$76 million in one-time revenue to be shared*	

<b>Proposals that Produce Savings</b>	<b>Annual Potential Savings</b>	<b>FY savings could occur in</b>
<b>28.</b> Enhance community prevention and intervention efforts by DCF (savings estimated from serving more families in Intensive Family Preservation program and Intensive In-Home Child & Adolescent Psychiatric Service (IICAPS) program)	Unknown	FY 12
<b>State Revenue Maximization Proposals</b>		
<b>29.</b> Add auditors and collection and enforcement agents to DRS staff (Increased tax revenues)	\$1,000,000 to \$4,000,000	FY 12
<b>30.</b> Require that state agencies reduce energy costs by 10 percent by the end of FY 12. State agency commissioners would be responsible for ensuring that reduction by whatever means they choose, including training facility management in BOC, using the Connecticut Energy Efficiency Fund, the Connecticut Clean Energy Fund and energy performance contracting. Require that agencies fully implement and participate 2009 energy "test-bed" legislation	\$20,000,000	FY 12
<b>TOTAL</b>	<b>\$470,086,585 - \$477,599,433</b>	
Total for FY 11: \$228,941,015 - \$229,941,015		
Total for FY 12: \$241,145,570 - \$247,658,418		

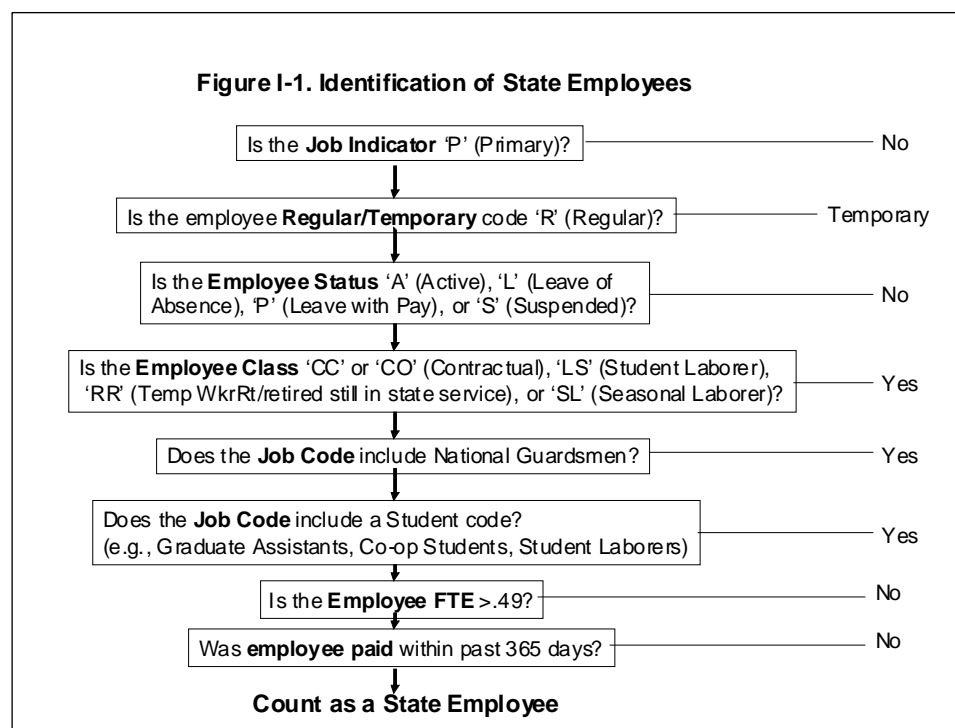
Proposal	Enhancement	FY enhancement could occur in
<b>Additional proposals that enhance outcomes but may not save \$</b>		
A. Promote use of LEAN processes in state agencies (through establishment of LEAN Government Steering Committee)	Improve efficiency and service to public (savings unknown)	FY 11
B. CT apply for a single Medicaid 1915(c) waiver to provide home and community-based services	Would facilitate rebalancing and provide ease of access for elderly and disabled	FY 11
C. CT create a single point of entry to provide information and referrals for all human service agency programs-- including long-term care	Addresses access difficulties; is required to be eligible for the federal "State Balancing and Incentive Payment Program"	FY 12
D. Create a champion of long-term care who would implement CT's plan, including possible consolidation/integration of long-term care functions spread across multiple agencies, and new business model for nursing homes	Help CT achieve its long-term care related goals	FY 11
E. Designate a high-level DSS staff person as federal revenue ombudsman	Ensure state does not lose funding opportunities as it may have with TANF	FY 11
F. DSS <i>suspend</i> rather than <i>terminate</i> Medicaid for DOC inmates	Streamlines process for use of Medicaid to cover inmate inpatient medical services	FY 11
G. Develop a Memorandum of Agreement between DVA and DMHAS to share information needed to help DVA reach out to veterans	Veterans served by DMHAS may receive additional benefits to which they are entitled, and provide savings to CT's budget	FY 11
H. Transfer the responsibility of publishing state agency regulations from COLP to the Secretary of the State's Office (notice of intent and final approval). The Connecticut Law Journal may still be used for notices of intent through an agreement between SOTS and the Judicial Branch.	Would better align responsibilities for regulations and their publication	
I. Seek RFPs from commercial publishers to handle the publication of regulations for subscription sales and include requirement that a searchable online data base be made available.	Could provide cost-effective way to produce online regulations for general public	

<b>Proposal</b>	<b>Enhancement</b>	<b>FY enhancement could occur in</b>
<b>J.</b> Conduct further review of the state agency regulation development and approval process.	Assess for streamlining and consistency	
<b>K.</b> Consolidate the Division of Special Revenue into the Department of Revenue Services	Streamline state agencies/independent divisions	FY 12
<b>L.</b> Require a single online point of entry for businesses	Would ensure that businesses could access all permitting, licensing, financing and other information in one place	
<b>M.</b> Require that current business development personnel at DECD serve as business case managers and not referral agents	Ensure that businesses receive individual service addressing their needs	
<b>Additional areas that require further exploration</b>		
<b>N.</b> Explore reasons why state workers' compensation costs have increased significantly		
<b>O.</b> Generate savings and efficiencies from e-government initiatives (see PRI study), including statewide automation of online applications, and common online applications and enrollment processes for programs that serve children and families		
<b>P.</b> State should perform a comprehensive review of all its administrative functions and where automation might be used		
<b>Q.</b> Restore the Innovations Panel as a way to encourage rank and file state employees to share ideas for improvement of agency functions		
<b>R.</b> Streamline licensing and permitting processes for businesses and non-profit providers		
<b>S.</b> Consolidate print and mail functions. For small agencies, have DAS SmART unit expand to include print and mail functions. Institute greater accountability for outside printing, carrier spend, presorting and data management		
<b>T.</b> Require a performance based telecom audit		
<b>U.</b> Reform process for disposition of surplus state real property through more rigorous analysis and consideration of re-use, direct and early involvement of economic development agencies and local governments and aggressive preservation of environmental and historic assets		
<b>V.</b> Increase number of foster homes		
<b>W.</b> Develop greater coordination of communication and services between DCF, DMHAS and DSS		
<b>X.</b> Explore 1915(i) State Plan Option		
<b>Y.</b> Explore ways to increase transparency and accountability in the higher education area		

## Personnel/Agency or Function Consolidations or Mergers

Concern over the size and efficiency of state government becomes even more pointed in times of economic hardship, evidenced by the commission's charge to identify functional overlaps and redundancies among state agencies and consider mergers. Connecticut state government is a large enterprise and a significant employer. Views vary on the appropriate role of Connecticut state government, an element that certainly impacts size, but not the only element. The commission for the most part did not deliberate about the appropriate role and functions of state government, but instead focused on identifying ways for the state to do what it already does -- e.g., as an employer, consumer, service provider, and regulator -- in less costly and more effective ways.

**Size of Connecticut state government.** In terms of its workforce, as of July 2010, there were 56,813 employees working within 79 separately budgeted agencies of state government, according to CEAO staff analysis. How state employees are defined varies by agency. Figure I-1 shows the definition used by the commission to identify state employees.



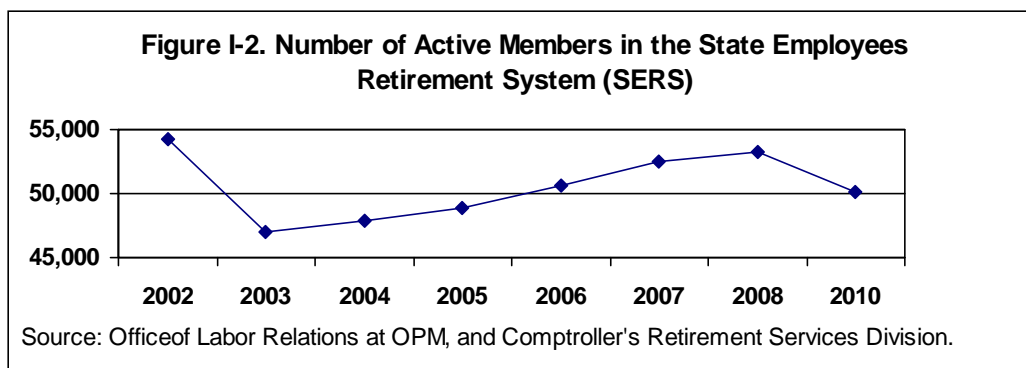
In its monthly personnel status reports, for example, the Office of Policy and Management (OPM) excludes part-time employees. The Office of the State Comptroller, on the other hand, counts as employees those eligible for health care benefits, which includes all employees working more than 49 percent of whatever is considered full time for its position

counts. Some agencies differ on whether employees include graduate students or individuals who are on a leave of absence (paid or unpaid).

With the main source of information being CORE-CT,<sup>1</sup> the commission consistently defined state employees as those working more than 49 percent of whatever is considered full time for those positions, and have the status of active, on leave, or suspended, as long as they were paid within the last 365 days. The definition excludes students, National Guard personnel, prisoner/client workers, and temporary/seasonal workers.

Connecticut's personal services expenses of about \$2.5 billion (total payroll not including higher education personnel, or any fringe benefits) is almost 14 percent of the state General Fund budget. Payroll is the second largest state expense behind the Medicaid program of \$3.95 billion.

Figure I-2 shows that the number of employees in state government has continued to climb in each of the subsequent years since 2003, when there was an early retirement program. A



retirement incentive program was offered in 2009, and approximately 3,800 employees took advantage of the incentive program. These incentive programs are offered to reduce the overall workforce, but as the chart shows, past reductions have been temporary, with the state workforce growing again in better economic times.

**Agency mergers.** Part of the charge of the commission was to consider agency mergers to further the goal of reducing state costs and enhancing the quality and accessibility of state services. In the original 2009 commission legislation, in fact, specific agencies were identified for possible merger: 1) the Departments of Mental Health and Addiction Services and Social Services, and (2) the Connecticut Commission on Culture and Tourism, portions of the Office of Workforce Competitiveness, and the Department of Economic and Community Development.

**Prior efforts.** In addition, consolidation of agencies in state government has been studied for the past 20 years, including the work of the Thomas Commission, and the Harper-Hull Commission. The 1993 consolidation of the former Departments of Income Maintenance,

<sup>1</sup> CORE-CT is Connecticut state government's core financial and administrative computer system. It includes modules on agency personnel, time and attendance, payroll, accounting, purchasing, assets, inventory, and worker's compensation.

Human Resources, and Aging into the current Department of Social Services was a result of a Harper-Hull commission recommendation.

The PRI Committee more recently (December 2003) examined the consolidation of agencies serving persons with disabilities, which included the Board of Education and Services for the Blind (BESB), the Bureau of Rehabilitation Services (BRS), the Commission on the Deaf and Hearing Impaired (CDHI) and Departments of Mental Health and Addiction Services (DMHAS) and Mental Retardation (now Developmental Services (DDS)). The committee's study was prompted by requests from leadership of both parties to examine where restructuring or reorganizing government agencies might produce efficiencies and cost-savings, given the state's difficult fiscal situation at that time. The committee found then that:

- Connecticut has had a long history of supporting single-purpose agencies to serve persons with disabilities;
- Previous attempts to consolidate agencies serving persons with disabilities have met with only limited success.
- The majority of other states provide services to disabled populations through a large umbrella agency like a health and/or human services agency.
- Recent fiscal and personnel reductions [in 2003] and the introduction of the Core-CT in state government make this an opportune time for consolidation.
- A reduction of approximately 100 positions should be possible in a consolidated agency with centralized administrative functions, resulting in a cost-savings of about \$8.5 million in 2003.

While legislation was introduced in 2004 to merge the five agencies, the bill did not pass, and the agencies that were under review continue to exist the way they were in 2003.

**Current state government structure.** While the commission has information in the broadest sense about the number of departments, agencies, and commissions, how each is structured, including span of control, etc., is somewhat more spotty. Early on in the process, the commission gathered organizational charts from nearly every state agency. But with the retirement incentive plan, many of the agencies changed their organizations considerably. To ensure agency organizational information was current, the commission attempted to gather updated organizational charts from every state agency in 2010.

Up-to-date organizational charts were often unavailable, or the agencies did not respond. Some responding agencies submitted organizational charts with very little detail, while others were voluminous. In addition, despite repeated efforts, CEO was unsuccessful in obtaining information from the Office of Policy and Management regarding its analysis of its July 2010 survey on organizational structure and staffing in smaller or mid-sized (less than 300 staff) agencies. Thus, other than using CORE-CT as a guide to positions and functions in state agencies after the 2009 retirement incentive program, the commission did not have comprehensive statewide information on how agencies were staffed and organized.

In terms of mergers, as reported later in this section, the commission recommends merging a number of agencies related to economic development, including the Department of Economic and Community Development. In addition, the commission studied *state-run*

*institutions*. The staffing at *Southbury Training School* and *Riverview Hospital* were examined as the populations served at those two facilities have been decreasing in recent years. The complexities of how to manage staffing of direct care, indirect care, and administrative staff was also studied.

There was some discussion about and interest in creating one comprehensive human services agency, acknowledging the difficulty in doing so (and with what costs and benefits). Ultimately, the committee focused on ways to consolidate functions common to all human services agencies and others—back office functions—without consolidating the substantive service delivery functions, as a way to start looking at streamlining. Consolidating common functions makes sense because these are ordinary administrative tasks carried out by every agency that would seem to be similar (human resources, payroll, purchasing), despite the differences in agency responsibility and missions.

The key issues and findings and recommendations related to personnel/agency function consolidation are now described. Detailed findings are contained in appendices at the end of the report.

#### **CONSOLIDATION OF BACK OFFICE FUNCTIONS OF SMALL AGENCIES**

Rather than each small agency having its own human resources staff, the commission believes that efficiencies can be achieved by having multiple small agencies sharing such positions. The “Small Agency Resource Team” or SmART, is a unit within the Department of Administrative Services that provides certain state agencies with consolidated business office functions and personnel, payroll, and affirmative action services (i.e., equal employment opportunity (EEO)).

The DAS SmART unit was established on July 1, 2005, under Section 60(c) of P.A. 05-251, which required the Commissioner of Administrative Services, in consultation with the Secretary of the Office of Policy and Management, to determine which state agencies would merge and consolidate their personnel, payroll, affirmative action and business office functions with the DAS Unit.

**Agencies served by SmART Unit.** Currently, 23 small agencies, commissions or offices are served by the DAS SmART Unit (Table I-1). Combined, there are an estimated 1,048 full time state employees within these 23 agencies.

<b>Table 1-1. State Agencies/Commissions/Offices Served by DAS SmART Unit as of July 23, 2010<sup>a</sup></b>	
<b>State Agency/Commission/Office</b>	
Board of Accountancy (5)	<sup>c</sup> Department of Public Works (169)
Board of Education and Services for the Blind (121)	Governor’s Office (29)
Board of Firearms Permit Examiners (1)	Judicial Selection Commission (1)
Commission on Culture and Tourism (47)	Lieutenant Governor’s Office (5)
Commission on the Deaf and Hearing Impaired (38)	Office of Child Advocate (8)
Commission on Fire Prevention and Control (72)	Office of Consumer Counsel (14)
Commission on Human Rights and Opportunities (74)	Office of Protection and Advocacy for Persons with Disabilities (45)

Connecticut Siting Council (9)	<sup>c</sup> Office of the Victim Advocate (4)
Department of Agriculture (62)	Office of Workforce Competitiveness (3)
Department of Consumer Protection (156)	Police Officers Standards and Training Council (22)
Department of Emergency Management and Homeland Security (48)	<sup>b</sup> State Contracting Standards Board (0)
<sup>c</sup> Department of Public Utility Control (115)	
<sup>a</sup> Number of full time employees in a state agency, commission or office (shown in parentheses) determined by PRI staff using CORE-CT data. For this summary sheet, PRI staff defines full time state employees as those who work more than 49% of whatever is considered fulltime for their positions (thus eligible for pension); and have the status of active, on leave, or suspended, as long as they were paid within the last 365 days. The definition excludes students, national guard personnel, prisoner/client workers, and temporary/seasonal workers. <sup>b</sup> The SmART Unit will perform these functions when the board has employees. <sup>c</sup> Business office functions covered by home agency. Source of Data: PRI staff analysis of CORE-CT, Office of Legislative Research (Report # 2010-R-0044)	

**Small agencies for possible coverage by SmART Unit.** Nineteen additional small agencies (150 employees or fewer) could potentially be covered by the SmART Unit. Table I-2 shows the human resources staff (HR, Payroll, Affirmative Action (AA)) currently in these small agencies. Note that some of the positions may also perform other functions besides HR, payroll and/or AA, which would need to be explored further prior to any considered merger with the SmART Unit.

# of State Employees <sup>1</sup>	Agency	HR, Payroll, and Affirmative Action Employees:	
		Position(s)	Salaries <sup>a</sup>
20	Freedom of Information Commission	<ul style="list-style-type: none"> <li>FOIC Program Manager (Fiscal/Administrative) \$104,954</li> <li>Associate Fiscal Administrative Officer \$84,522</li> <li>Fiscal Administrative Assistant \$61,094</li> <li>Note: Affirmative Action performed by Staff Attorney 3</li> </ul>	\$250,570
61	Office of the Chief Medical Examiner	<ul style="list-style-type: none"> <li>HR Specialist</li> </ul>	\$73,516
101	Connecticut State Library	<ul style="list-style-type: none"> <li>Principal HR Specialist \$97,032</li> <li>Fiscal Administrative Officer \$73,656</li> </ul>	\$170,688
116	Department of Banking <sup>b</sup>	<ul style="list-style-type: none"> <li>Principal HR Specialist \$91,951</li> <li>HR Assistant \$50,947</li> <li>HR Associate \$58,254</li> <li>Fiscal Administrative Assistant \$49,453</li> </ul>	\$250,605
110	Division of Special Revenue	<ul style="list-style-type: none"> <li>Principal HR Specialist \$97,032</li> <li>HR Specialist \$85,436</li> <li>Payroll Officer 1 \$69,036</li> <li>Admin Assist \$62,313</li> </ul>	\$313,817
117	Department of Economic and Community Development	<ul style="list-style-type: none"> <li>Principal HR Specialist \$89,708</li> <li>Fiscal Administrative Officer \$73,656</li> <li>Note: Affirmative Action handled by SmART Unit</li> </ul>	\$163,364
140	Department of Insurance <sup>b</sup>	<ul style="list-style-type: none"> <li>Principal HR Specialist \$84,736</li> <li>HR Assistant \$59,015</li> <li>Payroll Clerk \$41,217</li> <li>Office Assistant \$44,304</li> <li>Note: Affirmative Action handled by OSC employee</li> </ul>	\$229,272
83	Agriculture Experiment Station	<ul style="list-style-type: none"> <li>Chief of Fiscal Services AES \$130,900</li> </ul>	\$278,056

		<ul style="list-style-type: none"> <li>• Vice Director – AES \$147,156</li> </ul>	
9	Office of the Health Care Advocate	No HR titles (Administratively under the Department of Insurance)	
2	Judicial Review Council	No HR titles (Administratively under OSC)	
107	Military Department	<ul style="list-style-type: none"> <li>• HumResManager \$104,954</li> <li>• PayrollOfficer2 \$75,705</li> </ul>	\$180,659
131	Office of Policy and Management	<ul style="list-style-type: none"> <li>• Human Resources Associate \$73,803</li> <li>• HumResManager \$104,954</li> <li>• Fiscal Admin Officer \$73,803</li> <li>• Note: Affirmative Action performed by Dir. of Staff Dev.</li> </ul>	\$252,560
85	Office of the Secretary of the State	<ul style="list-style-type: none"> <li>• Fiscal Administrative Manager 1 \$107,007</li> <li>• Human Resources Specialist \$72,429</li> <li>• Administrative Assistant \$62,313</li> <li>• Note: Affirmative Action performed by OSC employee</li> </ul>	\$241,749
9	Soldiers’ Sailors’ Marines’ Fund <sup>b</sup>	<ul style="list-style-type: none"> <li>• Fiscal Administrative Officer \$73,803</li> </ul>	\$73,803
49	State Elections Enforcement Commission	<ul style="list-style-type: none"> <li>• Fiscal Administrative Supervisor \$95,084</li> </ul>	\$95,084
18	Office of State Ethics	<ul style="list-style-type: none"> <li>• Fiscal Administrative Officer \$69,698</li> <li>• Fiscal Administrative Assistant \$49,454</li> <li>• Note: Affirmative Action performed by Staff Attorney 3</li> </ul>	\$119,152
142	Office of the State Treasurer	<ul style="list-style-type: none"> <li>• HumanResourcesAssociate \$59,384</li> <li>• PayrollClerk \$44,190</li> <li>• PrincipalHRSpecialist \$97,032</li> <li>• Fiscal Administrative Officer \$73,656</li> </ul>	\$274,262
24	Teachers’ Retirement Board	<ul style="list-style-type: none"> <li>• TRB Assistant Administrator \$109,159</li> <li>• Fiscal Administrative Assistant \$52,745</li> </ul>	\$161,904
116	Workers’ Compensation Commission <sup>b</sup>	<ul style="list-style-type: none"> <li>• PrincipalHRSpecialist \$97,032</li> <li>• Processing Technician \$54,546</li> <li>• Office Assistant \$44,304</li> <li>• Fiscal Administrative Officer \$73,656</li> <li>• Fiscal Administrative Assistant \$49,453</li> </ul>	\$318,991

<sup>1</sup>Number of full time employees in a state agency, commission or office (shown in parentheses) determined by PRI staff using CORE-CT data. For this summary sheet, PRI staff defines full time state employees as those who work more than 49% of whatever is considered fulltime for their positions (thus eligible for pension); and have the status of active, on leave, or suspended, as long as they were paid within the last 365 days. The definition excludes students, national guard personnel, prisoner/client workers, and temporary/seasonal workers.

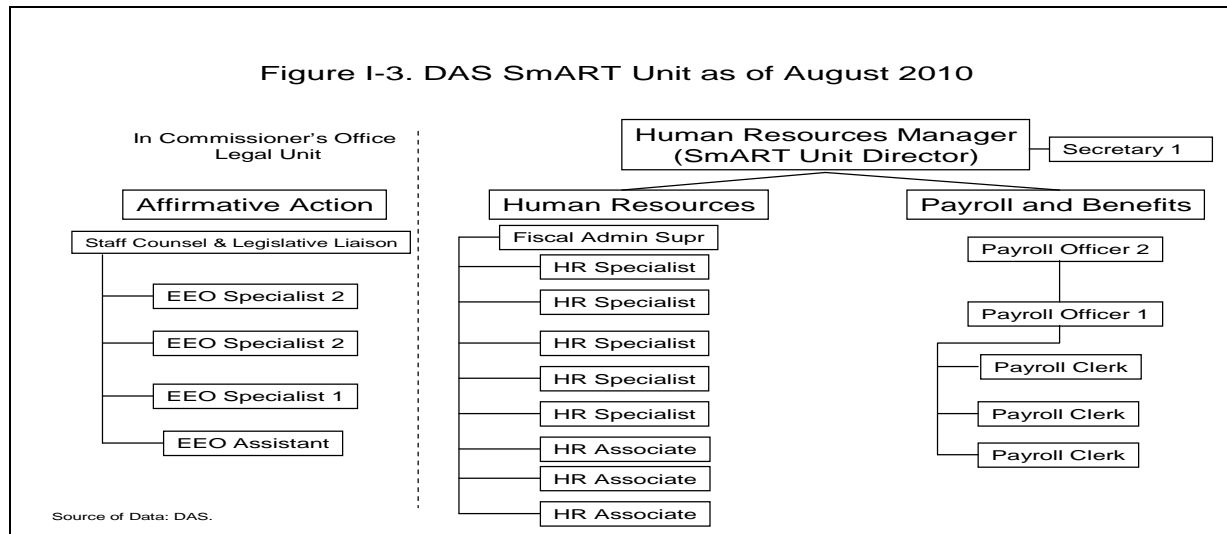
<sup>a</sup>Base salary, excluding longevity, overtime, and fringe.

<sup>b</sup>Salaries paid for by monies outside of the General Fund.

Source of Data: CORE-CT, DAS, Office of Legislative Research (Report # 2010-R-0044)

The commission explored whether *additional small agencies* (150 employees or fewer) could be serviced by the SmART unit, eliminating the need for each to have its own personnel, payroll and affirmative action staff (see Appendix B for statistics on back office function (and manager and supervisor) positions in Connecticut state government). A consideration was the ideal ratio of human resources staff to employees. Ratios used by other state governments such as Georgia, and guidelines produced by human resources professional organizations such as the Society of Human Resource Management were reviewed. The DAS commissioner also testified before CEO, and provided additional documents on potential expansion of the SmART Unit.

**SmART Unit in Transition.** The DAS SmART Unit is currently undergoing a transition -- the previously separate DAS human resources department is now merged with the SmART Unit, the affirmative action staff have been transferred to the commissioner’s office, and a new SmART Unit director has been appointed as the previous director retired in July (Figure I-3). The structure as of August has 16 human resources and payroll positions in the SmART Unit. The four Affirmative Action positions are now under the direction of the DAS staff counsel and legislative liaison within the commissioner’s office.



**Opportunities for possible savings by increasing agencies covered by the SmART Unit.** Table I-3 summarizes the ratio of HR staff to employees for the current SmART Unit, as well as for the non-SmART small agencies listed in Table I-2. Appendix C provides additional information about other states and industry standard ratios of human resources workers to number of state employees.

Agency	# of State Employees	HR, Payroll, and Affirmative Action Employees	Ratio of employees to hr staff	
			# of employees covered per HR staff person	# of HR staff per 100 employees
SmART Unit	1,048	16-20	52-66	1.5-1.9
Other small agencies	1,440	45	32	3.1

Source of Data: PRI staff analysis of Core CT data

These figures are only one piece of information needed for the analysis required to plan further expansion of the SmART Unit, and should not be dispositive. Finally, DAS estimates that three to six months are needed to move personnel, systems and processes.

**The commission concluded that these “back office functions” can be expanded to serve at least five additional small agencies – the Office of the Chief Medical Examiner, the State Library, the Division of Special Revenue, the Department of Economic and Community Development, and the Military Department. (Proposal #1) at a potential annual savings of \$1.2 million.**

**Consolidation of back-office functions of human services agencies.** The commission further chose to explore consolidation of back-office functions of larger agencies that share a similar mission of providing human services to state residents<sup>2</sup> Human Services agencies have a total of 14,252 employees across the following seven agencies:

- Department of Developmental Services (N=4,355)
- Department of Public Health (N=809)
- Department of Mental Health and Addiction Services (N=3,490)
- Department of Social Services (N=1,921)
- Department of Children and Families (N=3,518)
- \*Commission on the Deaf and Hearing Impaired (N=38)
- \*Board of Education and Services for the Blind (N=121)

**Support function positions.** Based on information obtained from CORE-CT, the commission examined staffing for human resources, payroll, EEO, fiscal and information technology (I.T.) functions across the human services agencies (see PowerPoint slides in Appendix D for additional information) and found the following:

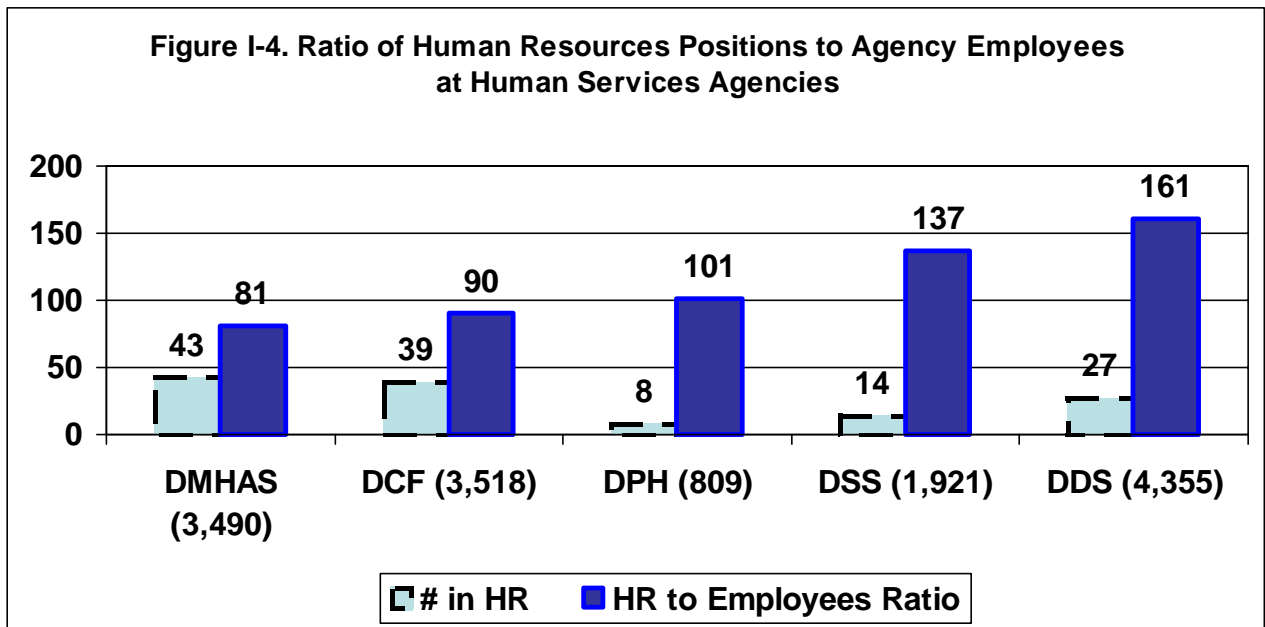
- Human Resources Positions: **131** (0.9% of 14,252 H.S. agency employees)
- Payroll Positions: **51** (0.4% of employees)
- EEO Positions: **15** (0.1% of employees)
- Fiscal Positions: **295** (2.1% of employees)
- I.T. Positions: **169** (1.2% of employees)

The ratio of staff to agency employees in each of these functions varies across the human services agencies. For example, the commission found there are 43 people in human resources positions for 3,490 employees at DMHAS, while just 27 people are in human resources positions for the 4,355 employees at DDS (see Figure I-4).

**Consolidation of back office functions in other states.** The commission reviewed Pennsylvania's recent consolidation of back office functions. Serving 76,000 executive branch employees, the HR Shared Services Center handles all HR and payroll transactions, and has customer service activities including a phone center and electronic self-service system. The center eliminated approximately 70 positions and saved \$3.5 million.

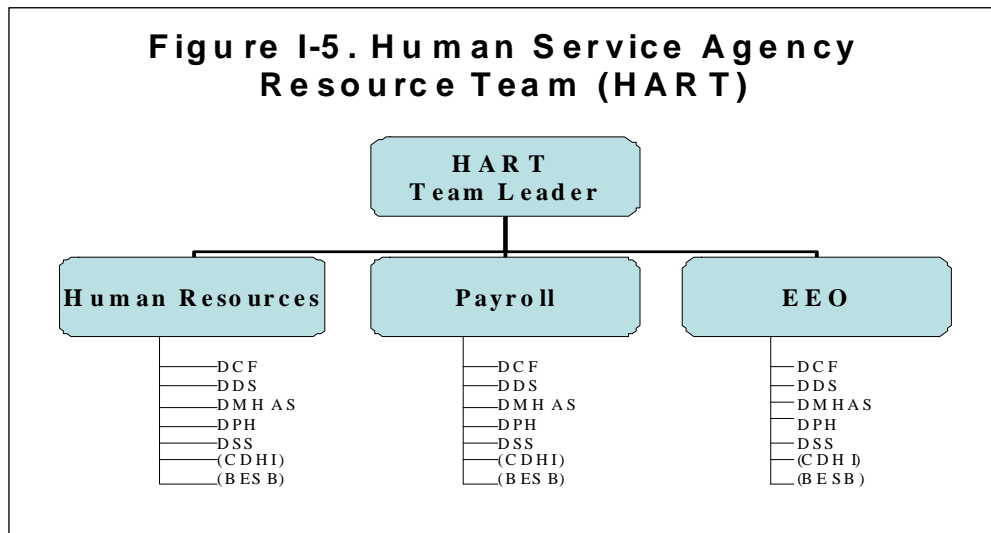
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<sup>2</sup> Human Services Agencies are: Department of Children and Families, Department of Public Health, Department of Social Services, Department of Mental Health and Addiction Services, Department of Developmental Services, Commission on the Deaf and Hearing Impaired, and Board of Education Services for the Blind.



Kentucky developed an Office of Human Resources Management that administers internal personnel programs for the state’s health and family services agencies. The office services include hiring, payroll, EEO, exit interviews and satisfaction surveys.

Figure I-5 shows the commission’s proposed structure for consolidated human service agency back office functions.



The personnel staffing of human services agencies, focusing on the same back-office functions found in the SmART unit, were examined. The number of HR positions, for example, was found to vary across the human services agencies ranging from 1 personnel person for every 81 DMHAS employees, to 1 personnel person for every 161 DDS employees. Also, the size of a human services’ agency payroll department varied, and may be associated with the degree of automation in time and attendance records (the commission makes further recommendations regarding automation in a later section of the report).

Adding together all personnel, payroll and EEO positions within the human services agencies, overall, there is 1 HR person for every 71 employees. The commission contrasted this ratio with the general industry standard of 1 HR person for every 100 employees, and concluded that a 28 percent reduction in HR positions would be needed to match this industry standard. The commission also examined potential savings if a 10 percent reduction in HR staffing occurred with the consolidation of back office functions. Regardless of final ratio adopted, the commission concludes that efficiencies will be achieved by **consolidating back office functions of human services agencies (Proposal #7)** at a *potential annual savings of \$1,396,026 to \$3,908,874*.

In addition to creating efficiencies in back office functions, sharing resources could be a first step toward leading to a single point-of-entry for clients who may require the services of multiple agencies, and promoting the breaking down of silos in the current delivery of human services. Commission members described complaints from consumers about the lack of integration of social services, with two or more social workers from different agencies working, for example, with the same family. The commission believes there should be “no wrong door” for families or individuals needing human services; that they should not be referred from one agency to another or face repeated intake requirements at multiple locations in order to obtain services.

## STATE-RUN INSTITUTIONS

For many years, the question of how the state should continue to serve some of its most vulnerable citizens has been asked. There has been a trend in the country towards community and home-based care, with many more resources available than ever before. Whereas several years ago, a person with severe disabilities or a child who was significantly abused or neglected could only be cared for in an institutional setting, research indicates that some, if not all people can be equally or better cared for in a community or home-based setting. Additionally, as a result of numerous studies, it is clear that the cost per person in an institutional versus community-based setting is significantly greater. For example, the cost per person at Southbury Training School is \$972 per day, or more than \$350,000 annually versus community-based care at about \$500 per day. Similarly, the cost per child at Riverview Hospital is \$2,330 per day, or \$850,000 annually. It is difficult to imagine that even the most expensive community-based care would approach that amount. At a time when the State is struggling to balance its budget and more people are in need of services, it is appropriate to finally answer the question of how, *without compromising care*, the State can move away from caring for its citizens in state-run institutions.

**Southbury Training School and Riverview Hospital.** As part of its examination of human services agencies, the commission also focused on two of Connecticut’s state-run institutions. DDS’ Southbury Training School and DCF’s Riverview Hospital have garnered attention over the years due to their high costs and service to a diminishing number of clients.

Preliminary analyses suggest that staffing may not be at the reduced levels consistent with the reduced number of clients served. However, there are a multitude of factors to consider beyond what the statistics convey. Both institutions have consent decrees and court decisions

influencing their operations. Further, because they serve two different populations, the commission suggests each institution be studied separately.

While there was an approximately 21 percent reduction in residents at Southbury Training School from 2005 to 2010, the number of staff in administrative and indirect service positions did not decrease at a similar rate (Table I-7). Table I-8 shows potential savings if the staff decreased at the same rate as the resident population at Southbury Training School.

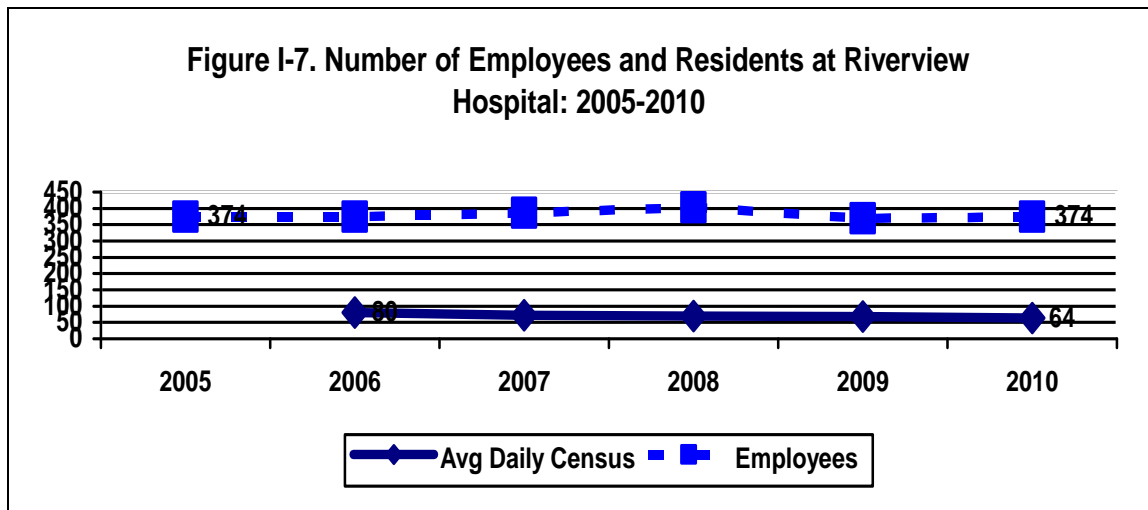
Area	2005	2010	Change
Protective Services (e.g., firefighters)	14	14	0%
Cooks/Kitchen	50	43	-14%
Boiler Tender/Water Treatment	9	8	-11%
Payroll	10	11+1=12	+20%
HR	8+2=10	9+5=14	+40%
Total Employees	1,599	1,323	-17%
<b>Total Residents</b>	<b>572</b>	<b>450</b>	<b>-21.3%</b>

Source: PRI staff analysis of CORE-CT data.

	2005	2010		
# Residents	572	450 (a 21.3% ↓ from '05)	# of staff if ↓ by 21.3%	Difference from Actual
# Direct Care Staff	1,376	1,133	1,083	Over by 50 (\$2,406,350) <sup>1</sup>
# Indirect Care Staff	152	135	120	Over by 15 (\$748,530) <sup>2</sup>
# Administrative Staff	71	55	56	Under by 1, BUT:
➤ Payroll	10	11+1=12	8	Over by 4 (\$211,312)
➤ HR	8+2=10	9+5=14	8	Over by 6 (\$354,090)
Total	1,599	1,323	1,259	<b>Savings</b> from eliminating 75 positions: <b>\$3,720,282</b>

<sup>1</sup>(median 2010 annual base sal of direct care staff=\$48,127)  
<sup>2</sup>(median 2010 annual base sal of indirect care staff=\$49,902)

The commission also examined *Riverview Hospital*. While there was an approximately 20 percent reduction in residents from 2005 to 2010, there was no decrease in the overall number of staff at the hospital (Figure I-7). Table I-9 shows potential savings if the staff decreased at the same rate as the resident population at Riverview Hospital.



**Table I-9. Riverview Hospital**

	2005	2010		
Average Daily Census	80	64 (a 20% ↓ from '05)	# of staff if ↓ by 20%	Difference from Actual
# Direct Care Staff	302	304	242	Over by 62 (\$4,069,432) <sup>1</sup>
# Indirect Care Staff	35	32	28	Over by 4 (\$185,456) <sup>2</sup>
# Administrative Staff	37	38	30	Over by 8 (\$439,464) <sup>3</sup>
Total	374	374	300	<b>Savings from eliminating 74 positions: \$4,694,352</b>

<sup>1</sup>(median 2010 annual base sal of direct care staff=\$65,636)  
<sup>2</sup>(median 2010 annual base sal of indirect care staff=\$46,364)  
<sup>3</sup>(median 2010 annual base sal of administrative staff=\$54,933)

Based on these analyses, the commission suggests each institution be considered separately. With regard to Southbury Training School, the commission does not recommend closure at this time. The commission recognizes the long-term relationships that exist at Southbury Training School between the residents and staff, the age of the population being served and the simple fact that it is not known whether every resident could be properly placed in the community while maintaining the quality of care. Nevertheless, it is incumbent upon the state to answer these questions definitively. Accordingly, the commission recommends that a **working group be established to de-institutionalize the residents at Southbury Training School (Proposal #3)**. The working group would determine whether it is feasible to safely remove Southbury Training School's population into new settings in the community. The working group would consider the relationships built between the residents and the staff as well as determine whether it would be appropriate for state employees to continue delivering services or private providers or a mixture of both. These decisions would be made as a result of a cost-benefit analysis that considers both financial costs as well as quality of care issues (i.e., the benefit of

continuing with a caregiver who has developed a long-term relationship with a resident). The commission *estimates savings* from de-institutionalization would be *significant*.

Similarly, with regard to Riverview Hospital, the commission does not recommend closure at this time. The commission recognizes the extremely fragile nature of the children served by Riverview Hospital, but also took note of the fact that Connecticut is the only state that runs a children's psychiatric hospital. Since there is no evidence to suggest that Connecticut, as opposed to other states, has a unique population of severely abused children, nor is there any evidence that Connecticut has better outcomes with the population being served by Riverview Hospital than the rest of the country,<sup>3</sup> given the cost per child, it makes sense for the state to determine how to serve this population in the community. Accordingly, the commission recommends that a **working group be established to de-institutionalize the patients at Riverview Hospital**, focusing on quality of care, promotion of home and community-based care, and the cost-benefit of private vs. state employees (**Proposal #4**). Additionally, the Riverview Hospital work group would also study possible staff downsizing without compromising the quality of care, and alternative prevention and intervention treatment programs that could result in the avoidance of inpatient care. The commission also *estimates savings* from de-institutionalization would be *significant*. Note that P.A. 10-3, An Act Concerning Deficit Mitigation for the Fiscal Year Ending June 30, 2010, requires DCF, by April 15, 2011 (and in consultation with the Children's, Human Services, and Appropriations committees), to submit a plan to the General Assembly on the future of Riverview Hospital for Children and Youth. The commission also *estimates savings* from de-institutionalization would be *significant*. Note that P.A. 10-3, An Act Concerning Deficit Mitigation for the Fiscal Year Ending June 30, 2010, requires DCF, by April 15, 2011 (and in consultation with the Children's, Human Services, and Appropriations committees), to submit a plan to the General Assembly on the future of Riverview Hospital for Children and Youth.

Both working groups will have, at a minimum, representation from the following stakeholders:

- Commissioner of appropriate agency
- Representative of residents/clients
- Advocate representative
- State employee/union representative
- Private provider representative

#### **EMPOWER A QUALITY DRIVEN WORKFORCE**

The goal of the commission is to enhance a government that is effective, efficient and that focuses on customer satisfaction. State government provides a broad array of services and performs a variety of functions, from taking care of people with disabilities, to licensing barbers, to overseeing contract performance. State government manages a complex system, but is it well-managed?

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<sup>3</sup> As noted in the 2009 Child Advocate's Report on Riverview Hospital (Appendix E), outcomes at Riverview Hospital have been "less than expected."

The commission recognizes the talented, hard-working group of people who work for the state under increasingly difficult conditions. As state revenues have disappeared, state employees have been asked to do more and more with less and less. It is no surprise that the perceived levels of satisfaction with state services are low. Similarly, state worker satisfaction is also low. State employees report that they are burdened with inane paperwork, constrained by nonsensical rules, bound by organizational charts that keep them tied to past practices and over-managed by a “gotcha” system. The message over time to employees becomes: Don’t try to change established procedures. Don’t try to create a new way to improve the system. We have great and valuable state employees. The problem is that the system they are working in doesn’t support the outcomes we want.

How do we change to an outcome-based system? It isn’t easy and it isn’t fast. It starts with the basic premise that businesses in our country have understood for several decades now: “Companies do not achieve high quality simply by announcing it. Nor can they get to quality by hiring the services of the roving bands of consultants who promise to turn businesses around overnight. They do it by turning their entire management systems upside down—shedding the power to make decisions from the sedimentary layers of management and giving it to the people on the ground who do the work. This re-writes the relationship between managers and the managed. The bright line that separates the two vanishes as everyone is given greater authority over how to get their job done.”<sup>4</sup>

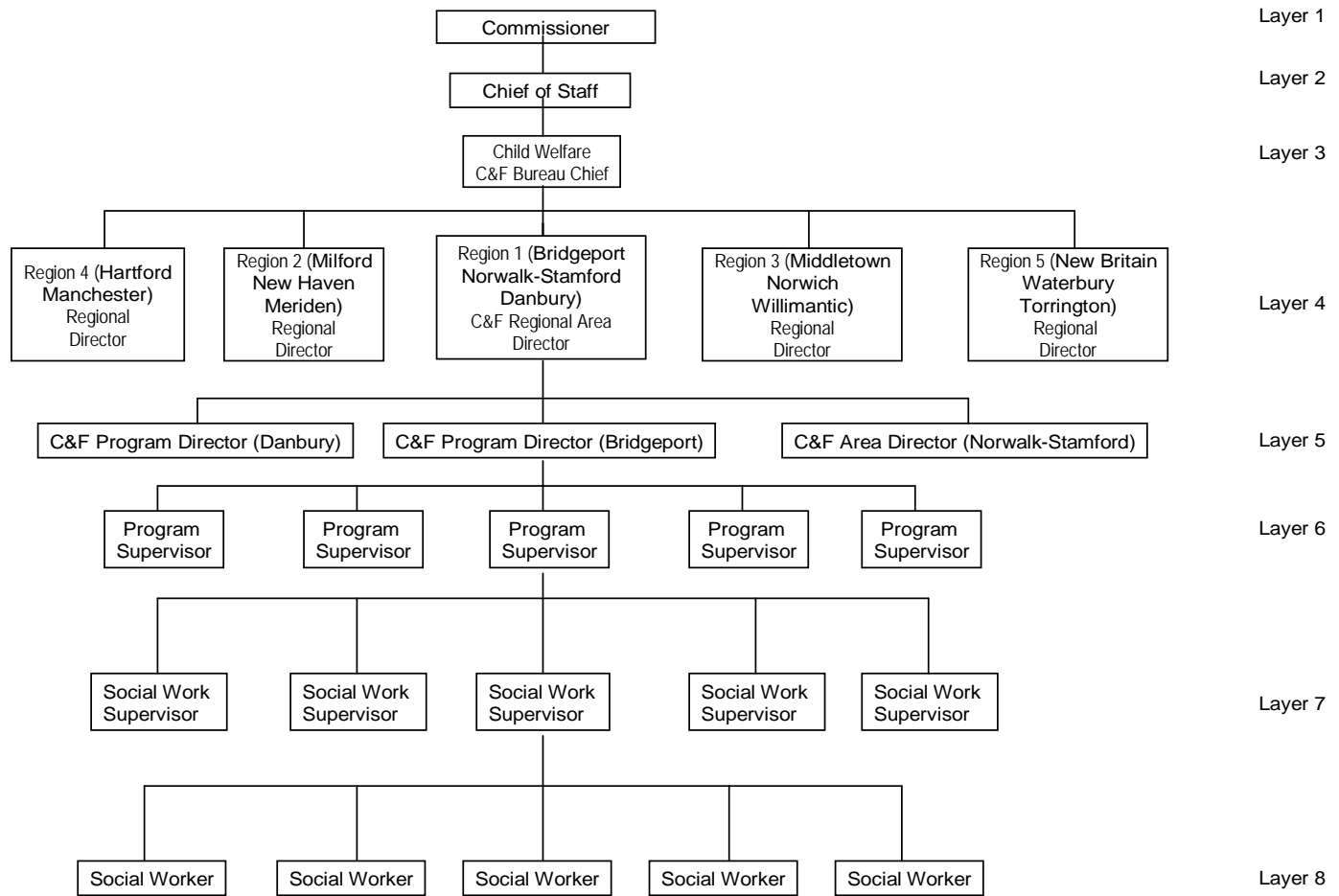
If we want quality outcomes, we need to drive decision making to the front line workers, empower our workforce and encourage innovation. We must focus on quality, not command and control. The problem is that the structure of our state government is not designed for quality outcomes. It is designed to command and control the front line worker to ensure that he/she is following all the rules and regulations.

Our state government is organized in a vertical system. That means that managers and supervisors oversee a relatively small number of employees, each having a narrow span of control, resulting in a tall organizational form (as illustrated in the Figure I-8 DCF organizational chart).

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<sup>4</sup> President Clinton’s 1993 National Performance Review.

**Figure I-8. Layers of Management/Supervision Child and Family Services at DCF**



Source: DCF organizational charts and PRI staff analysis.

A tall organization is typical of bureaucracies. This structure allows for tight supervision where work is performed under tight controls, little variability of tasks is permitted, creativity in performing tasks is discouraged and change is nearly impossible due to inadequate communication resulting from multiple levels of management. With a tall organization, accountability is often a problem as decisions cannot be made by front line employees. No one takes ownership of a problem and it gets passed up the line or lost completely, just like in the children's game of telephone. The result is that problems are not solved. It's not the people. It's the system.

The alternative to a tall organizational structure is a one where a manager oversees a large number of employees. The greater span of control creates a horizontal structure, also called a flat structure. In a flatter system, there is less hierarchy and workers have more autonomy or freedom to perform their tasks. Command and control is substituted for empowerment and creativity. Command and control was once only achieved by intense oversight and narrow spans of control. With a flatter organization, each employee has greater accountability. The lines of communication are shorter and expectations are clearer. It becomes more difficult to "pass the buck". The current structure can be replaced with clear performance based measures instituted in a system of results based accountability. (Note that RBA is now being required of all executive branch agencies, making the way for wider spans of control)

In an effort to determine what constitutes the appropriate span of control or manager to employee ratio, the Commission looked at other states as well as industry standards. In Iowa, the Department of Human Services had a ratio of one manager for every nine employees. As part of their reinvention of government in 2001 with the assistance of David Osborne, Iowa changed their ratio to one manager for every fourteen employees. Since the reorganization, which saved the state millions of dollars without taking anyone off of Medicaid and included shedding significant layers of management, outcomes for children and families have improved. See Department of Human Services CFSR Statewide Assessment Instrument 2010. In Texas, all of the executive branch agencies have a one manager to ten employee ratio guideline. In 1993, the federal government, under the direction of President Clinton and the leadership of Vice President Al Gore, recommended a change from the 1:7 ratio to a 1:14 ratio as part of the National Performance Review. In the private sector, span of control ratios generally vary from 1:11 to 1:16. (See McDonald Consulting Group, Wall Street Journal, Saratoga Institute) Successful companies such as GE moved to flat organizational structures decades ago as a way to improve communication, increase flexibility, speed decision making, reduce costs and empower employees.

In Connecticut, it appears that the average ratio in our human services agencies is one manager for every six employees (1:6). Table I-10 shows the range of ratios within each individual human services agency.

It is not immediately clear, however, that the term "manager" as used in other states and in the private sector has the same meaning as "manager" in Connecticut. "Managerial employees" and "supervisory employees" are defined in statute (CGS Sec 5-270(f) and Sec. 5-270(g)). It appears that a "manager" in other states is likely to be termed a "supervisory

employee” in Connecticut. In Connecticut, the work of “managerial employee” may include serving on the staff of the agency head, participation in the formulation of agency policy,” and/or “development, implementation and evaluation of goals and objectives consistent with agency mission and policy.”

<b>Agency (# of employees)</b>	<b># Mgrs<sup>1</sup></b>	<b># Suprs<sup>2</sup></b>	<b># Mgrs + Suprs</b>	<b>Mgr/Supr: Non-Mgr/Supr Ratio</b>
DCF (N=3,518)	221 <sup>a</sup>	484	705 (20%)	1:4
DPH (N=809)	42	70	112 (13.8%)	1:6
DSS (N=1,921)	77	159	236 (12.3%)	1:7
DMHAS (N=3,490)	232	183	415 (11.9%)	1:7
DDS (N=4,355)	105	332	437 (10%)	1:9
CDHI (N=38)	3	0	3 (7.9%)	1:12
BESB (N=121)	1	5	6 (5%)	1:19
<b>Total (N=14,252)</b>	681	1,233	1,914	1:6

<sup>1</sup>DAS identified managerial positions as having a labor code of “02” (managerial)  
<sup>2</sup>DAS identified supervisory positions according to job classes designated to be supervisory pursuant to statute (CGS Sec. 5-270(f))  
<sup>a</sup>Based on fiscal note in 2009-2011 State Budget Book, DCF was to reduce managerial positions by 25% (66 positions of 264 managerial positions), which would have resulted in 198 managerial positions.

The statutory definitions are set out below:

(f) “Supervisory employee” means any individual in a position in which the principal functions are characterized by not fewer than two of the following: (1) Performing such management control duties as scheduling, assigning, overseeing and reviewing the work of subordinate employees; (2) performing such duties as are distinct and dissimilar from those performed by the employees supervised; (3) exercising judgment in adjusting grievances, applying other established personnel policies and procedures and in enforcing the provisions of a collective bargaining agreement; and (4) establishing or participating in the establishment of performance standards for subordinate employees and taking corrective measures to implement those standards, provided in connection with any of the foregoing the exercise of such authority is not merely of a routine or clerical nature, but requires the use of independent judgment, and such individuals shall be employees within the meaning of subsection (b) of this section. The above criteria for supervisory positions shall not necessarily apply to police or fire departments.

(g) “Managerial employee” means any individual in a position in which the principal functions are characterized by not fewer than two of the following, provided for any position in any unit of the system of higher education, one of such two functions shall be as specified in subdivision (4) of this subsection: (1) Responsibility for direction of a subunit or facility of a major division of an agency or assignment to an agency head’s staff; (2) development,

implementation and evaluation of goals and objectives consistent with agency mission and policy; (3) participation in the formulation of agency policy; or (4) a major role in the administration of collective bargaining agreements or major personnel decisions, or both, including staffing, hiring, firing, evaluation, promotion and training of employees.

Based on these statutory definitions, the Department of Administrative Services has determined appropriate classification for individual positions; however, it is still not clear that the DAS classifications correspond to “managers” in other states. Also, until 1986 (P.A. 86-411), Connecticut had a cap on the percent of managerial employees (4 percent in executive and judicial branches; 7 percent in higher education constituent units), and the commission explored scenarios with various caps on the percent of managers within each human services agency.

Based on other government organizations’ experiences and the private sector, it could be suggested that the State attempt to at least double its current 1:6 ratio of Managers + supervisors to employees to 1:12. Although that wider span of control may ultimately be the best guideline, to find the right ratio, each head of agency will need to consider a variety of factors such as job complexity, similarity of jobs, physical proximity, abilities of employees, abilities of managers and the increasing use of technology. It is important to take these factors into consideration—as well as others—because, in the personnel classification system in place in Connecticut’s state government, a “supervisory employee” may in fact not supervise a number of persons reporting to him or her, but possess other skills, as defined in statute. And it is also important to distinguish “managerial employee” from “supervisory employee.”

Accordingly, it is the Commission’s recommendation that in order to have an efficient, effective government focused on quality outcomes, **there shall be a manager+supervisor to employee ratio at human services agencies of at least 1:10 to be phased in within one year of adoption of this recommendation (Proposal #5)**. Each Commissioner shall submit to the Governor a plan to phase in the reduction. *Savings for this recommendation are estimated at \$52,727,971.*

There may also be the potential to reduce the number of managers in other executive branch agencies, although in these other agencies it becomes even more difficult to distinguish “supervisory employees” from “managerial employees.” Moreover, in certain agencies that use CORE-CT, such as the Office of the Attorney General, managers or supervisors may actually be neither, but rather legal staff that has been classified accordingly for some internal reason. The commission cautions that reduction of managers should not include the positions of key, high-level policy makers who develop and implement policy directly or in consultation with and on behalf of agency heads. An overly broad reduction could harm, rather than enhance, agency outcomes. The commission recommends that **the remainder of the executive branch agencies consider a 1:10 (1 manager+supervisor to every 10 employees) ratio (Proposal #6)**. Consideration of this reduction must be taken with great care, however, this recommendation could result in *potential savings estimated at \$119,319,536* (Table I-11).

Finally, in order to successfully reorganize the structure of government, the state must refocus its current investments in workforce training, improved communication platforms and

improved technology for sharing information as well as ensuring that the heads of agencies are committed to empowering their workforce.

<b>Table I-11. Estimated Savings if Reduced Number of Managers/Supervisors to 1:10 Ratio in Executive Branch Agencies<sup>4</sup></b>				
<b>Agency (# of employees)</b>	<b># Mgrs<sup>1</sup> + Suprs<sup>2</sup></b>	<b># Mgrs/ Suprs if 1:10 Ratio<sup>3</sup></b>	<b>Reduced # of Mgrs/Suprs to Reach Target:</b>	<b>Estimated Savings</b>
<b>General Government</b>				
Board of Accountancy (N=5)	2	0	1	\$102,022
Dept of Administrative Services (N=331)	69	30	39	\$3,969,583
Department of Public Works (N=169)	32	15	17	\$1,697,275
Department of Revenue Services (N=710)	166	65	101	\$10,350,596
Department of Special Revenue (N=110)	21	10	11	\$1,122,242
Dept of Veterans Affairs (N=338)	35	31	4	\$435,912
Elections Enforcement Comm (N=49)	12	4	8	\$769,802
Ethics Comm (N=18)	3	2	1	\$139,121
Freedom of Information Comm (N=20)	7	2	5	\$528,659
Governor's Office (N=29)	0			
Dept of Information Technology (N=231)	80	21	59	\$6,019,298
Judicial Selection Comm (N=1)	1			
Lt. Governor's Office (N=5)	0			
Off of Attorney General (N=328)	218	30	188	\$19,198,685
Office of Policy and Management (N=131)	57	12	45	\$4,600,265
Office of State Comptroller (N=264)	71	24	47	\$4,795,034
Office of State Treasurer (N=142)	33	13	20	\$2,049,715
Off of Workforce Competitiveness (N=3)	2			
Secretary of the State (N=85)	7	8	(-1)	
<b>TOTAL (N=2,969)</b>	<b>816</b>	<b>270</b>	<b>547</b>	<b>\$55,778,210</b>
<b>Regulation and Protection</b>				
Dept of Agriculture (N=62)	8	6	2	\$211,200
Office of Consumer Council (N=14)	1	1	0	
Dept of Consumer Protection (N=156)	29	14	15	\$1,324,064
Department of Motor Vehicles (N=750)	88	68	20	\$1,770,834
Dept of Banking (N=116)	41	11	30	\$2,721,235
Department of Insurance (N=140)	30	13	17	\$1,543,387
Department of Labor (N=800)	125	73	52	\$4,670,777
Department of Public Safety (N=1,678)	277	153	124	\$11,120,511
Emergency & Homeland Security (N=48)	8	4	4	\$324,924
Fire Prevention (N=72)	4	7	(-3)	
Board of Firearms and Permits (N=1)	0			
Comm Human Right and Ops (N=74)	5	7	(-2)	
Office of Healthcare Advocate (N=9)	2	1	1	\$105,600
Military Department (N=107)	17	10	7	\$649,847
Office of Child Advocate (N=8)	3	1	2	\$203,077
Protect/Advocacy Prsns Disab (N=45)	7	4	3	\$259,939
Office of Victim Advocate (N=4)	0			
Police Officer Stnds/Training (N=22)	7	2	5	\$446,770
Department of Public Utility (N=124)	16	11	5	\$422,401
Workers Comp Comm (N=116)	8	11	(-3)	
<b>TOTAL (N=4,346)</b>	<b>676</b>	<b>397</b>	<b>287</b>	<b>\$25,774,567</b>

**Table I-11. Estimated Savings if Reduced Number of Managers/Supervisors to 1:10 Ratio in Executive Branch Agencies<sup>4</sup>**

Agency (# of employees)	# Mgrs <sup>1</sup> + Suprs <sup>2</sup>	# Mgrs/ Suprs if 1:10 Ratio <sup>3</sup>	Reduced # of Mgrs/Suprs to Reach Target:	Estimated Savings
<b>Conservation and Development</b>				
Agricultural Exp Station (N=83)	9	8	1	\$142,502
Arts Tourism Culture History Film (N=47)	4	4	0	
Council Environmental Quality (N=2)	1			
Dept Environmental Protection (N=946)	168	86	82	\$8,033,540
Economic and Community Dev (N=117)	21	11	10	\$1,015,325
<b>TOTAL (N=1,195)</b>	<b>203</b>	<b>109</b>	<b>93</b>	<b>\$9,191,367</b>
<b>Health and Hospitals</b>				
Office of Chief Medical Examiner (N=61)	4	6	(-2)	
Dept of Developmental Services (N=4,355)	437	396	41	\$3,534,065
Dept of Public Health (N=809)	112	74	38	\$3,307,322
Dept of Mental Hlth & Addctn Svcs (N=3,490)	415	317	98	\$8,405,132
Psychiatric Sec Review Board (N=4)	0			
<b>TOTAL (N=8,719)</b>	<b>968</b>	<b>793</b>	<b>177</b>	<b>\$15,246,518</b>
<b>Transportation</b>				
Dept of Transportation (N=3,078)	<b>415</b>	280	135	\$13,802,604
<b>Human Services</b>				
Dept of Social Services (N=1,921)	236	175	61	\$4,638,539
Soldiers Sailors Marine Fund (N=9)	0			
<b>TOTAL (N=1,930)</b>	<b>236</b>	<b>175</b>	<b>61</b>	<b>\$4,638,539</b>
<b>Corrections</b>				
DCF (N=3,518)	705	320	385	\$32,842,913
DOC (N=6,252)	752	568	184	\$13,830,940
<b>TOTAL (N=9,770)</b>	<b>1457</b>	<b>888</b>	<b>569</b>	<b>\$46,673,853</b>
<b>Education</b>				
Bd State Acdmc Awds (Charter Oak) (N=79)	0			
Comm Deaf Hearing Impaired (N=38)	3	3	0	
CT State Library (N=101)	17	9	8	\$764,141
BESB (N=121)	6	11	(-5)	
SDE (N=2,001)	70	182	(-112)	
Teachers Rtrmnt Bd (N=24)	4	2	2	\$177,707
<b>TOTAL EDUCATION (N=2,364)</b>	<b>100</b>	<b>207</b>	<b>10</b>	<b>\$941,848</b>
<b>Grand Total (N=34,371)</b>	<b>4,871</b>	<b>3,119</b>	<b>1,879</b>	<b>\$172,047,507</b>
<sup>1</sup> DAS identified managerial positions as having a labor code of "02" (managerial)				
<sup>2</sup> DAS identified supervisory positions according to job classes designated to be supervisory pursuant to statute CGS Sec. 5-270(f)				
<sup>3</sup> 1:10 ratio means there is 1 manager or supervisor for every 10 non-manager/supervisor employees in a particular agency				
<sup>4</sup> Excludes higher education constituent units				
Source: PRI staff analysis of CORE-CT employee information as of 7-23-10				

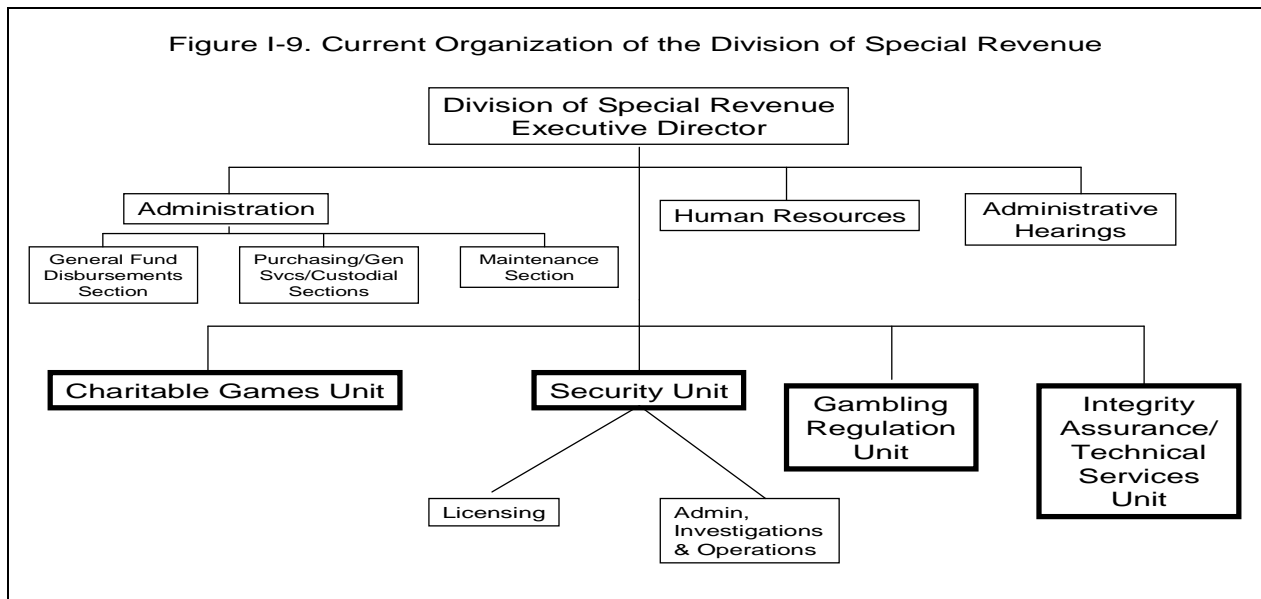
## CONSOLIDATION OF CHARITABLE GAMES UNIT

The Charitable Games Unit (CGU), part of the Division of Special Revenue (DSR), is responsible for oversight of charitable gaming activities (e.g., bingo, bazaars, raffles) conducted by nonprofit organizations. It administers required registrations and permits, and audits financial statements. In looking at ways the state can save money, the commission questioned the need to have a staff of 14, and spend over \$1 million annually on this effort. Legislators commented on the anger of their constituents who were generally senior citizens affiliated with their local church or PTA parents who had been visited repeatedly by state agents to determine whether the appropriate number had been called during the duck raffle or that the donations to the school did not exceed the limit written on the permit. At a time when the state is so challenged for resources to help people in need, it is inappropriate for the state to spend money chasing church ladies for the cost of their tea cup raffles. While the commission recognizes the need for permitting and oversight, permitting could easily be on-line and oversight could be placed with the Department of Consumer Protection which currently handles numerous other permits, or with another agency. The commission reviewed the following information about the Charitable Games Unit within the Division of Special Revenue.

**Overview of Division of Special Revenue.** The Division of Special Revenue (DSR) is the state agency responsible for regulating legal gaming. Founded in 1971 as the Commission on Special Revenue (P.A. 865), Connecticut first began regulating gaming such as the state lottery, off-track betting, and horse racing. Division responsibilities expanded in 1987 with the transfer of responsibility for charitable gaming from the state police to DSR, and in 1992 with the assumption of responsibility for casino gambling. (Responsibility for the state lottery was separated into the quasi-public Connecticut Lottery Corporation in 1996.)

Figure I-9 shows the current organization of the Division of Special Revenue as of July 2010. Apart from the administrative hearings and back office functions, there are four units—including the Charitable Games Unit (CGU).

Figure I-9. Current Organization of the Division of Special Revenue



**Description of Charitable Games Unit.** Under C.G.S. Ch 98, the charitable gaming activities of bingo, sealed ticket sales, bazaars, and raffles conducted by nonprofit organizations, are subject to registration, permit, and other regulatory requirements of the CGU. Specifically, the unit is responsible for:

- administration of required **registrations and permits**;
- review of the financial statements/**audits** of the sponsoring organizations; and
- **field oversight** of authorized activities.

The cost to regulate charitable games in Connecticut is covered by revenues from CGU. A recent study of gambling in Connecticut<sup>5</sup> found revenues had decreased to the point that the amount transferred to the General Fund in 2007 did not cover the state’s costs to regulate charitable games. According to the division director, however, that has not occurred since, due both to the slight growth in charitable games revenues and the streamlining of CGU.

**Streamlining of CGU.** The CGU budget for FY 09 was \$1.6 million, most of which (73 percent) was expended on costs for 20 staff positions. Effective July 1, 2010, under legislation enacted during the 2010 regular session, all six field operations positions (responsible for inspections and education/support) were eliminated, saving approximately \$375,000 annually. Consequently, CGU will now have limited training and educational services for permittees, and conduct on-site inspections only when there are complaints.

**Consolidation of CGU into other DSR Units.** The commission recommends that DSR could further streamline operations by **consolidation of aspects of CGU into other DSR units (Proposal #2)** (see Table I-12). In addition to streamlining DSR from four to three units, *savings*

<sup>5</sup> See p. 168, *The Impacts of Gambling in Connecticut*, Spectrum Gaming Group (prepared for the Division of Special Revenue), June 22, 2009.

of \$101,015 (annual base salary range: \$88,505-\$113,525) could be realized through the elimination of the currently vacant Charitable Games Unit Head position.

<b>Currently in CGU</b>	<b>Potential Consolidation:</b>
<ul style="list-style-type: none"> <li>• 1 Lic&amp;ApplicsSupv</li> <li>• 1 SpecRevnGmblRegSupv</li> <li>• 4 Office Assistants</li> <li>• 1 Administrative Assistant</li> <li>• 2 Processing Technicians</li> </ul>	Move to Security Unit and name “Charitable Games Licensing”
<ul style="list-style-type: none"> <li>• Fscl/AdminAsst</li> <li>• Storekeeper</li> </ul>	Move to Fiscal Admin Office of Purchasing/General Services/Custodial (part of Administration Section)

**Further consolidation.** In 1990, DSR was organized, for administrative purposes only, as a part of the Department of Revenue Services (DRS). A Thomas Commission report produced at that time noted that DSR did not rely on DRS for administrative or operations support, and the Executive Director of DSR served at the pleasure of the Governor, reporting directly to the governor. The Thomas Commission recommended that DSR be given department status, which would be consistent with its reporting responsibilities.

In an effort to reduce the number of state agencies or independent divisions, Connecticut could return to the previous consolidation of DSR into DRS. CGU administrative hearings, for example, could be folded into the DRS Legal Division, and the Charitable Games Unit into DRS Taxpayer Services.

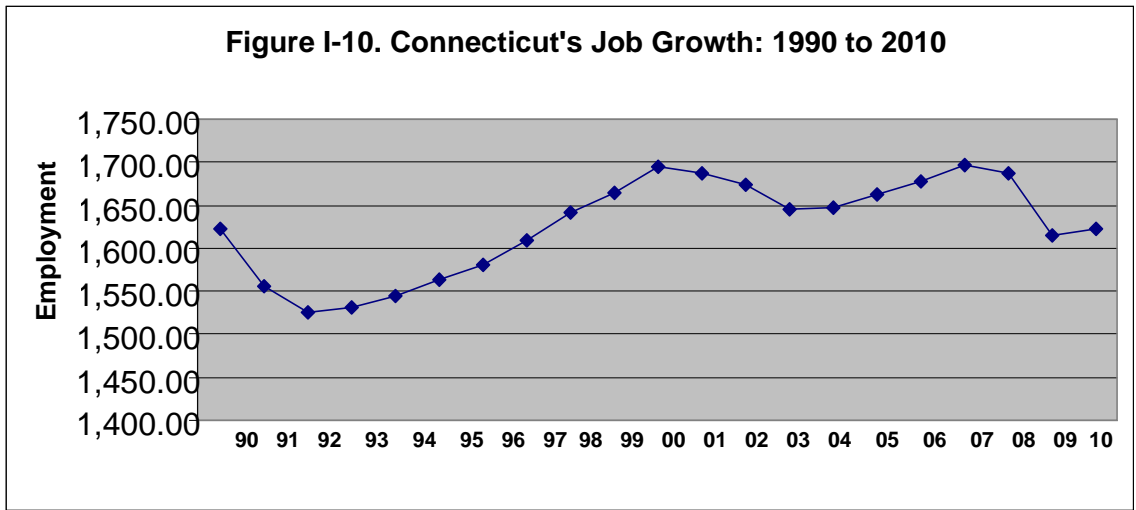
Alternatively, the charitable gaming portion of DSR could become the responsibility of the CT state police, as was the case in CT from 1965 to 1987 (Charitable gaming is a responsibility of state police in other states, including Rhode Island and Maine).

As a way to further enhance outcomes in this area and reduce the number of state agencies or independent divisions, the commission considered further consolidation. DSR used to be organized, for administrative purposes only, as part of the Department of Revenue Services. The commission proposed return to this previous **consolidation of the Division of Special Revenue into the Department of Revenue Services (Proposal K)**.

#### **CONSOLIDATION OF ECONOMIC DEVELOPMENT AGENCIES**

The commission had received many different proposals of potential mergers when it was developing its initial report in February 2010. While many of those proposals will certainly be examined by legislators and policymakers in the months ahead, the commission chose to focus on consolidating and merging agencies in the economic development area (see Appendix F), since spurring Connecticut’s economy is such a high priority.

**Connecticut’s economy.** As Figure I-10 shows, Connecticut has had no overall job growth over the last two decades. It had about 1.62 million jobs in 1990; about the same as it has in 2010.



There have been some bright spots recently. The UConn’s Connecticut Center for Economic Analysis (CCEA) reported that from 1999 to 2009, there were about 17,000 jobs *losses* in some high-earning professional jobs like CEOs, doctors, and lawyers, with a total income loss of \$1.9 billion. However, during the same period, there were almost 51,000 *gains* in employment in the professional, high-earning jobs like nurses, teachers, financial services, computer technology, engineers and physical therapists. These gains produced income growth of about \$4.8 billion, a net increase of almost \$3 billion.

Connecticut’s economic rankings vary depending on the categories being ranked. The state’s economy scores high when technology and innovation are ranked. The state ranked 6<sup>th</sup> in the New Economy Index by Kaufmann, and 7<sup>th</sup> in State Technology and Science (Milken). Further a recent UConn CCEA study ranks Connecticut 8<sup>th</sup> lowest in per-unit manufacturing costs. However, the state ranks much lower when its regulatory environment and business costs are rated as indicated below:

- 45<sup>th</sup> in business costs (Forbes, Milken) 47<sup>th</sup> (CNBC)
- 40<sup>th</sup> in regulatory environment (Forbes)
- 23<sup>rd</sup> For being “business friendly” (CNBC)

**Comparing Connecticut to Virginia.** The commission identified Virginia as a model state that consistently scores in the top 10 on rankings, and assessed what that state was doing. That state has created 135,000 jobs in the professional and technical area, an increase of 20 percent form 2002. It has the ability to execute successful initiatives, and the state works with individual businesses in three areas: new businesses; technology-based initiatives; and industry cluster development.

Virginia is a higher-income state, compared to the national average, but has a slightly below average cost of living. Connecticut is also a high-income state, but has a high cost of living. The costs of doing business are lower in Virginia. In addition to lower labor costs than

Connecticut, Virginia's total energy costs in 2008 were slightly lower than the national average, while Connecticut's were almost 35 percent higher. The gap between the two states is worse if just electricity costs are compared – Virginia's were 18 percent lower, while Connecticut's were 82 percent higher.

In addition, Virginia has lower health care costs. The average health care premium for family coverage in 2008 was \$12,298, while in Connecticut it was \$13,788 – almost 10 percent higher than the national average, placing it 5<sup>th</sup>-highest in the nation. Virginia, on the other hand had health care premiums of \$11,935, about 3 percent below the national average, and 12 percent lower than Connecticut.

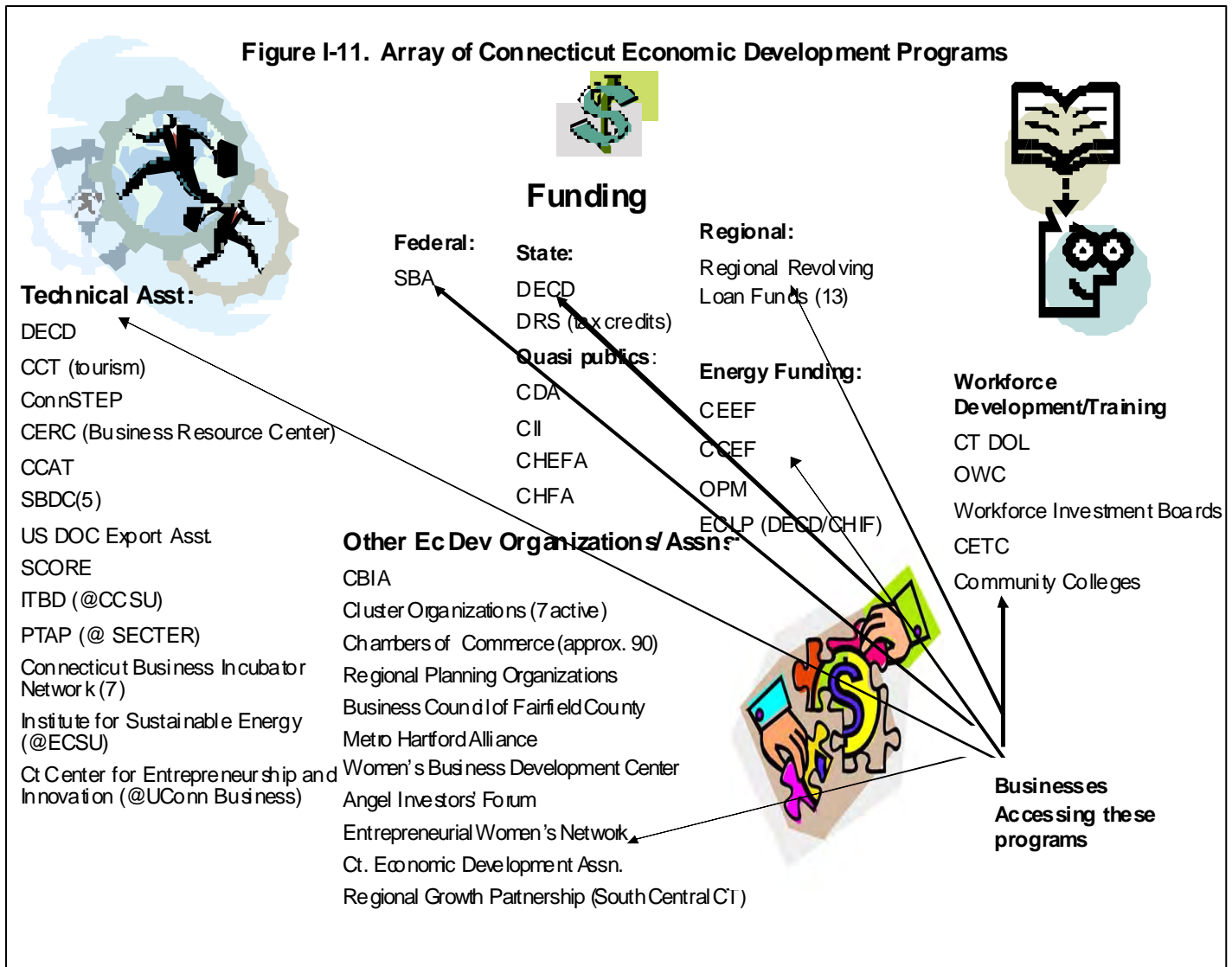
But aside from having lower costs, the commission found that Virginia implements strategies to assist business in a number of ways including:

- Developed a streamlined permitting process
- A one-stop service for new businesses and existing enterprises wishing to expand
- A representative (case-manager) who works with a company to get what they need
- A business development approach that focuses on key economic areas and international trade
- Advanced e-government services – Virginia ranked 3<sup>rd</sup> in 2008; Connecticut 37<sup>th</sup>
- A performance assessment of services provide to business.

Some of the aspects of Virginia's economy were beyond the scope of the commission – energy and health care costs, for example. The legislature did address many of businesses concerns through 2010 legislation known as the “jobs bill”, which uses some of the initiatives Virginia has, including permit reform. The legislature also created tax credits for angel investors, expanded the job creation program for small businesses, established a small business loan program, and statutorily (re)created the Connecticut Competitiveness Council, comprise of leaders in business, labor and higher education.

As mentioned, permit reform legislation also passed, which shortens the environmental regulatory process, and established a permit ombudsman in the Department of Economic and Community Development (DECD). As of November 2010, DECD had designated a staff person (not a newly hired position) as ombudsman, but no projects were yet expedited. The commission recognizes that the environmental permitting area is a major concern, and believes that the 2010 legislation when fully implemented should address some of businesses problems. However, environmental permitting is not the only state regulatory area that is problematic to businesses, nonprofits and others. **To address this, the commission recommends that the state must continue to streamline licensing and permitting for businesses and nonprofit agencies (Proposal R, and PRI E-Government study recommendations (Proposal O).**

Businesses have voiced concern that there is a patchwork of state-run economic development agencies, and they are often referred from one to the other to get the information or assistance they are seeking. In fact, Figure I-11 illustrates the daunting array of agencies and programs a business or nonprofit faces when seeking economic development assistance.



As discussed, legislation addressing some of business' concerns passed in 2010, but little has been done to change the organizational structure to make it easier for businesses to access the programs and financing that are available, or to navigate the regulatory requirements needed to operate or expand a particular type of business in Connecticut. There still is no single point-of-entry for business, and each agency markets its own programs, and when budgets are tight those are pared significantly. Further, just as with human service agencies, each of the economic development agencies has separate executive and managerial structures, separate marketing and communications, and public and governmental relations, as well as separate administrative or back-office functions. Whether these positions and functions are funded through the state

General Fund or whether they are supported through fees on loans and financing to businesses or nonprofits, they are duplicative and expensive.

While there were several bills proposed or raised during the 2010 session to merge economic development agencies—sSB 308, SB 160, SB 327—none was passed (see Appendix G).

**The commission believes strongly that businesses in this state should be able to access economic development assistance in one place and therefore recommends that:**

- **the state implement a single online point-of-entry for business (Proposal L);**
- **consolidate all economic development agencies – the Department of Economic and Community Development; the Commission on Culture and Tourism; the Connecticut Development Authority; the Connecticut Innovations, Inc. including the Connecticut Clean Energy Fund, and other state entities with an economic development mission -- into one agency.**
- **designate current staff in the new merged agency that would serve as business case managers. These case managers should have knowledge skills and training in the state’s industry clusters and exporting activity so they can help businesses access the appropriate state and regional programs and financing, as well as meet the regulatory requirements, for that individual business’ needs (Proposal M).**
- **provide an online evaluation tool for businesses to grade the performance of the assistance offered by the new agency. (Proposal #8)**

The commission did not recommend that the agency be either a quasi-public or a state agency, but members expressed concern that the agency be able to issue tax exempt bonds, a key component in helping businesses and others with financing. The commission also recognizes that any combined agency must also include programs aimed at marketing and fostering the state’s tourism industry, an important part of Connecticut’s economy. While the film industry aspects of the Commission on Culture and Tourism (CCT) were transferred to DECD early in 2009, most of the areas related to tourism still lie with the CCT, and the commission recommended that those be included in a consolidated economic development agency.

While this proposed consolidated entity would be a state-level agency, the commission discussed that a facet of the case-manager, broker approach would also include the programs of the regional economic development agencies -- both those involved in planning and financing -- when assisting and customizing services to meet an individual business’ needs.

Massachusetts recently reorganized and consolidated its economic development agencies, including an umbrella agency aimed at marketing the state domestically and internationally and attracting new businesses. It also consolidates agencies focused on regionally-based efforts to grow and attract businesses to the state.

The major rationale for the commission’s recommended merger was to address businesses economic development needs in one agency and provide a broker, case-management

approach. However, the proposal would also eliminate redundant positions and duplicative administrative functions. Currently there are 342 staff in the six economic development agencies. *The commission's proposal, once fully implemented, could reduce the executive and managerial staff by an estimated 19 positions (using a 5 percent threshold). It would reduce administrative support staff by 40 positions (using a 20 percent threshold). This would save \$4.2 in salaries (without fringe).*

Most of the employees in these agencies, whether quasi-public or not, are in the State Employees Retirement System, although those agencies make the employer contribution. It is also important to note that the savings from staffing would not all accrue to the General Fund as the quasi-public agencies (all except DECD) are funded through fees on loans, bonds and other financing. However, what is saved in operating expenses could provide additional financing to small businesses and nonprofits seeking assistance.

Commission members also acknowledged that there may be disruption and some reduction in savings (at least initially) because of moving and relocation expenses. These moves can sometimes be time-consuming depending on current leases, finding other suitable space and the like. However, in the longer term one expects there would be a savings in rent, utilities and other expenses as less space will be needed overall as agencies are consolidated and staffing reduced.

**Disposition of state property.** Closures and downsizing of state facilities, like Norwich Hospital, have been occurring for years. With greater moves to transfer some people from institutions, like Cedar Ridge, to the community, these facility closures will continue to occur. Further, any mergers and consolidation of agencies may eventually produce unused state building and facilities.

However, the state often appears to have little plan as to what should happen with these facilities when the clients or patients leave, or when the buildings are no longer needed. Often the buildings deteriorate, losing value, while still costing the state money for at least minimal upkeep.

The commission recognizes that with the state continuing to own properties that may be valuable, but only when sold or effectively re-used, while continuing to incur expenses and outlays, the state is failing to capitalize on valuable assets and a potential revenue resource. **Therefore, the commission recommends that the state reform its process for the disposition of state real property through more rigorous analysis and consideration of re-use, through direct and early involvement of economic development agencies and local governments, and through aggressive preservation of environmental and historic assets.**

(Proposal U)

#### ADJUSTMENTS TO STATE EMPLOYEE COMPENSATION AND BENEFITS

As noted at the beginning of this section, state employee compensation is a sizable portion of the state budget. With personal services expenses (total payroll excluding higher education) of about \$2.5 billion for FY 11, this accounts for almost 14 percent of the state's General Fund. The state's payments for health care for active employees and their families for FY 11 are about \$516 million. The annual actuarially required contribution (ARC) for the state

to fund current retirees and fund the pension fund for future retirees is about \$1 billion. (Annual payments from the pension fund to current retirees total \$1.2 billion.) Altogether, General Fund annual payments made (or required) for compensation to employees and retirees exceed \$4.5 billion, about 25 percent of the state's General Fund budget.

The commission did considerable research in examining the compensation and benefits structure for employees and retirees. The commission consulted reports such as the Pew Center on the States' report entitled *State Pensions and Retiree Health Benefits: The Trillion Dollar Gap*, (February 2010), which cites Connecticut as being one of eight states with more than one-third of its total pension liability unfunded.

The commission also followed the work of the Connecticut Post-Employment Benefits Commission established by the governor through executive order, which described the nature of the problem in Connecticut, but ultimately did not make any specific proposals, instead providing information and potential approaches to addressing the state's post-employment benefit liabilities. Thus, given the current unfunded post-employment liability, the projected personal services expenditures, and current funding levels, a long-term plan is needed to make the system sustainable. But the commission also recognizes that all compensation and benefits will have to be collectively bargained with state employee unions (i.e., SEBAC) and, rather than limit the options available to those at the negotiating table, **the commission supports providing all the information it has collected to the new administration, and those who will be responsible for negotiating on these matters (Proposal #9).** (See Appendices H, I, and J.)

## Workers' Compensation

The state, like any other employer, must provide insurance to cover lost wages and medical expenses when a worker is hurt on the job. The state is self-insured and has a contract with GAB Robins to act as the state's third party administrator, settling and paying claims, etc. Workers' compensation has always been a large expense for the state, given that a significant number of employees are in higher-risk jobs like corrections, law enforcement and direct patient care. However, based on FY 10 expenditure figures provided to the commission by the Office of State Comptroller, those costs are increasing at an alarming rate. Altogether, workers compensation costs for all agencies total \$108.6 million for FY 10, an increase of almost \$15 million (16%) from FY 08.

Certainly, the state is not alone in facing increasing workers' compensation costs. The *Hartford Business Journal* reported on December 6, 2010 that "some Connecticut employers will be hit with the largest average [worker's compensation] rate hikes in more than a decade. The hikes, officials say, are being driven by rising claim and medical costs to treat injured workers, aided in part by an aging Connecticut workforce." The commission recognizes that employers throughout the state will be scrutinizing their workers' compensation claims, costs and claims to reduce future costs, and will expect the state as an employer, to do the same. Therefore, the commission recommends **that the state, as an employer, needs to continually examine its workers compensation program, where it is incurring its costs, what is driving the increased costs, and continuously implement programs that reduce injuries, assist with return to work, and ensure timely and effective medical care. (Proposal N)**

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### Administrative Functions

If the state is to achieve consolidation or mergers of agency support functions, and if it is to streamline its contracting, purchasing and payment systems, the state needs to modernize a whole host of administrative functions. At the core of modernizing any of these practices is to employ technology to a much greater extent than state agencies have to date. For too long, state agencies have used outmoded, inefficient, and expensive paper-based systems, while the private sector and other levels of government have adopted computerized or other electronic methods to accomplish administrative functions in far less time and with much less expense. Connecticut residents, businesses, and vendors are frustrated that state government cannot do the same.

In this section, the commission makes several proposals regarding administrative functions that could be accomplished using modern administrative practices. However, as the commission did not have the time or resources to do an exhaustive assessment of all administrative functions, the commission believes these proposals are only examples, and just scratch the surface of where efficiencies could be achieved. The commission also is deferring to the program review committee report for its recommendations regarding e-government, which certainly will impact the administrative functioning of state agencies. **Finally, in addition to the specific proposals outlined here, the commission recommends in the longer-term the state should be examining all its administrative functions, and where automation might be used to implement those functions. The commission also believes that the dormant Innovations Panel, which encouraged rank and file state employees to share ideas for improving agency functions, should be restored. (Proposals P and Q).**

#### DIRECT DEPOSIT

Connecticut state government issues payments to: state of Connecticut employees and retirees, the unemployed (through unemployment insurance payments), and state workers injured on the job (worker's compensation payments). The CT Department of Labor processes unemployment insurance, and a third party administrator processes workers' compensation payments; each of the latter processes issue paper checks only and electronic deposit payments are currently not an option.

**Current Usage of Direct Deposit.** The number of persons getting paid in one of 152 distinct state departments ranges from one (e.g., Board of Firearms and Permits) to 12,779 (e.g., University of Connecticut). Although 81 percent of all CT state employees use direct deposit (Figure II-1), the percent varies widely across individual departments, agencies or commissions, from a low of 47 percent (Military Department) to a high of 100 percent (e.g., State Elections Enforcement Commission, CT Siting Council).

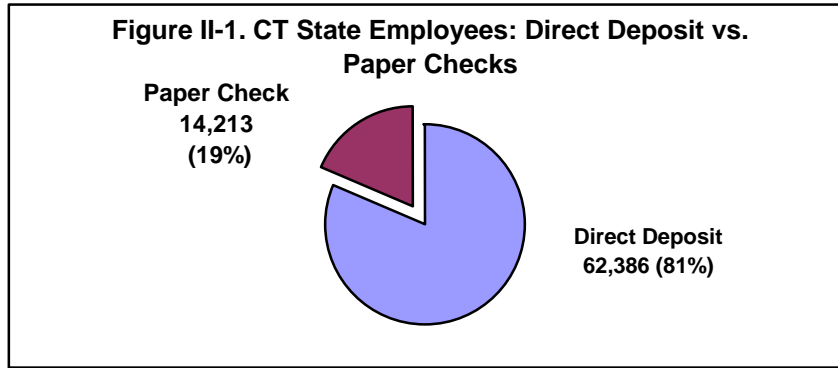
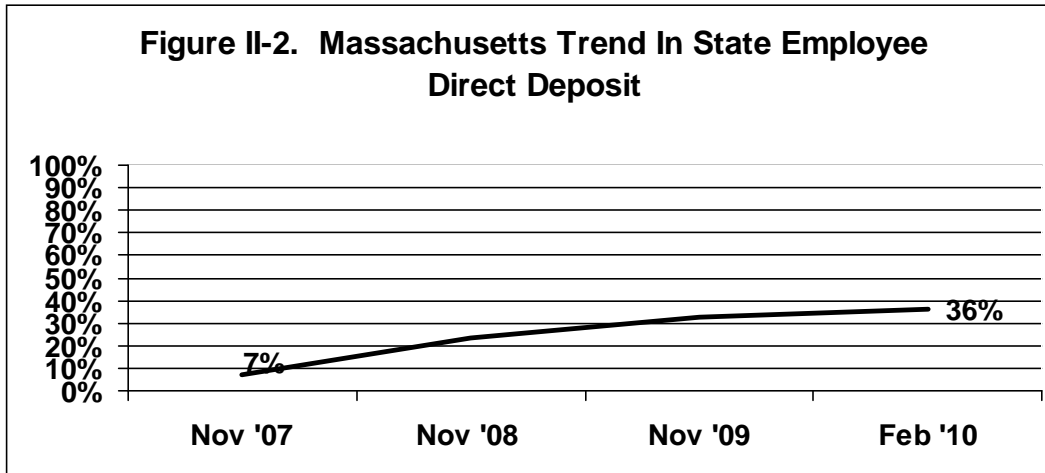


Table II-1 shows the highest and lowest direct deposit participation rates for employees in larger agencies/departments.

<b>Table II-1. Percent at Larger Agencies/Departments Using Direct Deposit</b>		
<b>Department or Agency</b>	<b>Total # Paid</b>	<b>% Direct Deposit</b>
Southern CT State University	2,599	68%
Bureau of Highway Operations	1,464	70%
Dept of Children and Families	3,560	90%
Department of Social Services	1,929	91%
Source: Office of State Comptroller		

**Paperless Systems.** Regardless of whether the person is paid through direct deposit or paper check, CGS Sec. 31-13a requires that each employee must be furnished with a written record of hours worked with each wage payment (i.e., payroll remittance advice or payroll warrant report). The commission identified examples of states or organizations that have chosen a paperless payroll system and eliminated paper checks and/or paper payroll remittance advice reports. For example:

- Ohio State University uses a paperless system for all paychecks and pay stub information. All faculty, staff and student employees receive their pay stub information online or via touch-tone telephone using an interactive voice response (IVR) system.
- Wal-Mart estimates the cost of producing paper checks to be 70-79 percent more expensive than direct deposit or payroll cards. Wal-Mart recently shifted to a paperless payroll system.
- Massachusetts gives state employees the option of suppressing the printing of payroll remittance advices. As of February 2010, a total of 95 percent of 88,268 employees across 151 departments chose direct deposit, with 36 percent of direct depositors (30,127 employees) opting to suppress pay advices, a figure which has been increasing since the option was initially introduced at several state agencies (see Figure II-2) (Employee's pay advice information is available a full day earlier than paper and can be accessed at any time through the internet).



**Costs Associated With Direct Deposit/Electronic Advice Statements**

Table II-2 shows the estimated costs associated with the different forms of payment (paper or direct deposit) and advice statements (paper or electronic). The figures apply cost estimates from the Connecticut Department of Labor for the distribution of Unemployment Insurance (UI) payments to the payments provided to current employees and retirees. [Note that within the next few months, the current UI paper check processing system will be converted to an electronic payment system.]

<b>Table II-2. Costs Associated with Form of Payment and Advice Statements</b>				
<b>Activity/Expense</b>		<b>Estimated Cost Per Type of Payment</b>		
		<b>Paper Check/ Paper Advice</b>	<b>Direct Deposit/ Paper Advice</b>	<b>Direct Deposit/ Electronic Advice</b>
Bank Cost Per:				
Check	9¢	9¢		
Direct Deposit	3.3¢		3.3¢	3.3¢
Postage	37.5¢	37.5¢	37.5¢	
Printing/inserting costs	4.3¢	4.3¢	4.3¢	
Check/envelope stock costs	3.9¢	3.9¢	3.9¢	
<b>Total Cost If Mailed</b>		<b>54.7¢</b>	<b>49¢</b>	<b>N/A</b>
<b>Total Cost If NOT Mailed</b>		<b>17.2¢</b>	<b>11.5¢</b>	<b>3.3¢</b>
Source of Data: CT DOL				

The Office of the State Comptroller did not have a figure on the additional expense to change to an all-electronic pay/advice system. However, there are anticipated initial costs to implement the relevant CORE-CT module, e-Pay, make system modifications, and provide accessibility and training for all employees.

According to the Office of the State Comptroller, there are approximately 76,699 state employees (82 percent of them are on direct deposit) and 36,000 state retirees (80 percent of them are on direct deposit). No employees or retirees receive advice statements electronically.

Based on the costs described in Table II-2 and the participation levels experienced by Massachusetts, possible savings associated with a greater participation level in direct deposit and

introduction of electronic advice statements are shown in Table II-3. If 95 percent of employees and retirees received direct deposit, and 20 percent received advice statements electronically, there would be an annual savings of \$180,257 based on banking, postage, and printing cost reductions alone; savings from reduction of positions determined unnecessary by this change is currently unknown.

<b>Table II-3. Possible Direct Deposit and Electronic Advice Scenarios</b>			
	<b>Scenario</b>	<b>Annual Cost</b>	<b>Annual Savings from Current</b>
<b>A. Possible Scenarios for Employee Payment/Advice (N=76,699)</b>			
Currently:	18% Paper Check/100% Paper Advice	\$249,790	
Potentially:	5% Paper Check/100% Paper Advice	\$235,013	\$14,777
Potentially:	5% Paper Check/80% Paper Advice	\$110,737	\$139,053
<b>B. Possible Scenarios for Retiree Payment/Advice (N=36,000)</b>			
Currently:	20% Paper Check/100% Paper Advice	\$216,605	
Potentially:	5% Paper Check/100% Paper Advice	\$212,911	\$3,694
Potentially:	5% Paper Check/80% Paper Advice	\$175,401	\$41,204
<sup>a</sup> Per Office of the State Comptroller 3/12/2010. Note: Assumes 26 bi-weekly payments for employees and 12 monthly payments for retirees.			

The commission posed a series of questions in its deliberations about direct deposit. The questions and the findings of the CEO are contained in Table II-4 on the next page.

**Unemployment compensation checks.** The Department of Labor, which is the state agency responsible for administering the unemployment insurance program in Connecticut, has recently gone to an all-electronic system for the issuance of unemployment checks. The information or “advice” on payments, benefits etc., is available only on-line to the unemployed worker. DOL estimates savings of \$3.6 million in postage alone, and outcomes are improved as the chance of lost or stolen checks is significantly reduced.

**Workers’ compensation checks.** State employees who are injured and receiving workers’ compensation are issued paper checks. The state has a contract with GAB Robbins to serve as the third party administrator, including the issuance of checks.

The issue arose regarding whether **requiring** all state employees to use direct deposit would have to be collectively bargained, since the requirement could be interpreted to be a change in working conditions. The commission consulted with the Office of the Attorney

**Table II-4. Issues Around Direct Deposit**

<b>Question:</b>	<b>Answer:</b>	<b>Possible Actions:</b>
1) Does the federal government require employers to furnish employees with written records of hours worked (i.e., Payroll Remittance Advice Reports)?	<b>No.</b> There is no federal requirement that employees receive written statements of earnings with each wage payment (see Fair Labor Standards Act)	<ul style="list-style-type: none"> <li>• Eliminate requirement from Connecticut statute (Sec. 31-13a)</li> <li>• Provide Advice/ earnings statements electronically</li> </ul>
2) Does SEBAC agreement require direct deposit to be optional?	<b>Yes.</b> Although there is no reference to direct deposit in the SEBAC agreements, a change to <i>requiring</i> direct deposit would have to be negotiated, as it is considered a change in working conditions.	<ul style="list-style-type: none"> <li>• Negotiate with SEBAC for mandatory direct deposit</li> <li>• Make direct deposit mandatory for all new hires (does NOT require negotiation)</li> </ul>
3) From what system are retirees paid? Are all retirees on direct deposit?  (Note: Retirees are not represented by SEBAC, and a change to mandatory direct deposit would not require negotiation with unions)	Retirees are paid through the <b>Retirement Payroll System</b> in the Office of the State Comptroller Retirement Division.  <b>Retirees are given a choice of either direct deposit or paper checks</b> for their payments (77-80 percent are on direct deposit)	<ul style="list-style-type: none"> <li>• Make direct deposit/pay cards mandatory for all current retirees</li> <li>• Make direct deposit/pay cards mandatory for all <i>new</i> retirees</li> </ul>
4) Are students who are attending one of CT’s public colleges offered direct deposit?	<b>Yes.</b> Approximately 55 percent are currently on direct deposit; however, the figure varies from college to college (e.g., 40% at WCSU vs. 70% at CCSU)	<ul style="list-style-type: none"> <li>• Make direct deposit/pay cards mandatory for all students</li> <li>• Initial college administrator response very positive</li> </ul>
5) How is Unemployment Insurance paid?	<ul style="list-style-type: none"> <li>• By <b>paper check</b></li> <li>• DoIT prints all checks</li> <li>• Vendor folds and stuffs envelopes</li> <li>• “Advice” only provided on line</li> <li>• <b>CTDOL currently implementing direct deposit</b> for U.I.</li> </ul>	<ul style="list-style-type: none"> <li>• 10-yr contract signed April 2010 with JP Morgan Chase to implement direct deposit and debit cards for U.I. by January 2011</li> <li>• Projected savings of \$3.6 million annually from postage alone</li> </ul>
6) Can fees be waived for state employees using direct deposit?	<b>No.</b> According to state Banking Dept. this would unlikely be enforceable: would interfere with regular commerce of banking; would not apply to any non-state chartered financial institution; and if placed as a requirement on bank(s) the state draws its checks on, could not require a state employee to bank there.	

General regarding this and was advised informally that an “opt-out” provision for employees would likely avoid union objections.

It is the commission’s understanding that e-Pay, one of the modules in CORE-CT, the system currently in use statewide for state payroll, provides the ability to furnish this advice electronically. The component has not yet been fully implemented.

Based on all the information collected in this area, **the commission recommends that all state employees, retirees, (and potentially injured state employees on workers’ compensation) receive compensation through electronic direct deposit, with prior notice given to the employee or retiree to “opt-out” of electronic direct deposit. Further, any “advice” or information on wages and benefits, deductions, record of hours, etc. required of the state as the employer would be furnished electronically, with prior notice given to employee or retiree to “opt-out”. (Proposal #10)**

If 95 percent of employees and retirees received direct deposit, and 20 percent received advice statements electronically, there would be an *estimated annual savings of \$180,257 based on banking, postage, and printing cost reductions alone; savings from reduction of positions determined unnecessary by this change is currently unknown.*

#### CONVERSION TO ELECTRONIC TIME AND ATTENDANCE

The Office of the State Comptroller (OSC) is responsible for maintaining time and attendance records for state employees in most state agencies. The exempt agencies are the University of Connecticut, the UConn Health Center, the Office of Legislative Management and the Judicial Branch.

The OSC uses CORE-CT as its automated time and attendance record system and ultimately all employee records for the included agencies are inputted into the system for payroll. However, there are three methods by which individual agencies enter, record, and maintain their employees’ records before they are entered and maintained in the CORE-CT system. Those three methods are:

- **Electronic** – Using a module available in CORE-CT, an agency employee electronically enters his/her time and attendance data, a supervisor approves it electronically, and it is then submitted to CORE-CT.
- **Interface** – Time and attendance records are collected and entered into a system, known as a Time Collection Device (TCD), which ultimately interfaces electronically with the CORE-CT system. The Time Collection Device system can either be a homegrown one developed by the agency or a commercial product (Atlas software is an example).
- **Timekeeper** – Typically, the employees in agencies using this method are recording their time and attendance on paper time sheets that are then approved by the supervisor and entered into a file or CORE-CT by a clerical or data entry staff person.

At this point, there is no compiled information on which agencies are using which method; even within one agency, staff may not all be entering their time and attendance the same way. Thus, commission staff has not yet determined the extent that paper records are still being used in state agencies, but will continue to develop information in this area. One obstacle cited to moving away from paper records is that not all agency staff has access to computers to electronically enter time.

Commission staff contacted the Connecticut Community Providers Association (CCPA), whose member agencies provide services at many locations in the community, similar to state agencies that have 24/7 shift coverage, like the Department of Developmental Disabilities and the Department of Mental Health and Addiction Services. CCPA officials indicated that they do not believe any of CCPA members maintain paper time and attendance records, but instead use a variety of electronic ways to record time, including:

- a finger swipe method where data from the finger swipe goes directly into the agency payroll system;
- a card swipe system, where each site or program has a swipe machine that the employee swipes when they begin and end work; or
- an automated telephone system at the site or program that the employee calls in using a password and the information is logged into the agency's payroll system.

The commission concludes there is still too much reliance on paper records and/or redundant data entry for time and attendance, with more than 120 state employees in payroll positions in the executive branch agencies participating in CORE-CT. The commission also believes that the technology exists -- both through the current CORE-CT system for most employees, and through other electronic methods, for those with no access to computers -- to adopt a fully electronic format for time and attendance records.

The commission, however, was clear that the recommendation not apply to those agencies currently considered exempt from CORE-CT, including the University of Connecticut, University of Connecticut Health Center, the Judicial Department, and the Office of Legislative Management.

**The commission considers that it is very achievable to make this conversion quickly and therefore recommends that on or before July 1, 2011, each agency currently using CORE-CT shall implement and maintain its employee time and attendance system in an electronic format that is compatible with the statewide time and attendance system implemented by the Office of the State Comptroller. (Proposal #11)**

*The preliminary estimates of savings in this are approximately \$3.3 million*, based on reducing the number of payroll staff by half the 120 positions currently assigned to payroll. The 50 percent position reduction is the methodology used by the Office of Fiscal Analysis to calculate savings in the SmART unit. Savings are based on annual rates of pay, excluding fringe benefits.

## **REDUCTION IN PRINTING**

### **Conversion of Business Entity Filings**

The Secretary of the State (SOTS) is responsible for maintaining the commercial records and annual reporting of all business entities, including domestic and out-of-state stock and non-stock corporations, limited partnerships, limited liability companies, and limited partnerships. There are currently 365,000 such entities that are required to file and annually report to the Secretary of the State. This process for the most part is all done by hard copy and regular mail.

**Legislation in 2010 (File 634)<sup>6</sup>** (HB 5427 as amended,) would have:

- allowed the SOTS to establish a timeline for when the annual reports are due (rather than using the anniversary date of the original filing); and
- changed the annual report filing from a paper process, where the SOTS sends a paper copy of the most recent information with space for any changes, to a process that is almost entirely electronic.

In the first year of the transition the SOTS would send postcards alerting businesses that the annual report filings were due, with future notices sent via e-mail. Entities would then file their reports electronically. A hardship exception might be granted for small businesses that might not have the capability of filing electronically. It is anticipated that about 15,000 of the total business entities might not file electronically.

The Secretary of the State's Office estimates the change would save the state about \$140,000 in the first year of implementation and up to \$240,000 annually thereafter. This is for hard costs alone – paper, envelopes, and postage, and does not include the costs of staff time in stuffing envelopes, and entering the data in the system once the hard copies are returned. According to the SOTS, it also does not include the costs of returning incomplete hard copies to the entity. The system's planned design would not allow the electronic submission unless it was complete, which would also add savings.

### **Other Printing Requirements**

File 634 also would have eliminated other printing (and certification) requirements through:

- eliminating the requirement for the Secretary of the State to distribute specific numbers of favorably reported bills to certain entities (bills are available online);
- removing the requirement that the SOTS send by certified mail notices to legislators of special and reconvened sessions of the General Assembly;
- eliminating the requirement that the SOTS distribute to towns and Superior Court clerks, printed copies of each public act; and
- removing the requirement to certify to the Treasurer and Comptroller the amount and purpose of each legislative appropriation.

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<sup>6</sup> File 634 passed the House on 4/21/10, but was not acted on in the Senate before the end of the 2010 session.

The Office of Fiscal Analysis estimated the savings to the Office of Legislative Management would be \$48,000 annually and to the Secretary of the State's office, \$7,000 annually, or a total annual savings of \$55,000. In testimony on the bill, the SOTS estimated a total savings of \$100,000 annually.

The commission includes these and other measures to reduce overall printing in state government in its draft working bill discussed at its July 2010 meeting. **The commission supports legislation that authorizes the Secretary of the State's Office to convert its business entity filings and reporting requirements to electronic submission, with exceptions granted to small businesses without electronic filing capability. (Proposal #12)**

*The Secretary of the State's Office estimates that this would save up to \$240,000 annually when fully implemented.*

#### **OTHER PRINTING AND POSTAGE REDUCTIONS**

The commission believes that many of these statutory requirements for printing and notification predate electronic access and the Internet, and that these requirements should be abolished where electronic access to the information is available.

Printing costs have decreased over the past two years -- from about \$7 million to almost \$5 million -- according to payment data from CORE-CT in that category. However, ongoing effort to further reduce printing, copying and paper use is ongoing. One task force was legislatively established as part of the "jobs bill", to determine how state agencies and departments can reduce or eliminate duplicative procedures and paper usage. The task force must determine how technology can help agencies and departments achieve these goals.

Another task force established through P.A. 10-1 (June Special Session) is to assist the legislature in making a smooth conversion of legislative documents from paper to electronic to help achieve the required budgetary reductions in the legislature's "other expenses" category, yet protecting the authenticity and preserving the record for which the documents are created.

**The commission supports ongoing efforts the state has underway to examine and find ways to reduce paper use, abolish unnecessary administrative procedures and eliminate waste, and endorses implementation of recommendations from these task forces to achieve waste reduction and streamline administrative functions. The commission also endorses consolidating printing and mailing functions, including expanding the functions assigned to the DAS SmART unit to include print and mail functions. (Proposal S)**

While the commission found that printing costs had been decreasing, it determined that costs for use of regular postage (not including express services) increased from \$17.6 million in FY 08 to \$20 million in FY 10. **The commission believes that exploiting the above opportunities, along with expanding use of e-mail and electronic notification will allow for a 10 percent reduction in the use of regular postage. The commission believes that all state agencies that have a role in the notification of clients, licensees, or others should request e-**

**mail addresses at initial intake or application to reduce paper and postage notification. (Proposal #13) *With a target reduction of 10 percent in use of regular postage, the commission estimates a savings of \$2 million.***

## **CONVERSION TO ELECTRONIC INVOICES AND VENDOR PAYMENTS**

The Office of the State Comptroller makes the payments for most state agencies (excluding higher education) to all vendors, businesses, nonprofit agencies, and towns with which the state does business. The payments are made either through paper check or through electronic payment using the Automated Clearing House (ACH) to a specified bank account. Currently, the Office of State Comptroller pays about 1,100 vendors through electronic deposit. More than 67,000 payments were made that way during FY 10 (see Appendix K, page 41).

The Office of State Comptroller indicates that since 1999, it has been seeking to put more vendors on electronic payments, but the commission believes this conversion effort should be accelerated. The commission found that the Office of the State Comptroller is still paying many of its commercial vendors by check. In FY 10, there were 155 commercial vendors, excluding the towns, each receiving more than 100 payments a year, via paper check. Some of these include the state's largest-volume vendors, such as Connecticut Light and Power (2,497 checks) and Ikon Office Solutions (2,688 checks).

**The commission recommends that the Office of the State Comptroller put all vendors (not including towns), receiving at least 100 payments a year on electronic payment. While the commission believes this recommendation is a first step in accelerating the conversion, commission members also believes it should not stop there, and supports an ongoing, aggressive effort to convert purchasing, invoice, and payment issuance to electronic processing. (Proposal # 14)**

Analysis provided to the Office of Legislative Research from the OSC showed that the cost of processing a paper purchase order was \$89.21 compared with \$21.83 for an electronic purchase (P-card transaction). Given that many of the purchases and payments are for less than \$2,500 – 93,036 transactions in FY 08 and 75,099 in FY 09 -- and the difference in processing costs is so great, it makes sense to examine the transfer of electronic purchases as a cost-saving measure. (See Appendix L)

The commission had originally had on its agenda proposals to aggressively use P-cards as a way to reduce costs in the purchasing and procurement area. However, the dire fiscal conditions the state is currently experiencing prompted the governor to severely curtail the use of P-cards as a cost-saving measure. While certainly there must be rigorous oversight over the use of P-cards, as a method of efficient procurement, their use makes sense.

The commission did not recommend that the Office of State Comptroller require towns to convert to an electronic payment system, recognizing that many small towns might not yet be ready for that, and that towns may not wish to designate just one bank to receive the payment. However, the commission believes that the OSC should work with towns to underscore the advantages and efficiencies of electronic over paper payments.

The commission is also aware that often private sector vendors may have different addresses or locations that might present an issue in designating a single place for an electronic payment to be sent. However, the commission believes where the state is conducting business with a private sector vendor or nonprofit agency, the state should require the vendor, as part of the contract, to designate a single bank where electronic payments can be made.

*Savings through more extensive use of electronic invoices (less than \$2,500) based on OSC analysis, and more aggressive adoption of electronic payments, the state could save more than \$5.6 million.*

## ACCESSIBLE STATE AGENCY REGULATIONS

**Background.** State statutes often require or authorize state agencies to adopt regulations to provide further detail about how the pertinent statutory program or policy is to be actually implemented. Once approved in accordance with Connecticut’s Uniform Administrative Procedures Act (UAPA), state agency regulations have the force of law, like statutes. Connecticut state statutes have been available on line at no cost to the public on the state legislature website for several years. However, the state agency regulations that interpret and flesh out these statutes are not publicly available on line.

Per the UAPA, the Secretary of the State (SOTS) is the official repository of state agency regulations—the office is to keep a “permanent register” of the regulations open to public inspection. An agency with approved regulations<sup>7</sup> must submit two certified copies of the regulations to the Secretary of the State’s office, in the form intended for publication. The Secretary of the State’s Office is not responsible for publishing, printing, or distributing the regulations, though. By statute, after receiving the approved regulations, the SOTS sends one copy for publication and distribution to the Commission on Official Legal Publications (COLP), which is within the Judicial Branch.

The vast majority of what COLP produces is court-related documents (e.g., court decisions and court rules of practice). In addition, COLP is required to publish a number of different items related to state agency regulations, as submitted to it from both state agencies and the SOTS.

- **Notices of intent:** COLP publishes the notices of intent to promulgate regulations that agencies are required to submit directly to it, in order to give the public and other interested parties a chance to comment. These are published in the Connecticut Law Journal (CLJ), which is a statutorily mandated official journal of notice and record issued weekly (that also prints state court decisions, among other items).
- **Text of approved regulations:** COLP is also required to publish in the CLJ at least monthly the text of the approved regulations submitted to it by the Secretary of the State during the preceding month.
- **Compilation of all state agency regulations:** COLP publishes and distributes a compilation of all effective state agency regulations—this publication may be a

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<sup>7</sup> Proposed agency regulations must be submitted to the Attorney General’s Office for a legal sufficiency review and the Connecticut General Assembly’s Regulations Review Committee for approval.

supplement to or a revision of the most current compilation, at least semi-annually. Official state agency regulations are contained in 18 binders, arranged by the order of the statutes.

Judicial Branch information indicates that these regulation publication functions cost \$34,112 in FY 2010 (see Table II-5). COLP charges for copies of the final regulations. A complete set of regulations in 18 binders currently costs \$714.00, and an annual subscription to keep the binders up to date is \$87.00.

<b>Table II-5. FY 10 Costs for Legal Publications</b>		
<b>In FY10, the Judicial Branch spent \$34, 122.19: 1) to publish proposed and final regulations for mandatory notice purposes in the CT Law Journal, and 2) to produce and distribute final supplements for the regulation binder sets.</b>		
<b>Law Journal Costs (for 720 pages) (5.21 % of all Law Journal Pages (13, 812))</b>		
<b>Element</b>	<b>Cost</b>	<b>Detail</b>
Typesetting	\$5,141.76*	(208 hours per year)
Editorial	\$8,827.00*	(260 hours per year)
Other Production	\$4,788.60	Supplies (ink, plates, sheets) Labor
<b>TOTAL</b>	<b>\$18,757.36</b>	
<b>Supplements for Regulation Cumulative Costs (avg. 1100 pages per years)</b>		
<b>Element</b>	<b>Cost</b>	<b>Detail</b>
Typesetting	\$3,955.20*	(160 hours per year)
Editorial	\$7,265.60*	(160 hours per year)
Other Production		
For Supp. #84	\$689.01	Supplies (ink, plates, sheets) Labor
For supp. #85	\$1,466.02	Supplies (ink, plates, sheets) Labor
Subscription Mailing	\$1,989	188 subscriptions at \$11.00 each
<b>TOTAL</b>	<b>15,364.83</b>	
<b>GRAND TOTAL</b>	<b>\$34,122.19</b>	
* average		
Source of Date: Judicial Branch		

### **Connecticut State Regulation Availability: Accessibility and Transparency Problem**

The concern about the lack of public availability of state agency regulations online is not based on cost-savings, but rather on government accessibility, public convenience, and record transparency. Relatively speaking, Connecticut state government is not spending a lot of money publishing its regulations, as indicated Table II-5. (The cost of the process prior to publication, both direct and indirect, is a different matter for exploration). Most other states have their regulations publicly available on line, either in PDF or HTML. A major impediment in Connecticut is that COLP uses a typesetting system that is apparently not easily convertible to

language need to put the regulations on line with search capabilities. It should be noted that some people can currently access Connecticut state regulations online, if they subscribe to a commercial legal database. (A commercial publisher can now purchase very basic electronic regulation files from COLP, which a publisher may use to create a searchable, online database that is packaged with numerous other legal databases.)

Attempts have been made to establish a publicly available online regulation database or at minimum require agencies to publish their regulations on their websites. Most recently, in 2008, proposed legislation called for the Department of Information Technology, in consultation with COLP, to develop a computer program that would enable each state agency to post regulations on its website. Envisioning this would involve creating an on-line searchable database of state agency regulations, the fiscal note estimated a one-time cost of between \$100,000 and \$250,000, with an ongoing annual cost to DOIT of \$50,000. These proposals failed.

In some states, publicly accessible online regulations are provided without cost by a commercial publisher that is otherwise producing some other legal publications for the states. Since 2005 in New Jersey, for example, a commercial publisher, LexisNexis, puts the state agency regulations online in a publicly accessible way at no cost as part of its contract with New Jersey to publish the official state agency code for which LexisNexis charges. The contract between LexisNexis and New Jersey requires LexisNexis to pay for licensing and royalty fees to the state. (From 1976 to 1995, the New Jersey Office of Administrative Law published the state regulations and register in house.)

The lack of easily accessible state agency regulations in Connecticut may be symptomatic of a larger issue of how the state regulation-making process works in general and who is or should be responsible for the process, questions that would require more review. For example, although the UAPA requires agencies to submit approved regulations to the SOTS “in the form intended for publication”, more than one person connected to the process commented that many “final” regulations needed more work to get them prepared for publication. Also, much of the regulation review process still involves paper copies. Finally, all regulations are not alike in terms of complexity, and development and drafting many regulations is not an easy task. Some agencies may struggle more with regulation drafting than others.

A number of actors are involved in the regulation promulgation and publication process, both substantively and mechanically. For over 30 years, the Judicial Branch, through the Commission on Legal Publications, has been responsible for regulation printing and publication. The assignment of this responsibility is confusing since Judicial Branch has no more or less connection to agency regulations than it does to state statutes. For a number of reasons, the lack of online accessibility to all state regulations has been a very difficult problem to solve. The current method used to print and publish regulations is apparently not conducive to creating an electronic, searchable regulations database, although it would seem that in this day of Internet-based document management, this issue would not be insurmountable, nor have produced the delays it has.

The Secretary of the State is the official repository of state agency regulations—the office is to keep a “permanent register” of the regulations open to public inspection. Moving the responsibility for also publishing the regulations to that office, common in other states, could provide the impetus to make regulations publicly accessible.

**The commission recommends that the state:**

- **Transfer the responsibility of publishing state agency regulations from COLP to the Secretary of the State’s Office (notice of intent and final approved). The Connecticut Law Journal may still be used for notices of intent through an agreement between SOTS and the Judicial Branch. (Proposal H)**
- **Seek RFPs from commercial publishers to handle the publication of regulations for subscription sales and include requirement that a searchable online data base be made available. (Proposal I)**
- **Conduct further review of the state agency regulation development and approval process. (Proposal J)**

**LEAN PROCESSES**

LEAN is a process improvement approach used to reduce waste and focus on value to the customer. Originating in manufacturing, LEAN is a technique that:

1. is based on a customer service perspective that seeks to optimize value delivered to the public;
2. involves employees, the regulated community and the public in continual improvements and finding solutions;
3. uses a continual improvement framework that emphasizes rapid implementation instead of lengthy planning;
4. seeks to reduce the complexity of the process; and
5. uses metrics and visual controls to improve decision making and problem solving.

The commission studied current use of LEAN processes in Connecticut state agencies (see summary sheet in Appendix M). In May 2004, for example, the Connecticut Department of Labor (DOL) established a *Center for LEAN Government* that has completed 19 projects to date, including streamlining processes to:

- recoup Unemployment Insurance overpayments (at DOL);
- review inland water resources division permit sufficiency (at the Department of Environmental Protection); and
- deliver low-vision aids (at the Board of Education and Services for the Blind).

In March 2010, DAS awarded a contract for procurement of professional services to facilitate lean government methodologies and services. Estimated to have a total value of \$1.6 million, seven companies are named in the award; however, use of the consultant companies is dependent on agencies having funding available for this expense from their individual budgets.

The commission believes that LEAN processes improve efficiency and service to the public, and recommends **establishment of a LEAN Government Steering Committee to develop a plan to implement lean techniques in state agencies (Proposal A)**. Chaired by the Secretary of the Office of Policy and Management, or a designee, the Governor will appoint members of the business community who have experience with lean techniques.

### Contracting and Purchasing

Much of what state government does is performed by other than state employees. The state purchases many products, services, and projects through contracts with private businesses, construction companies, and nonprofit agencies. A recent study from the PEW Center on the States, *States Buying Smarter* (May 2010), indicated that nationwide, states expend nearly \$200 billion annually purchasing goods and services, paying for everything from building roads and bridges to buying desks and computers. The same PEW report indicates that conservative estimates suggest that reform of government procurement practices could save between 5 and 10 percent of that amount.

The PEW study conclusion was that in states considered leaders in the procurement area have focused needed attention on documenting what they buy and how much they spend, questions that many states, including Connecticut, are unable to answer. Once states have a firm grasp of their purchasing, they are better able to change how and from whom they buy goods and services, often adopting best procurement practices used in the private sector.

From the view of the commission, the state's purchasing and contracting area is long overdue for change. Purchasing and contracting is performed in many different ways, by many different agencies, often without central control or accountability. Because procurement is so dispersed among many agencies, there is little in the way of negotiating for best price, or ensuring that the state is getting the best value for the money it spends. The commission believes that through streamlining contracting processes, especially in the human services area, modernizing its procurement practices through increased use of technology and expanded cooperative purchasing, and external evaluation of continued need for contracts and contract provisions, the state's procurement practices can be brought into the 21<sup>st</sup> century, thereby enhancing outcomes and saving money.

#### SUMMARY OF CONNECTICUT'S CURRENT PROCUREMENT PRACTICES

The state uses a number of different processes to retain or purchase goods or services including: purchase of service contracts; personal services agreements; and sealed bids for routine services (see PowerPoint slides in Appendix K for additional information).

**A purchase of service (POS) contract** is the tool used when the state is purchasing a set of services for a group of clients. Generally, six agencies – the Departments of Social Services, Mental Health and Addiction Services, Developmental Services, Public Health, Children and Families, and Correction – use these contracts. The contracts are typically used for residential services (board and care of clients), vocational services, or some type of human services.

While the number of POS contracts has declined from 1,942 in FY 08 to 1,572 in FY 10 (after increasing to 2,077 in FY 09), the actual spending for POS has increased from \$1.14 billion in FY 08 to \$1.40 billion in FY 10. With the commission's limited time and resources, it did not analyze the total number of clients receiving services through these contracts, or the per-

client costs by agency or contract, but it did conclude there is duplication in the POS contracting process. The commission noted that in one agency alone, there are currently 339 POS contracts with 160 different providers – and as many as 9 separate contracts with one provider.

While the Office of Policy and Management has worked with the various human services agencies (listed above) to develop standard language in the POS contracts, the process for how the contracts are implemented and administered is not consolidated or streamlined. The process remains duplicative and costly to the provider and inefficient for the state.

It is understood that many of these purchase of services contracts need to be long term to provide stability to the client, but the commission did find that many are not competitively bid. **A previous commission proposal (#7) recommends that there be greater consolidation of “back office and support” functions in the human services agencies, including human service contracting. If greater consolidation were achieved, it would relieve private providers of administrative, often duplicative, reporting and auditing requirements. (Proposal #17) While the commission does not assign a monetary savings to this proposal, the members conclude that this will streamline state agency contracting operations, allow private providers to focus more on direct care of clients and improve outcomes.**

**A personal services agreement (PSA)** is one of the state’s primary procurement tools. PSAs are typically used to contract for “infrequent” or “non-routine” services. Generally a request for proposal is issued and an evaluation of submitted proposals is conducted before selecting a contractor. Personal service agreements are not used for routine products or services (e.g., cleaning supplies or services) or for certain consultants hired by the Departments of Information Technology, Transportation, or Public Works, which are chosen by specialized selection panels.

Table III-1 shows the use of personal services agreements in state government. As the table shows, while the number of contracts has declined, the total amount spent has increased by more than \$10 million.

<b>Table III-1. Personal Services Agreements – FY 08 to FY 10</b>		
Year	Number of Contracts	Total Amount
FY 08	2,116	\$369,136,220
FY 09	2,235	\$320,577,509
FY 10	1,914	\$376,999,121
Source: Office of Policy and Management		

It is important to note that this does not include higher education contracting and purchasing data, since they have separate processes and do not report information through CORE-CT, or the Office of Policy and Management. Also noteworthy is that most PSAs are not competitively bid. For the FY 08-FY 10 period, most (over 75%) have not been competitively bid, according to OPM reports. Further many of these are longer-term contracts (five years) and others have been extended through amendments to 10 to 12 years. Further, the process and results for personal service are not very transparent, nor are the agreements themselves. For example, the summary reports and standards are on the Office of Policy and Management website, but the agreements themselves are not available.

Commission members considered the requirement that all the state's contracts be periodically evaluated for need, but expressed that the review must add value, not just become another bureaucratic layer. The commission believes that such a review is part of the role envisioned by the State Contracting Review Board. The board was initially created in 2007 through executive order, and was enacted statutorily in 2009. While the board has been meeting, as of the issuance of this report, it has not had a budget or staff. **The commission recognizes that any meaningful contract review will depend on the State Contracting Standards board receiving adequate staff and funding, and supports budget and staff to the board to carry out its statutory functions. When the board is fully operational, it should begin an ongoing process of reviewing state contracts for:**

- **inefficiencies;**
- **continued need;**
- **patterns of extending contract through amendments;**
- **length of terms of contracts;**
- **current approval process for contracts, including personal service agreements; and**
- **whether contingency-based contracts –either for existing or new contracts -- would provide better value and enhanced outcomes. (Proposal # 18)**

The Pew study indicates that one of the successful management practices innovative states have adopted is setting targets for procurement cost reduction. **The commission endorses the practice of setting reduction targets in Connecticut and believes in the personal services contracting area, if the above measures were adopted (and reviewed and modified by the Contracting Standards Board) that savings of 10 percent off current expenditures could be achieved, or about \$37.6 million dollars.**

### **Purchasing Routine Products and Services**

In addition to those contracts discussed above where the services being purchased are specific, or for a group of clients with special needs, the state is also involved in purchasing many of the same things everyday consumers buy like cleaning supplies and cleaning services, food, office products, computers, telephones, and telephone service. Just as consumers shop for the best buys for these products and services, Connecticut taxpayers want assurances that the state is getting the best value when it purchases these commodities and services.

Again, the commission found that the state was woefully behind -- lagging the private sector and the state's municipal and regional government counterparts – in this area of routine purchases.

**Reverse Auction.** A primary example of a modern procurement practice the state should use more frequently is the reverse auction. This is a purchasing tool with which a buyer seeks the lowest price for what is being bought through an online bidding process. In contrast to a

paper-based bid, in which the bidder makes a best-guess offer that is static throughout the competitive bidding process, in online, real-time reverse auctions, a supplier can re-evaluate and adjust its bid in response to offerings from other bidders.

With access to real-time information, suppliers can quickly respond to competition and submit a lower bid. Bidder identity is shielded, which ensures sealed-bid integrity is maintained throughout the event. The auction itself typically takes 30-60 minutes. Once the procurement event is completed, the buyer:

- evaluates the bids, weighs other variables to be considered; and
- either makes the best value award or declines to make an award.

**Connecticut experience.** Towns had not participated in reverse auctions before 2008 legislation (P.A. 08-141) authorized it. Since May 2009, approximately five reverse auctions have been held for a number of towns (one reverse auction was for 40 towns through Connecticut Conference of Municipalities (CCM) for items such as laptop computers and street-sweepers.

Orbis Online was selected by CCM through competitive bidding process as the vendor to operate reverse auctions, as it has the experience and the necessary online systems. The reverse auction vendor is paid by the seller (successful bidder) – through a fee contained in the bid; the purchaser does not pay the online vendor.

According to staff at CCM, reverse auctions work best for standard items where current pricing can be obtained upon which to judge the auction bids. Experience with reverse auctions indicates that savings of *25 percent off typical pricing* (of standard items) can be realized. This level of savings was also confirmed to CEAO staff by the Connecticut Association of Purchasing Management, which represents 600 professionals involved in procurement in Connecticut and promotes more efficient ways of purchasing.

But state agency use of reverse auctions has been very limited. CEAO staff has determined that to date only OPM/DAS (combined) have used the reverse auction process to purchase electricity and natural gas for the state. The vendor (i.e., reverse auction operator) is World Energy. This vendor is also paid by the successful seller, so the state incurs no costs for that. Reverse auctions for purchase of electricity are run about every 18 months and once a year for natural gas. In discussions with OPM, the agency believes reverse auction for energy has saved the state about 20 percent in energy costs.

Thus, the results should be worth replicating in other areas. If used for general office expenses, which currently totals about \$30 million, the 20 percent estimated savings in that one area alone could approach \$6 million. The commission supports the expanded use of reverse auction for products whenever it makes fiscal sense.

While the state has had statutory authority to conduct reverse auctions for products, it still lacks the authority to engage in that procurement activity for services. While legislation was raised during 2010, the legislation did not pass. **The provision for reverse auctions for purchasing selected services is contained in potential legislation drafted by the commission**

**but will need to be enacted for this procurement practice to be implemented. The commission recommends that such legislation be adopted in the 2011 session. (Proposal #19)**

**Bids for routine services.** Similarly, the state is also behind the private sector and its other public sector counterparts in establishing an on-line bidding system, where vendors can submit “sealed” bids through electronic means. While the state sends out electronic solicitations of bids, it does not have a system to accept responses electronically. The Capitol Region Council of Governments (CRCOG) has had such a system since 2007, providing its registered vendors and members with a much more efficient and cost-effective method of procurement.

CRCOG has also initiated another modern procurement practice for its members known as *job-order contracting*. Rather than bidding out each small job on a time and material basis, as the state does, CRCOG uses a competitively bid contract that uses a set of customized, pre-priced, common construction tasks contained in a catalog. The practice eliminates time, expenses and staff burden normally connected with design-bid-construct for each project.

The commission acknowledges that state agencies have expressed concern over how prevailing wage laws and small and minority business requirements would be addressed with such procurement practices. However, towns in Connecticut that often must comply with the same requirements are using this procurement method. State agencies might review how their contracts are written or bid to make allowances for those provisions. In fact, catalog pricing has already factored in for geographic areas where prevailing wage laws are mandated. The job-order contracting practice is widely used in other states and the federal government, like the U.S. Postal Service, and the New York State Transportation Department, which would also have to meet labor and contract requirements.

In addition to reviewing contracts in use by other states or towns for language already in use, Connecticut may even want to piggy-back on contracts where the services, geographic areas, and contracting requirements would be similar. Until 2010, Connecticut state agencies did not have the opportunity to use existing contracts of other states or purchasing cooperatives unless the state was part of the original contracting process. The legislature, through Public Act 10-3, authorizes the Department of Administrative Services (DAS) to:

purchase equipment, supplies, materials and services from a person who has a contract to sell such property or services to other state governments, political subdivisions of this state, nonprofit organizations or public purchasing consortia, in accordance with the terms and conditions of such contract. (Section 14)

Since the legislation passed, DAS has used this authority to join the Western States’ Contracting Alliance (WSCU) contract for maintenance, repair, and operational products, with an estimated savings of 30 percent on products. However, the commission believes the state is also missing significant opportunities to jointly purchase here in Connecticut. For example, many state agencies (not including higher education institutions) are paying more than \$13 million for security services – e.g., alarm systems, supplies, guards, and security services. This amount is an increase of about \$2 million since FY 08. The commission concludes that costs

could be reduced substantially if there was more coordination and control over contracts for similar products and services, thereby giving the state more negotiating power based on volume.

Similarly, the Office of State Comptroller made many separate payments for at least 24 different agencies in FY 10 for subscriptions and on-line legal services provided by one vendor – Lexis-Nexis (and its subsidiaries). While not as costly as security (\$1.3 million in FY 10), through better oversight over multiple purchases and contracting, the state might be able to get a better price, as well as decrease the number of invoices and payments made.

Another area that requires further exploration is the state's need, use, and expenditures for phones and phone service. Recent newspaper reports, based on findings of the state auditors, cited two examples where the state had paid for cell phone service for phones that no longer were being used by state employees, and for inappropriate use. Without an extensive audit of the entire area, it is difficult to state with certainty whether these were isolated incidents. The commission examined expenses in the phone equipment and services area, (based on payments made through CORE-CT in the Office of State Comptroller,) and found that they have decreased from \$45.7 million in FY 08 to \$34.7 in FY 10. **However, the commission did not have the staff resources or time to examine whether that is an appropriate amount, whether there is a need for the phone equipment and services currently in use, and whether the state is obtaining the best rates available for those services. To do that, the commission recommends the state engage in a performance-based audit of all telecommunications services and equipment currently in use by all state agencies and personnel. (Proposal T)**

Another contracting practice likely to produce significant cost savings and favorable results is the use of *contingency contracting*, similar to performance-based contracting but with the contract payments made as a percentage of amounts collected or costs avoided. Already in use in some areas, the commission supports its judicious and prudent expansion, especially in areas where the state is already contracting for such services.

Certainly, performance contracting has been in use by the state for some time, but often whether the contractor has met the performance standards is subject to debate – requiring the contracting agency to review the standards, determine whether they have been met or not, and then negotiating retrospective payment based on that performance. Instead, contingency contracting bases payment on the success of the contractor, and is usually paid as a percentage of collections or in costs avoided. Essentially, it is the ultimate in performance- or results-based accountability in contracting. While certainly this type of contract cannot be used in all areas, but in selected areas -- energy efficiency, revenue enhancement or grant procurement, case-transfer or cost- avoidance – it would seem to be an ideal procurement and payment mechanism.

**With the statutory authority already provided and the passage of additional measures in 2011, the state should adopt modern procurement practices in its routine purchases of goods and services. It should aggressively implement reverse auctions, job-order contracting, and on-line bid submission. The state should also join purchasing cooperatives and use existing contracts already in effect by other states or towns, regional planning organizations and the like. The state should review multiple-agency purchasing and contracting with the same vendor for opportunities to negotiate better pricing and eliminate the number of agency invoices generated and payments made to the same vendor.**

**The state should also expand the use of contingency contracts, where outside contractors would be paid on a percentage basis of savings or revenue collected. (Proposal #19)**

The commission again endorses the practice of targeting savings in a certain areas, a technique employed by model procurement states. *If that were done with a target of saving 10 percent through modernizing and streamlining procurement for routine products and services, approximately \$38 million could be saved.*

#### **STATE PRESCRIPTION DRUG PURCHASING PROGRAM**

Public Act 09-206 required the Department of Social Services, along with several other state agencies, to develop a plan for developing a cooperative drug purchasing program in Connecticut. The plan was required to be submitted by December 31, 2009, but the agencies requested an extension to April 15, 2010. The plan was not submitted in April and in August 2010, the commission wrote a letter to the DSS commissioner expressing concern that more than a year had passed since the legislation had passed requiring the plan, and that opportunities for cost savings for the purchase of prescription drugs were being missed. (see Appendix N)

The DAS and DSS commissioners submitted the plan to the leadership of the legislature's public health and human services committees, and the Commission on Enhancing Agency Outcomes received a copy at its November 22, 2010, meeting (see Appendix O). The plan describes several ways that state agencies purchase drugs. Several agencies are included in a contract with Cardinal Health, which has negotiated discount pricing with a national group purchasing organization.

As of April 2009, John Dempsey Hospital qualified as a 340b hospital, a federal designation that allows the hospital to purchase medications for its outpatients at highly discounted prices. The state has realized savings of about \$3.4 million including \$1 million for the Department of Correction inmates served at John Dempsey Hospital.

But further savings can be captured in this area. The plan submitted in October indicates that in September 2010, the state joined a multi-state purchasing pool (TOP\$) for Medicaid prescription drugs (see **Proposal #15**). The plan also puts forth one of two options for further cost-savings in the purchase of Medicaid prescription drugs:

- **Bulk purchasing – amend the current contract between the Office of the State Comptroller and Caremark, which currently is the pharmacy benefit manager (PBM) for state employees and retirees, to include DSS, or have DSS enter into its own PBM contract, with similar terms to the Caremark contract. *Milliman (actuarial consultant) concluded that the potential annual savings of \$70 million could be achieved for DSS. If additional agencies participated, greater savings could be achieved.***

or

- **Adjust DSS' reimbursement rates in statute to reflect the reimbursement rates paid on behalf of state employees (in line with the terms of the Caremark contract).**

***The plan estimates savings in the range of \$70 million. (Proposal #16 – either option)***

It appears legislation would be required in either case, and there may well be opposition on the part of pharmacies, as they will likely experience a decline in reimbursement in either scenario.

### Medicaid Cost-Savings or Federal Revenue Maximization

#### OVERVIEW AND RECOMMENDATIONS

Medicaid is the largest single cost item in Connecticut's budget. In FY 11, Medicaid was 21.4 percent of general fund appropriations (\$3.8 billion). The commission explored various proposals for *reducing Medicaid* costs and also *maximizing federal revenue*. Strategies reviewed range from fully implementing the drug recycling program to reducing Medicaid prescription drug costs. Expanding the fall prevention pilot program statewide and controlling long-term care costs were also reviewed. Child welfare programs to prevent inpatient hospitalization and ways for veterans to take full advantage of federal VA medical benefits rather than Medicaid were also examined. Each of these areas and related commission recommendations are now described.

#### DRUG RECYCLING

The commission examined Connecticut's drug recycling program and steps that could be taken to maximize revenue. Implemented initially as a pilot program in January 1998 (P.A. 97-2), and subsequently as a mandatory program (P.A. 00-2), the drug recycling program requires long term care facilities (and correctional facilities) to return unused non-controlled medications to vendor pharmacies, with the CT Medical Assistance Program then receiving credit for the returned medication. Medications must be sealed in individually packaged units and be least three months away from their expiration dates. The pharmacy that dispensed the prescription receives a \$5.00 return fee.

##### What efforts have been made to encourage participation in the drug recycling program?

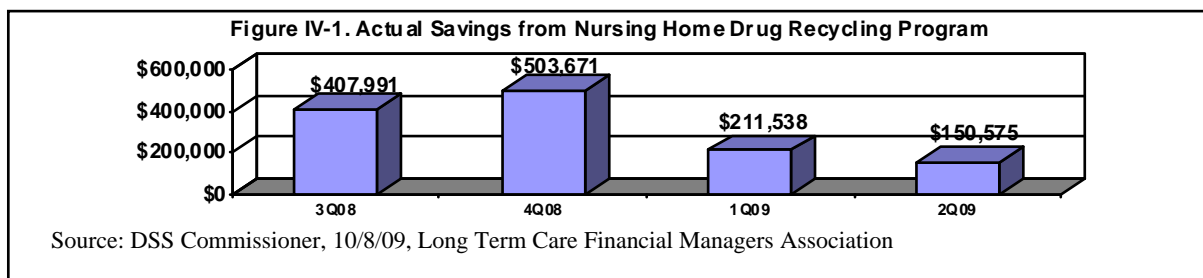
- DSS reports extensive outreach to nonparticipants including meeting in 2003 with provider associations to clarify policies and program procedures and address any issues.
- Any nursing home not participating in the drug return program may be fined up to \$30,000 for non-compliance (CGS Sec. 17b-363a(f)). To date, no nursing home has been fined.

##### Who is not yet participating in the drug recycling program?

- DSS tracks program participation monthly (reports unavailable to PRI due to DSS concerns with inconsistencies in the data provided by Medicaid MIS contractor Electronic Data Systems (EDS)).
- On 10/1/09, DSS reported that 70 of the 238 nursing homes were not participating in the drug recycling program (29 percent) (Source: DSS Provider Bulletin 2009-48). However, according to DSS, these figures were based on incorrect information provided by EDS. (DSS has directed EDS to revise their reporting system).
- On 3/19/10, DSS reported that corrected information showed just five nursing homes not participating in the drug recycling program (2 percent): 1) Whitney Center (Hamden); 2)

Seabury Retirement (Bloomfield); 3) Noble Horizons (Salisbury); 4) Chestnut Point Care (Warehouse Point); and 5) Haven Healthcare (Cromwell).

**Actual Savings Generated:** Quarterly savings from the program have been as large as \$1.2 million (e.g., 3Q05). Budgeted to save \$1.5 million annually, Figure IV-1 shows that the actual savings from recycling drugs from nursing homes *decreased by 60 percent* from the last two quarters of 2008 (\$911,662) and the first two quarters of 2009 (\$362,113) for a total annual savings of \$1,273,755. Further, *the quarterly decrease in savings over time reflects both the adoption of Medicare Part D and the increasing shift toward a federal payor, and the continued closing of CT nursing homes.* Based on the latest quarter of savings reported, the drug recycling program as currently implemented would save just \$602,300, as opposed to the budgeted \$1.5 million annually.



**Expansion of Drug Recycling Program to Prescriptions Paid for Through Medicare Part D.** In June 2010, DSS reported that department attorneys had sought guidance from CMS regarding drugs paid for through Medicare and their inclusion in CT’s drug recycling program. CMS advised that *there is no federal prohibition against including Medicaid Part D recipients in the drug recycling program* as long as the beneficiary (e.g., nursing home resident) signed a form permitting this. The recycling program was also supposed to be expanded to include Medical clients in residential settings other than nursing homes. An update from the department as recently as September 14, 2010, found that this change had not yet occurred. The commission recommends that DSS **fully implement the drug recycling program (with participation of Medicare Part D recipients) (Proposal #20)** at an additional **potential annual savings of \$2.4 million.**

### **INMATE MEDICAL SERVICES**

Connecticut’s Department of Correction (DOC) had 18,320 inmates (and an additional 4,789 persons under community supervision) on November 1, 2010. Adequate medical treatment for inmates is a federal constitutional requirement. In Connecticut, medical, dental, and mental health care for inmates occurs through a contract with the University of Connecticut Health Center, which established the University of Connecticut Correctional Managed Health Care (CMHC) program. The budgeted amount for inmate medical services in FY 10 was approximately \$100 million, and approximately \$98.6 million in FY 11.

**Privatization of Inmate Medical Services.** As a potential cost-saving measure, the commission explored the *privatization of inmate medical services* in the DOC, and what

obstacles might exist to privatizing services. Some states have experienced difficulties following the privatization of inmate medical services:

- Florida outsourced inmate health care services in one region beginning in 2003, and experienced increased expenses and substandard inmate health care in some facilities due to repeated noncompliance with contract requirements, and inadequate contract management and medical oversight during the subsequent five years<sup>8</sup>
- California awarded 1,149 contracts with private medical service providers between 2001-2003 (most not competitively bid), and a state audit report found prisons may be overpaying inappropriate and invalid medical claims (due to inadequate contracting processes and oversight)<sup>9</sup>
- Due to poor fiscal monitoring, weak contract enforcement, inadequate inmate medical care, and increased costs, New Jersey recently cancelled an \$85 million contract with a private vendor, and is now using the services of the state university medical and dental school (although privatization opportunities for inmate medical health services may be explored under the current governor)<sup>10</sup>
- Vermont's Department of Corrections has undergone multiple changes in private medical care vendors for inmates, and a state audit of the inmate medical services contract found ineffective financial oversight, insufficient quality assurance, and questionable procedures for contract bidding, amendment and assignments<sup>11</sup>

Commission staff was not aware of any state where privatization was successful and, based on the experiences of these other states, privatization of inmate medical services would require careful contract management and oversight. States have also looked to *reduce inmate medical costs through the use of Medicaid for inmate inpatient services*.

**Use of Medicaid for Inmate Inpatient Services.** Generally, the federal government, via the Centers for Medicare and Medicaid Services (CMS) does not reimburse states for inmate medical care under the Medicaid program. An exception, however, is permitted when *inmates are treated in a hospital not under the control of the state's correction system. When that occurs, the individual has "inpatient status" and is not considered an inmate of a public institution.*<sup>12</sup> In FY 10, \$8.5 of the approximately \$100 million Department of Correction inmate medical care budget was used for inpatient care.

The North Carolina Office of the State Auditor recently evaluated whether that state's inmate health care costs could be reduced by requiring hospitals and other medical service providers to bill Medicaid for inpatient hospital and professional services for individuals who

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<sup>8</sup> Steps to Control Prison Inmate Health Care Costs Have Begun to Show Savings (January 2009), Florida Office of Program Policy Analysis & Government Accountability (Report No. 09-07).

<sup>9</sup> California Department of Corrections: It Needs to Ensure That All Medical Service Contracts It Enters Are in the State's Best Interest and All Medical Claims It Pays Are Valid (Report 2003-117 Summary – April 2004).

<sup>10</sup> The New Jersey Privatization Task Force Report to Governor Chris Christie, May 31, 2010.

<sup>11</sup> Keys to Success: Improving Accountability, Contract Management & Fiscal Oversight at the Department of Corrections, Vermont Office of the State Auditor, May 26, 2004.

<sup>12</sup> Section 1905, 42 U.S.C. 1396d (Title XIX of the Social Security Act) states that Federal Financial Participation (FFP) is not available for services provided to inmates except when the inmate is not in a prison setting and becomes an inpatient in a medical institution.

would otherwise be eligible for Medicaid. The auditor's office concluded that approximately \$11.5 million could be saved annually by this change from the current system of the state Department of Correction paying for inmate health care.

The North Carolina state audit included a letter (dated May 4, 2010) received from CMS clarifying the Medicaid coverage policy for inmates of a public institution in any state. Specifically:

- "Eligibility must be determined for each inmate in accordance with the standard eligibility determination process used by [the state] Medicaid [system]"
- "Once determined Medicaid eligible, the inmates remain eligible and their cases should be placed in a suspension status during their incarceration"
- "While incarcerated, Medicaid payment is only available when the inmate is an inpatient in a medical institution not under the control of the corrections system. Such institutions include a hospital, nursing facility, juvenile psychiatric facility, or intermediate care facility."

In a four-state review of Medicaid payments for incarcerated beneficiaries, the Department of Health and Human Services Office of Inspector General (June 2004 A-04-02-06002) reported Medicaid claims paid on behalf of incarcerated beneficiaries in Florida, Massachusetts, Missouri, and North Carolina totaled over \$130 million during a three-year period (October 1, 1998 through September 30, 2001).

**Current Provision of Medical Services for Connecticut Inmates.** Inmates who require inpatient care are usually admitted to a secured unit at the UConn Health Center John Dempsey Hospital (JDH) located in Farmington.<sup>13</sup> In emergency situations, inmates are admitted to the nearest hospital and subsequently transferred to JDH. Special arrangements have been made with Lawrence and Memorial Hospital for care of pregnant women at the Niantic Prison. Currently, JDH does not apply for Medicaid reimbursement for these inpatient services.

Suspension of Medicaid Enrollment for Prisoners. In its response to North Carolina and elsewhere, CMS recommends suspension rather than termination of Medicaid benefits. CMS considers suspension of Medicaid enrollment for prisoners a best practice for reentry planning, as it particularly benefits prisoners who have mental illness and substance abuse problems or who are otherwise at risk of homelessness when released.<sup>14</sup>

In 2008, Florida law was amended (Fla. Stat. § 409.9025) to provide for suspension (rather than termination) of Medicaid while recipients are incarcerated, with Medicaid reimbursement sought for inpatient hospital services furnished to an inmate at a hospital outside of the inmate facility.

In Connecticut, DOC sends DSS a list of all inmates every 30 days. DSS then searches for matches with its database of Medicaid recipients, and *terminates* Medicaid at that time.

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<sup>13</sup> In 1995, a 12-bed correctional inpatient unit was opened at JDH. Recently reduced to a 10-bed unit, approximately six inmates are hospitalized at any one time at JDH (Source: University of Connecticut Health Center Correctional Managed Health Care Annual Report, July 2008-June 2009; Department of Correction Responses to Questions from CEO staff, April 1, 2010.)

<sup>14</sup> Returning Home: Access to Health Care After Prison, National Conference of State Legislatures, July 2009.

Medicaid for eligible inmates imprisoned two years or less is reinstated prior to re-entry by DSS eligibility workers (funded by DOC for this re-entry work) who complete a shorter eligibility form.

**Medicaid Reimbursement for Hospitalization of CT Inmates Outside of a Department of Correction Facility.** As noted, in FY 10, \$8.5 million of the approximately \$100 million budget was used for inpatient hospitalization.<sup>15</sup> The majority of the inpatient costs occurred at JDH (\$8 million) with the remainder (\$500,000) spread across all other state hospitals (CMHC pays the state hospitals at current Medicaid rates). The commission recommends **shifting from fully state-funded to Medicaid for inmate inpatient services (Proposal #23)**. A request was made to DSS for information on the percent of inmates who were Medicaid beneficiaries at time of incarceration, but to date, that information has not been received. If *all* JDH inpatient expenses were covered by Medicaid, and with Medicaid covering 50 percent of inpatient services, this change could yield a *potential annual savings of \$4 million*.

In Connecticut, DSS *terminates Medicaid benefits* while recipients are incarcerated. However, CMS recommends that such inmates should be placed in a *suspension status* during their incarceration. In following the CMS recommendation, the commission proposes that **DSS suspend rather than terminate Medicaid for DOC inmates (Proposal F)**.

#### FEDERAL ASSISTANCE FOR VETERANS

The commission explored ways that Connecticut could maximize federal assistance for veterans. Connecticut has over 277,000 veterans.<sup>16</sup> The federal Department of Veterans Affairs, through the Veterans Health Administration, operates a system that includes 153 medical centers, 882 ambulatory care and community-based outpatient clinics, 207 Vet Centers,<sup>17</sup> 136 nursing homes, 45 residential rehabilitation treatment programs, and 92 comprehensive home-based care programs. Health care assistance for veterans includes inpatient hospital care, outpatient care, laboratory services, pharmaceutical dispensing, and mental health counseling. In addition to VA-run nursing homes, the VA also operates a community nursing home program, which allows some level of patient choice in selecting a nursing home close to the veteran's home and family, and quality assurance through regular visits by VA health care facility staff.

Connecticut's federally supported VA system has an inpatient facility and ambulatory care center (West Haven), an ambulatory care center (Newington), six primary care community based outpatient clinics (Danbury, New London, Stamford, Waterbury, Windham, and Winsted), and four Vet Centers (Danbury, Norwich, Rocky Hill, and West Haven). A Veterans Benefits Administration regional office is located in Newington, and intake sites are at the US Naval Submarine Base New London at Groton, and at the New London Coast Guard Academy.

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<sup>15</sup> Conference call with Gail Duncan of CMHC on October 7, 2010.

<sup>16</sup> Testimony provided by Commissioner of Department of Veteran's Affairs at 3/2/10 public hearing of VA Committee. The U.S. Census Bureau 2006-2008 American Community Survey 3-Year Estimates identified 246,572 civilian veterans in Connecticut.

<sup>17</sup> Vet Centers provide counseling and other services to help veterans and their families make a successful post-war adjustment in their community.

**The Veterans' Health Care Eligibility Reform Act of 1996 expanded the population of veterans eligible for VA hospital care and medical services.** Historically a health care system covering only veterans with service-connected disabilities, under current VA rules, *the VA Medical Benefits package is now open to all veterans who served honorably for two years in a branch of the military.* To receive VA health care benefits, a veteran must enroll in the VA health care system (using VA Form 10-10EZ). Veterans are then categorized into one of eight priority groups (see Table IV-1). Priority Group 5, for example, includes any veteran (and spouse) who is eligible for Medicaid.

<b>Table IV-1. Eligibility Requirements for VA Medical Benefits Priority Groups</b>	
<b>Priority Group</b>	<b>Eligibility Requirements</b>
1	<ul style="list-style-type: none"> <li>• Veterans with service-connected disabilities rated 50% or more disabling</li> <li>• Veterans determined by VA to be unemployable due to VA service-connected conditions</li> </ul>
2	<ul style="list-style-type: none"> <li>• Veterans with service-connected disabilities rated 30% or 40% disabling</li> </ul>
3	<ul style="list-style-type: none"> <li>• Veterans who are former prisoners of war</li> <li>• Veterans awarded the Purple Heart Medal</li> <li>• Veterans whose discharge was for a disability that was incurred or aggravated in the line of duty</li> <li>• Veterans with VA service-connected disabilities rated 10% to 20% disabling</li> <li>• Veterans disabled by treatment or vocational rehabilitation provided by the VA</li> </ul>
4	<ul style="list-style-type: none"> <li>• Veterans who are receiving aid and attendance benefits (cash payments from VA to eligible individuals who need assistance with daily activities because of a disability) or are housebound</li> <li>• Veterans who have been determined by VA to be catastrophically disabled</li> </ul>
5	<ul style="list-style-type: none"> <li>• 0% disabled veterans whose annual income and net worth are below the established VA Means Test thresholds</li> <li>• Veterans receiving VA pension benefits</li> <li>• <b>Veterans who are eligible for Medicaid benefits</b></li> </ul>
6	<ul style="list-style-type: none"> <li>• World War I or Mexican Border War veterans</li> <li>• Veterans seeking care solely for disorders associated with exposure in the line of duty to chemical, nuclear, or biological agents (e.g., Agent Orange)</li> <li>• Compensable 0% service-connected Veterans</li> <li>• Combat veterans who are within the two-year special eligibility period</li> </ul>
7	<ul style="list-style-type: none"> <li>• Non-disabled veterans who have income and/or net worth <u>above</u> VA's means-test thresholds and <u>below</u> a geographic index defined by the Department of Housing and Urban Development</li> </ul>
8	<ul style="list-style-type: none"> <li>• Non-disabled veterans who have income and/or net worth <u>above</u> VA's means-test thresholds and <u>above</u> a geographic index defined by the Department of Housing and Urban Development</li> <li>• (Enrollment in this priority group has been frozen since January 2003; however, recent combat veterans may enroll during a two-year special eligibility period regardless of disability or income status)</li> </ul>
Source: United States Department of Veterans Affairs ( <a href="http://www4.va.gov/healtheligibility/library/pubs/healthcareoverview/">http://www4.va.gov/healtheligibility/library/pubs/healthcareoverview/</a> )	

**VA health benefits** are established by federal law and regulations, and are funded through appropriations from Congress; **they are not considered an entitlement**, as is Medicaid. Although dependent upon how much Congress approves for VA benefits in a given year, priority group 5 veterans have never lost their benefits.<sup>18</sup>

How many veterans are receiving medical benefits from VA? There are 7.9 million veterans nationwide currently receiving VA benefits. There are an additional approximately 5.8 million veterans who meet eligibility requirements in priority groups 1-7 for medical care from the VA health system who are not enrolled. Based on these figures, *just 58 percent of eligible veterans are actually enrolled in the VA health system.*

In Connecticut, there are 52,000 veterans receiving medical benefits from the VA, and 27,000 of them have service-connected disabilities.<sup>19</sup> Potential barriers to receipt of medical benefits from VA include:

- challenges in the process for transitioning active duty service members from TRICARE (health care system operated by the Department of Defense) into the VA health care system (operated by the Department of Veterans Affairs),
- inconvenient distance to VA health care sites, and
- lack of awareness that such benefits are available to the veteran.

Veterans receiving Medicaid benefits. Prompted by challenging financial times, at least 20 states are examining whether veterans currently receiving state-funded Medicaid, may also qualify for federally-funded veterans benefits. Many states have reported that veterans did not realize they qualified for federal veterans benefits, which could provide them with less expensive co-pays for prescription drugs and other health care advantages.

The California Legislative Analyst's Office recently conducted a study of military veterans in California<sup>20</sup> and concluded that there were approximately 144,000 veterans and their family members receiving state-funded Medicaid (Medi-Cal) who could be receiving comprehensive federally-funded medical benefits from the VA. In comparing Medi-Cal with the federal veterans medical benefits, the analysts concluded that *VA medical benefits were often better* than those provided by Medi-Cal because:

- there is greater access to mental health counseling and treatment for alcohol and substance abuse;
- the VA does not place a cap on the cost of dental services;
- the VA does not limit the number of days per year a patient can be hospitalized;
- unlike Medi-Cal, the VA system does not require a beneficiary to pay down assets to become "medically needy" before covering the costs of long-term care; and
- the VA has greatly improved accessibility and wait time (e.g., waiting time for cardiovascular procedures was significantly shorter through the VA than through Medicaid (and Medicare)).

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<sup>18</sup> According to 10/13/10 telephone conversation with aide in Senator Lieberman's office.

<sup>19</sup> Telephone conversation with DVA Commissioner Schwartz

<sup>20</sup> Data Match Increases Veterans' Access to Benefits and Reduces State Costs, California Legislative Analyst's Office, Analysis of the 2007-08 Budget Bill.

Veterans may receive health care from multiple sources. In a report issued by the Congressional Budget Office,<sup>21</sup> it was noted that veterans may receive medical services from the VA and/or other sources such as Medicare, Medicaid, private health insurance, the military system, or public hospitals. The report further noted that reliance on VA for medical needs varied across the veteran priority groups. For example, low-income veterans in priority group 5 (i.e., Medicaid-eligible) receive approximately 43 percent of their medical care from the VA.

Because enrollment in other health coverage does not preclude receipt of VA health benefits, the veteran may belong to multiple health plans, and have the flexibility to use services from an array of sources. Further, under federal law, Medicaid is intended to be the payor of last resort, meaning that other available sources such as the VA must be exhausted before Medicaid can provide services.

Identification of veterans receiving Medicaid. The CT DSS eligibility determination form requires applicants to self-report information about household members who are veterans, including receipt of veterans benefits. The number of Medicaid recipients who had self-reported veteran status during the application process is unknown by DSS at this time.

In addition to self-reporting of veteran status during the DSS eligibility application process, a 17-year-old federal computer data matching system (originally developed to prevent welfare recipients from drawing benefits in more than one state at a time), the **Public Assistance Reporting Information System (PARIS)**, allows states to identify people who are simultaneously enrolled in state and federal health and social services programs. States may then shift medical care for veterans to the federal government thereby eliminating the state match required for Medicaid. Use of the PARIS system had been optional. However, in October 2009, in an effort to reduce Medicaid fraud, Congress required Connecticut and other states to use PARIS as a requirement for their receipt of CMS funding for automated data systems.

Connecticut's Department of Social Services (DSS) Fraud & Recoveries area has used the PARIS match information to identify individuals receiving both Medicaid and veterans benefits, resulting in reductions or closure of Medicaid benefits. Since 2004, PARIS matches have identified 2,627 cases in Connecticut with discrepancies in information reported by DSS beneficiaries who were also receiving veterans benefits. Subsequent investigation by the DSS Fraud & Recoveries area led to reductions or elimination of \$407,766 in all DSS benefits (not just Medicaid) for 638 cases (24 percent). Thus, DSS has been using this information primarily to detect fraud, rather than link veterans up with VA medical care.

A Memorandum of Agreement entered into spring 2009 between CT DVA and DSS:

1. allows DSS, on a quarterly basis, to send electronic reports to CT DVA containing lists of DSS clients deemed by DSS to either receive or be eligible for benefits from DSS and the federal Department of Veterans Affairs;
2. specifies that CT DVA shall further research eligibility, and apply for federal benefits for the veteran and his/her dependents as appropriate; and
3. specifies that CT DVA is to report back monthly to DSS on the status of benefits.

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<sup>21</sup> The Health Care System for Veterans: An Interim Report, December 2007, Congressional Budget Office.

In May 2009, DSS produced an initial file for DVA containing information on 2,508 individuals receiving both veterans and DSS benefits. (DSS has not yet provided DVA with information on DSS recipients who identify themselves as veterans during the DSS benefit application process, but who were not receiving veterans benefits.)

DVA reported that nothing has been done with this initial list. DSS reported that it has been discussing the mechanics of the data-sharing with DVA as recently as November 1, 2010; however, no further progress has been made to use the information provided by the PARIS match and names of DSS beneficiaries not currently receiving veterans benefits.

Also, DMHAS has indicated informally to DVA Commissioner Schwartz that DMHAS provides services for over 7,000 veterans. However, due to confidentiality issues, DMHAS will not share this information with DVA.<sup>22</sup>

Examples of savings other states experienced. Several states have begun using the PARIS match information to transfer veterans to VA or Department of Defense benefits. Some examples are:

- Montana (101,584 veterans)<sup>23</sup> saved \$1 million in fiscal year 2008 and anticipated a savings of \$1.9 million in fiscal year 2009 by transferring veterans from Medicaid to the military's TRICARE health system.
- Washington state, with an estimated 618,086 veterans has transferred over 3,500 veterans and their families, many in long-term care, from Medicaid to either Department of Defense or VA healthcare coverage, saving \$20 million since 2006, including \$4.9 million in the most recent fiscal year
- California, with an estimated 2,086,560 veterans identified 144,000 state Medicaid recipients in 2007 who were veterans, and eligible for benefits from the Veterans Health Administration; annual savings of \$250 million from a voluntary shift of veterans from Medicaid to VA healthcare were estimated
- Colorado began using the PARIS match information and identified 1,600 VA-benefit eligible individuals or families, estimated to potentially save \$8 million annually

**Washington State.** When the PARIS match was originally launched in 2003 in Washington State, just three percent of long-term care patients were identified as veterans, even though data showed the figure should have been over 40 percent (The Washington Department of Veterans Affairs estimated that 50 percent of all males 65 years of age and older are veterans). The lower percentage was due primarily to: 1) reliance on self-identification or identification by the veteran's family, 2) confusion about what benefits the VA actually provided, and 3) lack of clarity regarding who qualified for VA benefits. Washington state now sends their DVA—on a weekly basis—a list of Medicaid recipients who were recently approved for long-term care, and 42-43 percent are consistently found to be veterans (and thus eligible for federal VA benefits). Washington State also:

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<sup>22</sup> PRI interview with Commissioner Schwartz on October 5, 2010.

<sup>23</sup> U.S. Census Bureau 2006-2008 American Community Survey 3-Year Estimates.

- used the PARIS database to identify veterans receiving no benefits (\$0), often due to the veteran failing to turn in an eligibility review form, with the benefits subsequently cancelled by the VA. Washington State now reaches out to these \$0 cases and helps veterans file the necessary forms;
- began using the PARIS database to identify veterans receiving \$90 per month from the VA. This dollar amount was a flag that the veteran had been receiving a VA pension (as high as \$1,700 per month), which was then reduced to \$90 upon entry into a nursing home. However, for veterans who left nursing home care to return to the community and receive in-home care, the higher VA pension should have been reinstated, allowing the veteran to contribute to their state-funded care; and
- stopped paying prescription drug claims for 200 Medicaid clients living in two veteran nursing facilities, shifting veterans to the VA prescription drug plan, and saving approximately \$1 million annually.

Investment in identification and receipt of federal VA benefits for veterans. As noted, the state of Washington is the originator of the effort to identify and transfer eligible veterans from Medicaid to federal VA medical benefits. Since 2006, that state's efforts in identifying and transferring veterans from Medicaid to federal VA coverage have resulted in a savings of \$20 million. The resources required for this effort were two staff to identify the veterans using PARIS match information, and two to three state Department of Veterans Affairs staff to help the veterans apply for and transition to the federal VA program.

California researched the experience of other states, including New York and Pennsylvania, and estimated it would require approximately \$200,000 for two additional staff members and related operating support to implement a program similar to that of Washington state.

Due in part to inadequate resources to reach potential beneficiaries, Kansas estimates just 14 percent of its 10,400 veterans (1,500) eligible for benefits currently receive them. Kansas further estimates that its proposed veterans' benefit enhancement program (based on PARIS match information) will **cost approximately \$225,000**.

**Connecticut resources.** Based on the experiences of other states, approximately two DSS staff would be needed to review the PARIS match and analyze the results to identify veterans potentially eligible for VA benefits. Current DSS efforts pertaining to the PARIS match occur in the Fraud and Recoveries area, with a focus on identifying whether income from the VA was accurately reported by DSS beneficiaries. Instead of identifying fraud, Washington State, for example, focuses on the matches as an opportunity to offer additional, better services, and at the same time, save the state money.

Additionally, there are veterans who receive Medicaid and are not receiving any veterans benefits, and thus will not appear on the PARIS match. Efforts to identify these veterans and shift some or all of their benefits to the federal VA program, would save Connecticut the money spent on the 50 percent match required by the state Medicaid program.

Interviews with the Connecticut DVA have highlighted significant resource limitations, particularly following the RIP retirements (although the manager of veteran advocacy and

assistance position was recommended and approved for refill (which occurred July 2010)). The CT DVA reports vacancies in the Office of Assistance and Advocacy for three veterans services officer positions. In the Bridgeport region alone, for example, there are two veterans services officer vacancies, leaving just one veterans service officer to do outreach for the entire Bridgeport region. The CT DVA would most likely need one to two additional staff dedicated to outreach and assistance in linking veterans with eligible benefits from the federal VA. Some states subcontract with veterans groups, such as the VFW, to assist in outreach to veterans, an option Connecticut might also wish to consider.

As described, the commission found other states using the PARIS match information had annual estimated savings ranging from \$1.9 million in Montana, to \$8 million in Colorado, and \$250 million in California. The commission recommends **transfer of veterans from Medicaid to VA or Department of Defense medical benefits (Proposal #24)** and, based on the experience of other states, *potentially saving \$2 million in the first year, and more in subsequent years*. Not only will these efforts result in financial savings to Connecticut, but veterans will gain additional support beyond what they currently receive.

The commission also found that *communication between DSS and DVA is critical to the success of such an initiative*. As a result of the RIP, both agencies lost key staff most familiar with the PARIS match and the agencies need to:

- develop a better understanding of the purpose and frequency of the PARIS match,
- what the resulting information means,
- the filtering and identification of particular veterans, and
- provision of the information in a format that is usable by DVA.

The commission finds a need for better sharing of veteran's information among all agencies that could potentially help veterans gain additional benefits to which they are entitled, and result in financial savings to Connecticut's budget. In particular, just as there is a memorandum of agreement between DSS and DVA to share information, the commission recommends **development of a memorandum of agreement between DVA and DMHAS to share information needed to help DVA reach out to veterans (Proposal G)**. Agreements between DVA and other agencies serving veterans may also be helpful.

## LONG-TERM CARE

Given its significant cost and widespread impact on Connecticut's population, the commission was interested in ways to control long-term care expenses. The Commission on Aging (CoA) and Connecticut Business and Industry Association presented long-term care information at the August 11, 2010 commission meeting (see Appendix P for presentation handouts). Long-term care expenditures (\$2.4 billion) are 13 percent of the overall state budget, 49 percent of the entire DSS budget, and 53 percent of the Medicaid budget.<sup>24</sup> Long-term care expenses are expected to more than double by 2025 if no action is taken. (In September 2010, the CEAO sent a letter to Governor Rell (see Appendix Q) requesting that she more aggressively make long-term care and its costs a priority.)

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<sup>24</sup> CT Commission on Aging presentation to the Commission on Enhancing Agency Outcomes, August 11, 2010.

Long-term care (LTC) refers to both institutional and home and community-based services (HCBS) for persons who need assistance due to a physical, cognitive, or mental disability or condition. The goal of LTC is to allow a person to attain and maintain the highest level of functioning and independent living reasonably possible. Medicaid is the primary payor of long-term care nationally and in Connecticut (other sources include Medicare, private insurance, out-of-pocket pay by individuals, and other public sources).<sup>25</sup>

Because nursing home beds were available, a higher percentage of Connecticut's elderly population is receiving nursing home than the national average – 5.5% of 65+ in Connecticut compared to 3.7% of the elderly nationally. What this also means is that in Connecticut a less frail population is served in nursing homes than is the case nationally. The most common measure used to determine level of care needed is the ability to accomplish activities of daily living (ADLs), like dressing, bathing, and feeding.<sup>26</sup> The lower the score, the less assistance needed. In Connecticut, the average ADL score was 3.7 while the national average was 4.0.; only two states had a lower score, and only four other states had a 3.7 ADL average score.

Long-term care Medicaid expenditures are expected to more than double by 2025 if no action is taken.<sup>27</sup> Currently, Connecticut long-term care Medicaid expenditures are:

- 13 percent of the overall state budget;
- 49 percent of the entire DSS budget; and
- 53 percent of the state's Medicaid budget.

The CoA noted that almost 80 percent of Connecticut's residents would like to continue living in their homes with home health or homemaker services provided at home. It is also about two to three times less expensive to live in the community as opposed to living in institutional care. Traditionally, however, Medicaid has made institutional care<sup>28</sup> easier to access than home and community-based care. Medicaid has historically only paid for long-term care in institutional settings and a waiver has been required to obtain reimbursement for long-term care in the community.

In Connecticut, approximately 35 percent of long-term care Medicaid dollars are spent on home and community based-services (HCBS), ranking Connecticut 34<sup>th</sup> in HCBS spending in FY 07. Connecticut continued to spend 35 percent (\$873.9 million) of its Medicaid long-term care expenditures (\$2.4 billion) on Medicaid HCBS in FY 09. (In September 2010, the CEAO sent a letter to Governor Rell requesting that she more aggressively make long-term care and its costs a priority.) In terms of number of clients, the ratio is 53 percent (receiving home and community based services) to 47 percent (receiving institutional care). The commission explored several strategies to control long-term health care costs, including a re-balancing strategy.

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<sup>25</sup> Medicaid can only be accessed after individuals have spent their savings and become impoverished.

<sup>26</sup> Average ADL Dependence – Based on data obtained from CMS OSCAR Nursing Facility database as of December 2008. Average ADL dependence is defined as the sum of residents that are somewhat or fully dependent on staff for the five ADLs (i.e., dressing, bathing, transferring, toileting, and eating) divided by the total number of residents.

<sup>27</sup> CT Commission on Aging presentation to the Commission on Enhancing Agency Outcomes, August 11, 2010.

<sup>28</sup> Institutional care includes nursing homes, intermediate care facilities for people with developmental disabilities, psychiatric hospitals, and chronic disease hospitals (Source: CT Long-Term Care Planning Committee Long-Term Care Plan, January 2010)

**Re-balancing strategy.** Currently, at least six states spend more than half of their long-term care dollars on alternatives to nursing facilities (HCBS), including Alaska, California, Minnesota, New Mexico, Oregon and Washington State (Colorado, Idaho, North Carolina, Texas and Vermont are moving in the same direction).<sup>29</sup> Connecticut’s Long Term Care Planning Committee recommended in January 2010 increasing the proportion of long-term care provided through HCBS to 75 percent by 2025. This would occur through a one percent annual increase in the percentage of persons in Medicaid long-term care living in the community.

On March 23, 2010, the federal *Patient Protection and Affordable Care Act* (PPACA) became law. The PPACA contains financial incentives for states currently spending less than 50 percent of their Medicaid long-term care dollars on health and community based services, to spend at least 50 percent of their long-term care dollars on non-institutional services, by offering a grant for each individual who leaves a nursing home to receive services in the community. Referred to as the “State Balancing Incentive Payment Program,” it runs from October 1, 2011 through September 30, 2015, and offers temporary financial incentives to states that in FY 09 had spent less than 50 percent of their Medicaid long-term care dollars on HCBS to increase its spending in that area. Participating states spending between 25-50 percent will receive a two percent increase in their federal matching funds for HCBS services; states spending less than 25 percent will receive a five percent increase in HCBS reimbursement. In FY 09, Connecticut spent 35 percent on Medicaid HCBS.<sup>30</sup>

A condition of the increased match is that, within six months of applying, states must implement administrative changes designed to increase Medicaid HCBS utilization including:

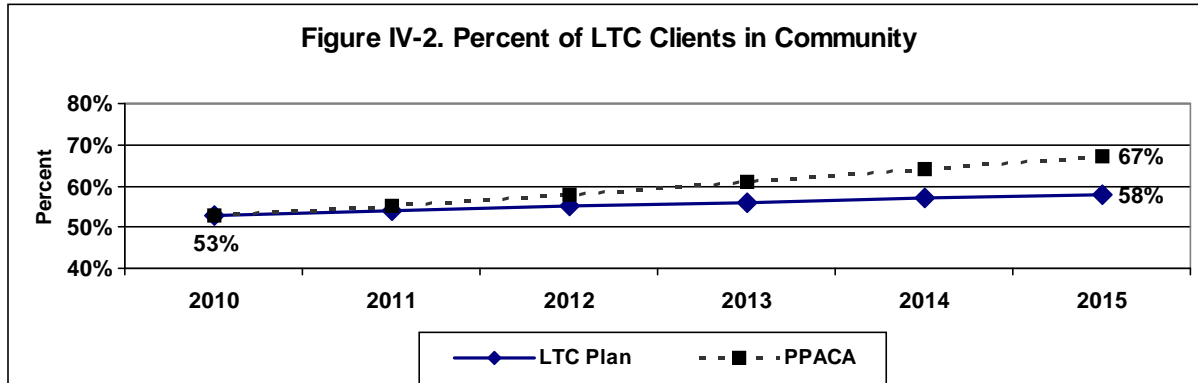
1. “No wrong door single point of entry system” enabling consumers to access long-term care information, referrals, and financial and functional eligibility assessments through a single access point;
2. “conflict free” case management to develop individual service plans and arrange for and conduct ongoing service monitoring; and
3. core standardized assessment tools used statewide to determine eligibility and services.

As noted, in FY 09, Connecticut spent 35 percent on Medicaid HCBS, and would be eligible to receive a two percent increase in federal matching funds for HCBS services. This initiative could result in a 2.8 percent annual increase in the percentage of persons in Medicaid long-term care living in the community. Figure IV-2 compares the two rebalancing strategies, and Table IV-2 shows the potential difference in savings by rebalancing at a faster rate. The commission recommends **adoption of an aggressive long-term care re-balancing strategy that allows Connecticut to participate in PPACA’s “State Balancing and Incentive Payment Program” (Proposal #25), at a potential annual savings of \$34 million in the first year, and \$700 million total savings by 2015.**

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<sup>29</sup> *Tennessee’s Bold Leap in Care for the Aged and Disabled*, by Christine Vestal, Stateline.org, October 12, 2010

<sup>30</sup> Backgrounder: Federal Health Care Reform: Long-Term Care Provisions, OLR Research Report (2010-R-0304), September 10, 2010



**Table IV-2. Savings (in millions) Due to Rebalancing LTC Ratio of Institutional Care: HCBS**

Savings	2011	2012	2013	2014	2015	Total
No Rebalance	\$0	\$0	\$0	\$0	\$0	\$0
LTC Plan Rebalance	\$16.6	\$34.2	\$51.9	\$69.6	\$87.2	\$259.5
PPACA Rebalance	\$34.2	\$87.2	\$140.1	\$193	\$246	\$700.5

Assumes no change in the overall number of LTC clients (N=40,097), and annual cost of HCBS is \$43,999 less than annual cost of Institutional Care.  
 The figures in Table IV-2 do not include the value of the increased federal match for HCBS care under the PPACA. At the increased percentage level (52% vs. 50%), and based on currently HCBS spending of \$874 million, the increased federal reimbursement would be \$17.5 million annually.

**Reducing number of nursing home beds.** Without developing a plan to reduce the number of nursing home beds in Connecticut, the re-balancing just described may lead to a very expensive, parallel system. Nursing homes are already struggling financial institutions. Pennsylvania and Minnesota, for example, have adopted restructuring business models to decrease the number of nursing home beds, including offering grants or loans to nursing homes to create affordable housing (or become a home and community based services provider).

Perhaps one of the major reasons that Connecticut spends so much of its Medicaid long-term care dollars on nursing facilities is that when this was the only type of care for which Medicaid would reimburse a state, Connecticut responded by having an ample supply of nursing homes and beds for residents. Despite having a moratorium on new nursing homes since 1991, *Connecticut currently has 1 bed for every 16.5 people 65 and over, while the national average is 1 nursing home bed for every 22 people 65 and over.*<sup>31</sup> Additionally, more of Connecticut’s 65+ year old population is in nursing homes (5.5 percent) compared to the national average (3.7 percent).

Recognizing this bed surplus, Connecticut policymakers must take a hard line in granting rate relief to financially troubled homes<sup>32</sup> or in helping homes out of bankruptcy, when it might be better to relocate residents to other homes or the community. In Minnesota, grants are offered for nursing homes to voluntarily “turn-in” or close beds. According to a recent report, Minnesota

<sup>31</sup> The State Long-Term Health Care Sector, Characteristics, Utilization, and Government Funding: 2009 Update (calculations by CEAO staff).

<sup>32</sup> In FY 08 16 facilities requested \$11.2 million, and received \$4.6 million, and in FY 09, 27 facilities requested \$19.8 million and received \$7.9 million. Another 15 facilities had pending requests for \$6.7 million in FY 10. DSS presentation 2009.

is now closing approximately 1,000 beds a year.<sup>33</sup> The same report indicates that in Vermont, the reimbursement model is changing in some areas of the state, projecting bed demand and then issuing an RFP to select the facilities with which it would contract for the needed bed days.

Along with implementing a re-balancing strategy, the commission recommends that **Connecticut establish a goal of reducing nursing home beds for persons age 65+ years old to the national average ratio (1:22) by 2017 (Proposal #26).**

**Money Follows the Person Program.** Another strategy to control long-term health care costs is the Money Follows the Person (MFP) program, a recent Connecticut initiative designed to promote personal independence and achieve fiscal efficiencies. MFP is a five-year federal demonstration program that helps states move people from institutional care such as nursing homes, into less restrictive, community-based settings. (As indicated previously, the population being served in Connecticut's nursing homes is less frail than the national average, so the target population for this program is there). MFP increases the federal Medicaid match up to 75 percent for the first year that program participants are living in community-based settings.

Connecticut estimated the actual cost of care for persons in the MFP program to be \$3,676 per month, with a net cost to Connecticut (after the \$2,713 federal match) of \$963 per month. This compares favorably with the cost of institutional care, which is estimated to be \$6,658 per month, with a net cost to Connecticut (after the \$4,008 federal match) of \$2,651.<sup>34</sup>

Connecticut DSS began implementing MFP in December 2008 and has a target of moving 700 people into the community. The legislature also directed DSS to plan for a program to extend MFP services to adults who do not meet the federal six-month institutionalization requirement (PA 08-180). However, implementation of this directive was subsequently postponed until 2012 (PA 09-5, September 2009 Special Session).

PPACA also extends the federal Money Follows the Person demonstration program until 2016 and decreases the institutional residency requirement by half (from six months to 90 days).

**Single waiver strategy.** There are a number of Medicaid waivers operating in Connecticut to permit Medicaid payment for other than institutional care, each managed and implemented separately, and created for individuals with very specific types of disabilities. Waivers include:<sup>35,36</sup>

- Home Care Program for Elders (DSS Medicaid waiver for individuals age 65 and over who would otherwise be in nursing homes)
- Personal Care Assistance (DSS Medicaid waiver for individuals age 16-64 with physical disabilities, who would otherwise require institutionalization)
- Acquired Brain Injury (DSS Medicaid waiver for individuals age 18-64 with brain injuries)

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<sup>33</sup> Topics in Rebalancing the State of Long-Term Care Systems, Kane, Priester, and Kane. A CMS-funded project, May 2008.

<sup>34</sup> Source of data: CT DSS, Money Follows the Person Rebalancing Demonstration Legislative Status Update, October 2009.

<sup>35</sup> CT Commission on Aging, "Break Down the Silos" chart, 12/9/09

<sup>36</sup> More information on the waivers is found in the CEAO Summary Sheet on Section 1115 Medicaid Waiver for SAGA

- Katie Beckett Waiver (DSS Medicaid waiver primarily for children with severe physical disabilities, who would otherwise require institutionalization)
- Comprehensive Supports (DDS Medicaid waiver for persons age 18 and over with developmental disabilities living in group homes, organized day programs, or living in their own homes, who would otherwise require institutionalization)
- Individuals with Serious Mental Illness (DMHAS Medicaid waiver for persons age 18-64 currently in nursing facilities or at risk for this level of care, that allow participants to live in the community and avoid institutional care)

There are at least 31 states that have gone to using a single Medicaid 1915(c) waiver to provide home and community-based services to both their elderly as well as their disabled, young adult population, including Maine, Rhode Island, New Hampshire, New York and New Jersey.<sup>37</sup> In its September 2, 2010 letter to Governor Rell (Appendix Q), the Commission on Enhancing Agency Outcomes encouraged simplification and streamlining of federal waivers and related programs and pilots.

To facilitate re-balancing and provide ease of access for the elderly and disabled, the commission recommends that **Connecticut apply for a single Medicaid 1915(c) waiver to provide home and community-based services (Proposal B)**. Alternatively, given recent changes in federal health care laws, Connecticut could **explore applying for a new Medicaid Section 1915(i) “state plan option”** (requires state plan amendment) (**Proposal X**). There are several differences between the 1915(c) and 1915(i) including financial and medical eligibility, and limitation on number served, that would need to be reviewed further before making such a decision.

There has been some concern that savings may not be realized because persons currently receiving unpaid care from relatives and friends would sign up for the newly available Medicaid services, and increase overall costs (referred to as the “woodworking effect”). There have been surveys that show that for each patient in a nursing facility, there are two more with similar disabilities making do at home.<sup>38</sup> A recent study, however, did not find support for this concern, concluding that states do not generally suffer financially when offering non-institutional long-term care alternatives.<sup>39</sup> Also, one potential strategy would be to start opening up community-based services by phasing in certain age groups. For example, individuals age 90 and above might be the initial group offered HCBS.

**Single point of entry.** The Connecticut Regional Institute for the 21<sup>st</sup> Century and the Connecticut Long Term Care Planning Committee recommended that Connecticut create a statewide single point of entry for long-term care information and referral across all ages and disabilities. This change would address the difficulties reported by Connecticut residents who need long-term care to obtain basic information about available services. Additionally, a single point of entry would satisfy the PPACA requirement of “No wrong door single point of entry

<sup>37</sup> OLR Research Report (2008-R-0122) States with Single Medicaid Waivers for Home and Community-Based Services, February 27, 2008.

<sup>38</sup> *Tennessee’s Bold Leap in Care for the Aged and Disabled*, by Christine Vestal, Stateline.org, October 12, 2010

<sup>39</sup> Kaye, LaPlante and Harrington, “Do Noninstitutional Long-Term Care Services Reduce Medicaid Spending?” *Health Affairs*. 28(1), 262-272.

system.” Further, the September 2, 2010 letter to Governor Rell from the Commission on Enhancing Agency Outcomes considered creation of a workable statewide single point of entry that is customer-friendly to be a key first step in Connecticut’s long-term care reform. The commission expands this concept and recommends that **Connecticut create a single point of entry to provide information and referrals for all human service agency programs—including long-term care (Proposal C).**

**Consolidation and integration of CT’s long-term care functions.** Connecticut provides publicly-financed long-term care services and supports to older adults and persons with disabilities through a somewhat fractured governance structure consisting of a vast array of departments and programs that often operate in silos serving narrowly-defined segments of the population.<sup>40</sup>

There are many state agencies that must coordinate long-term care, with the four major agencies responsible for aspects of long-term care being:

- Department of Social Services
- Department of Developmental Services
- Department of Mental Health and Addiction Services
- Department of Public Health

Consolidation and integration of Connecticut’s long-term care functions has been recommended by the Connecticut Regional Institute for the 21<sup>st</sup> Century, and the CT Long Term Care Planning Committee. The potential proposal to consolidate back office functions for these state agencies will help promote the consolidation and integration of these long-term care functions as interaction across agencies is increased. The single waiver strategy as well as a single point of entry may also help to consolidate and integrate Connecticut’s long-term care functions.

**Long-term care leadership.** Because the long-term care system is complicated, with multiple types and levels of care needs, diverse funding, competing long-term care providers with significant investments, and a structure that needs to meet personal choice and court-mandated policy goals, the commission recommends that **the governor identify a “champion” of long-term care who would implement Connecticut’s plan, including possible consolidation/integration of long-term care functions spread across multiple agencies, and new business model for nursing homes (Proposal D).** As part of the new governor’s administration, this champion would be responsible and accountable for quickly developing a strategy to implement Connecticut’s long-term care plan.

#### **DEPARTMENT OF CHILDREN AND FAMILIES (DCF) COMMUNITY PREVENTION AND INTERVENTION EFFORTS**

Recognizing that many DCF programs already exist to support and preserve families whenever safely possible, the commission questioned whether these programs could be expanded, leading to greater efficacy for families at a lower cost to the state. In particular, the

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<sup>40</sup> CT Long-Term Care Planning Committee Long-Term Care Plan, January 2010

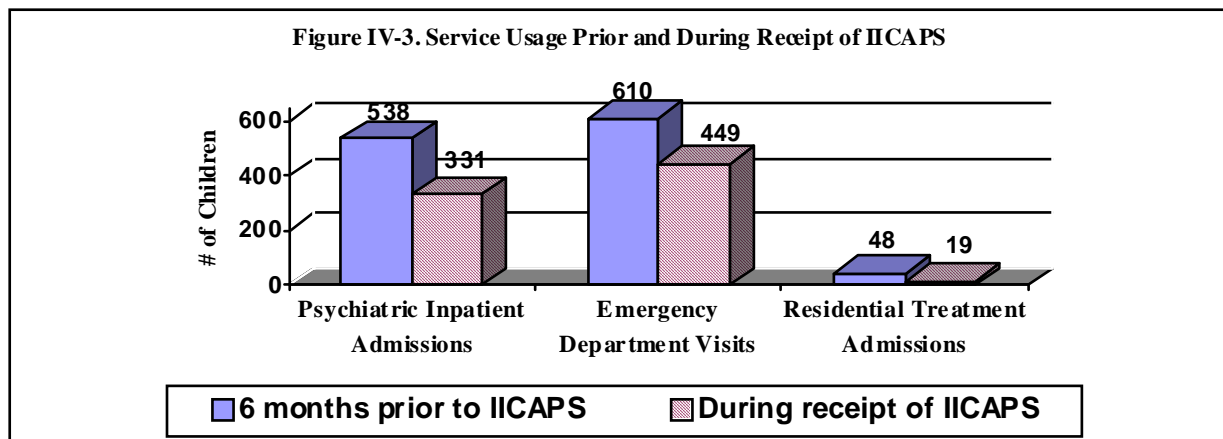
commission looked at the: Intensive Family Preservation program (IFP), and Intensive In-Home Child & Adolescent Psychiatric Service (IICAPS) program.

**Intensive Family Preservation program (IFP).** The purpose of IFP is to reduce immediate safety threats to prevent child out-of-home placement and promote successful reunification for those children who have already been removed. Statistics on the number of families who were preserved and avoided placement of child(ren) in foster care is unknown, as is the number of children who returned home from out-of-home care. However, anecdotal evidence and statistics from other states suggests a reduction in out-of-home placements of anywhere from 23 percent to 57 percent for IFP program participants.

There were approximately 1,200 IFP slots funded by DCF in FY 09, and 660 families who completed IFP services that year. *Nearly half the 13 DCF offices have waiting lists all or most of the time. One contributing factor to the waiting lists may be the longer service time. Expected to last up to 12 weeks, CT's IFP program can last as long as six months,* impacting the capacity to serve more families. Further exploration needs to occur to understand why CT's IFP program can be twice as long as IFP programs in other states, and what potential impact on outcomes would occur should the actual program length be shortened.

**Intensive In-Home Child & Adolescent Psychiatric Service (IICAPS).** This evidence-based program provides an intensive, home-based intervention for children and adolescents with serious emotional disturbances who are at risk for psychiatric institutional-based treatment, are unable to be discharged from psychiatric institutional-based treatment due to lack of community and home resources, or are unresponsive to clinic-based services. Lasting up to six months, DCF contracted with 19 private providers (114 teams) during FY 10 to offer IICAPS.

Comparing the six months prior to IICAPS with the six months during receipt of IICAPS, the 1,231 children had 38 percent fewer psychiatric inpatient admissions, 26 percent fewer emergency department visits, and 60 percent residential treatment admissions (Figure IV-3). While the IICAPS waiting list is currently undergoing a careful review and the figure will most likely be updated in December, there may be as many as 177 children and families waiting for IICAPS.



Following review of these results, the commission recommends that **community prevention and intervention efforts by DCF be enhanced by increasing the number of families served in such programs** (e.g., IFP and IICAPS) (**Proposal #28**).

**Shortage of foster homes.** Should children be unable to remain in their biological or adoptive home, foster family care is seen as a preferable alternative to institutional care. Recognizing the importance of increasing the number of foster homes in Connecticut, DCF had a goal to add 850 new foster homes to its existing 3,388 homes (as of June 2008) over a two-year period. However, *less than half this gain had been achieved by June 2010*,<sup>41</sup> and the commission recommends that DCF achieve this goal, and **increase the number of foster homes in Connecticut** (**Proposal V**).

**Coordination and communication between DCF, DMHAS and DSS.** In addition to child abuse and neglect, DCF community prevention and intervention efforts can more fully serve families living in poverty by coordinating DSS programs and services available to assist, for example, those without heat or homes. A more comprehensive, coordinated effort across multiple agencies can also involve DMHAS, and linking families with any needed mental health and/or substance abuse treatment programs and services. For these reasons, the commission recommends **developing greater coordination of communication and services between DCF, DMHAS and DSS** (**Proposal W**).

#### **ELDERLY FALL PREVENTION PROGRAM**

Falls among the elderly are the leading cause of injury-related death for Connecticut residents aged 65 and older. According to the Connecticut Commission on Aging, fall-related hospital charges for Connecticut elderly residents were about \$100 million a year for the five-year period between 200 and 2004. Ultimately, about half of those elderly who experience a fall are discharged to a nursing home, many needing long-term care.

Connecticut had funded a fall prevention program aimed at the elderly in the North Central Connecticut region on a pilot basis. The results of the pilot program showed that in that region, falls were reduced by 11 percent over the typical fall rate (30 percent of Medicare clients fall annually). In addition to Medicare hospitalization cost avoidance, *it is estimated that if falls could be reduced by 10 percent, the ultimate savings would be a cost avoidance of \$5 million annually in the Medicaid program for long-term care.*

**The commission endorses the expansion of the fall prevention program. The FY 11 state budget funds an expansion of the fall prevention program statewide with an appropriation of \$475,000 from the Insurance Fund<sup>42</sup> Thus, estimates are that for every \$1 spent in fall prevention \$10 in long-term Medicaid costs can be avoided. (Proposal # 21)**

#### **REDUCE MEDICAID PRESCRIPTION DRUG COSTS**

Connecticut's Medicaid expenditures for prescription drugs for Federal FY 09 were more than \$445 million, almost 12 percent of the \$3.8 billion FY 09 Medicaid budget in Connecticut.

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<sup>41</sup> Juan F. Court Monitor's Office, Juan F v Rell Exit Plan Quarterly Report: April 1, 2010-June 30.2010 (September 2010), showed a net gain of just 342 home (pp. 11-12).

<sup>42</sup>Revenues for the Insurance Fund are from assessments on insurance companies.

While Medicaid pharmacy costs nationwide decreased from \$24.2 billion in FFY 08 to \$22.9 billion in FFY 09, in Connecticut Medicaid prescription expenses increased by \$22 million – from \$423.6 to \$445.8 million -- or 5 percent.

Table IV-3 shows some key information on Medicaid prescription utilization and expenditures in Connecticut compared to surrounding states and nationwide.

State	Medicaid Enroll # (000)	% 65+	Total Rx (000)	Rx Per client	Expenditures (000)	Avg. \$ Overall per Rx	Generic % of scripts	Generic Avg. \$
CT	553.8	12.4	5,095	9.2	\$445,784	\$87	63%	\$26
MA	1,402.5	11.3	7,808	5.6	\$464,636	\$59	76%	\$16
ME	350.1	15.8	2,890	8.2	\$190,535	\$66	64%	\$12
PA	2,090.2	11.2	7,385	3.5	\$495,511	\$67	70%	\$14
NY	4,954.6	11.2	37,795	7.6	\$3,197,809	\$84	62%	\$19
VT	157.6	12.6	1,332	8.4	\$108,543	\$81	63%	\$19
US	58,106	10.2	295,599	5.1	\$22,972,896	\$77	67%	\$21

Sources: Medicaid population data from Kaiser Family Foundation, Prescription data from Generic Pharmaceutical Association<sup>43</sup> using data from CMS.

As the table shows, Connecticut appears to have higher overall prescription utilization per Medicaid enrollee than other states – about 9 per client compared to the national average of 5. This may be partially due to the fact that until the last legislative session, over-the-counter drugs were paid for under Connecticut’s Medicaid, while most other states did not.

Connecticut has a higher average cost overall for Medicaid prescriptions -- \$87 per prescription on average compared to the national average of \$77. Contributing to those higher overall costs is the fact that Connecticut has a lower utilization (63%) of generic prescriptions than nationally (67%) and other comparative states -- NY (62%) and VT (63%) are exceptions.

Connecticut also has a higher average cost for generic prescriptions.<sup>44</sup> Connecticut’s average generic prescription cost of \$26 was \$5 higher than the national average of \$21; and \$10 higher than Massachusetts’ average generic cost of \$16.

### **Efforts at Increasing Utilization of Generic Prescriptions and Lowering Costs**

The commission explored some of the ways other states have used to increase generic prescriptions in their Medicaid program and determined that thirteen states<sup>45</sup>, including Massachusetts, New York and Pennsylvania mandate generic substitution, generally for all patients and all payers.

**Massachusetts**, which does not belong to a multi-state pool, and does not rely heavily on negotiated rebates to develop a MassHealth drug list, employs a number of other components to

<sup>43</sup> Generic Pharmaceutical Association, *National Brand and Generic Prescription Medicaid Drug Utilization and Expenditures by State in 2009Q1-Q4*. (table using CMS data)

<sup>44</sup> While these data do not identify the types of drugs being prescribed, one assumes that for the states’ Medicaid populations overall, the types would be similar, and especially in the Northeast states, where a similar percentage of the Medicaid population is elderly;

<sup>45</sup> *NCSL Brief on Use of Generic Prescription Drugs and Brand-Name Discounts*, June 2010. The 13 states are Florida, Hawaii, Kentucky, Massachusetts, Minnesota, Mississippi, Nevada, New Jersey, New York, Pennsylvania, Rhode Island, Washington, and West Virginia.

manage its drug program and contain costs. (As Table IV-3 indicates, Massachusetts has a high utilization of generic drugs and lower cost than national averages). Massachusetts employs Generics First, a step therapy that requires that a generic drug be tried first, before a brand name may be used. Massachusetts also has a “lowest provider price” provision like the one in Connecticut passed in P.A. 10-3.

The commission concluded that if Connecticut’s Medicaid program could increase its generic prescription use by 5 percent, it is estimated the state could save \$21.8 million, and the federal government another \$21.8 million, as the federal Medicaid reimbursement rate for Connecticut is 50%. These savings assume the current generic average price of \$26.

If Connecticut could pay a lower price for generic drugs – to the national average of \$21, for example – this would save an additional \$17.4 million -- \$8.7 million for CT and \$8.7 million for the federal government.

Public Act 10-3 (section 24) mandates that a Medicaid provider (including pharmacies) bill DSS the lowest amount for the good or service that the provider routinely accepts from any other payer. In other words, if a pharmacy chain store’s lowest price for a particular prescription to a private payer or an insurer is \$10 that is now what that provider must bill Medicaid. This new provision should help to lower Connecticut’s Medicaid prescriptions costs.

**The commission recommends that Connecticut reduce its Medicaid prescription costs by increasing the use of generic drugs by 5 percent and lowering the costs of generic drugs to the national average paid under the Medicaid program. (Proposal # 22)**

The commission believes that through stricter prior authorization approvals for brand name drugs, and mandated generic substitution, the increase in generic drugs use is achievable. The Department of Social Services as the Medicaid agency in Connecticut should explore what actions and best practices other states, like Massachusetts, have put in place to increase their generic drug use, and replicate them. Commission members voiced caution that perhaps not all Medicaid clients would be good candidates for using generic drugs; for example, those Medicaid recipients with mental illness whose medicines are closely regulated.

The commission members also recognize that with greater generic use, it will lower the use of brand name drugs, and the accompanying rebates when those are prescribed. But, the state’s Medicaid prescription drug costs have been increasing despite the rebates, thus it would seem that greater generic use would result in lower overall costs. Thus, the commission believes there is potential for substantial costs savings, and even net of measures taken already in the FY 10 session to lower Medicaid drug costs, *the commission estimates cost savings of \$24.5 million through Proposal 22.*

### **Multi-State Medicaid Pharmacy Purchasing Pool**

As already discussed in Section II, Public Act 09-206 required the Department of Social Services, along with several other state agencies, to develop a plan for developing a cooperative drug purchasing program in Connecticut. The plan also required the state to develop a plan for joining a multi-state Medicaid pharmaceutical purchasing pool. The commission had expressed

concern here as well that because of the slow progress in developing the plan, the state was missing opportunities to save substantial amounts in the Medicaid program. The commission wrote a letter to the DSS commissioner in August 2010, to that effect.

As noted in section II, the plan was finally submitted to the leadership of the legislature's public health and human services committees in October, and the Commission on Enhancing Agency Outcomes received a copy at its November 22, 2010, meeting (see Appendix O). The plan indicates that in September 2010, the state joined a multi-state purchasing pool TOP\$ -- The Optimal PDL Solution -- for Medicaid prescription drugs. The Department of Social Services submitted a required State Medicaid Plan amendment to CMS in November to participate in TOPS beginning in January 2011.

**The commission recommends that DSS fully implement participation in the multi-state Medicaid purchasing cooperative TOPS, including ensuring CMS approval of the amendment to the State Medicaid Plan. (Proposal # 15)**

*DSS estimates that the savings associated with joining TOP\$ is about \$6 to \$7 million annually.*

#### **TANF EMERGENCY CONTINGENCY FUNDS**

Early in 2009, the Temporary Assistance for Needy Families (TANF) Emergency Contingency Fund was appropriated \$5 billion nationwide in federal stimulus monies. Connecticut was eligible to receive emergency funds of approximately \$133 million, or half its TANF block grant.

**Eligible Programs.** There were three categories of expenses that were eligible for funding:

- caseload increases and increased expenditures on basic assistance;
- increased expenditures related to non-recurrent, short-term benefits, such as emergency help to pay rent, short-term food assistance, domestic violence services, vehicle repair, and back-to-school allowances; and
- increased expenditures for subsidized employment.<sup>46</sup>

**Application Process.** The federal agency administering the program is the Administration for Children and Families (ACF) in the Department of Health and Human Services (HHS). The application for funding had to be made by the state, but could have included expenditures by towns or other agencies if they were allowable expenditures in the state's application.

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<sup>46</sup> According to federal guidance material, states were allowed broad leeway in interpreting subsidized employment. It could be for employment in the private sector, in non-profits and cover all or part of the wages of the subsidized employee. The expenditures could be for a newly created job or to prevent a layoff of in an existing job, so long as the state ensures that it complies with requirements against displacing other workers, and ensures that it is providing a job to a needy parent or youth who would not otherwise be employed. Training costs were allowed to be counted as reimbursable expenses.

The law required that, in order to be reimbursable, the expenditures must have been incurred prior to September 30, 2010.

**Status:** As of August 2010, Connecticut had applied for \$56.3 million<sup>47</sup> of the \$133 million maximum allocation (\$76.7 million less).

**Issues.** Connecticut (DSS as the applicant) did not submit an application for the latter two categories until May 2010, leaving only a few months until the September expenditure deadline. It also appears that Connecticut (DSS as the applicant) interpreted eligibility, expenses, and reporting requirements too narrowly. For example, CEOA staff contacted one of Connecticut's largest food banks to ask why the organization was not included in the DSS application. Staff was told that, as the program was explained to that agency, accounting for increased activity and expenses would be required by family or assistance unit, and that the agency would not have been able to comply. However, material on the ACF website states that exceptions and estimating are allowed in determining eligible expenses.

Connecticut's neighboring states of New York, Massachusetts, and New Jersey all successfully submitted applications for the full amounts allocated to that state. CEOA staff asked DSS why those states would have been eligible for the full allocations, as they would have had to meet the same eligibility, expense, and reporting requirements. DSS has not responded.

It seemed somewhat unclear to CEOA staff as to what revisions the state might make to its initial applications (due and filed by September 1, 2010.), so CEOA staff made an informal inquiry to the ACF Region I Office. Staff was told that the applications submitted to date cannot be revised to garner more funding, and the total amounts already allocated to each state are the caps. It therefore appears that Connecticut has missed an opportunity to maximize federal revenue (a potential loss of \$76 million) in this program. However, since there is such a large amount of funding at stake, Connecticut should seek an official interpretation. The commission has written a letter recommending the Department of Social Services seek an official interpretation on whether Connecticut can amend its initial applications to revise the program participants and expenses eligible under the program to capture the full amount the state was eligible to receive (see letter in Appendix R). The department sent a response letter to the commission on December 15, 2010, which is Appendix S.

**The commission recommends that DSS aggressively pursue amending TANF Emergency Contingency Fund applications to obtain \$76 million in one-time federal stimulus funding (revenue would be shared with co-applicants, e.g., towns and community providers.) (Proposal #27)**

**If Connecticut is allowed to revise its applications, DSS should:**

- **ensure that as broad an interpretation as allowed under federal guidelines for eligibility, eligible expenses, and reporting is used;**

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<sup>47</sup> Application material received from DSS indicates \$56 million; the ACF website indicates Connecticut has applied for \$38 million.

- **work with all agencies that were part of the application to ensure they submit expenses using the broadest interpretation.**

**In the longer-term, DSS should immediately designate a high-level staff person as federal revenue ombudsman to ensure that the state does not miss future federal funding opportunities (Proposal E).**

If the state is able to amend its applications to receive the full amount, it would mean an additional \$76 million in federal revenue to the state in one-time stimulus money. *Not all of that would accrue to the state since it would have to be shared with the other program participants (nonprofits, towns, CAP agencies, etc.) based on their expenses. If even half of the \$76 million were allocated to the state, it would mean approximately \$38 million in one-time revenue.*

## Maximizing State Revenue

### INCREASING TAX COLLECTIONS

The primary way the state collects revenue is through taxes. It is always important that residents and businesses are assured that taxes are being assessed and collected fairly, and that all measures are used to ensure that delinquent taxpayers are identified and the amounts owed are collected. It is not only a revenue issue, but a fairness and equity principle as well, and both become more acute in the midst of a recession.

The state Department of Revenue Services (DRS) is the agency responsible for administering the tax laws in Connecticut, including conducting audits to determine if the amount of taxes owed is accurate, and that those taxes owed are indeed collected. The staffing levels at DRS have declined by 12 percent over the past decade, from about 810 in 2000 to 710 currently. For this assessment, only staff levels in the audits and the collections and enforcement (C&E) divisions were examined, comparing only the time period prior to the 2009 retirement incentive program (RIP) with the post-RIP time period. There are currently 362 employees in both the audit and C&E divisions at the Department of Revenue Services – 17 fewer in both divisions than pre-RIP (Table V-1).

<b>Table V-1. DRS Audit and Collection and Enforcement Employees</b>			
	Audit	C&E	Total – Both Divisions
Pre-RIP	301	78	379
Post-RIP	279	83	362
Source: DRS			

**Productivity of DRS Audit and C&E divisions.** Despite the reduction in staff in the audit division, there has been an increase in the total number of audits conducted as well as the total dollar amount assessed. For example, with the reduced staff, each auditor conducted 156 audits in FY 10, compared with the 135 audits conducted in FY 09. Also, the amount of tax assessments per auditor rose from \$1,590,286 in FY 09 to \$1,759,383 in FY 10, an increase of nearly \$170,000 each (10.7%). (See OLR report in Appendix V for a more complete description of FY 09 and FY 10 activities.)

Because of appeals, negotiated settlements, etc., not all dollars assessed are ultimately collected. Examination of past years experience shows between 25 and 30 percent of assessed amounts are collected. The C&E division increased its staff by 5 after the RIP – from 78 to 83 (6%). However, the total amount collected increased by 21 percent from \$122.2 million to \$148.1 million. This translates to an increase of about \$1.57 million per C&E Division staff in FY 09 to \$1.78 million in FY 10, or an additional \$216,953 per staff. It appears that this increase in productivity or collection outcomes may be due to greater use of selected methods of

enforcement. For example, arrests more than doubled over the year, and the use of tax warrants to attach wages and other income increased by about 60 percent.

**Increasing revenue collection with additional staff.** Of course, C&E can only collect on what auditors assess. Therefore increasing revenue to the state through increasing tax collections requires both steps, and adding staff in both areas would likely be necessary to produce increased revenues. *Calculations based on adding five staff auditors and five collections and enforcement personnel to the divisions, resulted in an estimated increase in net revenue of approximately \$1 million to \$4 million a year, depending on assessments and collections results.*

The commission discussed the proposal of adding just 5 additional staff in each division, but decided that it should not set definite levels. Instead, based on the increased revenue projections outlined, the commission **recommends that the Department of Revenue Services be authorized to fill additional auditors and collection and enforcement agent positions to increase state tax revenues. (Proposal # 29)**

## **ENERGY EFFICIENCY IN STATE BUILDINGS**

One of the largest operating expenses the state incurs is for energy use in its buildings; totaling more than \$200 million for all state facilities for all energy sources.

**Background.** The State of Connecticut owns and occupies more than 1,140 facilities<sup>48</sup> for which it pays utilities. In FY 10, the state, excluding all of higher education, paid almost \$109 million in energy costs – almost \$72.5 million in electricity alone. If higher education facility energy costs were included, estimated costs would more than double—and total more than \$200 million. In FY 07, the total cost estimates were about \$123 million, an increase of more than 60 percent in three years.

In early 2005, a task force established by the governor proposed a number of recommendations for reducing electricity use in state buildings including assigning responsibility for energy use to each state agency and establishing an energy reduction goal – 10% in 2005, and an additional reduction of 5% in 2006. The recommendations were not implemented and the goals were not achieved.

**Many state buildings are very energy inefficient.** Beginning in 2005 through 2008, the Institute for Sustainable Energy<sup>49</sup> engaged in a number of separate projects in which 110 facilities were assessed for energy use and “benchmarked” using the U.S. EPA’s Energy Portfolio Manager (which can be used at no charge and scores buildings compared to similar facilities). Table V-2 shows the agencies, the facilities, and other pertinent information from

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<sup>48</sup> The state owns more than 3,600 buildings and facilities, but many of those are maintenance and storage facilities. To better analyze buildings where energy is being used and utilities paid, CEAO staff used only facilities where building value was \$1 million or more.

<sup>49</sup> Institute for Sustainable Energy, located at Eastern Connecticut State University is to “identify, develop, and implement the means for achieving a sustainable energy future.” ISE website. ISE is funded by the Connecticut Energy Efficiency Fund.

those benchmarking projects. Facilities receiving a 75 or above are very energy efficient and are eligible for Energy Star recognition; the lower the rating the less energy efficient.

<b>Agency</b>	<b>Year</b>	<b># Facilities</b>	<b># at 75+</b>	<b># at 50-75</b>	<b># 26-49</b>	<b># at 25 or below</b>
Various State Bldgs	2005	6	3	3	0	0
Judicial Courthouses	2005	23	11	9	1	2
SCSU Residences	2005	11	8	2	1	0
Reg. Voc/Tech Schools	2005	19	1	0	4	14
DMV	2006	6	0	2	0	4
DPS	2006	22	0	0	1	21
DPW (DPH lab and DEP)	2006	2	0	0	0	2
Ag. Exp. Station	2006	4	0	0	1	3
Dept. of Correction	2008	15	0	0	2	13
<b>Total</b>		<b>108</b>	<b>23</b>	<b>16</b>	<b>10</b>	<b>59</b>

Source: Reports Conducted for OPM by Institute for Sustainable Energy

There is no single agency, department or area that is responsible for energy use or costs in state facilities, energy ratings, or projects slated for upgrades or projects completed. To assess the results of the benchmarking project alone, CEAO had to obtain the information from three different areas of state government.

Of the 108 facilities benchmarked, more than half (59) had energy ratings of 25 or below. These buildings would appear to be extremely energy inefficient, and would provide prime targets for facility improvements to reduce energy consumption and costs. It is unclear what buildings have been targeted for energy upgrades, which ones are underway or even completed, since that information does not reside in any one place.

**Potential funding sources.** There are currently five major ways to fund measures or projects to improve energy efficiency in state facilities. One or a combination of sources can be used.

- **General Fund monies or bond funds.** Because of the budget situation, these funds have been virtually nonexistent recently.
- **Connecticut ratepayer funds** -- CT Energy Efficiency Fund (CEEF) and CT Clean Energy Fund. In 2001, \$12 million was diverted from the fund just for improving energy efficiency in state buildings. From July 2010 DPW reports, it appears 20 projects have been completed, but it seems clear not all of the \$12 million has been spent. Incentives (in addition to the \$12 million are also allowed if projects meet criteria and funding capacity of CEEF.) While the Clean Energy Fund has been used to fund several municipal projects, the state has only once tapped into the Clean Energy Fund.

- **Demand response funds** have been available since 2005 from Independent System Operator New England ISO (the region’s electric grid operator) for facilities that lower demand (or have alternative supply) during periods of peak electric demand. Thirteen state agencies (54 facilities) have participated since 2005 and generated \$6.4 million in payments to the state. These funds are then distributed back to the agencies for improving facilities’ energy efficiency.

**Potential Savings:** The Department of Correction has been a primary participant in this program. Over the past four years, DOC has completed several projects at its facilities costing \$2.7 million, using almost \$2.4 million from ISO in demand response funding. **According to DOC, the actual saving thus far have been almost \$1.28 million, a payback of almost 50 percent, often in less than three years. (For other projects, DOC estimates another \$861,267 in potential savings)**

- **Federal stimulus funds.** There is approximately \$15 million in federal stimulus money allocated solely for energy efficiency projects for state agencies:
  - \$5 million in ARRA<sup>50</sup> through federal Department of Energy funds. DPW reports indicate 12 projects completed using \$1.3 million of the ARRA monies, indicating there is a considerable amount left. Part of that stimulus funding is also being used to support the Building Operators Certificate (BOC) program, a nationally recognized program that trains and certifies facility employees in operating energy efficient buildings. Since 2006, OPM indicates 142 of the 334 employees receiving level one training, and 55 of the 177 at level two, have been from state agencies.
  - Another \$10 million (of a Connecticut allocation of approximately \$36 million) in ARRA funding under the Qualified Energy Conservation Bond Program reserved for state agencies. No state agency has even applied for any of the \$10 million.
  - The Clean Energy Fund also received about \$19 million in separate federal stimulus money to fund alternative energy projects in four different categories (e.g., fuel cells, geothermal, etc). No state agency has yet applied for any of those funds.
- **Energy performance contracting (EPC).** Another method of funding energy upgrades is to use performance contracting, whereby a private company, typically known as a energy services company (ESCO) assesses what facility improvement measures (FIMs) will need to be taken to reduce energy and save costs.

The ESCO typically pays for the costs of the project and is paid back (with financing added) with the energy savings. In other cases, the purchaser obtains the financing, and contracts

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<sup>50</sup> Connecticut was awarded \$38 million in energy federal stimulus funds, \$5 million of that was targeted at state facilities. Another \$65 million was targeted at weatherizing housing for low-income and elderly, some of which was to be used in state-owned or financed housing. As of October 2010, 2,368 units had been weatherized. 233 of those were state-financed.

for the facility improvement measures (FIMs) that the contractor will install. In either case, the contractor is paid through the savings in energy costs. The provisions for this are written in the contract.

While the state has been statutorily mandated since 2003 (P.A. 03-132) to establish a pilot program for an energy performance contract in a state facility, and cited in a 2008 PRI study for not having done so, the state still has not engaged in performance contracting for state facilities. OPM staff in the energy division indicate that since financing through bonding can be obtained at less expense, it does not make sense to engage in performance contracting. However, this assumes that bond funding is available for this purpose, which has not been the case recently. Further, energy performance contracting is just one of a number of ways to finance energy efficiency projects in state facilities. But, as discussed above, state agencies responsible for facilities improvements have demonstrated a lack of initiative in securing alternative financing, including energy performance contracting.

### **Public Sector is Using Energy Performance Contracting**

**East Hartford.** The town of East Hartford engaged Johnston Controls Inc. (JCI) about two years ago to retrofit and install FMIs in several town facilities. East Hartford borrowed \$5 million through Bank of America over a 12-year repayment period. JCI indicated the FIMs would save the town about 30 percent on energy costs in those buildings. East Hartford hired an independent energy consultant to verify JCI's estimates and calculations. To date, East Hartford states it is saving at least 30 percent on its energy costs.

East Hartford is embarking on a second phase of energy performance contracting for \$7.3 million, and has again engaged JCI to do the work in many of the town's schools and education facilities. The town has coupled the energy performance contracting with qualified energy conservation bond funding (discussed on page 1 of summary) to finance the second phase.

**Massachusetts.** Massachusetts is using energy performance contracting extensively. More than 180 state projects are currently underway, typically using combination of EPC with other financing, like federal stimulus money, rebates or ratepayer funds. Further, Massachusetts has developed model contracting language around energy performance contracting. Other model language has been developed by the Building Owners and Management Association (BOMA) and the Energy Services Coalition.<sup>51</sup>

**“Test-bed” legislation.** Commission members expressed concern that there has been little, if any, agency participation in the 2009 energy efficiency “test-bed” legislation, P.A. 09-7(Section 63). That legislation authorized the Office of Policy and Management to direct agencies to test whether the use of new technologies would promote energy conservation or efficiency, and to validate the effectiveness of the technology. **The commission strongly**

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<sup>51</sup>Links to the websites of the organizations with model language are:

[www.mass.gov/Eoaf/docs/dcam/energy/model\\_comprehensive\\_esa\\_rec10\\_06.pdf](http://www.mass.gov/Eoaf/docs/dcam/energy/model_comprehensive_esa_rec10_06.pdf)  
[www.energystar.gov/index.cfm?c=comm\\_real\\_estate.bus\\_comm\\_real\\_estate.boma](http://www.energystar.gov/index.cfm?c=comm_real_estate.bus_comm_real_estate.boma)  
[www.energyservicescoalition.org/espc/tools/practices02/Model\\_EPC\\_Legislation.pdf](http://www.energyservicescoalition.org/espc/tools/practices02/Model_EPC_Legislation.pdf)

**recommends that the state fully implement this legislation and that agencies participate in this “test-bed” program as way of reducing energy consumption in state buildings. (Proposal #30)**

In summary:

- State energy costs continue to rise substantially, 60 percent over the past four years, and now total more than \$200 million.
- The state has done little to reduce energy costs through making its facilities more energy efficient.
- The state has not taken advantage of ARRA funding, has not followed a statutory mandate to engage in performance contracting, and not participated in energy “test-bed” programs.
- The lack of initiative is due to a set of factors: no financial incentives for agencies bring energy costs down; no managerial accountability for energy costs in agency budgets; and diffused responsibility for energy projects (and facility management in general) in state government.
- There has been no clear direction or leadership for energy consumption reduction in state facilities. In Massachusetts, Governor Patrick in 2007 issued an executive order calling for reducing state government energy consumption by 20 percent by 2010 (off 2004 levels) and by 35 percent by 2030. No similar order has been issued in Connecticut.

Cost savings from reducing energy use can be significant. In a November 30, 2010 *Governing Magazine* article entitled *7 Best Practices for States in Trouble*, Initiative # 3 is to reduce energy use. *Even if conservative estimates of 10 percent savings are used (and the DOC experience has been that savings are much greater), this could mean a savings of \$20 million a year for the state.*

**To achieve these savings, the commission recommends state agencies reduce energy costs by 10 percent from FY 10 levels, by the end of FY 12. State agency commissioners should be responsible for ensuring that reduction by whatever means they choose, including training facility management in the Building Operators Certification (BOC) program, using the Connecticut Energy Efficiency Fund, the Connecticut Clean Energy Fund, and energy performance contracting, and participation in the energy efficiency “test-bed” program. In the longer-term, the commission recommends a reduction of energy use by 30 percent by 2023. (Proposal #30)**

It would be beneficial if the state had a more comprehensive analysis of where it was using energy and expending its energy dollars. However, the state has made such little progress in the energy efficiency and conservation area, the commission believes it is urgent that state government employ all measures now to target such reductions, rather than continue to wait for a wide-ranging assessment. Further, the commission believes that a first step of contracting with an energy services company will be for the company to do such an energy assessment.

### Other Areas Requiring Further Study

There were a number of proposals that the commission recognized would either not produce immediate savings, or that would need further research and development, including policy, structure and fiscal analysis for savings to be realized and outcomes to be enhanced for Connecticut residents. These areas are discussed in this section.

#### CORRECTIONS AND COMMUNITY-BASED SERVICES

The Department of Correction (DOC) operates a unified system of jails and prisons for both convicted offenders and pre-trial defendants not out on bail. The budget for DOC is 4 percent of the state budget at \$674,072,560 in FY 11. For several years now, there has been a growing realization on the part of many nationally and in Connecticut that incarceration might not be the best response to all criminal acts in terms of public safety, a primary goal of corrections. Further, almost every incarcerated offender will be released, even if the offender's entire sentence is served. The alternatives to incarceration or re-entry programs for those who were incarcerated, which are intertwined with probation and parole, are community-based services that generally cost less than prison. The issue of when and how to release offenders, and which ones, into the community is, of course, an area in which views can be sharply divided.

As of November 1, 2010, 18,320 people were incarcerated in DOC facilities, and 4,789 were in the community under DOC control. At the same time, 52,103 individuals were on probation, under the jurisdiction of the Judicial Branch.<sup>52</sup>

One impetus to develop different ways of handling criminals is the recidivism rate. According to a 2010 recidivism report by the Criminal Justice Planning Division, within three years of their release or discharge:

- 67.5% rearrested
- 53.7% convicted of new criminal offense
- 56.5% returned to prison with new charges, for either technical violations or to begin a new prison sentence
- 36.6% were reincarcerated to serve a new prison sentence

The recent October 2010 report by the Connecticut Regional Institute for the 21<sup>st</sup> Century entitled *Assessment of Connecticut's Correction, Parole, and Probation Systems* reports that "according to recent calculations, the average daily expenditure per inmate in Connecticut in 2008 through 2009 was \$92.35"<sup>53</sup> [or \$33,708 a year]. In contrast, the report notes the average daily expenditure per client on probation (in the community) was \$10.24.<sup>54</sup> The report states

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<sup>52</sup> Monthly Indicators Report, Criminal Justice Policy and Planning Division (November 2010)

<sup>53</sup> Framework for Connecticut's Fiscal Future Part 2: Assessment of Connecticut's Correction, Parole and Probation Systems, A Report of the Connecticut Regional Institute for the 21<sup>st</sup> Century Summary of Report Findings, p.2.

<sup>54</sup> Ibid.

“[c]learly, a policy that appropriately reduces prison population through judicious use of parole, probation and community based transitional services will save money.”<sup>55</sup>

In 2004, Connecticut was experiencing a prison overcrowding problem. Public Act 04-234, An Act Concerning Prison Overcrowding, was passed, which called for collaboration among the many agencies<sup>56</sup> involved in criminal justice to develop and implement an offender re-entry strategy as a new approach to addressing the prison overcrowding problem. No one agency was designated the lead, but in 2005 the OPM Division of Criminal Justice Planning was established and since 2006 has been responsible for developing and implementing the offender re-entry strategy. The original 2004 public act contained specific measures of success by which to assess the re-entry strategy, which the division must report on every year.

In its most recent report of May 2010, the division noted that “the decline in the State’s prison population, during the last year in particular, reflected a series of smaller, incremental factors coming into alignment [including]:

- A gradual increase in the number of offenders released into community supervision programs;
- A steady reduction of the offender backlog (that began in 2007) through discharges and releases in community programs;
- Fewer than anticipated monthly admittances of un-sentenced offenders, particularly during the summer and fall;
- Increased efficiency in pre-trial diversion programs;
- Optimized population management;
- Greater accountability and improved operational efficiency;
- And expanded collaboration between various criminal justice agencies including the Board of Pardons and Paroles, CSSD, and DOC.”

In the same report, the division acknowledges the need to “develop an action and implementation plan from the strategy with assignments and timelines overseen by the Criminal Justice Policy Advisory Committee.” It would seem that such a plan was envisioned back in 2004 when the requirement for implementing and developing a “strategy” with measures to report on was put in place. Nonetheless, such a plan is key to purposefully moving forward with optimizing practices that enhance public safety, and can reduce costs.

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<sup>55</sup> Ibid. The report recommends: Establish a steering mechanism including a system to measure performance, and a comprehensive information system across the entire criminal justice system; engage the Connecticut business community in the process of reform and re-entry; renegotiate union contracts; review, analyze and standardize the risk assessment instruments to be utilized across the Correction, Parole and Probation systems; establish a faith-based pilot initiative within the incarcerated male population; institute the use of meritorious good-time for certain offenders; provide sufficient funding for re-entry programs, and measure results and cost-effectiveness; extend the early release furlough program for appropriate inmates; and continue to build and enhance partnerships and collaborations with community based service providers.

<sup>56</sup> The agencies specifically included as collaborators in P.A. 04-234 were: the Departments of Correction, Labor, Mental Health and Addiction Services, and Social Services, the Board of Pardons and Paroles, and the Judicial Branch’s Court Support Services Division.

The commission also received testimony at its December 2009 public hearing from the National Alliance on Mental Illness (NAMI-CT) regarding providing services in the community rather than incarceration. That organization presented information that indicated [in late 2007] there were about 1,400 persons<sup>57</sup> in prison for low-level, non-violent offenses who have mental illness. Recognizing that it is essential to limit [community-based] programs only to low-level, non-violent offenders, such persons with mental illness are no more violent than other people and are more often victims of violence and abuse – a circumstance which in prison might require more intensive (and expensive) supervision to protect them. NAMI states it would cost much less to invest in the community mental health system, crisis intervention teams, and alternatives-to-incarceration residential programs – for which models are already in place. The average cost of community-based services and housing is \$20,000, whereas the cost in prison ranges from \$30,000 to \$62,000, or more in cases requiring extra care or a specialized facility. So the net savings generated by this change in policy, if begun with half of the prison population who would qualify, could range from \$8.4 million to \$29.4 million.<sup>58</sup>

NAMI suggests that to save money without endangering the public, some of the DOC savings should be reallocated to DMHAS for community services and supportive housing. As noted, the cost to DMHAS would be about \$14 million for 700 ex-inmates. But Medicaid reimbursement could be claimed for \$7 million in non-housing services, which could yield \$3.5 million in federal revenue.

As stated in the language of this proposal in the commission’s February Interim Report, closing a prison or prisons is but a small part of the eventual savings that can be generated by focusing on community corrections as alternatives to incarceration. The long-range payoff is in decreased recidivism rates. This conclusion is supported not only by the study released by the Connecticut Regional Institute for the 21<sup>st</sup> Century in October 2010, but also several other careful analyses produced by the Pew Center on the States.<sup>59</sup> While the commission did not compare Connecticut’s recidivism statistics (presented on page 93 above) with those of other programs or other states, it would seem when more than half of those released from prison return

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<sup>57</sup> “As of October 2007, the Department of Correction (DOC) reported that of the 3,897 inmates with mental health issues classified as level 3, 4 and 5, 1,741 were not convicted of, or on bond for, a violent or serious offense. The DOC reports the Mental Health level 3 numbers to be inflated by approximately 20 percent because they include inmates with problems that are probably not directly attributable to serious psychiatric illness. This leaves 1,428 inmates with moderate to serious mental illnesses who are in prison for low-level offenses.” Note 1, Presentation by Alicia Woodsby, of NAMI-CT, to the Commission on Enhancing Agency Outcomes, Dec. 14, 2009, [www.cga.ct.gov/gae/CEAO/hearings/December%20Public%20Hearing%20Proposal%20Testimony/Alicia%20Woodsby,%20AMI-CT.pdf](http://www.cga.ct.gov/gae/CEAO/hearings/December%20Public%20Hearing%20Proposal%20Testimony/Alicia%20Woodsby,%20AMI-CT.pdf).

<sup>58</sup> The low-end estimate assumes that the cost of community-based services and supportive housing to be \$20,000 per year for each person, and that the average cost of incarceration for an inmate is \$32,000 annually. For 700 persons in the first year, the savings would be  $\$12,000 \times 700 = \$8.4$  million. But DOC has always pointed out that there is no “average” inmate. The cost to DOC for mental health services for its mentally ill incarcerated offenders may be far higher than the average of \$32,000 per inmate. In fact, a budget option submitted by DMHAS and the Court Support Services Division of the Judiciary in 2008 estimated that the cost per inmate with mental illness held in Garner Correctional Institution was \$62,000 per year. So the savings to DOC may be as great as  $\$42,000 \times 700 = \$29.4$  million, at the upper end of the range.

<sup>59</sup> “Framework for Connecticut’s Fiscal Future: Assessment of Connecticut’s Correction, Parole and Probations Systems,” Connecticut Regional Institute for the 21<sup>st</sup> Century, October 2010, [ctrionalinstitute.files.wordpress.com/2010/10/prisonsummaryfinal.pdf](http://ctrionalinstitute.files.wordpress.com/2010/10/prisonsummaryfinal.pdf). See also Scott-Hayward, “The Fiscal Crisis in Corrections: Rethinking Policies and Practices,” Vera Institute of Justice, 2009, [www.pewcenteronthestates.org/uploadedFiles/Vera\\_state\\_budgets.pdf](http://www.pewcenteronthestates.org/uploadedFiles/Vera_state_budgets.pdf). and Lawrence, “Cutting Corrections Costs: Earned Time Policies for State Prisoners,” NCSL, July 2009, [www.pewcenteronthestates.org/uploadedFiles/Earned\\_time\\_report\\_%20NCSL.pdf?n=6022](http://www.pewcenteronthestates.org/uploadedFiles/Earned_time_report_%20NCSL.pdf?n=6022).

in a three-year period, it is a high recidivism rate. In addition to the fact these recidivism rates call into question the success of incarceration as a “correction” tool, incarceration is certainly expensive.

Just as CBIA supported enhancing community correction services in its presentation to CEAO in December, 2009,<sup>60</sup> business leaders nationally are among those who are spearheading the move to reduce prison costs and reduce recidivism. As the vice president of the Michigan Chamber of Commerce has observed, it is “essential for the business community to become involved in the corrections policy debate because every dollar spent on incarceration is a dollar that is unavailable for tax relief or other economic revitalization efforts.” And the president of the Kentucky Chamber of Commerce has said that “we were alarmed that money was being siphoned off from education and channeled into the growing cost of corrections, and we knew we needed to address this issue.”<sup>61</sup> Moreover, business benefits when the state puts “offenders back in their communities prepared to work and pay taxes, child support and victim restitution.”<sup>62</sup>

Connecticut has already instituted reentry programs. After reaching a peak incarcerated population of nearly 20,000 in early 2008, total prisoner count has now dropped back to about 18,400, and is projected to go down another 400 to 600 inmates by early 2011.<sup>63</sup> One of the factors is the gradual increase in the number of offenders released each month into community supervision programs.<sup>64</sup> Following several years of statutory changes, the state now has a collaborative steering mechanism across the entire criminal justice system (which should be strengthened and formalized in order to plan, manage and improve the many components in a timely and cost-efficient manner),<sup>65</sup> and it has outlined the goals of a statewide reentry strategy. The state has recognized that it can enhance public safety by reducing recidivism, relapse and revocation.<sup>66</sup>

One of the ways to enhance implementation of community corrections is to expand Connecticut’s existing reentry program: an early-release furlough program for appropriate inmates. This program allows an inmate to re-establish his or her ties to the community and look for suitable employment while under supervision.<sup>67</sup>

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<sup>60</sup> Presentation by Peter Gioia,

[www.cga.ct.gov/gae/CEAO/hearings/December%20Public%20Hearing%20Proposal%20Testimony/Peter%20Gioia,%20Chief%20Economist,%20Connecticut%20Business%20&%20Industry%20Association.pdf](http://www.cga.ct.gov/gae/CEAO/hearings/December%20Public%20Hearing%20Proposal%20Testimony/Peter%20Gioia,%20Chief%20Economist,%20Connecticut%20Business%20&%20Industry%20Association.pdf), at p. 4.

<sup>61</sup> “Right-Sizing Prisons: Business Leaders Make the Case for Corrections Reform,” Pew Center on the States, January 2010, p. 2. [www.pewcenteronthestates.org/uploadedFiles/Business%20Leaders\\_QA\\_Brief\\_web.pdf](http://www.pewcenteronthestates.org/uploadedFiles/Business%20Leaders_QA_Brief_web.pdf).

In addition to business leaders, the public as a whole can be very supportive of this approach. A University of Kansas survey in mid-decade asked state residents whether they wanted state money spent on prisons or on reentry programming. Eighty percent wanted the programming. See “Cutting Corrections Costs . . .,” p. 6.

<sup>62</sup> Kansas State Representative Pat Colloton, quoted in “Cutting Corrections Costs . . .,” p. 6.

<sup>63</sup> OPM Criminal Justice Policy and Planning Division, “Monthly Indicators Report,” October 2010.

[www.ct.gov/opm/lib/opm/cjppd/cjresearch/monthlyindicators/monthlyindicatorsreport2010\\_october\\_pdf.pdf](http://www.ct.gov/opm/lib/opm/cjppd/cjresearch/monthlyindicators/monthlyindicatorsreport2010_october_pdf.pdf).

<sup>64</sup> Blum Shapiro, “Assessment of Connecticut’s Correction, Parole and Probation Systems,” Final Report to the Connecticut Regional Institute for the 21<sup>st</sup> Century, July 2010. p. 21. [ctregionalinstitute.files.wordpress.com/2010/10/prisonreportppt.pdf](http://ctregionalinstitute.files.wordpress.com/2010/10/prisonreportppt.pdf).

<sup>65</sup> Blum Shapiro, “Assessment . . .,” pp. 28-29.

<sup>66</sup> Blum Shapiro, “Assessment . . .,” p. 24.

<sup>67</sup> Blum Shapiro, “Assessment . . .,” p. 39.

In line with national data, Connecticut's experience has demonstrated that when support and aftercare are provided in the community in a supervised setting during the period of early release the results are better than if a prisoner is simply sent out the door with no support services at the "end of sentence." Recidivism rates for offenders completing transitional supervision or parole have ranged from a quarter to a third lower than for those released "end of sentence."<sup>68</sup>

Existing reentry programs must be funded and sustained as new ones are developed. Funds should be available by reallocating some of the savings from reduced incarceration.<sup>69</sup> Partnerships and collaboration with community-based service providers must be built or enhanced. They provide critical support to offenders in the early hours after their release. Better information-sharing between the system and its community partners would improve outcomes. The usefulness of reentry councils in Hartford, New Haven and Bridgeport<sup>70</sup> should be evaluated. The crucial role of community-based service providers should be emphasized in the development of a strategy for Connecticut's criminal justice system.<sup>71</sup>

Of course, these alternatives to incarceration take time to develop, often requiring half-way housing for the DOC clients as they transition back to the community, and frequently these efforts face community resistance. The commission recognizes that a well-developed plan for how the programs like the ones recommended above will be implemented is necessary to garner community support. As discussed, the requirement of such a plan or strategy has been in place since 2004, but progress on developing and implementing a workable plan has been slow. However, following several years of statutory changes, the state, through the Office of Policy and Management Division of Criminal Justice, now has a collaborative steering mechanism that spans across the entire criminal justice system, and has articulated the goals of the system plan.

If more alternative programs were developed and implemented that successfully cut the recidivism rates, the inmate population should continue to decrease. The incarcerated population has declined substantially recently -- from about 20,000 in 2008 to less than 18,400 in early November 2010. With decreases already occurring, and further reductions likely, the prison system is currently under capacity.

Table VI-1 shows how many offenders and pre-trial defendants were in the various state correctional institutions on average during the third quarter of 2010. Also shown are the average number of beds at each facility, allowing an inmate population density figure to be calculated per institution, a measure of capacity. A number of institutions are currently at or over capacity, while some are not. On average, not including Manson Youth and York due to their distinct populations, there are 852 beds open in the system, while there institutions that are over capacity (by 417), for a "net open" of 435 beds.

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<sup>68</sup> OPM Criminal Justice Policy and Planning Division, "2010 Annual Recidivism Report," p. 3. Cited in Blum Shapiro, "Assessment . . .," p. 13. See also "The Fiscal Crisis in Corrections . . .," pp. 8-9, and "Cutting Corrections Costs," p. 3.

<sup>69</sup> Blum Shapiro, "Assessment . . .," pp. 19, 37. Recognizing that there is no "average" inmate, if probation or parole on average costs less than one-ninth the average cost of incarceration, then the cost of probation or parole instead of incarceration can surely be at least covered by substituting that service for incarceration.

<sup>70</sup> As well as newly-formed reentry councils in Windham, New London and Waterbury.

<sup>71</sup> "Framework for Connecticut's Fiscal Future: Assessment of Connecticut's Correction, Parole and Probations Systems," Connecticut Regional Institute for the 21<sup>st</sup> Century, October 2010, p. 4. [ctregionalinstitute.files.wordpress.com/2010/10/prisonsummaryfinal.pdf](http://ctregionalinstitute.files.wordpress.com/2010/10/prisonsummaryfinal.pdf).

<b>Table VI-1. Quarterly Legislative Population Information 7/1/10-9/30/10 DOC</b>			
<b>Facility</b>	<b>Avg. Inmate Population</b>	<b>Avg. Number of Beds per facility</b>	<b>Inmate Population Density Per Facility (Avg. beds open)</b>
Bergin	1000	962	103.95%
Bridgeport	987	1040	94.90% (53)
Brooklyn	456	456	100%
Cheshire	1477	1456	101.44%
Corrigan-Radgowski	1557	1489	104.57%
CRCI	1477	1549	95.35% (72)
Enfield	725	724	100.14%
Garner	633	748	84.63% (115)
Gates	875	1139	76.82% (264)
Hartford	1181	984	120.02%
MacDougall/Walker	2123	2131	99.62%
Manson Youth Institute	615	719	85.54%
New Haven	806	767	105.08%
Northern	365	586	62.29% (221)
Osborn	1967	2094	93.94% (127)
Webster	0	584	0.00%
Willard-Cybulski	1158	1104	104.89%
York	1109	1553	71.41%
<b>TOTAL</b>	<b>18,511</b>	<b>20,085</b>	<b>92.16% (852)</b>
Source of Data: DOC PA 09-39 Report for FY11 Q1 (7/1/10-9/30/10)			

With decreases in the prison population already occurring and further reduction likely the prison system is currently under capacity. It is sound fiscal policy to ensure the state does not fund two parallel correction systems, but find opportunities to close or downsize prison facilities as community-based services supplant their need.

The state has already closed one prison, Webster in January 2010. The closing of Webster did produce savings in overtime for the rest of the DOC system. CEO staff looked at overtime expenses before and after DOC closed Webster CI and found that overtime was reduced from \$2.27 million in one pay period in January 2009, to \$1.76 million in January 2010. Further, over the long term, if the number of facilities is reduced the number of correction officers needed to staff them should also decline. While the particular characteristics of the facilities (e.g., dorm versus cell) and the risk levels of certain inmates must be considered, there appears to be opportunity to reduce the number of prisons further.

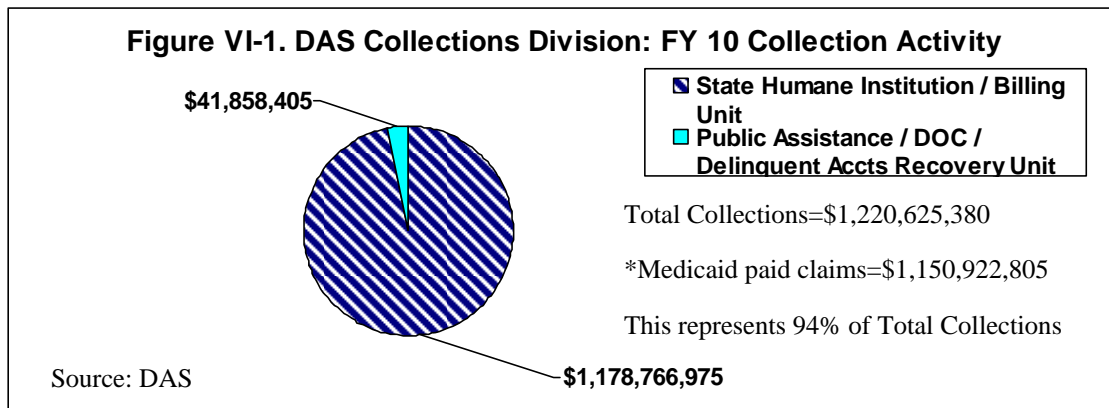
## MEDICAID COLLECTION AND PAYMENTS

As already discussed in this report, Medicaid is one of the largest cost drivers in the state budget. With current program expenditures of \$3.8 billion, it is more than 20 percent of the state's budget. It is unclear the total dollars or the percentage of the state's Medicaid dollars that pay for administration. Aside from DSS' own administration, amounts paid through contracts with vendors to administer the Medicaid program totaled \$65.7 million in FY 10. For example, Hewlett Packard (HP) -- was paid \$21.3 million in FY 10 to administer the state's Medicaid Management Information System (MMIS) that reviews Medicaid claims, pays Medicaid providers' bills, tracks Medicaid client utilization, and the like.

With the current recession increasing unemployment rolls, it is unlikely the Medicaid caseload will decrease in the near future. It is already clear that the state is examining where program benefits may be trimmed. Also, proposals made by this commission to implement better procurement methods for prescription drugs, and increase the state's use of generic drugs can reduce costs, while still preserving the essentials of the Medicaid program. It is imperative then that the administration of the program is also examined especially in the way claims are made, bills are paid, and reimbursements collected.

One of the Medicaid administrative areas that the commission believes needs further review is the Department of Administrative Services involvement in the collection of reimbursement of state-provided Medicaid services. Under the statutes, DAS Collection Services "maximizes reimbursement to the state for human services, public assistance and other services provided or funded by the state" (C.G.S. 4a-12). These services include billing and collecting for residential and behavioral health care services provided through the state's humane institutions and programs, defined under Sec. 17b-222 of the statutes, such as those at hospitals and treatment facilities under the administration of the departments of Mental Health and Addiction Services, Developmental Services, or Children and Families.

As Figure VI-1 shows, the total amount collected by the DAS Collections Division in FY 10 was about \$1.22 billion; of that \$1.178 billion was billing for state provided service, and the bulk, \$1.15 billion, (or 97%) was for Medicaid. Slightly less than \$42 million (or 3%) of the total collections is due to recoveries from other parties through accident liens, probate recovery, delinquent accounts and the like.



The original legislation authorizing the billing and collecting for services at these institutions was enacted back in 1955, prior to Medicaid reimbursement for services, before deinstitutionalization and private-provider and community-based services, and previous to administration of the MMIS system within DSS. It is possible that this is yet another process established in statute for the administration of state services the way they were delivered and paid for in the middle of the 20<sup>th</sup> century, not 2010.

There appears to be no federal requirement that services provided at state-run facilities be billed any differently than those of any other Medicaid provider. Further, it might produce greater federal revenues if all Medicaid providers were to bill Medicaid directly for all eligible services, rather than have the state collect Medicaid reimbursements based on reports providers submit to the various agencies, and then submit to DAS. Such a proposal has been put forth by at least one commission member. Commission member, William Cibes, distributed information to the commission on November 26, 2010, stating that since “providers are paid up-front (through contracts with state agencies) they have no self-interest in providing complete billing reports for Medicaid purposes. If they knew their revenue would drop if they did not bill, providers would be much more aggressive in documenting and making claims.” Mr. Cibes suggests that the revenue yield from revising billing practices is estimated at about \$6 million.

In addition, since the state is already contracting with HP to administer the MMIS payment system, it seems that the billing and collections through that system could be expanded to capture all Medicaid claims and billing more efficiently, and with less duplication.

## **INFORMATION TECHNOLOGY**

Many of the proposals contained in this report will depend on using information technology (IT) to a much greater degree than state government has in the past. Two key questions arise when looking at the delivery of information technology to state government: 1) how state government uses IT; and 2) the optimum organizational structure for providing IT services and supports for state government.

**Use of information technology.** Many CEAO proposals envision the use of information technology “to support government operation, engage citizens, and provide government services”, which is how “e-government”-- electronic government-- is described. As noted in Section II, during 2010, the PRI committee examined e-government in Connecticut, specifically assessing Connecticut’s implementation of e-government. Because it is a concept that requires both technical and substantive government “business” expertise and covers all areas of state government, effective e-government necessarily requires significant interagency coordination, cooperation, and collaboration, along with the capacity to assess, plan, and implement with a statewide view.

E-government shows itself primarily through the states’ websites as the gateway to the information and services. Based on PRI staff work, to be presented to the PRI committee on Dec. 16, Connecticut has clearly expanded the scope of e-government since the 2002 inception of the state website, CT.gov. It appears that improvements and initiatives are ad hoc and sporadic rather than systematic, though. Web-based service improvements most often arise from individual departmental interests instead of an overall e-government strategy that prioritizes online services

as a statewide goal. The current structure within which information technology, including the important area of e-government, is developed, planned for, managed, and implemented, is diffuse. Currently, there is no effective mechanism, formal or informal, to guide e-government in a deliberative, purposeful way that includes all stakeholders—such as agencies, municipalities, businesses, citizens, and customers.

It appears that Connecticut has a number of online services that fall into several general categories, but a weakness is that there are few inter-agency services available. Further, there appear to be many instances where agencies with similar functions (e.g., filing secure reports, certification, or licensing) are not using similar approaches to moving those functions online. In fact, there are several occasions where an agency has moved a particular business function online, while other agencies continue to perform this function completely offline. One example is electronic filing of consumer complaints. The Department of Insurance offers this service, while it is not available for individuals with complaints regarding health care professionals or home improvement contractors.

**Infrastructure.** While the focus of the PRI study was not on physical infrastructure, it seems clear that enhanced e-government services will be significantly more difficult to implement without upgrading existing IT systems. A notable impediment to the further development of online services is agency use of outdated systems for electronic functions. These legacy systems often hinder communication between agencies and occasionally prevent interoperability between divisions of an agency. Further, the data contained in the outdated systems may require significant modification or cleaning in order to be part of a new, interoperable system.

The state's use of information technology and the organizational structure for providing services to agencies have been periodically examined in the past. Connecticut has not received high marks in rankings among of states, comparing their use of technology. In 2008, Connecticut ranked 37 out of the 50 states by the Center for Digital Governance. Connecticut has stepped up information technology efforts, and in 2008 the same organization (which has since changed to letter grades) gave Connecticut a B-, exactly in the middle.

The state dedicates considerable resources to information technology. As of July 23, 2010, there were more than 1,500 IT positions (2.9 percent of the total state workforce). In addition to staffing, in FY 10 about \$93 million was spent in agencies (excluding higher education constituent units) on information technology through contracting for maintenance and support, equipment lease and rental, software licensing, and outside consultant services.<sup>72</sup>

**State organizational structure.** The Department of Information Technology (DoIT) serves as the primary manager of the executive branch's information technology assets, operations, and projects. DoIT also provides host services to the judicial and legislative branches, the constitutional offices, and higher education through the State Data Center. The impetus for information technology projects to enhance services at individual agencies generally comes from the agencies themselves.

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<sup>72</sup> PRI Staff October 2010 Briefing on *Assessment of Connecticut's Implementation of E-Government*, and CEAO staff analysis of accounts payable information from the Office of the State Comptroller in CORE-CT

The PRI study indicates that statewide planning for e-government is lacking, and there does not appear to be the capacity to assess, plan, and implement with a statewide view. Information technology as managed and implemented within the Connecticut executive branch appears confusing, with planning, control, and service responsibilities mixed at all levels, which may impose inefficiencies that delay results and add costs. This prompts the ongoing question for the commission and others who have examined the state's information technology needs -- and how it meets those needs: "Is Connecticut's current information technology organizational structure serving the state agencies or Connecticut residents well and in the most cost-effective way? More than a decade ago, the state almost privatized all information technology, but withdrew from the process before the contract was signed. Since then, different pieces of IT have been examined, and different services have been contracted out, but IT is still largely a function of state government, and state employees.

The PRI study identified four states as leaders in e-government (Massachusetts, Maine, Michigan, and Utah). Each has a state entity for information technology, and each also uses contracted services in varying degrees. In two of the states, the IT function is within a larger agency (e.g., Massachusetts' central information technology agency is the Information Technology Division within the larger Executive Office for Administration and Finance, and Michigan's central state information technology agency is the Department of Technology, Management and Budget). However, the primary lesson learned from these model states is that top leadership and a specific commitment to using IT to benefit the state and those who come in contact with it is key.

In terms of staffing in the executive branch, DoIT provides an IT manager in most state agencies who reports to the Chief Information Officer at DoIT, while the other rank and file IT personnel in the agency report to that agency's commissioner. DoIT connects more than 100 agencies to the state network, hosts 118 IT applications for agencies at the data center which provides a secure and reliable environment for the storage, processing and movement of state data. The main DoIT facility, which houses the state data center, is in East Hartford, although for security reasons, there is also a data center located elsewhere.

The commission heard testimony at its December 2009 public hearing related to the information technology area, including: those advocating many more applications for state services and benefits to be available online; those supporting modernizing the state's IT systems, consolidating data centers, and implementing managed competition in the IT area (the latter was opposed by DoIT).

Although a number of these proposals were contained in the commission's February 2010 initial report, the proposals related to information technology were subsequently carved out, with the commission recognizing early on that many of the aspects of implementing such proposals would require an in-depth look at the governance structure for IT, the state's current technology needs and how those are being met. Rapid change in the field of information technology also impacts these proposals -- for example, the benefits and pitfalls of cloud computing are the subject of newspaper articles almost daily. What might be the best platform or delivery mechanism now might not be the case a year from now.

## HIGHER EDUCATION

Connecticut public postsecondary institutions are governed by boards of trustees, while state policies and coordination are the responsibility of the Board of Governors of Higher Education. The state, like many others, has struggled to find the balance between giving the trustees the autonomy they want, and exercising authority to yield the performance desired by elected officials.

Several studies – dating back to 1971 – called for an end to the state’s “educational fiefdoms” through centralization or consolidation. More recent studies, however, recommended giving the constituent units greater control over day-to-day matters. Consequently, steps have been taken encourage coordination and cooperation, while the units overall have enjoyed increasing levels of autonomy. Issues still exist about the apparent lack of priority in ensuring accountability based on statewide needs.

PRI is currently conducting a study which includes an examination of the overall higher education governance structure in Connecticut, and the following areas of the Connecticut State University System (CSUS):

1. administrative functions to determine the rate of growth, if there is duplication of certain services, and, if possible, the costs of those services; and
2. the extent to which existing cost saving ideas have been implemented and, when possible to determine, their impact.

Throughout the commission’s process, there was concern expressed by some members that some of the information on CORE-CT relating to personnel did not include the limited scope agencies, like the Judicial Department and some of the higher education constituent units. The commission issued a special request for information to those agencies asking for similar data on managerial and administrative staffing as that presented to the commission for the executive branch departments. All agencies did respond to the request, and as much as possible the numbers submitted were analyzed and the results presented in a similar fashion to those for the executive branch agencies. Those are presented in Appendix B.

Similarly, when information was presented on operating costs for state government – from printing to costs for electricity, there was always the caveat that the expenditures did not include those for the constituent units of higher education. Higher education, starting in 1991, began receiving allocations from the General Fund as a block grant payment. Over the past two decades, the General Fund contributions to higher education have not increased to the degree the General Fund overall has grown. However, the higher education constituent units have compensated for the reduced allocations from the General Fund by raising tuition, fees and through other sources of revenue.

At its November 22, 2010 meeting the CEO staff presented the commission with information on a wide variety of state expenses, including contracting and purchasing in various areas. The numbers were from the Office of the State Comptroller, Accounts Payable Division using information from CORE-CT. Also included in the presented material were one-time

payments for FY 08 - FY 10 to each of the constituent units that CORE-CT labeled “higher education operating expenses”. Those showed amounts increasing for all except the community colleges.

These figures were not intended to represent all expenses at the constituent units presented only in global terms of that while it is possible through CORE-CT information to get a picture of where the state is spending its money for most state agencies this is not the case for the higher education constituent units. Some commission members expressed concern that greater oversight of budgets and personnel in higher education would slow down hiring and procurement processes, perhaps preventing institutions from acquiring talented faculty, while other members indicated that higher education units had to become more efficient and streamlined rather than continue to rely on increasing tuition and fees. The commission also discussed the fact that the PRI study is currently ongoing.