



CONNECTICUT BUSINESS & INDUSTRY ASSOCIATION

TESTIMONY OF
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CONNECTICUT BUSINESS AND INDUSTRY ASSOCIATION
SUBMITTED TO THE
LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE
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LEGISLATIVE OFFICE BUILDING
STATE CAPITOL
HARTFORD, CONNECTICUT

Good day. My name is Peter Gioia. I am the VP and economist for the Connecticut Business and Industry Association (CBIA). CBIA represents about 10,000 firms, which employ about 700,000 women and men in Connecticut. Our membership consists of firms of all sizes and types, the vast majority of which are small businesses employing fewer than 50 people.

CBIA supports the concept of performance budgeting within state agencies as exemplified in the Results Based Accountability (RBA) process. Therefore, we strongly support the concept of expanding RBA to more programs as proposed by the Committee. The DOT is a key area in the state budget both for the size of its operations and the impact of its operations on the economic well being of the state. CBIA has been concerned about better measurements of state program effectiveness for years as exhibited in an older attached STATECOST articles.

Connecticut's ability to manage its state and local government's budgets has a direct effect on our economy. The more effective and efficient that government is, the better our business climate will be, and the better Connecticut will be able to compete with other states to bring in businesses and the jobs and revenue they generate. These jobs make the economy stronger and produce additional tax revenues that make it easier to pay for state and local programs and services. The DOT's ability to positively impact the economy through better outcomes is important here.

Therefore, making government more efficient isn't just a desired goal--it's essential to maintaining a healthy economy and good quality of life. In order to meet vital citizen needs, government needs more choices and options in how service are delivered. Government needs to find ways to introduce more flexibility into its operations.

A key factor that we see is that any performance measures must explicitly measure outcomes not activity. Most agencies can tell you all about what actions they take and precious little about whether or not their programs make actual ongoing positive differences in the lives of the citizens of Connecticut. CBIA wants to see measures that show actual results. Things such as if social services programs really provide the supports that directly lead people out of dependency towards more self-sufficient lives, if transportation programs really allow the faster movement of people and goods, and if our education systems fully prepare students for productive lives in the real world.

We think it would be a good idea to not only expand RBA to the DOT but in time be standard operating procedure for all state programs. We are encouraged that RBA is being used at last on a really big agency. While expanding beyond your current initiative would be a big project the committee could propose phasing it in. Certainly, our lengthy economic crisis will pose additional risks to the state budget for years. A larger RBA effort cannot be implemented too broadly or too soon.

CBIA wishes the Committee all the best as it takes up these important challenges. Thank you for the opportunity to submit this testimony.

ATTACHMENT: STATECOSTs

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Time for better planning to create a better future

by Peter Gioia, CBIA Economist
June 7, 2004

Looking farther into the future to envision what Connecticut's needs are going to be, and what resources will therefore be required, can help the state avoid riding the highs and lows of a fiscal roller coaster from year to year.

Connecticut needs greater clarity, direction and stability in the budget-making process, which ultimately will help all recipients of state aid and users of state services as well as taxpayers.

How should Connecticut policy makers address the need for long-term budget planning and how can they provide for the evaluation of the effectiveness of government programs? At a minimum, they should commit to:

- ongoing collection of pertinent data and decision-making based on data;
- measured outputs of key programs and agencies, along with a commitment to base funding decisions on that information;
- development of long-term planning and its inclusion into the budget-making process;
- regular, ongoing demographic analysis of the state's population to anticipate budget demands;
- enactment of fiscal note reform;
- encouragement of innovation and innovators;
- matching the scope and need of challenges with rapidly expanded and replicated pilot programs;
- identification of areas of the budget that contribute to the state's future economic capacity, and ensuring their adequate funding;
- determination of areas of the budget that do not contribute to future economic capacity and stabilizing or reducing their funding; and
- action.

1. Ongoing collection of pertinent data and decision-making based on data.

The Office of Legislative Research and the legislature's Program Review and Investigations Committee are able to collect and organize useful data. While these organizations gather much information now, lawmakers should explore ways to make better use of their work.

2. Measured outputs of key programs and agencies, along with a commitment to base funding decisions on that information.

The legislature's Operation ACE task force (for Accountability, Creativity and Efficiency) has specifically recommended that state legislators study the important

Seeing the forest for the trees

It was very encouraging that the General Assembly wrapped up the 2004 session without the kind of budget turmoil typical of the past few years. With a surplus anticipated at the end of this fiscal year, lawmakers did not have to continue difficult budget negotiations into the summer.

However, it's important to understand that this year's relative budget stability is likely due to regular cyclical economic recovery.

Many issues surrounding state budgeting need to be addressed. We're still unprepared for looming federal cutbacks in state aid even as our population matures. Entitlement programs continue to be substantial obligations. The federal budget deficit is a huge threat, and Social Security, Medicare, and Medicaid obligations make it more so in the future.

In Connecticut, we still don't really know which state programs are actually working and how well. We often spend far too much in some areas that are not as efficient and effective as they should be, such as the corrections system. On the other hand, we under-support areas that could have a significant economic payback – such as the transportation infrastructure, information technology and higher education, and tax credits or exemptions for R&D and manufacturing equipment. This lack of foresight weakens our state's economic potential.

Recently, we explored the need for dependable performance measures to determine the true effectiveness of state programs and services. We also examined two of the greatest state budget



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issue of what current government programs are actually accomplishing in the delivery of services to state residents. ([See previous article](#))

3. Development of long-term planning and its inclusion into the budget-making process

Many economic experts encourage long-range planning that looks ahead as much as 20 years ahead. Currently, no state government entity regularly plans, analyzes, organizes and disseminates such long-range planning data in a central, prioritized manner. If the state fills this planning gap, we will be able to better anticipate future costs and allocate resources to mitigate or avoid those costs.

4. Regular, ongoing demographic analysis of the state's population to anticipate budget demands.

What does the population of Connecticut look like today? What will it look like over the next budget cycle or over the next 20 years? The more the state knows this, the better it will understand in advance the demands that will be placed on state services over time. Who we are as a population will determine what we will need from the state's transportation, education, job training, social services, corrections and long-term care systems.

This information should guide both operational and capital budgeting as well as revenue planning. Here's how:

- If analysis shows Connecticut will lack sufficient numbers of young, working-age people in 10 years, budget and revenue decisions can start to address how to attract new business or grow existing firms, and keep college graduates in the state.
- If our elderly population is projected to grow, led by aging "baby boomers," policy makers can address ways to cost-effectively plan for long-term care.
- If an increase in school-age children is anticipated, state government can plan for sufficient educational facilities and resources.

5. Enactment of fiscal note reform.

Fiscal notes are the "price tags" applied by the state's Office of Fiscal Analysis to legislative proposals. While helpful, the fiscal note process could be improved.

First, the process is reactive – occurring after proposals are written. It should instead be proactive, part of the bill-writing process for proposed major changes to legislation. In addition, the two-year scope of fiscal notes is too limited for many bills, and more attention is given to low priority legislation and less to major proposals that can affect the state's budget for years, perhaps decades. For example, more than a decade ago, major legislation creating mandatory prison sentencing and establishing longer sentences in Connecticut radically affected budgeting for the state's corrections system. Legislation like this that carries a profound fiscal impact spanning decades deserves adequate study and full disclosure of potential costs.

Including economic-impact statements along with fiscal notes on major legislation could help policy makers better understand how proposed legislation could affect the overall state economy. These statements could reveal how proposals to increase business costs would discourage growth, expansion or investment in the state.

6. Encouragement of innovation and innovators.

New ideas are needed across the breadth and scope of state services. For example, innovation in long-term care, such as the concept of in-home care, should be explored as a fiscally and socially sound way to help manage the health care crisis.

Conversely, scrutiny should fall on areas of state government that don't innovate in order to provide better services, prevent future problems (for example, keeping youth away from a life of crime) and create long-term savings or avoid costs.

7. Matching the scope and need of challenges with rapidly expanded and replicated pilot programs.

The severity of existing and future needs in long-term health care requires a response equal to the challenge. Connecticut should expand the scope and facilitate the implementation of innovative pilot programs that can help put the brakes on the growth curve. We should also recognize that the existing nursing

"busters" – corrections and Medicaid – and the need for comprehensive long-term planning, demographic and fiscal analysis, and the ability to implement broad change even in the face of successful pilot programs.

Most important, Connecticut needs to make a commitment to base its biannual budgeting on long-term planning that is based on significant data and measurements.

Policy makers should commit now to addressing these shortcomings before they begin work on the next biennial budget. That will enable the state to effectively take on the fiscal challenges we are certain to see over the next several years and decades.

home/SNF system is inadequate for the demand that will be placed on them in the future, and tough decisions have to be made in order to achieve greater efficiencies and cost-effectiveness. Mergers, acquisition and other significant changes may be needed to accomplish that.

8. Identification of areas of the budget that contribute to the state's future economic capacity and ensuring their adequate funding.

Policy makers should weigh the importance of certain sectors to the state's economy and factor those assessments into fiscal decisions. Key economic resources certainly include the state's vital transportation corridors (like I-95 and I-84), our airports, the Metro North rail system and commercial seaports. Also vital are education institutions such as UConn, the state university system and community colleges. Perhaps less obvious but just as important are state economic-development programs, private-sector research and development, and investment in manufacturing machinery and equipment. Strategic budgeting will open opportunities to use the budget for economic development – leading to more opportunities for creating good jobs.

9. Determination of areas of the budget that do not contribute to future economic capacity and stabilizing or reducing their funding.

State government must provide services to people in need and must protect the public from crime, disease and other ills. It needs to continue to provide quality and humane services, but in a very cost-effective and efficient manner.

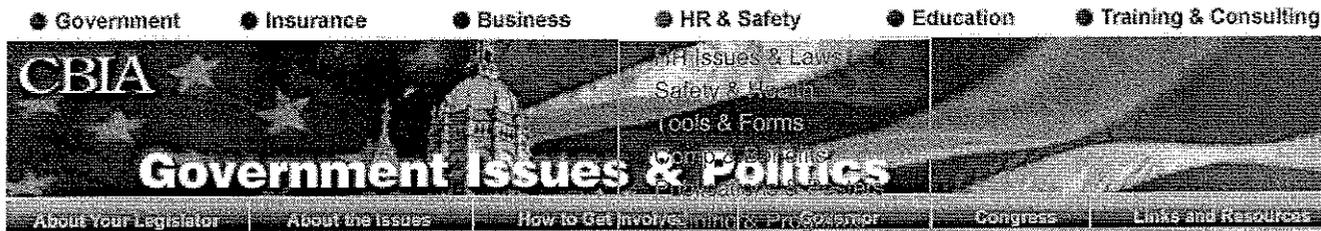
10. Action.

Setting in motion agents of change today can significantly improve our budgeting process. Prudent action by policy makers will help bring about the reforms that will enable the state to continue providing a wealth of services in the most effective and efficient means possible.

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Do we know how well Connecticut's state government is working?

by **Peter Gioia**, CBIA Economist
Feb. 2, 2004

Businesspeople know that with good performance measures, their companies stay on mission, achieve their goals and deliver exactly what their clients want -- while their businesses are able to detect problems and make necessary adjustments along the way.

Speaking at CBIA's 2004 Economic Summit & Outlook, United Technologies Chairman and CEO George David said, "process analysis is the [company's] single most important discipline."



On the other hand, without good performance measurements, a business can lose sight of where it is going and what it is supposed to be accomplishing -- leading to serious trouble. The absence of "process analysis" could mean the wasting of precious financial resources, or the failure to detect areas that are outmoded and potentially lethal drains on a company.

Simply put, if a business doesn't regularly, accurately and adequately measure its outputs -- including profitability, production, customer satisfaction, and return on investment (ROI) -- the business may not survive.

Connecticut's state government is not likely to go out of business, but its failure to adequately measure the effectiveness of its programs and services and apply the information to the decision-making process can lead to poor performance, cost overruns or both.

Ironically, the inability of some government agencies to monitor the effectiveness of their programs has led those programs often to appeal for new resources -- through higher taxes -- to fuel their inefficiencies.

While Connecticut already requires (see **PA92-8**) government agencies to conduct outcome measures in so-called "performance budgeting," are they really doing that?

No, says a special task force formed to identify several areas in which state government could become more effective, efficient and accountable. In fact, the task force of Operation ACE (Accountability, Creativity and Efficiency), a Legislative Effort for Better Government, has specifically recommended that state legislators study this issue.

Apparently, most Connecticut government agencies and programs are simply reporting the scope of their **activities** without providing meaningful **analyses** of these activities.

For example, the state budget reports reveals that:

- 4,542 community residents were supervised in a year by corrections personnel. (p. 480, GovBud 2003-05)
- 180,967 applications for Medicaid were processed in a year by the Department of Social Services. (p. 396)
- 392 unduplicated clients were served by Connecticut Valley Hospital's mental health division over a year.(p. 357)
- 81,922 copies of records were requested of the Department of Motor Vehicles. (p. 199)
- 275 Regional Market Farm Stalls were rented in the Department of Consumer Protection and Agriculture. (p. 243)



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- 50% of highway signs meet current standards. (p. 373)

Some of this information may be useful, but what does it actually mean? If 81,922 copies of records were requested of the Department of Motor Vehicles, were the requests filled in a timely manner? Were the customers satisfied? Were they the appropriate records? Could they have been provided in a more efficient way, perhaps through the Internet?

The above stack of statistics fails to answer the key question of what taxpayers are getting for their money. And the numbers by themselves aren't giving policy makers insight as to whether the vast base of state spending is really working effectively for the citizens of the state.

What's missing?

Under current state government reporting practices, many questions are left unanswered, such as:

- Do our agencies maximize the use of technology across and within agencies to both perform at maximum efficiency and in a timely and cost-effective manner?
- Is the corrections system rehabilitating criminals with a reasonable success rate and in a cost-effective manner?
- Does the state effectively reintroduce juvenile offenders back into society as productive citizens?
- Is our education system graduating students who are prepared to take college-level courses or enter the workforce with the skills they need?
- Does the long-term care system provide dignified, quality care in the most homelike environment possible in a cost-effective manner?
- Has the movement of people and products across the state measurably improved under Department of Transportation programs?
- Has our mix of services provided to individuals with special needs resulted in a qualitative improvement in their quality of life?
- Does the state utilize its workforce in a flexible and productive manner?
- Does the state consistently pilot state-of-the-art programs to create better opportunities for continuous improvement?
- Does the state sunset programs that are ineffective, obsolete and no longer represent state-of-the-art performance?

For hundreds of state programs and agencies funded through the \$13.5 billion state budget, the answer to these questions and many more are "we do not know." We don't know if the expenditure of vast sums of taxpayers' money is making a real difference. And when it is, we don't know if dollars are being spent in the most cost-effective manner.

It may be hard to find out. At CBIA's Economic Summit & Outlook, Rae Rosen, senior economist and assistant vice president of the Federal Reserve Bank of New York, noted that state government has lagged process improvements elsewhere. She recalled that at one Connecticut government office she recently visited, official paperwork was being filed in cardboard containers.

"We've got to give government the tools they need to increase productivity, as we've done in the private sector," said Rosen.

Hard to measure

Measuring output is often difficult. Finding the right metrics and then collecting and analyzing the data takes time, skill, discipline and money. A few areas have recognizable outcome measures.

For example, Connecticut's corrections system reported that it had awarded "924 GEDs ... to inmates in a single year." (p. 477 GovBud). Numerous groups, such as the National Council of State Legislatures, have observed that inmates who receive an education while incarcerated are more likely to get a job when they leave prison – and are less likely to become repeat offenders. Thus, a GED program conceivably will do some real good, even though it's hard to quantify.

Some budget areas are measured periodically (that is, not on a regular basis), in part (such as a financial audit or specific program area review), or on an ad hoc basis (usually when something has gone noticeably wrong) by groups like the Auditors of Public Accounts or the Program Review and Investigations Committee.

Customer satisfaction

Very little is done to gauge whether the actual recipients of services believe they are getting quality services that improve their lives. There is no systemic, cross-

agency effort to determine clients' satisfaction nor one that gathers comments about the performance of state services. When efforts are made to measure programs, results are not always widely reported or used in budget deliberations.

Areas that expend vast sums of money, such as Medicaid, health services, transportation, corrections, public works and education, are not **systematically** measured for **actual achievement of their basic purposes**.

System-wide measurement could provide credible data on whether services are effective, timely and of good quality and are servicing the need/problem for which they were intended. Since billions are spent on people who are under the care or custody of the state or who use state services, it would make sense to measure whether those dollars make a difference in the opinions of the actual clients or the clients' guardians.

Visible or hidden assets

Some state spending areas create tangible results, such as the UConn 2000 project. Certainly, anyone who had been acquainted with the university in the 1960s, '70s or '80s and who visits the campus today is struck by the superb improvement to the physical structure of the campus.

It's even more impressive when one learns that some buildings were completed ahead of schedule and on or under budget. But most of state spending is not as easy to observe as the buildings on the UConn campus. And even when it is, it's not clear that such resources were used in the most cost-effective manner and with potentially the best results for the long term.

CBIA believes that state legislators and the administration need to focus on keeping the budget in balance and finding solutions to get better long-term control over state spending. The state has slipped badly in the confidence of business leaders [CBIA's 2003 [Annual Membership Survey](#)] in part because the budget has grown tremendously -- but not necessarily efficiently or effectively.

Fiscal responsibility can be achieved with better fiscal accountability. We encourage lawmakers to respond to the challenge put forward by ACE to examine this critical issue.

Update on the State Deficit

Good measures become important when it comes time to cut programs to avoid budget shortfalls. At the time this article was drafted, the comptroller estimated that the state may face an \$85 million shortfall in the current 2004 state fiscal year. The governor has already requested agencies to provide targeted lists of areas whose budgets can be cut. Metrics such as good outcome measures could provide guidance to the executive branch in difficult times like these as well as to the legislators when drafting a budget. It's always the job not done that is most missed when tough decisions are in order.

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