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Operation ACE

Task Force on Accountability, Creativity and Efficiency

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ACE Task Force
Final Report

January 2004

Operation ACE

Task Force on Accountability, Creativity and Efficiency

Members

Joseph H. Harper, Jr., Chairman
Appointed by House Majority Leader James Amann

Walter K. "Harvey" Clark, Vice-Chairman
Appointed by Senate Republican Leader Louis DeLuca

Robert Beeby
Appointed by House Minority Leader Robert Ward

Barry Feldman, Ph.D.
Appointed by Senate President Pro Tempore Kevin Sullivan

Barbara Ireland
Appointed by House Speaker Moira Lyons

Carl J. Schiessl, Esq.
Appointed by Senate Majority Leader Martin Looney

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Operation ACE

Task Force on Accountability, Creativity and Efficiency

Final Report and Recommendations

January 2004

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ACE Task Force Final Report

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Appendix A: ACE Task Force Public Hearings

Introduction

In May 2003, House Majority Leader James Amann, along with House Speaker Moira Lyons, Senate President Pro Tempore Kevin Sullivan, and Senate Majority Leader Martin Looney announced the initiative called Operation Accountability, Creativity and Efficiency or ACE. Faced with a severe economic downturn and two consecutive years of significant budget shortfalls ($817 million in FY 02 and $660 million in FY 03), the General Assembly and the Governor had already depleted the state's rainy day fund, raised taxes, increased bonding, and made drastic cuts in services, including layoffs of more than 2,000 state employees. Legislative leaders recognized greater efforts and new approaches were needed to bring spending under control and make state government more cost-effective. The ACE project was undertaken to meet that challenge.

The project was designed to occur in two phases. First, a six-member task force would be appointed by the bipartisan leadership of the General Assembly with the specific charge of developing an agenda of topics for a successor study commission. The task force would also recommend the commission's composition and structure. Second, after the task force issued its report by January 2004, the study commission would be established by a public act and given the remainder of 2004 to complete its research and make final recommendations to be implemented during 2005.

Operation ACE represents a continuity of effort by Connecticut's legislative and executive branches of government to bring about cost savings and improve the productivity, efficiency, and delivery of state services. Its work builds upon the excellent foundation previously established by such organizations as the Commission to Effect Government Reorganization (the Harper-Hull Commission) and the Commission to Study the Management of State Government (the Thomas Commission), among others.

The Task Force on Accountability, Creativity, and Efficiency was appointed and commenced its work on July 31, 2003. The six members included:

- Joseph H. Harper, Jr. (Vice President for External Affairs, Central Connecticut State University, former state senator and Senate Chair of the General Assembly's Appropriations Committee, and Co-Chair of the Harper-Hull Commission), appointed by House Majority Leader James Amann;

- Walter K. "Harvey" Clark (President/CEO Dictograph Security Systems), appointed by Senate Republican Leader Louis DeLuca;

- Robert Beeby (Retired Businessman), appointed by House Minority Leader Robert Ward;

- Barry Feldman, Ph.D. (Town Manager of West Hartford), appointed by Senate President Pro Tempore Kevin Sullivan;

- Barbara Ireland (former state representative), appointed by House Speaker Moira Lyons; and

- Carl J. Schiessl, Esq. (Counsel, Phoenix Life Insurance Company, former state representative, and former House Chair of the General Assembly's Finance, Revenue and Bonding Committee), appointed by Senate Majority Leader Martin Looney.

Between July and December 2003, the Task Force met 10 times. In addition, it held three public hearings to gather information and comments on state government organization and operations. (See Appendix A for hearing dates and lists of witnesses.) Eleven recommendations were developed and unanimously approved by the Task Force members. Nine recommendations specifically call for study, analysis and a final recommendation for implementation by the successor study commission while one calls for immediate implementation by the executive branch of government. Another recommendation proposes the form, structure and content of the successor commission.

The recommendations of the ACE Task Force are presented in detail in this report. They are the combined result of reviewing ideas, research and analysis from many sources, including: 1) findings and recommendations of earlier state government efficiency and reorganization studies; 2) recommendations offered by the Governor and his Secretary of the Office of Policy and Management (OPM) as well as other executive branch agency officials; 3) reports of the Legislative Program Review and Investigations Committee (LPR&IC) and the Legislative Office of Fiscal Analysis (OFA); 4) legislative caucuses, leadership, and individual legislators; 5) numerous interest groups from both the for-profit and non-profit sectors; 6) state employee unions; and 7) citizens.

The collective work product of the ACE Task Force is the result of an open and bipartisan study process. The group was guided from the outset by these principles; the diversity and comprehensiveness of the final Task Force recommendations exemplify them.

It is now the charge of the bipartisan leadership of the General Assembly and the Governor, acting in the same spirit of openness and bipartisanship, to advance the second study and implementation phase of Operation ACE. Only in this way can success in improving the efficiency and cost-effectiveness of state government be reasonably anticipated.

Acknowledgements

The members of the ACE Task Force wish to acknowledge the significant contribution made to the project by many participants who provided the information, research, and analysis that resulted in the eleven recommendations for consideration by the successor commission. This report would not have been possible without their hard work and commitment. We especially acknowledge the efforts of:

Legislative Program Review & Investigations Committee Staff:
Michelle Castillo, Catherine Conlin, Maryellen Duffy, Jill Jensen and Carrie Vibert
Marc Ryan, Secretary, Office of Policy and Management
Spencer Cain, Chief Budget Analyst, Legislative Office of Fiscal Analysis
Joan Soulsby, Principal Budget Analyst, Legislative Office of Fiscal Analysis
Maria Simao, Director, CCSU Institute for Municipal and Regional Policy
Bernard McLoughlin, Director, Management Services Division, State Comptroller
Robert Jaekel, Republican Legislative Auditor of Public Accounts
Cathy Daly, Director, CORE-CT, Department of Administrative Services
Rock Regan, Commissioner, Department of Information Technology
Dr. William Cibes, Chancellor, Connecticut State University
The Maximus Group
Ken Saccente, Legislative Assistant, House Majority Leader
David Jaeger, Task Force Clerk

With our deepest gratitude,

Joseph H. Harper, Jr., Chairman

Walter K. "Harvey" Clark, Vice-Chairman

Robert Beeby

Barbara Ireland

Barry Feldman

Carl J. Schiessl

Summary of Task Force Recommendations

The Task Force on Accountability, Creativity and Efficiency has developed an agenda for further study and action centered on three main areas: increased centralization and/or consolidation of government functions; fiscal reform; and attention to high cost centers in the state budget. Ten recommendations adopted by the Task Force are grouped by these themes to highlight the opportunity for the successor study commission to think creatively about ways to address common issues. One additional recommendation concerns the proposed composition and structure for the Operation ACE successor study commission.

All 11 final recommendations, which were unanimously approved by the task force members on December 10, 2003, are summarized below. A full-length discussion of each one, including background information, impediments to implementation, and alternatives for consideration by the successor commission, is presented in the following section of this report.

Centralization and/or Consolidation of Functions

The ACE Task Force made the following five recommendations concerning centralizing and/or consolidating government functions as ways to improve accountability, efficiency and effectiveness.

1. *Establish a Chief Operating Officer Position*

   Given the time consuming nature of the budget process, other responsibilities of the Office of Policy and Management such as strategic planning, evaluation, and state agency accountability have not received equal attention. To address this need, the executive financial officer position in the Office of Policy and Management should be enhanced to include duties as the state's Chief Operating Officer (COO), or a new COO position should be established as an independent officer reporting to the Governor.

2. *Privatize Services and Implement Performance-Based Budgeting*

   Further privatization of services provided by the state of Connecticut may result in cost savings. However, the tools by which the state can measure the effectiveness of existing and proposed programs in the private sector are not in place. The implementation of performance-based budgeting as statutorily required under Public Act 92-8 would better inform the decision-making process by: providing quantifiable goals, objectives, and outcome measures for all services; and allowing evaluation of the costs and benefits of privatized services.

3. ***Address Purchase of Service Issues***

   As part of the Harper-Hull Commission study process, a "Purchase of Service Task Force" was created to deal with an array of issues non-profit entities

encountered in interactions with state government. Some of the purchase of service concerns raised at that time were: prompt payments by the state to the non-profits; a state no-interest revolving loan fund to alleviate the fiscal crisis when payments are delayed; and multi-year contracts for services. Non-profit organizations participated in the development of proposed legislation and worked with the state to address these concerns but minimal results were achieved. It is recommended these issues be treated as a priority, with the new Chief Operating Officer (if position is created) assuming primary responsibility for addressing them.

4. ***Maximize Federal Funding Through a Single Point of Contact***

While the state has successfully captured federal dollars for many programs, the intensity of this activity varies among agencies. Input from experts indicated the ability of a state to maximize federal dollars is directly related to its willingness to designate a Single Point of Contact (SPOC) within the executive branch. The SPOC can provide a dedicated, focused effort to maximize federal revenue. Agencies benefit from having a knowledgeable source for assistance in determining when and how to pursue federal funds. The state benefits from being in a better position to determine the overall benefits to pursuing federal funds, rather than relying solely on the efforts of individual agencies that may have competing priorities.

5. *Restructure Higher Education*

Reorganization of higher education services has been repeatedly suggested in prior Connecticut governmental structure studies. Governor Rowland as a potential cost saving measure most recently proposed consolidation of administrative functions. A number of states have undertaken higher education restructuring but with inconsistent financial and programmatic results. Any reorganization or realignment of functions of the various governing boards under the purview of the Department of Higher Education should be preceded with a careful analysis of the experience in other states.

Fiscal Reforms

Two recommendations (numbers 6 and 7) of the ACE Task Force address reforms to key state financial practices.

6. ***Study Effectiveness of Current Fiscal Controls***

The state Budget Reserve ("rainy day") Fund, the statutory caps on state expenditures and on bonded indebtedness, and statutes limiting school construction bonding are intended to control growth in state borrowing and spending. They can also relieve the pressure on the state budget during difficult economic times. If Connecticut is committed to effective fiscal discipline, policy

makers must consider what constitutes a sufficient balance for a viable rainy day fund, how to best use the fund and control expenditures, and whether the bond cap and school construction bond limit are effectively curbing state borrowing.

7. ***Consider Revisions to the Municipal Auditing Act***

In recent years, Connecticut has found itself in the costly situation of intervening and taking over the fiscal management of some municipalities. Revisions to the Municipal Auditing Act could provide opportunities for earlier detection of potential problems. A set of "triggers," such as recurring deficits, a set percentage of a municipal budget provided by the state, or downgrades in credit ratings, would allow state action before a crisis situation. Early intervention measures would require the commitment of additional state resources to the job of evaluating the finances of municipalities. Before assuming any additional responsibilities, a cost/benefit analysis should be conducted.

Attention to High Cost Centers

Three Task Force recommendations (numbers 8 through 10) identify some the highest spending areas of the state budget for further study and possible cost containment.

8. ***Prescription Drug Spending***

In the public and private sectors, prescription drug spending has escalated dramatically in recent years. Within Connecticut's budget, costs of prescription drugs was estimated to be just over $650 million in 2003, an increase of about 33 percent since 2001, according to a recent legislative program review committee report. Options for controlling drug-related costs are numerous, although collective bargaining agreements and federal rules restrict certain alternatives. A review of alternatives available to the state is especially timely in light of the Medicare prescription drug coverage changes just enacted by Congress and signed by the President.

9. ***Prevailing Wage Law Cost Impact***

The state statutorily mandated prevailing wage rates affiliated with public construction projects prevent market forces from determining labor costs on these jobs. Some estimate the mandated wages to be 30 percent over market wages. While there is consistent support of the concept of paying prevailing wages in Connecticut, the cost implications of the policy warrant an examination of its advantages and disadvantages.

10. ***Alternatives to Nursing Home Care***

Increased longevity and the ever-rising cost of medical care are creating a health care crisis for the elderly and their families. Connecticut has made notable

progress in reducing long-term health care costs for its elderly and disabled citizens through the use of community-based alternatives. However, other states with comparable demographics have demonstrated greater success in achieving cost savings through fuller use of nursing home alternatives. An emphasis on providing incentives for community-based alternatives may help alleviate this crisis.

Successor Study Commission

The final ACE Task Force recommendation (number 11) proposes a structure for the successor commission responsible for carrying out the agenda identified for further study and action.

11. ***Create a Broadly Representative Successor Commission***

To ensure broad representation of all interests, the Operation ACE successor commission should be structured on the Harper-Hull Commission model. This model emphasizes inclusion of stakeholders and cooperation between branches of government. The General Assembly and the Governor should appoint co-chairs representing both the legislative and executive branches, respectively. Commission membership should include representation from the following groups:

- For-profit business sector
- Non-profit sector
- State management
- State collective bargaining units
- Academia
- Judicial branch
- Municipal government
- Community at-large

Task Force on Accountability, Creativity and Efficiency

FINAL RECOMMENDATIONS

Chief Operating Officer

Approved by the Task Force on December 10, 2003 (Vote: 6 Yes; 0 No)

Recommendation #1:

> *That the successor commission to the Task Force on Accountability, Creativity and Efficiency study the idea of modifying the executive financial officer position (see C.G.S. Section 4-70e) in the Office of Policy and Management to include duties as the Chief Operating Officer for the state. As a structural option, also study the feasibility of establishing a Chief Operating Officer as an independent officer reporting to the Governor.*

Basis for the Recommendation:

Although OPM's statutory responsibility includes the budget and the management of state agencies, its primary focus throughout its history has been the oversight and implementation of the budget. The time consuming nature of the budget process and the limitations of resources have prohibited OPM from fully and adequately performing its managerial function over state agencies.

A COO, common in the private sector, would insure that the agencies are carrying out their administrative and budget functions in a cost-effective manner. Moreover, strategic planning, evaluation and accountability of state agency functions would be treated as an equal priority with budget management and implementation.

The Hull Harper Commission recommended the establishment of an Office of Finance within OPM with an Executive Financial Officer to lead it. This recommendation was adopted in 1992 by the General Assembly with the passage of P.A. 92-135. The Executive Finance Officer reports to the OPM Secretary and has the following duties specified in statute:

> ...(1)Establish state agency financial policies, (2) review and approve, amend or reject all budget requests of state agencies for financial systems and operations and take actions to remedy deficiencies in such systems and operations, (3) review and advise the executive heads of state agencies concerning agency financial staff needs, (4) in cooperation with the Department of Administrative Services, review the performance evaluations of state agency financial management personnel made by the executive heads of such agencies, recommend career development programs for higher level managers, coordinate interagency transfers of financial managers and advise state agencies concerning personnel policies and salary scales for financial managers, (5) monitor financial reports of all state agencies and (6) organize and implement programs for the exchange of information and technology concerning financial systems among state agencies and other state financial personnel. (C.G.S. Section 4-70e)

With some modifications to the position and with appropriate staff, the current Executive Financial Officer could serve as the state's Chief Operating Officer. However, there may be greater effectiveness achieved by the COO if the position were to report directly to the Governor.

The successor commission should evaluate the strengths and weaknesses of the two alternatives.

Advantages:
A COO would ensure that all of the states resources are deployed in the pursuit of proven best practices that exemplify the goals of the Task Force – accountability, creativity, and efficiency -- throughout state agencies.

Disadvantages:
The political will to ensure that this position has power to make decisions across agencies must come from the Governor and the Secretary of OPM. Without their explicit support, the powers of the position would be diluted, or simply transferred to other tasks.

Budget Impact:
Additional staffing and related resources would be required in order for the COO to carry out his/her responsibilities.

Risks:
The COO may be viewed as another layer of bureaucracy that duplicates the powers of commissioners of state agencies. On the assumption that the COO is more of a generalist than a specialist, conflicts over qualitative versus quantitative goals may result in program dysfunctions.

Obstacles:
The Secretary of OPM may view the COO as an unnecessary replication of the Chief Financial Officer powers and a threat to his own authority.

The Governor may not view another authority directly reporting to him as the best option.

Alternative(s):
At a minimum, empower the Executive Financial Officer to carry out the important duties specified in C.G.S. Section 4-70c.

Possible Implementation Vehicle(s):
Governor, OPM

Origins and/or Precedents:
Harper-Hull Commission; Thomas Commission

Privatization and Performance-Based Budgeting

Approved by the Task Force on December 10, 2003 (Vote: 6 Yes; 0 No)

Recommendation #2:

That the successor commission to the Task Force on Accountability Creativity and Efficiency study options to privatize state services when it is cost efficient and/or meets a cost-benefit standard and that the successor commission study ways to implement P.A. 92-8 in order to ensure the use of performance-based measures in the state's budget-making process to help inform decisions about privatization and eliminate duplication, inefficiencies, and ineffectual state programs.

Basis for the Recommendation:

In testimony before the Ace Task Force, non-profit organizations have claimed that they can provide certain services at a lower cost than those presently provided by state agencies and state employees without sacrificing the quality of service. In addition, accountability would be improved since contracts could be terminated for failure to meet contractual obligations. For-profit organizations may also be able to provide cost-effective services for the state. Services recently considered for privatization include the operation of the state's fleet of cars.

Examples of privatized services in other states include: statewide assessment testing and facilities services in education departments; pharmacy services in prison facilities; mental health and drug treatment programs, and personnel services including workers' compensation claim processing, to name a few.

Public Act 92-8 required OPM in consultation with each state agency for state budgeting purposes to develop specific biennial goals and objectives and quantifiable outcomes measures for each program, service and state grant administered or provided by such agency. The Secretary of OPM was charged with submitting an annual report to the Appropriations Committee and to the committee of cognizance for each agency. In 1993, the Connecticut Progress Council was created to develop a long-range vision for the state and define benchmarks to measure progress to achieve the vision (see C.G.S. Section 4-67). The legislative intent to use performance based measures for budget making and monitoring is clear.

The legislative program review and investigations committee's recently completed study of the state budget process recommends OPM adopt a performance measurement system to provide information critical to planning, resource allocation, and accountability.

Advantages:

The move to privatize additional government services could save labor and related costs. Such services could be terminated more easily than entrenched government programs when deemed ineffective or unnecessary.

Performance-based budgeting could provide a tool for decision-making that would result in rewarding cost-effective, productive programs and eliminate the funding for those that are ineffective and wasteful.

Disadvantages:

Increased privatization of services may perpetuate the low salary levels of non-profit providers. As a matter of sound public policy, the employees of private sector organizations should have a reasonable salary and benefit package. Lower salary and benefit levels could exacerbate the already existing problem of excessive turnover in staff of non-profit organizations as employees leave for higher paid employment in state government or private sector.

Some services cannot be outsourced to the private sector because federal mandates require high levels of accountability. In such cases, direct control of services allows the state to meet stringent federal requirements.

A change in the budgeting process would initially require additional staff time and costs to develop and implement the new system.

Budget Impact:

Financial data would have to be trended for several years to determine the real budget impact of any privatization efforts.

Performance-based budgeting could have some immediate beneficial impacts as the most efficient programs are rewarded. The result would be either increased productivity and/or mergers of organizations to create efficiencies.

Risk:

If a privatized service becomes ineffective it may cost significant dollars to bring the service back "in house".

Some operationally effective programs might not have the expertise to institute performance-based outcome measures and might not be funded.

Obstacles:

Privatization will likely conflict with some stipulations of state union labor contracts. Any reductions in wages and benefits for state employees will be met with strong opposition from those workers and their unions. In addition, any loss of jobs as a result of work being contracted with agencies based outside Connecticut would prompt very strong opposition from labor unions.

Performance-based outcome measures are a fairly well accepted standard of practice in the non-profit world as well as the for-profit world. However, significant changes to the state budget-making system would be required for this information to be used in the budget-making process.

Alternative(s):

Maintain present balance of union and privatized services. Continue to make budget decisions about funding of services without comprehensive information about their effectiveness.

Possible Implementation Vehicle(s):

OPM and the respective agencies in a position to privatize services and institute performance-based budgeting.

Origins and/or Precedents:

The Council of State Governments, The Book of the States 2002-03, Vol. 35
Thomas Commission, Harper-Hull Commission, LPR&IC reports on performance measurement (1999) and the state budget process (2003)

Purchase of Service

Approved by the Task Force on December 10, 2003 (Vote: 6 Yes; 0 No)

Recommendation #3:

A) That the successor commission to the Task Force on Accountability, Creativity and Efficiency study ways to resolve the "purchase of service" issues that have been identified since the Harper-Hull Commission. Resolution of these issues would enhance the efficiency and cost-effectiveness of non-profit organizations in fulfilling their role as the state's agents for meeting the human service needs of the citizens of Connecticut.

B) That the successor commission study and recommend whether the "purchase of service" issues should become a responsibility of the Chief Operating Officer, if established, to ensure that changes would be implemented across state agencies.

Basis for the Recommendation:

The Harper-Hull Commission established a Purchase of Service Task Force that was designated to deal with an array of concerns that non-profit organizations encountered in their interaction with State government. The term "purchase of service" issues was coined at that time to refer to those concerns.

Non-profit organizations have participated in the development of proposed legislation and worked cooperatively with State government to address these concerns, with minimal results.

It is generally acknowledged that the non-profit service delivery system is asked to deliver high quality services under financial constraints and other conditions that for-profits could not and would not consider. But current conditions are stressing the delivery system to a breaking point. Budget cuts or revenue increases that do not cover rising costs have been coupled with increased demand for services.

Proposals concerning purchase of service that would alleviate some of the stresses on non-profit providers include the following:

- Timely payments by the state to the non-profits. A state no-interest revolving loan fund to alleviate the fiscal crisis when payments are delayed.
- Prospective pricing, which is a set fee for services that allows an agency to retain funds if it is able to provide the service for less than the contractual cost. At present, it is difficult for a non-profit reliant on state funding to accumulate reserve funds for contingencies. Prospective pricing would reward efficiency within agencies and provide an incentive for agencies to consolidate.
- Multi-year contracts for services that remain constant with a clause that would make the contract subject to financing availability.

- Streamlined contracts that are similar among agencies to provide a more efficient and less staff intensive way for non-profits to contract with more than one agency.
- Transparency about agency compliance issues (perhaps by specificity in contracts) to avoid surprise non-compliance citing of agencies.
- Uniform cost-accounting standards among agencies that would simplify reporting requirements.
- Reduction in the oversight and monitoring of non-profit finances resulting in excessive and time-consuming reporting requirements

Advantages:
Costs associated with oversight of excessive program and fiscal reporting could result be reduced. Resources could be reallocated to functions that would have a direct bearing on the quality of services, including the improvement of staff salaries.

Disadvantages:
These changes would require reallocation of staff resources and/or retraining of state employees to adjust to the new emphases. This may involve some additional costs for training.

Budget Impact:
Uncertain; the successor commission could quantify the costs that non-profits are spending as a result of the inefficiencies of the present system, such as interest on loans related to late payments by the state.

Risk:
Reduced financial monitoring might result in some additional abuses of the system.

Obstacles:
Non-profits might resist change if consolidation of organizations were an outcome of these actions. Commissioners of state agencies might resist change if some of their powers were infringed upon. The Governor may not consider this issue a priority. Unions may perceive a focus on strengthening non-profits as a precursor to the elimination of state jobs.

Alternative(s):
Allow the present inefficiencies to continue

Possible Implementation Vehicle(s):
The Governor, OPM

Origins and/or Precedent(s):
Harper-Hull Commission, Secretary of OPM

Federal Revenue Maximization

Approved by the Task Force on December 10, 2003 (Vote: 6 Yes; 0 No)

Recommendation # 4:

That the successor commission to the Task Force on Accountability, Creativity and Efficiency recommend the Office of Policy and Management designate a Single Point of Contact (SPOC) to centralize all federal revenue maximization functions within state government.

Basis for the Recommendation:

Based on the extensive experience of Maximus (the nation's largest health and human services consulting firm), the key ingredient in successful state retrieval of federal funds is the centralization of responsibility for the process. While Connecticut has successfully captured federal dollars for many of its programs ($658 million over 10 years), the intensity of the activity varies among agencies. A Single Point of Contact within the executive branch would ensure:

1) There is a dedicated, focused effort to maximize federal revenues with no competing interest.
2) State agencies benefit from having a knowledgeable source for assistance in determining when and how to pursue federal funds.
3) The state benefits from being in the position to determine when it is in its interest to pursue funds, rather than relying on the discretion of individual agencies.

Advantages:

- In these times of fiscal constraints, several known sources of federal funds can be accessed to increase the state's revenue.
- If the appropriate systems were put into place, the revenue streams would continue regardless of the status of the State's budget.
- A SPOC can be critical to evaluating when and what kind of incentives would be appropriate to make agency participation beneficial to the agency and its clients, as well as the State. In other words, the General Fund and the individual agencies would benefit financially.
- Connecticut has typically concentrated on only one or two agencies in its maximization efforts. A concentrated effort could result in a system-wide analysis of the state's ability to retrieve federal dollars and a multi-agency plan for reaching more aggressive goals.
- The costs of staff would be more than offset by the increased revenues that would be generated

Disadvantages:

There would be an initial cost to hire the staff for the SPOC.

Budget Impact:

The impact should only be temporary until additional revenues are realized.

Risks:
The funds are allocated and spent but the commitment to coordinate the process and implement the recommendations does not continue to be supported at the highest levels of state government.

Obstacles:
Other priorities of the executive branch.

Alternative(s):
Recommend that Maximus provide a statewide analysis of potential revenues from federal maximization.

Possible Implementation Vehicle(s):
The Governor and OPM.

Origins and/or Precedents:
Maximus experience in over 30 states.

Higher Education

Approved by the Task Force on December 10, 2003 (Vote: 6 Yes; 0 No)

Recommendation #5:

That the successor commission to the Task Force on Accountability, Creativity and Efficiency study the current structure and functions of the governing boards of the higher education system in Connecticut to determine whether there are cost efficiencies to be realized through:

1) *a restructuring of the various governing boards of the Department of Higher Education and their staffs; and /or*
2) *a realignment of the services performed by various boards of the higher education system.*

That the successor commission prefaces its review with a study of the current literature and experiences of the many state education systems that have undergone restructuring over the past decade. A cursory review by this Task Force has found that reorganization in other states has reaped mixed results, both financially and programmatically.

Basis for the Recommendation:

The State of Connecticut has five boards governing higher education institutions with significant costs affiliated with those functions. Three boards have offices and staff that are dedicated to the coordination and oversight of more than one institution. Those boards and their FY 03 costs are:

1) the Board of Governors for Higher Education, the state coordinating and planning agency for Connecticut's 45 public and independent colleges and universities, $45,787,660 (a gross figure that includes direct grants for student financial assistance);
2) the Connecticut State University Board of Trustees that oversees 4 institutions, $15,877,621 (a gross figure that includes fringe benefits, operating expenses, personnel and capital expenditures dedicated to system-wide services related to information technology and telecommunications); and
3) the Board of Trustees that oversees the state's 12 regional community-technical colleges, $6,038,445 (a gross figure).

Total FY 03 costs for the three boards were $67,703,726.

The University of Connecticut (UCONN) and the Board of State Academic Awards (Charter Oak College) do not have "systems" offices; they are stand-alone institutions. Consequently, there are no clearly designated budget figures that are comparable to those available for the three boards discussed above.

Advantages:
While the impetus for the review is the potential cost savings to the state, it may well provide additional opportunities to improve higher education. Ideally, any reallocation of resources would benefit the consumers of higher education services -- students presently enrolled in higher education, those in the K through 12 system, employers in the corporate and non-profit community, and the citizens of the State of Connecticut.

Disadvantages:
Changes to the higher education structure would be made, but the hard political decisions to implement cost savings, especially through reduction of staff, would not occur.

Budget Impact:
An estimated $5 - $6 million in savings would result from consolidation of two or more of the boards.

These figures are based on a study done by the Harper-Hull Commission in 1992 that estimated a $5 million savings for the merger of two systems, and the Governor's proposed FY 04-05 biennial budget that estimated a $6 million savings for the merger of three systems.

Risks:
The review process may be perceived to be politically targeted towards individuals or particular systems within the higher education structure.

Obstacles:
The existing boards, staff, and unions will lobby to maintain the status quo. These same groups will organize their constituencies of students, parents and faculty against the changes.

Alternative(s):
The ACE Task Force does not recommend any changes in the governance of institutions of Higher Education if there is a consensus that real change would be unlikely at this time.

Possible Implementation Vehicle(s):
OPM

Origins and/or Precedents:
States of New Jersey, Florida, West Virginia, and Oregon

Fiscal Controls

Approved by the Task Force on December 10, 2003 (Vote: 6 Yes; 0 No)

Recommendation #6:

That the successor commission to the Task Force on Accountability, Creativity and Efficiency study the impact of various fiscal controls, including the Budget Reserve Fund, statutory spending cap, cap on bonded indebtedness and school construction bonding limit on the overall economic health of the state and on the state budget.

Basis for the Recommendation:

Fiscal controls are typically adopted during periods of budget distress. Connecticut's Budget Reserve ("rainy day") Fund was established to create a reserve during times of budgetary surplus, which in turn would be used to ease the impact on budget cuts, and revenue increases in times of fiscal austerity. The current threshold for the fund is 10 percent of overall budget appropriations.

Connecticut's spending cap (C.G.S. Section 2-33a) was adopted in 1991. It applies to all "general budget expenditures" except debt payments, state grants to distressed municipalities or first year expenditures on federal mandates or court order.

The bond cap limits the total amount of state debt supported by the General Fund that the General Assembly may authorize to 1.6 times the net General Fund tax receipts for the fiscal year of the authorization (C.G.S. Section 3-21). Public Act 02-5, May 9 Special Session, limits the total school construction bond authorization the education commissioner may request for 2004 and 2005 to $1 billion in each year. These measures intend to control growth in state borrowing and spending and relieve the pressure on the General Fund budget during difficult economic times.

A recent study by the Center on Budget Policy and Priorities (CBPP) recommends that Connecticut should have a rainy day fund equal to 20 percent of its appropriated budget. (CBPP is a non-profit, non-partisan policy organization that seeks to identify and develop opportunities to ensure fiscally sound budget and tax policies and to improve programs affecting low-income families and individuals.) If Connecticut is committed to creating a budget reserve, government must sufficiently fund such a reserve, and exercise discipline in expending reserve funds for designated purposes only. Practice has shown that the General Assembly and the Governor are more inclined to use surpluses for the expansion and creation of new programs, rendering the rainy day fund ineffective by pre-empting its function through appropriation of projected surpluses before they are declared.

Approximately 23 states have expenditure limits. The most common exemptions to such limits are for debt service, federal mandates and court orders, grants to towns, Medicaid, capital outlays, and federal funds. According to the State Comptroller, in fiscal year 2000, debt service payments consumed about nine cents of every dollar spent by the state.

The statutory spending cap has considerable impact on the state's budgeting process. There are significant areas of non-capped expenditures (payments into the Budget Reserve Fund, debt service, assistance to distressed municipalities) and major components of state expenditures that do not count toward the cap (capital spending, tax expenditures, i.e., tax credits, exemptions, exclusions). In addition, the Governor may declare "extraordinary circumstances" and a three-fifths majority vote in each chamber may approve spending above the cap. Policy makers must constantly scrutinize the terms of the spending cap in order to determine whether the intended impacts are being achieved.

In its 2003 report on the state budget process, the legislative program review committee found further research is needed to determine the appropriate balance for the Budget Reserve Fund and what, if any, revisions should be made to improve the effectiveness of the state cap on spending.

Connecticut leads the nation in state tax-supported debt per capita. Bonded debt per capita has more than doubled over the past decade. Debt service is a fixed cost that cannot be easily adjusted when state revenue growth slows and budget deficits are projected. A high debt load can cripple a state's ability to respond to fiscal challenges. Policy makers must consider whether the bond cap and school construction bond limit are effectively curbing state borrowing.

Advantages:
Adequate budget reserves, prudent limits on growth in state spending and borrowing, and a program of the distribution of surplus state funds would cushion the impact of economic downturns on the state budget. As a result, program cuts and tax increases caused solely by lower state revenue would be minimized.

Disadvantages:
A large reserve can be viewed as over taxation and/or an unreasonable use of state resources in view of a variety of unmet needs. Spending and borrowing limits may be viewed by state policy makers as inhibiting their ability to make the human and capital investments necessary to maintain and improve the quality of life in Connecticut.

Budget Impact:
A commitment to funding a budget reserve and any changes to the spending and bonding caps will have a direct impact on the state budget.

Risk:
The economic cycle will cause periods of economic prosperity during which expanding state revenues will result in new and expanded tax reductions and credits and new spending programs. In contrast, the cycle's periods of economic distress will result in tax increases, the repeal of tax credits, and cuts to programs and services at a time when they are most needed.

Obstacles:
State policy makers must sacrifice some short-term fiscal benefits (new tax credits, tax reductions, and spending programs) in favor of exercising long-term discipline by taking steps to

mitigate the negative impacts of economic downturns on Connecticut taxpayers and on the providers and consumers of state services.

Alternative(s):
Leave the current controls in place.

Possible Implementation Vehicle(s):
General Assembly and OPM.

Origin and/or Precedent(s):
Center on Budget Policy and Priorities, State Comptroller, OPM, LPR&IC

Municipal Audit Act

Approved by the Task Force on December 10, 2003 (Vote: 6 Yes; 0 No)

Recommendation #7

That the successor commission to the Task Force on Accountability, Creativity and Efficiency study revisions to the Municipal Auditing Act to allow for early intervention "triggers" for OPM intervention in the financial management of municipal governments. In addition, the successor commission should conduct a cost-benefit analysis of the state's execution of this additional responsibility.

Basis for the Recommendation:

In recent years several of Connecticut's large cities and towns have come to the brink of bankruptcy. The state has found it necessary to intervene and take over the fiscal management of some municipalities. These state takeovers are costly to the state and to the municipalities and thereby warrant a better system for early intervention.

The successor commission should study what would be appropriate financial triggers for such early intervention. Among concepts to be studied as potential early intervention triggers are:

- Recurring deficits
- A defined percentage of a municipal budget that is funded by the state
- Absolute dollars provided by the state to a municipality
- Downgrades in municipal credit ratings

Advantages:

Early intervention may allow the state to prevent financial crises in municipalities by providing sound financial management before the situation requires extraordinary costly efforts to rectify the situation.

Disadvantages:

The expertise required to audit municipal budgets does not presently exist within state government. This function would require the hiring of additional staff.

Budget Impact:

To be determined by the successor commission.

Risks:

Despite the new auditing function, the state might not be in a position to rectify the situation, either because of lack of funds to contribute to the solution, or unwillingness on the part of the municipality to change its practices.

Obstacles:

Costs to the state to develop municipal auditing capacity.

Alternatives:
To be determined by the successor commission

Possible Implementation Vehicle(s):
OPM

Origins And Precedent(s):
2003 proposed legislation (Senate Bill 126)

Prescription Drugs

Approved by the Task Force on December 10, 2003 (Vote: 6 Yes; 0 No)

Recommendation #8

That the successor commission to the Task Force on Accountability, Creativity and Efficiency study options for controlling the rising cost of prescription drugs.

Basis for the Recommendation

Total prescription drug spending was estimated to be just over $650 million in 2003, an increase of about 33 percent over the 2001 spending level, according to recent Legislative Program Review and Investigations Committee research (Staff Briefing, September 2003).

Numerous cost control options have been considered by Connecticut and other states that may require further study by the Commission. They include: mandatory generic substitution, preferred drug lists, increased oversight through pre-approval of certain drugs, or evaluation of patient and physician behavior for appropriateness of prescriptions and potential fraud and abuse, increasing beneficiary co-pays, offering mail–order pharmacies to beneficiaries, obtaining rebates from pharmaceutical manufacturers, and participation in a multi-state consortium to pool purchasing power to obtain better prices from manufacturers. Some of these alternatives are restricted by federal rules, or contract language in collective bargaining agreements

Additional strategies that should be studied are: 1) use of the Prescription Drug Marketing Act (PDMA) that allows the pharmaceutical companies to receive a tax credit (28 percent at wholesale) if they provide free medications to the needy; 2) bulk purchasing opportunities by combining purchases from multiple programs to obtain discounts and rebates, 3) "fail first" policies that require proof that a less expensive drug has failed for an individual before a more expensive drug is used, and 4) the impact of the addition of prescription drug coverage under Medicare legislation recently enacted by Congress and signed by the President on Connecticut's existing prescription drug program and the Prescription Drug Marketing Act.

Advantages:

The savings can alleviate some of the fiscal pressure on overburdened programs, and possibly extend the state programs to additional needy recipients.

Disadvantages:

Some of the cost saving alternatives may place additional bureaucratic requirements on the patients who because of a lack of education or language skills. are least able to maneuver their way through the health care system.

Risks:

If individuals bear the primary costs of these controls, there may be increasing numbers of individuals whose needs are not met.

Obstacles:
Federal rules; collective bargaining contractual agreements; and the public's resistance to lack of choice in health care alternatives

Alternative(s):
To be determined by the successor commission.

Possible Implementation Vehicle(s):
OPM

Origins and Precedents:
LPR&IC, Testimony of Alan M. Wiernasz, Director of PDA/USA, East Granby, Connecticut.

Prevailing Wage Law

Approved by the Task Force on December 10, 2003 (Vote: 6 Yes; 0 No)

Recommendation #9

That the successor commission to the Task Force on Accountability, Creativity and Efficiency study the advantages and disadvantages of eliminating the prevailing wage for workers in public construction projects.

Basis for the Recommendation:

The building industry representatives testifying before the Task Force stated a strong preference for having market forces determine the labor costs on construction projects. The savings could be 30 percent of labor costs according to testimony before the Task Force.

Advantages:

Elimination of the prevailing wage will result in public construction costs more comparable to those of the private sector, which are determined by market forces.

Disadvantages:

Connecticut may not attract the most highly qualified workers, which may, in turn, negatively affect the quality of public construction.

Budget Impact:

The savings in labor costs could be 30 percent according to testimony before the Task Force. Actual dollar savings to the state would have to be calculated based on the total labor costs of cost of construction projects subject to the prevailing wage law approved by the bond commission and their related labor costs.

Risks:

Quality of public works projects could deteriorate. Labor relations could be negatively affected.

Obstacles:

A study of prevailing wage that results in a recommendation to eliminate it may be futile. The Legislative Program Review and Investigations Committee undertook the last study on this subject in Connecticut in 1996. This study resulted in the passage of P.A. 97-263, which streamlined reporting requirements for the industry but actually strengthened the state's prevailing wage law.

The prevailing wage law is a source of pride for the union movement in Connecticut. Any discussion of change would be certain to provoke vocal and vigorous organized protest.

Alternative(s):

No changes in the current law.

Possible Implementation Vehicle(s):
OPM, State Bond Commission, Departments of Public Works and Transportation

Origins and/or Precedents:
Testimony from building industry representatives, LPR&IC report on Connecticut's prevailing wage law (1996)

Alternatives to Nursing Home Care

Approved by the Task Force on December 10, 2003 (Vote: 6 Yes; 0 No)

Recommendation #10

That the successor commission to the Task Force on Accountability, Creativity and Efficiency study the feasibility of further development and expansion of home and community-based services as options for the state's elderly and disabled residents to stay in the community and avoid expensive nursing home care.

Basis For Recommendation:

Nursing home costs for elderly and disabled have become one of the single largest cost factors associated with the Connecticut Medicaid (Title XIX) Program in the state budget. Increased longevity and the ever-rising cost of medical care are the primary causal factors.

Connecticut has made notable progress in reducing long term health care costs for its elderly and disabled through the use of community-based alternatives. However, other states with comparable demographics have demonstrated greater success in achieving cost savings through greater use of these alternatives.

Advantages:

Community-based care can provide a better quality of life for the elderly and disabled at a reduced cost to the taxpayer.

Lower cost alternatives to nursing homes can help preserve the assets of the elderly and disabled.

Disadvantages:

An increase in community-based care alternatives for the elderly and disabled may result in a reduction in the number of nursing facilities. This may lead to loss of jobs in the nursing home care industry.

Budget Impact:

Significant savings have been realized by other states when support was increased for community-based care alternatives.

Risk:

Community-based care provides fewer safeguards to monitor the changing health and deterioration of the individuals it serves as opposed to the full-service care received in a nursing home. This creates the potential for placing some seniors and disabled persons at risk.

Obstacles:

Opposition from nursing home operators and unions to any reduction in the number of facilities and jobs.

Alternative(s):
OPM has recognized this issue as a priority; changes to the nursing home and community-based health care system have been introduced with plans to continue implementing changes. The successor commission could determine that the actions of the administration are sufficient.

Possible Implementation Vehicle(s):
OPM, Department of Social Services

Origins and/or Precedents:
OPM, members of the Task Force

Successor Study Commission

Approved by the Task Force on December 10, 2003 (Vote: 6 Yes; 0 No)

Recommendation: #11

That the new successor commission to the Task Force on Accountability, Creativity and Efficiency be structured on the model of the Harper-Hull Commission. The General Assembly and the Governor should appoint co-Chairs representing the legislative and executive branches, respectively. In addition the Commission should include representation from:

- *For-profit business sector*
- *Non-profit sector*
- *State management*
- *State collective bargaining units*
- *Academia*
- *Judicial branch*
- *Municipal government*
- *Community at-large*

Basis for the Recommendation:

The Harper-Hull Commission established the precedent of representation of the two branches of government in the leadership of the Commission with two co-chairs, one from the legislative branch and one from the executive branch. In addition, the commission was highly inclusive with a broad-based membership of 30 persons representing diverse stakeholders.

Advantages:

While there may be an assumption that a large commission is unwieldy, it has been proven time and again that the exclusion of stakeholders in a decision-making process creates an incentive for the excluded to build opposition to the recommendations. The successful implementation of several of the Harper-Hull Commission recommendations is proof of the effectiveness of an inclusive process.

Disadvantages:

Greater effort is required by all members of a large, diverse commission to reach consensus on meaningful change.

Budget Impact:

In order for the successor commission to produce a high-quality final report and recommendations, it must have dedicated staff with a public policy background and analytical skills. Two options to meet this requirements are: 1) the government commits the staff of OPM and the legislature commits program review and investigations committee staff to the successor commission as a priority project, allowing costs to be kept to a minimum; or 2) outside consultants are used at a significantly higher cost.

The Harper-Hull Commission was able to rely primarily on the staff of OPM and the Legislative Program Review and Investigations Committee for research and staffing. The cost of its report was $50,000. In contrast, the Thomas Commission had a $4 million budget using outside consultants almost exclusively.

High-quality, dedicated staff resources are essential to the success of the project, regardless of the means by which they are obtained.

Risks:
In a diverse group of stakeholders, compromise may dilute the strength of some recommendations when trying to reach consensus.

Obstacles:
There do not appear to be any obstacles to the creation of the successor commission at this time.

Alternative(s):
None.

Possible Implementation Vehicle(s):
The General Assembly, Governor

Origins and/or Precedents:
Harper-Hull Commission; Thomas Commission

Appendix A

ACE Task Force: Informational Public Hearings
Dates Held and Witnesses

Wednesday October 8, 2003 – Legislative Office Building, Hartford, CT

Witness	*Representing*	*Subject*
Rep. Diana Urban	43rd District	Performance-based budgeting
Terry Edelstein	Executive Director, CT. Community Providers Association	State contracting
Stephen Earl	Connecticut Institute for the Blind	State contracting
Barry Kasden	Bridges, a non-profit agency	State contracting
Rick Melita	Director, Connecticut State Employees Association	State contracts
Marshall Collins	Marshall Collins and Associates, LLC	Prevailing wage laws
Rep. George Wilber	63rd District	Dept. of Agriculture merger
Joe Fostin		Dept. of Agriculture merger
Jessie Carey		Dept. of Agriculture merger
Jim Markow		Dept. of Agriculture merger
Mike O'Brien	Connecticut State Employees Association	State contracts/collective bargaining
Fredrena DeGraffenreaidt	Connecticut State Employees Association	State contracts/collective bargaining
Ned Statchen	Connecticut State Employees Association	State contracts/collective bargaining

Wednesday October 15, 2003 – Legislative Office Building, Hartford, CT

Witness	*Representing*	*Subject*
Lelah Campo	CT. Associated Builders and Contractors	Prevailing wage laws
Steven Perruccio	Ct. Employees Union Independent	Collective bargaining/privatization
Michael Winkler	Administrative and Residual State Employees Union	Collective bargaining
David Calchera	Regional Educational Service Centers	
Alan Wiernasz	President, PDA/USA	Prescription drug costs
Maggie Adair	CT. Non-profit Human Services Cabinet	State contracts
Jen Martin		Farmland preservation/agriculture
Dr. Al Cowan		Dept. of Agriculture merger
Ellen Scalettar	Connecticut Voices for Children	Tax revenues and budget expenditures
Bonnie Burr	CT. Farm Bureau	Dept. of Agriculture merger
Randolph Blackmer	CT. Farm Bureau	Dept. of Agriculture merger

Wednesday October 22, 2003 – University of Connecticut Stamford Campus, Stamford, CT		
Witness	***Representing***	***Subject***
Gordon Gibson	CT. State Grange	Agricultural issues
David Moakley	CT. Building Trades Council	Prevailing wage laws
William Shannon	CT. Construction Labor Management Council	Prevailing wage laws
Terry Jones	Shelton Conservation Commission	Dept. of Agriculture merger
Peter Thor	AFSCME	Privatization/ contracting issues
Ed Stilwagen	Atlantic Clam Farms	Dept. of Agriculture merger
Mark Errico		Dept. of Agriculture merger