FIXING CONNECTICUT'S FISCAL PROBLEMS

SPENDING REFORMS, LONG-TERM SOLUTIONS, BEST PRACTICES

cbia

May 2017

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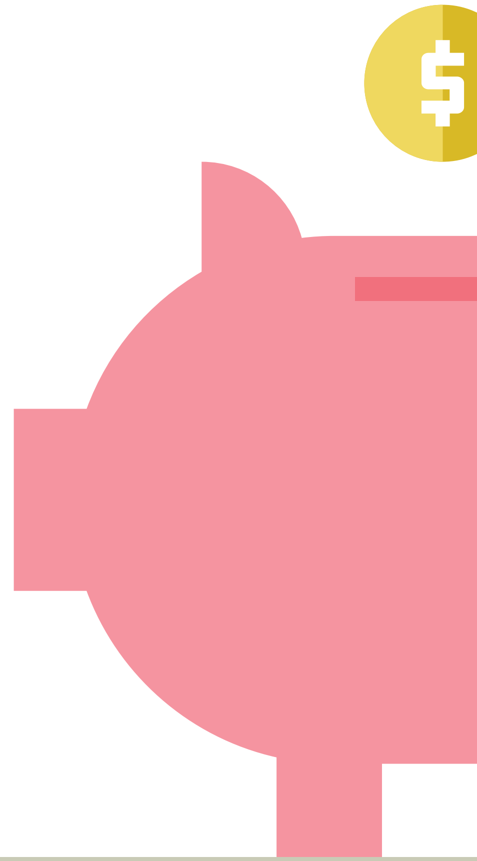

SPENDING REFORMS, LONG-TERM SOLUTIONS, BEST PRACTICES

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WHERE WE ARE

Connecticut has a spending problem.

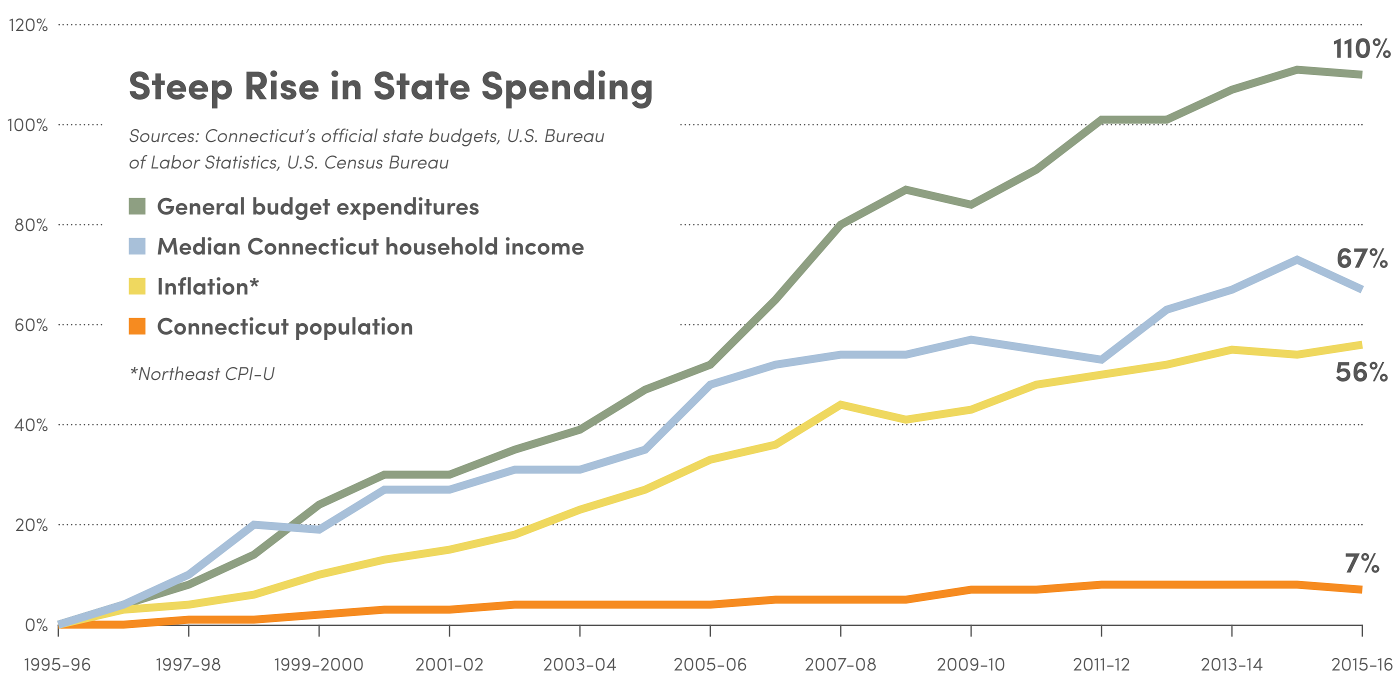
Since the mid-1990s, state government spending has grown by 110%. Over the same period, household income grew 67% and inflation by 56%, while the state's population grew just 7%.

That rate of spending growth has fed a cycle of budget deficits followed by tax hikes followed by more budget deficits, hampering the state's post-recession economic recovery as fiscal instability clouds private sector investment and job creation.

It has far exceed taxpayers' ability to pay, making Connecticut less affordable and threatening funding for essential state programs and services, including education, transportation infrastructure, and social services.

In 2011, lawmakers approved the largest tax increase in state history. Four years later, faced with yet another multi-billion dollar budget deficit, they passed the second-largest tax hike in state history.

While those 2015 tax increases were offset somewhat with $860 million in spending cuts, Connecticut again faces budget deficits—close to $5 billion for fiscal 2018 and 2019.



Recurring tax hikes and the lack of meaningful, long-term spending reforms have a chilling impact on our economy and job growth.

While the nation and much of the region are in one of the longest economic expansions on record—eight years after the end of the recession—Connecticut's growth can best be described as sluggish.

Growth in the state's gross domestic product hit a post-recession peak of 1.2% in 2014, before posting a modest 0.6% increase the following year. By comparison, New England averaged 1.3% growth in 2015; the United States 2.4%.

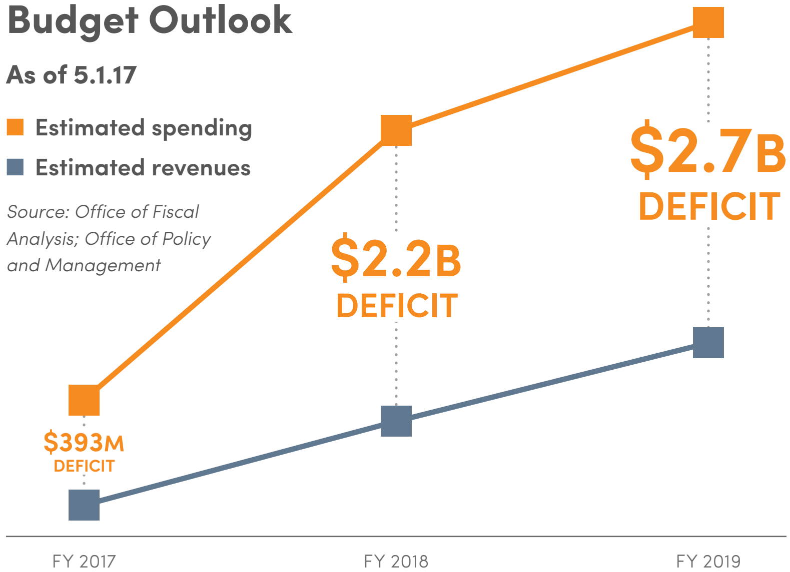
Among the six New England states, Connecticut stood alone with no job growth in 2016, the first year since 2009—the heart of the recession—the state did not post employment gains. Through March of this year, Connecticut has recovered just 77% of the 119,100 jobs lost in the recession, the slowest recovery rate of any state in the region.

Our stagnant economy makes it extremely difficult to close budget gaps, with tax revenues dependent on private sector investment and growth.

Despite those major tax hikes over the last six years, tax revenues are shrinking, as business concerns over the state's fiscal instability and lack of spending controls continue to mount.

Red Ink: Connecticut's Budget Outlook

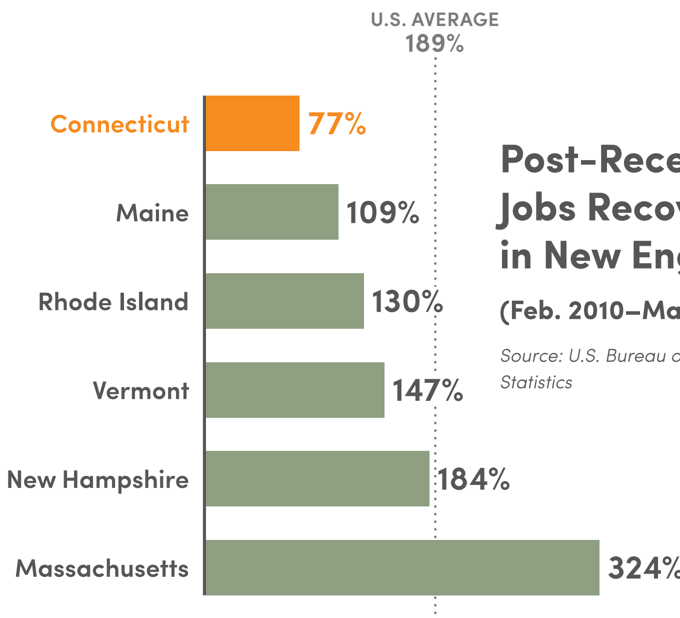
As of 5.1.17



Source: Office of Fiscal Analysis; Office of Policy and Management

Post-Recession Jobs Recovery in New England

(Feb. 2010–Mar. 2017)



Source: U.S. Bureau of Labor Statistics

HOW WE GOT HERE

THE SPENDING CAP

Created two years ago and charged with developing definitions missing from the cap's original language, the Spending Cap Commission could not agree on recommendations to fully define the state's constitutional spending cap.

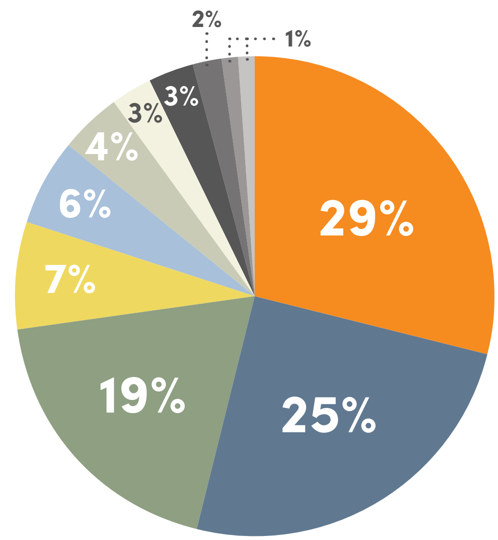
The commission's goal was to establish clear and enforceable definitions of three key elements of the 25-year-old cap: increase in personal income, increase in inflation, and general budget expenditures.

While the group was able to reach consensus on the first two definitions, they were unable to agree on what qualifies as "general budget expenditures" to be included under the cap.

Rather than provide a conclusive recommendation, the commission sent the General Assembly a summation of their agreements and disagreements, which will serve as the basis for further action by lawmakers during this legislative session.

Establishing new definitions of the spending cap's terms will require a three-fifths supermajority vote in both chambers of the General Assembly.

The spending cap was designed to be flexible when necessary; it exempted funds designated for debt service, grants to distressed municipalities, funding for the first year of a federal mandate or



FY 2017
State Government Spending

Source: Office of Policy and Management

- Non-Functional*
- Education
- Human Services
- Corrections
- Health
- General Government
- Transportation
- Judicial
- Regulation & Protection
- Conservation & Development
- Legislative

**Includes state employee benefits and debt service.*

court order, and spending needed for emergencies declared by the governor (subject to 60% approval by the legislature).

Policymakers closely abided by the cap the first decade of its existence, but then started finding ways to circumvent it.

Over the last few years, some lawmakers worked to have additional expenses exempted from the cap through creative interpretations of what constitutes "exempt expenditures." In 2014, payments made to fund state employee pensions and post-retirement health benefits were removed from the cap.

Holding the line on spending cap exemptions is critical to controlling state spending, restoring long-term fiscal stability to Connecticut, and demonstrating to taxpayers and businesses that the state is serious about improving its economic competitiveness.

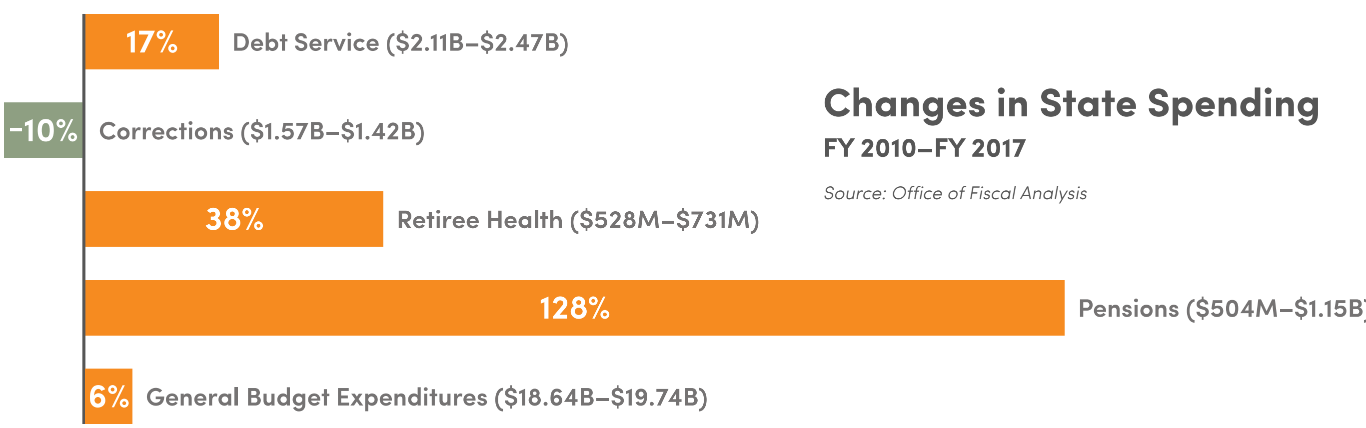
LONG-TERM SPENDING

The state employee retirement pension and health benefit systems require a $1.6 billion contribution in FY 2018, of which $1.3 billion addresses past unfunded liabilities, according to the Office of Fiscal Analysis.

Following the most recent agreement between the Governor and state employee unions, contributions to the system will remain stable for the next 15 years. But then contribution amounts will spike again in 2032, pushing the burden of significant payments to the expanding system onto future generations.

Further union concessions are essential to reducing annual state contributions and the massive unfunded liability that continues to be kicked down the road for future administrations, legislatures, and taxpayers to reconcile.

In a January 2017 report, the Connecticut Community Nonprofit Alliance said the state could save $1.1 billion over the next three years by transferring roughly 1,600 clients into private-sector care, with an estimated $169,000 in annual savings for each client.



Changes in State Spending
FY 2010–FY 2017
Source: Office of Fiscal Analysis

The state could save another $225 million over three years by shifting care for nearly 14,000 mentally ill adults to community-based providers.

Noting that Governor Dannel Malloy asked agency heads to cut 10% from the current budget, a survey of alliance members showed those cuts would force widespread layoffs and wage freezes, in addition to cutting client services.

At such a critical time for the state's economic climate, continuing to shift state services to the nonprofit sector will provide the same level of care to the most needy, while saving the state billions of dollars over the coming years.

Our hope is that the state will embrace these new ideas and move in this direction with greater urgency.

By 2030, the number of Connecticut residents aged 65 and older is expected to compose 21.5% of the state's population. While the overall population is decreasing, the only age groups that increased in population since 2010 are the middle-aged (50-64) and recently retired (65-79).

A rapidly aging population drives up costs of nursing home care, pushing those costs onto the state and burdening families. The home- and community-based care system is currently at 60%; we continue to push for the transition to 75% home-and community-based care by 2020.

While progress was made since our last report in 2013, as with other highlighted areas of state spending, the transition to a higher percentage of home-and-community based care for the aging population must occur at an accelerated pace to not miss out on greater cost savings.

A recent policy proposal from State Comptroller Kevin Lembo could save the state additional billions of dollars.

There are approximately 49,000 Medicare-eligible retirees and dependents covered under the Connecticut state health plan. By switching to a Medicare Advantage plan from the standard Medicare plan, an insurance carrier will contract with the state and, in the process, guarantee a fixed and predictable annual cost to deliver retiree health benefits.

The Corrections Department budget decreased 10% since 2012 due to prison reforms, such as the Second Chance Society and workforce development programs for currently incarcerated and recently released individuals.

As in our last report, we encourage the continuation and expansion of these programs at an accelerated rate, while maintaining public safety.

BUDGET STRUCTURE

The state budget process and structure must be reformed.

Connecticut can make major improvements in the categories of budget planning and preparing long-term (five years or more) revenue forecasts.

The state must improve on current baseline budgeting needs (zero-based budgeting). Connecticut should close its expenditure and revenue forecasts with a 5% cushion, in case either projections fall short and in cases of state emergencies and immediate federal mandates. State agencies also need to implement Lean and efficiency programs completely and more quickly.

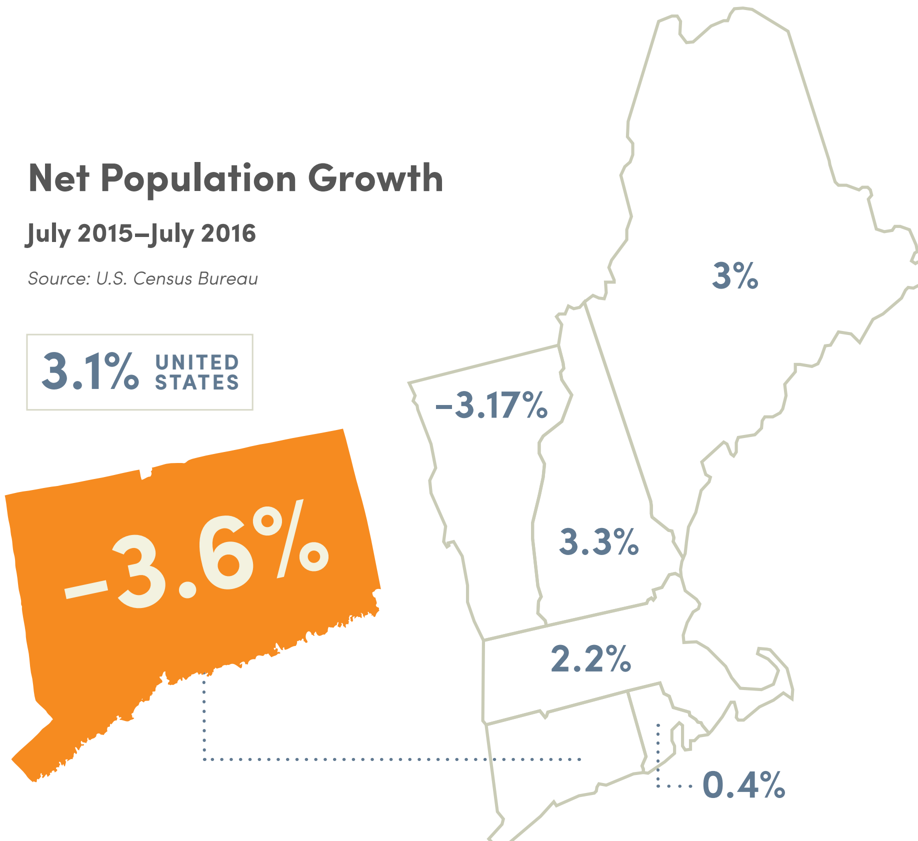
POPULATION DECLINE

Connecticut's population decreased for the third consecutive year in 2016. According to the U.S. Census Bureau, from July 2015 to July 2016, net domestic out-migration was 29,880.

Two groups of residents are moving out at an accelerated pace—retirees and millennials. Retirees are moving to escape the cold winter weather and the state's tax burden on their retirement savings, Social Security, and cost of living. Millennials and young professionals are leaving to establish roots in larger metropolitan areas, like New York and Boston, which have more robust economies and job opportunities.

Birth rates also are declining, shrinking the future tax base. According to a 2017 U.S. Department of Health and Human Services report, our state saw 14% fewer children born in 2015 than in 2007. Lower birth rates and increasing out-migration are creating a labor shortage.

We must create incentives, boost economic activity, and create more jobs to keep our homegrown young professionals in the state to work and live, and to also keep retirees here to enjoy the remainder of their lives in Connecticut.



CHARTING A NEW PATH

Policymakers must create a state budget and develop long-term solutions that keep spending within taxpayers' means and restore responsible fiscal policy. State government must become more effective, more accountable, and create more affordable policies.

Connecticut must:

- **Modify state employee retiree benefits**
- **Expand the use of quality nonprofit providers**
- **Continue reforming, streamlining the corrections system**
- **Rebalance long-term healthcare**
- **Continue streamlining state government**

In addition, the General Assembly must create a new, two-year state budget that:

- **Reduces the size and cost of state government while improving its effectiveness**
- **Balances out without any new tax increases that would harm economic recovery and job creation**
- **Adheres to the state's constitutional spending cap**
- **Holds to the phase-in of Generally Accepted Accounting Principles**

A. MODIFY STATE EMPLOYEE RETIREE BENEFITS

The state budget's second largest expenditure is non-functional costs (29%), which include debt service, contributions to the state employee retirement system, and other compensation claims.

These fixed costs increased significantly in recent years, largely due to unfunded benefits that have accrued interest from decades of very low to nonexistent contributions to the system by the state.

Spending for state employee retiree health benefits grew 38% from 2010 to 2017; debt service (paying off what the state has borrowed) increased 17% over the same period; and spending on state employee pensions soared an astounding 128%.

According to a 2016 study published by the Mercatus Center at George Mason University, Connecticut's unfunded .pension liabilities stand at $83.3 billion, or $23,294 per capita. Total debt liabilities are equal to 53% of total state personal income.

A December 2016 report prepared for the State Comptroller's Office by Cavanaugh Macdonald Consulting found that just 35.5% of the State Employees Retirement System was funded, marking the first time in three decades the level dropped below 40%.

A fiscally sustainable pension system should be at least 80% funded.

In February this year, the legislature approved an agreement reached between the governor and state employee unions to spread payments to the fund over several years—essentially, refinancing the state's obligations.

That agreement was struck to avoid annual pension payments that would have reached $6.5 billion by 2032. While it will stabilize future payments to the pension fund, comprehensive long-term structural changes are needed to address the state's growing unfunded pension liability.

Source: U.S. Census Bureau, Mercatus Center at George Mason University

The governor and legislature should be credited for taking steps in the right direction. However, Connecticut is still not on a sustainable path that will consistently lower the baseline in coming years.

Much more can and needs to be done to bring retirement benefits and obligations in line with our ability to pay for them.

PENSION REFORMS

Changes to healthcare and pension benefits negotiated with state employee unions in 2011 included an increased penalty for early retirement, increased years of service to be eligible for regular retirement, mandatory contributions to the retirement healthcare trust fund, and a decrease in the minimum cost of living adjustment from 2.5% to 2% for retirements after Oct. 1, 2011.

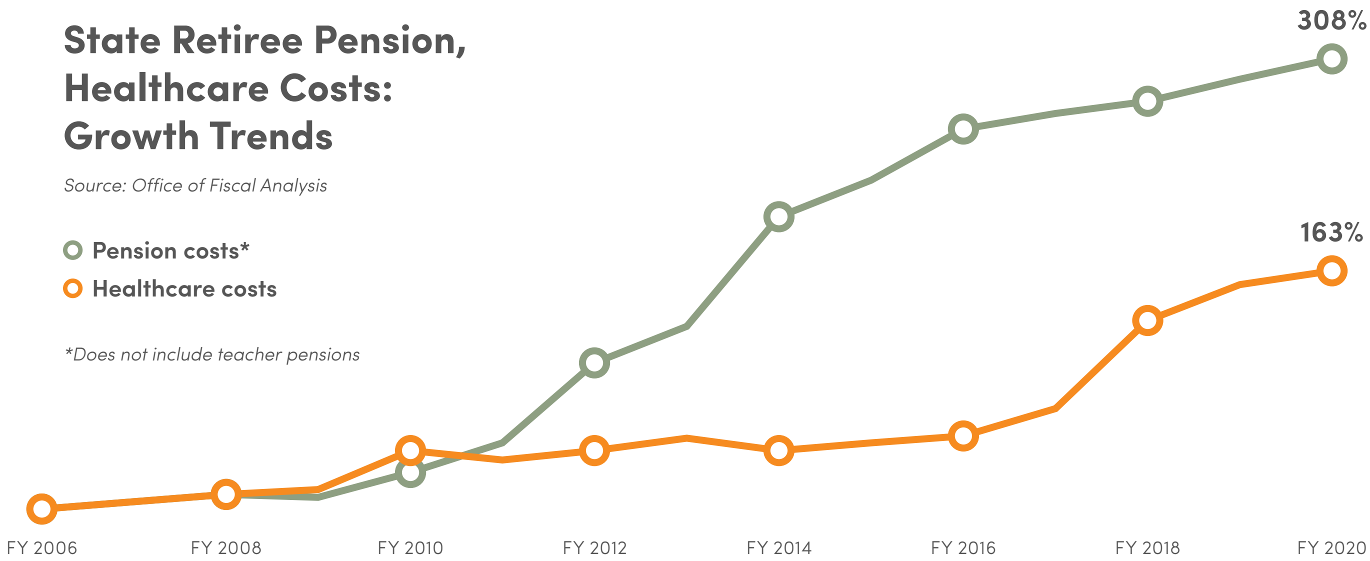
While these concessions helped, they did not avoid the most recent reality check.

Under the deal reached between the governor and unions—and approved by the General Assembly—state payments into the retirement system will now peak at $2.5 billion in 2032, pushing the remainder of the unfunded liability payments to 12 years later in 2046, when the system is projected to be fully funded.

The agreement also lowers the assumed annual rate of return on the fund's investments from 8% to 6.9%. CBIA applauds the governor for stabilizing the contribution amounts for the next 15 years. Governor Malloy's administration is now negotiating a much-needed

State Retiree Pension, Healthcare Costs: Growth Trends

Source: Office of Fiscal Analysis



concessions package with state employee unions. The outcome of those negotiations will have a major impact on the state's fiscal health.

As the Cavanaugh Macdonald report found, the retirement fund is in its worst fiscal shape in 30 years.

With compensation management strategies in the private sector, companies benchmark their pay and benefits to design a competitive system within the market to keep and attract qualified workers.

Each time state employee benefits have been modified, this benchmark was not considered as a guideline. Rather than calculations based upon market benchmarks, unions negotiated with elected officials without any influential taxpayer input.

U.S. Census data shows the average annual compensation per state employee in the state of Connecticut is $78,145. The average of the other New England states, plus New York and New Jersey, is $66,547.

Despite higher costs of living and a strategy to recruit and retain new civil servants, Connecticut state employees have drastically higher wages and richer benefits packages than surrounding states. This means Connecticut state employees, on average, earn 17% more than state employees in those neighboring states.

When state employee compensation is compared to average private sector worker compensation, Connecticut is the top outlier, with a 42 percentage point difference between the two.

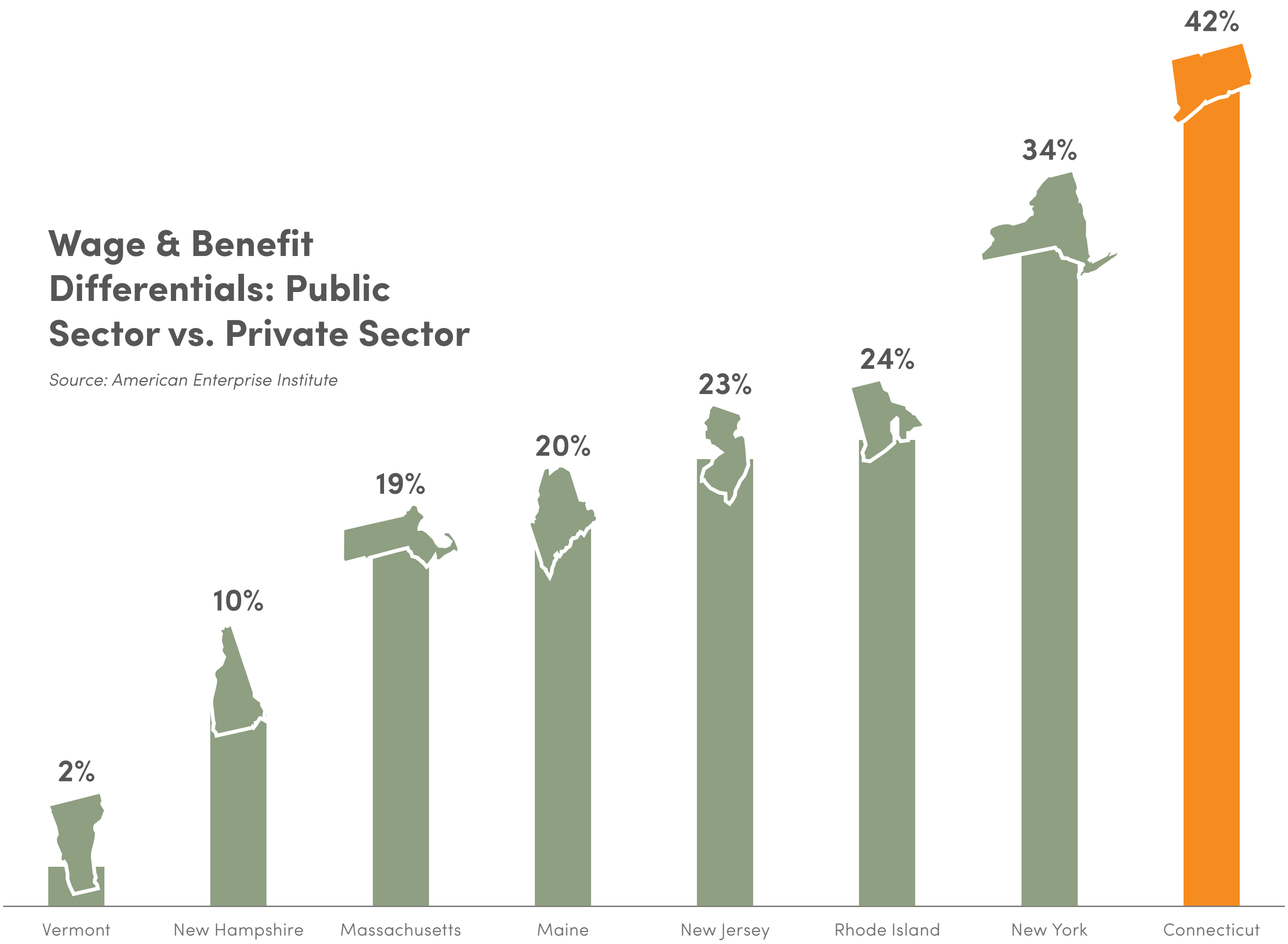
State employee unions must negotiate in good faith and deal with the size and magnitude of the accumulated unfunded liability. If renegotiation fails, the state will be forced to allocate funds from other line items of the budget, the easiest of which includes additional state employee layoffs and cutting costs of essential state services to those most in need.

Facing similar crises over long-term obligations, many states have modified their pension program by:

- **Raising employee contribution rates or adjusting state contributions,** according to the Connecticut Institute for the 21st Century. This change mostly affects newly hired state workers, but some states explored higher contributions and benefit changes from current employees as well.
- Changing the **income-averaging period from a three-year average to a five-year average,** excluding overtime in pension calculations, and/or **raising the threshold retirement age** and **freezing cost-of-living adjustments.**
- Moving away from a defined benefit plan (which provides a monthly benefit to participants at retirement) to **defined contribution plans similar to 401(k) plans** offered by private-sector employers. Those plans are either replaced or co-exist with traditional defined benefit plans.

Wage & Benefit Differentials: Public Sector vs. Private Sector

Source: American Enterprise Institute



BEST PRACTICES: PENSION REFORM

Rhode Island has switched to a hybrid plan requiring higher employee contribution to funds. They also raised the retirement age to match Social Security, suspended COLAs, prevented pension funds from being used for other purposes, as well as other debt restructuring measures. The plan is estimated to save taxpayers $3 billion over the next decade.

New state hires in Utah may choose between a hybrid plan, where the government contributes up to 10% divided between a defined benefit and defined contribution plan, or a transferrable defined contribution 401(k)-style plan. This plan brought the state employee retirement fund back to near-full funding of 88.5% in 2015, and depending on retirement trends, could save the state up to $10.5 million.

Florida has saved nearly $1 billion by increasing employee pension contributions and eliminating COLAs for new retirees.

In addition to increasing employee contributions and creating a mandatory hybrid pension plan, Virginia reduced benefits and eliminated COLAs for those already retired.

HEALTHCARE BENEFITS

Healthcare costs for active and retired state employees are projected to increase over the next three fiscal years.

According to the state Office of Fiscal Analysis, active employee healthcare costs will increase to $818 million by FY 2020, and retiree healthcare costs will reach to $930 million the same year.

While the number of active employees and their dependents on the state healthcare plan has decreased by 3.8% since FY 2010, the number of retirees and their dependents covered by the state plan has increased by 19%.

Connecticut’s unpaid obligation to provide healthcare benefits for current and future state and teacher retirees totals just under $25.3 billion, which was last reported in 2013. Paying off the current liability for those retirees would require $7,075 from every man, woman, and child in the state.

Connecticut’s pay-as-you-go system prevents the option of setting aside money to pay for health benefits promised to future retirees by only funding the current costs each year. This system ignores a much more significant long-term price tag, as demographic shifts drive up the number of retirees and associated healthcare costs.

Some states are abandoning pay-as-you-go to implement a system that funds benefits in advance through dedicated trust accounts. The idea has been recommended, but not adopted, in Connecticut.

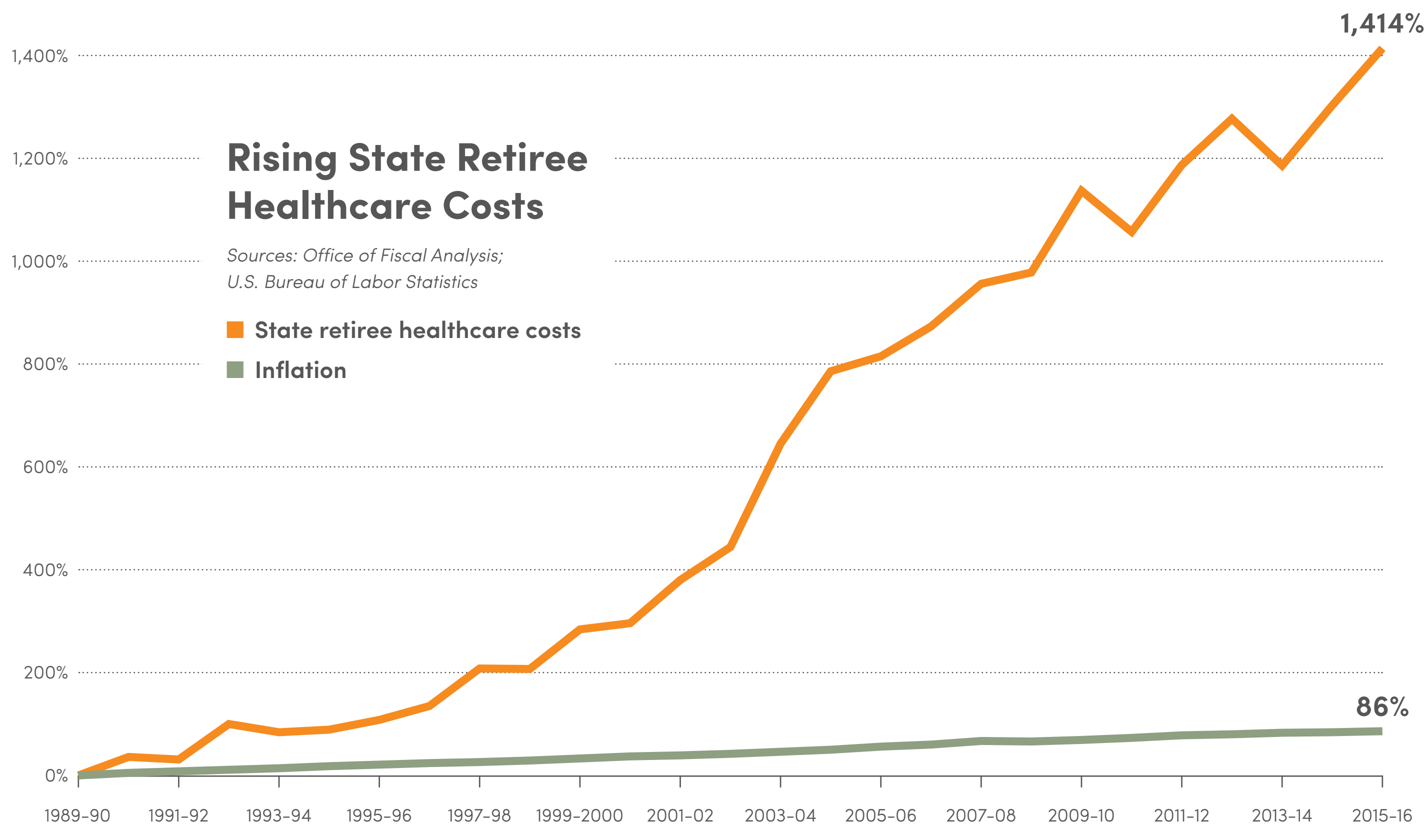
Actions taken to reduce retiree healthcare obligations include requiring current state employees (and, in some cases, those who have already retired) to contribute or increase their contributions to the funds.

Eligibility requirements are also being tightened to call for a longer employment tenure before retirees gain access to benefits. In some cases, states are encouraging early retirements to increase the number of new hires and, therefore, people contributing to their benefits systems.

Connecticut modified retiree health eligibility rules in 2009 to require new hires to contribute 3% of pay for the retiree medical plan for their first 10 years of service. They also must have at least 10 years of service (or based on age and service, meet the rule of 75) in order to qualify for the benefits.

Connecticut's obligation for unfunded retiree health benefits as a percentage of personal income dropped from 13% in 2010 to 10.1% in 2013. However, this drop was hindered by a contract the state entered into with its employee unions to match workers' contributions toward retirement healthcare.

This match will come into effect in 2017, costing the state $120 million per year according to the Office of Fiscal Analysis.



BEST PRACTICES: HEALTHCARE BENEFITS

Michigan public school teachers and state employees contribute 3% of compensation into an irrevocable trust created for the purpose of holding, investing, and distributing assets for retiree healthcare benefits. The state is also using a defined contribution model and has modified its obligations to certain tiers within the system.

Pennsylvania state employees contribute 5% of their salaries towards their health care, up from 3%.

Utah raised state employee contributions to health insurance from 2% to 5%.

Vermont implemented a new tier in 2010 that provides no subsidy of the insurance premium for employees with fewer than 15 years of service.

B. EXPAND USE OF QUALITY NONPROFIT AGENCIES

The Connecticut Community Nonprofit Alliance recently asked its members to outline how a proposed 10% budget cut to all state agencies would affect their operations and services.

More than half of respondents identified five areas of their operations that would have to be cut or eliminated, including laying off staff, freezing or reducing salaries, reducing staff hours, eliminating programs and services, and restructuring employee benefits.

Demand for nonprofit social services is increasing. Forty percent of respondents said that demand for their services increased by more than 15% over the last five years.

Thirty nine percent provided a number ranging from 20 to 2,400 individuals that currently receive services from their organizations that would be negatively affected by further cuts.

“In the absence of programs, individuals in need would turn to more costly alternatives that will cost the state more money,” the alliance’s January 2017 report said. “Cuts to nonprofits will only lead to greater costs to the state, in the short and long term.”

The alliance says moving state-run services to nonprofit providers will save $1.3 billion over three years.

Comparably, cost differences between state institutions and nonprofit residential care were studied and presented by the Governor’s Commission on Health and Human Services in its final report in 2011.

At a Department of Developmental Services residential facility, for example, annual client cost was $297,110, or $814 per day per client. Comparable residential services at a private institution were $136,371, or $373 per day.

ASSESSING CURRENT PROGRAMS

As the demand for services increases, a prerequisite for expanding the use of nonprofit providers should be accurately assessing the effectiveness of current state government efforts.

It is critically important that results-based accountability and other efficiency measures be implemented throughout state government. Only by measuring their results will agencies be able to effectively identify the most appropriate opportunities for engaging the nonprofit community to meet the increasing demand for services. Union work rules should also be modified to more easily allow the interagency redeployment of state employees to bypass the current attrition system of staffing and more effectively address priority services.

Moreover, most state agencies operate in silos, working independently of each other. In a recent study, the Connecticut Institute for the 21st Century called for "intentional, aligned, cross-agency efforts that target unified community outcomes."

Public Sector to Private Provider Conversions

Source: Connecticut Alliance Community Nonprofits

STATE-RUN LMHAS TO PRIVATE PROVIDERS

Year 1 Savings **$34,011,012**

Year 2 Savings **$68,022,025**

Year 3 Savings **$102,033,037***

STATE-RUN DDS FACILITIES TO PRIVATE PROVIDERS

Year 1 Savings **$49,993,240**

Year 2 Savings **$100,042,843**

Year 3 Savings **$150,092,446***

STATE AGENCY CASEWORKERS TO COMMUNITY CASEWORKERS

Year 1 Savings **$4,000,000**

Year 2 Savings **$7,990,000**

Year 3 Savings **$12,010,000***

**Year three savings remain the same in every year following.*

LESS COST

The Commission on Nonprofit Health and Human Services found the cost difference between the state and nonprofit providers to be so large that even if the wages, benefits, and costs of care were increased for nonprofits, as the commission recommends, substantial taxpayer savings would remain. The commission analyzed the funding provided to nonprofit providers of health and human services under state purchase of service contracts.

Comparing employee wages, benefits, and cost of services between public- and private-sector providers, the commission confirmed what the Connecticut Institute for the 21st Century, the Commission on Enhancing Agency Outcomes, and others have said: The state doesn't have to spend as much as it does now to provide the people of Connecticut with essential services.

INSTITUTIONAL COSTS

In addition to substantial wage and benefit differences, there are also great differences in costs between institutional care and community-based healthcare.

Institutional care is traditionally the method of choice for those requiring a higher level of healthcare. However, "advancements in treatment methodologies, expansion of community-based services" and new drug therapies "have greatly reduced lengths of stay and even negated the need for institutionalization," says the Commission on Nonprofit Health and Human Services.

More people are now being safely and effectively treated in their local communities and living independently, with their families, or in group homes.

C. CONTINUE REFORMING, STREAMLINING THE CORRECTIONS SYSTEM

One of the biggest areas of state spending—corrections—offers opportunities to reduce costs, eliminate bureaucratic steps, and help people rebuild productive lives.

As Connecticut and most other states have found, putting and keeping people in prison comes at a high cost. Total expenditures for state corrections in the United States were an estimated $40 billion in FY 2014, a 2.5% increase over the previous year.

In Connecticut:

- **Approximately 17,600 people are incarcerated.**
- **The state's annual corrections budget is nearly $700 million.**
- **The corrections system budget has grown 178% since 1990.**
- **The prison population has declined since 2008, in thanks partly to prison diversion and reentry programs.**

The average daily expenditure per inmate in Connecticut was $93.29 from 2008 through 2009—which extends to an annual per-inmate cost of more than $34,000.

But the actual costs are much higher, says another study, when corrections employee benefits, pension contributions, debt reduction, and statewide administrative costs are totaled.

BEST PRACTICES: CORRECTIONS

Serious policy changes will not only relieve significant pressure on the state budget but, as several states are finding, also lead to better results for many of Connecticut's nonviolent offenders.

Success stories from the states include:

Michigan: A series of policy changes, including a Prison Reentry Initiative launched in 2003, has turned around its corrections system. By equipping every released offender with the tools needed to succeed in the community, the state reduced its inmate population by 12%, closed more than 20 correctional facilities, and kept a growing number of parolees from returning to custody.

Oregon: The state reduced its recidivism rate by 32% between 1999 and 2004, a feat attributable to "a comprehensive approach to reform and a commitment to change that reaches across all levels of government—from the supervisory officer in the field, to the judiciary, through the state corrections department and up the ranks of legislative leadership," says the Pew Center.

South Carolina: A sentencing reform package approved in 2010 is expected to eliminate the need for 1,786 new prison beds by reducing incarceration of nonviolent offenders and by more closely supervising released inmates to reduce recidivism. Anticipated savings could reach $241 million.

Nevada: The state saved $38 million in operating expenditures by FY 2009 and avoided $1.2 billion in new prison construction by making key sentencing reforms, including expanding the number of credits inmates could earn for "good time" and the number of credits those on community supervision could earn for complying with conditions.

Kentucky: Legislation diverting certain drug offenders into treatment rather than prison and reserving prison space for violent and career criminals is expected to save the state $422 million over the next decade.

Here in Connecticut, CBIA and its members are working with the Connecticut Institute for the 21st Century to promote innovative alternative programs such as the Malta Prison Volunteers of Connecticut, which helps find jobs for qualified ex-offenders.

Connecticut's 2010 Department of Corrections budget of $613.3 million, according to the Vera Institute of Justice, ballooned to $929.4 million when those extra costs were added, producing an annual per-inmate tab of $50,262 (third highest out of the 40 states surveyed).

Several states reduced their corrections costs and achieved better results through treatment, community corrections programs, and rehabilitation. For many offenders, these efforts often work better and more cost-effectively than prison.

Connecticut's prison population is declining slightly for a variety of reasons, including that more offenders are being released into community supervision programs.

At the same time, the recidivism rate is decreasing. Our recidivism rate is 47% (with 56% of offenders rearrested within two years).

The Risk Reduction Earned Program introduced in Connecticut in 2011 further contributed to this decline. A study found people who earned credits from this program are 10% less likely to be reconvicted within 12 months.

According to the Pew Center on the States, if Connecticut reduced its recidivism rate by 10%, the state could realize as much as $20 million in annual savings.

The best results in keeping people from returning to prison, says the Pew Center, are "when evidence-based programs and practices are implemented in prisons and govern the supervision of probationers and parolees in the community post-release."

D. REBALANCE LONG-TERM HEALTHCARE

Aging baby boomers are pushing up Connecticut's median age, which means that more people are, and will be, tapping into Medicaid for long-term care.

By 2030, the number of Connecticut residents age 65 and older is expected to compose 21.5% of the state's population.

We can't do much to change our demographics, but there are ways to control our Medicaid spending.

Last year, the Connecticut Institute for the 21st Century released a report on long-term healthcare reform, outlining policy changes that could save taxpayers nearly a billion dollars annually.

The institute recommends rebalancing the long-term care equation to deemphasize institutional care and increase the use of quality home-based care—an option that is not only preferable (most people prefer to stay in their homes as they age) but also less expensive.

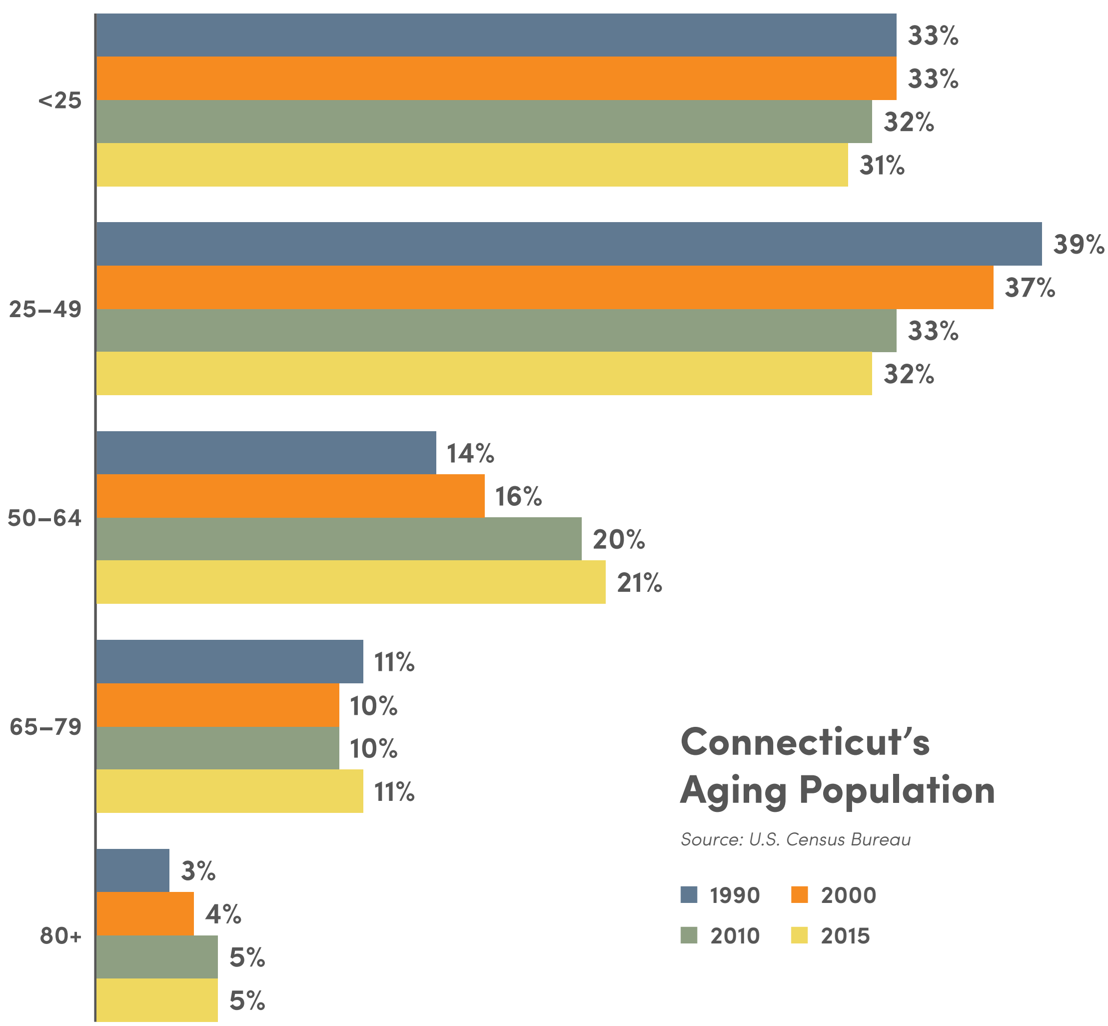
In fact, the average cost of home- and community-based care is about half the cost of institutional care. In 2009, 53% of Medicaid long-term clients in Connecticut were receiving community-based care at a total cost of $886 million. The other 47% received traditional care at a tab of more than $1.6 billion.

If Connecticut rebalanced the equation to 75% home- and community-based care by 2025, says the institute, it would produce $900 million in annual savings to the state.

This realizes three major public policy goals: cutting state spending, improving customer satisfaction, and upgrading the delivery of state services. But there has to be a dedicated change in approach.

Connecticut's "Money Follows the Person" initiative—designed to promote personal independence and save money—saw some early success.

According to the institute's 2011 report, average monthly client costs decreased from $2,651 for institutional care to $963 for home- and community-based care.



BEST PRACTICES: LONG-TERM HEALTHCARE

Rhode Island: Medicaid is the single biggest driver of government spending in most states. For ideas on significant Medicaid reform, one would best look to Rhode Island. The Ocean State has capped Medicaid spending to $12 billion over five years in a block-grant-like fashion. In exchange for capping spending, the federal government allowed Rhode Island to make changes to the program without federal approval or with expedited approval.

The changes, which are projected to save Rhode Island anywhere from $100 million to $146 million, include increased home care, an overhaul of payment systems, the creation of specialty population-specific benefit packages, expansion of managed-care networks, and increased competition in goods and services contracts.

Rhode Island's success has inspired New Jersey, Minnesota, and Mississippi to seek similar block-grant-like waivers.

Oregon: The state is using an innovative approach to promote better health, better care, and lower costs for state residents who receive healthcare coverage under the Oregon Health Plan (Medicaid). The state has implemented coordinated care organizations, or CCOs, which are local community-based networks of all types of healthcare providers (physical healthcare, addictions and mental health, and sometimes dental care providers) who have agreed to work together.

CCOs are:

Flexible to support new models of care that are patient-centered and team-focused and that reduce health disparities

Better able to coordinate services and focus on prevention, chronic illness management, and person-centered care

Accountable for health outcomes of the population they serve and governed by a partnership among healthcare providers, community members, and stakeholders in the health systems that have financial responsibility and risk

Oregon has committed to meeting key quality measurements for improved health for OHP clients while reducing the growth in spending by two percentage points per member over the next two years. This projects to $11 billion in total state and federal savings over the next 10 years.

Illinois: Taking an aggressive approach to Medicaid reform, the state is eliminating ineligible recipients from the program (100,000-300,000 people who either make too much money or live out-of-state), estimated to save state hundreds of millions of dollars. Other savings are sought from the push to switch 85% of Medicaid recipients into managed care and limits on prescriptions to five per month. Numerous program cuts also contribute to the savings, and a 6% across-the-board reduction in provider payments would save $500 million. These changes add up to over $2.5 billion in potential savings for Illinois.

E. CONTINUE STREAMLINING STATE GOVERNMENT

LEAN

State spending can be controlled by constantly improving the organization of state government and the way it delivers services. Lean is a tool used often in the private sector to create customer value while using the fewest resources possible. It increases efficiency and removes waste.

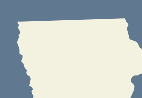
Some state agencies have used lean principles to streamline operations, but much more can be accomplished if Lean is adopted government-wide. Connecticut's Department of Administrative Services, Department of Energy and Environmental Protection, Department of Labor, and Department of Revenue Services are in various stages of implementing lean practices, with positive results in many aspects of their operations. Lean can help reduce redundant layers of management, restructure functions, and adopt new ways of budgeting to improve efficiency and effect savings.

In September 2012, the Office of Policy and Management issued a report detailing numerous ways state agencies reduced their fiscal footprint. For example, since 2011, the administration reduced the number of state agencies, through consolidations and eliminations, from 81 to 59. The executive branch trimmed its permanent workforce by approximately 2,500 positions over an 18-month period.

BEST PRACTICES: LEAN

Minnesota: "Enterprise Lean" is a coordinated effort with businesses to improve state government. Through it, 200 projects have saved the state $18 million dollars. General Mills has been a key contributor in the effort, training more than 500 state managers on how to optimize their departments. The Minnesota Business Partnership, which represents the 100 biggest companies in the state, pairs interested businesses with state agencies to help them work better and more cost-effectively.

Washington State: Gov. Christine Gregoire viewed Lean as central to her effort to transform state operations, and reached out to Boeing for help. As a "major employer in the state," said a statement from the aerospace company, "we pay taxes and our employees pay taxes. Therefore, we have a vested interest in seeing our state and local governments run as efficiently as possible so they can be successful."



Iowa: This state was first (2003) to launch Lean efforts. It established an Office of Lean Enterprise to "promote and facilitate continuous improvement through the use of a specific set of proven tools and methodologies collectively known as Lean." Its website provides a clear accounting of specific programs and results.

PERFORMANCE-BASED BUDGETING

Performance-based budgeting rewards efficient, effective programs and alters those that cannot meet specific goals.

One tool that can help the state become both more cost-efficient and effective is the Performance Management Framework for State and Local Government.

The framework, a project of the National Performance Management Advisory Commission, emphasizes achieving improvements through sweeping organizational and cultural changes that enable results-based budgeting.

Each of the framework's principles supports an overriding principle: "Performance management transforms the organization, its management and the policy-making process."

Specifically, the goal is a transformation from a traditional budgeting model that focuses on inputs and outputs to a more effective, results-based management and decision-making model.

What's more, the framework is designed to change an organization's culture to one that values evidence, learning, and accountability.

ZERO-BASED BUDGETING

Zero-based budgeting describes a system that begins every budget cycle at zero, avoiding any assumption that activities funded previously will be continued. By comparison, in traditional incremental budgeting, department managers justify increases over the previous year's budget by making what has been already spent automatically sanctioned.

Zero-based budgeting comprehensively reviews every department's function and requires approval for all expenditures, requiring the budget request to be justified in complete detail by each division manager.

According to the National Council of State Legislatures, zero-based budgeting "appeals to a serious and widespread desire to look at public budgeting in a fresh new way, free of old assumptions, not letting past experiences control the future."

NCSL says that 17 states in recent years used zero-based budgeting in some form, and several more have made serious efforts to do so.

BEST PRACTICES: PERFORMANCE-BASED BUDGETING

Many states employ performance measures in the budgeting process. A study by the National Association of State Budget Officers found that 39 states included performance measures in agency budget requests, and 42 states reported some level of performance measures.

A report from the National Performance Management Advisory Commission highlighted programs in Florida, Idaho, Maryland, Oregon, Virginia, Massachusetts, and Washington State.

"Virginia Performs" is the commonwealth's performance measurement program. It tracks the key performance measures of state agencies and provides critical analysis. State government agencies in Virginia develop and implement strategic and service-area plans to help achieve long-term goals and objectives.

In Massachusetts, the Executive Office of Health and Human Services in 2007 launched a performance-management program called EHSResults "to foster transparency, accountability, and cross-agency collaboration" in order to achieve its goals.

The office is making "client outcome data a very real part of our day-to-day conversations and using it as a key input for policy and programmatic decisions. EHSResults provides senior staff [and the public] with easy access to meaningful data, enabling more informed decision-making."

Washington State's Transportation Improvement Board implemented results-based budgeting and created an information dashboard on its website that shows results the agency achieved after two years of implementing the program.

‘TIME IS RUNNING OUT’

In a March 27, 2017 editorial, the Hartford Courant reacted to a U.S. Census report showing Connecticut continues to lose population to other states, with a net population loss of 29,880 in 2016.

“Whether it’s tax policy or real estate prices or job opportunities or the lure of warmer weather (or, more likely, a combination of the lot), Connecticut residents are being driven away.

“Left unchecked, the trend will only worsen, as it’s worsened for the last half-decade. The continued erosion of residents is solid evidence that state economic policies need to be revamped, now.

“It’s up to the state’s leaders to halt the exodus and make Connecticut a place people want to live. Loss of population means loss of jobs, loss of tax revenue, less money for schools and social services, depressed real estate prices, more pressure on government to raise taxes—and potentially fewer representatives in Congress, all of which would provide even more encouragement for people to leave the state.

“Time is running out.”

Connecticut’s economy has tremendous assets, with world-class companies and a highly-skilled workforce, but one which, for various reasons, is not firing on all cylinders.

The first step toward reaching our economic potential is acknowledging the challenges we face, and the biggest policy issue facing Connecticut and job creators is the state budget.

Our ongoing cycle of deficits and major tax increases continues to impair business confidence and has a chilling effect on much-needed investment here.

theday

So how would the legislature balance the budget? With tax increases, of course, with the Finance, Revenue and Bonding Committee considering increases in both income and sales taxes. This would be sure to drive more high-income earners from the state and serve as a drag on the economy. It’s the wrong move.

RepublicanAmerican

It’s good that the Appropriations proposal has been scuttled. Tax-and-spend budgeting is not what Connecticut needs.

The Bulletin

Our View: Raising taxes only worsens state’s problems

Hartford Courant

Editorial: Enough With The Tax Hikes

There are some common themes in the editorial pages of the state’s newspapers: Connecticut cannot afford another round of tax hikes and bipartisan solutions are needed to address the state’s growing fiscal crisis.

What is clear is that tax increases cannot be an option this year. Additional tax increases will only make the state less affordable and drive more wealth as well as much-needed investment out of the state.

We need real long-term solutions, not Band-Aids that will exacerbate rather than solve our fiscal problems.

The next state budget must reflect the hard choices on government spending that the times demand. It must focus on the core, essential services of government and limit spending in other areas.

It must recognize that, despite progress already made, more needs to be done to lean and restructure government so it can deliver essential services more efficiently and cost-effectively.

Policymakers must also ensure that state employee wages and benefits are more affordable for taxpayers so those costs don't squeeze out spending in other critical areas such as human services, transportation, education, and our cities.

Getting our fiscal house in order and allowing needed investments in other areas will help foster innovation and promote growth.

Voters expect their state senators and representatives to work together—Republicans and Democrats—to fix the problems that erode Connecticut's strengths and cast doubt on our future.

By working together and making tough choices, lawmakers will give businesses the confidence they need to invest here, retain and grow good, well-paying jobs, and realize our state's tremendous potential. ■