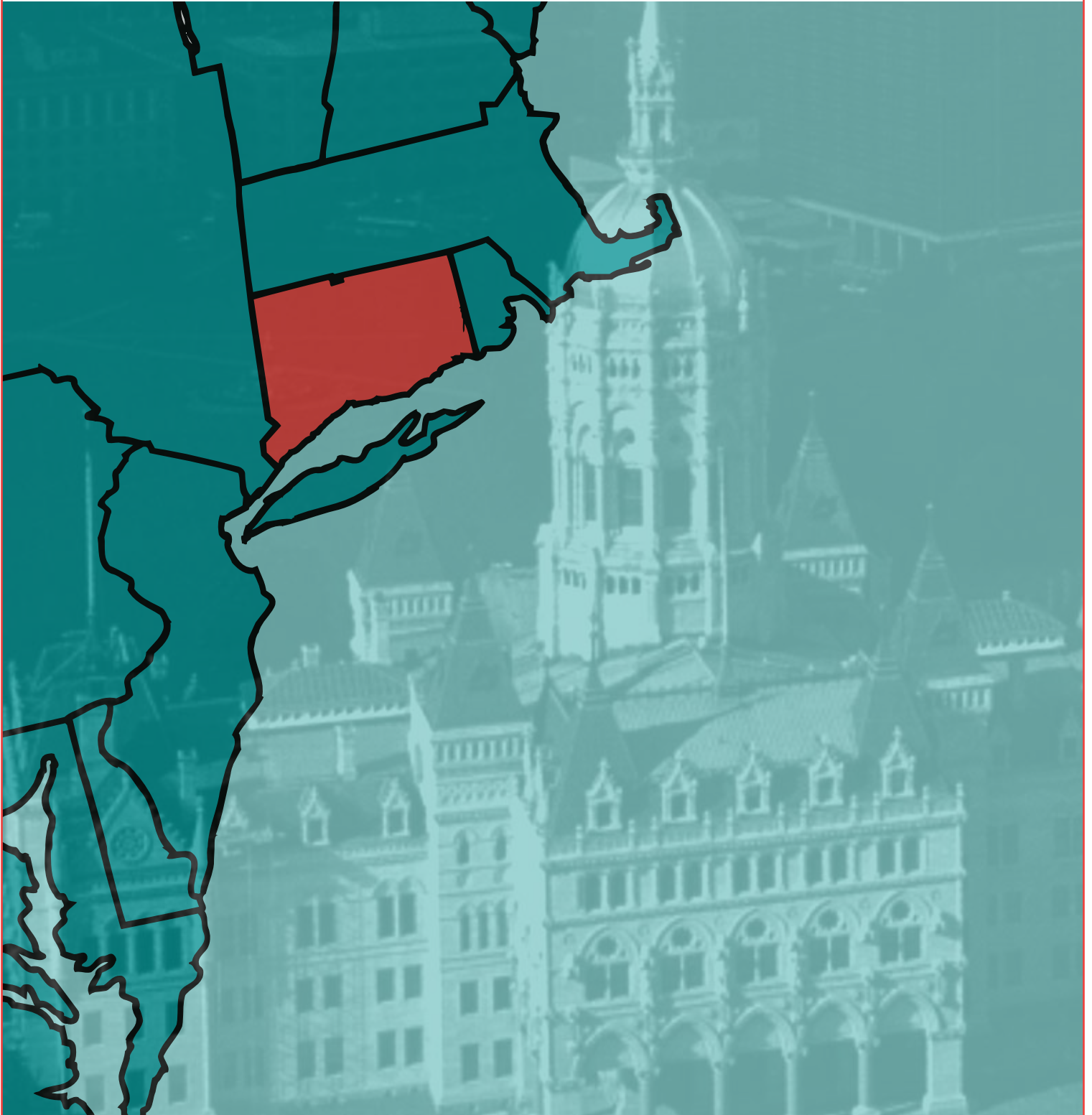


Framework for Connecticut's Fiscal Future

Part 5: *A Survival Plan for our Splintered Human Services Delivery System*



A Report of the Connecticut Institute for the 21st Century

The Connecticut Institute for the 21st Century (the Institute) was formed in 1997 when public and private leaders in Connecticut came together to exchange ideas about increasing the state's economic growth. The group focuses on educating policymakers on key issues that hold the most potential for the state's future. Managed by a statewide steering committee, the Institute is incorporated, has not-for-profit tax-exempt status, and provides continuing opportunities to discuss and study important issues regarding Connecticut's competitiveness.

- In 1999, the Institute commissioned a significant study by the firm of Michael Gallis & Associates, Inc. entitled Connecticut: Strategic Economic Framework. The study defines the real-life economic markets and movement of people, goods, and ideas in the region, the nation and the world. That widely-recognized study is seen as a valuable policy framework, continuing to shape the Institute's initiatives.
- In 2003, the Institute turned to the issue of the link between Connecticut's future growth and responsible land use in order to draw connections between economic development, state and local planning, the trend toward sprawl, and preservation of quality of life.
- In 2007, the Institute's report entitled Economic Vitality & Competitive Cities identified key features of successful cities and strategies for making all Connecticut communities attractive and productive, with recommendations for state and local actions to achieve this objective.

Framework for Connecticut's Fiscal Future

In 2009 the Institute made the decision to concentrate research efforts on elements of state spending that account for a significant percentage of the state's budget and where shifts in approaches to service delivery could make a real difference. In doing so, the Institute reviewed major budgetary program areas to:

- Quantify savings that can be realized in the next fiscal cycle and over the long term
- Identify opportunities to improve service
- Identify opportunities to increase customer satisfaction
- Identify opportunities to increase efficiencies

This resulting series of research studies is entitled *Framework for Connecticut's Fiscal Future*. The four previously published reports are:

- *Assessment of Connecticut's Long Term Care System (March 2010)*
- *Assessment of Connecticut's Correction, Parole and Probation Systems (October 2010)*
- *Pensions and Other Post-Employment Benefits: How Does Connecticut Compare? (March 2011)*
- *Improving Delivery of Public Services (March 2012)*

The Institute thanks First Niagara and Yale-New Haven Hospital for the leadership support that makes this latest report possible.

For further information about the Institute and its work, please visit www.CT21.org.

The Institute has been tracking the state's continuing battle with its fiscal and economic crisis since 2009. At the beginning of the last budget biennium, the state faced a \$3.2 billion deficit for fiscal year 2012. The governor and the legislature crafted a budget package designed to erase that deficit. Nonetheless, interim actions to reduce spending were required to keep the budget in balance, and the latest numbers project a deficit of just under \$2 billion for FYs 14 and 15. While a number of the Institute's earlier recommendations have been positively adopted by the state as part of deficit reduction efforts, more needs to be done, and the recommendations included in the Institute's four previous reports in the series remain relevant.

The Institute's objective is not merely cost reduction; our focus is on increasing effectiveness and efficiency to deliver better service to the residents of Connecticut. Throughout the studies we find that our state has a disjointed approach to policy, program management and service delivery. Our last report, entitled "Improving Delivery of Public Services" found that:

Connecticut has a public service delivery system characterized by balkanization and a proliferation of structures that lack consistency...Creating a rational system of service delivery... will result in greater effectiveness because a rational system lends itself to measurement against benchmarks, and adjustments to improve performance.

The concerns voiced in that report and the need for systemic reforms are echoed in the current study.

Nonprofit organizations and the delivery of public services

This report is fundamentally about the people who rely on the state for services – particularly safety net services – the quality of those services, and the people who provide those services. As a state, we have committed to serve this population using significant public resources. The report looks carefully at the service delivery network to ensure quality, efficiency, and effectiveness.

Current State – the System

Despite the fact that the state of Connecticut, through seven different agencies, purchases \$1.3 billion annually in services, the current service model is a confusing, non-integrated, inconsistent and out-of-balance system that is neither efficient nor effective.

Each of the seven agencies serves a unique region, and each has different RFPs, contracts, rates, payment provisions, data reporting requirements, and performance and quality measures.

This splintered approach creates several problems. It is more difficult for individuals and families to obtain the services they need. It is not possible to achieve or measure results on a population basis. The state's inefficiency increases costs for the nonprofit service provider.

Fortunately, improvement initiatives are underway at both the agency and the state level. Governor Malloy has proposed a new \$40 million bond fund to help nonprofit organizations with capital upgrades, has appointed a nonprofit advocate in his office, and has created the nonprofit Health and Human Services Cabinet. Because of his leadership, cabinet agencies are looking at cross-disciplinary approaches to achieving real population outcomes. The Institute is pleased to present recommendations for additional changes that complement and expand these efforts.

Current State - the Nonprofit Service Provider Community

Nonprofit service providers contribute significantly to Connecticut's economy. The 16,812 tax-exempt organizations in the state employ 192,134 people, or 12% of the state's total workforce.

Health care and social service organizations employ 67% of the workers in the nonprofit services sector. Connecticut nonprofit organizations are a critical component of the state's service delivery network.

Two independent reports, one by the Commission on Nonprofit Health and Human Services and the other by the legislature's Program Review and Investigations Committee, show that Connecticut nonprofit service providers provide equivalent services in a more effective way than the state. At least four state sanctioned commissions/studies and national organizations have examined the status of service delivery by nonprofit organizations in Connecticut.

According to the Commission on Nonprofit Health and Human Services:

- Public sector positions pay significantly more than comparable private/nonprofit provider positions
- Benefits are significantly higher in the public sector
- Nonprofit service providers are not funded adequately to pay to attract a qualified workforce

Despite their economic impact and effectiveness, Connecticut nonprofit service providers face a fiscal crisis that threatens their survival.

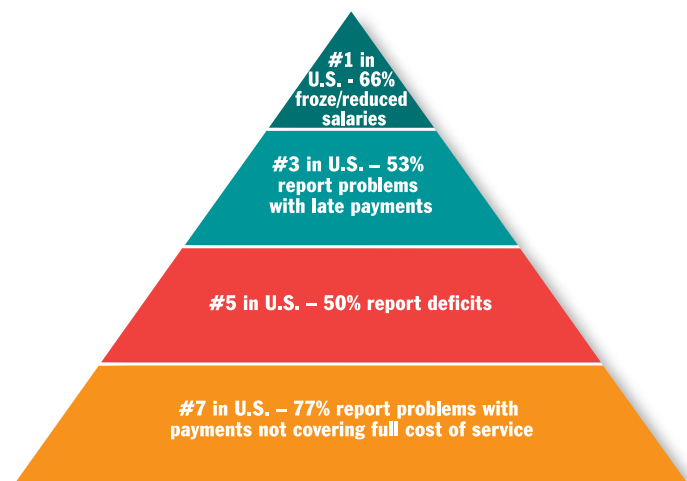
- The sector has experienced 10 consecutive years of financial decline
- 50% of Connecticut nonprofit organizations reported deficits – 5th highest in the U.S.
- 66% froze or reduced salaries - the highest in the U.S.
- 53% reported problems with late payments from the state – 3rd highest in the U.S.
- 77% reported problems with payments from the state not covering the cost of service – 7th highest in the U.S.
- The sector has had to significantly reduce employee-related expenses – actually making some of their employees eligible for state assistance themselves
- Comparable public sector positions pay much more
- It costs 2.5 times as much to take care of clients in a public program than in a private one

The relationship between the state and nonprofit organizations has contributed to the declining fiscal health of the nonprofit service providers. This is due in large part to the contract process. Consider these facts:

- State agencies may amend contracts to reduce compensation paid to the private providers for contracted services if state budgets are reduced
- State agencies may immediately terminate contracts without cause when “in the best interest of the state”
- Nonprofit providers must perform extensive transition activities without compensation

The contracting process is difficult, inconsistent across agencies, time-consuming and inherently unfair to nonprofit service providers. This has led to mistrust between the nonprofit community and the state, and a nonprofit community resistant to systemic change. This is a logical result

CT Nonprofits Compared to U.S.



of a system where nonprofit organizations and the state are in constant conflict over contract language and appropriate levels of financial support, and when the contract terms themselves are fundamentally biased against the nonprofit service provider.

While the lack of data at the state level makes it impossible to measure accurately, there is substantial anecdotal evidence that many nonprofit provider employees are forced to rely on state assistance such as HUSKY because of inadequate levels of state compensation to their employers. Cutting line items for private service providers obscures the bigger picture – holding down payments to the providers can lead to higher costs for other government programs that serve lower income residents employed by private providers.

Developing solutions to these problems is a joint responsibility of the government and the nonprofit service provider community, but progress can only occur in an environment where the dialogue is not damaged by the mistrust that currently exists.

Recommendations:

Leadership:

The Institute urges the Governor and his administration to focus on making the long-term changes needed to achieve population results that will benefit every resident of Connecticut.

At the December 2012 meeting of the Health and Human Services Cabinet the governor charged the Cabinet members to come back to him with recommendations in three areas: jobs, contract procurement and administration, and population results. We look forward to seeing these recommendations. We believe that another charge should be given to the Cabinet - create a new Health and Human Services strategy and an organizational model. The strategy will form the basis by which the new model will function and the new organization must have the appropriate authority and responsibility to drive the strategy across existing state agencies.

Governance:

Transition the Nonprofit Health and Human Services Cabinet to an Advisory Board that will create, direct and monitor a cross-agency human services organization that will own population outcomes.

The Institute believes that it is both possible and critical to move to a coordinated approach to managing all programs that impact the health and welfare of Connecticut residents through one organization looking at population level outcomes.

This new cross-agency organization must be:

Responsive

- Focuses on the best interest of the community and clients
- Responds to ongoing and emerging needs
- Fosters creativity and is innovative

Efficient

- Aligns service location with needs
- Maximizes resources invested in direct services
- Delivers right amount of service in least amount of time to achieve outcomes

Fair

- Balances financial risk to promote stable service delivery
- Allocates resources according to relative need

Accountable

- Uses a transparent process for making decisions about allocation of resources and service procurement
- Has measurable impact on human lives and community issues

The first step is to accelerate efforts in data collection and sharing that are key to measuring population outcomes. Antiquated information systems and personnel cuts in state agencies are hampering our ability to implement population level measures across state health and human service agencies.

A cross-agency human services organization with clear management responsibility and with the authority to direct programs and resources can be held accountable for population level outcomes. The Cabinet, in developing this new model, should consider adopting best practices from states like Washington, which establish clear priorities and use a facilitated process to achieve results.

Nonprofit Change:

The nonprofit provider community must be a partner in improving the current system in order to ensure their own survival in an increasingly constrained and competitive environment.

Despite the clear fiscal crisis, the Connecticut Council on Philanthropy reports that only 32 nonprofit organizations merged or formed new alliances during the past five years. Nonprofit service providers must be willing to adopt reforms outside their comfort zone by concentrating on the client rather than on maintaining the status quo or expecting higher reimbursement levels.

The private provider community can become the catalyst to change the existing state practices by:

- Being more proactive in driving innovation and change within its own community
- Shifting from supporting single organization causes to broad population outcome causes
- Defining the technology requirements needed to be successful collectively
- Investigating and pursuing opportunities to utilize shared services

The Institute recommends that the state use a portion of the \$40 million in bond funds made available by the governor to create nonprofit provider service centers, implementing a shared services philosophy and practice within the state.

Best Practices: Examples From Other States

The Institute has cited the state of Washington for its best practices in governing and budgeting in previous reports, and they set an example in this area as well. We have referenced the “Priorities of Government” approach to budgeting – a framework to help choose what services best achieve pre-determined, expected statewide measures. In Indiana, the state uses managed competition – where public and private providers must compete for service contracts. In Minnesota, the state uses performance-based contracting, much like the Results Based Accountability framework that has been adopted by the Connecticut Legislature. The full report, available at www.CT21.org, provides other examples of effective reforms.

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The Connecticut Institute for the 21st Century provides continuing opportunities for its members and other organizations to understand and discuss economic activity in the state and obstacles to its success. For more information, visit www.CT21.org.