



Connecticut
Economic
Resource Center
Collaboration at Work

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**Testimony by Robert Santy, President and CEO, Connecticut Economic Resource Center
To the Commission on Fiscal Stability and Economic Growth**

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› Eversource › The United Illuminating Company › Connecticut Natural Gas › Southern Connecticut Gas
› Aquarion Water Company › Regional Water Authority › The Connecticut Water Company
› Connecticut Municipal Electric Energy Cooperative › Pullman & Comley › Public Utilities Regulatory Authority
› Office of Consumer Counsel › Department of Economic and Community Development

My name is Robert Santy, and I am President and CEO of the Connecticut Economic Resource Center, known as CERC. I also chair InformCT, a think tank that includes the Ct Data Collaborative and conducts and publishes a quarterly Consumer Confidence Survey that I will cite later in my testimony. We are a nonprofit corporation and public-private partnership that drives economic development in Connecticut by providing research-based data, planning and implementation strategies to foster business formation, recruitment and growth.

Through a very accomplished staff and a relentless commitment to customer service, CERC has earned a reputation for excellence in Connecticut's economic development community. And, in the context of today's discussion, we have given much thought to what's working, and where improvement is needed, in our state's budget process – because of the impact that decision-making process has on Connecticut's efforts to achieve fiscal stability and in turn boost economic growth.

Let me start by stating the obvious: Our state's budget process is broken. I know you know that. That's why you're here. And I commend you for bringing your expertise to bear on doing something about it.

The Current Game

We live in a time of perpetual fiscal stress, and have been unable to deal with structural issues that face the state. In last year's budget the Legislature began the process of addressing some of the structural issues. But, they still did not have the context of a set of clear priorities for the use of limited state resources which I think you need before you set arbitrary limits on spending and bonding. Our existing budget framework is just not up to the job. We need to scrap our balkanized budget process and adopt a new approach that sets top policy goals and funds from there.

It's also important to note that our state residents have high expectations of our government...we want to be among the best performing states when it comes to the education of our children and the health of our residents for example. Pragmatically we should ask what does outstanding performance in these areas cost, and are we willing to pay it? We should not be setting levels of spending without knowing the answers to those questions.

When we argue about what to cut, rather than asking what we should fund, we are concentrating on only a small percentage of the budget. Rather than setting state priorities and funding them; we ignore the big picture. We look at last year, and make adjustments from there. We add or subtract around the edges, with too much attention on justification and too little time spent on prioritization. Decisions boil down to cutting services, raising taxes and the political calculations that surround both.

We can't go on like this any longer. We need to shift the paradigm, and use disruptive innovations to stand the current process on its head.

Fortunately, we don't need to reinvent the wheel. There have been trailblazers before us, and there is a path forward. More than a decade ago, David Osborne and Peter Hutchison wrote "The Price of Government" to address what they described as the pernicious perpetual fiscal crisis that exists in political jurisdictions across the country. They outlined structural recommendations that could revolutionize how we manage public resources. In 2008 we invited David Osborne to keynote CERC's annual policy conference "Connecticut 2020: Fiscal Implications of Economic & Demographic Change". Later Governor Rell invited him to address her Cabinet and Legislative leaders. Unfortunately, at that time, that's where the dialogue ended.

But other governments have responded. We can as well.

Our current process is structured around deliverables of individual executive branch agencies rather than achieving broad strategic policy outcomes. The legislative branch is similarly structured with committees that mirror the balkanized executive branch agencies, further promoting a line-item rather than an outcomes-based approach. We end up concentrating on the cuts necessary to balance the budget rather than the keeps that achieve our priority outcomes.

This Commission has appropriately identified eight Structural Problems that need to be addressed if we are going to achieve fiscal stability. As much as I would like to provide comments on these, I want to help with a different question today: How do we ensure that your recommendations have the best opportunity to be implemented by our public leaders. I believe that an outcomes based budget approach provides the framework for success.

Budgeting for Outcomes Asks Four Basic Questions

- How much revenue will we have: What price of government will we charge our citizens?
- What outcomes matter most to our citizens?
- How much should we spend to achieve each outcome?
- How can we BEST deliver each outcome that citizens expect?

The City of Baltimore is one of the most recent examples of a government that has used this approach with great success. There is a link to a new report summarizing their experience at the end of my testimony. Here is how they describe the difference between traditional budgeting and outcomes based budgeting:

BALTIMORE'S OUTCOME BUDGET PROCESS³

OLD WAY	NEW WAY
Starting Point: Last Year's Spending	Starting Point: Next Year's Goals
Funding Targets: By Agency	Funding Targets: By Priority Outcome
Agency Submission: How Allocation will be Spent	Agency Submission: Proposal to Achieve Results
Debate: What to Cut	Debate: What to Keep

SOURCE: BALTIMORE BUREAU OF THE BUDGET AND MANAGEMENT RESEARCH

South Carolina followed a similar approach a few years before. An important common theme with Baltimore, and critical to success, is moving budget recommendations out of agencies to interdisciplinary teams that are looking for population level outcomes. Agencies will still end up implementing programs tied to achieving the goals. This slide shows how agencies were assembled around population level goals in order to make sure their thinking was included in establishing outcomes. Agency staff are asked to leave their agency hats at the door, and that leads to a conversation geared at identifying and implementing the population outcome goals. The next slide shows the Structure of the process used in South Carolina.

Now, let's bring it home to Connecticut. How could it work here?

First, we need to **decide how much to spend**.

You need to start with what you've got. This Commission has a good idea of what that is: you have to take out all the fixed costs, allocate 10% for overhead, and the remainder is available to fund your key priorities.

A Leadership Group should make the decision. It would include legislative leaders and the Governor, or his representative. I think you should invite business, education, community, and labor leaders, as Gov. Locke did when Washington State used this approach. This may be characterized as an example of more being better. More inclusivity at the outset would mean more buy-in and better results at the end.

Next, we need to **set the priorities of government** – the results that citizens desire.

If we have time – and I would argue that it is worth making the time – we should ask state residents. There are many ways to do that. Based on CERC’s experience we find using more than one method may be worthwhile, because they provide varying levels of input and analysis: traditional surveys, focus groups, and internet surveys.

This input creates legitimacy for the process. And that can make all the difference in the world, when it comes to moving this process forward, and ultimately in implementation.

In Connecticut, we already have an effective vehicle in place that has been tracking trends in public opinion on priorities people would like to see funded by government.

This year the Connecticut Consumer Confidence Survey, which is produced quarterly by InformCT, looked at how people think government ought to be spending their money. InformCT is a public-private partnership that provides independent, non-partisan research, analysis, and public outreach to help create fact-based dialogue and action in Connecticut.

Though these surveys, we can get a glimpse of what’s important, what’s not, and how priorities shift over time – or persist, quarter after quarter. Is health a higher priority than safety? How does education rank? Or the environment? How about transportation, or the social safety net? These answers are an important component of setting priorities for state spending.

We have asked respondents for their opinions about state priorities in the last two surveys. We first asked them to indicate how important it is for the state to spend on ten key program areas. After reviewing those results, in the most recent survey we provided the previous six highest responses and asked respondents to rank them in order of priority. The issue that received the highest rating among the respondents was health and safety, followed, in order, by the achievement and security of children, the environment, and workforce/economic vitality.

We should take that information coupled with other information we could gain on resident priorities and base our allocation of our funding accordingly. Even with all the input, the Leadership Team should make the final decisions. With input from residents, it will be an informed decision.

If we then believe that there are unmet needs that cannot be covered within the revenues currently available, then we should propose a five-year plan that would allow us to phase in the revenue to cover unfunded priorities, or potentially those slightly lower down the list. We have been through at least eight years of continually looking for savings, and seeking new revenues without setting our priorities. Budgeting for outcomes with resident and expert input gives us permission to make choices that otherwise our elected leaders might find politically untenable. Following public guidance, if we are required to cut programs, we will

be cutting those they told us were of lesser importance. Setting a five-year plan allows us time to update our priorities and have a reasonable debate about whether new revenues need to be part of the answer.

The third step is for the **Leadership Team to Price the Priorities**.

- How much should Connecticut spend on each priority?
- How much is each worth? The question here is *not* how much do they cost?

At this juncture you include judgment -- a strategic choice is made – it is not merely the science of doing what the numbers dictate. These numbers can be adjusted later in the process--but they serve to create a finite pot of money for each outcome goal.

Step four is to **Deliver the Outcomes: Results Teams create purchasing strategies**. The results teams can be described as “buying agents” for the citizenry. They include strategic thinkers who do not have an axe to grind or a program to protect. And that would be a welcome change from our traditional budget process.

These individuals can be drawn from any number of arenas and backgrounds, and there’s something to be said for having a range of experiences involved. That could mean including legislators and legislative staff, executive staff, as well as knowledgeable outsiders, possibly from academia, or think tanks as well state residents, to reinforce the inclusive nature of the process.

The South Carolina slide simply illustrates how different public agencies were assigned to Results Teams.

What are the **Results Teams** tasked with accomplishing?

Task number one: Define three key indicators, so you can measure progress.

For example, if the priority is “Better Health,” the indicators may be infant mortality rate, self-perception of health on the survey, and the percentage of people with health insurance in Connecticut.

Task number two: Figure out what really matters. Which factors have the most impact on the outcome? What have the results been elsewhere?

Here are some statistics from Baltimore

- Infant mortality rates dropped 38% between 2009 and 2015;
- Property crime decreased 2.2% between 2011 and 2016;
- The employment rate for 16-64 year olds increased 11.6% from 2010 and 2015;
- The number of jobs in Baltimore increased 6.2% between 2010 and 2016;

- 23% more people reported walking and 40% more people reported biking in 2015 than in 2009;
- Watershed bacteria levels were down 70% in 2016 from 2011 levels; and
- Usage of recreational facilities increased 89% between 2011 and 2016.

Now, all of this would be a sea change for Connecticut. But I submit that if that wasn't what was necessary, all of you wouldn't be here. I give the legislature credit for understanding that change was needed, that it was unlikely to spring from the legislature alone, and that an experienced Commission was needed to shock the system.

I'm afraid that if you do less than that so much good work could end up not being implemented. We simply can't go about things in the same way as before, and hope for better outcomes, even if we do bring in a talented Commission from time to time to help right the ship. So, I would even go so far as to suggest that a member of this Commission – or perhaps two or three – become members of the Leadership team and the Results teams, as I have outlined them.

Sometimes all of this reminds me of muscle memory, which is tremendously helpful in athletics or music, but not so good in budgeting. Muscle memory is described as an unconscious action. And the experts say the way to override it is with conscious effort, with strong concentration. That is precisely what's needed here.

It's not easy, and I know you don't underestimate the task ahead. But neither do any of us involved in government or the development of public policy – and we see this as a real opportunity – perhaps Connecticut's last best opportunity. Formidable, but an opportunity. Change isn't easy, and that may be especially true in the Land of Steady Habits, but the time has come.

As I mentioned at the outset, other governments have been down the outcome-based-budgeting road, and walked this walk. They have developed some helpful hints, which I'd like to share, and which I believe are both instructive and insightful. Here are a handful of tips for replicating this approach, as identified through Baltimore's experience, and seen through the prism of Connecticut:

- **Get Ready for a Fundamental Shift:** Outcome budgeting shifts the attention from agencies to outcomes and results. One big benefit of this approach is how it opens up the black box of the base budget and allows government to prioritize spending based on desired outcomes. Shedding light on spending and impact is at the heart of a well-managed government. Yet, most governments' budgets are managed by agency and they may bristle at a new approach.
- **Leaders Need to "Own It":** Buy-in and participation at the highest levels of government is crucial, but to achieve the full potential of outcome budgeting, looking forward, whether to the upcoming budget cycle or thereafter, the Governor and the Governor's leadership team needs to own the

process and make all major budget decisions through this framework for it to truly become the new normal.

- **Create an Environment for Collaboration:** All too often, agency fiscal and program staff do not work together to develop budget proposals or ways to improve operations. Outcome budgeting creates opportunities for conversation and collaboration both within and across departments to propose a new, more effective way of delivering services. That can be particularly important, as programs cut across various agencies, or program priorities have roots or components across agencies.
- **Communication is Key:** Agency leadership may hesitate to tie funding to performance for fear of losing funding. Reduce hesitation by communicating how agencies can keep or increase funding if they show that their services are a high-priority and have an improvement plan that is backed by evidence.
- **Provide Opportunities for New Leaders to Emerge:** The Results Team structure can identify promising young professionals who have acquired extensive agency knowledge, made connections, and enhanced collaboration through their involvement with the budget process. Those individuals can prove incredibly valuable not only in sustaining this approach, but making it less the exception and more the norm. And that should reverberate throughout government, and ultimately lead to public confidence in the process, and the workings of its government.

Currently, in Baltimore, more than 150 applications are received each year for membership on the Results Team, and the City now uses this process to recognize new talent. That's an important dividend that would be equally important in Connecticut.

What are the **Next Steps**?

Here's how it could work in Connecticut, if I could sum up the approach:

- Set the price of government at available revenues.
- Determine top 6-10 priorities and allocate the available revenues to the priorities.
- Create a Leadership Team of Executive and Legislative Branch and outside experts to guide the process. Ensure, preferably through legislation, that process outcomes are adopted by existing government organizations. With the assistance of expert technical staff, start by creating a rough allocation of the revenues to the top priorities.
- Create Results Teams for each of the 6-10 priorities. Each team will have access to the Office of Policy and Management and outside analysts, and will be asked to determine where to put the money to get the best results. It may be necessary to set aside staff time to take on this challenge, and there may need to be some elements of our traditional processes incorporated, at least initially. But at least we'll be moving in the right direction.

Connecticut has often turned to Task Forces – not unlike this one - to address critical issues, and often their recommendations do not reach the budget. I share your hope that this time, that will be different. And that it will be the beginning, not the end, of a trend.

So, for example, let's continue to utilize top experts, including members of this Commission, put them on these results teams, along with representatives of the executive and legislative branches, knowing that their recommendations will then be reflected in the budget. We can also:

- Adopt strategic program area reviews for each of the top 6-10 areas by reviewing two strategic areas each year.
- Reorganize the Budget division at OPM and the Appropriations subcommittees around the top priorities, rather than individual agencies.
- Bring the reports of the results teams together to form the budget outline.

Conclusion

I believe that an inclusive, data rich, outcomes-based approach to our state budget, setting clear priorities from the start and working from there, with buy-in from decision-makers from the beginning and every step of the way, can – and should - be the goal.

We need to ask the fundamental questions at the top – what do we want to buy, and how much does it cost? In Connecticut, we may choose to spend a little more to have the government we prefer. But that needs to be an informed choice from the start, because chasing after funding to pay for things we're not even sure we want just isn't working.

I don't think there is much disagreement that it's got to change. The question is, to what? I am convinced that the process I've outlined here, which has worked elsewhere, is an approach that can help us do a better job and achieve better results. And I believe that we have the talent and the tenacity to do this.

Put another way, we're all familiar with the phrase "where there's a will, there's a way." I believe this is the way, and I am confident that we have the will. The result will be more fiscal stability and greater economic growth - welcome news for businesses and residents all across our state.

I'd be happy to respond to any questions you may have.

Link to Baltimore Study: <https://results4america.org/tools/case-study-baltimore/>