

# **CHALLENGES FOR CHANGE: RESULTS FOR VERMONTERS**

**STEERING TEAM REPORT TO THE  
JOINT LEGISLATIVE GOVERNMENT ACCOUNTABILITY COMMITTEE**

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## WHAT IS A “CHALLENGE?”

In 1961 there were no proposals on how to get to the moon. In fact, NASA engineers were appalled when President Kennedy challenged them to find a way to get there by the end of the decade. Leaders should not put a thought out there, they reasoned, unless there is certainty that it can be realized. And if the President had said “My consultants have a plan to get to the moon,” NASA engineers’ first reaction would be to tell him why the consultants are wrong. Kennedy, on the other hand, knew that real change begins not with known certainties, but with bold aspirations; and he knew NASA had great people who could figure it out if they were pushed to do so.

Similarly, the process of reforming Vermont government services is not *beginning* with proposals developed by outside consultants. Rather, the development of specific proposals is best done by fully engaging Vermont state executives and lawmakers. Innovation starts with questioning old assumptions. Each of the challenges that is being put forth suggests the strong possibility that redesigning the way services are delivered can produce better outcomes with less cost. And, some key design principles for a new way of doing things are offered with each challenge.

The best challenges have these features:

- **A good challenge is unequivocal.** These challenges don’t ask people if they can find savings. Rather, in these challenges, the savings are **taken** in the FY11 and FY12 budget process. There is no argument about money. The money is not there to spend. The challenge is to deliver the same or better result *with the money that is available*.
- **A good challenge is bold.** Most of the meat of these challenges comes, not from PSG, but from people in the legislative and executive branches of Vermont state government. Yet most of these ideas are too bold for an individual to raise without being immediately shot down by the forces of the status quo. This process is allowing bold ideas at least to be put on the table for dialog.
- **A good challenge is framed in terms of value.** From the citizens’ perspective, value is *results produced for the dollar*. Value is a ratio. These challenges are not just about money; they are about better results with less money. In contrast to a “cut,” challenges give Vermonters hope that at least some of the budget balancing solution will be a winner for them.
- **A good challenge involves support.** These opportunities outlined in the following pages challenge people to stretch in terms of the value they offer, but also provide them with some tools to succeed. One-time investments associated

with many of the challenges are one form of support as are some of the “redesign options” offered with each challenge.

### **How will these ideas germinate and grow?**

Our experience suggests challenges like these are a good way to start the process of change. One way or the other, the budget will be adjusted to a spending level Vermonters can tolerate. Changing the way services are delivered so that results can improve despite less money, however, will require a lot more work.

These are the rough stages that will follow:

1. **Design.** Meeting these challenges means applying new kinds of thinking to the specific areas involved. It won’t happen naturally. We are all too conditioned to think in the same old ways. “Design” can be a structured, rapid process for adding a lot of the necessary meat to the bones of these challenges. *It can even take place during the upcoming legislative session* so that legislators and the Governor can see more specifics before approving the concept. Good designs can be produced in two to three weeks if the design process is intensively supported with people facile in new thinking.
2. **Detailed Planning.** Designs provide a blueprint; construction plans are also necessary. Here, again, champions of change must produce urgency by demanding rapid planning. Normally, doing our regular jobs comes before planning something new. We turn our attention to the new thing as the calendar permits. West German Chancellor Kohl’s cabinet told him it would take 10 years to plan the reunification of West and East Germany (at his demand, they planned and reunified in eight-and-a-half months). Detailed planning can also be done in a matter of weeks.
3. **Dealing with resistance.** There will be great resistance to every one of these challenges. This is natural; in fact, it is desirable because the resistance can teach us what we need to know to make the changes successful. We have found that the best approach is not to try to overcome the resistance, but rather, to embrace it. Embracing the resistance does not mean yielding to it. On the contrary, it means persisting but also learning from it. Beginning with the Steering Team, and soon thereafter with the Governor and legislators, this process will commence as soon as the challenges are released. Only persistent committed leadership will sustain the challenges through the pressure of the resistance. These challenges each need champions willing to provide that leadership.
4. **Supporting Implementation.** Those charged with implementing these ideas will need support from the Governor and the General Assembly. Theirs is not an easy task. Once they see that this is a change that is going to happen, new champions will emerge and carry the concepts to fruition.

5. **Promoting Learning.** What is learned from making these changes will be the fuel for many other innovations. The learning must be captured and it must be instilled. As instigators of the change, the Governor and General Assembly need to refrain from engaging in efforts to give credit or attach blame. Rather, it is most powerful to keep asking the question: “What are we learning?” This is the best way to hold people accountable for meeting the challenges.

#### **What is the fiscal impact of the challenges?**

The eight challenges issued here will address an estimated \$38 million general funds and \$12 million in property tax pressure in FY 2011. In FY 2012, after full implementation, it is estimated to reduce spending \$72 million in general funds and \$26 million in property tax pressures.

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# General Government

# 1 - Charter Units

## The Challenge

Select units of state government will be held accountable for producing and improving measureable results while spending \$2 million (GF) less in FY11 and \$4.5 million (GF) less in FY12, or generating a like amount in entrepreneurial (non tax or fee) revenue.

## Redesign Options

Units of government, which could be an agency, a department, a program or a project, will have the option to enter into Charter Agreements. These Charter Units will pioneer a new “bureaucracy-busting deal.” Charter Units may be selected by asking for volunteers or by inviting a few trusted unit leaders to be accountable for improving results and spending fewer general funds or generating additional revenue. In return, they are exempt from many bureaucratic requirements. Charter Units will lift their eyes from *rules to results*.

Charter Units are authorized by legislation, and commitments are documented in annual Charter Agreements, negotiated and signed by each unit leader and the Governor. Legislation may require periodic progress reporting to legislators. Charter Units must collectively contribute a very modest percent of their total general fund operating budgets totaling at least \$3 million in 2011, and \$5 million in 2012, with investment dollars set aside each year to foster Charter Unit innovation.

## One-time Investment

For each year Charter Units are authorized, an investment will be made available in a Charter Unit grant fund to foster innovation. Charter Unit applications may request funding to streamline processes and improve services. Investment of \$1 million will be made in FY11 and \$500,000 will be made in FY12.

## The Bottom Line

	FY 2010 (in Millions)	FY2011 (in Millions)	FY2012 (in Millions)
<b>Appropriation</b>	\$1,477.3 All state less TF, EF, Debt, and Tax Relief		
<b>Charter Unit Results</b>		Outcomes in Charter Agreements	Outcomes in Charter Agreements
<b>Investment</b>		\$1.0	\$0.5
<b>Net GF Savings</b>		\$2.0	\$4.5

## 2 - Performance Contracting and Grant Making

### The Challenge

Get better outcomes from contractors and grantees at a 3.5% lower cost in FY11 and 10% less cost to the state in FY12.

### Redesign Options

It is estimated that Vermont executes a total of \$200 million worth of contracts and grants each year. All but a very few of these contracts pay vendors for hours or other units of effort, *not for results*. You get what you pay for.

The federal government and many state governments are putting increased emphasis on using measured results as the determinant of payment. This is not essentially a “bonus” system but rather paying when an outcome is delivered rather than paying when an hour is devoted to the work. There is considerable evidence from these cases that when you pay for outcomes you get better outcomes (often at less cost). If, on the other hand, you pay for effort, you will get more effort. Vendors and grantees tend to do that which earns them the most money.

But revenue isn't the only consideration for vendors and grantees. Vendors are also very interested in profit and grantees are interested in minimizing administrative costs. Most of them will emphatically agree that the cost of delivering services to most governments is considerably higher than the cost of delivering such services in the private sector. There is a lot of red tape; the state of Vermont pays for this red tape in higher contractor fees and grant administration allowances. In the best practices, performance contracting also means that the state carefully reviews with the vendor or grantee all of the requirements, reports, and other obligations *with an eye toward reducing the cost of compliance for vendors while still maintaining compliance with essential conditions*. Such a review can significantly reduce the cost of compliance for the vendors and grantees and therefore, the price of the contract/grant.

Performance contracting can be initiated in the solicitation process. But existing contracts can also be renegotiated—especially multi year contracts. In either case, performance contracting means *negotiating* with the vendor a contract that (a) reduces the total price, (b) reduces red tape, and (c) pays for results.

**Experience shows that savings upwards of 15% of the contract value can be achieved even as results are also improved.** Design options for pursuing this opportunity include the following steps:

- Capture 3.5% savings in FY11 and 10% savings in FY12 by reducing the appropriations associated with these contracts and grants by that amount.
- Put all contractors and grantees on notice that they, too, are expected to shoulder some of the fiscal pain.
- Challenge state agencies to immediately begin developing performance agreements with new and existing vendors and grantees.
- In FY11 provide agencies with an outside resource experienced in performance contracting to help with the development of RFP's and the renegotiation of existing contracts.
- Bring on-line in FY12, a very small unit in the Secretary of Administration's office that promotes and oversees performance contracting and performance grant making.
- Build a simple information system that informs policy makers and the public about what results Vermont is getting for its professional service contract dollars.

## Investment

In FY11 and again in FY12, a one-time investment of \$500,000 will be made available to the Secretary of Administration to (a) build a simple information system that tracks personal service contracts; and (b) contract for help in negotiating performance contracts.

In FY12 an office of performance contracting will be established; over the course of the year they will take over the management of performance contracting from the temporary outside resource engaged for this purpose.

## The Bottom Line

	<b>FY 2010</b> (in Millions)	<b>FY2011</b> (in Millions)	<b>FY2012</b> (in Millions)
<b>Appropriation</b>	\$200m Gross (includes grants - no TF construction included)		
<b>Index of Results</b> <b>% Contract/Grant</b>			
<b>Investment</b>		\$0.5	\$0.5
<b>Reallocation for</b> <b>Oversight</b>			\$0.5
<b>Net Total Savings</b>		\$6.5	\$19.5
<b>Net GF Savings</b>		\$2.6	\$7.8

# Protection Function

The Judiciary was charged separately to review and redesign systems to achieve a specific savings target. This was not included in the PSG scope of work. The Commission on Judicial Operation which was created by an act of the Vermont Legislature in May 2008 and charged with conducting a thorough review of Vermont's court system, with the goal of providing for more efficient and effective delivery of judicial services. In May 2009, the Commission was further directed to identify at least \$1 million in savings in the FY 2010 budget. The proposal is available online at [www.vermontjudiciary.org/MasterPages/WhatsNew-CommissionJudicialOps.aspx](http://www.vermontjudiciary.org/MasterPages/WhatsNew-CommissionJudicialOps.aspx).

With the Judiciary proposal, there is the potential for changes and investments at the criminal justice and protection organizations that impact the Judiciary. Such changes could result in savings to these organizations and complement the Judiciary proposal as well as the Corrections and Regulatory Challenges included in this report.

# Human Services

# 3 - A Client Centric, Results-Based Human Service Package

See also Parts A thru D

## The Challenge

To redesign the State's human service and health care delivery model into a client-centric, integrated system that improves outcomes while being affordable within tight budget constraints. Four different applications of this concept (Parts A-D) are presented as individual challenges in this package. There are undoubtedly other client centric applications in the human service arena.

## Summary of Current System Weaknesses

State human service professionals struggle to create unified and integrated support to consumers and communities. The existing operating environment is rigid and often hinders coordinated policy and practice, as well as inadvertently promotes redundancy and inefficiencies, while failing to address a person or family's multiple, interrelated needs. Federal funding is a primary – although not the only – contributor to this deficiency as it supports an array of public sector human services that operate in programmatic, fiscal and reporting silos.

The administration of financial standards is one of the most complicated and costly components of the eligibility process. Standards vary from program-to-program and caseworkers – as well as applicants and beneficiaries – often have a difficult time understanding what is required and what is not. Program differences relative to income and resources tests often create disincentives and inequities for those moving towards self sufficiency.

Along these lines, redundancies in service delivery are also evident. Some clients interact with a number of caseworkers and/or agencies to receive services that could be better organized by a single person who is given the discretion and flexibility to address the problem comprehensively and align necessary direct services for the client. Today, disparate federal efforts provide categorical supports that do not foster personal growth.

Further, the current system is largely designed to pay providers through fee-for-service units rather than through bundled or capitated payments or paying for outcomes. In addition, the same provider may have a number of contracts with the State for different services for the same client, thereby increasing the complexity of tracking outcomes to reward results.

## Overall Vision

### *The Client*

The State’s vision begins and ends with the client. Adopting best practices from Vermont’s groundbreaking *Blueprint for Health*, human service clients will have a “medical home” for state services where a “community care team” will help guide them to self-sufficiency using an integrated, individualized approach.

This approach will make the myriad of federal and state programs invisible to the client. Instead of receiving separate assistance from WIC, fuel assistance, food stamps, Reach-Up, and child care subsidy, a primary care manager could comingle funds or service allocations into one budget – and then clients would create self-sufficiency plans (“exit strategies”) designed to move them out of poverty as quickly as possible.

These plans would consider the “cliff study” and be designed to reward individuals or families for positive outcomes, rather than create disincentives for progress. Further, instead of a number of programs subsidizing partial needs, these plans will allow clients to make decisions much like non-subsidized families do and further develop their self-sufficiency skills.

### *The System*

To achieve this client centric approach, the State will seek to redesign the delivery system through the more effective and efficient alignment of financial and staff resources across public sector programming, such as economic benefits, social services, health and human service programs. The focus will shift from one of units of service or single benefit packages to one of quality and results. Developing more integrated and streamlined client and fiscal management strategies will reflect:

- ❖ A holistic and consistent framework for assessing and prioritizing needs;
- ❖ Single-point, unified intake and care management consistent with principles used in the *Blueprint for Health*;
- ❖ System maximum communication and effective use of benefits are applied when more than one service or type of support is being provided to a single consumer or family;
- ❖ Intelligent data collection and analysis at state, provider and client level to support the ongoing assessment of service quality, financial metrics and organizational improvement; and
- ❖ Linking payment to results.

The state will redesign service delivery to work seamlessly across federal programs to:

- ❖ Create more efficient administrative processes and oversight requirements at the State and provider level;
- ❖ Eliminate duplicative business processes, program monitoring and fiscal and data reporting requirements and thus reduce implementation costs;

- ❖ Create more efficient payment mechanisms that combine funding streams, create incentive reimbursements and move to performance based contracting rather than individual fee-for-service payments or traditional economic and social benefit options;
- ❖ Prioritize initiatives based on the demographics, risk factors and specific needs of its citizens.

### ***Federal Waiver***

In order to derive maximum benefit from the redesign, the state will seek a *Global Commitment*-style super-waiver from Washington that covers all human service programs across a number of federal agencies, including HHS, USDA, and HUD. The waiver will provide for unprecedented flexibility from federal requirements. The state will pass the flexibility granted by the federal government through to its service providers. Additional flexibilities should not be construed to release the state or providers from obligations to ensure that consumer rights are protected and payments are appropriate.

While a federal waiver is preferable, the overall redesign should not be contingent on the waiver. In fact, the overall project should be structured on independent tracks, so if any one track fails, the other tracks would be unaffected. As tracks ultimately intersect and join together, the whole of the project will be greater than the sum of its parts.

### **Technology is the Key**

While the state works on actual program integration as described above, we can use technology to harmonize programs from the client's point of view to achieve better outcomes and to deliver better service with fewer resources.

Conceptually, each client of the state will start with a web page, which, after initial registration, will become the online point of entry for the state. This system will be designed so that data entered for one program such as employment status, income, number of dependents, etc. will not have to be reentered for another program. The portal will be client centric rather than program-oriented; it will serve as the front end to rules-based logic which will determine which programs and benefits and services the client is eligible for, based on a single flexible rules engine. New services can be added by subject matter experts who do not have to be programmers.

Since not all clients have access to either the internet or to the equipment, knowledge, or motivation to use it, state offices will have kiosks where functionality will be available with touch screen, document, and card reader capability. A successful model for this system is airline check-in, where all travelers are encouraged either to perform functions online or at the kiosk where attendants are available to instruct and help. This is a basic change from the old service paradigm of a client waiting in a line, finally talking to an

agent across a desk or counter, and the agent doing data entry. This would free time so staff can more fully assist clients with profound needs.

## **Application of These Principles**

Thus far, this client centric package consists of four specific applications of the principles described above:

- Part A: Client Centric Intake and Care Management
- Part B: Empower Families to Support Their Elderly
- Part C: Purchasing Results, not Units of Service
- Part D: Focus Designated Agencies on Client Outcomes

# Part A - Client Centric Intake and Care Management

## The Challenge

Improve the outcomes for AHS clients while spending 5% less in FY11 and 10% less in FY12.

## Redesign Options

Intake into Vermont's human service system - especially for children - occurs through many different portals. Then care is managed by a disparate group of professionals who share a commitment to serving clients, but see cases through different perspectives.

What if Vermont's human service intake was unified and systematized statewide, with an eye toward not only good client outcomes but also the use of highest value interventions, and avoidance of duplication and overlap? What if intake and care management professionals knew as much about service cost effectiveness and resource maximization as they do about good care? For example, AHS is aware that Federally Qualified Health Center pharmacy pricing is lower than regular Medicaid; and is actively pursuing how to steer more of the qualified people to the FQHC for their medications. This kind of re-direction could occur in many other interventions.

Vermont human services could be re-tooled, retrained and recommitted to getting the most out of limited resources. Challenge AHS to redesign its intake and case management approaches and thereby achieve productivity gains. A modest challenge could involve expecting a 5% productivity improvement (\$10 million savings) in FY11 and a 10% productivity improvement (\$20 million) in FY12 and thereafter. Depending of Vermont's fiscal realities, the challenge could be more demanding and still be realistically achievable.

Some design elements for a new approach might include:

- Develop a unified eligibility and intake strategy; perhaps consolidate the functions even though eligibility standards and criteria vary greatly from one human service program to the next.
- Develop an integrated tracking system that is client centric rather than program centric.
- Braid federal and state funding streams into a single delivery system focused on the client or the client/family.

- Expect case managers—whether state professionals or those under contract with the state—to manage to a set of outcomes rather than to manage programs.
- Build delivery systems around the client and client needs rather than around programs and organizations. Use state dollars strategically to break down the walls of programmatic silos.

## One-time Investment

In FY11 and FY12, one-time investments of \$2 million will be made available to the AHS for initial design, research and planning, protocol development, IT support development, and training.

## The Bottom Line

	<b>FY 2010</b> (in Millions)	<b>FY2011</b> (in Millions)	<b>FY2012</b> (in Millions)
<b>Appropriation</b>	\$200.0		
<b>Cost Containment</b>			
<b>Access</b>			
<b>Quality</b>			
<b>Investment</b>		\$2.0	\$2.0
<b>Net Total Savings</b>		\$8.0	\$18.0
<b>Net GF Savings</b>		\$3.2	\$7.2

# Part B - Empower Families to Support Aging Vermonters and Individuals with Disabilities

## The Challenge

Maintain or improve service quality to aging Vermonters and individuals with disabilities while spending 2% less in FY11 and 5% less in FY12.

## Redesign Options

Aging demographics and reduced public resources may be requiring Vermont to reconsider its expectations about whom it can afford to serve. Could the state raise the criteria for service eligibility for the most able elders and individuals with disabilities, and convert part of the savings into less formal, service assistance grants to offset the cost of care supports for these people? Or to more family and caregiver supports? Some elements of the redesign might include:

- Analyze and adjust the eligibility criteria for the most able elders and individuals with disabilities.
- Design a flexible assistance program for the affected population.
- Engage such clients and their families in the redesign process in order to find the critical value/cost leverage points
- Research best practices for family and caregiver support programs (e.g., promising research about effectiveness of counseling programs for caregivers of people who suffer with early stage Alzheimer's Disease.)

In FY10 spending on supporting older Vermonters and individuals with disabilities in all settings totaled \$172 million. Of that about 40% is state GF dollars and the balance federal funds. Pursuing a 5% saving strategy over the next two years creates an opportunity that involves cutting that amount from the long term care budget as service grants and supports are redesigned.

## One-time Investment

An investment of \$500,000 is required in FY11 for designing the new system, IT system modifications and transition planning.

## The Bottom Line

	<b>FY 2010</b> (in Millions)	<b>FY2011</b> (in Millions)	<b>FY2012</b> (in Millions)
<b>Appropriation for elderly service in community/home</b>	\$172.0		
<b>Ability to Age in Place – Client/Family/ Provider Surveys</b>			
<b>Investment</b>		\$0.5	\$0.5
<b>Net Total Savings</b>		\$2.94	\$8.10
<b>Net GF Savings</b>		\$1.18	\$3.24

# Part C - Purchasing Results, not Units of Service

## The Challenge

Improve the state's overall human services outcomes while spending 5% less in FY11 and 10% less in FY12.

## Redesign Options

Vermont purchases most human services through fee-for-service units, paying providers "hit by hit" rather than through bundled or capitated payments or paying for outcomes (e.g., successful permanent placements for children in custodial care). What if Vermont embarked on a system-wide effort to change the incentives for the way it delivers human services? What if it endeavored to always buy results for people, not just pay for service activities? Some options for redesigning the way the state contracts for such services might include:

- Establish a high-level AHS Purchasing Redesign Project
- Invest in building credible outcome measurement infrastructure
- Subject every purchasing activity to a rigorous analysis -- What are we buying? How do we know we're getting it? How could the way we buy it increase the value through better outcomes and lower costs?
- Design results based mechanisms in areas where major purchases are made
- Renegotiate existing contracts to be results based
- Make streamlining the red tape burden on the contractors an important part of the renegotiation
- Design results-based purchasing strategies for new contracts
- Create regular forums for capturing learning from applications of these principles in various areas

Experience with these approaches in other settings suggest double digit savings can readily be accomplished through the combination of a focus on results, a reduction of unnecessary red tape, and firm but open negotiations with affected contractors. A very modest challenge would be to expect 5% improvement in FY11 and 10% in FY12. If Vermont's fiscal conditions so dictate, a more aggressive challenge could be realized.

## One-time Investment

This is a big change. It will require a lot of thought by and dialog among the affected parties. *Under investing in support of the change is the number one reason why other such efforts have fallen short of expectation.* And, doing this properly requires a credible measurement infrastructure so that there is accountability in performance-based arrangements. Simple new information systems will also smooth the implementation of this approach. Therefore, in each of FY2011 and FY2012, a one-time investment of \$1 million will be made available to AHS to realize the challenge.

## The Bottom Line

	<b>FY 2010</b> (in Millions)	<b>FY2011</b> (in Millions)	<b>FY2012</b> (in Millions)
<b>Appropriation</b>	\$380.0		
<b>% of results delivered in the new procurement grant process</b>			
<b>Performance pilots as models</b>			
<b>ROI measure for MCO Investments</b>			
<b>Investment</b>		\$1.0	\$1.0
<b>Net Total Savings</b>		\$18.0	\$37.0
<b>Net GF Savings</b>		\$7.2	\$14.8

# Part D - Focus Designated Agencies on Client Outcomes

## The Challenge

Improve the outcomes produced by the 17 legislatively designated agencies while spending 5% less in FY11 and 7.5% less in FY12.

## Redesign Options

Vermont has contracts, totaling \$272 million per year, with 17 “designated agencies” to deliver community mental health services and services for the developmentally disabled. By law, the providers do not compete for business. Yet, there is an opportunity to use competitive incentives and enhanced collaboration, so that they each are motivated to create better results for the money.

The challenge, here, is to expect these instruments of Vermont’s human service delivery system to help address Vermont’s fiscal issues by improving their productivity up to 7.5% over the next two fiscal years. And, to give them help in doing so.

The 17 agencies meet regularly in various forums for coordination and sharing. How could performance and cost data for each of the 17 be collected and shared in order to incent and facilitate better sharing and implementation of best practices? How could administrative services be shared and jointly administered by these providers to create cost savings? This challenge involves adjusting how we pay the designated agencies to capture the savings. Then, help them plan new ways to do their work.

Some design options for a better arrangement with the designated agencies might include:

- Careful and regular collection and reporting of outcome and cost data of the designated agencies.
- Statistical “leveling of the playing field” to make results comparable among providers with differing caseload difficulty, and socio-economic realities.
- Create a design that allows the agencies to share administrative services and provide incentives for such
- Streamline the red tape involved
- Focus on the high performers; develop and disseminate best practices from their experience.
- Use performance information as a learning tool to improve designated agency performance and cost effectiveness

## One-time Investment

In FY11, a one-time investment of \$500,000 will be made available AHS to launch this collaboration, develop the performance measurement, and facilitate the service sharing.

## The Bottom Line (Millions)

	<b>FY 2010</b> (in Millions)	<b>FY2011</b> (in Millions)	<b>FY2012</b> (in Millions)
<b>Appropriation</b>	\$272.0		
<b>DA client/family perception of service quality and impact in client</b>			
<b>Investment</b>		\$0.5	
<b>Net Total Savings</b>		\$13.10	\$20.40
<b>Net GF Savings</b>		\$5.24	\$8.16

## 4 - Corrections Rebalance

### The Challenge

Improve the recidivism rate and community safety while spending 8% less in FY11 and FY12.

### Redesign Options

Vermont may be incarcerating some offenders who do not need to be incarcerated and would be less likely to recidivate if not incarcerated in traditional setting. Substance abuse treatment that uses early evidence-based intervention can, also, reduce recidivism. The December 2007 report by the Department of Corrections, “Plan to Reduce Correctional Costs and Achieve Savings for Reinvestment” provides a number of design elements that can be implemented while improving recidivism and community safety outcomes (freeing up 219 beds for short term non violent and transition housing could result in the savings). There are current positive examples of new designs such as Northern Lights and Return House. Vermont has a history of using restorative justice that should provide learning for the redesign. Some design options for reducing the prison population include:

- Lower cost alternatives for public intoxication – including expanding the Chittenden County pilot
- Establish lower cost alternatives for weekenders
- Probation time limits for non-violent offenders
- Identify lower cost alternatives for non-violent offenders with terms of less than 90 days
- Increase substance abuse treatment interventions at evidence-based appropriate times
- Provide increased transition housing of at least 200 beds in 2011
- Either close a state facility or move out-of-state placements in state to replace beds used currently by non-violent less than 90-days offenders, weekend sentenced offenders and or offenders lacking transitional housing

### One-time Investment

In FY2011, a one-time investment of \$5 million will be made available to the Department of Corrections to establish a transition housing program, weekender program, chemical dependency treatment programs, and other measures that evidence shows will decrease recidivism.

## The Bottom Line

	<b>FY 2010</b> (in Millions)	<b>FY2011</b> (in Millions)	<b>FY2012</b> (in Millions)
<b>Appropriation</b>	\$127.0		
<b>Recidivism Rate</b>	One Year 29% Two Year 42% *Three Year 50%		
<b>Investment</b>		\$3.0	\$2.0
<b>Savings (GF)</b>		\$7.0	\$8.0

\* Source is Facts and Figures FY 2008, Vermont Department of Corrections, p. 121

# Education

## 5 – Focus on Learning

### The Challenge

Improve student learning and growth (graduation rates) while spending less on administration, specifically 5% less in FY11 and 15% less in FY12. In FY12, 25% of the savings will be reinvested in instructional activities.

### Redesign Options

This approach does four things:

1. In FY12 it reduces education spending on administration by \$40 million which is about 15% of total school spending on administrative functions.
2. It reallocates \$10 million of that administrative money to instructional activities; and it provides new mechanisms for investing that money.
3. It provides \$2 million in FY11 for special one-time investments that make this design work.
4. Net savings after investment will be used to reduce property taxes (65%) and the state General Fund budget amount (35%).

There is an opportunity to speed up Vermont’s “Transformation in Education”. Because of the large number of relatively small school districts, Vermont is spending more money on administration and governance of its education system than is most effective or efficient. Consolidation is politically difficult in many communities. An alternative is to create incentives for consolidation and sharing in the administrative and “back office” functions.

The reform can be started by reducing spending on administration/governance by 15% (\$40 million) and increasing spending on instruction by \$10 million. This would force school districts to find more efficient ways to provide administrative services **and** increase the time spent and focus of people in the system on children learning. Wider learning opportunities could be provided students throughout Vermont. That is the demand side of the equation.

At the same time we are suggesting some design elements that could facilitate administrative streamlining and sharing as well as supporting a strategic reinvestment of the \$10 million in student learning.

Potential design elements that help reduce administrative and governance costs:

- Incentives to reduce the number of governing units and school buildings through the reduction of administrative/governance funds. Set basic standards for administration and only fund (from the Education Fund) to that level.

- Place a ceiling on the amount the state will reimburse for administrative expenses. For example, benchmarking funding reimbursement for administration to national average or median spending per pupil on administration. Vermont's administrative spending is significantly above these levels currently some estimates are at 190%.
- Move to a larger unit (regional/state) contract for teachers that includes performance incentives based on student learning.
- Create a statewide master contract for therapists and other professionals hired by schools that has approved rates, and pay based on performance.
- Establish on-line mechanisms that encourage schools to purchase from statewide commodity contracts (paper, supplies, etc.).
- Increase e-procurement for schools.
- Pre-qualify vendors across the state.

Potential design elements that help the reinvested dollars promote student learning:

- Create mechanisms that promote distance-learning initiatives.
- Use a results based approach to investing the \$10 million. Don't just spread it around to school districts. Use the money to promote collaboration.

An additional design element should also be considered. Make all Vermont schools charter schools. Make the schools accountable to the chartering organization (probably the local school board) for student achievement outcomes. Keep the school boards focused on getting the best outcomes for their children rather than on running schools. Leave each school with the freedom to use its funds in the best way it sees fit to produce learning outcomes including the freedom to create regional or statewide collaboratives for any and all administrative functions. Give the school boards the choice of purchasing, on behalf of their children, some educational services from charter schools located in other districts or from other chartered educational organizations (such as distance learning) that serve regions or the whole state.

## **One-time Investment**

In FY11, a one-time investment of \$2 million will be made available to the Department of Education to establish sharing and collaboration mechanisms, regional or statewide solutions to particular administrative functions, and to give school districts results based alternatives for investing the additional \$10 in student learning in FY12.

## The Bottom Line

	<b>FY 2010</b> (in Millions)	<b>FY2011</b> (in Millions)	<b>FY2012</b> (in Millions)
<b>Appropriation GF</b>	\$280.0 (includes \$38.5m ARRA)		
<b>Total System-wide Admin spending</b>	\$266.6		
<b>Graduation Rate</b>	91.26%*		
<b>Investment</b>		\$2.0	\$10.0
<b>Net Total Savings</b>		\$11.33	\$30.0
<b>Net GF Savings</b>		\$3.97	\$10.5
<b>Tax Rate Savings</b>		\$7.37	\$19.5

\*Source is State of Vermont Part B Annual Performance Report for FFY 2007, Vermont Department of Education

## 6 - Special Education Incentives

### The Challenge

Improve student graduation rates while spending 5% less in FY11 and 7.5% less in FY12.

### Redesign Options

Redesign of Vermont's special education services can revolve around three key elements: First, special education outcomes (graduation rates, employment) can be improved by encouraging mainstreaming and local placement. Second, the amount of paperwork professionals are expected to do can be significantly reduced, thereby giving them more time with kids. This can also improve outcomes and reduce cost. Third, by increasing investments in "positive behavioral supports approach", "Vermont integrated instructional model" and "response to intervention model", better outcomes can be achieved.

Actions that help move to best practice:

- Gradually reduce state aid of 90% for those cases costing over \$50,000 annually (up to a reduction of \$8 million of state GF).
- Give the Commissioner discretion to pay some extra costs over a threshold for small communities that face unusual situations.
- Set dollar limit for out of state programs.
- Manage out of state placements at the *state* level.
- Develop a statewide master contract for therapists and other professionals hired by schools that have approved rates, pay for performance.
- Provide state certification of special-ed status to decrease variations and increase accuracy (range is currently 0% to 38.9% of a district's children).
- Secure a waiver from federal government on paperwork and/or find ways to streamline paperwork required of special education teachers.
- Create special-ed performance grants that pay school districts or organizations that support local school districts for results

- Invest in training and supports for mainstreaming and local placement.

## One-time Investment

In FY11, a one-time investment of \$1 million will be made available to the Department of Education to increase investments in support of local placement and mainstreaming and to establish statewide certification and contracts.

## The Bottom Line

	<b>FY 2010</b> (in Millions)	<b>FY2011</b> (in Millions)	<b>FY2012</b> (in Millions)
<b>Appropriation</b>	\$140.0		
<b>Graduation Rate</b>	80.62%*		
<b>Investment</b>		\$1.0	
<b>Total Savings</b>		\$6.0	\$10.5
<b>Net GF Savings</b>		\$2.1	\$3.68
<b>Tax Rate Savings</b>		\$3.9	\$6.83

\*Source is State of Vermont Part B Annual Performance Report for FFY 2007, Vermont Department of Education

# Regulatory Reform

# 7 - Regulatory Reform

## The Challenge

Increase compliance with state regulations while spending 3% less in FY11 and FY12, by redesigning the compliance process, reducing the compliance burden on the complier, and streamlining bureaucratic processes.

## Redesign Options

Raising compliance by spending less can be accomplished in two ways: 1) Winning compliance, and 2) Streamlining processes.

Winning compliance moves beyond the bureaucratic approach of promulgating regulations, inspecting, and penalizing violators through due process. Regulatory agencies have achieved more compliance at less cost by using these five strategies:

1. Engage the compliers in the rule making process,
2. Educate compliers about their obligations,
3. Make it easy for people to comply,
4. Give people constant feedback on their level of compliance (not just their non-compliance), and
5. Make compliance consequential (not just enforcement and penalties, but rewards, as well).

Streamlining bureaucratic processes could provide faster licensing and permitting without compromising quality standards. Experience has proven that generally people will comply with standards when the standards are clear and compelling. The state could generate a check list as clear guidance for compliance and self certification. Then the state could audit compliance selectively based on past compliance data. This will improve customer service and cost less.

There are multiple approaches for streamlining processes and reducing costs. For example, one state used the Kaizen continuous improvement approach to reduce the time to approve air quality construction permits from 62 days to six days, landfill permits from 187 days to 30 days, clean water construction projects from 28 months to 4.5 months, and wastewater permits from 425 days to 15 days. The Natural Resources Board could be combined with the Environmental Court to streamline the appeal process and save money. Regulatory agencies could designate consumer advocates to guide consumers through the complicated permit application processes.

## One-time Investment

In FY2011, a one-time investment of \$500,000 will be made available as seed money to win compliance, invest in technology improvements, or facilitate streamlining projects.

## The Bottom Line

	<b>FY 2010</b> (in Millions)	<b>FY2011</b> (in Millions)	<b>FY2012</b> (in Millions)
<b>Appropriation</b>	\$57.2		
<b>Compliance rate</b>			
<b>Complier burden</b>			
<b>Investment</b>		\$0.5	
<b>Net Total Savings*</b>		\$1.22	\$1.72
<b>GF Savings</b>		\$0.36	\$0.51

\*reduction in non-general fund costs could be used to reduce licensing/permit fee amounts  
Base appropriation reflect ANR and Agriculture activities, there is the potential for inclusion of other regulatory entities in this challenge.

# **Commerce and Community Development**

# 8 - Implement an Economic Development Strategy

## The Challenge

Improve the economic development results (jobs, GDP, personal income) while spending 10% less in FY2011 and FY12.

## Redesign Options

One approach to economic development is to fund a number of programs that each produces some benefit. There is no accounting or measurement of the overall results of these programs. This appears to be Vermont's current model.

Another approach to economic development is to consider economic development in Vermont as an overall outcome, develop a strategy to produce the desired outcome and implement the strategy.

- Begin by identifying measurable results such as job creation, gross domestic product and personal income as the desired results for Vermont and select targets for those results.
- Second, understand what produces those results in Vermont, using proven research.
- Third, develop strategies, based on evidence that will get the greatest results for Vermont.
- Fourth, use investment dollars in the budget to fund those programs that best leverage the identified strategies by getting the greatest return on investment (*i.e. link the dollars invested to the results desired*).
- Finally measure the overall results in Vermont, the results of the strategies and the performance of the funded programs. Use the data to improve strategies and programs in order to improve the overall economic development results for Vermont.

The Unified Economic Development Report 2009 states that Vermont has a total general fund appropriation of \$34.27 million for economic development efforts. The report states the need for a clear definition of economic development and recommends performance measurement. Vermont has the opportunity to *invest strategically* in economic development rather than *distributing* its resources among programs or constituencies.

Consolidating economic development programs in order to save costs has been recommended. Rather than organizational consolidation it would be better and easier to integrate the programs strategically. By having a unified strategy and by allocating funds among the various programs on an outcomes basis, the advantages of integration can be

achieved while maintaining opportunities for experimentation and innovation that come from a disaggregated system.

Experience shows that outcomes can be improved even as the appropriation is reduced. This is particularly true if the investment strategy includes a competitive, results based approach (in contrast to an “entitlement” approach) to allocating economic development funds. A modest challenge would be to expect this sort of integration to produce a 10% savings.

## One-time Investment

In FY2011, a one-time investment of \$.3 million will be made available to develop a state economic development strategy and results based budget for these funds and to develop a results measurement infrastructure that holds programs accountable for contributing to the strategy.

## The Bottom Line

	<b>FY 2010</b> (in Millions)	<b>FY2011</b> (in Millions)	<b>FY2012</b> (in Millions)
<b>Appropriation</b>	\$34.3		
<b>Jobs created</b>	March 08-09 -9,613		
<b>GDP</b>	2008 21.697		
<b>Personal Income</b>	2008 \$38,686/cap		
<b>Investment</b>		\$0.4	
<b>Net GF Savings</b>		\$3.03	\$3.43

# **Ideas to Consider For Longer Term Implementation**

# Purchase Health not Procedures for Public Employees

## The Challenge

Improve the quality of Vermont public employee health care while spending less in the future through pooling purchasing power that can bring a large pool into alignment with the Vermont Blueprint for Health.

## Redesign Options

Health care for public employees is now purchased by the state, by individual municipalities, and by separate school districts throughout the state. Over \$310 million is spent annually. They are all public employees, spending public dollars for health, but they are not taking advantage of their collective purchasing power. Vermont could pool the health care purchasing for ALL its public employees—state actives, state retirees, teachers, municipal and county—and triple its purchasing power, giving this group a significant impact on health care throughout the state. Some features of this pooling might include:

- Leveraging increased purchasing power to negotiate better health care outcomes for lower rates
- Increase number of options for many employees now in smaller groups
- Use the volume to negotiate “total cost of care” contracts – with health plans or provider collaborative – paying for a year’s worth of health, rather than for episodes of illness
- Use the influence of unified public health care buying to fundamentally change the payment system and outcome expectations in the Vermont health care market, thereby creating benefits for all Vermonters
- Individual school districts and municipalities could still make contributions to premiums at their particular rates

## One-time Investment

Investment will be needed to design a pooled purchasing system, to coordinate the implementation of a new system, and to negotiate the first round of new contracts.

## COMMITTEE CHARGE

### Sec. 5 of Act 205 Of 2008

#### Sec. 5 JOINT LEGISLATIVE GOVERNMENT ACCOUNTABILITY COMMITTEE

(a) There is created a joint legislative government accountability committee. The committee shall recommend mechanisms for state government to be more forward-thinking, strategic, and responsive to the

long-term needs of Vermonters. In pursuit of this goal, the committee shall:

- (1) Make recommendations for enhancing the state's ability to measure the performance of programs which have been or will be undertaken with government investments.
- (2) Propose areas for the review of statutory mandates for public services that may result in service duplication and to review the alignment of financial and staff resources required to carry out those mandates.
- (3) Review the legislative process for the creation and elimination of positions and programs and make recommendations for enhancements to the process that support greater long-range planning and responsiveness to the needs of Vermonters.
- (4) Recommend strategies and tools which permit all branches of state government to prioritize the investment of federal, state, and local resources in programs that respond to the needs of the citizens of Vermont in a collaborative, cost-effective, and efficient manner. Pursuant to those strategies and tools, functions which are not critical to an agency or department mission may be recommended for elimination, while other functions may be optimized.
- (5) Review strategies with similar aims in other jurisdictions in the context of federal, state, and local relationships.

(b) The membership of the committee shall be appointed each biennial session of the general assembly. The committee shall comprise eight members: four members of the house of representatives who shall not all be from the same party, one from the committee on government operations, one from the committee on appropriations, and two other members, appointed by the speaker of the house; and four members of the senate who shall not all be from the same party, one from the committee on government operations, one from the committee on appropriations, and two other members, appointed by the committee on committees. The committee may also include in its recommendations that the committee membership be altered.

(c) The committee shall elect a chair, vice chair, and clerk from among its members and shall adopt rules of procedure. The chair shall rotate biennially between the house and the senate members. The committee shall keep minutes of its meetings and maintain a file thereof. A quorum shall consist of five members.

(d) When the general assembly is in session, the committee shall meet at the call of the chair. The committee may meet up to four times during adjournment, and may meet more often subject to the approval of the speaker of the house and the president pro tempore of the senate.

(e) For attendance at a meeting when the general assembly is not in session, members of the committee shall be entitled to compensation for services and reimbursement of expenses as provided under subsection 406(a) of Title 2.

(f) The professional and clerical services of the joint fiscal office and the legislative council shall be available to the committee.

(g) At least annually, the committee shall report its activities, together with recommendations, if any, to the general assembly.

**Sec. H.47b subsection (b) Act 1 of 2009 Special Session**

(b) The \$100,000 appropriation in Sec. B 1101 (a) (10) of the this act is to fund the joint legislative government accountability committee established in Sec. 5 of No. 206 of the Acts of the 2008 General Assembly (adj. sess.) for the purpose of hiring consultants to make recommendations for further efficiencies in state government.