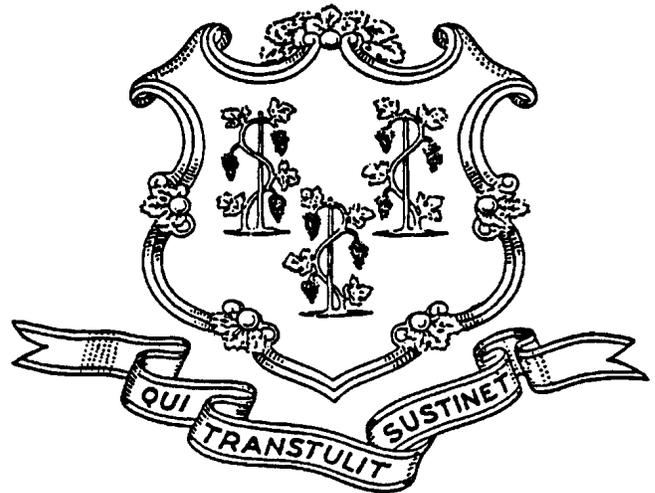


1997-99 Department of Social Services

Summary of Governor's Recommended Budget



February 13, 1997

John G. Rowland
Governor
State of Connecticut

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Commissioner
State of Connecticut
Department of Social Services

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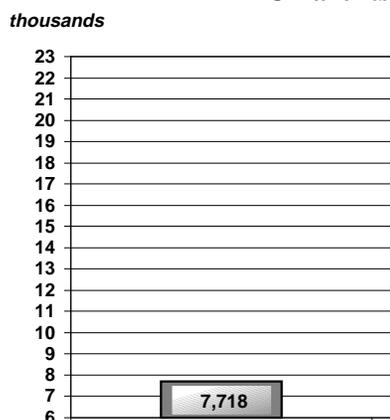
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Independence, Not Dependence

Connecticut has made great strides in helping people become independent of welfare.

Just two short years ago, welfare caseloads were at an all-time high. The welfare system did not reward those who tried to help themselves by getting jobs, nor did the system discourage long term dependence. Absent parents found it easy to hide from their child support obligations and employers certainly didn't think of welfare recipients as potential employees.

Turning Welfare Recipients into Payroll AFDC Parents

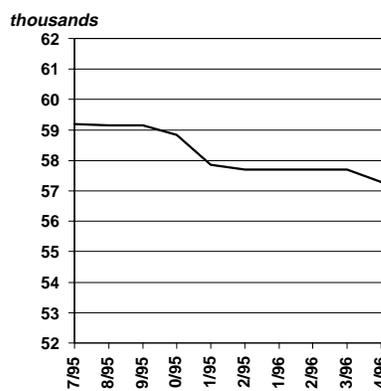


Today, after Governor's Rowland's welfare reform programs have been put in place,

- over 40% of state welfare recipients are working (up from 13% eighteen months ago);
- welfare caseloads have dropped and nearly 4,400 have completely left the welfare rolls for payrolls;
- significantly more child support has been collected from absent parents;
- child care subsidies have been increased dramatically;

- welfare expenditures in our cities and towns have dropped considerably as single men and women go back to work; and
- welfare has become temporary, not a way of life.

AFDC Caseload



But we must not rest on these accomplishments. There are still improvements that can be made to increase self-reliance, reward work

"...savings of nearly \$2.5 million in FY 98 and \$1.7 million in FY 99."

and reduce dependence on welfare. The Governor's recommended 1997-99 biennial budget includes a number of changes to ensure that those who can work, do work, while benefits for those who are unable to support themselves are maintained. And the Governor's recommended budget increases dollars and services that will support people who go to work.

Advanced Earned Income Tax Credit

Perhaps one of the most under-used mechanisms to reward work and help low income families, the Earned Income Tax Credit (EITC) is a federal tax credit for low-income employed families with children. Families whose wages are low can qualify for an EITC of as much as \$3500 annually if they apply. It can even be paid out in advance of an annual refund, thereby increasing a low wage earner's monthly disposable income. Unfortunately, many families do not know that they may qualify for an Advanced Income Tax Credit (AEITC), or even that they might even qualify for the EITC. Many working welfare recipients would qualify for the credit; as of December, 22,236 state welfare families had reported earnings.

To increase awareness amongst welfare recipients and employers about the AEITC and to help in filing the necessary paperwork, the Governor's budget proposes to hire a contractor to assist employees and employers in filling out the proper paperwork to make working clients eligible to collect the AEITC. The contractor will also conduct an outreach and education campaign to raise awareness of AEITC availability.

This would access dollars on behalf of welfare recipients that are currently untapped. By assuring the AEITC is received by working recipients, clients can reach a self-sustaining income level sooner, become independent and leave the welfare rolls. Meanwhile, it is important extra income to supplement wages, welfare benefits and child support payments.

The AEITC could also help some recipients leave the welfare rolls before the expiration of their time-limited benefits, allowing the balance to be used in the future if necessary. Consequently, recipients with the highest incomes and closest to earning the federal poverty level will be targeted first for help in applying for the AEITC. The AEITC will be deducted from the federal poverty level threshold, the point at which a recipient works him or herself off welfare; this will have the effect of people leaving the rolls before their 21 months is up,

"...an additional \$31 million in FY 98 and \$55 million in FY 99."

allowing them to "bank" the remainder of their 21 months for future use.

Savings to the state, after funds set aside for a contractor, are estimated to be nearly \$2.5 million in FY 1997-98 and \$1.7 million in FY 1998-99.

Child Care Expansions

In recognition that recipients need safe, affordable child care in order to go to work, Governor Rowland committed to providing additional child care dollars for families transitioning off welfare. It is far better for tax dollars to be spent providing child care subsidies so welfare recipients can work. During the Rowland administration, child care expenditures for welfare families have gone from \$34 million in FY 1994-95 to \$72 million in 1996-97.

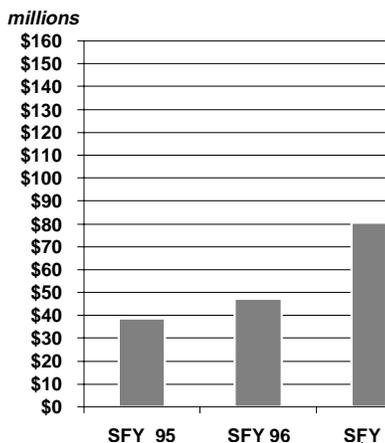
This commitment to child care continues in the Governor's recommended biennial budget, with \$31 million in additional funds recommended for welfare families in FY 1997-98 and \$55 million more in FY 1998-99. Since low-income families who are trying to make ends meet can spend a tremendous portion of their earnings on paying for child care, included in this recommendation are \$10 million in new child care subsidies in the Child Care Certificate program for FY 1998-99. This means that since FY 1994-95, total child care subsidies will have increased from \$34 million to \$158 million in just four years, an almost 400 percent increase.

And last, but not least, the Governor is recommending improvements to the overall system of early child care and education in Connecticut. The Department of Social Services, lead agency for child care, together with the Department of Education, will work to improve programs and services for young children so that they start school ready to learn

and thrive.

Kids Come First is DSS' plan to revamp early care and education programs in the state. Under Kids Come First, DSS will combine four child care funding programs into a single, integrated program, as required by the federal welfare reform bill, and will hire an outside contractor to administer the program. As part of Kids Come First, DSS also recommends paying higher rates for licensed child

Child Care Expenditures



"...an additional \$1.3 million in FY 98 and savings of \$5.58 million in FY 99 from federal child support improvements."

care than for unlicensed care and will work with the State Department of Education in the development of school readiness pilots for 3 and 4 year olds.

Child Support

Although the state has made tremendous progress in improving child support collections, much more remains to be done. Last year, the state collected \$141.5 million, an increase of 16 percent over the year before. Unfortunately, \$682 million is delinquent, a true travesty of parental responsibility.

The new federal welfare reform law, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, makes a number of improvements to the child support enforcement system. Some of the changes, such as license suspensions when absent parents become delinquent in paying child support, had already been put in place by Governor Rowland. Other changes, however, are required and the Governor's recommended budget includes funding to implement them.

The changes are far reaching and affect numerous state agencies. The federal law requires the creation of several national data bases designed to make it easier for states to locate absent parents, enforce orders and pursue support. A data base of child support orders across the nation and a national registry of new hires, similar to Connecticut's law, are required. States must now adopt the Uniform Interstate Family Support Act (UIFSA), which will make interstate cases easier to enforce. State birth records agencies must offer paternity acknowledgment services and Social Security numbers must be recorded on commercial drivers' licenses, professional or occupational licenses, marriage licenses, divorce decrees, orders of support or paternity and on death certificates. Support orders must also now include provisions for health insurance coverage and employers must be notified of such provisions.

State child support agencies must now have access to motor vehicle and law enforcement locator networks, and state child support workers must have the authority to order genetic tests, subpoena financial information, order wage withholding, impose liens and take other actions, all without court action. This is a significant departure from Connecticut's practice, which has been to require action by a child support magistrate for nearly all these actions.

States must conduct data matches with financial institutions

and financial institutions must provide quarterly account information on parents with child support arrearages and must respond to notices of liens or levies against those parents.

And finally, the federal welfare reform bill requires that these provisions be applied not only to cases that come to the state for paternity, locator and collection services, but also to all child support orders, new or modified, after October 1, 1998. This represents a tremendous shift from past practice and demonstrates Congress' conclusion that we need a broader governmental approach to child support.

Governor Rowland firmly believes that both parents must support their children and is prepared to enforce that responsibility. Under the state's new license suspension law, over \$14 million in new payments have been collected in cases that were threatened with drivers' and occupational license suspension. The Governor's recommended budget includes \$1.3 million in 1998 for the systems changes that will be needed to comply with the federal law. Savings from increased collections, however, will begin to accrue in the second year of the biennium, as the state uses these new systems to locate more absent parents, enforce court orders and collect child support. Savings in 1999 are expected to reach \$5.58 million.

The Governor's recommended budget also includes funds to privatize part of the child support enforcement program. Currently, the Department of Social Services is responsible for providing services to all families, including those not on welfare, who need help in establishing paternity, locating an absent parent, obtaining an order, and collecting support. The department now has over 242,000 open cases, many of which could be pursued more vigorously with the addition of more resources.

To ensure that all children in the state get the child support they deserve, the Governor's recommended budget includes funds to privatize all child support activities for cases not receiving welfare. A contractor would be hired to accept applications for child support

"...savings of \$1.5 million in FY 98 and \$2.2 million in FY 99 from privatization."

"...transfer of \$17.4 million to DOL in each year of the biennium."

services, establish paternity, assist in obtaining and enforcing orders and collecting payments. The contractor would be required to establish regional offices around the state. Net savings should reach \$1.5 million and \$2.2 million in fiscal years 1998 and 1999 respectively.

Consolidate Job Training Under the Department of Labor

Connecticut recognized early that rising welfare caseloads were in large part due to the perception that receiving welfare was not linked to a job as an ultimate outcome. By putting in place a time limit on receiving benefits and a generous financial incentive to go to work, the state has successfully altered prevailing perceptions.

Welfare recipients are now guided by the same interests as the general population in gaining employment. Work instead of welfare is gradually becoming a way of life for many recipients. In conjunction with the dramatic shift in the role of welfare to that of temporary financial assistance, the Governor is proposing that the job training program that supports welfare clients be transferred to the Department of Labor.

This change is both a philosophical and economic one. It is meant to encourage self-sufficiency among welfare clients. Those transitioning off welfare must begin to see themselves not as welfare clients, but as citizens attempting to enter the labor force.

The move, too, attempts to achieve economies of scale by coordinating the many disparate job training functions under one roof. The Departments of Labor and Social Services will work together to coordinate and provide services to help welfare recipients into the job market.

Accordingly, the Governor's recommended budget transfers \$17.4 million in each year of the biennium from the Department of Social Services to the Department of Labor.

"...savings of \$40.2 million in FY 98 and \$49 million in FY 99."

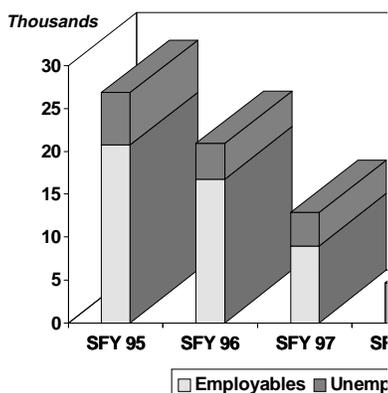
Limit General Assistance Benefits to Unemployable Adults and Families

The Governor's approach to welfare reform has been to insist upon personal responsibility and accountability for supporting one's self, while maintaining government's commitment to helping those who cannot support themselves. The state has imposed time limits on

benefits for employable adults and has made it clear that people who can work must do so. This approach has worked well in both state welfare and General Assistance, with caseloads declining in both programs and the number of state welfare clients reporting earnings at historic levels.

In keeping with this philosophy, the Governor is recommending that all cash and medical benefits for employable persons on General Assistance be eliminated. Approximately 12,000 recipients will be affected by this change. Benefits to unemployables will continue.

GA Casel



This change reflects the improvement in the state's economy. There has been job growth in the state. Employable GA recipients now have more opportunities to find and retain jobs. This change is meant to motivate them to do so.

Employable GA recipients will still continue to receive state support in gaining employment through the DOL. They will continue to be eligible for various job training programs sponsored by the state, including the Community Employment Incentive Program (CEIP). About \$3.7 million will be available through CEIP, which sponsors 23 job programs and has 120 towns participating. In addition, DSS provides grants to social service agencies that run shelters or provide other emergency assistance should it be required.

This change would bring Connecticut in line with many others states that did not have, or have now abolished, cash and medical assistance for employable adults with no children.

The Governor's recommended budget reflects \$40.2 million and \$49 million in savings in fiscal years 1997-98 and 1998-99, including \$20.3 million each year of the biennium in the Department of Mental Health and Addiction Services.

"...savings of \$9.7 million in FY 98 and \$17 million in FY 99."

Suspend Cost-Of-Living Increases In Welfare

Programs

The Governor is recommending suspending cost-of-living increases over the next two fiscal years. Without taking this action to control spending levels, expenditures would increase by \$9.7 million in FY 1997-98 and \$17 million in FY 1998-99.

Medical Benefits: Making Better Use of Our Dollars

Government has long lagged behind the private sector in how it manages health care costs. For years, businesses have sought to provide quality health care to employees for the best possible price. This has been necessary to maintain a competitive edge in the marketplace.

Until recently, government has not felt the same need to get the best possible price. Taxpayers, however, have begun to demand smaller governments. This means government must begin to get smarter about how it spends its dollars. With Medicaid and other health care spending making up approximately three-quarters of DSS' budget, the state must get the best price possible for the services it provides. One way to accomplish this is by examining alternative purchasing strategies.

Yet another area where government has trailed the private sector is in keeping health care costs down. Paying only for necessary medical care, through a system to manage care, has long been standard practice in business and industry. Yet, managed care is still relatively new to welfare programs in Connecticut. While over 200,000 of the state's Medicaid population have been enrolled in managed care during the last year and a half, another 110,000 individuals eligible for Medicaid and General Assistance are not yet in managed care. They are in the fee-for-service environment, with no primary care physician responsible for coordinating care. Certainly, taxpayers are paying more for health care on behalf of these recipients than is necessary.

"...savings of \$7.4 million in FY 98 and \$3.4 million in FY 99."

"...savings \$34.3 million in FY 98 and \$39.2 million in FY 99."

Governor Rowland believes the state can do much more to spend its health care dollars wisely. To that end, he is recommending a number of changes that will use the power of the state's Medicaid dollars to help get the best possible price, and he is proposing to coordinate and manage care for other populations not yet covered by managed care plans.

General Assistance Managed Care

The General Assembly last year authorized the state to enroll General Assistance recipients into managed care plans during the next fiscal year. Governor Rowland's budget proposes to enroll GA recipients starting in April 1, 1997, rather than in September as originally scheduled. Enrollment would be concluded in June 1997 and the costs associated with the conversion from fee-for-service reimbursement to a prepaid capitated system would be paid from available revenues in the current fiscal year.

Enrolling GA recipients into managed care during the current fiscal year instead of next year is projected to save \$7.4 million in FY 1997-98 and \$3.4 million in FY 1998-99. Savings of 10% are expected from switching to managed care from fee-for-service reimbursement.

Competitive Bidding For Managed Care Rates

Connecticut has nearly completed enrolling some 225,000 family Medicaid recipients into managed care plans. This has resulted in improved access to care on behalf of a population that often had no primary care physician, and is expected to save millions annually from what would have been paid through the traditional fee-for-service system.

With the new program, Connecticut Access, recipients now have access to routine, preventive care that can help reduce costs. In fact, inpatient hospital days paid by Medicaid have dropped by 29 percent since the start of Connecticut Access. Emergency room visits have been cut in half. Medicaid recipients are getting more appropriate care at less cost. Connecticut Access has not only saved the state money, but has provided better access, continuity and coordination of care.

While savings were gained in the first year and a half of Medicaid managed care, further savings can be gained by

competitively bidding the contracts. Currently, the state has contracts with 11 health plans. With the exception of the plans selected as the default provider (the plan a client is assigned to if he or she fails to choose a plan), rates paid to the managed care plans are based upon 95% of the old fee-for-service reimbursement model. Data from other states indicates that rates can be set at lower levels without compromising quality services.

Therefore, the Governor recommends that the department put the expiring managed care contracts out to competitive bid for the September, 1997 renewal date. Competitive bidding may also mean awarding contracts to fewer health plans, thereby creating higher volumes for the companies that are bidding. This would result in savings to the state, but would not compromise quality services to clients.

As part of a competitive bid, the state would impose a six-month lock-in and guarantee of eligibility. Now, recipients can switch plans every 30 days if dissatisfied. This creates significant administrative costs for the managed care plans. Under this proposal, recipients would be allowed to switch during the first 30 days of the six month period, and would be locked into their plan for the remainder of the six months. In addition, the recipient would be guaranteed six months of coverage, even if he or she becomes ineligible for Medicaid. This change would go a long way towards reducing administrative costs for the plans, while providing an extended period of benefits to the recipient, thereby improving continuity of care.

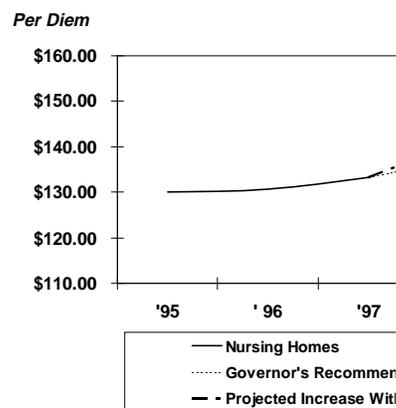
The state expects to save \$34.3 million in FY 1997-98 and \$39.2 million in FY 1998-99 through competitive bidding.

"...savings of \$30 million in FY 98 and \$60 million in FY 99."

Restructure Nursing Home Rates

Nursing home costs are a significant portion of the state's Medicaid budget. About 45 percent, or nearly \$850 million, of Medicaid is for long term care for some 21,000 elderly residents in nursing facilities.

Average Nursing Home



* weighted average for a

"...savings of \$55 million in FY 99."

Rates for nursing homes are cost-based, with certain controls built in. They are adjusted annually according to a formula set forth in state law. Without intervention, however, rates will rise by 6.5% percent on each July 1 in the biennium, increasing Medicaid expenditures for nursing care to \$984 million in FY 1998-99.

Governor Rowland recognizes that nursing homes must be paid a fair rate so they can provide quality nursing care to elderly residents. Therefore, the Governor's budget recommends that nursing home rates be restructured over the next biennium to allow overall nursing home expenditures to increase by 3.5 percent per year. This annual rate of growth is above what was provided in this current fiscal year. The savings will be achieved by tightening the amounts that can be charged for management services by companies with common ownership in the nursing facility and by limiting the differential in maximum allowable costs for Fairfield county facilities.

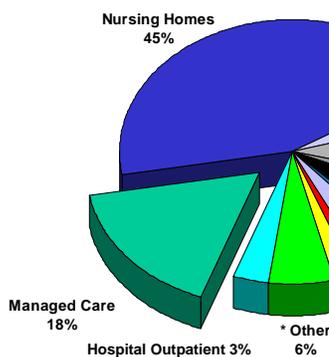
Restructure Medical Assistance Under a Federal Waiver

No discussion of nursing home costs can avoid the question of how we will pay for the future burgeoning needs of our aging population. Connecticut is one of the states with a high aging population and with the graying of Connecticut will come the demand for more long term care services.

Although the state has achieved significant savings by moving family Medicaid cases, which make up two-thirds of our cases, into managed care, those cases account for a small percentage of our Medicaid dollars.

The remaining one third of Medicaid cases, elderly and disabled citizens in the community and in nursing homes, account for at least three-quarters of all expenditures.

Medical Assistance E
SFY 1997



The state is proposing to restructure how it delivers Medicaid

"...savings of \$25.1 million in FY 98 and \$27.2 million in FY 99."

services to this population. Strategies may include changing how the state buys services (revising fee-for-service structures, bulk purchasing, or competitive bidding), establishing integrated and coordinated care systems (similar to managed care plans) and shifting emphasis from more costly institutional services to less costly community and home-based care.

Savings are estimated to be approximately 3.5 percent of the state's Medicaid budget that is not currently in managed care, or \$55 million in FY 1998-99.

Contract For Pharmacy Services For Clients Not Already In Managed Care

Prescription drugs are a fast growing area of the state budget. Medicaid drug costs alone are estimated to reach \$150 million in FY 1998-99, up from \$65 million in FY 1990-91, if steps are not taken to control costs.

With the exception of the cases that are in managed care, Medicaid prescriptions are purchased by the state without the financial benefits of competitive bidding. This is so despite the huge volume — nearly 5 million prescriptions annually — purchased by the state on behalf of its clients.

In keeping with legislation proposed last year by Governor Rowland and with the consent of the General Assembly, the department will proceed with competitive bidding for all prescription drugs purchased on behalf of all Medicaid recipients who are not in a managed care plan and all ConnPACE recipients. Consideration will be given to competitive bidding for prescription drugs in the Connecticut AIDS Drug Assistance (CADAP) program as well, in order to account for the impact of new and increasingly expensive AIDS

drugs such as protease inhibitors that are increasingly prescribed for AIDS patients.

Savings from putting prescription drugs out to bid are expected to be \$25.1 million in FY 1997-98 and \$27.2 million in FY 1998-99.

Administrative Improvements and Efficiencies

Government, like business, needs to continuously review its operations to see if it can achieve quality results at less cost. It needs to pursue all monies that may be owed to it because of program abuses such as overbillings, fraud or noncompliance with program requirements. Government also needs to look for and tap all potential sources of funding. State tax dollars should never be used when federal dollars are available.

To ensure that the administration of the department is as efficient as possible and to maximize other sources of revenue, the Governor's recommended budget includes a number of administrative improvements and efficiencies.

Transition to TANF And Funding For Certain Non-Entitlement Accounts Through Federal Dollars

As a result of the federal welfare reform legislation signed into law by President Clinton last summer, the Governor directed affected state agencies to analyze the impact of the federal law. One outcome of the review of The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) was the conclusion that Connecticut was well ahead of many other states in the area of welfare reform, and therefore is well positioned to implement the federal law. The law incorporates many elements of Connecticut's 1995 welfare reform legislation, including time-limited welfare benefits and an increased emphasis on personal responsibility and employment.

PRWORA provides federal dollars in the form of block grants for the successor program to Aid to Families with Dependent Children, Temporary Assistance for Needy Families (TANF), and for child care. PRWORA also requires that states spend a specific amount of state

"...savings of nearly \$24 million in each year of the biennium."

dollars, known as a maintenance of effort (MOE), before receiving the full block grant allocation. The combined TANF block grant, child care block grant and the state MOE represent the sum of dollars available for the programs identified as fundable under TANF. The federal law also allows states to carry forward into future years any federal block grant funds not claimed within a particular year. Because Connecticut's welfare reform program already included much of what is required in TANF, the state was able to begin operating under the new federal rules and to qualify for the new federal revenue as of October 1, 1996.

The passage of PRWORA has provided Connecticut with a unique opportunity. As a result of Connecticut's welfare reform initiatives, the state expects dramatic decreases in state costs for welfare during the 1997-99 biennium. This means the state will have TANF dollars that can be used to fund a variety of additional support programs beyond those that provide basic support for families and children.

While TANF guidelines are still being interpreted by the federal Department of Health and Human Services, current interpretations of the law indicate that funds can be used to support a variety of services for families with children. Accordingly, Governor Rowland's budget recommendations include allocations for the additional TANF dollars in 1997, 1998 and 1999.

The allocations are as follows:

1. The budget recommends using TANF dollars to fund temporary cash assistance and employment services above the state's MOE requirements.
2. Federal rules allow states to shift TANF dollars into the Social Services Block Grant (SSBG). The budget recommends reducing state appropriations and replacing them with TANF dollars. The allocation plan as approved by the legislature is unchanged; SSBG programs remain the same and service recipients and providers will experience no changes in their programs.
3. The budget also accounts for TANF revenue by identifying existing TANF-related programs in a number of agencies for which the state can now claim expenditures against available federal revenue.

"...transfer of \$942,549 to DECD in each year of the biennium."

"...savings of \$12 million in each year of the biennium."

4. Finally, the budget also recommends expansion of some existing family and children programs and the creation of a new program. A new early childhood development program is being supported with TANF dollars, as are expansions of the Head Start enhancement, family resource centers, energy assistance and child care programs.

Transfer Elderly Rental Assistance Program to DECD; Increase Support for Congregate Housing Subsidies

The Governor's budget recommends transferring the elderly congregate portion of the Rental Assistance Program in DSS to the Department of Economic Development (DECD). DECD already is responsible for other congregate housing subsidy programs. This change was recommended by the legislative Congregate Housing Task Force Report issued last month.

Both the Governor and the legislative task force believe the transfer and incorporation of all congregate subsidies at DECD will simplify administration for both the state and developers and mean a more coordinated approach to meeting the state's congregate housing needs in the future.

Furthermore, the Governor proposes increasing the Congregate Facility Operating Costs Grant in DECD by an additional \$75,000 in each year of the biennium. These monies could be used to help congregate facilities that are facing budget shortfalls due to resident turnover, another recommendation from the legislative task force. These additional funds should ensure the viability of congregate housing facilities throughout the state and encourage expansion of the number of available congregate housing slots.

Enhance Audit Recoveries And Third Party Liability Recoveries

The department conducts audits of many medical service providers, grantees and contractors to ensure that program dollars are spent in accordance with state rules and that billings are correct. The quality assurance division identifies millions of dollars annually in

inappropriate billings from medical providers, enabling the state to pursue recovery of these dollars.

The department also contracts with Health Management Systems, Inc. (HMS) for the purposes of identifying and pursuing third party medical coverage. HMS reviews potential Medicare and other insurance coverage of Medicaid recipients and seeks third party payment in lieu of Medicaid.

The Governor's recommended budget includes funds to expand audit activities and HMS recoveries. The department will hire a contractor to conduct additional medical audits, enabling the state to speed up the audit process. Savings from increased audits and expanded HMS activities are projected to reach \$12 million in each year of the biennium.