



## Establishing an Innovation Incentive Program to Maintain Fiscally Healthy Community Nonprofits

### Background

The State's current contracting policies mandate that savings realized by nonprofits at the end of a contract period must be returned to the State. Because this policy is counterproductive and discourages innovation and efficiency in service delivery, The Alliance's proposes an Innovation Incentive Program to strengthen nonprofits that care for the State's most vulnerable citizens.

- ***The Innovation Incentive Program would promote efficiency.*** The current State contracting process encourages "spending to the line," or spending all allocated funds, rather than encouraging efforts to realize efficiencies or economies of practice. An efficient or innovative agency that succeeds in meeting every contractual expectation experiences no net benefit, compared to a less efficient agency that spends all allocated funds. Nonprofits provide data to demonstrate the effectiveness of programs and report on our outcomes. Yet purchase of service contracts have built in disincentives for efficiency, as savings generated by a nonprofit must be returned to the State rather than reinvested in community programs and services.
- ***The Innovation Incentive Program would be a creative way to support nonprofits in light of the State's fiscal challenges.*** For years, nonprofits have struggled to maintain service levels amid budget cuts and rescissions. If nonprofits were able to retain savings while still meeting contractual obligations, they could work towards being properly capitalized and more able to adjust to turbulence in the State budget. Nonprofits would be able to invest savings to recruit and retain qualified staff, invest in capital improvements and expand services and programs.

### H.B. 7007: An Act Concerning An Innovation Incentive Program For Nonprofit Providers Of Human Services

On March 16, 2017, the Human Services Committee jointly voted in favor of [House Bill 7007](#) with the intent of encouraging innovation and efficiency in the delivery of human services. As it is written, the bill would restrict participation in the Program to nonprofit providers whose contracts with the state do not exceed \$1 million and who provide direct services to under 150 people. The percentage of revenue that community nonprofits would be allowed to retain through this program is yet to be determined.

The Alliance is grateful to the Committee for their attention to this important issue, and encourages policymakers to expand the scope of the bill to include a larger pool of provider by increasing the requirement related to the amount in contracts that a provider receives from the state and the number of people they serve.

### Recommendation

To strengthen the fiscal health and stability of nonprofits, the State should create an Innovation Incentive Program to allow nonprofits that are in compliance with state contractual provisions and regulatory standards to retain savings realized at the end of a contract term. The Program should be inclusive of all providers of health and human services.