



DATE: March 7, 2019
TO: Human Services Committee
FROM: Brunilda Ferraj, Director of Policy Research and Organizational Initiatives
RE: S.B. 945 AN ACT CONCERNING THE INNOVATION INCENTIVE PROGRAM FOR NONPROFIT PROVIDERS OF HUMAN SERVICES

Good morning Senator Moore, Representative Abercrombie, Senator Logan, Representative Case and members of the Human Services Committee:

My name is Brunilda Ferraj, Director of Policy Research and Organizational Initiatives at the CT Community Nonprofit Alliance (The Alliance). The Alliance is the statewide advocacy organization representing nonprofits, with a membership of more than 300 community organizations and associations. Nonprofits deliver essential services to more than half a million people each year and employ 14% of Connecticut's workforce.

I am here in support of S.B. 945 An Act Concerning the Innovation Incentive Program for Nonprofit Providers of Human Services, which would expand and implement the Innovation Incentive Program by creating a pilot program for eight nonprofit providers of human services of different sizes to allow them to retain a percentage of savings from the contracted cost and reinvest the savings in services.

The State's contracting policies mandate that savings realized by nonprofits at the end of a contract period must be returned to the State. In 2017, the legislature established an Innovation Incentive Program (Public Act 17-122) to allow community nonprofits to retain savings realized at the end of a contract term, if they were in compliance with state contractual provisions and regulatory standards. Savings would be applied towards innovations for improving the health and human service delivery system and capitalization of the nonprofit sector. The program created by P.A. 17-122 was optional, and unfortunately it was never implemented.

S.B. 945 builds upon P.A. 17-122 to address two barriers in the realization of savings and innovation:

1. S.B. 945 changes current statute from "may" to "shall," making it mandatory that the State implement the program. To date, the program has not been implemented, as P.A. 17-122 permits but does not require the Office of Policy and Management to implement the program.
2. S.B. 945 removes the restrictions on contract size and number of people served in P.A. 17-122, expanding the Innovation Incentive Program to a pilot including eight nonprofit providers of human services of different sizes to participate. With its limits to organization size, P.A. 17-122 only applies to an exceptionally small number of nonprofits.

If expanded and put into practice, 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 is 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.

We respectfully request the Committee make one minor change to the bill as drafted: The bill excludes providers with contracts between \$1 million and \$5 million. We recommend that the language on lines 21-22 be amended to read, "(D) two with contracts of less than five million dollars," or that the language be changed in some other way so that the pilot program it proposes will include providers with contracts between \$1 million and \$5 million.

To strengthen the fiscal health and stability of nonprofits, I urge you to support S.B. 945. Thank you for your attention to this important issue.

Brunilda Ferraj, MSW
Director of Policy Research and Organizational Initiatives
bferraj@ctnonprofitalliance.org
860-525-5080