The Alliance
Voice of Community Nonprofits

JAN. 2021

EXPAND THE INNOVATION INCENTIVE PROGRAM

IF NONPROFITS ARE ABLE TO RETAIN SAVINGS, THEY COULD BETTER ADJUST TO THE TURBULENCE OF COVID-19 AND UNPREDICTABILITY OF THE STATE BUDGET

REINVEST NONPROFIT SAVINGS INTO COMMUNITY SERVICES, RATHER THAN RETURNING THEM TO THE STATE

The current State contracting process can encourage efforts to realize efficiencies or economies of practice.

The Innovation Incentive Program allows community nonprofits to retain any savings at the end of a contract term and reinvest those savings into the provision of services. Unlike contracts with other state vendors, the State's current contracting policies mandate that savings realized by community nonprofits at the end of a contract period must be returned to the State. This practice, also referred to as cost settlement, discourages innovation and efficiency in service delivery.

In 2017, the legislature established a pilot for Innovation Incentive Program through Public Act 17-122, but the implementation of that pilot was optional, and unfortunately it was never put into practice. In 2019, the legislature passed Public Act 19-127, which mandated that the pilot be implemented, but only eight providers were selected this past May. In 2020, the Human Services Committee unanimously passed H.B. 5233, which would have expanded the Innovation Incentive Program, before session was suspended due to the coronavirus pandemic.

The current State contracting process can encourage efforts to realize efficiencies or economies of practice. An efficient or innovative nonprofit 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 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.

If this policy had been enacted in the Spring of 2020, community nonprofits would have had much greater flexibility to purchase PPE for their staff, provide hazard pay, and more to people working on the front lines of COVID-19. Unfortunately, instead, nonprofits were forced to pay money back to the State.

For years, nonprofits have struggled to maintain service levels amid budget cuts and rescissions. The coronavirus pandemic has exacerbated these challenges. If nonprofits are 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.

RECOMMENDATION

Remove the restrictions on number of providers eligible for participation in PA 19-127

CONTACT US

Gian-Carl Casa, gcasa@ctnonprofitalliance.org
Jeff Shaw, jshaw@ctnonprofitalliance.org
Ben Shaiken, bshaiken@ctnonprofitalliance.org
Brunilda Ferraj, bferraj@ctnonprofitalliance.org
Julia Wilcox, jwilcox@ctnonprofitalliance.org