The Alliance
Voice of Community Nonprofits

DATE: March 1, 2022
TO: Human Services Committee
FROM: Ben Shaiken, Director of Government Relations, The Alliance
RE: H.B. 5225 An Act Prohibiting Clawback of Certain Funds Retained by Nonprofit Providers of Human Services Under Contract the State Agencies

Good afternoon, Senator Moore, Representative Abercrombie, Senator Berthel, Representative Case and members of the Human Services Committee.

My name is Ben Shaiken, Director of Government Relations at the CT Community Nonprofit Alliance (The Alliance). The Alliance is the statewide association of community nonprofits. Community nonprofits provide essential services in every city and town in Connecticut, serving half a million people in need and employing 117,000 people across the State. They are an important part of what makes Connecticut a great place to live and work and an important piece of our economy.

Thank you for the opportunity to provide testimony **in support of H.B. 5225** An Act Prohibiting Clawback of Certain Funds Retained by Nonprofit Providers of Human Services Under Contract the State Agencies. This bill would **end the practice of state government clawing back unspent funds** from human services providers at the end of each fiscal year and **allow community nonprofits to retain savings** at the end of a contract term and **reinvest** those savings into the provision of services.

For five years now, nonprofits have come before this Committee to stress the importance of flexibility in funding for nonprofits. But this year is unique in that COVID-19 has demonstrated exactly how **illogical it is that nonprofits were forced to pay money back to the State in the midst of a deadly pandemic**.

If this bill had been enacted and implemented, as the legislature had intended, community nonprofits would have had much greater flexibility to respond to the pandemic. They could have much more easily purchased PPE for their staff, provided hazard pay to essential workers, and better supported people working on the front lines of COVID-19.

Amid the pandemic when asked what would help them most navigate these challenges, nonprofit provider said: "**Flexibility**." Instead, in 2020 and 2021, **despite receiving billions in federal relief dollars, the State again required providers return any unspent state funds**.

Now, nonprofits are struggling with a historic workforce crisis. In a recent survey, we found that nearly 1 in 5 nonprofit jobs (18%) is unfilled. Nonprofits have used those vacancies to fund wage increases, hiring and retention bonuses, and more – all to try to keep their services operational. If unspent funds are again clawed back this year, there may be significant financial consequences at the beginning of the next fiscal year.

To that end, **we request this bill be amended to be effective upon passage**. With Session ending prior to the end of the current fiscal year, it is important this bill is in effect before June 30.

Despite support from this Committee and the nonprofit community since 2017, **including passing four laws** (Public Acts 17-117, 19-127, 21-65 and Sec. 375 of 21-2), **the Innovation Program has yet to be implemented.**

As background:

- In 2017, the legislature established a pilot for the 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.
    - Unfortunately, however, that pilot program was reduced to only allow certain agencies that contract with the Department of Developmental Services to participate and to only retain 60% of the revenue they saved through efficiencies (and pay 40% of it back to the State).
    - Even though P.A. 19-127 was signed into law on July 1, 2019 and required implementation in FY20, it went into force in the Spring of last year.
- P.A. 21-65 passed the legislature unanimously and was supplemented by Sec. 375 of P.A. 21-2, last year's budget implementer. Those bills expanded the Innovation Incentive Program to include all nonprofits, allowing all human services providers to retain surplus revenue.
    - Unfortunately, it has not been implemented as of today, and state agencies have not informed nonprofits to plan for any change in past practice for the end of the fiscal year.
    - In addition, the Judicial Branch has informed providers their legal team has determined they are not governed by the 2021 legislation.

The pandemic has exacerbated issues of underfunding that nonprofits have been struggling with for years and brought to light new issues related to their inability to retain savings. If nonprofits could 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 – or during crisis situations like the pandemic.

Thank you for your consideration of this important topic.