Senate

General Assembly **File No. 165**

February Session, 2010 Substitute Senate Bill No. 219

Senate, March 29, 2010

The Committee on Human Services reported through SEN. DOYLE of the 9th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING STATE CONTRACT REDUCTIONS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (NEW) (*Effective from passage*) For any contract entered into between a state agency and a private service provider after January 1, 2011, when the state agency reduces the funding amount under the contract by five per cent or more during any fiscal year, the private service provider may adjust its budget expenditures in an amount equal to the funding reduction without the agency's approval. The private service provider shall notify the state agency of the provider's budget adjustment.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*from passage*	New section

HS *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 11 $	FY 12 $
Departments of Developmental Services, Mental Health and Addiction Services, Children and Families, Social Services, Correction, and Judicial Department	GF - None	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill allows private providers of state services to reduce their budgets without prior approval of the contracting state agency when contract reductions of five per cent or more are imposed by the state agency. As this change does not affect the level of funding that is distributed to these providers, but rather affects how the funds are expended by the private providers, there is not anticipated to be a direct fiscal impact to the state. However, the bill, by allowing providers to reduce expenditures without engaging in negotiations with the contracting agency, could result in expenditure decisions that are not consistent with the agency's service priorities.

The six agencies listed above have contracts with private providers in excess of $ 1 billion.

Sources: Core-CT Financial Accounting System
Office of Legislative Research, Public Hearing Testimony

OLR Bill Analysis
sSB 219

AN ACT CONCERNING STATE CONTRACT REDUCTIONS.

SUMMARY:

This bill permits private providers with state contracts to adjust their budgets when the state reduces their funding by 5%. Beginning January 1, 2011, it allows providers that (1) enter into new contracts or renew existing ones with a state agency and (2) whose payments under the contracts the agency reduces by at least 5% to adjust their budget expenditures by the same amount as the reduction without the agency's approval. The provider must notify the state agency of any such adjustment. It appears that these providers are those that have purchase of service (POS) contracts with the state.

EFFECTIVE DATE: Upon passage

BACKGROUND

Purchase of Service Contracts

A purchase of service (POS) contract is a contract between a state agency and a private provider organization or municipality for the purchase of ongoing direct health and human services for agency clients.

Contract Language Regarding State Payment Reductions

The Office of Policy and Management (OPM) oversees the state's POS contracting program. It recently made changes in contract language pertaining to state agency reductions in payments for private providers.

In contracts entered into between May 2007 and December 2009, a clause entitled *Contract Reduction* gave the state agency the right to reduce the contracted amount of compensation if the governor or legislature rescinded, reallocated, or in any way reduced the agency's budget during that fiscal year or federal fund reductions resulted in the agency having to reallocate funds within its budget.

The contract also provided that the parties agreed to negotiate on implementing the reduction within 30 days of the agency formally notifying the contractor. If the parties could not agree on the reduction's implementation within this time frame and a contract amendment had not been executed, the agency could terminate the contract 60 days after the contractor received the notice and had to notify the contractor of the termination date.

Beginning December 2009, the contract provides that if the agency decides to reduce the contractor's compensation (based on criteria similar to that described above), it must notify the contractor in writing. Within 20 days of the contractor receiving the notice, the two parties must negotiate the implementation of the reduction unless they mutually agree that the negotiations would be futile. If the parties fail to negotiate an implementation schedule, the agency can terminate the contract, effective no earlier than 60 days from the date the contractor receives notice of the termination and the date that work under the contract must cease.

COMMITTEE ACTION

Human Services Committee

Joint Favorable Substitute
Yea 13 Nay 6 (03/11/2010)