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Testimony before the Human Services Committee

SB 105, An Act Concerning Social Innovation Investment

Jeff Shaw, Director of Public Policy, Connecticut Association of Nonprofits

February 20, 2014

Senator Slossberg, Representative Abercrombie, and distinguished members of the Human Services Committee, my name is Jeff Shaw, Director of Public Policy, for the Connecticut Association of Nonprofits (CT Nonprofits), and I would like to comment on S.B. 105, An Act Concerning Social Innovation Investment. One of CT Nonprofits' three major policy priorities for this session is to incentivize charitable giving, philanthropy, and innovative support programs for nonprofit providers including Pay for Success compacts and similar programs such as Social Enterprise Benefit Corporations as well as the Neighborhood Assistance Act. These innovative programs may offer new and sustainable sources of revenue for nonprofit providers.

As you are all aware, many nonprofit providers continue to face enormous fiscal challenges, having been forced in many cases to reduce programs, services and staff in response to underfunding. With the constraints on the state budget and uncertainty with federal funding, the nonprofit community is looking for, and supportive of, new revenue sources as well as new partnerships with the communities we serve to maintain the highest quality services and programs. Social innovation is a tool that can help nonprofits achieve these objectives.

These frustrations over the adequacy of funding for human services, and anxiety over achieving satisfactory results, have combined to form several innovative funding ideas. One of these ideas, social impact bonds were first proposed in the United Kingdom to reduce prison recidivism, through a contract with a government agency in which a commitment is made by government to pay for improved social outcomes that result in public budget savings. The expected government savings are used as a basis for raising private investments for prevention or early intervention services that improve social outcomes. Interest has spread to Australia and most recently the United States, signified with President Obama's proposed 2012 budget, which sought up to \$100 million for a social impact bonds pilot. In other states, such as Massachusetts, this has been called "Pay for Success," and in Minnesota the state government appropriations bill included a \$20 million pilot project for "Pay for Performance Bonds." As the various pilots move forward, successful implementation would benefit from four key elements:

1. Financial risk be borne by bondholders, not the nonprofit (service) provider;
2. Proceeds made available to the provider as progress payments to provide the services during the course of delivery;
3. Performance standards be clearly established in advance, so that all parties understand the terms; and
4. Performance payments by state government for successful performance be guaranteed.

If those four key elements become the standard framework of future compacts and agreements, social innovation investments may gain a larger footprint in the contracting process in other states as well.

I am supportive of the underlying goal of social innovation and enterprise investments, but must be clear that these types of compacts and agreements are not designed to replace existing state contracts of private health and human service providers. These compacts and agreements should be used in addition to current contracts. Additionally, social innovation programs generally are not a “one-size fits all” approach to solving social problems. These programs are additional tools for providers, government, and (sometimes) third (independent) parties to utilize where they make sense and where outcomes can be assessed clearly and within an appropriate time frame established in evidence-based practices. Finally, social innovation program performance measures must be designed clearly and appropriately, so that providers are not forced to assume all the risk (i.e., run a higher than necessary risk of not getting paid). Many nonprofit providers do not have “risk capital” that for-profit businesses have, so the risks must be appropriate to financial structures and the stewardship of the assets.

As these new programs begin to get phased into the contracting process, our association will educate stakeholders on how these compacts and agreements may or not apply to their respective programs and services. In addition, I want to commend the Connecticut Center for Social Innovation for their leadership on this issue as well as acknowledge their efforts in hosting an informational conference entitled “Funding Preventive Services, Quantifying Results & Capturing Savings” held earlier today. This type of outreach activity helps providers, government officials, and stakeholders understand exactly how these innovative investments fit into the larger role of the state contracting process to address service needs.

In summary, I look forward to collaborating and exploring appropriate opportunities for social innovation investments in Connecticut. This, along with legally recognized Benefit Corporations in Connecticut (SB-23, currently in the Commerce Committee) and expanding the cap on the Neighborhood Assistance Act (SB-75, currently in the Commerce Committee), should become a package of tools for nonprofit providers to address service needs and drive economic growth by bringing new jobs to Connecticut and making our state an attractive home for forward-thinking individuals, policymakers, and companies.

Thank you for your time and consideration.