



# House of Representatives

General Assembly

**File No. 319**

January Session, 2015

Substitute House Bill No. 6763

*House of Representatives, March 31, 2015*

The Committee on Human Services reported through REP. ABERCROMBIE of the 83rd Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

## ***AN ACT CONCERNING SOCIAL INNOVATION.***

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

1 Section 1. Section 4-68aa of the general statutes is repealed and the  
2 following is substituted in lieu thereof (*Effective July 1, 2015*):

3 (a) As used in this section:

4 (1) "Savings" means a reduction in state expenditures, as such  
5 expenditures are defined in an outcome-based performance contract;

6 ~~[(1)]~~ (2) "Secretary" means the Secretary of the Office of Policy and  
7 Management, or the secretary's designee;

8 ~~[(2)]~~ (3) "Social innovation investment enterprise" means an entity  
9 (A) created to coordinate the delivery of preventive social programs by  
10 nonprofit service providers, ~~[which]~~ and (B) that has the capability of  
11 creating a social investment vehicle, entering into outcome-based  
12 performance contracts and contracting with service providers;

13 [(3)] (4) "Social investment vehicle" means an investment product  
14 established by a social innovation investment enterprise to raise  
15 private investment capital; [and]

16 [(4)] (5) "Outcome-based performance contract" means a contract  
17 entered into between the secretary or an agency authorized by the  
18 secretary and a social innovation investment enterprise that establishes  
19 outcome-based performance [standards] benchmarks for preventive  
20 social programs delivered by nonprofit service providers and provides  
21 that investors in any social investment vehicle shall receive a return of  
22 their investment and earnings thereon only if such outcome-based  
23 performance [standards] benchmarks are met by the non-profit service  
24 providers contracted with the social innovation investment enterprise;  
25 and

26 (6) "Preventive social program" means a program designed to  
27 reduce, reverse or eliminate societal problems, including, but not  
28 limited to, poverty, homelessness, unemployment, poor academic  
29 achievement, offender recidivism, child abuse and neglect, juvenile  
30 delinquency and poor health.

31 (b) The secretary, or an agency authorized by the secretary, may  
32 enter into an outcome-based performance contract with a social  
33 innovation investment enterprise for the purpose of [accepting a  
34 United States Department of Justice fiscal year 2012 Second Chance  
35 Act Adult Offender Reentry Program Demonstration Category 2  
36 Implementation grant. The outcome-based performance contract  
37 between the secretary and a social innovation investment enterprise  
38 may provide for payments from the social innovation account,  
39 established pursuant to subsection (d) of this section, to the social  
40 innovation investment enterprise or to investors or to both.] delivering  
41 preventive social programs. The outcome-based performance contract  
42 shall be based on a written proposal deemed sufficient by the secretary  
43 that demonstrates savings will be generated by the social innovation  
44 investment enterprise through the accelerated achievement of  
45 outcome-based performance benchmarks.

46 (c) Any outcome-based performance contract authorized by the  
47 secretary, pursuant to the provisions of this section, shall include, but  
48 not be limited to: (1) Payment conditioned on the achievement of  
49 outcome-based performance benchmarks; (2) an objective  
50 determination by an independent evaluator that the outcome-based  
51 performance benchmarks have been met; (3) a calculation of the  
52 amount and timing of payments that would be earned by the  
53 providers of capital in the social investment vehicle each year of the  
54 contract if outcome-based performance benchmarks are achieved; (4) a  
55 provision concerning appropriation requests for each fiscal year for the  
56 nonlapsing social innovation account, established pursuant to this  
57 section, in an amount equal to the expected payments that the state  
58 would ultimately be obligated to pay if outcome-based performance  
59 benchmarks were achieved; and (5) a fiscal analysis by the secretary or  
60 any agency authorized by the secretary as to projected savings in  
61 specific governmental service areas related to achievement of outcome-  
62 based performance benchmarks.

63 (d) When considering entering into an outcome-based performance  
64 contract with a social innovation investment enterprise, the secretary,  
65 or any agency authorized by the secretary, shall present to the joint  
66 standing committees of the General Assembly having cognizance of  
67 matters concerning the preventive social program and appropriations  
68 and the budgets of state agencies: (1) A summary statement that shall  
69 include policy areas to be addressed by such contract; (2) the  
70 preventive social program to be delivered; (3) a general description of  
71 outcome-based performance benchmarks and metrics to be used to  
72 measure whether such benchmarks were achieved; and (4) a general  
73 estimate of savings.

74 (e) After entering into an outcome-based performance contract with  
75 a social innovation investment enterprise, the secretary, or any agency  
76 authorized by the secretary, shall present to said joint standing  
77 committees, the terms and conditions of the contract, along with the  
78 executive summary of the agreement, detailing: (1) The social  
79 innovation investment for which the contract is being entered into; (2)

80 the outcome-based performance benchmarks being used; (3) a  
81 calculation of the amount and timing of state payments if outcome-  
82 based performance benchmarks are achieved; (4) projected savings in  
83 specific governmental service areas related to achievement of outcome-  
84 based performance benchmarks; and (5) projected appropriations  
85 necessary for fiscal years subsequent to the current biennium to fund  
86 the social innovation account established pursuant to this section.

87 (f) For each outcome-based performance contract entered into  
88 pursuant to this section, the secretary, or any agency authorized by the  
89 secretary, shall report annually during the contract period and not  
90 later than six months after the conclusion of the contract period on the  
91 status of such contracts to said joint standing committees. Such report  
92 shall include information on (1) the achievement by the non-profit  
93 service provider of outcome-based performance benchmarks; (2)  
94 returns on investment for the social investment vehicle; and (3) fiscal  
95 analyses of savings achieved in specific governmental service areas  
96 related to the contract.

97 [(c)] (g) The secretary, or any agency authorized by the secretary  
98 pursuant to subsection (b) of this section, shall comply with the  
99 provisions of section 4e-16 relating to privatization contracts when  
100 entering into an outcome-based performance contract with a social  
101 innovation investment enterprise pursuant to this section.

102 [(d)] (h) There is established an account to be known as the "social  
103 innovation account" which shall be a separate, nonlapsing account  
104 within the General Fund. The account shall contain any moneys  
105 required by law to be deposited in the account. Any interest accruing  
106 to the account shall be credited to the account. Moneys may be  
107 transferred to the account from the General Fund. Moneys in the  
108 account shall be expended by the [Secretary of the Office of Policy and  
109 Management for the purposes of facilitating the reentry of moderate  
110 and high-risk offenders into the community] secretary, or any agency  
111 authorized by the secretary, solely to provide payments to the social  
112 innovation enterprise, investors, or both, and related administrative

113 costs, in accordance with the terms of an outcome-based performance  
 114 contract. The secretary, or any agency authorized by the secretary, may  
 115 apply for and accept gifts, grants or donations from public or private  
 116 sources to enable the account to be a source of payments to investors  
 117 purchasing interests in a social investment vehicle.

This act shall take effect as follows and shall amend the following sections:		
Section 1	July 1, 2015	4-68aa

**Statement of Legislative Commissioners:**

In Section 1(a)(5), "met by the social innovation investment enterprise" was changed to "met by the non-profit service providers contracted with the social innovation investment enterprise" and in Section 1(d)(3), "benchmarks and metrics used" was changed to "benchmarks and metrics to be used" for internal consistency and accuracy.

**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.

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**OFA Fiscal Note**

**State Impact:** See Below

**Municipal Impact:** None

**Explanation**

The bill allows the Office of Policy and Management, and other state agencies, to enter into outcome-based performance contracts with social innovation enterprises. It also allows funds in the social innovation account, a nonlapsing General Fund account, to be used to make payments to social innovation enterprises.

The bill specifies that any payment to a social innovation enterprise be conditioned on the successful achievement of quantifiable outcomes. Should such outcomes be achieved, there would be a cost to the social innovation account associated with making contractual payments. This cost could potentially be offset by any savings resulting from the achievement of quantifiable outcomes laid out in the contract.

**The Out Years**

The ongoing fiscal impact identified above would continue into the future subject to contractual agreements with social innovation enterprises.

**OLR Bill Analysis**

**sHB 6763**

***AN ACT CONCERNING SOCIAL INNOVATION.***

**SUMMARY:**

This bill expands the state's authority to enter into an outcome-based performance contract with a social innovation investment enterprise (i.e., enterprise), which is an entity created to coordinate the delivery of preventive social programs by nonprofit service providers. Enterprises can (1) create a social investment vehicle (product) to raise private investment capital, (2) enter into outcome-based performance contracts, and (3) contract with service providers.

Under current law, these contracts (1) establish outcome-based performance standards for preventive social programs delivered by nonprofit service providers and (2) guarantee investors a return on their investment and earnings if the enterprise meets the standards. The bill renames the “performance standards” as “performance benchmarks” but neither term is defined in the bill or underlying law. It also requires the nonprofit service providers who contract with the enterprise to meet the benchmarks, instead of the enterprise itself.

Current law allowed the Office of Policy and Management (OPM) secretary or his designee to enter an outcome-based performance contract to accept a U.S. Department of Justice grant for a prisoner re-entry program in FY 12. (The state was not awarded the grant so the program was never implemented.) The bill instead allows OPM, or an agency the secretary authorizes, to enter into an outcome-based performance contract with an enterprise to deliver preventive social programs (i.e., programs designed to reduce, reverse, or eliminate societal problems, including poverty, homelessness, unemployment, poor academic achievement, offender recidivism, child abuse and

delinquency, and poor health.)

Under the bill, the contract must be based on a written proposal that (1) OPM deems sufficient and (2) demonstrates the enterprise will generate a reduction in state expenditures as they are defined in the contract through the (presumably, enterprise-contracted service providers') accelerated achievement of outcome-based performance benchmarks.

The bill specifies what must be included in the contracts and establishes procedures OPM and authorized agencies must follow to enter them.

The bill also (1) eliminates the requirement that OPM use the social innovation account within the General Fund to facilitate an offender reentry program and (2) requires OPM and authorized agencies to use money from the account to provide payments to the social innovation enterprise, investors, or both in accordance with the contract terms. (Currently, OPM is permitted to use the money from the account for such payments if the contract includes a provision to that effect.)

EFFECTIVE DATE: July 1, 2015

## **CONTRACT REQUIREMENTS**

A contract authorized by OPM must include:

1. payment conditioned on the enterprise-contracted service providers achieving outcome-based performance benchmarks,
2. an independent evaluator's objective determination that the service providers have met the benchmarks,
3. a calculation of the amount and timing of payments that a capital provider in the social investment vehicle would earn during each year of the contract if the service providers achieve the benchmarks;
4. a provision concerning appropriation requests for each fiscal

year for the nonlapsing social innovation account in the General Fund equal to the expected payments the state would have to pay if the contracted service providers achieve the benchmarks (it is not clear what would happen if they only achieve some of the benchmarks); and

5. a fiscal analysis by OPM or the authorized agency of projected reduction in state expenditures in specific governmental service areas related to the providers' achievement of the benchmarks.

## **COMMITTEE PRESENTATIONS**

### ***Initial Presentation***

The bill requires OPM or the authorized agency, when considering such a contract, to present to the Appropriations Committee and the committee with cognizance over matters concerning the preventive social program (which, depending on the program, could be the Children's, Education, Human Services, Judiciary, Labor, or Public Health committee):

1. a summary statement including policy areas the contract will address,
2. the preventive social program to be delivered,
3. a general description of the performance benchmarks and metrics used to determine if the enterprise-contracted providers achieve them, and
4. a general savings estimate.

### ***Executive Summary***

After entering the contract, OPM or the authorized agency must present to the same committees the contract's terms and conditions, along with an executive summary of the agreement that includes:

1. the social innovation investment for which the parties entered the contract,

2. the performance benchmarks used,
3. a calculation of the amount and timing of state payments if the enterprise-contracted providers achieve the benchmark, and
4. projected (a) reduction in state expenditures in specific governmental service areas related to the providers achieving the benchmarks and (b) appropriations necessary for fiscal years after the current biennium to fund the social innovation account.

### ***Annual Committee Report***

After entering the contract, OPM or the authorized agency must annually report on the contract's status to the above committees during the contract period and within six months after it concludes. The report must include information on the:

1. enterprise-contracted providers' achievement of the benchmarks,
2. social investment vehicle's return on investment, and
3. fiscal analysis of reduction in state expenditures in specific government service areas related to the contract.

### **PRIVATIZATION CONTRACT REQUIREMENTS**

Under current law, when OPM enters an outcome-based performance contract with a social innovation investment enterprise, it must comply with the law's requirements regarding privatization contracts (e.g., OPM must conduct a cost-benefit analysis and meet business case criteria). Under the bill, an OPM-authorized agency must also comply with those requirements when entering into such contracts.

### **SOCIAL INNOVATION ACCOUNT**

The law establishes a separate, nonlapsing social innovation account within the General Fund. Currently, OPM is authorized to use money from the account to facilitate reentry of moderate to high-risk

offenders into the community. (Since OPM did not receive the 2012 grant mentioned above, it was not able to use account funds for this purpose.) The bill instead allows OPM or any OPM-authorized agency to use the funds solely for (1) payments to the social innovation enterprise, investors, or both, and (2) administrative costs related to an outcome-based performance contract, in accordance with the contract's terms.

The law allows OPM to apply for and accept gifts, grants, or donations from public or private sources to enable the account to be a source of payments to investors purchasing interests in a social investment vehicle. The bill also allows an authorized agency to do the same.

**COMMITTEE ACTION**

Human Services Committee

Joint Favorable Substitute

Yea 18    Nay 0    (03/17/2015)