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Testimony before the Human Services Committee

H.B. 6763, An Act Concerning Social Innovation

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February 19, 2015

Senator Moore, Representative Abercrombie, Senator Markley, Representative Wood 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). With over 500 member organizations, CT Nonprofits is the largest membership organization in the state dedicated exclusively to serving nonprofit organizations. Our network is more than 500 nonprofit organizations strong with 51,000 employees representing more than \$2.5 billion in annual revenue.

I would like to comment on H.B. 6763, An Act Concerning Social Innovation. One of CT Nonprofits' three major policy priorities for this session is to incentivize philanthropy, business community and innovative support programs, including exploring innovative funding mechanisms which may provide new and sustainable sources of operating revenue for nonprofit providers much like the Neighborhood Assistance Act. Social innovation represents similar potential partnerships with private investment to fund new delivery systems for certain social service programs.

As you are all aware, nonprofit providers continue to face enormous financial challenges, having been forced in many cases to reduce programs, layoff employees, reduce benefit packages and compete against one another for scarce resources in response to underfunding. With the constraints on the state budget and uncertainty with federal funding, the nonprofit community is exploring 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 needs further exploration with the hope that in certain situations, it can help nonprofits achieve these objectives.

The frustrations over the adequacy and uncertainty 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 by 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 agreements, social innovation, in this case outcome-based performance contracts, may gain a larger footprint in the contracting process.

While supportive of the underlying goal of social innovation, I must be clear that these types of agreements are not designed to replace existing state contracts of private health and human service providers. These agreements should be used in addition to current contracts. Further, 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 agreements may or not apply to their respective programs and services. I look forward to continuing to explore appropriate opportunities for social innovation in Connecticut.

Thank you for your time and consideration.