

January 22, 2018

Robert Patricelli, co-chair
James Smith, co-chair
Commission on Fiscal Stability and Economic Growth
Legislative Office Building, Room 3700
300 Capitol Avenue
Hartford, CT 06106

Dear Mr. Patricelli, Mr. Smith and Members of the Commission:

The Alliance is Connecticut's statewide association of community nonprofits that serve over 500,000 people each year and employ almost 14% of Connecticut's workforce. On behalf of our nonprofit members across the state, I respectfully offer information and suggestions to the Commission on Fiscal Stability and Economic Growth as you consider ways to achieve fiscal stability and promote economic growth and competitiveness within the state.

Nonprofits Provide Essential Services

The State of Connecticut relies on community providers to deliver essential services for the State's children, families, seniors, and people with complex needs who would otherwise have nowhere else to turn.

The state's network of human services and arts and culture offerings are an important but often overlooked factor in our competitiveness with other states. As businesses decide where to locate, they consider the quality of life for their employees and their families. Businesses want to be where their employees' families can access things like:

- Supports for loved ones with intellectual/developmental disabilities,
- Treatment for mental health and substance abuse,
- A safety net of food and shelter services for people who fall on hard times, and
- A vibrant arts community with museums, art galleries, and other cultural offerings.

By The Numbers:

198,000 - People who work for Connecticut's nonprofits

14% - Percentage of the Connecticut workforce employed by nonprofits, more than Aerospace, Manufacturing and Financial Services.

\$10,000,000,000 - Annual wages nonprofits pay their workers. These employees pay income, sales and property taxes, and are important consumers in the economy.

\$29,000,000,000 - Annual amount nonprofits spend in Connecticut's economy through the purchase of goods and services from Connecticut's businesses.

These essential services enhance the quality of life for Connecticut residents – but they are at risk. Continuing state budget cuts to programs offered by nonprofits leads to a Connecticut that cannot provide for our citizens. Is that the Connecticut we want?

Policy-makers can confront this crisis by recognizing that nonprofit services are *essential* and *necessary* – and by declaring them just as off-limits for cuts as other “fixed” costs in the state budget. They can maximize limited state funding by shifting more expensive state-operated programs into the community and moving

state employees to other, vacant positions.

Community Services are a perpetual target of State budget cuts

Connecticut's structural budget deficits threaten the health and well-being of the half a million individuals and families who depend on community services. In FY18, over half of the state budget – 53% -- comprises “fixed costs” which are deemed not subject to cuts. That percentage grows each year, and funding for nonprofits is in whatever remains. The combination of ongoing budget shortfalls and growing fixed costs mean community nonprofits are a shrinking piece of a diminishing pie.

For example, mental health and substance abuse grants pay for the care of the most seriously mentally ill, who are more likely to be uninsured, under-insured or experience gaps in coverage. Yet in Fiscal Year 2017, DMHAS cut every provider contract by 5% across all service types and since Fiscal Year 2013, grant funding has been cut more than 19%. Grants specifically earmarked for substance abuse treatment have been cut by 30% since FY13, while the death rate from drug overdose has increased 150%.

Federal Tax Reform: A Perfect Storm

Nationally, changes to federal tax law are expected to reduce charitable giving by \$13-20 billion annually and eliminate at least 220,000 jobs, while adding \$1.5 trillion to the federal debt, which could be “balanced” by cutting entitlement programs that fund community services.

Federal tax reform combines with Connecticut's budget cuts to create a perfect storm for community nonprofits. Because of the doubling of the standard deduction fewer people can be expected to donate to charities, as donations will no longer be an itemized deduction for up to 90% of filers. The increase in the national debt means that programs such as Medicaid – which pays for a substantial portion of human services – will be on the federal chopping block. Less funding from both the state and federal government, along with fewer donations and increasing caseloads will strain the service delivery system.

This means fewer resources from all levels of government, fewer charitable donations and increased competition for private grants which threaten the ability to meet community needs.

Nonprofits Can Save Connecticut Money

Acknowledging that nonprofits provide exceptional services that improve the quality of life for individuals receiving care, the State should preserve and expand the use of community services, more effectively using limited dollars to provide quality care to all people in need. While the SEBAC agreement adopted in 2017 prevents layoffs until 2022, the agreement allows conversion of services to the nonprofit sector to continue. Significant savings through conversion of services can still be achieved.

For example, if Southbury Training School were to close, the \$1.3 million per year the State spends just on fuel (diesel, electricity, gasoline, natural gas & propane) for the facility could be used to serve ten families currently languishing on the waiting list for services operated by nonprofits and funded by the Department of Developmental Services.

Below are a few specific examples of how community programs can provide high quality care to more individuals and families, while saving state dollars.

Intellectual/Developmental Disability Services:

- According to a 2009 study from the General Assembly's Program Review & Investigations (PRI) Committee, the average annual cost to serve a person with intellectual/developmental disabilities living in a state-operated group home is \$265,000. The cost for a community nonprofit to provide the same service is just \$113,000. **That means the State can save \$152,000 per person per year** by providing group home services for people with intellectual/developmental disabilities in the community compared to state provision of the same services.
- Nonprofits already provide residential support to 93% of the people receiving services from the Department of Developmental Services (DDS).

Local Mental Health Authorities:

- Currently, seven Local Mental Health Authorities (LMHAs) are community nonprofits and six are state-operated. In 2017, Governor Malloy's first budget proposal would have shifted two parts of the state-operated Western CT Mental Health Network LMHA into the community, **saving the State \$5 million per year without layoffs**. But this change was not included in most of the subsequent budget proposals or the final bipartisan budget that passed.
- The per-patient cost of state-operated LMHAs is more than double the cost of private LMHAs. There are thirteen LMHAs in Connecticut. The average cost-per-client for state-operated LMHAs in FY16/17 was \$12,638 per year. In private LMHAs, the average annual cost-per-client was just \$5,330. **The state can save more than \$7,000 per client per year** if it converted all LMHAs to nonprofit operation.

Foster Care Services:

- Foster care services are provided by both the Department of Children and Families (DCF) and community providers, making the delivery of services costly and inefficient. **Nonprofits have the ability and capacity to provide high quality services for all the 4,000 children currently in the foster care system.**
- Shifting the delivery of foster care services into the community and creating a single system for all children would provide nonprofits and the State with the opportunity to better assess and address children's needs. The State's roles as both provider and regulator of foster care services has created an environment in which nonprofits must compete with the State to recruit and retain foster families. These parallel systems maintain two separate silos of information for children in the foster care system.

Thank you for your consideration of our recommendations. Please let me know if you have any questions or need additional information.

Sincerely,



Gian-Carl Casa
President & CEO
The Alliance

Cc: Tom Spinella, Administrator, Finance, Revenue and Bonding Committee, Connecticut General Assembly