



*COMMUNITY SERVICES ARE ESSENTIAL
TO MAINTAIN CONNECTICUT'S
QUALITY OF LIFE*

*Legislative Briefing Booklet
January 2018*

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Community Services are Essential Costs

Year-after-year of state budget difficulties have put increasing pressure on community nonprofits, leaving them to face an uncertain future at a time when the demand for services is increasing. But nonprofits in Connecticut face a difficult set of challenges:

- the need for nonprofit services is increasing, all 40 nonprofits responding to a survey have seen increased demand over the past five years,
- in FY 2018 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.
- federal tax reform will discourage charitable contributions by eliminating most itemizers,

Nonprofits are dependent on the State for funding and have limited options in the face of budget shortfalls. They can't raise taxes or charges, forcing them to cut services, lay-off employees or close programs. Clearly, this is a model that cannot sustain itself – and it puts Connecticut's quality-of-life at risk. Continuing to cut programs offered by nonprofits leads to a Connecticut that:

- cannot provide for people with intellectual/developmental disabilities,
- fails to serve people in need of mental health and addiction treatment,
- falls short on food and shelter for those with emergency needs,
- sends formerly incarcerated people back into the community without support, and
- lacks the arts and culture that attract people and businesses.

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 are the things called “fixed” costs.

They can maximize limited state funding by shifting more expensive state-operated programs into the community and moving state employees to other, vacant positions.

About this briefing booklet

This briefing booklet describes the ways in which programs offered by community nonprofits are endangered by state and federal budget changes and how community providers can help the State in a time of budget distress. It includes ideas about how the State can help providers serve more people at less cost -- how they are partners that can help each other.

Connecticut has a bipartisan tradition of caring for nonprofits and their missions. We hope you find this booklet helpful as you craft legislation to help protect services for Connecticut residents

Thank you for caring about your communities and the people in them.

Gian-Carl Casa
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2018 Public Policy Agenda

Community Nonprofits: Essential Contributors to Thriving Communities

Connecticut's fiscal challenges threaten the health and well-being of the half a million people and families who depend on these programs. Each year, a larger percentage of the state budget is tied up with "fixed costs". That – combined with projections of future budget shortfalls – means **community nonprofits face an uncertain future unless programs for the people they serve are seen as just as essential and necessary as costs considered to be "fixed."**

After years of tight budgets, more cuts in funding to community nonprofits mean fewer services for the people who depend on them and will lead to job losses for those providing care. Our State's most at-risk citizens in need will have nowhere to turn and communities will experience a lower quality-of-life in the absence of cultural programs. The Alliance's Public Policy Agenda includes proposals that save the state money while allowing individuals and families to live productively in the community and contribute to making Connecticut a great place to live and work.

ADDRESS THE CRISIS IN FUNDING FOR NONPROFIT SERVICES

- **Protect state budget funding for essential community services.** Nonprofit programs are cost effective. They save lives and keep people out of expensive emergency rooms, nursing homes, the streets, and the criminal justice system.
- **Nonprofits save the State money that can be used to help more people.** The State should continue to convert more expensive state-run services into more efficient and high-quality services provided by community nonprofits. Nonprofit services are significantly less costly than state-run programs. The money saved should be re-invested to provide care for people in need.
- **Make the State-nonprofit relationship more efficient** by implementing recommendations in the report of the Licensure and Certification Work Group and use this process as a model for other service enhancements.

INVEST IN COMMUNITIES

- **Restore the scheduled increase in the annual cap of \$10 million for the Neighborhood Assistance Act.**
- **Expand and implement the Innovation Incentive Program.** If a State agency determines that a provider has complied with contractual and other service delivery requirements, allow the provider to retain any savings and use the savings to continue providing needed services.
- **Establish adequate rates and flexibility for services reimbursable under Medicaid.**
- **Restore 1% portion of bond proceeds for art work in state building projects.** Art and culture contribute to the economy, help maintain our quality-of-life and make Connecticut a better place to live and do business.

Executive Summary

The need for nonprofit services is increasing as resources decrease.

- All forty respondents to a recent survey said demand has increased over the past five years.
- The capacity of nonprofits to meet those needs is down – years of tight state budgets have led to layoffs, program reductions and closures.
- That means increased caseloads, fewer direct care workers, longer waiting times for services and fewer people served.
- Over half the state budget comprises “fixed costs” deemed not subject to cuts – nonprofit services are in what remains. With shortfalls predicted for the next several years this means competing for a shrinking part of the budget.
- Nonprofits have no choice but to make cuts. They can’t levy charges or taxes.

Nonprofit services save the state money

- Community providers deliver high-quality services that are as good or better than those provided by the State, according to a General Assembly study.
- Moving services from state-operation to nonprofits can continue within the limitations of SEBAC, through reassignments and attrition.
- Over 90% of residential services to people with intellectual and developmental disabilities are already served by community providers.
- Over 60% of those served by Local Mental Health Authorities are already served by nonprofit providers.

Behavioral Health: Demand is up, funding is down

- In FY 2017, 1011 people died due to opioids – and increase of 150% over five years.
- Since FY 2013 grant funding, which is used to pay for seriously mentally ill who are under- or uninsured, has been cut by 19%.
- Medicaid rates do not cover the cost of care, leaving community providers to operate at a loss for nearly every service-type delivered to recipients.

Intellectual/Developmental Services are Essential Costs

- A study by the legislative Program Review and Investigations Committee found the quality of care is just as good if not better than state services, as measured by DDS inspection outcomes.
- One-third of state funding for residential services support the 10% of people living in state-operated homes.
- The waiting list of services continues to grow as funding stagnates.

Arts and Culture: Economic Drivers that Improve Our Quality of Life

- Arts and culture generate almost \$800 million in annual economic activity, supporting over 23,000 jobs and \$72 million in state and local tax revenue.
- They help make Connecticut an attractive place to live and do business.

Taxing Nonprofits Would Hurt Recipients of Services

- Taxing nonprofits would deprive them of money they use to fulfill their missions.
- In many cases, the government would be taxing itself – a portion of the funding provided by the State would be paid back in taxes. What the state budget appropriates to serve people would go elsewhere.
- At a time when federal tax laws could seriously harm charitable giving it would be asking people to donate to causes when their money would then be paid in taxes – further harming the incentive to donate.

Innovation Incentive Program

- Public Act 17-122 allows providers to retain savings realized at the end of a contract.
- This would treat community nonprofits the same as most other state-contracted services.
- But the program applies to very few nonprofits and has not been implemented. It would promote efficiency and innovation.

Community Justice Reform

- Connecticut's crime rate is down 23% in the last five years, almost six times the national average.
- Fewer people in prison means a greater need for community re-entry programs.
- But while the need is up, funding has been cut by nearly 15%.
- Savings from the decreasing prison population can be reinvested in these community programs

Nonprofit Community Services Save the State Money

Community providers are partners with the State in serving people in need; they take care of the developmentally disabled, feed the hungry, provide behavioral health and substance abuse treatment, help prisoners transition into the community, and much more. Community providers deliver more than 90% of residential services to people with Intellectual/Developmental Disabilities (I/DD) and 60% of clients served by Local Mental Health Authorities.

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, and significant savings can be achieved because nonprofits provide services more efficiently than the State while maintaining high quality.

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 to receive services provided by nonprofits and funded by the Department of Developmental Services.

The State is in fiscal crisis and it's time to make systemic changes that will make services more affordable in the short- and long- term. Keeping the expensive status quo is a decision to serve fewer Connecticut citizens.

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 an individual 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.

Community providers deliver high quality care. The same PRI study looked at the experience of 17 group homes for people with intellectual and developmental disabilities that had been converted from state to nonprofit operation and found that **quality does not deteriorate in private settings and, in many cases, improves**. Community based homes received nearly 40% fewer deficiencies when inspected compared to when the same homes were run by state government, and that only 13% of the nonprofit homes were cited for "plan of correction" deficiencies, while 38% of state-run homes were cited. The report goes on to conclude that, "in all categories there were fewer deficiencies after the conversion to private homes," and "the average percentage drop in the total number of deficiencies was 44 percent."

- Community providers delivery high-quality services
- *The State can save money by shifting the delivery of services into the community*
- *This shift can continue within the limitations of SEBAC*
- *I/DD, LMHA and Foster Care services are some examples*
- This model would allow the State to serve more people

Local Mental Health Authorities

The per-patient cost of state-operated Local Mental Health Authorities (LMHAs) is more than double the cost of private LMHAs. There are thirteen LMHAs in Connecticut; seven of them are community providers and six are state-operated. 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 LMHAs to nonprofit operation. With almost 14,000 clients served by state-operated LMHAs in FY16, converting services to providers can result in savings that can be used to serve more people in need of behavioral health services, especially important in the midst of an opioid crisis.

Last year the Governor's initial 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 any layoffs. But this change was not included in most of the subsequent budget proposals or the final bipartisan budget that passed.

It's time to do things differently, so that the State may serve as many people as possible and maintain the quality-of-life for all residents.

Foster Care Service Delivery

Foster care services are provided by both the State 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.** They currently:

- Coordinate services for children to provide nurturing homes and structured environments.
- Support children and foster families throughout the placement process, assigning a team of professionals to each child and family to meet their unique needs, providing 24 hour-a-day on-call support services, and ongoing support groups and training.
- Administer therapeutic foster care programs, family and community ties programs, respite foster care, and foster care services for children with medically complex conditions.

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. 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.

Recommendations

These are three significant areas in which nonprofits can save the state money, there are others. The choice is clear: The State can either maintain the expensive status quo of providing direct services and serve fewer people or use the nonprofit sector to serve more people at a lower cost. 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, effectively using limited dollars to provide quality care to all people in need.

Demand for Behavioral Healthcare is Up; Funding is Down

Community providers of behavioral health services care for all who walk through their doors, regardless of their ability to pay. These services are funded in part through federal reimbursement and through grants from the Department of Mental Health and Addiction Services (DMHAS) for the delivery of services that do not qualify for federal reimbursement.

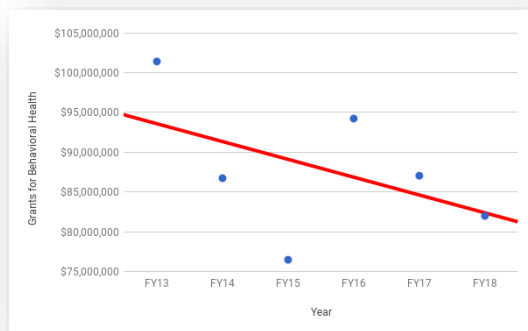
Mental health and substance use **grants pay for the care of the most seriously mentally ill**, who are more likely to be uninsured, under-insured or experience gaps in coverage. Yet in Fiscal Year 2018, DMHAS cut every provider contract by 5% across all service types. Since Fiscal Year 2013, **grant funding has been cut more than 19%**.

The Affordable Care Act has had a significant and positive affect on healthcare in Connecticut. More than 700,000 people have become insured and tens of thousands of residents have enrolled in Medicaid following the State's Medicaid expansion. As more people have acquired health insurance, demand for mental health and substance use services has increased. But barriers in access to care remain, such as skyrocketing health insurance costs, which have left many people unable to pay for the high cost of premiums and out-of-pocket expenses.

Nationally, more than a quarter of adults who experienced serious psychological distress in the U.S. reported an unmet need for mental health care, and almost half of the people with a perceived unmet need reported that they did not receive treatment because they could not afford it.

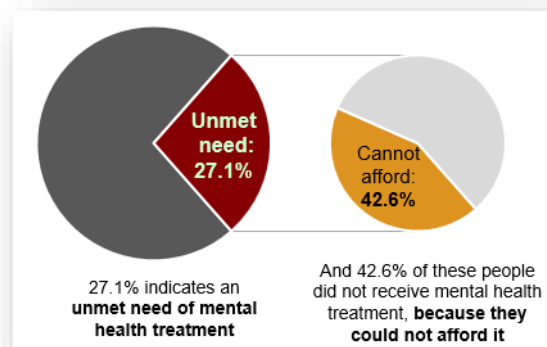
Community nonprofit providers meet that unmet need. **Grant funding from DMHAS is essential to cover the costs incurred by providers.**

- DMHAS Mental health and substance use grants pay for the care of the most seriously mentally ill
- Since Fiscal Year 2013, grant funding has been cut more than 19%.
- Cuts are happening in the face of an opioid crisis; in FY17, 1,011 Connecticut residents died, an increase of nearly 150%.
- If grants are cut, providers would be forced out of business and the people they serve would have nowhere to turn for life-saving services



Grants for Behavioral Health

Among adults who experienced Serious Psychological Distress during the past year:

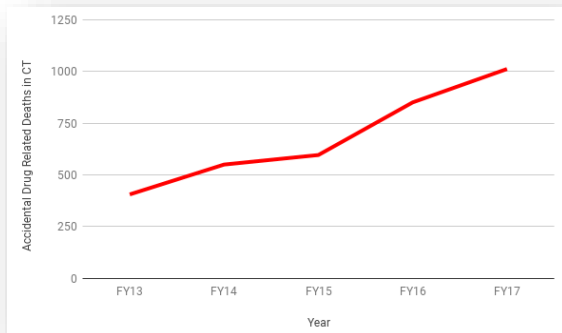


The Opioid Epidemic: Now is Not the Time to Cut Services

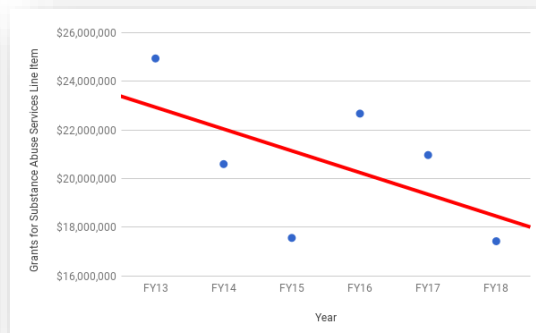
In Fiscal Year 2013, 406 people died in Connecticut of a drug overdose. In FY17, 1,011 Connecticut residents died, an increase of nearly 150%. Too many people are forced to wait days, or even weeks, to receive treatment. As with any other crisis, failure to address the opioid epidemic now assures that Connecticut will incur additional costs, both human and financial.

Expanding access to treatment and recovery services costs money, but **since Fiscal Year 2013, grant funding for substance abuse services has been cut by 30%.**

Accidental Drug Related Deaths in CT



Grants for Substance Abuse Services Line Item Funding



Medicaid: Federal Uncertainty and Low Rates

In 2017, there were several attempts in Washington, D.C. to repeal the Affordable Care Act and dramatically cut and restructure the Medicaid program. While these attempts were by-and-large unsuccessful, all of them would have resulted in significant losses of federal funding for Connecticut's Medicaid program. If there are federal cuts to the Medicaid program, Connecticut will be left holding the bag to provide the behavioral healthcare that Medicaid enrollees need. With more attempts at entitlement reductions looming in 2018 and beyond, maintaining state-funded grants is more important than ever to ensure continuity of care for people in need.

Medicaid enrollment is on the rise in Connecticut. 814,000 people were enrolled in Medicaid as of October 2017, 65,000 more than were enrolled in February, 2016. But **Medicaid rates do not cover the cost of care, leaving community providers to operate at a loss for nearly every service-type delivered** to Medicaid recipients. In 2015, the annual loss for the top ten procedures by volume procedures was more than \$27 million for approximately 250,000 service hours. With inadequate reimbursement rates, the State not only fails to maximize its federal matching funds, it risks the provision of some of the most highly utilized, critical behavioral health services. While DMHAS grants are not supplements for inadequate Medicaid reimbursement rates, without adequate grant funding from DMHAS, community providers would be forced out of business and the people they serve would turn to costly and less effective options for care.

Recommendation:

Do not cut mental health and substance use grants, which pay for the care of the most seriously mentally ill, who are more likely to be uninsured, under-insured or experience gaps in coverage.

Intellectual/Developmental Services are Essential Costs

There are thousands of families in Connecticut waiting for services for their loved ones with Intellectual/Developmental Disabilities (I/DD). Many of them have been waiting for years and cannot access appropriate care and support. With supports tailored to their needs, people with intellectual and developmental disabilities can thrive in their communities, and families who have left the workforce to care for their children can return knowing their loved one is being supported in the most appropriate environment possible. Community providers can provide those supports, even to people with some of the most complicated medical and behavioral needs, and they have a track record of supporting people in the least restrictive environment their needs and preferences will allow.

Providers offer a wide array of residential supports, including Community Living Arrangements and Continuous Residential Supports—commonly known as group homes, individual home supports, Community Companion Homes, and more. They also offer support for people with I/DD during the day, operating day programs that help people be a part of their communities, and supported employment services, helping people with I/DD work at fulfilling jobs across Connecticut.

Community Services are High Quality

Community providers are mission-driven and highly committed to serving people with I/DD. They provide high quality programs at a fraction of the price of state-operated services, and more than 90% of people who receive services from the DDS are supported by community providers.

A 2012 study by the General Assembly's Program Review and Investigations (PRI) Committee looked at the experience of 17 group homes for people with intellectual and developmental disabilities that had been converted from state to nonprofit operation. The study found that DDS operated group homes converted from public to private settings had fewer deficiencies after the conversion than before, illustrating how **quality – as measured by DDS inspection outcomes – does not deteriorate in private settings and may even improve.**

The study found nonprofit-run homes received nearly 40 percent fewer deficiencies when inspected than when the same homes were run by state government, and that only 13 percent of the private homes were cited for “plan of correction” deficiencies, while 38 percent of state-run homes were cited. The study states that, “In all categories there were fewer deficiencies after the conversion to private homes,” and “the average percentage drop in the total number of deficiencies was 44 percent.”

The PRI study concluded that **“although public settings cost more, the quality of care provided does not appear superior to that in private settings.** Licensing and inspection results for all residential homes and facilities show how on average community residences have fewer deficiencies per home, fewer serious condition reports and better compliance in implementing corrective actions.”

- Providers deliver services to 90% of people receiving I/DD services
- A State study shows the quality of community services is just as good, if not better than the state
- A waiting list for services continues to grow
- The State spends 1/3 of its funding for residential services to support 10% of people living in state-operated homes
- By converting I/DD services from state to nonprofit operation, the State can serve more people

The I/DD System is underfunded

Community providers have not received new funding to adjust for the cost of living and doing business since 2007. As a result, wages for direct care workers have stagnated, innovation has been stymied, and families continue to languish on waiting lists. In 2007, minimum wage was \$7.65 per hour, and climbed to \$10.10 in 2017. During the same time period, rates the State paid to community providers remained the same.

Operating budgets for essential services are already stretched to the breaking point. In a recent survey, providers emphasized that further cuts would result in reductions or complete closures of services and programs. One provider reported that if they received an additional 5% reduction, *“we would have to close some group homes and move residents to share bedrooms in another group home.”*

Group home closures and consolidations disrupt residents’ lives, uprooting them from those they have come to know as family and forcing them into unfamiliar and more crowded living arrangements, reducing staffing ratios and available services.

A waiting list for services continues to grow

When community providers are underfunded, there is a negative impact on people with I/DD and the community. Currently, thousands of families are waiting for residential services from the Department of Developmental Services (DDS). For each of these people, this means remaining in the care of their parents, grandparents, siblings, or other guardians, many of whom must alter or eliminate their own work schedules to provide support. Often, this forces families to seek additional state-funded social services, as they are not able to provide their own insurance, medical benefits, or even funding for food. With supports tailored to their needs, people with intellectual and developmental disabilities can thrive in their communities, and families who have left the workforce to care for their children can return knowing their loved one is being supported in the most appropriate environment possible.

The State can serve more people through conversion

Community providers already serve more than 90% of people served by residential programs in DDS, but **the State spends one third of its funding for residential services paying to support the 10% of people living in state-operated homes.** While the SEBAC agreement adopted in 2017 prevents layoffs until 2022, the agreement allows conversion of services to the nonprofit sector to continue, and significant savings can be achieved because nonprofits provide services more efficiently than the State while maintaining high quality. 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.

In their own words, what do families say?

- **“...we moved Francis to a community-based Oak Hill group home... Although it was a difficult decision to move him from his ‘forever home,’ we have never looked back. Francis now lives in a real home in a real neighborhood where he gets all the attention he needs and loving supportive care from a wonderful staff. He is content, happy, and calm.** We could not be more pleased with his excellent personal and medical care. We know he is safer in his current home than he ever was before. His safety gives us great peace of mind. We encourage eligible families

to visit and see for themselves the best practices and quality of care in nonprofit community based group homes.” – Patrick and Marjorie Johnson, family members

- “I am the mother of a severely disabled son who is 45 years old. He was placed at Ella Grasso state facility in 1982, when he was 10. **My son transitioned to a Kennedy Center group home April 2014. My son is visibly happier** with this small, homey environment which expects him to behave to the best of his ability. He goes out frequently with staff and made a remarkably rapid adjustment to this more intimate setting. **I celebrate all the positive things that the group home has afforded my son;** I applaud the concept of the group home as it allows each resident to be treated individually, with deep dignity and respect. This is possible because of the small, intimate setting that is inherent in the group home atmosphere.” – Jane Rimer, Parent
- “My daughter is cared for by the Jewish Association for Community Living (JCL.) **They are caring, responsible and well-trained people.** I literally trust them with my daughter’s life. Why JCL and not a state-run group home? It was my connection to the employees.... JCL and all agencies contracted by the state follow strict standards set and monitored by the State. That fact alone was not enough for me to trust them with my girl... It’s the staff. No one can fake that job... Their employees **are hard-working, skilled and sensitive people.**” – Ann Levie, Parent

Arts & Culture Programs Improve Our Quality of Life

Arts Fuel the State Economy

The nonprofit arts and culture community enhances the quality of life in Connecticut. The arts make our communities better places to live and work – they create jobs, generate revenue, and are key promoters of their cities and regions. A study conducted by the Americans for the Arts found that **Connecticut’s nonprofit arts and culture sector generates \$797.3 million in annual economic activity for the state, supporting over 23,000 jobs and generating \$72.3 million in local and state tax revenue.**

Arts Programs Enrich Lives

Arts and culture programs empower people, providing them with the opportunity tell their stories and overcome hopelessness, isolation or anger by gaining a sense of confidence and purpose. For example:

- The Emerson Theater Collaborative produced “Always Picked Last,” an **anti-bullying**-themed play that cast youth on and off the autism spectrum who had experienced bullying first-hand. The play helped spread awareness of bullying and provided an opportunity for youth to have a voice and express themselves as they wrote and performed powerful, original monologues about their personal experiences. Afterward, teachers noted how accomplished, validated, and confident students seemed in their abilities and social skills.
- The Judy Dworin Performance Project work in schools and prison communities, using the arts to help people overcome the cycle of abuse and violence. Their evidenced-based program, “Bridging Boundaries,” **addresses the issues of incarcerated and previously incarcerated people** and their families. The program employs a non-threatening arts platform from which participants can explore the thoughts, feelings and insights that led to unfortunate choices -- while developing critical life tools and building bridges with their families to prevent recidivism.
- The Art Therapy program at Oak Hill created **opportunities for people with intellectual/developmental disabilities** to express themselves. Program participants have contributed to Hartford Open Studios weekend, where artists have offered works for sale to people outside the Oak Hill community. Oak Hill’s school has also expanded its arts component to include music and theatre performance. By using assistive technology, the program makes participation possible for many people, providing them with the opportunity to be recognized for their efforts in ways they may never have before. Artistic expression through Oak Hill’s programs includes a wellness component. Activities require planning, adjusting to things that do not go as planned – and whether it’s painting, playing music or knitting, participants learn valuable skills.

Arts and culture nonprofits:

- Generate \$797.3 million in annual economic activity
- Support over 23,000 jobs
- Generates \$72.3 million in local and state tax revenue
- Empower, support, and enrich people’s lives through art therapy programs
- The state should reserve funding for the Arts and the Office of the Arts within DECD

Recommendations

The arts comprise an extremely small portion of state spending -- less than one tenth of one percent -- but cuts those programs would damage the ability of the arts and culture sector to provide jobs and programs to communities, attract tourists, and drive commerce.

- Preserve funding for the Arts and the Office of the Arts within DECD that develops, invests in, and strengthens the arts in Connecticut.
- Protect the Connecticut Arts Endowment Fund, that distributes funds from its interest to stimulate the development of private sector funding and helps stabilize arts institutions. Allocate the previously authorized investments into the fund, and return to annually investing at least \$500,000. The last allocation to increase the Fund was in 2003 (\$1 million).

Protect Nonprofit Tax Exemptions

Community nonprofits have long been exempted from sales and property taxes for good reason: they provide essential necessary services to people in need. Every year, community providers deliver services to over a half million individuals and families, contributing to a high quality of life in communities across the State. Community providers save taxpayer money by providing high-quality community services so that government doesn't have to.

The 2017, the General Assembly considered imposing two types of taxes on nonprofits: property taxes and sales taxes. **Eliminating nonprofit tax exemptions would reduce access to essential community services.** Community providers would have less funding to provide services, resulting in fewer people receiving mental health services, less food for hungry families, fewer beds at homeless shelters, and fewer therapeutic arts programs for people with disabilities.

- Taxing nonprofits would deprive them of money they use to fulfill their missions.
- In many cases, the government would be taxing itself – a portion of the funding provided by the State would be paid back in taxes. What the state budget appropriates to serve people would go elsewhere.
- At a time when federal tax laws could seriously harm charitable giving it would be asking people to donate to causes when their money would then be paid in taxes – further harming the incentive to donate.

Eliminating the nonprofit tax exemption would essentially create a process in which **government would be taxing itself**. Nonprofits contract with the State to provide services. Taxing nonprofits means a portion of the money appropriated by the State would be paid back to the State or municipality. Money that policymakers struggle to appropriate in one part of the budget would be taken away in another.

Further, the elimination would **create a disincentive people to donate to charitable nonprofits** if they believe the funds will be used to pay taxes. This compounds a problem created by federal tax reform legislation that doubled the standard deduction, eliminating about the ability 90% of filers to itemize deductions. People who itemize donate to charitable nonprofits at twice the rate as people who don't itemize. Taxing nonprofits, on top of years of tight state budget funding, would compound fiscal problems. The report *United for Charity: How Americans Trust and Value the Charitable Sector* by Independent Sector found that 75% of people surveyed trust charities with their checkbooks over the government.

Recommendation:

Do not eliminate nonprofit tax exemptions. Doing so would hurt people in need of essential, life-saving services and cost the State more money in the long run.

Expand & Implement the Innovation Incentive Program

In 2017, the legislature established an Innovation Incentive Program (Public Act 17-122) to allow community providers to **retain savings realized at the end of a contract term** if they were in compliance with state contractual provisions and regulatory standards. Savings realized at the end of contract term would be **applied towards innovations for improving the health and human service delivery** system and capitalization of the nonprofit sector.

Unlike contracts with other state vendors, the State's current contracting policies mandate that savings realized by community nonprofits at the end of a contract period must be returned to the State, which discourages innovation and efficiency in service delivery. Public Act 17-122 makes progress in strengthening community providers to ensure the delivery of care for any child, family and adult in need. But two barriers remain:

- PA 17-122 permits the Office of Policy and Management to implement the program but does not require it. To date, the program has not been implemented.
- With its limits to organization size, PA 17-122 only applies to an exceptionally small number of nonprofits.

If expanded and put into practice, the Innovation Incentive Program **will promote efficiency**. The current State contracting process encourages "spending to the line," or spending all allocated funds, rather than encouraging efforts to realize efficiencies or economies of practice. An efficient or innovative agency that succeeds in meeting every contractual expectation experiences no net benefit, compared to a less efficient agency that spends all allocated funds. Purchase of service contracts have built in disincentives for efficiency, as savings generated must be returned to the State rather than reinvested in community programs and services.

The Innovation Incentive Program **can support nonprofits through Connecticut's fiscal challenges**. For years, nonprofits have struggled to maintain service levels amid budget reductions. If nonprofits can retain savings while still meeting contractual obligations, they could work towards being adequately capitalized and be more able to adjust to turbulence in the State budget.

Recommendation

- Remove the restrictions on contract size and number of people served in PA 17-122, expanding the Innovation Incentive Program to allow all community nonprofit contractors to participate.
- Change "may" to "shall," making it mandatory that the State implement the program.

- Public Act 17-122 allows community providers to retain savings realized at the end of a contract term
- But the program has not been implemented
- With its limits to organization size, PA 17-122 only applies to an exceptionally small number of nonprofits.
- If expanded and implemented, the program will promote efficiency, allowing community providers to serve more people

COMMUNITY JUSTICE REFORM IS WORKING: MAINTAIN THE PROGRESS

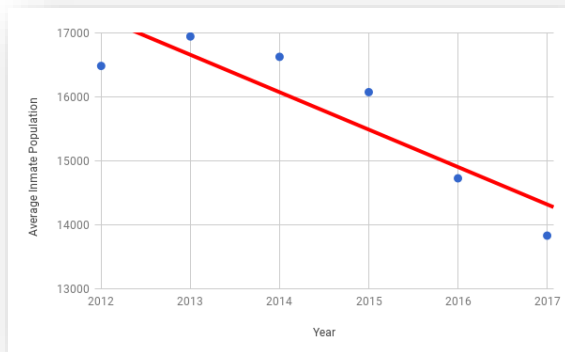
Nationally, Connecticut is ranked number one in reduction in violent crime rates, which have fallen by 23% since 2012 – significantly more than the national average of 4%. The number of sentenced prisoners in the state, which are the largest component of the prison population, has fallen by 36% from its peak of 15,429 in 2008.

Community reentry programs are essential services that play a key role in justice reform by changing offender attitudes and behaviors. Reentry programs increase public safety, strengthen communities and improve the overall quality of life in Connecticut. As the State continues to address the ongoing state budget crisis, it is essential to support community re-entry programs at the risk of jeopardizing the progress Connecticut has made in justice reform.

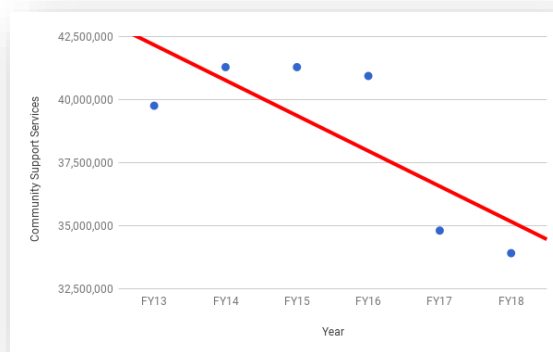
- Connecticut's crime rate is down 23% in the last five years, almost six times the national average.
- Fewer people in prison means a greater need for community re-entry programs.
- But while the need is up, funding has been cut by nearly 15%.
- Savings from the decreasing prison population can be reinvested in these community programs

Over the past five years, **while the prison population has fallen dramatically, demand for community services to people involved in the justice system has increased, but funding has been cut by nearly 15%, or \$5.8 million.**

Average Prison Population



Funding for DOC Community Support Services



As of January 1, 2018, community providers were serving 4,640 people in community supervision programs – a 17.7% increase from 2016. Thousands more receive services through providers who contract with CSSD and the Judicial Branch. As the number of people in prison drops, there is a corresponding need for additional supervised placements in the community to support people as they reintegrate into society and work towards becoming productive and fulfilled members of their communities.

The Department of Correction expects to achieve savings of \$11.9 million in FY18 and \$13.4 million in FY19 due to reduced staff and operating costs associated with a decreasing prison population. These

savings can and should be reinvested into the community to serve more people through reentry and other programs.

Recommendations:

- Reinvest savings associated with a decreasing prison population to serve more people in the community. It is critical to reinvest the anticipated cost savings (\$11.9 million in FY18 and \$13.4 million in FY19) in programs that will ensure sustainable progress.
- Support the Second Chance Society initiative. The goals of this program are to reduce the number of people going to prison while helping ex-offenders to have a chance at a new and productive life when they are released. The State's ability to achieve these goals is directly related to the strength and viability of community providers.



The Alliance Public Policy & Advocacy Team

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