FEBRUARY 2020

INCREASE FUNDING BY $461 MILLION FOR COMMUNITY NONPROFITS

IF NOT NOW, WHEN?

The Alliance
Voice of Community Nonprofits

02

ABOUT THE ALLIANCE

The CT Community Nonprofit Alliance (The Alliance) is the statewide association of community nonprofits in Connecticut. Our mission is to advance excellence in community-based nonprofits through advocacy and capacity building. We share the passion and purpose behind each and every nonprofit's mission and channel that purpose into a powerful, collective voice. We advance strategies and public policies that make it possible for nonprofits to thrive as they continue to fulfill their missions.

CONTACT US

Gian-Carl Casa, President & CEO
gcasa@ctnonprofitalliance.org

Jeff Shaw, Senior Director of Advocacy & Public Policy
jshaw@ctnonprofitalliance.org

Brunilda Ferraj, Director of Policy Research & Organizational Initiatives
bferraj@ctnonprofitalliance.org

Ben Shaiken, Manager of Advocacy & Public Policy
bshaiken@ctnonprofitalliance.org

Julia Wilcox, Manager of Advocacy & Public Policy
jwilcox@ctnonprofitalliance.org

Pete Smith, Rome, Smith & Lutz, Consultant to The Alliance
psmith@romesmithlutz.com

Spencer Cain, Cain Associates, Consultant to The Alliance
spencer.cain@att.net

03

EXECUTIVE SUMMARY

Community nonprofits provide essential services in every city and town in Connecticut, serving people in need. They are a vital part of Connecticut's economy, providing services that make our state safe, healthy and vibrant. Community nonprofits serve more than 500,000 people every year. They:

- Employ 117,000 people, 12% of Connecticut's workforce;
- Are at the front lines of the opioid crisis;
- Help people return to their communities from prison;
- Support people with developmental disabilities;
- Shelter and feed families in need;
- Enrich communities with cultural and artistic programs; and more.

Since 2007, community nonprofits have lost at least $461 million in state funding that has not kept pace with inflation. At the same time, demand for community services continues to increase. For example:

- The opioid crisis has increased the need for substance abuse treatment, yet grant funding has decreased;
- More than 2,000 people with Intellectual/Developmental Disabilities languish on a waiting list for services.

The legislature should increase funds to nonprofit services by $461 million, to keep pace with increased costs and demand over the last thirteen years. The legislature should:

- Commit to increasing funding by the full $461 million, or 28%, by Fiscal Year 2025;
- Appropriate $128 million (a state net of $67 million after federal reimbursement) in new funding for community nonprofits in Fiscal Year 2021, a 7% increase;
- Index increases to inflation, to ensure that state funding will keep pace with increased costs in the future.

SECTION I: NEED FOR FUNDING

The Proposal

The legislature should restore $461 million to nonprofit services in Connecticut. This represents the erosion of funding that has occurred since the Great Recession. Of the $461 million in funding, it is estimated that $217 million will come from the federal government through Medicaid reimbursement and $243 million will come from state resources (based on the current ratio of federal to state funds in Medicaid, 59% comes from the federal resources and 41% comes from state resources).

In the first year of the program (FY21) the net state cost would be $67 million ($128.2 million gross). The proposal calls for a 7% rate increase for FY21, 5% for FY22 and FY23 and 3% for FY24 and FY25.

Price Increases: 2007 - 2019

Community-based programs have not seen a substantial funding increase since 2007, except for $50 million added in 2018, primarily for wages in one sector.

To determine the erosion of funding that the nonprofit community has faced, we calculated the difference in costs between 2007 and 2019. Using the Bureau of Economic Analysis's (BEA) gross domestic product implicit price deflator index for state and local government services and businesses, we calculated the change for this period.

The index grew from 88.1 to 112.7, a 28 percent increase over the 13-year period. This factor was applied to the accounts that fund community providers (and the $50 million was deducted). This shows an erosion of $461 million over the period.

05

Community-Based Program Funding Restoration for the Next Five Years						
FY20	FY21	FY22	FY23	FY24	FY25	Cumulative
$1,831,326,911	$1,959,519,795	$2,057,495,785	$2,160,370,574	$2,225,181,692	$2,291,937,142	
Funds Restored:	$128,192,884	$97,975,990	$102,874,789	$64,811,117	$66,755,451	**$460,610,231**
Percentage Increase	7.0%	5.0%	5.0%	3.0%	3.0%	
Federal Funds	$60,412,432	$46,172,359	$48,480,977	$30,543,015	$31,459,306	$217,068,089
State Funds	$67,780,452	$51,803,631	$54,393,812	$34,268,102	$35,296,145	$243,542,141

Private Provider Funding Adjusted for GDP Price Deflator Since 2007			
Funding Agency	**FY20**	**GDP Price Inflator Adjustment - 2007**	**Difference**
DOH	$13,723,476	$17,566,049	$3,842,573
DPH	$9,831,138	$12,583,857	$2,752,719
DMHAS	$190,088,565	$243,313,363	$53,224,798
DSS	$697,686,114	$893,038,226	$195,352,112
DADS	$10,058,691	$12,875,124	$2,816,433
OEC	$33,033,767	$42,283,222	$9,249,455
DOC	$22,247,270	$28,476,506	$6,229,236
DCF	$152,823,302	$195,613,827	$42,790,525
JUD	$76,656,273	$98,120,029	$21,463,756
DDS	$317,793,889	$406,776,178	$88,982,289
Tourism	$13,144,988	$16,825,585	$3,680,597
Subtotal	***$1,537,087,473***	***$1,967,471,965***	**$430,384,492**
Medicaid			
Medicaid Behavioral Health	$251,219,376	$321,560,802	$70,341,425
DDS Medicaid Only	$43,020,062	$55,065,679	$12,045,617
Medicaid Subtotal	***$294,239,438***	***$376,626,481***	***$82,387,043***
Total Private Provider Funding	**$1,831,326,911**	**$2,344,098,447**	**$512,771,535**
FY19 Rate Add			$50,000,000
Net Loss Since 2007 Using GDP Price Deflator			**$462,771,535**
GDP Price Inflator for Services =	***1.28***		

06

Defining the “gross domestic product price index”

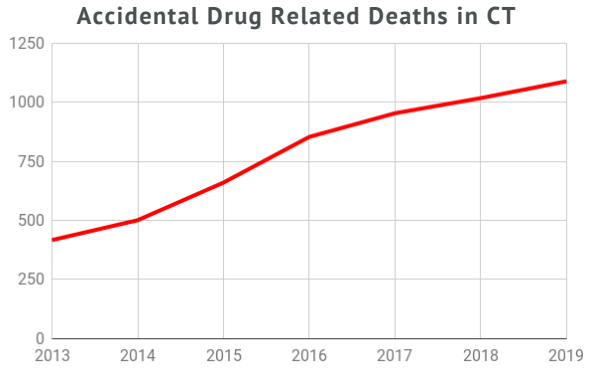
The gross domestic product price index measures changes in prices paid for goods and services produced in the United States, including those exported to other countries. The gross domestic purchases price index is BEA's featured measure of inflation for the U.S. economy overall. It measures changes in prices paid by consumers, businesses, and governments in the US, including the prices of the imports they buy.

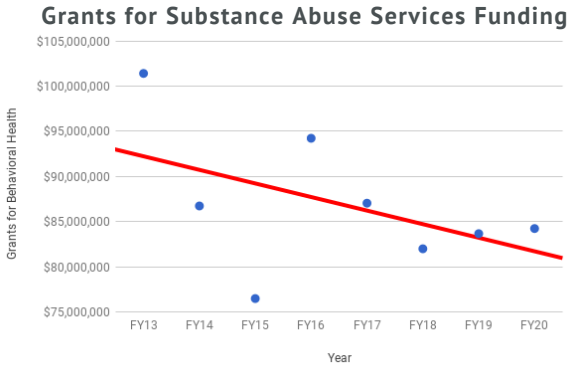
Community provider accounts

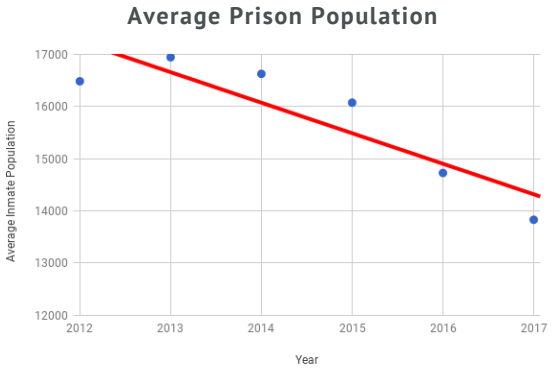
Community providers are funded by many line items found in the state budget and the Medicaid account. The accounts used were those most recently funded by the Office of Policy and Management when a 1% cost of living adjustment was appropriated in 2018. Medicaid was also used by allocating portions that relate to the DDS clients and behavioral health clients. On the behavioral health side of Medicaid, 28% of the subcategory related to clinic services was attributed to behavioral health, based upon DSS’s 2018 Medicaid Expenditure Report.

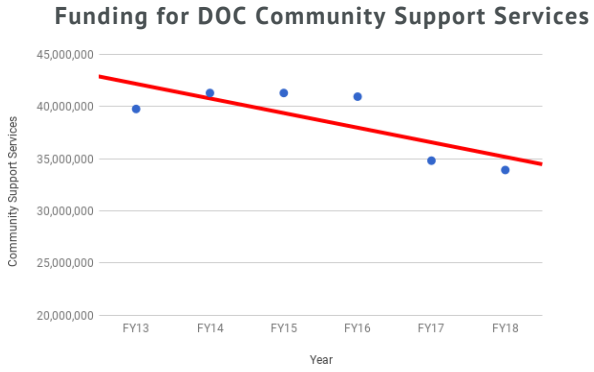
State grant funding

State grants pay for services delivered by community providers for which Medicaid does not reimburse, and for services for people who are uninsured or under-insured. Grant funding is part of dozens of line items across multiple state agencies and funds community nonprofit providers through the state’s Purchase of Services (POS) system.









Grants have been the target of repeated budget cuts, holdbacks and rescissions. For example, in the adult behavioral health system, all Department of Mental Health and Addiction Services' contracts were cut 5% in Fiscal Year 2017. Grant funding has been cut by more than 17% since Fiscal Year 2013; substance abuse funding has been cut by almost 30%. This period of grant funding cuts is important to put into context: During the same time period, Connecticut has been ravaged by an opioid crisis.

Since Fiscal Year 2013, Connecticut's drug overdose deaths have increased 253%. Community providers are on the front lines of this crisis, providing lifesaving addiction treatment. They have faced a significant increase in demand all while grant funding for those programs has been cut.

Another example is services community nonprofits provide to people who are re-entering society after serving time in prison. Community providers are serving approximately 4,000 people in community supervision programs – a greater than 30% increase from 2014. Thousands more receive services through providers that contract with the Judicial Branch. Over the past five years, while the prison population has fallen dramatically, demand for community services for people involved in the justice system has increased, but funding has been cut by nearly 15%, or $5.8 million.

Because of the lack of funding, every day there are hundreds of people sitting in Connecticut's prisons each day who could be transferred to a residential setting that works to reintegrate them in society, but who cannot be moved due to lack of space in halfway houses.

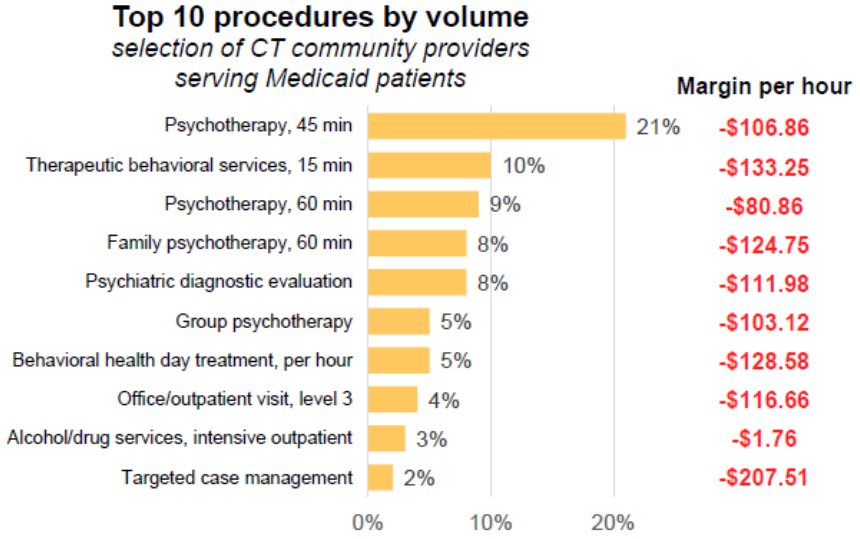
08

Medicaid rates do not cover the cost of care

Medicaid pays for services for more than 700,000 Connecticut residents. But community nonprofits operate at a loss for almost every Medicaid service. According to a study published in 2015, the annual loss for the top ten behavioral health procedures by volume 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.

Medicaid reimbursement rates for behavioral health services by community providers are low

CONNECTICUT 2014



The 10 most utilized behavioral health services account for 75% of total service hours by community providers.

*The service delivery cost for these procedures is higher than the revenue under Medicaid rates, resulting in **negative margins** and providers operating at a loss.*

*The **annual loss** for these procedures is more than $27 million for approximately 250,000 service hours.*

Source: Prioritizing Community Based Services in CT, CT Community Providers Association, February 2015

Waiver services for people with Intellectual/Developmental Disabilities

In addition to directly billing Medicaid for services, people with Intellectual/Developmental Disabilities (I/DD) and others are covered under Medicaid waiver services. More than 90% Connecticut's residents with I/DD who are eligible for Department of Developmental Services (DDS) support are served by community providers.

Currently, thousands of families are waiting for residential services from 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.

SECTION II: WHY NOW?

Demand continues to increase as funding is cut

The Alliance surveyed its members to determine how funding has changed over the last five years and its effect on communities, families and organizations. Findings illustrate that funding for nonprofits is down in most areas, which reduces access to community services and the capacity of community nonprofits. This leaves some of the state's most vulnerable children, families, seniors and people with disabilities without support while pushing the State's health and human services delivery system closer towards destabilization. When the safety net fails, people may wind up in more expensive care, such as emergency rooms, nursing homes, or even the prison system.

Forty-seven community nonprofits responded to the survey, including providers of mental health, substance use, community justice and disability services, housing and homelessness, domestic violence, basic needs, youth development, education, advocacy and cultural services. Respondents included both large and small community nonprofits throughout the state. Of the respondents, more than 90% serve over 100 people a year.

Over 95% of respondents reported that demand for services has increased over the last five years, with 40% of nonprofits stating that demand has increased by more than 15%. The trend of increasing demand for services runs opposite to the funding of community nonprofits by the State.

> *"We cannot hire enough staff to meet the demand for outpatient services and medication - assisted treatment."*

One community provider noted how, “Parents call our agency and weep about the desperation they feel at not knowing how their child will fare after they die.”

Speaking about staff, another stated, "It's more difficult to recruit and retain good employees due to stagnant wages and benefits and low unemployment. This leads to less engaged employees, less continuity of care and fewer opportunities for quality of life activities and choices due to chronic staffing shortages and over worked staff.”

> *Parents call our agency and weep about the desperation they feel at not knowing how their child will fare after they die."*

Connecticut has the money

Connecticut's projected surplus continues to grow, and the growth is projected to be sustained over time. According to the Office of Policy & Management's November 2019 Fiscal Accountability Report, Connecticut's budget surplus will be a cumulative $5.154 Billion by Fiscal Year 2024 and the state's Budget Reserve Fund (Rainy Day Fund) will be filled to its statutory capacity of 15% by Fiscal Year 2021.

For more than a decade, since the recession of 2008, state funding for community nonprofits has been cut or not kept up with increasing demand for services. Programs for some of the state's neediest have been cut back or eliminated, leaving people without services they need.

With an unprecedented amount of savings in the state's coffers and surpluses projected into the future, it is difficult to justify policy choices that would leave thousands of people across the state without services.

A strong "rainy day fund" is important — if the state is hit by another recession, a robust fund can protect nonprofit services from further cuts. But we don't have to choose between responsible budgeting and restoring what's been lost over the last decade.

In the hospital agreement passed by the legislature in 2019, the state acknowledged the need for state payments to keep up with the cost of providing services and the need for funding commitments to meet needs over time. Investing in our future and growth should mean investing in all programs and services for every resident of Connecticut, including the ones served by community nonprofits.

We have the money. It's time.

Under current law (CGS Sec. 4-30a), unappropriated surpluses and volatile revenues above a certain threshold are committed to the Budget Reserve Fund until reaching the maximum 15% authorized by law. Once the 15% maximum is reached, surplus funds are directed toward:

- **Reducing the unfunded liability of the State Employees Retirement Fund**
- **Reducing the unfunded liability of the Teachers' Retirement Fund**
- **Reducing bonded indebtedness**

Budget Reserve Fund Projections

(In Millions)

Fiscal Year	Beginning Balance	Volatility Cap Transfer	Revenue Cap Transfer	Surplus/ (Deficit)	BRF Limit Transfer to SERS/TRS	Ending Balance	% of Net Appropriations
2019	$1,185.3	$ 949.7	$ -	$370.5	$ -	$ 2,505.5	13.0%
2020	2,505.5	318.3	-	-	-	2,823.8	14.1%
2021	2,823.8	276.6	151.5	-	(321.2)	2,930.6	15.0%
2022	2,930.6	287.7	197.3	-	(442.6)	2,973.1	15.0%
2023	2,973.1	259.2	250.9	-	(438.6)	3,044.6	15.0%
2024	3,044.6	229.4	309.1	-	(455.1)	3,127.9	15.0%
Totals:		**$ 2,320.8**	**$ 908.8**	**$370.5**	**$ (1,657.4)**		

15% Limit

OPM is Projecting a Budget Surplus of $5.154 Billion by FY2024

OPM Fiscal Accountability Nov 2019

SECTION III: IMPROVING QUALITY OF LIFE

If the legislature commits to increasing investment in community nonprofits, it will have a direct and sustained positive impact on Connecticut. Nonprofits are major employers in the state, with 117,000 employees. That's about 12% of Connecticut's workforce. With the first significant investment in decades, Connecticut's nonprofits could:

- Innovate and expand, serving more people in new and better ways;
- Increase salaries and benefits for hardworking staff, after a decade of budget cuts requiring salary freezes and benefit cuts;
- Better meet the needs of Connecticut's residents, improving the quality of life and making it more competitive with other states.

On the other hand, failure to act would have dire consequences for Connecticut's most vulnerable people. There is a myth that nonprofits will continue to deliver services in the face of budget cuts. The truth is budget cuts and flat funding have resulted in harm to people who depend on nonprofit services, and without significant investment now, these cuts will continue.

The Alliance asked members to list examples of the impact of state budget cuts had on their organizations, their employees, and the people they serve. Community nonprofits report inadequate funding hurts services for people in need. They have already:

- Closed intensive residential program due to cuts from the Department of Mental Health and Addiction Services (DMHAS);
- Cut a program that housed women and children who were either formerly incarcerated or homeless;
- Eliminated employment services for 70 people living with severe and persistent mental illness;

- Are unable to serve 10 people with I/DD in wheelchairs because of a lack of space. Planning infrastructure needs is impossible without being able to retain unspent funds;
- Stopped accepting new clients with intense service needs;
- Closed classrooms and laid-off staff of day programs.

They also report the negative impact that cuts to staff have on the delivery of services. Community nonprofits told us:

- Staff salaries are not adequate to fill all funded positions, which results in fewer services being delivered;
- They've reduced safety; eliminated overnight staff at a residential facility;
- They eliminated or reduce 1:1 staffing ratios in favor of large groups, leaving a much needier population with fewer resources and provider choices;
- Passed on significant increases in benefits costs to all employees, including health insurance;
- Eliminated staff positions: compliance manager, job developer, compliance specialist, team leaders.

"Our case management programs for adults were decimated, three jobs were lost in direct service, two support positions are gone. These folks would have served a few hundred clients. But we simply don't have the capacity any longer."

RECOMMENDATION

RESTORE $461 MILLION TO PEOPLE SERVED BY COMMUNITY NONPROFITS

To begin to address the challenges raised in this white paper, the legislature should commit to increasing funds to nonprofit services by $461 million over five years, to keep pace with increased costs and demand over the last thirteen years. They should:

- Commit to increasing funding by the full $461 million, or 28%, by Fiscal Year 2025;
- Appropriate a state net of $67 million in new funding for community nonprofits in Fiscal Year 2021, a 7% increase;
- Index future increases to an inflationary index, to ensure that state funding will keep pace with increased costs in the future.

75 CHARTER OAK AVENUE
SUITE 1-100, HARTFORD, CT
860-525-5080
WWW.CTNONPROFITALLIANCE.ORG