



Date: March 5, 2020

To: General Law Committee

From: Jeff Shaw, Senior Director of Public Policy & Advocacy, CT Community Nonprofit Alliance (The Alliance)

Re: H.B. 5298 An Act Concerning Charitable Organization Transparency

Good afternoon Senator Maroney, Representative D'Agostino, Senator Witkos, Representative Cheeseman and distinguished members of the General Law Committee. My name is Jeff Shaw, Senior Director of Public Policy and Advocacy at the Connecticut Community Nonprofit Alliance (The Alliance). The Alliance is the statewide association of community nonprofits. Community nonprofits deliver essential services to more than half a million people each year and employ almost 12% of Connecticut's workforce.

Community nonprofits provide essential services in every city and town in Connecticut. They support people in need, enrich our quality of life, and employ tens of thousands. They are what make Connecticut a great place to live and work.

Thank you for the opportunity to testify on H.B. 5298 An Act Concerning Charitable Organization Transparency. The Alliance recognizes that mission-driven 501(c)(3) community nonprofits can be successful only by earning and maintaining public trust through high quality work, dedication to mission and appropriate transparency, which can be guided by reasonable regulation that recognizes the unique role of community nonprofits in neighborhoods and communities across Connecticut. To ensure trust, The Alliance supports reasonable and non-burdensome regulations and policies, many of which already make the nonprofit community the most transparent sector of the economy.

Most 501(c)(3) nonprofit organizations are required to register annually with the Department of Consumer Protection (DCP) prior to any charitable solicitation. Already registered organizations receive a renewal application by mail from DCP to maintain continuity with registration. The registration and renewal fees are \$50.00 annually. With initial registration and subsequent renewals, an organization is required to submit a financial report (most commonly IRS Form 990) of the most recent fiscal year which includes information about the organization, its personnel, and its purposes. For organizations with gross receipts exceeding \$500,000 (excluding grants or fees from government agencies and revenue from trusts for the benefit of the organization), they must also file an audit report by a certified public accountant. Only a handful of nonprofit organizations are exempted from registration, mostly due to size and limited fund-raising programs.

As required by the federal government, most organizations exempt from income tax under section 501(a) must file an annual information return (Form 990 or 990-EZ). Filing Form 990 applies to organizations with either (1) gross receipts greater than or equal to \$200,000 or (2) total assets greater than or equal to \$500,000 at the end of the tax year. Form 990 is a public document, hosted by GuideStar, Charity Navigator, and other national nonprofit data centers, that shares information such as the organizations' accomplishments of the previous year, governing body (board membership), staff



composition and financial information (revenue, executive compensation, and even cash reserves). Having to file 990 forms makes sure that nonprofits conduct their business in a way that is consistent with their public responsibilities. The information in this standardized form helps donors learn about nonprofits and may help them decide which organization to support.

Further, while not required by law, most nonprofits produce “Annual Reports,” featuring organizational highlights, an overview of services, program outcomes, community impact, leadership structure, and statement of financial position and results. These detailed reports show how the revenue collected was spent on major programs and services, and inform current and prospective donors.

Finally, all nonprofit providers contracted by the State to provide essential human services must comply with cost standards and complete multiple financial and outcome reports throughout the contracting period. Over the last few years, The Alliance has worked collaboratively with state agency counterparts to improve efficiency of licensure, certification and contracting processes. While there is still work to do, outcome data and financial reporting are regularly being completed and shared by nonprofit providers with state agencies.

While The Alliance has no objection with disclosure of an organization’s registration number on solicitation forms, we are concerned with the requirement of calculating the “percentage of funds collected in the prior calendar year that directly funded the charitable purposes.” This language is problematic for a few reasons. First, there is no universal definition or formula of calculating how programs are funded. Part of the reason is that nonprofits vary widely by size, mission, geographic location and other factors.

Second, uncertainty of state and federal funding, increased competition for private grants and changing donor incentives sometimes require organizations to use different revenue sources for multiple programs. As an example of the ebb and flow of funding, past state budget cuts forced some nonprofits to borrow lines of credit and even access cash reserves to keep programs open. Even if there was standardization of calculating program cost by revenue stream, it would not necessarily provide useful information for a donor to make a decision to contribute to the organization or not.

For concerns related to restricted donations, the Attorney General already has enforcement authority to ensure money donated for a specific purpose is, in fact, being used by the organization for that purpose.

There are already numerous reporting and compliance requirements for nonprofit organizations, whether or not they receive state funding. An appropriate balance must be struck that recognizes and respects the independent activities of nonprofits as public-spirited yet still private organizations.

Community nonprofits are trusted in the communities in which they serve because they provide high quality services. They are often a voice for the most vulnerable, provide employment opportunities for people in the community, and attract volunteers through their mission-driven work to address local needs. We urge you to take no action on HB-5298.

Thank you for the opportunity to testify on this proposal.