Date: March 3, 2021
To: Appropriations Committee
From: Brunilda Ferraj, Director of Policy Research and Organizational Initiatives, The Alliance
Re: H.B. 6439 An Act Concerning the State Budget for the Biennium Ending June Thirtieth, 2023, and Making Appropriations Therefor – Human Services Subcommittee

Good afternoon Senator Osten, Representative Walker, Senator Miner, Representative France and members of the Appropriations Committee:

My name is Brunilda Ferraj, Director of Policy Research and Organizational Initiatives at the CT Community Nonprofit Alliance (The Alliance). The Alliance is the statewide organization representing the nonprofit sector. Community nonprofits provide essential services to over half a million individuals and families in Connecticut every year, and employ 14% of Connecticut's workforce, improving the quality of life in communities across the State.

Thank you for the opportunity to testify on H.B. 6439 An Act Concerning the State Budget for the Biennium Ending June Thirtieth, 2023, and Making Appropriations Therefor.

We **respectfully request that the legislature increase funding by $461 million over five years for community nonprofits.** Since 2007, community nonprofits have lost at least $461 million in state funding that has not kept pace with inflation or adequately covered increased costs and demand for services over the last thirteen years. Please:

- Commit to increasing funding by the full $461 million, or 28%, by Fiscal Year 2026;
- Appropriate $128 million (a state net of $67 million after federal reimbursement) in new funding for community nonprofits in Fiscal Year 2022, a 7% increase;
- Index increases to inflation, to ensure that state funding will keep pace with increased costs in the future.
- Hold nonprofits financially harmless from the impact of COVID-19.

We are grateful for the support that the legislature has provided for this request so far this year, particularly that of Sen. Osten and Rep. Walker**.** They have said that **it is time to start rebuilding the service network that has been allowed to fall behind for far too long.** Should we fail to do so, the victims will be recipients of services and the hard-working and underpaid nonprofit staff who provide them. Not addressing chronic underfunding won't make the problems go away. People still need critical services.

Why Now? Nonprofits need funding now more than ever.

Crucial services provided by nonprofits have been underfunded for decades. At the beginning of 2020, we estimated nonprofits were at least $461 million behind the increased costs of doing business since the last time the state raised their funding in 2007.

Then, COVID-19 hit.

The COVID-19 pandemic exacerbated and shed a light on the impact of inadequate funding for nonprofit services and brought unanticipated and unbudgeted costs and operational challenges for many community nonprofits, such as:

- Procuring expensive and hard to find Personal Protective Equipment (PPE) and cleaning supplies;
- Providing hazardous duty pay for essential workers on the front lines with a higher risk of exposure;
- Creating telehealth services seemingly overnight, and purchasing necessary computers, cybersecurity, online meeting platforms and training for both staff and people receiving services. One provider reported spending $130,000 on additional software and licenses per year – costs that were not reimbursed.

Many community nonprofits never closed their doors even as the pandemic worsened. These organizations provided food, emergency housing, behavioral health supports and other essential services. However, with many in-person services temporarily suspended and capacity for those that are open reduced by social distancing requirements, community nonprofits experienced a drop in revenue.

The Alliance conducted a survey of 258 nonprofit organizations in June/July 2020. Overall, while organizations have scrambled to identify financial and other resources to meet unprecedented needs, the pandemic threatens their long-term ability to remain in business without significant funding commitments from government.

In July, **one in five community nonprofits believed that they unlikely to be able to fully fund payroll for the next quarter**, **and more than one in four worried about being able to fully provide services.** It is reasonable to assume those concerns have only increased, as federal funding sources available in June and July have dried up.

While the pandemic has certainly affected the state's economy, high income producing sectors have largely been spared. That means revenue projections continue to improve. As Governor Lamont has said, Connecticut is facing a "unique paradigm" in how the pandemic is impacting the state's economy and state budget revenue.

The Office of Fiscal Analysis' (OFA) February Budget Letter[i] estimates the current year operating surplus to be $187 million, along with a transfer to the Budget Reserve Fund of $543 million, which represents the true surplus. OFA is also projecting a projected lapse over what was originally appropriated of $631 million. The largest portion of the lapse, $425 million, is from Medicaid services like those provided by many community nonprofits.

A strong "rainy day fund" and paying down long-term pension liabilities are important public policy goals for the legislature to pursue — but **we don't have to choose between responsible budgeting and restoring what's been lost over the last decade**. With an unprecedented amount of savings in the state's coffers and Connecticut's economy expected to recover, it is difficult to justify policy choices that would leave thousands of people across the state without services.

We have the money. If not now, when?

Our Proposal: Increase funding for community nonprofits by $461 million.

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).

We estimate the total funding that goes to nonprofit services in the state budget, including through Medicaid in the current year, totals $1.8 billion. And we calculated that between 2007 and 2019, the costs of providing services have grown by 28%. Our proposal applies percentage increases over the next five years in portions that are achievable under the constraints of the state budget.

In the first year of the program (FY22) would be a 7% increase, and we estimate the net state cost would be $67 million ($128.2 million gross). The proposal also calls for a 5% increase for FY23, 5% for FY24, and 3% for FY25 and FY26.

I am attaching our White Paper, "Increase Funding by $461 Million for Community Nonprofits," which goes into more detail about the proposal to the end of this testimony.

It is important to note that **funding increases must encompass both state grant funds and Medicaid rates.** As is evident by the percentage of total funding reimbursable by the federal government, Medicaid is a major payer for community nonprofits, both through waiver services and through fee-for-service billing.

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. Grants have been the target of repeated budget cuts, holdbacks and rescissions since 2007. For example, all Department of Mental Health and Addiction Services' contracts were cut 5% in Fiscal Year 2017 and those funds have never been restored. Meanwhile, since FY13, Connecticut's drug overdose deaths have increased 253%[ii], and have skyrocketed even higher during the pandemic[iii].

Medicaid pays for services for over 20% of Connecticut residents – more than 800,000 people. And **Medicaid rates do not cover the cost of care.** 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.[iv] Meanwhile, the services provided by DDS-contracted providers to people with Intellectual/Developmental Disabilities are provided through a Medicaid waiver. Reimbursement under this waiver only allows providers to pay a minimum wage of $14.75, barely staying ahead of Connecticut's minimum wage. In 2007, Connecticut's minimum wage was $7.65[v] and providers were reimbursed at virtually the same rate. If the legislature raises the funding level only for grant funds and excludes Medicaid rates, it will only be a half-measure and will fall short of solving problems for Connecticut's nonprofits.

Department of Children and Families Budget

In addition to The Alliance's overall funding request, we appreciate the opportunity to comment on the Department of Children and Families budget.

We respectfully request that the Committee **reject the Governor's proposed budget cut to residential services** and replace them with parent visitation centers.

While the parent visitation center model proposed in the budget could add value to children and families served by community nonprofits and DCF, we do not believe it should come at the expense of cutting already existing programs and services – especially now, during a pandemic as providers are struggling to stay afloat.

Community providers are already stretched thin after decades of underfunding and inadequate rates. Today, they are rising to meet the challenge of COVID-19, adapting facilities and programs to protect their employees and the children and families they serve.

The conversion of therapeutic group homes to Parenting Visitation Centers **is being proposed as budget neutral, but we are highly doubtful that this conversion will not result is funding cuts** to the children's service system. These two service and model types have completely different requirements – for example, therapeutic group homes include overnight staff, psychiatry, nursing, etc. A one-to-one conversion in terms of funding seems unrealistic, which begs the question – why are we proposing to take funding out of the children's service delivery system at a time when we should be increasing funding for capacity and access?

We are concerned that the decrease in utilization of residential treatment does not align with and is not reflective of the need for (and potential benefit of) this level of care. There have already been reports of children being placed in inappropriate settings, as some providers are struggling to manage referrals safely. We are concerned that further reductions may lead to more children being placed in inappropriate levels of care, or the reduction of availability of a level of care needed to stabilize a child prior to being placed with a family. There is also concern that less access to residential care will disproportionately affect children who are Black and Latino and may increase the likelihood of driving them into the juvenile justice system. While DCF has reduced the capacity of these programs across the state, CSSD has, on the other hand, been increasing capacity to serve children who are not being served by DCF.

There is a need for a more comprehensive definition of success regarding reduction of children in residential settings, as looking at the system simply in terms of the total number of kids in care is insufficient. More data could help inform decision-making and what the best way to turn the curve is when interventions aren't successful. What measures of success should we be taking into consideration as we make these decisions? For example:

- What have been the outcomes of children who would otherwise have gone into residential settings?
- What are the rates of disruptions for kids in foster care?
- How many children have been on the foster care tracks and for how long have they been waiting? Months? Years?
- What is the rate of placement denials?

Further, the proposal in the Governor's budget doesn't address how the existing service system would be impacted, should it pass. What would role of current private provider visitation programs be? What would happen to a therapeutic group home if DCF determined they had low utilization rates, but they decided not to convert to a parenting center, or could not?

Further, **we are concerned about the implementation of Parent Visitation Centers and zoning laws**. We do not believe it will be possible to convert existing therapeutic group homes to Parent Visitation Centers without the approval of local zoning boards. Residential facilities are sometimes exempt from local zoning regulations, but non-residential uses of residentially zoned properties would in most cases be prohibited by municipalities. The proposal in the Governor's budget does not address this issue, nor does any legislation introduced to implement the budget. How would the Department address this? Does the solution require changes to legislation, how will that timeline impact implementation?

Thank you for your consideration and your continued support.

Brunilda Ferraj
Director of Policy Research and Organizational Initiatives

Appendix: White Paper: Increase Funding by $461 Million for Community Nonprofits

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[i] https://www.cga.ct.gov/ofa/Documents/year/PROJ/2021PROJ-20210225z_February%2025,%202021%20FY%2021%20Budget%20Projections.pdf

[ii] http://data.ctdata.org/visualization/drug-induced-deaths

[iii] https://ctmirror.org/2020/02/17/connecticut-drug-overdose-deaths-up-with-fentanyl-leading-fatalities/

[iv] http://www.governor.ct.gov/malloy/lib/malloy/shac_doc_final_report_-_final-ccpa-report-february-2015.pdf

[v] https://www.ctdol.state.ct.us/wgwkstnd/wage-hour/history.htm