

**INCREASE
FUNDING
BY \$461 MILLION
FOR COMMUNITY
NONPROFITS**

NONPROFITS SUPPORT
COMMUNITIES
HIT HARD BY COVID-19

SUMMARY

Community nonprofits are on the front lines of the Coronavirus pandemic. They 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.

Community nonprofits:

- Employ 115,000 people, 7% of Connecticut's workforce;
- Treat people with addiction and those suffering from 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, and then they were hit with COVID-19 and its costs and revenue losses. 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 inadequate funding issues are compounded by a two-year pandemic, rising inflation, increased demand and an unprecedented workforce crisis.

This comes at a time when the state has more money in its coffers than ever before, with surpluses of more than \$5 billion.

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 2026;
- In keeping with that plan, increase funding by at least 8% in Fiscal Year 2023
- Index increases to inflation, to ensure that state funding will keep pace with increased costs in the future.



\$461 MILLION FUNDING PROPOSAL FOR NONPROFITS

The Proposal

The legislature should restore \$461 million to nonprofit services in Connecticut. This represents the erosion of the buying power of state funding that has occurred since the Great Recession. Of the \$461 million in funding, it is estimated that \$241 million will come from the federal government through Medicaid reimbursement and \$240 million will come from state resources.

Price Increases: 2007 - 2019

Between 2007 and 2019 community-based programs have not seen a substantial funding increase, 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[1] 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.

Updated December 20, 2021						
Private Provider Funding Add for the Next Five Years						
FY21	FY22	FY23	FY24	FY25	FY26	Cumulative
\$1,831,326,911	\$1,904,579,988	\$2,056,946,387	\$2,180,363,170	\$2,245,774,065	\$2,313,147,287	
Funds Added:	\$73,253,076	\$152,366,399	\$123,416,783	\$65,410,895	\$67,373,222	\$481,820,376
Percentage Increase	4.0%	8.0%	6.0%	3.0%	3.0%	
Federal Funds	\$36,678,345	\$76,290,958	\$61,795,676	\$32,751,708	\$33,734,260	\$241,250,948
State Funds	\$36,574,731	\$76,075,441	\$61,621,107	\$32,659,187	\$33,638,962	\$240,569,427

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.

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. Since then, rates have remained nearly flat while demand has increased. 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.

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. Last year's Cost of Living Adjustment only replaced 4% of funding, leaving funding for grants still cut from previous years.

7%

total CT workforce
employed by community
nonprofits

1/2
million

total CT residents served
by community nonprofits

\$2.4
billion

CT's budget surplus

Cuts in grant funding came over the same period of time as a ravaging ongoing opioid crisis. 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.

Between 2014 and 2019, 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 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.

A TIME OF CRISIS FOR COMMUNITY NONPROFITS

After more than a dozen years of underfunding, nonprofits were hammered by several developments in recent years. The combination has created a crisis for those seeking to provide services to people in need.

Costs of Covid

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

- Providing hazard pay for essential workers on the front lines with a higher risk of exposure
- Procuring expensive and hard to find Personal Protective Equipment (PPE) and cleaning supplies;

- Creating telehealth services seemingly overnight, and purchasing necessary computers, cybersecurity, online meeting platforms and
- Training for both staff and people receiving services. In most cases, the State did not provide funding for this capital investments.

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, most community nonprofits experienced a drop in revenue.

MEDICAID PAYS FOR SERVICES FOR MORE THAN 700,000 CONNECTICUT RESIDENTS. BUT COMMUNITY NONPROFITS OPERATE AT A LOSS FOR ALMOST EVERY MEDICAID SERVICE.

Inflation

Last year the General Assembly and Governor agreed to a budget that provided 4% cost of living increases to most providers. But inflation is on the rise and the 5.9% rate has more than devoured that increase.

Workforce Shortage is a Crisis

At the same time, in the wake of the pandemic, community nonprofits are facing an unprecedented workforce shortage and cannot attract or retain staff. Those who can are dropping out of the nonprofit workforce or moving to private practice where they can be paid three times as much for the same or less difficult work. Community nonprofits are now in competition with employers such as Amazon and Walmart that require no specialized training, are paying more and offering more hiring incentives. Nonprofits are at a disadvantage with limited support from the State, which has historically underfunded them and to date has not provided sufficient critical support which could be used to raise wages.

59%

Of nonprofits currently have a waiting list for community services

18%

Average vacancy rate for nonprofits

68%

Of nonprofits say that demand for services has increased in the past two years

91%

Of nonprofits report that it is extremely difficult or difficult to recruit employees

94%

Of nonprofits say that with additional funding they would be able to fill more open positions

The Alliance surveyed its membership to better understand how these issues are impacting nonprofits and the people they serve. Ninety one percent of nonprofits surveyed reported that it has been extremely difficult or difficult to recruit employees this past year, with an average vacancy rate of 18%. The top factors affecting nonprofit organizations' ability to recruit/retain staff include lack of applicants (81%), inability to offer a competitive salary (80%), and staff burnout (66%), among other factors.

Speaking about staff, one responded 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."

Demand for community services continues to increase as funding is cut

Nonprofit workforce shortages are compounded by a dramatic increase in demand for services amid the COVID pandemic. In the above survey, 68% of respondents said that demand for services has increased over the past two years. Of those respondents, 11% stated that services have increased by more than 50%, and 30% said that demand for services increase by 25-49%.

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.

“We have students now on the waiting list,” says one provider, “that has never happened to us in the past.” Another notes, “DMHAS-funded employment services have seen an increase of approximately 15% and the increase for DDS employment/day services is much higher.”

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

Fifty-nine percent of respondents state that they currently have a waiting list for services ranging from outpatient mental health services for children and adults, Intensive In-Home Child & Adolescent Psychiatric Services (IICAPS), Extended Day Treatment, residential placements, child first, employment and day services, and more. Many have waited more than a year,” says one provider. Almost all programs that reported waitlists said that their wait times were in the range of months

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.”

UNPRECEDENTED STATE SURPLUSES

For the first time in many years state revenue is strong enough to support increases in funding to nonprofits

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. Estimates at the beginning of the pandemic were based on the Great Recession, which had a significant negative impact on state revenue. But 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

It's time to increase funding for nonprofits next year and into the future. The state has the revenue.

For fiscal year 2022 the Office of Policy and Management's February estimates project a total state budget surplus of \$2.4 billion, including regular budget revenue, operating surplus of \$1.5 billion, plus volatility cap surplus of \$969 million.

Further, the Budget Reserve Fund ("Rainy Day Fund") is full with \$3.1 billion in it, and for fiscal year 2023, the consensus revenue projections by OFA and OPM estimate a surplus of \$1.9 billion.

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 Connecticut's economy expected to recover, it is difficult to justify policy choices that would leave thousands of people across the state without services.

The State doesn't have to choose between responsible budgeting and restoring what's been lost over the last decade. We have the money. It's time.

“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.”

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NONPROFITS IMPROVE OUR 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.

Nonprofits 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;
- Stopped serving 10 people with I/DD in wheelchairs because of a lack of space.
- 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 reduced 1:1 staffing ratios in favor of large groups, leaving a much needier population with fewer resources and provider choices;
- They passed on significant increases in benefits costs to all employees, including health insurance;
- They eliminated staff positions: compliance manager, job developer, compliance specialist, team leaders.

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 fourteen years.

Honor the long-term plan to restore at least \$461 million in buying power lost to inflation for community nonprofits, an 8% increase in funding for FY23; and

Increase funding by statutory requirements for the full \$461 million, or 28%, by FY2026, indexed for inflation after that.



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

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

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

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

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



The **Alliance**
Voice of Community Nonprofits

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