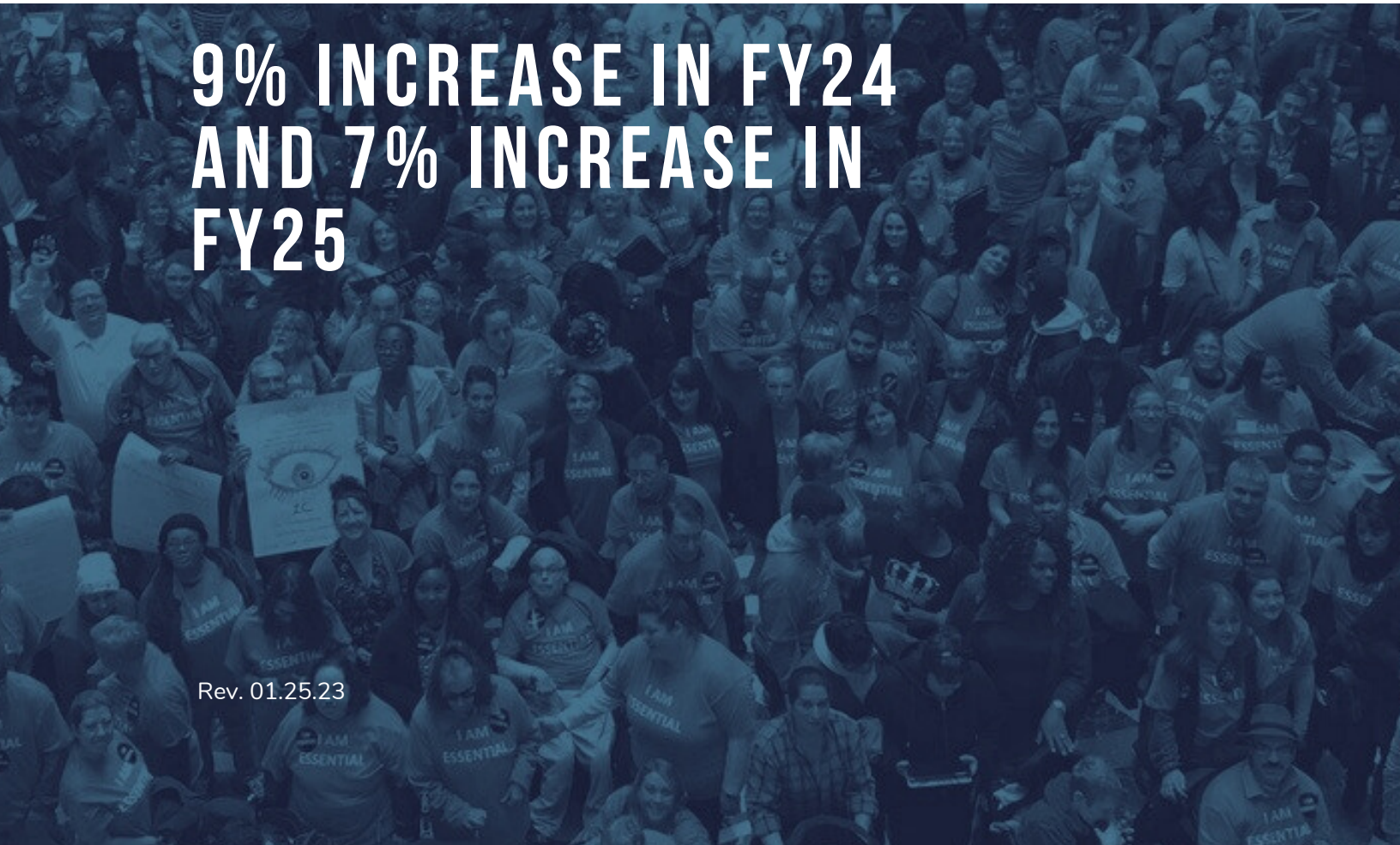
The Alliance
Voice of Community Nonprofits

INCREASE FUNDING FOR COMMUNITY NONPROFITS TO KEEP PACE WITH INFLATION

9% INCREASE IN FY24 AND 7% INCREASE IN FY25



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SUMMARY

Community nonprofits contract with the state to deliver a wide range of essential community services in every city and town in Connecticut. 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 in need every year and employ 115,000 people, 7% of Connecticut's workforce.

Nonprofits provide a wide range of services; they:

- 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.

Despite their invaluable contributions to our communities, nonprofits have been underfunded by the State for decades. In the 2021-2022 biennium, the General Assembly and the Governor took the first steps to address this underfunding by passing a significant increase in the state budget. It was critical to addressing the needs of people who rely on vital services.

Even with this increase, however, due to the high inflation of the last two years, community nonprofits remain 46% behind where they were in 2007. The inflation of the last two years has far surpassed the increases nonprofits received in the 2021-2022 Budget. This comes at a time when nonprofits are facing an unprecedented workforce crisis and skyrocketing demand for services.

The State should increase funding for nonprofits to cover the true cost of inflation, raising funding levels by nine percent ($261 million) in Fiscal Year 2023-2024 and by seven percent ($221 million) in Fiscal Year 2024-2025.

It makes both fiscal and policy sense. The State's budget offices are predicting unprecedented surpluses for years ahead. State revenue has finally exceeded its fixed cost growth and as a result, Connecticut has a record $7 billion in surplus funds today.

Connecticut can afford to invest in its crucial human services system while maintaining a healthy and responsible state budget. All that is needed is for policymakers to remain committed to a long-term plan to do so.

FUNDING PROPOSAL

The legislature and the Governor should increase funding for community nonprofit services by nine percent (9%) in Fiscal Year 2023-2024 (FY24) and seven percent (7%) in Fiscal Year 2024-2025 (FY25). This represents an increase of approximately $261 million in FY24 and $221 million in FY25.

The legislature and the Governor should index future increases after the biennium to the annual growth of inflation.

PRICE INCREASES 2007-2022

To determine the erosion of funding that the nonprofit community has faced, The Alliance calculated the difference in costs between 2007 and 2022 using the Bureau of Economic Analysis's (BEA) gross domestic product implicit price deflator index for state and local government services and business. While there are many inflationary measurements (ex. the Consumer Price Index) tracked by the federal government, this indicator most closely matches the budgets of community nonprofits, as it more heavily factors the prices of services compared with goods or commodities.[1]

Between 2007 and 2022, the index grew 56%. Sixteen percent of that increase has occurred in the last two years (2021-2022). After deducting the funding that community providers received through wage increases and Cost of Living Adjustments (COLA) in 2018, 2021 and 2022, community nonprofits remain 46% behind their ability to fund the true cost of service delivery, since 2007.

The accounts used to apply The Alliance's proposed increase were the ones most recently funded by the Office of Policy and Management when the last COLA was provided in 2022. To those accounts was added three areas that didn't see last year's increase:

- COLA for services for people with Intellectual/Developmental Disabilities (I/DD), which received funding increases in 2021 and 2022 to meet the terms of the state's settlement with striking private I/DD workers in 2021 and did not receive a COLA in 2021 or 2022.

- COLA for several services that are funded directly by fee-for-services Medicaid rates and also did not receive a COLA in 2021 or 2022. Those service types are clinic-based behavioral health services, intermediate care facilities for individuals with Intellectual/Developmental Disabilities (ICF/IDDs) and Birth-to-Three services.

1 https://www.bea.gov/data/prices-inflation/gdp-price-deflator

- An increase for Arts & Culture programs because the impact of the pandemic continues to devastate the creative economy, as providers continue to rebuild. Please support additional funding to ensure the fiscal stability of this essential sector of Connecticut's heritage and economy.

Proposed COLA for Community Nonprofit Providers

	FY23	FY24 ADD @ 9%	FY24 APPROP.	FY25 ADD @ 7%
MEDICAID (INCLUDING BEHAVIORAL HEALTH, BIRTH TO THREE, & ICF/IDD)	$373,987,157	$33,658,844	$407,646,001	$28,535,220
HEALTH AND HUMAN SERVICES COLA (NON-DDS)	1,307,780,689	$117,700,262	1,425,480,951	$99,783,667
DDS	1,183,190,489	$106,487,144	$1,289,677,633	$90,277,434
TOURISM	$13,444,253	$1,209,983	$14,654,236	$1,025,797
TOTAL	$373,987,157	$33,658,844	$407,646,001	$28,535,220

56%

Between 2007 and 2022, inflation grew 56%. Sixteen percent of that increase has occurred in the last two years (2021-2022)

HOW COMMUNITY NONPROFITS ARE FUNDED IN THE STATE BUDGET

Community nonprofits contract with the state to delivery essential community services. They are funded through various line items in the state budget and the Medicaid account. Together, the state's human services system delivered by community nonprofits accounts for $2.8 billion of the state budget.

MEDICAID

Medicaid provides healthcare to more than 800,000 Connecticut residents[2] and is one of the primary funding streams for community services. Community nonprofits directly bill Medicaid just like a doctor would bill a health insurance plan for a wide variety of services they provide. In general, many outpatient and other behavioral health services bill Medicaid directly for services. But community nonprofits lose money for almost every service they deliver to Medicaid recipients because the Medicaid rates set by the State do not cover the cost of care. For example, according to a study published in 2015,[3] 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 only increased once – in 2021 by four percent – while demand for behavioral health services and the number of Medicaid recipients has grown.

Medicaid also funds services in a variety of other ways, including through the DDS Home and Community Based Services Waiver.[4] Under this Waiver, private providers of services for people with Intellectual and Developmental Disabilities (I/DD) provide services such as residential and employment supports that allow people with (I/DD) to live fulfilling and happy lives integrated into our communities instead of living

> Medicaid provides healthcare to more than 800,000 Connecticut residents and is one of the primary funding streams for community nonprofits. Yet Medicaid rates have only increased once since 2015 while demand for services and the number of Medicaid recipients has grown.

2 https://portal.ct.gov/-/media/Departments-and-Agencies/DSS/Communications/MAPOC-9-14-18-10-Things-to-Know-About-Connecticut-Medicaid-2018.pdf?la=en
3 http://www.governor.ct.gov/malloy/lib/malloy/shac_doc_final_report_-_final-ccpa-report-february-2015.pdf
4 https://portal.ct.gov/-/media/DDS/FactSheets/IDHCBSWAIVERSfactsheet.pdf

segregated in institutions. Under this waiver, private providers receive payment based on rates tied to the Level of Need (LON) of each person they serve.

Medicaid also pays for many other services delivered by community nonprofits through a variety of other waivers, like the Acquired Brain Injury (ABI) Waivers, the Mental Health Waiver, the Connecticut Housing Engagement and Support Services Initiative (CHESS), the Connecticut Substance Use Disorder Demonstration, and more.[5]

Given the wide breadth of critical services funded by Connecticut's Medicaid program and given the inadequacy of current Medicaid rates to cover the cost of delivering services, it is essential that the legislature and the Governor include increases for Medicaid rates in the budget.

STATE GRANT FUNDING

State grants pay for services delivered by community nonprofits for which Medicaid does not reimburse, and for services for people who are uninsured[6] 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 Personal Services Agreements (PSAs) and Purchase of Services (POS) contracts, which are managed by the Office of Policy and Management,[7] as well as many services managed by the Court Support Services Division of the Judicial Branch.

During the years of repeated budget deficits, grant funding for community nonprofit services was the target of repeated budget cuts, holdbacks, and rescissions. For example, in 2017, all Department of Mental Health and Addiction Services contracts were cut by 5%.[8] These reductions happened repeatedly through either the state budget process or through the rescission and holdback authority the legislature gave to the Governor. These cuts came over the same period as the opioid crisis began to overtake the state's addiction treatment system.

During years of repeated budget deficits, grant funding for community nonprofit services was the target of multiple budget cuts, holdbacks, and rescissions.

State grants also fund services that community nonprofits deliver for those re-entering society after serving time in prison. Community providers serve approximately 2,500 people in community supervision programs funded by the Department of Correction (DOC), colloquially known as halfway houses. An additional 800 are served through community programs which are funded[9] by the Court Support Services Division (CSSD). Criminal justice reform in Connecticut has resulted in historically low prison populations over the past decade. Despite the savings to the state budget from those reforms, and state's reliance on community programs to serve people who were no longer incarcerated in prison, funding for the community system of services was cut by nearly 15%.

5 https://www.medicaid.gov/medicaid/section-1115-demo/demonstration-and-waiver-list/index.html?f%5B0%5D=waiver_state_facet%3A711#content
6 6.3% of the population (https://www.kff.org/statedata/election-state-fact-sheets/connecticut/)
7 https://portal.ct.gov/OPM/Fin-POS/Standards/POS-Information
8 https://ctmirror.org/2017/08/01/human-services-cuts-take-effect-after-a-month-without-a-budget/
9 https://portal.ct.gov/OPM/CJ-About/CJ-SAC/SAC-Sites/Monthly-Indicators/Monthly-Indicators

A TIME OF CRISIS FOR COMMUNITY NONPROFITS

Decades of underfunding have crippled the nonprofit community. Compounding this issue is a series of cascading crises in recent years that have driven the community nonprofit system to the brink of collapse, such as: inflation, the workforce crisis, and an ever-increasing demand for services.

INFLATION

Nonprofits have been crushed by inflation over the last two years, and the gains of the budget increase from the last biennium have almost completely been swept away.

While every American has experienced inflation, nonprofits have been his particularly hard, as the major cost centers that drive nonprofit budgets are the same as the areas of the economy that have accounted for the bulk of inflation. The most significant factor in inflation is wage growth, particularly in the healthcare sector.[10]

According to a December 2022 survey of Alliance members, 63% of nonprofits report their expenses have increased by more than 16% since 2019, and an additional 29% say their expenses are up more than 10%. Only two respondents say their expenses have shrunk.

Nonprofits report that wages have been the most significant driver of their costs, with 85% saying their budgets for payroll have grown by more than 10% since 2019, and 10% saying their payroll budgets have grown by more than 45%. The cost of healthcare benefits has also grown substantially, with 73% of respondents reporting growth of more than 10%. 71% report that costs for electricity and heating energy has increase by more than 10%.

> Double-digit increases in health insurance costs for FY 2023 have forced [our agency] to pass along some of those increases to staff that are already overworked and underpaid.

Aside from wages, nonprofits also spend heavily in areas that have seen the most significant inflation nationally, such as:

- Heating (up 99%)[11] and electricity (up 20%)[12] for their buildings;
- Gasoline (up 52%);[13]
- New vehicles (up 21%)[14]; and
- Housing (up 21%).[15]

10 https://data.bls.gov/timeseries/CES6500000003?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true
11 https://www.bls.gov/cpi/data.htm
12 https://www.bls.gov/cpi/data.htm
13 https://www.bls.gov/cpi/data.htm
14 https://data.bls.gov/timeseries/CUUR0000SETA01?output_view=data
15 https://data.bls.gov/timeseries/CUUR0000SAH1

IN THEIR OWN WORDS

"The cost to attract and retain staff is difficult to manage. We can't remain competitive in the labor market with contract revenues that don't support increases. Fuel, food, supplies all went up in cost. Contractors are raising prices because they can"

Staffing

The biggest single impact [of inflation] is staffing and the increased competition with other industries and inability to compete with salaries. [We] were already on the verge of a staffing crisis and COVID over the last few years has magnified the issues and perpetuated the crisis."

Cost of Living

Our group homes are located in Norwalk, CT. The cost of living is prohibitive for the level of compensation we can offer. Many of our employees live 45 minutes to one hour away. Travel time and expense is the most common reason given when employees resign.

Closed offices

We were unable to afford a satellite office in western CT – closed the office, reassigned staff to other units, referred clients to provider 25 miles away

Competition

Our staff are suffering with the inflation they are experiencing at home, the increases we received for them did not cover inflation. Several of them left and took jobs with the State or in other industries which pay more and work less, some from home.

THE WORKFORCE CRISIS

Community nonprofits are facing an unprecedented workforce shortage and cannot attract or retain staff. This affects nonprofits' ability to retain and attract staff at all salary levels. Clinical staff that have advanced degrees are moving to private practice, state or municipal employment, or other more competitive industries, where they will be paid higher salaries for the same or less difficult work. Further, community nonprofits are in competition with employers across the retail industry like Amazon and Target for positions that do not require advanced degrees. These companies can afford to recruit staff with similar experience and education by dramatically increase their starting wages.

Nonprofits simply cannot compete.

NONPROFIT JOBS THAT ONCE PAID CLOSE TO DOUBLE THE MINIMUM WAGE IN 2019, NOW ONLY PAY A FEW DOLLARS MORE

The minimum wage has increased at a more rapid pace than nonprofit funding. The minimum wage has increased by 39% since 2019 with another 7% scheduled for 2023, while nonprofit funding has only increased 9% since 2019. This means nonprofit jobs that once paid close to double the minimum wage in 2019 now only pay a few dollars more.

According to The Alliance's survey, nonprofits report an average vacancy rate of over 16% in 2022, up from 9% just three years ago in 2019. Sixty three percent of respondents say it has been "extremely difficult" to recruit employees this past year, and another 31% say it was "difficult." When asked to rank the biggest challenges to hiring staff; 60% of nonprofits say the inability to offer a competitive salary is the top challenge, and 36% say a lack of applicants for open positions is the biggest barrier. When asked about retaining existing staff, two thirds report that the inability to offer a competitive salary is the top reason staff left their organizations.

One provider says, "We have senior leadership picking up double shifts doing direct care in the group homes at times due to the staffing shortage. Last fiscal year, temporary staffing costs exceeding our budgeted line item by over $300,000. We have lost long time employees from the stress and burnout including one 14-year Director, a degreed professional, who left the field entirely to take an office job in manufacturing."

Another says, "We are not able to provide services to everyone. We do not support people we were supporting before the pandemic due to staffing. Employees are leaving because they are stuck on shift and working too many hours. Our staff are discouraged and voicing this."

DEMAND FOR SERVICES IS INCREASING

Nonprofit workforce shortages and cost increases are compounded by a dramatic increase in demand for services following the pandemic. According to The Alliance's most recent survey, 77% of nonprofits say

demand for services has increased over the last three years, and 57% say demand has gone up by more than 15%. A shocking 55% of respondents report they maintain waiting lists for services, including intensive in-home treatment for children, residential, employment and day support services for adults with Intellectual/Developmental Disabilities, case management and supportive housing for people experiencing homelessness, work release programs, and more.

One provider notes that, “Demand has increased for the intensity and frequency of service. We have a three-week waiting list for an assessment and another week for new clients to be seen by a clinician – much longer for Spanish speaking clients as we are at capacity. Youth requiring medication must be referred out as we don’t have any providers that prescribe to children…Our agency refrains from marketing our services because we know we are unable to meet the current demand.”

This leaves some of the state’s most vulnerable children, families, seniors, and people with disabilities without support, destabilizing the state’s health and human services system. When the safety net fails, people may wind up in more expensive care, such as emergency rooms, nursing homes, or even the prison system.

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HISTORIC STATE BUDGET SURPLUSES MAKE NONPROFIT INCREASES POSSIBLE

For the first time in many years, state revenue continues to grow.

It is time to increase funding for nonprofits next year and into the future. The money to do so is in the budget now and for years into the future.

After ending Fiscal Year 2021-2022 with a historic surplus of $7.4 billion, fully funding the Budget Reserve Fund (BRF) and making a statutorily required $4.1 billion pension payment, the surplus for the current fiscal year is estimated at $6.2 billion.

The BRF has been funded at its statutory cap of 15% of the state budget for the last three years. This year, after fully funding the BRF at $3.3 billion, there is still a general operating surplus of $1.0 billion and a volatility cap revenue transfer to the already full budget reserve fund of $1.8 billion. This adds up to a staggering $2.9 billion dollar surplus after funding the BRF that can be used to fund priorities of the State, including increasing funding for community nonprofits.

The surplus for the current fiscal year is estimated at $6.2 billion

FY2023 OFA Projected Budget Surplus In thousands		**FY24**	**FY25**	**FY26**
ESTIMATED BRF STARTING BALANCE ESTIMATED	$3,345.9	$3,370.0	$3,410.3	$3,345.9
ESTIMATED PENSION PAYMENT	$(4,107.6)			
REVISED BUDGET RESERVE FUND	$3,370.0	$3,410.3	$3,410.3	$3,370.0
GENERAL FUND OPERATING SURPLUS	$293.9	$750.2	$1,128.8	$293.9
VOLATILITY CAP REVENUE TRANSFER	$1,149.5	$1,191.4	$1,228.9	$1,149.5
GENERAL FUND SURPLUS	$4,789.3	$5,311.6	$5,768.0	$4,789.3
SURPLUS FUNDS IN EXCESS BRF	$1,419.3	$1,901.3	$2,357.7	$1,419.3

In addition, for the first time in decades, the Office of Fiscal Analysis (OFA) and the Office of Policy and Management (OPM) have projected budget surplus for each of the next four years. After fully funding the BRF, each of the next four fiscal years has a projected surplus of more than $1 billion. And the surplus is projected to grow each year, nearly doubling by Fiscal Year 2025-2026.

These surpluses are the result of a strong state economy, with historically low unemployment, migration into the state and multiple years of consistent growth in Connecticut's total personal income. Put simply, when the state's economy grows, Connecticut's budget revenues also grow.

There are also surpluses because the portion of the state budget that pays for the human services system has not increased as costs have increased for community nonprofits. Despite the last two years of meaningful increases in the budget, nonprofits are still 46% behind where they were before the Great Recession in 2008.

It's time for the state budget to continue to increase funding for community nonprofits.

NONPROFITS IMPROVE OUR QUALITY OF LIFE

Policymakers can make a direct and sustained positive impact on Connecticut if they invest in community nonprofits. Nonprofits are major employers in the state, with 115,000 employees, about seven percent of the workforce. With continued investment from the state, nonprofits could:

- Increase salaries and provide better benefits for hard working staff, keeping pace with competition from other industries and states;
- Innovate and expand, serving more people in new and better ways;
- Better meet the needs of Connecticut's residents, improving the quality of life and making our state a more attractive place to live and work.

According to The Alliance's recent survey, if state funding were to increase next year, 85% of nonprofits say they would be able to serve more people and 83% say they could fill more staff positions. Sixty three percent would expand their services and look to open new programs.

There is a misconception that nonprofits will continue to deliver services even if their budgets are cut or flat-funded. The truth is that budget cuts and flat funding have resulted in real harm to people who depend on nonprofit services.

FAILTURE TO ACT WILL HAVE DIRE CONSEQUENCES FOR CT'S MOST VULNERABLE.

50%

half of nonprofits surveyed have established or increased waiting lists for services

41%

41% of nonprofits surveyed have stopped new admission to programs

29%

29% of nonprofits surveyed have reduced program hours

According to our recent survey, half of nonprofits have established or increased waiting lists for services, 29% have eliminated or closed programs, 41% have stopped new admission to programs, 29% have reduced program hours, and half have held off from opening new programs. This means people who need services today haven't gotten them, dedicated people have lost their jobs, and the state's safety net is struggling to meet the needs of the state's people. Without significant investment now, these cuts will continue.

Connecticut's high quality-of-life is what make it a desirable place to live, work and do business. Without community nonprofits, that quality of life diminishes.

RECOMMENDATIONS

The legislature and the Governor should increase funding for community nonprofit services by nine percent (9%) in Fiscal Year 2023-2024 (FY24) and seven percent (7%) in Fiscal Year 2024-2025 (FY25). This represents an increase of approximately $261 million in FY24 and $221 million in FY25.

Following the end of the biennium, the legislature and the Governor should index future increases to the annual growth of inflation.

CONTACT US

The CT Communty Nonprofit Alliance (The Alliance) is the statewide association for CT community nonprofits, representing hundreds of nonprofit organizations across all categories, from health and human service programs to arts and culture. We share the passion and purpose behind each and every one of our members' missions and channel that purpose into a powerful, unified voice.

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