



DATE: March 23, 2018

TO: Appropriations; Commerce; Finance, Revenue and Bonding and the Planning and Development Committees

FROM: Gian-Carl Casa, President & CEO, The Alliance

RE: **Testimony: Report of the Commission on Fiscal Stability and Economic Growth**

Good afternoon Senators Formica, Osten, Hartley, Fonfara, Frantz, Cassano and Logan, and Representatives Walker, Ziobron, Simmons, Yaccarino, Rojas, Davis, Lemar and Zawistowski and members of the Appropriations; Commerce; Finance, Revenue and Bonding and Planning and Development Committees.

My name is Gian-Carl Casa, President & CEO of the Connecticut Community Nonprofit Alliance (The Alliance). The Alliance is Connecticut's statewide association of community nonprofits, which serve over 500,000 people each year. Last month, The Alliance offered information and suggestions to the Commission on Fiscal Stability and Economic Growth as they considered ways to achieve fiscal stability and promote economic growth and competitiveness within the state.

There are two important points we would like to make concerning community nonprofits and the recommendations of the Commission. The report recommends:

- More use of community nonprofits to deliver quality services at less cost than if the state delivers them. However, as shown by state agency budget proposals, much more can be done than the recommendation suggests, and
- \$1 billion in unspecified cuts, which pose an existential danger to the programs operated by community nonprofits and the people who depend on them.

Community nonprofits are both economic drivers and protectors of Connecticut's quality-of-life. Details on their role in Connecticut's economy and in protecting our state are in the appendix at the end of this testimony.

#### **1. COMMUNITY NONPROFITS CAN DO MORE – AND CAN HELP SOLVE THE STATE'S FISCAL CRISIS**

Community nonprofits can be part of the solution to the State's continuing fiscal crisis. That is because they can deliver quality services to the people of Connecticut at less cost than if the same services are delivered directly by the State. The savings from conversion of services to community nonprofits can be reinvested in the service-delivery system, meaning more people can be helped.

The Commission mentions the possibility of savings from the conversion of state-operated human services programs to community nonprofits, in Appendix 3, page 86:

*“Particular opportunities exist in achieving savings by shifting the delivery of certain social services programs to lower cost non-profit providers...The Commission understands that these privatization steps may not produce large savings until the job protection provisions of the*

*current SEBAC agreement expire in 2021, but they should be aggressively pursued nonetheless and the proposed consultant should identify and quantify the potential savings.”*

- **But there are more opportunities that this passage suggests, opportunities that exist even with the provisions of the SEBAC agreement to deliver quality services to more people at less cost** – the General Assembly should pursue them. These have been acknowledged by state agencies.

The Department of Developmental Services (DDS) has proposed to convert more services to the community, and without layoffs:

- DDS is moving forward with about 10 conversions this fiscal year with another ten scheduled for next fiscal year;
- The Governor’s midterm budget proposal contains a no-layoff proposal for ten conversions of Community Living Arrangement group homes from public to private operation to save \$1.1 million.

The Department of Mental Health and Addiction Services (DMHAS) has submitted a series of no-layoff budget options over the past two years that would move services to the community:

- Currently, seven Local Mental Health Authorities (LMHAs) are community nonprofits and six are state-operated. In 2017, Governor Malloy’s first budget proposal would have shifted two parts of the state-operated Western CT Mental Health Network LMHA into the community, **saving the State \$5 million per year without layoffs**. But this change was not included in most of the subsequent budget proposals or the final bipartisan budget that passed.
- Last Fall DMHAS submitted several no-layoff budget options for FY 2019 that, taken together, would save the State approximately \$15 million:
  - 22 Young Adult Services residential beds (now in Hartford, Torrington, Portland) will **save \$3.5 million**.
  - 20 detox beds, now in Connecticut Valley Hospital, to hospitals and nonprofits will **save \$4.9 million**.
  - 16 mental health beds from Connecticut Regional Mental Health Center, Hartford, to respite beds will **save \$3.2 million**.
  - 16 geriatric beds at Connecticut Valley Hospital to “long term services” and community supports will **save \$3.1 million**.

Those savings would be enough to make up for the \$15 million in holdbacks that would be annualized in the proposed budget or much of the \$22 million that has been cut in the state’s grants for Mental Health and Substance Abuse. Note that the Governor’s budget proposal is for \$2.1 million in savings for “Restructuring of State Operated Services to Private Operation.”

## **2. \$1 BILLION IN UNSPECIFIED CUTS COULD DEVASTATE SERVICES TO CONNECTICUT’S RESIDENTS**

The Commission’s report recommends reducing the state budget by \$1 billion annually. But about half of the state budget comprises “fixed costs” which are deemed not subject to cuts. That percentage grows each year, and funding for community nonprofits is in what remains. That means that the \$1 billion in cuts will come from just half of the state budget, putting programs through which community nonprofits serve the public on the chopping block, yet again. It is simply unacceptable.

Community nonprofits and their programs have been cut repeatedly over the last several years. To give just a few examples:

- Mental health and substance abuse grants pay for the care of the most seriously mentally ill, who are more likely to be uninsured, under-insured or experience gaps in coverage. Yet in Fiscal Year 2017, DMHAS cut every provider contract by 5% across all service types and since Fiscal Year 2013, grant funding has been cut more than 19%. Grants specifically earmarked for substance abuse treatment have been cut by 30% since FY13, while the death rate from drug overdose has increased 150%.
- Providers of services for people with intellectual and developmental disabilities have not had a rate increase since 2007 – before the iPhone was sold and when the minimum wage in Connecticut was \$7.65 an hour.
- Funding for arts and cultural programs have been cut year after year, with increased competition for diminished resources. In the current state budget, most Department of Economic and Community Development (DECD) line items have been cut 25% from the previous fiscal year.

These essential services enhance the quality of life for Connecticut residents – but they are already at risk. Continuing state budget cuts to programs offered by community nonprofits leads to a Connecticut that cannot provide for our citizens. Putting a billion dollars on the table may mean tens -- or hundreds -- of millions in additional cuts. That would destroy the social safety net at a time when demand is up.

Community nonprofit services are *essential* and *necessary*. Without them Connecticut's quality-of-life will be in danger. We ask that you declare them just as off-limits for cuts as "fixed" costs in the state budget.

## SUMMARY

We urge legislators to:

- be bold and take advantage of the **savings offered by the high-quality services offered by community nonprofits**. These savings can be reinvested to help even more of Connecticut's residents, and
- **reject proposals to make an additional \$1 billion in cuts** from the half of the state budget subject to them -- these unspecified cuts will almost certainly devastate the programs offered by community nonprofits and upon which the people of Connecticut depend.

Thank you for your consideration.

Enclosed: Appendix: Background Information

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### **A. NONPROFITS ARE ECONOMIC DRIVERS HELP MAINTAIN CONNECTICUT'S QUALITY OF LIFE**

Community nonprofits of all types are a significant part of Connecticut's economy, employing almost 14% of Connecticut's workforce. They pay their employees \$10 billion annually and spend about \$29 billion each year in the State's economy.

Nationally, almost 9% of all salaries in the U.S. are paid by nonprofits and nonprofits contribute an estimated \$937.7 billion to the U.S. economy in 2014, which made up 5.4 percent of the country's gross domestic product (GDP).<sup>i</sup>

The State of Connecticut relies on community nonprofits to deliver essential services for the State's children, families, seniors, and people with complex needs who would otherwise have nowhere else to turn. The state's network of human services and arts and culture offerings are an important but often overlooked factor in our competitiveness with other states. As businesses decide where to locate, they consider the quality of life for their employees and their families. Businesses want to be where their employees' families can access things like:

- Supports for loved ones with intellectual/developmental disabilities,
- Treatment for mental health and substance abuse,
- A safety net of food and shelter services for people who fall on hard times, and
- A vibrant arts community with museums, art galleries, and other cultural offerings.

### **B. COMMUNITY NONPROFITS PROVIDE QUALITY CARE AT LESS COST**

Below are a few specific examples of how community programs can provide high quality care to more individuals and families, while saving state dollars.

#### *Intellectual/Developmental Disability Services:*

- According to a 2012 study from the General Assembly's Program Review & Investigations (PRI) Committee, the average annual cost to serve a person with intellectual/developmental disabilities living in a state-operated group home is \$265,000. The cost for a community nonprofit to provide the same service is just \$113,000. **That means the State can save \$152,000 per person per year** by providing group home services for people with intellectual/developmental disabilities in the community compared to state provision of the same services.
- Nonprofits already provide residential support to 93% of the people receiving services from the Department of Developmental Services (DDS).
- Closing the Southbury Training School has been a slow process, but further savings will be available when it is closed. For example, the \$1.3 million per year the State spends just on fuel (diesel, electricity, gasoline, natural gas & propane) for the facility **could be used to serve ten families currently languishing on the waiting list for services** operated by community nonprofits and funded by the Department of Developmental Services.

### *Local Mental Health Authorities:*

- The per-patient cost of state-operated LMHAs is more than double the cost of private LMHAs. There are thirteen LMHAs in Connecticut. The average cost-per-client for state-operated LMHAs in FY16/17 was \$12,638 per year. In private LMHAs, the average annual cost-per-client was just \$5,330. **The state can save more than \$7,000 per client per year** if it converted all LMHAs to nonprofit operation.

### *Foster Care Services:*

- Foster care services are provided by both the Department of Children and Families (DCF) and community providers, making the delivery of services costly and inefficient. **Nonprofits have the ability and capacity to provide high quality services for all the 4,000 children currently in the foster care system.**
- Shifting the delivery of foster care services into the community and creating a single system for all children would provide nonprofits and the State with the opportunity to better assess and address children's needs. The State's roles as both provider and regulator of foster care services has created an environment in which nonprofits must compete with the State to recruit and retain foster families. These parallel systems maintain two separate silos of information for children in the foster care system.

### **C. NONPROFIT EMPLOYEES SHOULD BE PAID MORE – AND THE STATE STILL WILL SAVE MONEY**

Further, The Alliance supports efforts to use some of the savings generated by conversion of state-run services to nonprofits to increase the pay levels of the hard working, dedicated and passionate staff working for nonprofit providers, to at least \$15 per hour. Even with these wage increases, conversion of services from state operation to community nonprofits will save the State considerable money that can be reinvested to serve more people.

Serving more people and paying staff higher wages can be achieved because community nonprofits have more flexibility than the State. Nonprofits can:

- Require management approval for overtime pay;
- Collaborate and work with corporations/ business within their community as partners – banks are open to 100% financing for mortgages;
- Negotiate medical and dental insurance every year, the cost is significantly lower than the State's;
- Spend money locally with local purchasing and help to churn the local economies more than the State does;
- Receive donations, do fundraising and get privately paid by families and trusts;
- Are accountable to local boards of directors, which often include the people being served;
- Only grant automatic increases or COLAs unless they receive those from the state.

These examples show that community nonprofits are cost-effective, provide high quality services and are uniquely positioned to serve community needs.

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<sup>i</sup> Brice McKeever and Marcus Gaddy, "[The Nonprofit Workforce](#)," NPQ, October 24, 2016.