

**TESTIMONY REGARDING RAISED BILL 1137
AN ACT CONCERNING DEPOSITS IN LIEU OF TAXES**

TESTIMONY SUBMITTED TO COMMITTEE ON FINANCE, REVENUE AND BONDING

Submitted by

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APRIL 29, 2019

I am grateful for the opportunity to submit testimony to the Committee. While recognizing the intention of Bill 1137 to create a more robust system of payments in lieu of taxes within the State of Connecticut, I am opposed to it. If enacted, Raised Bill 1137 will have a deleterious impact on the mission of non-profit organizations in Connecticut, on the very concept of payments in lieu of taxes, and on state revenues.

The Bill targets organizations with endowments. Endowments are essential to nonprofits to protect their ability to function on thin margins. There is already a high degree of fiscal and regulatory oversight on nonprofit organizations and how they fund, manage and utilize endowments.

Furthermore, many nonprofit organizations struggle with operating expenses and the proposed bill would place an extraordinary additional financial burden, or tax on them, that many could not reasonably meet. These organizations are tax exempt because they already add value to communities. They are not designed to generate substantial surplus funding. Most endowments grow because of philanthropic donations that are specifically intended to advance the mission of nonprofits and to assure their sustainability for future generations.

By their nature, most nonprofits in Connecticut exist to provide mission related services that are not already being addressed by the governmental or for profit sectors. Nonprofits are intended under the United States tax code to address such gaps and to provide services that would not be readily available by government or market driven organizations.

Nonprofits are required by law to have a high degree of fiduciary oversight through governing Boards and through reporting structures at the state and federal level that require transparency in financial and mission reporting including annual reporting to the Connecticut Secretary of State on operations and finances and annual filing of a detailed Form 990 to the United States Internal Revenue Service.

The proposed Bill creates a system of oversight that is redundant and unnecessary, and worse, interferes with the governance of organizations and their right to determine their mission priorities by creating a separate governance body for each community development credit union. The credit unions would be empowered to spend an organization's funds on its own priorities, not the priorities of the nonprofit or the intentions of donors who support the nonprofit. To say the least, this creates many potential ethical and moral dilemmas that are unnecessary, inappropriate, and potentially illegal, particularly if the wishes of donors are not being honored as a result of this Bill.

The Bill may have a net negative impact on what it intends to achieve. Mystic Aquarium, for example, already provides extensive services and payments in lieu of taxes. These include free access for low income citizens, subsidized or free education programs for local schools, financial support for law enforcement activities and extensive sponsorship of community activities, events and organizations totaling millions of dollars each year. If Bill 1137 was adopted, these services and payments would be eliminated in order to meet the financial burdens of the new law. Other organizations would find themselves in a similar situation and the impact of cuts by hospitals of free medical services, or colleges and universities of free tuition, is incalculable but certainly dramatic.

Mystic Aquarium generates \$110 million in economic impact for the State of Connecticut annually. Similarly, hospitals, colleges, universities and other non-profits, in addition to addressing gaps in the economy, almost all generate substantial economic activity and impact. It is likely that adoption of Bill 1137 would cause substantial cutbacks in operational spending within the nonprofit sector that in turn, would adversely impact the state's economy and the generation of state tax revenue.

The economy of Connecticut needs a robust nonprofit sector to create a healthy, educated, cultured, engaged and fulfilled citizenry. The presence of cultural, healthcare, educational, and service organizations represented in the nonprofit sector creates a stronger economy and stronger communities where the needs of citizens are being addressed in ways that would not occur otherwise.

I urge the Committee to reject Bill 1137 and, instead, to develop an incentive based approach to encourage non-profit organizations to provide even more services and payments in lieu of taxes for the good of the State of Connecticut.