

April 26, 2019

Dear Esteemed Members of the Connecticut General Assembly Finance, Revenue and Bonding Committee,

I write to you with strong opposition to SB 1137, An Act Concerning Deposits In Lieu Of Taxes and SB 1138, An Act Concerning Community Restoration Funds, and ask you to take no action on these two bills. Each of these bills would require nonprofits with a significant savings accounts, endowments, or pension funds to pay into a state "community development account."

Nonprofits receive tax-exempt status because they are working for the public good. They provide services that would otherwise fall to the government or be left undone. They provide significant quality of life enhancements to communities and residents throughout Connecticut.

As president of the Connecticut Council for Philanthropy, I manage the state's association of grantmakers. The members of this organization are comprised by corporate, public, and private foundations based in, and making grants to support, communities and residents throughout the state of Connecticut. **Each year, the foundation community contributes about \$400 million in grants to support Connecticut's communities and residents.** In addition to this significant infusion of financial support, they also lend staffing, technical expertise, capacity building, and leadership to the high priority issues in which they are focused, including: quality public education, affordable housing, ending homelessness, improving workforce development, improving health and public health, supporting community and economic development, advancing racial and gender equity, reducing income inequality, supporting arts and cultural activities, protecting and conserving the environment, among other important issues.

Foundation investments in Connecticut bolster the state's nonprofits and invest in their capacity building. The foundation community supports and incentivizes innovation in the nonprofit space, it pilots new models to address critical social issues in the state, and provides capital to social entrepreneurs and entrepreneurs with less access to financial capital. The state's foundations act as conveners in Connecticut's communities – hosting cross-sector conversations among CT leaders and working to build community capacity. Foundations are an integral part of a broader ecosystem of organizations that are already networked together to work on critical issues in the state.

Notably, **investments being made from Connecticut's foundation community leverage investments from foundations outside of the state.** In 2016, the state's nonprofits attracted over \$400 million from foundations outside of Connecticut.

These bills could erode the trust in Connecticut's nonprofits. Foundations and nonprofits are established and funded by individual donors to pursue a mission. When individual donors donate to their local community foundation, for example, they do not intend those donations to be taxed. When a donor supports a nonprofit that works with low-income children, they intend their dollars to support low-income children, not to pay new taxes.

Furthermore, it's worth noting that **any new taxes on these organizations would take money away from other parts of their budget.** In the case of foundations, it would likely reduce operating budgets, and these kinds of reductions – in reduced goods, services, and salaries – would ripple out into the community.

These bills come at a time when nonprofits are already significantly challenged by the state and federal environment. Many of the state's nonprofits already have been managing a series of state cutbacks in contracts or support. The recent federal tax law increased taxes on nonprofits, and also is depressing charitable giving to nonprofits – in Connecticut and around the country. A recent survey of the state's nonprofits revealed that over 40% experienced a decline in donations or is expecting a decline in donations.

There are many additional questions that these bills raise. For example:

- What kinds of organizations do these bills mean to impact?
- Why duplicate infrastructure, process, and administration that already exists among Connecticut's community development financial institutions, foundations, and other nonprofits?
- How is property defined?
- How have the priorities of these distressed communities been determined? Are these priorities not being met with current grants, nonprofits, or other organizations?
- Would nonprofit organizations based in towns that are not distressed not have to pay these new taxes?

The Connecticut philanthropic community is deeply committed to supporting the wellbeing of the state of Connecticut through grantmaking, technical expertise, leadership, relationship development, and other resources.

However, for all of the reasons noted above, the Connecticut Council for Philanthropy urges you to take no action on SB 1137 and SB 1138.

Sincerely yours,



Karla Fortunato
President
Connecticut Council for Philanthropy