**Commission on Non-Profit Health and Human Services**

Private Provider Cost Increases, Nonprofit Agency Financial Condition, and Sources of Revenue Workgroup

**Preliminary Report**

December 13, 2010

The Workgroup has been tasked with analyzing and developing a report in three separate areas of interest related to Special Act 10-5. The workgroup has developed a plan of action for executing the assigned areas of analysis and submitting a final report. The following represents the accomplishments to date and the Workgroup's plan for further action:

1. **Private Providers Cost Increases:**

The workgroup has identified specific areas of concern related to cost increases. These expenditures include essential components of a nonprofit agency's budget, over which the agencies often have little or no control. Although it may be within an agency's control to improve efficiencies or scale down the quality of a commodity or service, it would not be realistic to believe these expenditures could be eliminated. Commodities and services of particular concern are as follows:

1. Health Care and Benefits
2. Utilities: Lights, Gas, Heat
3. Insurance: Auto, Liability, and D & O
4. Maintenance of Technology - Requirements for Increased Data Collection and Additional Infrastructure
5. Gasoline
6. Vehicle Maintenance
7. Property Maintenance and Repairs
8. Wage Adjustments Below the CPI

The workgroup has determined that the most effective and accurate way to report on costs associated with these items is to research and assemble industry data for the State of Connecticut and the Northeast region of the country. There are too many variables to give a true indication of cost increases. For example, Health Care and Benefits have experienced significant increases over the past several years. To defray cost increases nonprofit agencies have reduced the benefits packages offered to their employees. This would result in a less than true cost comparison over several years. The Workgroup has requested information from the State Department of Public Utility Control, the Insurance Department, and Federal data sources. The workgroup will continue to research the data available, the variables that would impact the nonprofit providers and weigh the results against the nonprofit providers' budget at large.

The Workgroup is acknowledging the changing business climate and new requirements that are causing increased costs to private providers in the areas of billing, information system supports, and staff training. The Workgroup will further investigate the impact of these new requirements and explore possible solutions and recommendations.

1. **Financial Condition of Agencies:**

The workgroup has researched and selected tools to produce a comprehensive view of the financial condition of the State's nonprofit providers. The workgroup is in the midst of creating a statistically accurate stratified sample of the 709 Health and Human Services providers. The workgroup will then proceed with the calculation of several financial ratios specific to nonprofits to test the financial fitness of the stratified sample group. The workgroup has selected the following ratios:

1. Liquid Funds Indicator (LFI) = (Total Net Assets - Restricted Net Assets – Fixed Assets)/Aver. Mnthly Expenses
2. Liquid Funds Amount (LFA) = Dollar Value of Unrestricted New Assets - Net Fixed Assets + (Mortgages and Other Notes Payable)
3. Debt Ratio (DR) = Average Total Debt / Average Total Assets

Based on the outcomes of these three ratios, the workgroup will decide if further analysis is warranted to get an accurate picture of the financial landscape of nonprofit providers in the State of Connecticut.

1. **Sources of Revenue:**

The workgroup has decided to follow three separate tracks of analysis to provide a comprehensive picture of nonprofit revenue resources available in the past, the current revenue funding mix and what could possibly be available in the future. The workgroup will:

* 1. Provide a State funding chart indicating increases in revenue that have been provided over the past 20 years.
	2. Calculate and application of a Revenue Ratio to the stratified sample group that will provide the percentage of revenue from various sources.
	3. Investigate possible alternative funding sources and the costs associated with pursuing those opportunities.
	4. Research trends in philanthropy.

The Workgroup notes that seeking alternative funding sources and pursuing Medicaid reimbursement may increase costs to both the providers and the State of Connecticut because of additional staffing to facilitate the billing, and the costs associated with new requirements.

The completion of these tasks will allow the workgroup to report potential challenges and opportunities facing the nonprofit providers regarding revenue.

After the completion of the Workgroup's action plan, the Workgroup will report on the findings and offer recommendations to be reviewed by the full Commission.