



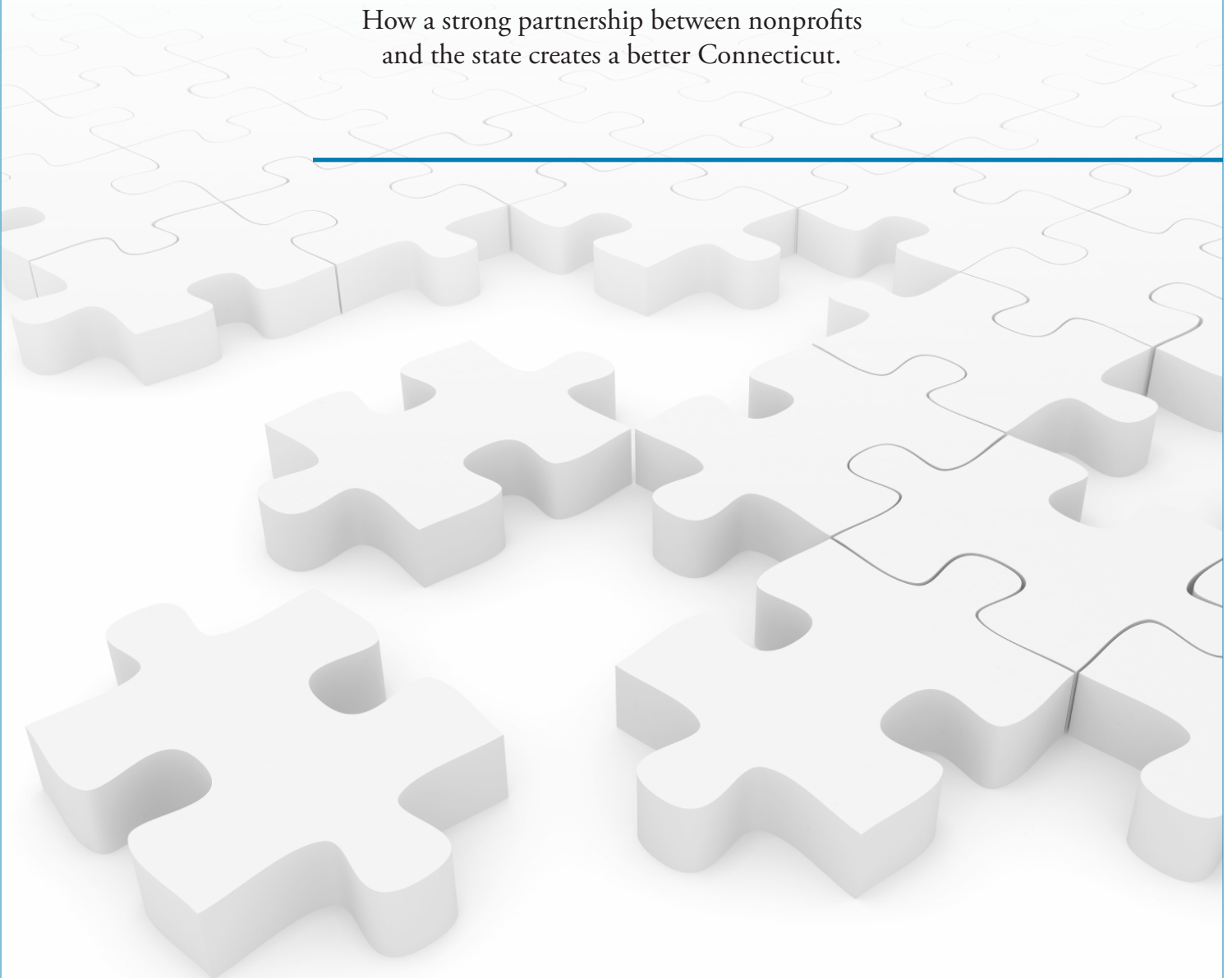
**CONNECTICUT**  
ASSOCIATION  
of **NONPROFITS**

2010 STUDY:

## **THE ECONOMIC HEALTH & IMPACT OF NONPROFITS IN CONNECTICUT**

How a strong partnership between nonprofits  
and the state creates a better Connecticut.

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## EXECUTIVE SUMMARY

Nonprofits play a vital role in ensuring the safety and well-being of Connecticut's communities. We provide care for the elderly and people with disabilities, allowing their family and caregivers to remain at work. Nonprofits help ensure that children have a healthy environment in which to live, learn and thrive. We provide recovery and support services for persons struggling with addiction and mental illness. Nonprofits protect the environment, provide job training, and put food on the table. They are our libraries, schools, theaters and recreation organizations.

There is no doubt that everyone is touched by a nonprofit at some point in their life, whether or not that thought ever crosses a person's mind. And that is why *everyone* must be invested in the success of the nonprofit community.

The last two years have not been easy for anyone. The recession has impacted both for-profit and nonprofit businesses. Federal, state and local governments have been faced with enormous budget deficits and countless difficult decisions. Connecticut Association of Nonprofits (CT Nonprofits) understands the depth and complexity of the decisions at hand, but fears that some choices are being made that will have serious consequences on the social safety net provided by nonprofits.

This report examines the impact of the current economy on nonprofits in Connecticut, including data from a January 2010 survey of CT Nonprofits' membership. We also look at the role of nonprofits in the state's economic recovery efforts, as well as the partnership between nonprofits and state government, specifically in three main areas: (1) contracting, (2) accountability/reporting, and (3) funding.

### HIGHLIGHTS OF THE REPORT INCLUDE:

#### Impact of the Current Economy on Nonprofits in Connecticut

- Over 30% of survey respondents indicate a decrease of 10% or more in each of the following funding sources: government grants/contracts, investment income and corporate donations.
- 82% of respondents experienced an increased demand for service.
- 54% of respondents reported seeing consumers who indicated that they had never previously requested services.
- 89% of respondents saw an increase in their health insurance premiums.
- 55% of respondents reduced their staff to cope with decreased funding and increased costs.

#### Nonprofits – Vital to Connecticut's economic recovery

- Nonprofits employ 11% of Connecticut's workforce and generated over \$8.7 billion in wages in 2008.
- Nonprofits are critical partners with the state in the provision of health and human services, holding over 2,000 Purchase of Service contracts worth approximately \$1.4 billion annually.
- Nonprofits play a fundamental role creating taxpaying individuals and assisting Connecticut's neediest residents achieve self-sufficiency.

#### Contracting – Ensuring an Equitable and Transparent Process

- OPM has produced important guidelines for contracting and more oversight is needed to ensure adherence by all state agencies.
- Current contracting processes require providers to submit repetitive documents containing standard information for all RFPs and contracts – the state should consider creating online systems to streamline the process.
- Late contract payments from the state continue to negatively impact nonprofits that provide health and human services on the state's behalf.

#### Accountability/Reporting – Making Sure Each Dollar is Spent Wisely

- Nonprofits, like state government, must uphold the public trust and be held accountable to the taxpayers who support publicly-funded programs.
- Performance measures for nonprofit services are encouraged to ensure that each dollar spent is making a difference in our communities.
- Reporting processes can be streamlined to ensure relevant data collection while reducing administrative burdens for both nonprofits and the state.
- The state can leverage its buying power to purchase data collection systems that will ensure both smooth communication between the systems used by the state and nonprofit contractors, as well as make the systems more affordable for nonprofit providers.

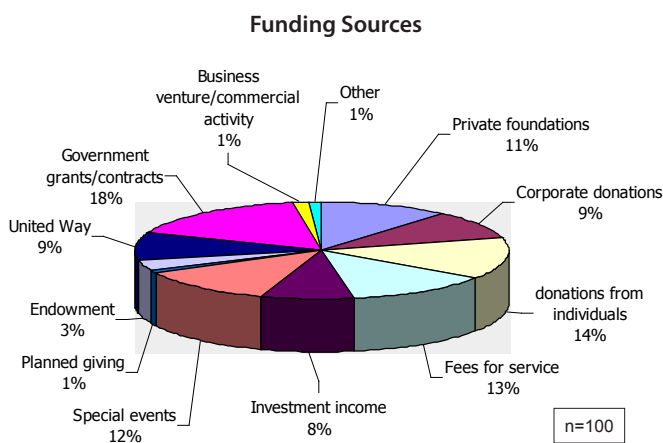
#### Funding – Proper Funding for Proven Results

- The average cost-of-living adjustment for nonprofit services stands at 1% over the past twenty years.
- Nonprofits welcome accountability for the services we provide, but in return we demand adequate and appropriate funding to support quality, proven programs.
- The ability of nonprofits to meet the needs of Connecticut residents and retain qualified staff is in jeopardy due to underfunding.

## IMPACT OF THE CURRENT ECONOMY ON NONPROFITS IN CONNECTICUT

In January 2010, CT Nonprofits surveyed our membership regarding the continued impact of the recession. The current economy has impacted all nonprofits, both state funded and non-state funded. State funded nonprofits have been subjected to ongoing gubernatorial rescissions and budget cuts resulting from deficits in the state budget throughout fiscal years 2009 and 2010. Private giving is down to all nonprofits, although the impact on non-state funded nonprofits may be even greater as foundations and other private funders redirect their dollars to fill the gaps in services where state funding has been reduced.

The survey reveals that the 100 respondents do have diverse funding streams, a highly recommended practice.



However, many organizations have experienced decreases in multiple funding sources. When asked to compare funding changes between fiscal years 2008 and 2009, respondents noted decreases of 10% or more in the following revenue categories:

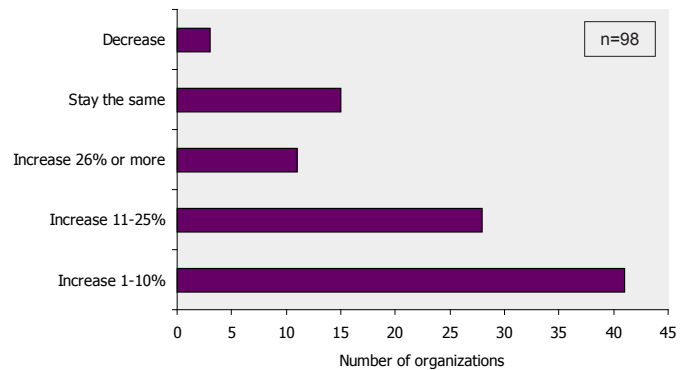
- 36% experienced a decrease in government grants/contracts<sup>1</sup>
- 34% experienced a decrease in investment income
- 31% experienced a decrease in corporate donations
- 29% experienced a decrease in donations from individuals
- 27% experienced a decrease in private foundation funding
- 25% experienced a decrease in special events revenue
- 25% experienced a decrease in United Way funding

<sup>1</sup> In the few short months between the release of the survey and the compilation of this report, reductions in government contracts have only escalated with continued budget cuts, rescissions and new billing systems (e.g.: attendance-based billing system implemented by the Department of Developmental Services, which is expected to result in savings to the state as not all individuals will be able to meet the 90% attendance requirement and, therefore, the state will not have to pay the nonprofit provider for those services)

Of the respondents who experienced decreased funding, 54% were told by the funder that the reduction was a result of “general cutbacks/stock market decline/economic downturn,” whereas 12% were told that the funder had a “shift in giving priorities/other causes seen as more important.”

Naturally, the fiscal climate has resulted in an increased demand for service, particularly for the essential health and human services provided by nonprofits. While funding has decreased for the majority of providers, the chart below demonstrates that 82% of respondents have experienced an increased demand for service in fiscal year 2009 over fiscal year 2008.

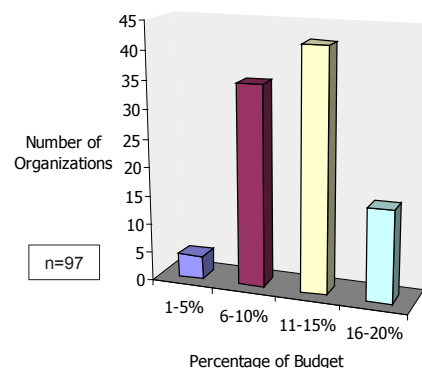
**Demand for core services in FY2009 vs. FY2008**



A great deal of the increased demand stems from many people seeking services for the first time in their lives – including the introduction of the middle-class into the service population. The survey reveals that in fiscal year 2009, 54% of respondents saw consumers who indicated that they had never previously requested services prior to that year.

Nonprofits continue to do all they can to direct scarce funding towards direct care and services. The chart below shows that 84% of respondents keep their administrative and general expenses to 15% or less of their budgets, ensuring that the maximum amount of resources go to the provision of direct services.

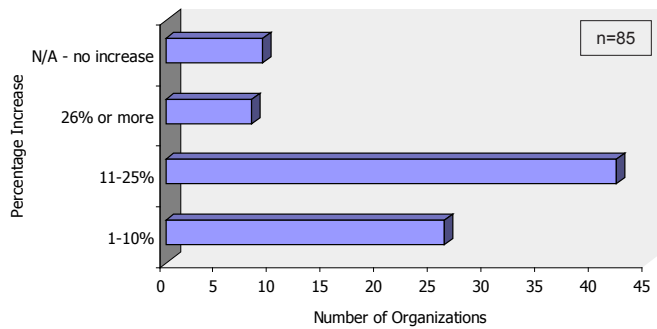
**Administrative and General Expenses as a Percentage of Total Budget**



Steadily increasing healthcare costs continue to have a major impact on nonprofits in Connecticut. Of the survey respondents, 97% provide health insurance coverage to their employees, with just over half covering more than 80% of the cost for their full-time employees. Additionally, 32% of respondents cover somewhere between 51-80% of the cost for full-time employees, while 16% of respondents cover some portion of health insurance costs for part-time employees.

Unfortunately, as is the case with all businesses in Connecticut, nonprofits have been hit hard by increased health insurance premiums. The chart below demonstrates that 89% of respondents saw an increase in their premiums at the time of their last renewal.

**Increased Health Insurance Premiums at Time of Last Renewal**



It is clear that this pattern of decreased funding, increased costs and increased service demand has the nonprofit delivery system headed in a perilous direction. Over 56% of respondents describe their organization's current circumstances as worse than the same time one year ago. Like policymakers, nonprofit executives have also had to make many difficult decisions over the past two years. To deal with the ongoing effects of the fiscal climate, respondents have taken many action steps including:

- 69% froze or reduced salaries
- 65% sought funds from alternative sources
- 55% cut staff
- 55% initiated new fundraising appeals
- 34% reduced employee benefits
- 32% entered a partnership or collaboration

It is clear that the recession has negatively impacted many nonprofits across Connecticut. While we have continuously been asked to do more with less, especially in the provision of health and human services on behalf of the state, there is a dangerous tipping point on the horizon. Allowing the nonprofit delivery system to reach that point is unwise and not in the best interest of the state of Connecticut.

## NONPROFITS — VITAL TO CONNECTICUT'S ECONOMIC RECOVERY

The recession felt across the country over the past two years certainly did not spare Connecticut. In fiscal year 2009, the state struggled with the first of many deficits resulting in rescissions and budget cuts. Looking ahead, Connecticut is facing budget deficits of close to \$4 billion in each of fiscal years 2012 and 2013 – that could potentially be over a 20% deficit in our state's \$18 billion annual budget.

As the state continues to grapple with billion dollar deficits, there must be long-term thinking to ensure that draconian cuts are not made to simply achieve short-term savings. Maintaining a vision of what we want our state to look like after our economic recovery is key to Connecticut making the right choices during this difficult time.

Nonprofits should and will play a large part in Connecticut's economic recovery. We are employers, both small and large, employing 11% of the state's workforce and generating over \$8.7 billion in wages in 2008.<sup>2</sup> Nonprofits employ tax-paying individuals and consume goods and services just like any other business in Connecticut. While many nonprofit organizations do not pay business income taxes or property taxes, we do pay payroll taxes as employers, as well as other unrelated business taxes. Nonprofits are a major part of our state's economy and must be considered when making decisions that affect the state's economic future.

Foremost, nonprofits are critical partners with the state in the provision of health and human services. Nonprofits hold over 2,000 Purchase of Service (POS) contracts with the state valued at approximately \$1.4 billion annually.<sup>3</sup> We help the state meet its mission to serve and protect the most vulnerable among us. Nonprofits provide quality, efficient, cost-effective services to residents at a great savings to taxpayers. We are the safety net that anyone can find themselves in need of, especially during economically unstable times.

Part of our state's goal must be to use Connecticut taxpayer dollars to support Connecticut jobs. For example, keeping our children and persons with developmental disabilities in this state, in our communities, receiving treatment from Connecticut workers is critical to our state's economic recovery.

Nonprofits also play a fundamental role in creating taxpaying individuals. We assist Connecticut's neediest residents achieve self-sufficiency so that they can move away from using government-funded services and towards becoming contributing, taxpaying members of our communities. Our services allow the caregivers of elderly parents or individuals with disabilities to remain at work and contribute to the state's

<sup>2</sup> Connecticut Department of Labor, 2008, Nonprofit Employment Summary

<sup>3</sup> Office of Policy and Management - Report to the General Assembly Purchase of Service Contracts. September 24, 2009.

tax base, as opposed to staying home to provide around the clock care. Without these services, the state's revenue forecast would be far worse than currently predicted.

Nonprofits are also crucial to the cultural revitalization of our communities. Arts and culture activities are necessary for any community to truly thrive. Renaissance efforts and vibrant arts programs, including theatrical, musical and entertainment events enhance the socioeconomic success of the surrounding community. Not only do they attract tourism dollars, but they also allow residents to come together to enjoy a true sense of community that often leads to increased pride and commitment to a neighborhood, town or region.

There is a clear role played by nonprofits in our state's economy and an important partnership that the state must foster. As employers, service providers and advocates, nonprofits work to improve Connecticut everyday. We reduce the burden on taxpayers by providing quality, cost-efficient services. The cost that the state would bear if we were not here is unimaginable. Nonprofits are and will continue to be an important part of Connecticut's economic recovery. We, along with our partners in state government, share a vision of a healthy, successful Connecticut. Now is the time to work cooperatively to achieve our mutual goals.

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## WORKING TOGETHER

Nonprofits and the state must continue to partner with each other to ensure that Connecticut residents have access to high quality-health and human services. We must both uphold the public trust in the delivery of these services, making certain that taxpayer dollars are spent wisely. The best way to achieve these shared goals is to work together.

Sustainability of the nonprofit human services delivery system is contingent upon a successful partnership with state government. There are three major functions in which the state and nonprofits must work together: (1) contracting, (2) accountability and reporting, and (3) funding. As we will discuss below, there is room for improvement in all three categories that will benefit both the state and nonprofits.

### (1) Contracting – Ensuring an Equitable and Transparent Process

As we have established, nonprofits are critical partners with the state for the provision of health and human services. Nonprofits hold over 2,000 Purchase of Service (POS) contracts with the state valued at approximately \$1.4 billion annually. These contracts represent a wide array of essential services from homeless shelters to substance abuse treatment; from children's residential services to employment programs for persons who are developmentally disabled; from domestic violence services to home care for the elderly. The state relies on nonprofits to meet the needs of its residents.

Contracting is a complex and often daunting process. There are a great number of steps between the release of an RFP, the contract award and the commencement of services. It can be even more difficult for providers that hold contracts with multiples state agencies, as each agency tends to have a different process in place.

In 2007, the state passed important clean contracting legislation in response to several incidents of illegal activity with for-profit contractors. This legislation resulted in a system-wide rebid of all health and human services contracts, including those held by nonprofits.<sup>4</sup> The legislation also called for the Connecticut Nonprofit Human Services Cabinet, which is hosted by CT Nonprofits, to work with the Office of Policy and Management to develop a plan for the competitive procurement of these services.

In 2008, the Office of Policy and Management released the *Principles and Practices for the Competitive Procurement of Human Services* and in 2009 they released a revised version titled *Procurement Standards for Personal Service Agreements and Purchase of Service Contracts*. The purposes of these documents were to create uniform contracting practices across all state agencies as the system undertook a massive rebidding of contracts. Unfortunately, several discrepancies still exist. One clear and recurring example is the lack of adherence to the required seven (7) weeks between the release of an RFP and the deadline for submitting proposals.<sup>5</sup>

There have also been reports of providers having their RFP selected and then having to negotiate a contract that is substantially different from the original content of the RFP. For example, one nonprofit provider responded in good faith to an RFP issued for fiscal year 2009 from a state human services agency, meeting all of the requirements to provide the service for the advertised contract amount - \$3 million. The provider was awarded the contract and later brought to the state agency to negotiate the final contract details. During negotiations, the state agency revealed that the amount of the contract would be \$300,000 less than originally stated in the RFP. The state agency fully expected the nonprofit to provide the same level of service included in the original RFP for 10% less funding. We can reasonably characterize a 10% funding reduction between the original RFP and the contract negotiation as a significant and substantial difference. Furthermore, we can reasonably state that no business should be expected to provide 100% of a service for 90% of the cost.

Requests for Proposals and the subsequent contract all require providers to submit several pieces of standard information, such as their agency's contact information, workforce analysis,

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<sup>4</sup> CT Public Act 07-195, An Act Concerning the State Purchase of Service Contracts for Health and Human Services

<sup>5</sup> Office of Policy and Management, *Procurement Standards: For Personal Service Agreements and Purchase of Service Contracts*; February 17, 2009; page 24.

affirmative action plan, etc. The state should consider creating an online system for submitting RFPs that includes both an “auto fill” format and a method that allows the provider to upload standard documents to multiple RFPs.

Finally, late payments are a continuous problem for nonprofits that contract with the state to provide services on its behalf. A 2009 survey of CT Nonprofits’ membership revealed that 42% of respondents had received late payments from the state, with some upwards of 90 days late.<sup>6</sup> Due to the delayed adoption of a state budget for fiscal year 2010, this number has only increased over the last year with more nonprofits receiving late payments despite having rendered the services requested by the state. Late payments by the state create a cash flow problem for nonprofits that ultimately lead to one of two actions: use money from budget reserves and lose out on valuable interest that those funds would otherwise accrue; or access a credit line from a bank and pay interest on those funds. Both options result in increased costs to the provider and ultimately jeopardize care for consumers.

Streamlining contracting processes across all state agencies and providing oversight and enforcement of the policies will reduce unnecessary duplication. This will save both the state and nonprofits valuable resources and ensure that our state’s shrinking resources go directly to services. Furthermore, taking steps to simplify the contracting process and ensure timely contract payments will strengthen the partnership between nonprofit providers and the state.

## **(2) Accountability/Reporting – Making Sure Each Dollar is Spent Wisely**

To uphold the public trust, nonprofits must be accountable for the services we provide. We must be accountable to the taxpayers who support publicly-funded programs, as well as philanthropic organizations and individual donors who help us meet our missions. We encourage the use of performance measures by the state to ensure that each dollar is being spent wisely on successful programs that are making a difference in our communities.

The Connecticut General Assembly’s utilization of Results-Based Accountability (RBA) on state-funded programs is a realistic and useful measurement tool. Despite initial concerns of additional reporting requirements, many nonprofits have begun to take advantage of the unique measurement process offered through RBA. CT Nonprofits began providing RBA trainings to our members in 2009, with classes continuing through 2010. Several providers have taken advantage of these trainings and have begun to incorporate the RBA process into their programmatic review and reporting procedures. CT Nonprofits is confident that the continued partnership between the state and nonprofits on the use of RBA will result in high quality services for Connecticut residents.

<sup>6</sup> CT Association of Nonprofits. “How Late Contract Payments Harm Nonprofit Providers.” May 2009.

Of course, there are several areas where the state could be a better partner with nonprofits in ensuring the reduction of duplicative and burdensome reporting requirements. Over 20% of CT Nonprofits’ state-funded members hold POS contracts with multiple state agencies. Each state agency requires reporting on basic client demographics, services provided, and progress towards treatment goals, etc. Most of the data systems operated by the individual state agencies do not interface with one another, requiring providers to add the same data into multiple systems. Even state agency personnel have cited frustrations with their data systems not communicating with each other.

Financial reporting is also a major source of administrative strain on nonprofit providers. There is no question that state-funded providers must report a detailed explanation of how taxpayer dollars are spent and the success of those programs. However, there are clear cases of the state requiring an unnecessary amount of data.

For example, providers must report on the allocation of both program and administrative staff salaries that are charged to any given program. Although a very time-consuming process, this is required under the state’s Uniform Cost Standards and is an acceptable request. However, the financial reports also include personnel tables. On the personnel tables, providers must list every single staff person’s name, position, whether they’re union or non-union, their degree or certification, annual salary, hourly rate and hours worked per week. This is where the amount of detail requested by the state starts to become more of a burden than a legitimate source of information. To date, the state has neither reported on the information found in the personnel tables, nor explained its relevance.

The state can and should play a critical role in streamlining these reporting functions to save money for both itself and nonprofit providers. Giving nonprofits access to the state’s data systems so that they can directly input their data instead of sending in reports will reduce the time and money spent by having state workers input the data into the system from the report and will also allow providers to have a more in depth role in how their service data is reported. Ensuring that all state agencies have data systems that communicate with one another will reduce an administrative burden on both state employees and nonprofits providers who currently have to enter duplicative data into multiple systems. Efficiencies can also be found by minimizing the amount of unnecessary and irrelevant data that is collected on both programmatic and financial reports. Collecting and sorting only the most critical data will again save both the state and nonprofits time and money.

Finally, there are an increasing number of data-related mandates that the state is requiring of nonprofit providers. Two major examples include the use of electronic health records and requiring data encryption. Both require extremely expensive computer software that costs in the tens of thousands of dollars,

not to mention staff training and maintenance. At a time when nonprofits are experiencing cuts to their state contracts and reduced private giving, it is simply unrealistic to think that we can meet these requirements. There is also a concern regarding providers each individually purchasing systems that will not be able to communicate with the systems used by the state. This is the perfect opportunity for the state to leverage its buying power to purchase data systems that can be used by the state as well as sold at a group rate to contractors ensuring smooth and consistent communication.

### **(3) Funding – Proper Funding for Proven Results**

It is no secret nonprofits that contract with the state to provide health and human services on its behalf are underfunded. The cost-of-living adjustment for purchase of service contracts held by nonprofits stands at 1% over the past twenty years. This amount has in no way kept pace with inflation and the actual cost of providing services. Compound chronic underfunding with budget cuts and gubernatorial rescissions over the past two years and you are left with a delivery system on the verge of unraveling.

The partnership between nonprofit providers and the state is not an accidental one. The state has chosen to provide a significant portion of the state's health and human services through private nonprofits. Connecticut would be in a very difficult position if nonprofits had to close their doors and cease providing services. The vast benefits, both fiscal and social, to the state for utilizing community-based nonprofit services are undeniable.

The success of the nonprofit delivery system is dependent upon adequate funding. Our ability to properly serve our clients and consumers, our ability to recruit and retain qualified, experienced staff and our ability to meet the growing needs of the state all hinge on sufficient funding. It is true that the state continues to ask nonprofits to do more with less and it is true that, for the most part, we continue to do it. It would certainly appear that there is no length to which the nonprofit dollar cannot be stretched; but there is.

Nonprofits welcome accountability for the services we provide, but in return we demand adequate and appropriate funding from the state of Connecticut. The nonprofit delivery system cannot continue down the path it is on. It is growing increasingly difficult for providers to properly fulfill their missions and meet the complex needs of a growing service population. The nonprofit human services delivery system is in a tenuous position and its failure comes with great consequences, which are more than any of us can afford.

CT Nonprofits fully understands and appreciates the fiscal challenges facing our state and we reaffirm that nonprofits are part of the solution. We urge the state to work towards a long-term funding solution that will sustain the nonprofit delivery system on which it depends.

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## **CONCLUSION**

Nonprofits are needed now more than ever to assist struggling Connecticut individuals and families as the state continues its economic recovery. More and more people are turning to nonprofits for services and we want to be able to continue our missions to meet their needs. To do so, government must meet its responsibility in its partnership with us. There must be an honest recognition that nonprofits are an engine of economic growth and provide for the stability of our population across our social and economic landscape. The state must work with us, not against us, to ensure our continued viability.

The question is not whether nonprofits will remain a critical component to the safety and well-being of Connecticut's communities. We have always played that role and we will continue in that capacity to the best of our ability. The question is how many individuals will fall through the holes currently being made in the state's social safety net. Nonprofits and the state must work together to ensure that every Connecticut resident can live a safe and healthy life.

## **ABOUT CONNECTICUT ASSOCIATION OF NONPROFITS**

**We help Connecticut nonprofits help Connecticut.**

Connecticut Association of Nonprofits (CT Nonprofits) is the largest membership organization in the state dedicated exclusively to working with nonprofits in Connecticut. By connecting organizations with information, education, advocacy and collaboration, we help members focus their energy on the people and communities they serve.

CT Nonprofits provides over 500 member organizations with vital cost-saving opportunities, a dedicated public policy and advocacy team, specialized training and education programs, information on nonprofit trends and best practices, and connections with nonprofit colleagues throughout the state.

Learn more at [www.ctnonprofits.org](http://www.ctnonprofits.org) or call 860-525-5080.

*This report was prepared by Liza Andrews, MSW, Public Policy Director, April 2010.*



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