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**Testimony of United Neighborhood Houses
Before the New York City Council**

**FY 2020 Preliminary Budget Hearing: Committee on Contracts
Council Member Justin Brannan, Chair**

**Presented by Tara Klein, Policy Analyst
March 26, 2019**

Thank you for convening today's hearing. My name is Tara Klein, and I am a Policy Analyst at United Neighborhood Houses (UNH). UNH is a policy and social change organization representing 40 neighborhood settlement houses in New York City with two in upstate New York. We mobilize our members and their communities to advocate for good public policies, and we promote strong organizations and practices that keep neighborhoods resilient and thriving for all.

The work we do strengthens the capacity of more than 30,000 employees and volunteers working across 680 locations to continue providing necessary services for people of multiple generations with programs that provide skills, education, social services, health, arts, and connection to community and civic engagement opportunities for over 765,000 New Yorkers who visit settlement houses each year.

Thank you to Chair Brannan and the Contracts Committee for your attention to the issues impacting nonprofit human services contractors. It is essential that in FY 2020 the City recognize and address the large-scale underfunding of city contracts across the nonprofit human services sector, which is calling into question the solvency of nonprofits and their ability to provide services in their communities. This will require a \$250 million investment to address low indirect rates, as well as additional funding to address new State overtime exemption rules, cost of living adjustments, and wage compression. It will also require a series of administrative reforms that the Council could help implement, most significantly the timely registration of contracts.

Sector Sustainability

Unfortunately, the ability of nonprofits to consistently deliver the highest quality services in a cost-effective manner is continually compromised by insufficient funding that threatens their financial viability and stifles innovation. From under-funded services, to late payments for services rendered, to conflicting regulations, to onerous paperwork and audits, government contracts force nonprofits to endure financial losses, sap organizational morale, and divert critical human capital toward addressing financial crises instead of implementing innovative approaches to meeting their communities' needs.

UNH's nonprofit membership has increasingly looked to us to not only advocate for investments, but to focus on the quality of those investments. The financial stressors of late and underfunded

government contracts, coupled with administrative burdens and inflexibility, have led our members and their board leadership to assess with a more critical lens how government contracts promote or undermine their organization's short-term cash flow, workforce retention, and long-term sustainability. While the historic calculus of the nonprofit human services sector has generally been to find a way to "make it work," growing recognition of the risks government contracts pose to organizational sustainability is increasingly leading providers to decline bidding on human services contracts with state and local government.

UNH has been working to tackle these issues in partnership with the Strong Nonprofits for a Better New York campaign at the state level, and the Human Services Advancement Strategy Group at the city level.

Underfunded Contracts

Systematic contract underfunding is becoming an increasingly desperate challenge for nonprofits. Government contracts make up the majority of most nonprofit providers' budgets, but these contracts, according to the Human Services Council report, "NY Nonprofits in the Aftermath of FECS: A Call to Action," pay only 80 cents on the dollar or less of the true cost of implementation. The following are some specific financial challenges that the City must address in FY 2020:

Indirect Rates

One of the most important areas of concern for providers is low indirect rates—everything from paying the rent and utilities to an organization's finance and human resources functions. We are glad the City began to enhance indirect rates on contracts in FY 2018 by committing to bring the average rate to 10% by FY 2022. Unfortunately, indirect rate enhancements were not uniformly applied to ensure that *each* provider realized a 10% rate on *each* contract—though even if had been, 10% remains well below the more realistic level of 15% needed to cover organizational administrative costs.

The new Health and Human Services Cost Policies and Procedures Manual, which was developed alongside Deputy Mayor Palacio, lays out standardized indirect costs for the sector, which are generally much higher than actual rates. However, without increased funding to address the contract gaps, this fiscal crisis will remain unaddressed. Based on numbers provided by the Office of Management and Budget, \$250 million is needed to cover the costs to fully implement this manual's recommendations.

Overtime Exemption Rules

In addition to raising the minimum wage to \$15/hour, New York State has raised the salary threshold that an employee must be paid before the employer is exempted from paying overtime. Beginning January 1, 2019, this salary increased from \$50,700 to \$58,500 for businesses in New York City employing more than 11 people. While the intention behind this change is to make sure employees are fairly compensated for their labor, it amounts to an unfunded mandate. Contracts are not adjusted to reflect the new cost that nonprofit providers will experience either from having to raise the salaries of staff or to pay more overtime hours to those employees. The State has yet to take any action on increasing rates to reflect this change. We urge the City to address these increased costs.

Cost of Living Adjustments

Staff salaries in contracted nonprofit programs are chronically low, leading to low staff morale and ultimately high turnover that destabilizes programs. We are grateful that the City has agreed to invest in modest Cost of Living Adjustments (COLAs) for the human services sector, which featured a 2% COLA for FY2018, FY2019, and FY2020. Unfortunately, these scheduled COLAs come on top of funding levels that were stagnant for so long that they only serve to help recapture some of the ground lost to inflation over the years, and do not allow for staff salaries to be set at competitive rates.

This is especially pertinent and well-illustrated in salary disparities in early childhood education. Teachers, staff, and directors in community-based early childhood education programs are paid significantly less than similarly qualified counterparts in public schools. These disparities lead to high turnover in community-based programs. This turnover reduces program quality as it interrupts the consistent connection between a child and an adult that is essential to social-emotional development. It has also forced many programs to close classrooms and serve fewer children.

Wage Compression

While we are grateful that the City increased funding to bring covered employees up to \$15/hour at the end of 2018, the City has not addressed wage compression—the need of organizations to increase the salaries of staff already near or above the \$15/hour level. This issue also contributes to low staff morale and high turnover.

Timely Contract Registration

Beyond the challenges that insufficient funding presents to nonprofits in recruiting and retaining a skilled workforce, and the systemic financial risk of operating programs with reimbursement rates below the true cost of delivering services, there are a number of administrative and regulatory issues that have a significant impact on the health of the nonprofit human services sector. Most significant is the timeliness of contract registrations.

Human services contracts are registered late by city agencies 89% of the time, according to a report by Comptroller Scott Stringer, “Still Running Late: An Analysis of NYC Agencies in Fiscal Year 2018.” Managing an unpredictable and inconsistent cash flow due to delays in government payments is an extremely challenging and unfair proposition for nonprofit human services contractors.

Notably, the City generally expects contracted nonprofits to commence service delivery before their contracts are registered (or renewed) and paid out on—summer camp must start in the summer, adult literacy classes must begin in the fall, and senior centers must run year-round. In order to meet payroll for the staff delivering these services, nonprofits are often forced to draw on lines of credit (when they have access to one, and upon which they pay interest), without having a clear sense of when they will be paid for their services. And since contract advances cannot take place until a contract is registered, “advances” are often experienced as a reimbursement for expenses already incurred and paid out. Once a nonprofit actually has a registered contract and submits vouchers to the City against that contract, they often experience yet another delay in receiving payment.

We thank the City Council for its attention to and advocacy on this issue over the last several months, and urge the Council to continue to support timely contract registration and establishing a transparent process for tracking contract actions.

Future Considerations

Finally, UNH endorses the following recommendations for the City to improve the human services procurement process, as proposed by the Human Services Council:

- Provide greater access to information on the timeliness and status of contract registrations;
- Reduce the turnaround time on capital appropriations by requiring that these appropriations happen at least as quickly as program appropriations;
- Expedite the contract registration process by setting a 60-day time limit for the entire process;
- Include a sample budget with each procurement that demonstrates how the City arrived at proposed reimbursement rates;
- Survey existing contractors to gather information on rates, deliverables, and outcome measurements before developing new requests for proposals;
- Reimburse interest payments made by nonprofits forced to take out loans and/or draw on lines of credit while waiting for payments from the City;
- Require that the Procurement Policy Board (PPB) hold quarterly meetings open to nonprofits and other members of the public.

Thank you for the opportunity to submit this testimony; requests for additional information may be directed to Tara Klein at tklein@unhny.org or 917-484-9326.