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UNH State Fiscal Year 2019-20 Budget & Policy Priorities **Nonprofit Human Services Sector**

Improve Operating Environment for Nonprofit Human Services – New York State’s nonprofit human services sector is a critical partner in delivering services to New Yorkers on behalf of the State in a more effective and cost-efficient manner than the State itself could deliver. From early childhood education, to homelessness prevention, to case management for older adults, the provision of these services keeps New Yorkers healthy, thriving, and engaged in the civic and economic life of their communities.

In FY 2019-20 and beyond, there are four actions the State must take to support the sector:

- Modify State human services contracts to account for the increase in the State minimum wage to \$15.00/hour as of Dec 31, 2018.
- Modify State human services contracts to reflect new exempt employee salary thresholds established by the State and went into effect as of Dec 31, 2018.
- Invest \$100m for nonprofit human services infrastructure and expand eligibility for nonprofit human service providers operating in publicly owned facilities.
- Bring State human services contracts in line with federal guidance of at least a 10% indirect cost rate and implement a plan to move to 15%.

Fund Minimum Wage Increases in Contracts – While UNH supports the minimum wage increase to \$15.00/hour in NYC, nonprofit human services providers funded by government contracts face an unfunded mandate and potential service reductions. Nonprofits also need additional funding to address the wage compression issue as front-line staff wages rise to similar levels of their immediate supervisors. These supervisory staff will require wage adjustments to appropriately value and incentivize their work.

Funding History

- Executive FY 2019-20: \$0 for most human services contracts
- Enacted FY 2018-19: \$15m
- Enacted FY 2017-18: 6.25% wage increase (\$160m) over two years for direct care professionals

Fund New Exempt Employee Salary Requirements – In addition to raising the minimum wage, New York State raised the salary threshold that an employee must be paid before the employer is exempted from paying overtime. Beginning January 1, 2019, this salary will increase 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 if the State does not adjust contracts to reflect the new cost that their nonprofit providers will experience either from having to raise the salaries of staff or to pay more overtime hours to those employees.

(over)

Invest \$100m in nonprofit human services infrastructure; include fix for organizations operating in publicly owned facilities – UNH was proud to have partnered with the Human Services Council, UJA Federation of New York, the Governor’s Office, and the NYS Legislature to create the Nonprofit Infrastructure Capital Investment Program (NICIP) in the FY2015-16 budget. This initial investment of \$50m was designed to allow nonprofit human services providers to make critical upgrades to program sites, ranging from roof and brickwork, to boiler replacement, to accessibility enhancements. Unfortunately, the funding excluded providers located in government-owned sites from applying, such as those based in the New York City Housing Authority.

While in FY 2016-17 NICIP was modified to allow such providers to apply for technology enhancements, they were still barred from physical infrastructure improvements, despite having the same needs as those located in privately-owned spaces. Funding was again renewed in FY 2017-18, but at the reduced level of \$20m, despite over 600 applications totaling \$300m+ having been submitted for NICIP projects. In FY 2018-19 NICIP funding was not renewed, and instead nonprofits were added as an eligible entity for State and Municipal Facilities funding (SAM).

In order to meet the significant outstanding capital infrastructure needs of nonprofit human services organizations in New York, UNH recommends an investment of \$100m in the FY2019-20 budget.

Funding History

- Executive FY 2019-20: \$0
- Enacted FY 2018-19: \$0
- Enacted FY 2017-18: \$20m

Increase Indirect Contract Rates – In December 2013, the federal Office of Management and Budget issued guidance requiring states spending federal funds in pass-through contracts with nonprofit providers to include an indirect cost rate of at least 10% on those contracts. Though states were given one year to comply (December 2014), New York has still not acted to comprehensively address this issue and adjust all relevant contracts to the de minimis rate of 10%. In reality, rates of less than 15% fail to cover the true cost of providing services—everything from paying the rent and utilities to an organization’s finance and human resources functions.

Funding History

- Executive FY 2019-20: No across the board adjustments
- Enacted FY 2018-19: No across the board adjustments
- Enacted FY 2017-18: No across the board adjustments

Challenge and Opportunity – 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 Recommendation: Adopt policies that will improve the Nonprofit Human Services Sector:

- 1) Adjust contracts to cover the increased costs associated with the minimum wage;
- 2) Adjust contracts to cover the increased costs associated with increased exempt employee salaries;
- 3) Invest \$100m in nonprofit human services infrastructure in the FY2020 budget;
- 3) Comply with federal guidance, and in fact go further, extending a 15% rate to all contracts, regardless of original funding source.

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