

# KENTUCKY COMMUNITIES AT RISK:

## STATE CONTRACTING PRACTICES THREATENING SERVICES FOR KENTUCKIANS

The Commonwealth chooses to contract with charitable nonprofits to provide statutorily mandated services on its behalf, as well as to provide critical prevention and intervention services. Despite the essential role nonprofits play in providing services to vulnerable Kentuckians, as well the sector's importance in Kentucky's quality of life and economy, the Commonwealth's nonprofit partners and the communities they serve are at risk due to:

- decades-old reimbursement rates that do not address increases in labor or operational costs;
- contracts requiring nonprofits to provide services in advance of getting paid - essentially fronting the state funds to provide services resulting in service delays and unsustainable cash flow problems; and
- restrictions on funding of the infrastructure necessary to make service delivery possible.

The state's funding and contracting practices are causing a strain on nonprofits' finances and very survival. In short, nonprofits attempting to provide services on behalf of or in partnership with the Commonwealth are in a constant state of financial crisis. A new model of contracting where resources are directed toward the fiscal, practical, and operational solutions that guarantee a financially sustainable business model ensuring real success, high quality services, and community well-being is past due.

A recent survey conducted by Kentucky Nonprofit Network, the state association of nonprofits, received 50 responses from nonprofits with grants, contracts, and/or other billable agreements with the state.

### The Risks of Inaction

- The state is not meeting its obligations - in many cases, legal and statutory obligations.
- Kentuckians are not receiving the care and services they need to ensure thriving and safe communities.
- The quality of life in Kentucky needed to attract and retain industry is at risk.
- The jobs of thousands of employees working for nonprofits, the state's third largest private sector employer, are at risk.



### The Problems

- Agreement rates do not rise with cost increases over time
- Agreement rates do not cover administrative/infrastructure (indirect) costs - these costs are essential to support program and service delivery
- Agreements are on a reimbursement basis (nonprofits must deliver services first and then wait to receive payment, requiring nonprofits to "float" government)
- Many funding contracts/opportunities require matching funds that nonprofits do not have
- Agreements do not allow for organizations to pay living/competitive wages for staff
- Difficult/burdensome application and reporting processes detract from nonprofit service delivery

"Our biggest issue is rates not paying for true cost of service and the expectation that we will just 'raise the additional dollars.' Most government agencies and legislators do not understand how nonprofit organizations work and this results in unrealistic expectations and financial instability."

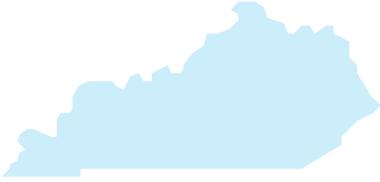
"Medicaid reimbursement doesn't come close to cover the cost of providing care. 3 more pediatric outpatient centers have closed in the last 18 months due to financial reasons; the burden on the providers left is going to continue to increase and leave more children without the medical services they need."

"When we ask for approval of changes to agreements, we sometimes wait up to a year for an approval. We are stuck and unable to be as effective in service delivery as is needed."

"It is difficult (impossible?) to do any long-term planning (growth of the agency, space, staffing, outreach) when we do not know if the funding will be there in 3-5 years."

## The Solutions

- Reimburse for the full cost of services with increases adjusted for market conditions
- Cover infrastructure expenses
- Pay grants and contracts up front, rather than on a reimbursement basis
- Streamline applications and reporting to reduce burdensome and unnecessary requirements
- Permit electronic-submission and reimbursement



**34%**

of responding nonprofits report employees eligible to receive public assistance benefits

## The Opportunity

**We urge the Kentucky General Assembly to work with nonprofits to create structural solutions to problems that are destabilizing operations and diminishing service quality - solutions that ensure the state lives up to its obligations and:**

- Invests in the continued effective delivery of services
- Alleviates wait lists, reinstates effective services, and reopens closed programs vital to safe and thriving communities
- Empowers more Kentuckians to participate in the workforce and contribute to the economy
- Moves people off public assistance
- Prevents the state from having to provide required services if nonprofits close their doors - keeping people employed by nonprofits helps minimize and not add to the state's payroll and pension costs
- Streamlines the contracts, grants, reporting, and payment processes so that nonprofits can focus on accomplishing our missions without having to front government funds or spend time on duplicative reporting
- Alleviates the need for so many nonprofits to seek specific line-item budget funding from the General Assembly
- Allows Kentucky to leverage and maximize federal dollars
- Ensures the state is meeting its legal obligations
- Creates a Commonwealth where all of your constituents can thrive

## Kentucky Nonprofits: Essential to Kentucky's Quality of Life AND Economy

### A Major Employer

**3,895** registered 501(c)(3) KY nonprofits with paid employees

**1 in 10** private sector KY jobs are at nonprofits



**3rd**

largest private sector employer in KY



**151,308** jobs at nonprofits

**100%**

of all Kentuckians

**benefit**

from the work of Kentucky nonprofits