



Contracts/Grants: Template for consistently addressing the contracting challenges faced by nonprofits (and others) when testifying before the General Assembly and/or meetings with legislators and other officials

Today, I'm here as a representative of Kentucky's third largest private sector employer – nonprofit organizations that are contracting with the Commonwealth to deliver legally mandated services.

Our contract(s) with the Commonwealth means the state is contracting with our organization (and others) to provide statutorily mandated services on its behalf.

Organizations like ours providing critical services are in an impossible position because we have little to no negotiating power when contracting with the state to provide these statutorily mandated services on behalf of the state. The reality is that all levels of government – federal, state, and local – use funding methods that strain a nonprofit's finances and very survival. This means:

- The statutory, regulatory, and contractual obligations of providing services are significant and costly. State reimbursements do not pay enough to cover these substantial and rising costs.
- In most cases, reimbursement rates are decades-old and the pandemic has shined a bright light on the fact that our organizations have no ability to respond to roughly 30% increases in wages and nearly 10% inflation on other expenses. Government funding is not indexed to inflation, and as such, the contracted nonprofit cannot cover market salary changes or cost increases of utilities and supplies. Nonprofit organizations have no control over the labor market or inflation and cannot pass on those expenses to the consumer.
- Nonprofits with government contracts and grants, including those using the cost-reimbursement method, are often required to provide the service in advance of getting paid. Meaning, the organization must front money to provide the service, making prompt service delivery nearly impossible. And then government is often slow to reimburse, creating unsustainable cash flow problems.
- Government contracts often do not adequately fund critical infrastructure costs, which must be covered too. Infrastructure is capacity – it is the building where business is conducted, it is the software used to track outcomes and expenditures, it is the truck and gas used to deliver food, and more importantly, it is the people that coordinate all of the support functions that make the outcome possible.
- It is nearly impossible to effectively recruit and retain the needed workforce – a number of full-time nonprofit employees' wages are so low that the individuals are eligible to receive public assistance to support their families.

- Unrealistic expectations continue to exist that somehow charitable contributions/donations or revenue the organization may receive from other programs will pick up the slack for the lack of adequate funding of the state's contractual obligations.
- It is impossible for nonprofits to effectively plan and budget for the future – putting organizations in a constant state of financial crisis.

Can you imagine trying to run a business in this way? With this uncertainty?

- Virtually no control over costs.
- Extremely limited ability to impact revenue.
- Increasing your volume actually increases your deficit. Reimbursement doesn't cover the costs, therefore this is not an effective strategy to make up for insufficient revenue.
- Virtually no ability to invest in necessary infrastructure, research and development, new technologies or to build or maintain financial reserves

Yet, even with all these variables that are contradictory to sound businesses practices, the organization is still required to comply with the terms of the contractual agreement – even when the state is not providing sufficient revenue to cover costs.

For example, (insert your organization's specifics).

What would happen if our organization and other organizations went away? Had to close our doors? Play this out (share – what does it mean when people are not served, there are waiting lists, closed programs, jobs lost, etc.).

Again, organizations like ours are contracting with the Commonwealth to deliver legally mandated services. As I said earlier, nonprofits are in an impossible and unsustainable position. In spite of our best efforts to continue to provide effective services, this position we are in results in an ineffective use of taxpayer dollars that is playing out through waiting lists and closed programs. Taxpayers expect services to be delivered to our most vulnerable Kentuckians, by quality organizations that employ skilled and capable staff. This can't be done when organizations are not being paid what's needed to effectively run a business or employ people who are paid competitive wages that allow them to provide for their families without also needing public assistance to supplement their income. The state should pay its nonprofit partners with the same consideration it uses in paying its for-profit vendors such as a road contractor.

A new model of contracting is needed where resources are directed toward the fiscal, practical, and operational solutions that ensure real success, high quality services, and community well-being. We urge you to work with us to explore underlying 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, reinstitute effective services, and reopen 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 adding 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

Include a short closing thank you statement.

About KNN:

Kentucky Nonprofit Network is the Commonwealth's state association of nonprofits. Please connect with us at emailus@kynonprofits.org if your organization is interested in standing with other nonprofits to address issues impacting your ability to service Kentuckians and Kentucky communities. www.kynonprofits.org