



## **Statement on the Fiscal Year 2017 New York City Executive Budget By the Human Services Council of New York**

On Tuesday, April 26, 2016, Mayor Bill de Blasio released the New York City Executive Budget for Fiscal Year 2017. This \$82.2 billion spending plan includes funding to support the next step of the Mayor's \$15 wage floor for nonprofit human services workers under contract with the City, but given the financial fragility of the sector, it falls short in other significant ways. Most importantly, the Executive Budget provides no funding for cost-of-living adjustments ("COLAs") for the human services workforce or to combat the wage compression that will result from the increase in the wage floor.

Years of underfunding have left our sector in a precarious financial position. Despite the importance of the work human services providers do on behalf of the City, these organizations frequently have to contend with government contracts that only pay 80 percent of the true cost of delivering services. Recent reports by the [Human Services Council](#) and [SeaChange Capital Partners](#) highlight the issues facing our sector and show that 18 percent of New York's human services providers are financially insolvent, largely due to the fact that the government does not pay the full cost of services, does not account for cost increases in its contracts with providers, and adds unfunded, burdensome mandates to contracts.

The sector cannot continue to operate at a fiscal and political deficit, and more importantly, our workforce cannot continue to provide high-quality services on behalf of government with low, stagnant wages. We commend the Mayor for his major investments in the sector. His commitment to moving the workforce to \$15 is laudable. At the same time, thousands of workers under contract need investment as well. Accordingly, we call on the Mayor to include in the Fiscal Year 2017 budget funding for either "spillover" wage increases to maintain the difference in compensation between jobs that are currently below the wage floor and jobs that are above but close to the new floor or a COLA. We are also asking the City Council for a 2.5 percent increase on the "other than personal service" or OTPS portion of all City human services contracts to support providers while the City and State develop their plans for implementation of the federal regulations on indirect costs and the City implements last year's COLA of 2.5 percent. This will help alleviate the some of the growing financial pressures nonprofit providers are facing by supporting the rising costs of necessities like rent, infrastructure, technology, and insurance.

### **Human Services Minimum Wage**

The Executive Budget includes funding for the Mayor's commitment to raise the wage of many human services workers under contract with the City to \$15 by 2018. The wage floor will go from \$11.50 to \$12.00 or \$12.14 (depending on job classification and contracts) in January

2017. By strengthening this important sector, the Mayor is a step closer to achieving his laudable goal of lifting 800,000 New Yorkers out of poverty by 2025.

HSC greatly appreciates this investment in our workforce, which is not only a commitment of dollars, but also an acknowledgement of the sector's role in building a better City for all New Yorkers. Nonprofit human services providers work on the ground in communities across the City to address the root causes of poverty, and they are a significant part of the City's economy.

While we appreciate the allocation of funding for nonprofit human services organizations to implement the minimum wage increase, we are disappointed by the absence of any "spillover" funding to prevent wage compression. We will continue to advocate for additional funding to increase wages for workers with advanced levels of training and experience to ensure that they are fairly compensated. Raising the salaries for the lowest paid workers and funding a career ladder to provide professional development opportunities is undermined when the next level of positions is also underpaid.

## Cost-of-Living Adjustments

The Mayor has an ambitious agenda, and the nonprofit human services workforce is ultimately responsible for carrying out a number of his initiatives, which is why we are frustrated that the budget does not include funding to "right-size" the wages of the workforce as a whole. Not only does the Executive Budget fail to provide funding to prevent wage compression at the low end of the pay scale, but it also fails to fund a COLA for the human services workforce. Proper compensation is necessary to ensure that nonprofit organizations can recruit and retain staff and avoid a decline in service levels and quality. The 2.5 percent COLA given last year was the first the sector had seen in six years (or more), and problems with implementation mean that many providers *still have not received the funding for that increase*.

The sector cannot continue to operate at a fiscal and political deficit, and more importantly, our workforce cannot continue to provide critical services on behalf of government with stagnant and low wages. We commend the Mayor for his major investments in the sector. His commitment to moving the workforce to \$15 is laudable, but thousands of workers under contract also need critical investments, and the FY17 budget must include a COLA for this essential workforce.

HSC urges the Mayor to develop a more efficient, less burdensome procedure for administering the COLA, and we stand ready to assist in this effort. We will also continue to highlight the impact of inadequate funding on our ability to serve communities and advocate at the City and State for a larger investment in the entire human services workforce.

## Indirect Costs and Federal Regulations

HSC continues to work with both the City and the State to address the urgent infrastructure and administrative needs of nonprofit human services organizations. In particular, we have focused on the implementation of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards issued by the federal Office of Management and Budget on

December 26, 2013.<sup>1</sup> Commonly referred to as the “Uniform Guidance,” this regulation requires that agencies receiving and redistributing federal funds to nonprofit organizations pay an indirect cost rate of no less than 10 percent on contracts supported by federal dollars. The City has indicated that it will follow the State’s lead with respect to implementation, but the State has yet to articulate a plan.

Low indirect cost rates have starved the human services sector of adequate funding for many years. Our members report receiving indirect cost rates as low as 2.3 percent, with some programs not allowing any indirect cost reimbursement at all. This is unquestionably a factor contributing to the precarious position of the sector. Stigma around indirect costs, along with the common misperception that philanthropy will cover these essential needs are driving the underfunding of nonprofit infrastructure and workforce costs. Without sufficient indirect cost reimbursement, organizations cannot:

- Acquire, maintain, or modernize mission-critical facilities and equipment;
- Harness the power of technology to realize efficiencies;
- Provide training for staff to ensure high-quality service delivery;
- Invest in strategic planning or innovation to ensure sustainability; or
- Expand services to meet growing need as inequality becomes amplified.

As the City and State work to implement the OMB mandate, this is an opportune moment to take up the larger issue of the real cost of human services. The government should work closely with the sector to determine what it actually costs to run a successful program, to identify what is truly a program cost and what is truly an “indirect” cost, and to adopt a more accurate and just way of determining what a reasonable indirect cost rate is for a given program.

We note that the compliance with the OMB regulation is *mandatory*, and that 10 percent was intended to be a *floor*, not a de facto rate. Failure to comply with the regulation could result in the rescission of federal contracts, depriving organizations of the funding necessary to carry out their missions. HSC calls on the Council and the Mayor to take the lead not only in holding City agencies accountable for implementing the OMB regulation, but also to set an example for the State in extending the same indirect cost principles to City-funded contracts. We stand ready to assist in the development and implementation of a sensible indirect cost strategy.

Although the OMB regulation has not yet lived up to its promise, we believe that the cost principles are a good starting point for broader reform of nonprofit reimbursement. An understanding of the cost principles will help providers obtain better reimbursement rates, and information from providers will help HSC and our partners advocate for comprehensive reform.

## New York City Health + Hospitals

The Executive Budget includes \$2.8 billion for the City’s public hospital system, Health + Hospitals. On the same day as the Executive Budget release, the consulting firm Manatt, Phelps & Phillips LLP released its report on this struggling system. The report, [\*One New York: Health Care For Our Neighborhoods: Transforming Health + Hospitals\*](#), includes the following recommendations:

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<sup>1</sup> 2 C.F.R. §§ 200.400-200.475. Available at [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl)

- Creating an Office of Transformation at Health + Hospitals to drive planning and implementation of strategies including:
  - Community-based care expansion
  - Centers of Excellence for high-quality care
  - Operational efficiency initiatives
  - Value-based payment (“VBP”)
  - Care management
- Creating a cross-agency workgroup to identify opportunities for integrated care coordination and service delivery
- Applying for new federal funding for coordinated care for the uninsured
- Legislation that would change how New York distributes safety-net funds
- Expanding of community-based care, strengthening coordination and care management, and integrating social supports to improve health outcomes
- Embedding more health centers in communities
- Expanding the capacity of community-based sites, through longer operating hours and new services
- Partnering across City agencies and with the city’s many outstanding community-based providers

The plan is contingent on receipt of state and federal aid that has not yet been secured.

While HSC is pleased that the report recognizes the important role of nonprofit organizations in addressing social determinants of health (“SDHs”), we are deeply disappointed that the Executive Budget does not reflect this recognition. The transition to VBP is a momentous period for nonprofits. In February 2016, the HSC Commission to Examine Nonprofit Human Services Organization Closures released its report and recommendations on New York’s nonprofit human services sector. According to the report, nearly one out of five was insolvent in 2013, and 30 percent had only two months or less of operating reserves. Thus, the shift to VBP “poses considerable risk for human services providers.” Much like in the State’s transition, “there is no assurance that any of the substantial . . . investment to prepare for this new system will flow to human services organizations.”

If the City is going to implement VBP successfully, it must leverage the hard-won expertise of nonprofit community-based organizations to achieve its vision—and it must provide the supports necessary to ensure that these organizations can participate effectively in the system. Human services providers are already struggling to keep up with current mandates and will need even more funding to meet the outcome-based requirements of the VBP environment. Specifically, they will need financial support in order to:

- Conduct risk assessments to determine whether value-based payment is a viable option for them;
- Demonstrate that their services have an impact on SDHs;
- Transition to a more entrepreneurial approach in which they can make value-based propositions;
- Determine how to set rates;
- Make technology upgrades to comply with new information management requirements; and
- Invest in and use evaluation systems.

There is an urgent need for training, technical assistance, and coordination among government, hospitals, and nonprofit human services organizations to ensure that the health-improving and cost-saving potential of VBP is realized. In addition, vigilant oversight will be necessary to ensure that the relationship between hospitals and nonprofit organizations is just and truly benefits clients. HSC urges the City to develop a concrete strategy to support nonprofit providers—both financially and administratively—throughout the transition and beyond. We continue to have conversations with the State on its shift to VBP under the Medicaid Managed Care model, and we were directly involved in the update of the State’s VBP Roadmap. We would like to engage the City in similar conversations if it is committed to implementing VBP.

## Human Services Budget Highlights

Below are highlights of the Executive Budget related to human services. This is not an exhaustive report of everything included pertaining to the sector.

### Health

- Neighborhood Health Action Centers: \$3.5 million to enhance community services at three Neighborhood Health Action Centers to reduce health disparities
- Opioid Addiction: \$5.5 million in FY 2017, growing to \$11 million in FY 2019, for prevention and treatment

### Mental and Behavioral Health

- Prison-based Mental Health Services: \$8.7 million to improve mental health services at the Rikers Island complex

### Aging

- Wages: Beginning in 2017, a phased-in wage increase for employees of Case Management vendors; according to the City, this will support an increase in the average salary for licensed social workers from its current \$35,000 to \$50,000 over two years
- Elder Abuse Prevention: \$3.5 million to continue and expand efforts to prevent elder abuse
- Senior Centers: an additional \$800,000 in 2017 to support increased rent and utility costs at about 50 senior centers
- Naturally Occurring Retirement Communities (NORCs): \$6.5 million to support 28 NORC programs for over 11,000 residents in the Bronx, Brooklyn, Manhattan, and Queens

### Youth Development

- Summer Programs: Unfortunately, the Executive Budget does not contain funding for summer camp for 31,000 middle school students.

### Homelessness and Housing

- Capital: According to an analysis by *POLITICO New York*, the capital budget for homeless services has been increased by \$89.6 million. The additional funding will pay for major repairs at family and single adult shelters.

## HIV/AIDS

- Case Management and Supportive Services: \$26 million in 2017, increasing to \$44 million by 2020, to expand case management, rental assistance, and nutrition and transportation benefits in an effort to end the HIV/AIDS epidemic.

## Conclusion

HSC appreciates the Mayor's continued focus on promoting equity and empowering New Yorkers of all backgrounds to reach their full potential. The FY 2017 Executive Budget includes some wise investments in the human services sector—most notably in the form of funding for the wage floor of \$15. We are concerned, however, that there is no spillover funding to prevent wage compression, that last year's COLA has not been fully implemented, that there is still no policy on the federal regulation regarding indirect costs, that critical programs remain underfunded, and that as we hurtle toward VBP, there is no concrete plan to ensure that the organizations that do so much for this City's health and wellness survive the transition and thrive within the new framework. We look forward to working with the Mayor, the City Council, and the Administration to ensure that our sector is better funded and that City policies help, rather than hinder, service delivery. Together we can make good on the promise of a fair, sustainable city.

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