



Statement on the Preliminary 2017-2018 New York City Budget

On Tuesday, January 24, 2017, Mayor Bill de Blasio released his preliminary New York City budget. Although this \$84.7 billion spending plan includes important investments in the human services sector, the Mayor and the City Council must do far more to strengthen the organizations that will realize their vision of a safe, just, and thriving city. Nonprofit human services organizations, along with the Mayor's vision itself, are facing a grave and imminent threat. Unfortunately, as the Human Services Council of New York ("HSC") has repeatedly warned, many of these organizations are already in severe financial and operational distress due to chronic underpayment and other problematic contracting practices. In order to ensure continued progress towards the Mayor's goals, the City must equip the human services sector to meet the unprecedented challenges that lie ahead. HSC urges the City to:

- Fund a 12 percent across-the-board increase to human services contracts to address the significant financial instability resulting from insufficiently funded contracts;
- Pay the full cost of services, which includes reasonable reimbursement of indirect costs;
- Include cost escalation clauses in nonprofit human services contracts to ensure that nonprofits are adequately funded throughout the life of their service agreements; and
- Support the human services workforce and combat attrition by systematizing the cost-of-living adjustment.

Increasing Human Services Contract Funding

Nonprofit organizations deliver more than \$4 billion in services to communities on behalf of City agencies. These organizations, like every other business, contend with rising costs that are often beyond their control. Rent, liability insurance, health insurance, workers' compensation insurance, and other costs have all increased significantly in the past decade. Unlike other businesses, however, nonprofit organizations are subject to arbitrary limits on reimbursement that leave them struggling to cover these legitimate costs. Most human services contracts are underfunded to begin with, so restrictions on use of funds can be crippling for organizations that are unable to make up the difference with philanthropic dollars. Accordingly, HSC is asking government to help fill the gap that it created. We urge the City to provide a 12 percent increase for all human services contracts, with flexibility that allows each nonprofit to identify and address the most significant gaps. The importance of flexibility cannot be understated as every nonprofit has taken different actions to manage with insufficient funds and needs different solutions.

An unrestricted, across-the-board 12 percent increase on human services contracts would allow providers the flexibility to invest in areas that have been forgone. Whether it be an HVAC system repair, an accessibility add-on, a technology upgrade, professional development, health insurance expenses, rent increases or pay raises or bonuses, virtually every human services organization has unmet needs as a result of underinvestment and restrictions on use of funds.

Adopting Reasonable Indirect Cost Reimbursement Rates

The stigma against nonprofit overhead costs has contributed to the chronic underfunding of nonprofit organizations—particularly those that deliver direct services. This, in turn, has caused systemic instability in the nonprofit human services sector. While a study by Sageworks found that “[overhead] expenses, on average, represent about 25 percent of sales for a privately held company with more than \$10 million in annual revenue,”¹ HSC’s members report a range of 4 percent to 12 percent on New York City Contracts. Research shows, however, that “[o]rganizations that build robust infrastructure—which includes sturdy information technology systems, financial systems, skills training, fundraising processes, and other essential overhead—are more likely to succeed than those that do not.”²

Faced with arbitrary caps on indirect costs in government contracts, human services organizations have been forced to do more with less (compromising the quality of services) or devote scarce resources to supplemental fundraising (hoping that philanthropy will, in effect, subsidize indirect costs). As explained by the HSC Commission on Nonprofit Human Services Organization Closures, nearly one out of five nonprofit human services providers was insolvent in 2013, and 30 percent had only two months or less of operating reserves.³ Despite these dire conditions, and notwithstanding the three-year-old federal mandate establishing a floor of ten percent for most federally funded awards to nonprofits,⁴ City agencies continue to place arbitrary limits on indirect costs, often adopting a one-size-fits-all approach. HSC calls on the City to adopt a more reasonable approach to indirect cost reimbursement that is consistent with research and tailored to the circumstances of each provider and contract. The City must adopt a streamlined definition of indirect costs and apply an approach similar to the federal indirect cost rate negotiation process to ensure that it pays *all* costs associated with high-quality service delivery.

Promoting Sustainability by Preparing for Future Cost Increases

The cost of doing business continues to rise, with the increase in New York City outpacing that of other regions. The expenses mentioned above—rent, building and equipment repairs, renovations, and upgrades, various kinds of insurance, technology, and labor—are essential to the operation of high-quality services, and they rise every year without discrimination. Unfortunately, City contracts do not account for increasing costs. Human services contracts are “flat funded,” which means that many organizations that have multi-year contracts are being reimbursed for 2017 costs at 2012 rates or worse. This flat funding is a significant factor contributing to the financially precarious state of the human services sector.

Human services providers are unable to account for rising costs in their contracts with City agencies. This is virtually unheard of for other industries that do business with government. Construction contracts, for example, account for increases in the cost of materials and labor.

¹ [“When is overhead too high?”](#) Sageworks. Raleigh: 2014.

² Ann Goggins Gregory and Don Howard, [“The Nonprofit Starvation Cycle”](#), *Stanford Social Innovation Review*, Fall 2009.

³ Human Services Council of New York. [New York Nonprofits in the Aftermath of FEGS: A Call to Action](#). New York: 2016.

⁴ The federal Office of Management and Budget’s Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award were issued on December 26, 2013, at [Federal Register Vol. 78, Dec. 26, 2013](#) and applies to awards made or renewed after December 26, 2014. The Guidance is codified at [2 C.F.R. § 200.0 et seq.](#)

The City's Standard Human Services Contract should be amended to include a cost escalation clause that will enable providers to meet rising costs with more certainty. This will result in greater financial and operational stability, which will in turn lead to better outcomes for all New Yorkers.

Strengthening the Sector by Supporting the Workforce

Last year the Mayor exercised bold leadership by establishing a human services wage floor, which will reach \$15 per hour by 2018, and by providing funding for the implementation of this mandate. The FY 2018 preliminary budget includes funding for three consecutive cost-of-living adjustments ("COLAs") on the personnel service line: a 2 percent increase starting July 1, 2017, followed by a 2 percent increase on July 1, 2018, and a 2 percent increase on July 1, 2019. Together, these compounding increases will apply to roughly 90,000 nonprofit human services workers covered by contracts with the City. This investment shows the Mayor's commitment to supporting nonprofit human services workers, who comprise a substantial share of the City's workforce.

While we are extremely grateful for this commitment of much-needed funding, we note the lack of consistency in COLAs over the past decade. A systematized COLA is a way to help wages keep pace with inflation. As the cost of living continues to rise, many human services workers find themselves unable to keep up, turning to the same assistance programs that they provide. Nonprofit human services retention rates are abysmal, and understandably so. Workers leave for jobs with better pay, better benefits, better hours, and real opportunities to advance their careers—opportunities that organizations cannot provide under stagnant City contracts. And as these organizations confront high turnover, their clients suffer. It is imperative that the City systematize the COLA to make it predictable.

Furthermore, it is important to understand that a COLA alone is not enough to address the severe financial strain that nonprofits have endured for nearly a decade. Workforce investment is only one of the actions needed to stabilize the sector and prepare it for the rough road ahead. Human services organizations need investment in all of the areas mentioned above—and more—to fill the gaps created by long-term underinvestment, spending restrictions, and detrimental contracting practices. Organizations are likely to downsize if the chronic underfunding of the sector is not reversed. This will result in reduced service and fewer jobs.

Human Services Budget Highlights

Below are highlights of the Mayor's proposed budget. This is not an exhaustive report of the budget.

Human Services Workforce

- Cost-of-living Adjustment (COLA): Funding to provide a COLA for 90,000 people by FY 2020.

Mental and Behavioral Health

- ThriveNYC: \$761,000 to increase access to mental health services.

Youth Development

- School's Out NYC (SONYC) Summer: \$14.9 million to fund 22,800 slots

- Summer Youth Employment Program (SYEP): \$9.3 million to expand SYEP by 5,000 slots to a total of 65,000.
- Beacon Program: \$6.2 million in FY18 and out to establish new beacon programs in underserved communities and create cultural competency for training providers
- Summer in the City (SITC): \$14.3 million for a summer reading program to ensure that students are reading on grade level by the end of second grade.

Adult Literacy

- Unfortunately, the \$12 million that was earmarked for adult literacy last year does not appear in this year's budget.

Food Assistance

- Emergency Food Assistance Program (EFAP): Cuts \$4.9 million from this program at a time when many more New Yorkers are likely to need it

Aging

- Home Care: \$4.3 million in non-baselined funds for home care. Beyond this, there is no new funding proposed for DFTA.

Homelessness and Housing

- Shelter Intake Staffing: \$3.9 million for additional staff at the adult family and families with children intake centers.
- Veterans Support Staff: \$320,000 for staff who work with homeless veterans in shelter and on the street to help them transition to permanent housing

Immigration

- ActionNYC: \$1.1 million for immigration legal services at Health + Hospitals facilities

Conclusion

HSC supports the Mayor's continued focus on promoting equity and empowering New Yorkers of all backgrounds to reach their full potential. At the same time, we urge him to do more in the coming fiscal year to prepare the City for the coming changes at the federal level. There is no question that the road ahead will be a difficult one; therefore, now is the time to invest in the sector that will help millions of New Yorkers travel that road. We look forward to working with the Mayor, the City Council, and the Nonprofit Resiliency Committee, and the Administration to ensure that our sector has the support it needs to weather the coming storm. Together we can make good on the promise of a fair, sustainable city.

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