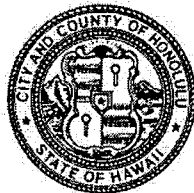


SB 777

DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
530 SOUTH KING STREET, ROOM 208 • HONOLULU, HAWAII 96813
PHONE: (808) 768-3900 • FAX: (808) 768-3179 • INTERNET: www.honolulu.gov

PETER B. CARLISLE
MAYOR



MICHAEL R. HANSEN
ACTING DIRECTOR

February 7, 2011

The Honorable David Y. Ige, Chair
and Members of the Ways and Means Committee
State Senate
State Capitol
Honolulu, Hawaii 96813

Dear Chair Ige and Members:

Subject: Senate Bill 777, Relating to Payment of Goods and Services

The City and County of Honolulu respectfully opposes Senate Bill 777, Relating to Payment of Goods and Services. We believe that the current process that allows for payment within 30 days or "net 30", works to the benefit of vendors as well as taxpayers.

Changing the required payment period from 30 to 15 calendar days would create a tremendous strain on current resources and staffing to meet an abbreviated deadline. As it is today, agencies are required to review invoices to ensure that either the goods have been properly received or that the services have been delivered. This review can sometimes be lengthy due to the complexity of the services and deliverables of the contract. The issues that the City has with SB777 are that it assumes that "one size fits all", that no invoices are complex that require additional time for review, and that all invoices are submitted correctly. The City takes its financial matters seriously and is also cognizant of the financial challenges faced by non-profits and small businesses. We do, however, have an obligation to taxpayers that we ensure that payments are properly made.

We believe that the current statute works to the benefit of everyone who is involved in the process and that the "net 30" payment term is still a standard in the private sector. Reducing the time to deliver payment may result in avoidable errors and expenses had the necessary time been available. For these reasons, we respectfully oppose SB 777.

Sincerely,

A handwritten signature in black ink that reads "Michael R. Hansen". The signature is written in a cursive style with a long horizontal line extending to the right.

Michael R. Hansen, Acting Director
Budget & Fiscal Services

TESTIMONY BY **KALBERT K. YOUNG**
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 777

February 10, 2011

RELATING TO PAYMENT FOR GOODS AND SERVICES

Senate Bill No. 777 requires payments by governments for goods and services to be made within fifteen calendar days of receipt of the statement or satisfactory delivery of the goods or performance of the services; if mitigating circumstances, interest begins on the sixteenth day; and payment required no later than forty-five days from receipt of the statement or satisfactory delivery of the goods or performance of the services.

We support the intent of this bill to provide faster payments to providers of goods and services, but are concerned that it will not improve the time that it takes the State to process payments and will instead increase the State's costs for paying vendors through higher interest costs and/or increased staffing costs to implement.

Vendor statements often require review by three or more departments or agencies (e.g., the receiving program, the receiving program's administrative Department, and to the Department of Accounting and General Services) prior to payment processing. Some transactions are fairly simple to review, while other transactions may be complex and require varying degrees of research and follow up. The review process is extremely important to ensure the appropriateness and accuracy of the amount being billed to the State.

Many smaller agencies and departments do not have personnel dedicated for the sole purpose of processing vendor statements. The accounting and clerical

staff in these agencies and departments may also be required to perform other high priority accounting functions such as payroll. Additionally, the reduction- in-force (RIF), unfilled vacancies, and furloughs have made it difficult to process all forms of fiscal matters in a timely manner.

Based on the fiscal deficits through the next biennium, the State is not in a position to add staffing to implement this bill. However, without additional staffing, it is unlikely that this bill will decrease the number of days needed to process vendor statements. As a result, interest penalties on statements not paid within fifteen days will require many programs to reallocate monies from their core services and programs to cover these payments to vendors.



STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES
P.O. BOX 119
HONOLULU, HAWAII 96810-0119

TESTIMONY
OF
BRUCE A. COPPA, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
SENATE COMMITTEE ON WAYS AND MEANS
ON
February 10, 2011

S.B. 777

RELATING TO PAYMENT OF GOODS AND SERVICES

Chair Ige and members of the Committee, thank you for the opportunity to testify on S.B. 777.

The Department of Accounting and General Services **opposes** S.B. 777 which will reduce the number of days the State has to pay invoices before interest is owed. Reducing the number of days from thirty to fifteen will significantly increase the number of late payments resulting in higher interest cost. Using December 2010 as an example, the percentage of late payments was 14% based on the current 30 day payment period resulting in \$9,000 in interest. If the number of days to pay was reduced to fifteen, the percentage of late payments would increase to over 51% with the State incurring over \$74,000 in interest.. Funding for state programs which have already been reduced will be further impacted by the additional interest costs.

Thank you for the opportunity to testify on this matter.

WRITTEN TESTIMONY ONLY

Date: 02/10/2011

Committee: Senate Ways and Means

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: SB 0777 RELATING TO PAYMENT FOR GOODS AND SERVICES.

Purpose of Bill: Requires payments by governments for goods and services to be made within fifteen days of receipt of the statement or satisfactory delivery of the goods or performance of the services; if mitigating circumstances, interest begins on sixteenth day; payment required no later than forty-five days from receipt of the statement or satisfactory delivery of the goods or performance of the services.

Department's Position: The Department of Education strongly **opposes** this measure. With our current antiquated financial systems and constrained resources, we will not be able to comply with a fifteen-day payment timeline. Instead of paying interest on these payments, monies should be spent on our core mission of educating students. The Department of Education processes 525,000 payments each fiscal year, encompassing 257 schools and over 175 office locations across the state. Our processing system is about 20 years old. This is why the Department plans to replace its aging financial system with an integrated Enterprise Resource Planning (ERP) system, via a lease payment request submitted to B&F for consideration in the new administration's Executive Budget. The Department of Accounting and General Services (DAGS) has also requested a \$50 million replacement of its aging financial system on behalf of the rest of the state agencies. Without system improvements to keep up with current technologies, accelerated timeliness of payments cannot be achieved.

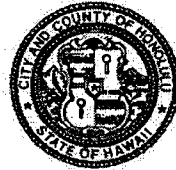
In order to achieve a long-term funding source for system replacements, the Department of Education fully supports the Legislature's proposed measures to allow CIP bond-funding to be used for investments in information technology projects, i.e., HB 1058 and SB 1285. In order to achieve efficiencies in timeliness of payments, investments must be made in the underlying infrastructure.

It has always been a rule of the state to pay its obligations in a timely manner. However, due to the recent state actions to restrict budgetary expenditures, such as state employee furloughs, reduced courier services, and layoffs of payment processing personnel at DAGS, payment timeliness has suffered.

The burden of economic recovery in the state cannot be placed on the timeliness of government payments for goods or services. Economic recovery must come from such initiatives as efforts to bolster tourism; incentives for business investment in high-technology and energy self-sufficiency industries; and other proactive measures.

DEPARTMENT OF DESIGN AND CONSTRUCTION
CITY AND COUNTY OF HONOLULU

650 SOUTH KING STREET, 11TH FLOOR
HONOLULU, HAWAII 96813
Phone: (808) 768-6480 • Fax: (808) 768-4567
Web site: www.honolulu.gov



PETER B. CARLISLE
MAYOR

COLLINS D. LAM, P.E.
DIRECTOR

LORI M. K. KAHIKINA, P.E.
DEPUTY DIRECTOR

February 8, 2011

The Honorable David Y. Ige, Chair
and Members
Ways and Means Committee
State Capitol
Honolulu, Hawaii 96813

Dear Chair Ige and Members:

Subject: Senate Bill No. 777, Relating to Payment for Goods and Services

The Department of Design and Construction (DDC) respectfully opposes Senate Bill 777. The bill would require agencies to make payments for goods and services within 15 calendar days of receipt of the statement or satisfactory delivery of the goods or performance of the services. Interest on any unpaid amount would begin accruing on the 16th day following receipt of the statement.


DDC's current procedures require payment for goods and services within 30 calendar days of receipt of the invoice. This limit is practical and, we believe, fair to vendors and contractors.

The proposed time limit of 15 calendar days would be extremely difficult for contracts that DDC administers. Invoices for both design and construction services need to be checked against the design submittal, the status of construction progress, or other project information that may need to be acquired in order to assess the satisfactory delivery of the billing items included in the invoice. This process can easily take more than a week before the invoice is approved and forwarded to the Department of Budget and Fiscal Services (BFS), which is the agency that processes the payment. This time is in addition to the time BFS needs to verify the financial technicalities of the invoice and process the payment.

The interest that would accrue on payments starting on the 16th day after invoice receipt would increase the effective cost of projects to taxpayers. For these reasons, DDC respectfully opposes SB777.

Thank you for the opportunity to testify.

Very truly yours,


Collins Lam, P.E.
Director



February 9, 2011

Senator David Ige
Chair, Committee on Ways and Means
Hawaii State Senate
State Capitol, Room 211
Honolulu, HI 96813

RE: SB 777, RELATING TO PAYMENTS FOR GOODS AND SERVICES

Dear Chair Ige and members of the Senate Ways and Means Committee:

The **Hawai'i Alliance of Nonprofit Organizations (HANO)** supports SB 777, which expedites payments by government for goods and services.

HANO is a statewide, sector-wide professional association for nonprofits. HANO members provide essential services to every community in the state. Our mission is to unite and strengthen the nonprofit sector as a collective force to improve the quality of life in Hawai'i.

In 2010, The Urban Institute released a report, "Human Service Nonprofits and Government Collaboration," which cast light on the strained government contracting relationship with nonprofits nationwide. HANO's national organization, the National Council of Nonprofits issued a special companion report, "Cost, Complexification and Crisis: Government's Human Services Contracting 'System' Hurts Everyone," providing greater context to the issues. The Urban Institute study extracted state-specific data. In Hawai'i, of 161 human service organizations surveyed, the report found that:

- Hawai'i ranked 15th highest in the nation in the problem area of late payments to nonprofit contractors.
- The most common past due period for state government contracts was 90 days or more.
- 56% of those polled had 2-4 government contracts/grants and 32% had 5 or more contracts/grants.
- 56% of those nonprofits polled cited their experience with government as being worse in 2009 than in prior years.

The State of Hawaii also ranked 8th highest in the problem area of mid-stream contract changes for such things as reimbursement rates, populations served, geographic area and other changes that often caught the nonprofit unaware and required the nonprofit to commit additional financial resources that were not compensated for by the state to meet these new demands.

Other areas in which Hawaii ranked notoriously high nationwide were in contracts not covering the full costs of contracted services and in the complexity of the contract application and reporting processes.

HANO Testimony
SB 777
For 2/10/11 WAM Committee Hearing
Page Two

These nonprofit providers deliver services in good faith and are bound legally by their government contracts to deliver the service. Late payments force them to front the resources to sustain the service and essentially provide an interest-free loan to their government partners.

Nonprofits cite that they have had to do any or all of the following to compensate for these problems:

- Freeze or reduce employee salaries
- Draw on reserves
- Reduce numbers of employees
- Reduce other benefits
- Borrow funds or reduce lines of credit
- Reduce programs

It is worth emphasizing that while these contracting problems plague particularly health and human service providers, they affect the well being of the entire nonprofit sector. When their government partners fail them, health and human service providers are forced to seek other sources of funding that compete with other nonprofits in other mission areas.

A passage from the National Council of Nonprofits' special report accurately summarizes our goals: "The contracting system must be fixed so people receive services when they need them, taxpayers receive full value for the programs they fund, and communities are strengthened through wise stewardship."

HANO appreciates the Legislature's willingness to address these long-standing problems and to repair and strengthen the government compact with Hawaii's nonprofit sector to jointly improve the communities in which we all live.

Thank you for the opportunity to express support for SB 777.

Mahalo,

Lisa Maruyama
President and CEO

91-1841 Fort Weaver Road
Ewa Beach, Hawaii 96706
Phone 808.681.3500
Fax 808.681.5280
Email cfs@cfs-hawaii.org
www.childandfamilyservice.org



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Alliance for Children
and Families

Hawaii Island

United Way

Maui United Way

Kauai United Way



Aloha United Way

Testimony on SB 777, RELATING TO PAYMENT FOR GOODS AND SERVICES

Senate Committee on Ways and Means

Chair: Sen. David Ige

Vice-Chair: Sen. Michelle Kidani

Thursday, February 10, 2011, 9:00 a.m.

Conference Room 211

Testimony submitted by: Howard S. Garval,
President & CEO, Child & Family Service

Good morning, Chair Ige and Vice-Chair Kidani and Committee members. I am **Howard S. Garval**, President & CEO of Child & Family Service, Hawaii's oldest and most comprehensive human service nonprofit organization with services on every island and touching the lives of 40,000 Hawaii residents from keiki to kupuna each year. I am testifying in support of SB 777.

I am writing in strong **support** for SB 777 that would ensure timely payments to non-profit human services providers by requiring payments for completed services by no later than 45 days from receipt of the statement of satisfactory performance of the services required in the contracts.

In the last two years, but especially in the last year, many providers have seen significant delays in payments from the state and in some cases have been told not to submit invoices until told to do so as a way for the state department to avoid paying interest on late payments. Many providers have been on the edge of survival because they cannot get paid in time and others have had to access their lines of credit because payments are late or the provider is not allowed to bill for the services in a timely manner. Still other nonprofits have had to dip into cash reserves, if they are fortunate to have any, to cover cash flow needs for day-to-day operations.

There are a number of ways that nonprofits are adversely affected in the way state departments contract with them for services, but the late payment problem is affecting at least 50% of providers in the state, and this bill would be a good start to improve the financial stability of nonprofit organizations that the state contracts with to provide essential human services.

I strongly support this bill and urge you to pass it.

Mahalo for providing the opportunity to submit testimony.

Aloha United Way

200 N. Vineyard Blvd., Suite 700
Honolulu, Hawaii 96817-3938
Telephone (808) 536-1951
Fax (808) 543-2222
auw.org



Aloha United Way

February 9, 2011

Senate Committee on Ways and Means
Senator David Y. Ige, Chair
Senator Michelle Kidani, Vice Chair
Thursday, February 10, 2011 at 9:00 A.M.
Conference Room 211

SB 777: Relating to Payments for Goods and Services - Testimony in Support

Dear Chair Ige, Vice Chair Kidani and Committee Members:

Aloha United Way supports the intent of SB 777 which establishes guidelines for the timely payment of invoices for the delivery of goods and services contracted by the State. While Aloha United Way has no opinion on the technical aspects of this bill, we strongly support the concept of timely payment to nonprofit agencies for services rendered.

Delayed payments for State contracted services is a long-standing problem. This issue was discussed over a decade ago as the State attempted to streamline payment processes in light of the extraordinary demand for services from nonprofits following September 11th. It is time to correct the underlying problems that seem to be preventing the State from making timely payments.

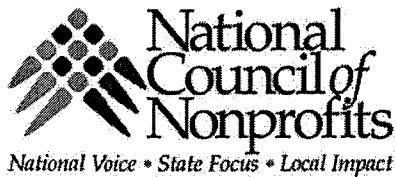
Nonprofits are often forced into short-term borrowing through lines-of-credit to finance their day-to-day operations while waiting for delayed payments. The interest on this short term borrowing unnecessarily increases the cost to the nonprofits for delivering the contracted services – either reducing the level of services provided or increasing the cost passed back to the State.

The intent of SB 777 will result in more timely payment of moneys owed to nonprofits and Aloha United Way encourages favorable consideration of changes to correct this persistent problem.

Sincerely,



Susan Doyle
President & Chief Professional Officer



Hearing before the
COMMITTEE ON WAYS AND MEANS
Senate of Hawai'i

Statement of the National Council of Nonprofits
On SB 777
Relating to Payment for Goods and Services

February 10, 2011

The **National Council of Nonprofits**, the nation's largest network of nonprofits, representing more than 24,000 nonprofit organizations nationally through their State Associations, including the Hawai'i Alliance of Nonprofit Organizations, **enthusiastically supports SB 777 relating to prompt payment for goods and services**, and urges its prompt enactment.

The National Council of Nonprofits, based in Washington, D.C., is well aware of the contracting issues that nonprofit service providers in Hawai'i have been experiencing. In 2009, the National Council collaborated with the Urban Institute to conduct an extensive investigation of the effectiveness of government contracting systems in promoting or hindering delivery of human services throughout the United States.

As part of this collaboration, the Urban Institute conducted the nation's first comprehensive survey of nonprofit contracting experiences, which provided nationwide and state-specific data identifying key problems in Hawai'i and all other states. The Urban Institute's hard data proved what had been known intuitively: that government contracting practices too often undercut delivery of the very services that governments are trying to provide through their contracts with nonprofits. In particular, the Urban Institute report, *Human Service Nonprofits and Government Collaboration: Findings from the 2010 National Survey of Nonprofit Government Contracting and Grants*¹, found that governments often: (i) fail to pay the full costs of the services for which they contract, (ii) pay late when they pay at all, impose unnecessarily complex (iii) bidding burdens and (iv) reporting requirements, and (v) change contract terms in mid-stream.

The National Council of Nonprofits simultaneously conducted research into the contracting laws, procedures, and practices in Hawai'i and elsewhere, interviewing hundreds of nonprofit executives, finance officials, and program officers. The result of this research is the National

Council's resulting Special Report, *Costs, Complexification, and Crisis: Government's Human Services Contracting "System" Hurts Everyone*ⁱⁱ, which provides additional context to the Urban Institute's findings. Specifically, we found that the convoluted, disjointed, and patch-worked laws and practices by which governments at all levels contract with nonprofits have led to nonpayment, underpayments, and late payments to nonprofits, in part because contracting and reporting processes have become excessively complex and irrational (through continual "complexification" as opposed to simplification).

The Special Report explains how the contracting problems in Hawai'i and elsewhere affect everyone in Hawai'i, not just nonprofits. The pain caused by delayed payments and the broken contracting "system" hurts the children, the elderly, the sick, the hungry, the homeless, and other individuals in need of services. The research found that flawed government contracting practices also hurt nonprofit employees, who miss getting salaries paid, lose benefits and hours, and too often lose their jobs. Further, the flawed practices harm taxpayers paying for the services, intrude on private philanthropy, divert funding away from nonprofits that do not have government contracts, and create a serious drag on the entire economy.

The Special Report also quoted government reports admitting these serious contracting flaws hurt nonprofits and many others. For instance, the Congressional Research Service warned, "It appears that governments, especially state governments, may be contributing to the financial difficulties of nonprofit organizations, even to the point of not paying for contracted services." The Special Report of the National Council concludes with this observation: "**The contracting system must be fixed so people receive services when they need them, taxpayers receive full value for the programs they fund, and communities are strengthened through wise stewardship.**" It is in this context, and with these goals, that I now comment on the problems that SB 777 is designed to address, and commend the Senate for considering such critical legislation.

Research Findings on Late Payments and Analysis

Both the Urban Institute and the National Council documented that late payments are a serious problem in Hawai'i for nonprofits and the people they serve.

- Indeed, half of the Hawaiian human service providers participating in the Urban Institute survey reported that they are paid late by governments, and that the State is late by more than 90 days.
- The combination of contracting problems and the financial hardship brought on by the recession are having a severe impact on the viability of Hawai'i's nonprofit service providers.
- The greatest impact in Hawai'i is on mid-sized organizations: over three out of five Hawai'i (63%) nonprofits with expenditures of between \$250,000 and \$1 million are operating in the red, while only 43 percent nationally are in deficit.
- Among other actions, 56 percent of Hawai'i nonprofits have frozen or reduced employee salaries and 41 percent of the nonprofits have reduced the number of employees to help offset other program costs.

Although Hawaiian law dictates that when the State government fails to pay contractors on time, they must also pay late penalties (prime interest rate plus two percent), nonprofit officials raised serious allegations about techniques by government bureaucrats to avoid the cost and embarrassment of having to pay interest on late payments. For instance, because current law only requires that interest run from the date the payment is due to the date the check is actually signed, several nonprofits reported receiving checks several months after the date on which they were signed. Apparently checks were signed, to cut off the interest clock, but held for months because of insufficient funds or for other reasons.

Failure by governments to pay their bills when they are due amounts to an unreasonable taking – essentially forcing nonprofits to involuntarily bankroll the government services they provide. This practice increases the cost of providing services, shortchanges the people who are most in need, and forces nonprofits to divert energy trying to borrow or raise funds to fulfill the governments' legal obligations.

By withholding payments to nonprofits, governments effectively use that money as free financing. This practice unfairly takes money from nonprofits, which are essentially strong-armed into providing interest-free loans to governments. To add an ironic twist, nonprofits that do not receive payments on time from government often have to secure "bridge loans" to fill the void until governments pay what they owe. But nonprofits fortunate enough to find a bank willing to loan them money for this purpose then get stuck with paying the interest because governments will not reimburse those costs – costs incurred because governments failed to honor their written contracts. This has the effect of diverting more money from actual delivery of services to those in need, and further eroding trust in government.

The National Council's Special Report issues a national call to Legislatures to "require state and local governments to reimburse nonprofit contractors for a statutory substantial late-payment interest penalty or their actual costs of securing credit as they await payments from the government, whichever is greater, and provide mechanisms so these laws can be strictly enforced."

SB 777 would address the serious problems caused by the failure of the State to pay its bills on time by reducing the due date for payments from 30 days to 15 days, thus reducing the burden on contractors that expend time and effort on behalf of the government and the people of Hawai'i. The bill goes farther than most state laws by imposing a strict 45-day deadline for the actual disbursement – as opposed to mere signing – of checks, thus curtailing an abuse that numerous nonprofit service providers in the State raised in their interviews with the National Council.

These two changes will have a significant impact on raising the standards for contracting in Hawai'i, and serve as a model for excellence for the rest of the United States. Since the publication of the reports by the Urban Institute and the National Council of Nonprofits in

October, several states have empaneled task forces to investigate best practices, and some have issued important recommendations for improving their contracting systems, and thus, services to the residents of their states. To date, however, none has made such concrete, measurable progress as is envisioned in SB 777 – to correct an underlying flaw in the contracting system and to remove a barrier to cooperation and trust.

We commend Senator Carol Fukunaga for her leadership in introducing this important piece of legislation that will immediately benefit the people who receive needed services, taxpayers who pay for them, and the community as a whole. We urge the Committee on Ways and Means to treat the State’s contractors as valued partners and approve the bill.

Tim Delaney

President and CEO

National Council of Nonprofits

¹ Elizabeth T. Boris, Erwin de Leon, Katie Roeger, Milena Nikolova, **Human Service Nonprofits and Government Collaboration: Findings from the 2010 National Survey of Nonprofit Government Contracting and Grants** (Urban Institute Center on Nonprofits and Philanthropy) (Oct. 2010) <http://www.govtcontracting.org/sites/default/files/Full%20Report.pdf>. See also Urban Institute Briefing <http://www.govtcontracting.org/sites/default/files/Brief.pdf> and State Profiles <http://www.govtcontracting.org/sites/default/files/State%20Profiles.pdf>.

ⁱⁱ **Costs, Complexification and Crisis: Government’s Human Services Contracting “System” Hurts Everyone**, (National Council of Nonprofits) (Oct. 2010) <http://www.govtcontracting.org/sites/default/files/Costs%20Complexification%20and%20Crisis.pdf>. See also, the special web portal dedicated to resolving government contracting problems and solutions: <http://www.govtcontracting.org/>.



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1809 Bachelot Street
Honolulu, Hawaii 96817
Phone: 808-531-0555
Fax: 808-533-7264
www.lanakilapacific.org



State of Hawaii
Senate Committee on Ways and Means
The Honorable David Y. Ige, Chair
The Honorable Michelle Kidani, Vice Chair
Hawaii State Legislature

February 10, 2011; 9:00 am
Room 211

SB 777, Relating to Payment for Goods and Services

Good afternoon, Chair Ige, Vice Chair Kidani, and Members of the Senate Committee Ways and Means.

Lanakila Pacific strongly **supports** measure SB 777 to provide more timely payments by government for purchases of goods and services. As a nonprofit organization that serves over 2,000 Oahu residents annually, we understand how late payments adversely impact services for individuals, families and our communities.

When we do not receive timely payments, it forces nonprofits to effectively provide free financing to government. This practice increases our costs to provide services. In a recent Government Request for Proposal, proposers were asked to affirmatively state that they would be able to handle up to three months of expenses without payment. This is unconscionable.

Timely payments for services will significantly help nonprofits like Lanakila Pacific to put more resources into our programs to benefit the populations we serve, and less to administrative costs including interest charges and staff time following up with government agencies on collections and closely monitoring our cash position to ensure continued services.

We urge you to support more cost effective service delivery for our communities by voting yes on SB 777.

Thank you for the opportunity to provide these comments.

Respectfully submitted,

Marian E. Tsuji
President & CEO

To: The Honorable Senator David Y. Ige, Chair
The Honorable Senator Michelle Kidani, Vice Chair
Senate Committee on Ways and Means

From: Laura Robertson, President/CEO, Goodwill Industries of Hawaii, Inc.

Date: February 9, 2011

Re: **Letter in Support of SB 777 - Regarding Payment for Goods and Services**

Goodwill Industries of Hawaii, Inc. is in support of Senate Bill 777 Regarding Payment for Goods and Services.

Goodwill contracts with the State to provide various types of Human Service programs that serve people with disabilities, people transitioning off welfare, youth at risk, those formerly incarcerated and many other people seeking employment. Our contracts with the State government are a partnership, in which we deliver a range of services in exchange for payment on a specified payment schedule.

SB 777 addresses late payments to non profits, and I would like to relate Goodwill's experience during this current fiscal year. Currently we are owed, \$1.5 Million dollars in late payments that are past due for 60 days or more.

There seem to be three overall reasons why payments are late to us:

1. **State Workloads are High:** In some cases, the State is slow because they are overworked, may be out on vacation or other types of leave, or payment processing is just not their first priority. These are the easiest situations to resolve.
2. **State is Slow to Authorize Payments:** Payments can often be delayed because the system to authorize payment is so complex; authorizing a payment is a slow process. For example, some of our contracts are paid through a milestone reimbursement system or on a performance based system. At the end of each month we submit an invoice detailing milestone achieved by each client. In our case we work with hundreds of clients, and since documentation is required to prove each milestone met, we often submit with our invoice a list of hundreds of clients served, each with proper documentation for each milestone reached.

Once the State receives this documentation from us, they must audit our invoices and documentation to be sure it matches before they authorize the release of payment. With the current staffing problems, State employees are simply unable to do this detailed work and as a result, our invoices can sit for long periods of time.

3. **State Lags Payments due to Inadequate Cash Flow:** We also encounter times that the State lags payments in order to stretch its cash flow. We have been asked not to invoice at the end of the month because there is not enough funding available to make payment. We are asked to hold our invoices until such time when funds are available, which gives the appearance that we are being paid in a timely manner.

Nonprofits should not be required to create a float for the State. Failure by the State to pay its bills when they are due essentially forces nonprofits to involuntarily bankroll government services. When timely payments are not made to nonprofits, this may force the nonprofit to borrow or raise funds to account for the difference.

Payment delays have other effects as well. They often affect our decisions on when to hire staff, purchase equipment, or make other financial commitments not to mention the excessive time we spend managing our cash flow.

It is for these reasons that we are supportive of SB 777 and this bill's provision to require the State to pay for its services on a more regular and timely basis.

Thank you, for the opportunity to testify.

Testimony in **Support** of SB 777

Dear Committee Members:

I serve as a volunteer on the grant committee of a charitable foundation that makes annual grants to nonprofit groups, especially those focused on providing services to women and children who are economically at risk or are trying to escape from abuse situations.

When we did our annual interviews this past December in connection with renewing grants, I was disturbed to hear from several of our grantees that they were having serious problems keeping their doors open, and one of the primary reasons was the failure of the State to reimburse them on a timely basis for services they had already provided on behalf of the State. It seemed like the delinquencies in payment had gone on for a substantial amount of time, six months or more.

These folks have in good faith come up with money out of their own pockets to provide food, shelter and other services for at-risk families, pursuant to contracts they have with the State, and now they are essentially getting stiffed. They are not big organizations that can front money like that without serious consequences, they themselves exist from day to day.

This isn't right. The State needs to keep its promises and promptly reimburse these charitable organizations that are doing valuable work in the community under difficult circumstances. **Please approve this bill.**

Jim Mee

(This is my personal testimony, and not provided on behalf of my firm or any organization or client)

James K. Mee

Attorney-at-Law, LEED AP
ASHFORD & WRISTON
A Limited Liability Law Partnership LLP



Supporting Hawaii's Child Care Needs

To: COMMITTEE ON WAYS and MEANS
Chair: Senator David Y. Ige
Vice Chair: Senator Michelle Kidani

LATE

From: **Katy Chen**, Executive Director
PATCH – People Attentive to Children

Date: Thursday, February 10, 2011
9am; Conference Room 211

Subject: SB 777- RELATING TO PAYMENT FOR GOODS AND SERVICES

PATCH supports SB 777 as it has received many late payments from the State Department of Human Services that it has impacted the financial stability of the nonprofit.

Thank you for the opportunity to submit testimony regarding SB777. I am Katy Chen, Executive Director of PATCH – People Attentive to Children. PATCH administers five State Department of Human Services (DHS) contracts listed below with their annual contract amounts and one DHS subcontract through the University of Hawaii*:

- Child Care Training, Scholarships & Recruitment (\$418,500)
- Child Care Infant/Toddler Training (\$135,000)
- Child Care Resource & Referral (\$300,000)
- Child Care Registry (\$275,000)
- Preschool Open Doors (\$293,750)
- Quality Care Program (\$115,000)*

PATCH is Hawaii's only statewide child care resource and referral agency and a member of the National Association of Child Care Resource & Referral agencies. We receive more than 15,000 enquiries a year from parents and guardians looking for referrals for affordable, quality child care – mostly for their very young children. PATCH also trains people in the field of early childhood education and care.

As a contract vendor with the State, PATCH has experienced many late payments for our services. The contracts above amount to half of our annual budget of \$3,000,000. On average, DHS pays 2-3 months in arrears. Several times PATCH has had to float DHS contracts for as long as 5 months in arrears. When half of our expenses are not paid on a timely basis, this presents a serious undue financial burden. Late payments affects the sound liquidity of a small nonprofit like PATCH. Cash flow can become a month-to-month challenge until the payments are made up-to-date.

Oahu
650 Iwilei Road
Suite 205
Honolulu, HI 96817-5318
Tel: (808) 839-1988
Fax: (808) 839-1799
Patch@PatchHawaii.org
www.PatchHawaii.org

Kauai
3016 Umi Street
Suite 203
Lihue, HI 96766-1335
Tel: (808) 246-0622
Fax: (808) 246-0069

Maui
270 Waiehu Beach Road
Suite 110A
Wailuku, HI 96793-2274
Tel: (808) 242-9232
Fax: (808) 242-4672

East Hawaii
235 Waianuenue Avenue
Suite 103
Hilo, HI 96720-2437
Tel: (808) 961-3169
Fax: (808) 935-7867

West Hawaii
73-4354 Mamalahoa Hwy.
Suite 201
Kailua-Kona, HI 96740-2123
Tel: (808) 325-3864
Fax: (808) 325-3855

Member of
National Association of Child
Care Resource & Referral
Agencies
Aloha United Way
Kauai United Way





PATCH

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Oahu

650 Iwilei Road
Suite 205
Honolulu, HI 96817-5318
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Tel: (808) 242-9232
Fax: (808) 242-4672

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Tel: (808) 961-3169
Fax: (808) 935-7867

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73-4354 Mamalahoa Hwy.
Suite 201
Kailua-Kona, HI 96740-2123
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Aloha United Way

Kauai United Way

The ongoing history of late payments discourages nonprofits from bidding and delivering on state contracted services. PATCH's Board has considered and declined on other state contract opportunities as it has viewed them as financial risks. We have determined that in order for us to safely bid on a state contract, we would require enough liquidity to float the expenses of that contract for half a year – as we anticipate payments could be 5 months in arrears.

As a consequence, this forces PATCH and other nonprofits to review the financial risks of obtaining a line of credit. The interest expenses of such lines of credit are *not* reimbursable by the State; thus forcing nonprofits to use their scarce charitable funds to pay back those costs. This is an unfortunate waste of charitable donations, but necessary if a nonprofit is to ensure its financial stability in light of late payments being the norm for many for state contracted services.

We **hope SB 777 will pass** to help ensure that invoices for state contracted services are paid on time. This will ensure better financial stability for nonprofits, like PATCH, with state contracts. This will also lessen the financial risk on bidding on future state contracts, which ultimately leads to more competent nonprofits competing to do the same. Such a scenario can only lead to better State delivered services to the people of Hawaii.

Thank you for this opportunity to testify.



From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 09, 2011 4:39 PM
To: WAM Testimony
Cc: pjb01@hawaii.rr.com
Subject: Testimony for SB777 on 2/10/2011 9:00:00 AM

LATE

Testimony for WAM 2/10/2011 9:00:00 AM SB777

Conference room: 211
Testifier position: support
Testifier will be present: No
Submitted by: Paul J. Buklarewicz
Organization:
Address: 165 Keawe Street, Ste. 108 Hilo, HI
Phone: 808-969-2012
E-mail: pjb01@hawaii.rr.com
Submitted on: 2/9/2011

Comments:

As Executive Director of a 501(c)3, non-profit organization for the past eight years, I find it remarkable that state and local governments are not held to the same standard as any other business in prompt payment of their bills, that is, at minimum Net 30. I support this effort in that it should assist non-profits in getting duly paid for getting the necessary work done that local governments find impossible or unwilling to do. Delays in payment for government contract services often bring non-profit organizations to the brink of being unable to make their payrolls and pay their creditors in a timely manner.