

To: Representative Angus McKelvey, Chair
Representative Isaac Choy, Vice Chair
Members of the House Economic Revitalization and Business Committee

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

Date: March 21, 2011

Re: **Letter in Support of SB 777 SD 1 - Regarding Payment for Goods and Services**

Goodwill Industries of Hawaii, Inc. is in support of Senate Bill 777, SD 1 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, SD 1 addresses the issue of late payments to non profits, and I would like to relate Goodwill's experience with this issue. We have found over the last year that we often are waiting for payment between 30 – 180 days due to various reasons which include:

1. **State Workloads are High:** In some cases, the State is slow because employees 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, SD 1 and the formation of a task force to review and report on these issues.

Thank you, for the opportunity to testify.

WRITTEN TESTIMONY ONLY

Date: 03/22/2011

Committee: House Economic
Revitalization & Business

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: SB 0777,SD1 (SSCR460) 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 supports the current draft of this bill, which creates a task force to examine and resolve issues that prevent state agencies from making prompt payment for goods and services purchased through nonprofit organizations. Although the Department of Education is not named to the task force, we believe the findings of the task force will validate two points made in our testimony on the original draft of the measure:

First, without system improvements to keep up with current technologies, accelerated timeliness of payments cannot be achieved.

Second, 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.



March 21, 2011

Representative Angus McKelvey
Chair, Committee on Economic Revitalization and Business
Hawaii State House of Representatives
State Capitol, Room 312
Honolulu, HI 96813

RE: SB 777, SD 1, RELATING TO PAYMENTS FOR GOODS AND SERVICES

Dear Chair McKelvey and members of the Committee on Economic Revitalization and Business:

The Hawai'i Alliance of Nonprofit Organizations (HANO) supports SB 777, SD 1, which calls for a task force to be convened out of the Department of Accounting and General Services to address timely government contract payments.

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.

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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.

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.

As a named organization to the task force, HANO is committed to meet the goals of the task force as an active participant and to provide data, general information and assistance where necessary.

Thank you for the opportunity to express support for SB 777, SD 1.

Mahalo,

Lisa Maruyama
President and CEO