



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 15<sup>th</sup> 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 8<sup>th</sup> 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