Human Services Council

Statement on the Fiscal Year 2018 New York City Executive Budget

The Executive Budget released by Mayor Bill de Blasio on Wednesday does not go far enough to address the fiscal crisis facing the human services sector, a vital partner in ensuring that New York City is a sanctuary for all. While this $84.86 billion spending plan includes much-needed investment in the human services workforce—for which we are certainly grateful—it is devoid of comprehensive, system-wide investment in the network of nonprofit organizations that make the City safer, more just, and more conducive to healthy living for *everyone*. These organizations deliver billions of dollars in services on behalf of the City, providing opportunities for New Yorkers of all backgrounds and abilities to thrive, but for nearly a decade, they have been a casualty of shortsighted City budget decisions. With the threat of devastating federal budget cuts and punitive policies looming, the City should seize this opportunity to rectify the chronic underinvestment in human services and fortify the nonprofit sector for the turbulent times ahead.

The Human Services Workforce

The Mayor has repeatedly demonstrated his commitment to supporting the human services workforce, with cost-of-living adjustments ("COLAs"), a higher wage floor, and even funding to help organizations that partner with the City to comply with that floor. The current Executive Budget continues the Mayor's commitment with funding for COLAs for nonprofit human services workers covered by City contracts. The Budget would fund three consecutive "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 would apply to roughly 90,000 nonprofit human services workers covered by contracts with the City. We commend the Mayor for this investment, which will improve the lives of workers and enhance service delivery.

Unfortunately, a COLA alone will not help nonprofits close their budget deficits, which we have been signaling loudly for several years. On the contrary, without a more systemic funding approach that addresses insufficient indirect cost reimbursement and the lack of cost escalation provisions, COLAs by themselves can actually add to the destabilization of nonprofits because they apply only to workers covered by City contracts and cost money to implement. This means deciding between affording only some workers COLAs, which creates tension and low morale, and finding other ways to pay for COLAs for staff that are not under City contracts. Thus, while we are extremely grateful for the Mayor's continued focus on the nonprofit human services workforce, we call on him to take a more holistic approach to funding the *sector*.

Rate Rationalization

We likewise commend the City for beginning the difficult task of "rationalizing" reimbursement rates for homeless services providers but press the City to do much more. The Executive Budget includes $111 million in FY 2018, growing to $146 million by 2020, for nonprofit organizations that provide shelter to the City's growing homeless population, and the Department of Homeless Services is currently revisiting the rates it pays for shelter services. We note, however, that the proposed budget increase does not fill the gap. Working with Homeless Services United ("HSU") and a nationally recognized expert in human services contracting, CostTree, we have gathered data showing an average shortfall of 20 percent in existing homeless services contracts (not including enhancements to direct rates to fund things like more competitive salaries). Based on these data, we believe that the actual need is closer to $220 million.

Bringing reimbursement rates into line with actual service costs is an important process that should occur on a regular and timely basis across all subsectors. This is the key to solving the nonprofit fiscal crisis. We must both address the gap in existing contracts and ensure that new contracts are set at rates that cover true costs with a plan for adjustment over time. New RFPs are a great opportunity to get the alignment of payment rates and cost right. We will continue to press the City to engage in data-driven rate rationalization for *all* human services looking back and forward. HSC stands ready to assist in the process.

Other than Personal Service/Indirect Costs

The Executive Budget does not address the prolonged underfunding of indirect costs in human services contracts. These inadequate rates have contributed significantly to the destabilization of the sector, and now investment in this area is urgently needed. Nonprofit organizations, like every other business, contend with rising costs that are often beyond their control. Rent, insurance, utilities, food, and other costs have all increased significantly in the past decade, yet reimbursement levels to cover these expenses have remained flat.

These arbitrary limits on reimbursement levels leave nonprofits under contract with NYC struggling to cover necessary and legitimate costs. We must change course if we are to have a viable system for delivering human services in the future. Accordingly, HSC is asking government to begin closing the gap between expenses and reimbursement levels. We have urged the Mayor to provide a 12 percent across-the-board increase for all human services contracts, with flexibility that allows each nonprofit to identify and address the most significant gaps.

Conclusion

To be clear, we appreciate the Mayor's investments in the human services workforce and the enormous undertaking of rate rationalization. We also recognize the many programmatic investments the Mayor has made. This year, for example, the Mayor is proposing expansion of pre-kindergarten, restoration of funding for senior services, increased affordable housing for seniors and veterans, and expansion of anti-eviction legal services for low-income families and access to legal advice for all NYC residents in housing court. These investments are important, but they will not solve the fiscal challenges faced by human services nonprofits. This is why we are seeking something greater than *programmatic* investment—a fundamental shift in the way program rates are developed.

What is needed to sustain our sanctuary is a coherent plan for system-wide investment in the human services workforce and infrastructure. The sector is precariously balanced on the edge of financial disaster, with nearly 20 percent of the City human services organizations insolvent. By putting money into individual programs without caring for the system as a whole, the City, like the State, is merely putting gas in an old car without tuning the engine or rebalancing the tires. It is time for the City to think holistically about the organizations that make our City a sanctuary and invest strategically for long-term success. We look forward to working with the Mayor and the Council to do so.

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