



H. 702 Testimony

Senate Committee on Government Operations

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ADDITIONAL RESOURCES:

- [Updated OMB Uniform Guidance \(as of 4/4/24\)](#)
- [2022 Grant & Contracting Survey Findings](#)
- [2023 Nonprofit Workforce Shortages Report](#)
- Common Good Vermont, a statewide program of United Way of Northwest Vermont, is a trusted resource and nonpartisan advocate for the State's more than **6300** nonprofit organizations.
- We support the success of Vermont's nonprofits through educational programming, advocacy work and relationship building.
- Vermont nonprofits serve all corners of our state, providing vital services, good jobs, and civic engagement that make our communities stronger. Employing **1 in 7 Vermont workers** and **contributing over \$5.7 billion per year to the economy through wages, retail and wholesale purchases, and professional service contracts**, the nonprofit sector is the second largest industry in Vermont after State government. These nonprofits **address basic human needs** such as food, shelter, childcare, health services, and education. They also **provide vibrancy** to our villages, towns, and cities through investment in the arts, libraries, historic preservation, conservation and environmental concerns, and economic development.
- The State of Vermont relies on nonprofits to work on its behalf to serve Vermont communities. However, **state grant and contracting system processes create operational challenges** for organizations, and **many are struggling to maintain programs and services under the economic realities in which we all live.**
 - We also understand that state agencies and departments managing grants and contracts are experiencing capacity constraints as well.
 - However, **partnership among government and nonprofits** can be strengthened to **promote innovation, collective models of impact, and streamlined processes**, all of which serve the long-term interests of taxpayers and communities.
- For this reason, Common Good Vermont is here today **in support of H. 702, specifically, Sections 6a and 6b – State Funded Grants Review.**
 - **Section 6a creates a working group made up of nonprofit stakeholders, members of the administration, and legislators to examine and recommend solutions to shortfalls of our current state grant and contracting systems that are limiting impact and threatening vital services.**
 - We support this working group as it stands, but would recommend two small changes:
 - First, we would prefer that the certified public accountant and/or the certified financial planner be in addition to the nonprofit members and be a consultant that works with nonprofits. Vermont is currently experiencing a shortage of nonprofit accountants and very few



- organizations have members on staff with these certifications – many outsource this work.
- We would also recommend that at least one of the nonprofit members be from an organization led by or serving underrepresented communities, as there are equity and access challenges with current systems, particularly when it comes to reimbursement payments. (Though, as Common Good VT is currently tasked with naming members, we would prioritize this in our selection).
 - Finally, I would like to clarify that we recognize that this is a large working group but given the wide range of issues the group is tasked with examining, some of which are related to funding, others to process, the intention is to form subcommittees to take on this work. It also is critical to have adequate representation from those impacted.
- Section 6b would have the Agency of Administration report to House and Senate Government Operations Committee regarding the fiscal and logistical impacts of requiring state agencies to execute state funded grant agreements within 30-days and promptly pay grantees of state-funded grant agreements within 30-days after valid invoice request.
 - I would like to note that payment is already required within 30-days for reimbursement payments for federal sub-awards, but this is not reflected in current practice.
 - Currently, nonprofits with state grants and contracts are reporting significant delays in contract execution and payments, that for some organizations, has caused them to take out loans that they then must pay interest on while waiting for payment from the state.
 - I would also like to point out that the provisions included in H. 702 are significantly scaled back from earlier drafts of H. 140, which Section 6 was pulled from. As voted out of House Government Operations 12-0-0, H. 140 would also have:
 - **Created a uniform formula and approval process for all state-funded grants that nonprofits could use to request an indirect rate higher than the standard de minimis.** The true cost of the services nonprofits provide on behalf of the government are often higher than the standard 10%. In fact, the federal Office of Management and Budget has just increased the federal de minimis to 15%, recognizing this. Most nonprofits do not have the ability to negotiate a federally negotiated indirect cost rate, and the state doesn't typically honor NICRA rates for state funds even if an organization has one.
 - **Required state agencies to execute grant agreements and remit payments "to the greatest extent possible" within 30 days, or if that is not possible, explain in writing to the Agency of Administration why it was unable to do so.** This was also to be added to Administrative Bulletin Number 5. While we understand the additional administrative effort this posed for grant managers, these delays pose significant challenges for nonprofit recipients. A previous draft would have imposed a 9% interest penalty for payments delayed more than



- 30-days, and even as voted out of committee, would have required a report on the fiscal impact of a 9% interest penalty.
- As originally introduced, it would have created a statewide grant database and standardized forms.
 - We would support reinserting any and all of these pieces.
- For context, these are not new challenges for nonprofits. Nonprofits have been **feeling the pinch of capacity and resource constraints** over the last several decades and have had to increasingly work to fill the **growing gap between the cost of services and state funding**.
 - After hearing more frequent and urgent concerns from nonprofits, Common Good Vermont surveyed the sector in 2022 on their experience with government grants and contracting to better understand the problem and identify possible solutions. **Findings from the survey are included below.**
 - In a short, more recent survey we conducted in January 2024, 80% of respondents reported that some or all of their state grants and contracts are not keeping pace with increased program costs – due to insufficient funding, 50% report a reduction of benefits to those they serve and 40% report increased staff turnover.
 - There are also dozens of your fellow legislators who want this language to pass based on their real-life experience with state grants – happy to follow up with some names if that would be helpful.
 - I want to stress that these problems won't go away. Given the prevalence and universality of these challenges, we **must consider needed reforms** to the state's grant and contracting system to make it more **viable, predictable, and efficient** to
 - ensure **taxpayers** receive full value for the programs they fund,
 - organizations can **recruit and retain skilled employees** to deliver vital services,
 - and that **community needs** are met now and in the future.
 - We are asking you to support H. 702 to delve into these issues and collaboratively identify solutions that strengthen government-nonprofit partnerships and support both nonprofit service providers and state grant administrators in serving our communities more effectively and efficiently.

We know you are working hard to address many important and urgent challenges for the good of Vermont, but in many cases, nonprofits are an important part of the solution and need the State to work with them as a partner. We appreciate your consideration and hope that we can take this critical step towards improving the delivery, effectiveness and efficiency of the vital services provided by nonprofits on behalf of Vermont.

Thank you for your time and I'm happy to answer any questions.

2022 Government Grant & Contracting Survey

Nonprofits were invited to share about their experience with government grants and contracting, and specifically asked about the following challenges:

- *Difficult or duplicative auditing requirements*
- *Burdensome reporting requirements*



- *Overly complicated or restrictive budget or invoicing requirements*
- *Contract rates do not cover the cost of services OR do not rise with cost increases over time (level/under funding)*
- *Reimbursement basis – receiving payment after delivering services*
- *Contract rates do not fund overhead or administrative costs*

At least 50% of respondents reported being impacted by each of these challenges and the three challenges identified as “most important” to address for respondents, in order of frequency, were:

1. *Contract rates do not cover the cost of services OR do not rise with cost increases over time (level/under funding)*
2. *Overly complicated or restrictive budget or invoicing requirements*
3. *Contract rates do not fund overhead or administrative costs*

Common Good Vermont found that these challenges impact nonprofits in three primary ways – as responding nonprofits articulated in their responses:

1. **Workforce:** The ability of nonprofits to attract and retain workers is hindered by underfunding, as well as the unpredictability of funding year to year. Nonprofits struggle to offer competitive compensation and temporary positions are even more challenging to fill.
 - *“We have had to reduce staff and do more with less staff. Contracts have been level funded for more than 10 years.”*
 - *“Grants are often for just one year which make hiring difficult.”*
 - *“We have to increase salaries and benefits for staff or we lose staff. A level funded contract is actually a decrease in funding every year.”*
2. **Service Delivery / Programming:** Navigating complex and burdensome processes and requirements, as well as having to fundraise to make up the difference between government funding and the full cost of services, takes away from the time and resources organizations can put towards service delivery.
 - *“It is taking two staffers nearly full time to get into compliance for the multiple funding sources.”*
 - *“The amount of time and resources required to operate government grants ironically takes away from our ability to effectively manage and invest in our work.”*
3. **Long-Range Planning:** Uncertainty around funding streams forces organizations to take a short view with their work; this compromises the quality of their services, puts staff in a precarious position, and changes in funding may cause shifts in programming.
 - *“These challenges force us to spend a greater portion of our time fundraising and writing applications. We are also unable to take a longer view on some work since funding forces us into scarcity mode, focusing on the task in front of us instead of how the system might be improved.”*
 - *“Changing grant funding means that we need to adapt how we do our work.”*

Nonprofits didn’t just help us to understand the problem – they also recommended solutions that would alleviate challenges and strengthen government-nonprofit partnerships. Common Good Vermont identified three key areas of improvement based on survey responses:



- Fund the Full Cost of Nonprofit Services
 - Increase overhead and administrative fees
 - Adjust for inflation and rising costs
 - Permit budget changes
 - Fund consistently
- Simplify and Streamline Processes
 - Simplify application and reporting requirements
 - Coordinate systems statewide
- Increase Equity & Access for Under-Resourced Nonprofits
 - Address reimbursement challenges
 - Provide technical assistance and capacity building resources

To build on the ideas generated by survey respondents, as well learning from our partners across the country and the National Council of Nonprofits, Common Good Vermont convened a group of Vermont nonprofit stakeholders to inform their work and collaboratively advance solutions.

We've found that for many nonprofits, ensuring funding levels keep pace with rising costs, and that indirect costs sufficiently cover the true cost of service delivery, is a priority – close to 100 organizations signed on to a letter in support of funding the full cost of nonprofit services. We also recognize that the legislature receives numerous funding requests each year and must make difficult decisions with the state's limited resources, while many organizations don't have the time or expertise to advocate for their needs in the State House.

Funding isn't the only issue, however – addressing system processes is also a critical piece of the puzzle:

- Awards are now largely reimbursable which forces organizations to operate without their acknowledged necessary funding.
- Payments often are delayed or reduced due to restrictive state invoicing procedures.
- Systems and processes are inconsistent across state agencies.
- Contracts often are delayed or are not delivered in a timely manner. This creates challenges for nonprofits who must plan for this work, or puts them in a position of carrying out the work without a contract.
- Indirect cost allowances are not sufficient and do not account for the true cost of delivering services.
- Application and reporting requirements can be streamlined so that recipients are accountable for their work but reporting is less burdensome.

Given the prevalence and universality of these challenges, Common Good Vermont, alongside Vermont nonprofits, asks that the legislature create a working group to consider needed reforms to the state's grant and contracting system to make it more viable, predictable, and efficient.