



H. 140 Testimony

House Committee on Government Operations and Military Affairs

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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, supporting the success of Vermont's nonprofits through education, advocacy and relationship building. We recognize that 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. 140, An act relating to requirements for State-funded grants, and recommends amending the bill to additionally create a working group to consider needed reforms to the state's grant and contracting system to make it more viable, predictable, and efficient.** We would also support amending the bill to address challenges with delayed payments.

Nonprofits working on behalf of Vermont communities rely on state grants and contracts. However, funding for these agreements has not kept pace with the economic realities in which we all live, and system processes create additional challenges for organizations.

In 2022, after hearing more frequent and urgent concerns from nonprofits, Common Good Vermont surveyed the sector on their experience with government grants and contracting to better understand the problem and identify possible solutions. The survey received responses from 40 Vermont nonprofits of varying sizes and missions and the data tell an important story about the challenges nonprofits are facing, the impact on their work, and how systems could be improved.

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.



We recommend that this working group should include at least five nonprofit stakeholders including:

- Two representatives from human services organizations
- One representative from an arts, culture & humanities or an environmental or recreation organization
- One representative from an education organization (excluding higher education)
- One representative from a DA or SSA organization

At least one of these stakeholder representatives should be from an organization primarily serving an underrepresented community.

Additional working group should include:

- One representative from Common Good Vermont
- One representative from a Vermont United Way organization
- Two members from the House of Representatives appointed by the Speaker of the House
- Two members from the Senate appointed by the Pro Tempore
- Three members of the administration appointed by the Governor, one of which shall be the Secretary of Administration or an appointed designee

We ask that the working group assess the State's current grant and contracting procedures and be tasked with recommending solutions to current challenges. Specific areas of review include:

- Assess current grant and contract funding levels and identify COLA or other inflationary adjustment mechanisms.
 - Assess impact of bridge loans and lines of credit and identify alternatives for funding needs.
- Assess grant and contracting processes and practices across agencies and departments and identify uniform best practices to implement statewide.
- Determine which circumstances require funding to be reimbursable, identify funding sources which are currently reimbursable but are not required to be, and recommend solutions to improve reimbursement practices and processes.
- Identify system improvements that simplify application and reporting processes.
- Examine ways to ensure consistency between state and federal indirect rates including:
 - implement a standard 10% indirect rate across all State funded grants and contracts,
 - develop a formula and process for nonprofit organizations to qualify for an indirect rate above the standard 10%, and
 - honor federal indirect rates.



- Other issues that come up during the working group's review of processes.

With regards to process, we ask that:

- The working group meets no less than eight times.
- The five non-profit stakeholders be appointed by Common Good Vermont (given their representation of all non-profit organizations).
- The group create two sub-committees to delve into funding and system reform.
- The working group be empowered to take testimony as needed.
- The Administration be required to provide information as needed.
- The Working Group shall have the administrative and technical assistance of the Agency of Human Services and the legal assistance of the Office of Legislative Counsel.

Finally, we ask that the working group deliver a draft bill to be introduced next session to House and Senate Government Operations Committees.

Passing H. 140, with the addition of this amendment, is critical step towards fixing government grant and contracting systems 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. Without responsible solutions, communities will continue to bear the consequences of systemic shortcomings.

We appreciate the opportunity to speak on this critical issue and look forward to working together to strengthen government-nonprofit partnerships to serve our communities more effectively and efficiently.

Thank you for your time and consideration – please reach out with any further questions.