



How Late Contract Payments Harm Nonprofit Providers

Connecticut Association of Nonprofits – the largest membership organization in the state dedicated exclusively to nonprofits in Connecticut – strives to serve, support and strengthen nonprofit organizations in building and sustaining healthy communities. We are a collaborative of more than 500 organizations, supporting our members’ needs so they may serve their communities to achieve their missions.

Recently, Connecticut Association of Nonprofits surveyed approximately 500 members to assess how nonprofits were faring in the midst of the financial crisis. The survey focused on government funding and timely contract payments, including how those contract payments relate to a provider’s cash flow and use of credit lines. Here is what we found:

- **88%** of respondents receive government funding
- **42%** of state-funded providers report receiving late contract payments from the state
- **84%** received payments issued by DSS at 60 days late; **70%** received payments issued by DCF at least 30 days late
- **66%** of respondents have a line of credit which they access in case of emergencies, such as late payments by the state
- **39%** of respondents report a decrease in cash flow over the past year, with **43%** of those respondents beginning to decrease staff size and **37%** reducing employee benefits

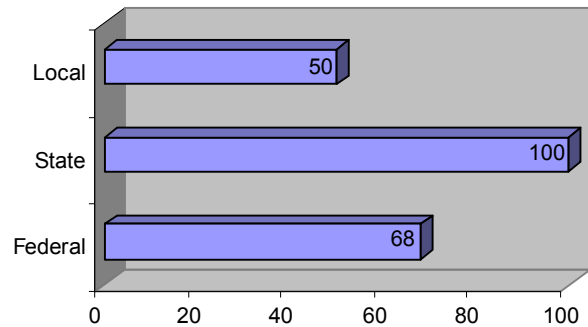
Government Funding

Of the 119 respondents, over 88% indicated that they receive funding from the government. Government-funded organizations were extremely overrepresented in this survey as the majority of nonprofits in Connecticut do not receive government funding.

Respondents that do receive government funding were asked to identify from which level of government they receive funding. Respondents were able to select multiple levels of government. Chart 1 illustrates that the majority of government-funded respondents receive funding from the state.

Chart 1: Government Funding

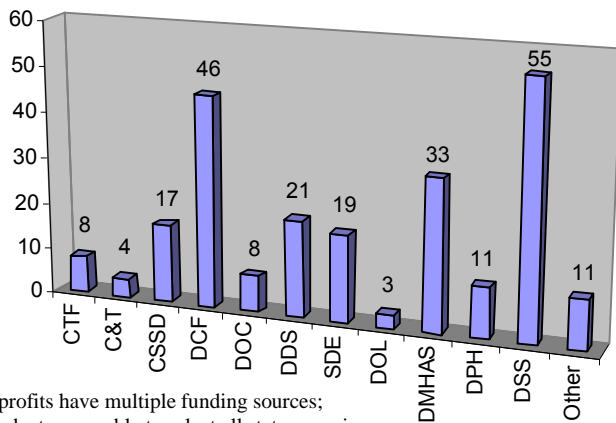
(n=119*)



*Nonprofits have multiple funding sources; respondents were able to select all levels of government that apply.

Chart 2: State Funding

(n=100*)



*Nonprofits have multiple funding sources; respondents were able to select all state agencies that apply.

State Funding

Many of the state-funded respondents hold purchase-of-service (POS) contracts with the state to provide health and human services on its behalf to some of Connecticut’s most vulnerable residents. These nonprofits provide the safety net that anyone can find themselves in need of in the blink of an eye—especially during an economic downturn. In Connecticut, nonprofit providers currently hold about 1,900 Purchase-of-Service (POS) contracts with the state that are valued at approximately \$2 billion annually.

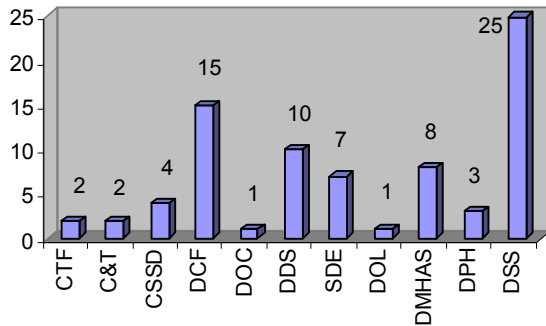
Chart 2 reflects that the majority of state-funded respondents receive funding from the Department of Social Services (DSS), which is overall reflective of state-funded nonprofits in the state. Services funded through DSS include, housing/homeless services, domestic violence, and nutritional assistance, among several others.

CTF=Children’s Trust Fund; **C&T**=Commission on Culture & Tourism; **CSSD**=Judicial Branch Court Support Services Division; **DCF**=Dept. of Children & Families; **DOC**=Dept. of Corrections; **DDS**=Dept. of Developmental Disabilities; **SDE**=State Dept. of Education; **DOL**=Dept. of Labor; **DMHAS**=Dept. of Mental Health & Addition Services; **DPH**=Dept. of Public Health; **DSS**=Dept. of Social Services

Late Payments

As previously mentioned, nonprofits in Connecticut hold POS contracts with the state to provide health and human services on its behalf. Unfortunately, providers are often confronted with delays in payment after providing these services. Chart 3 illustrates the number of providers who report having received late payments from various agencies.

Chart 3: Late Payments
(n=42)



CTF=Children’s Trust Fund
 C&T=Commission on Culture & Tourism
 CSSD=Judicial Branch Court Support Services Division
 DCF=Dept. of Children & Families
 DOC=Dept. of Corrections
 DDS=Dept. of Developmental Disabilities
 SDE=State Dept. of Education
 DOL=Dept. of Labor
 DMHAS=Dept. of Mental Health & Addition Services
 DPH=Dept. of Public Health
 DSS=Dept. of Social Services

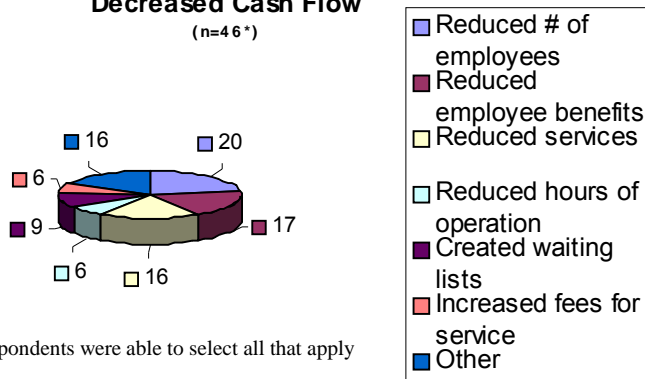
Chart 4 demonstrates a further breakdown of late payments by indicating how late those payments are. 84% of respondents received payments issued by the Department of Social Services at least 60 days late. Meanwhile, at least 70% of respondents who received payments from either the Department of Children & Families or the Department of Developmental Services obtained the payments at least 30 days late.

Chart 4: Length of Delay
(n=42)

	Less than 30 days	30 days	60 days	90 days	More than 90 days
DCF	4	5	3	0	3
DDS	3	1	4	0	2
DMHAS	3	4	0	1	0
SDE	3	0	1	2	1
DSS	0	4	8	2	11

Payment delays by state agencies leave private nonprofit providers with no option but to front the cash in order to provide services to consumers and pay wages and benefits to employees. This often results in one of two actions by providers—either they must take funds from their budget reserve and lose valuable interest payments by the bank, or they must access lines of credit, which ultimately leads to interest payments by providers on those loans. All of this to provide services on behalf of the state.

Chart 5: Agency Response to Decreased Cash Flow
(n=46*)



*Respondents were able to select all that apply

Cash Flow

It appears that the economic downturn and resulting tightening of the credit market has had an effect on the cash flow of nonprofit providers. When asked what the effect on their agency’s cash flow has been, 39% of respondents indicated a decrease in cash flow over the past 12 months.

Chart 5 illustrates the steps that providers have taken to cope with decreased cash flow. The majority of respondents are beginning to decrease their staff, as well as require staff to make increased contributions to their health benefits. As government funding continues to be flat at best and private donations, foundation funding and credit lines become tighter, providers are left with few other options.

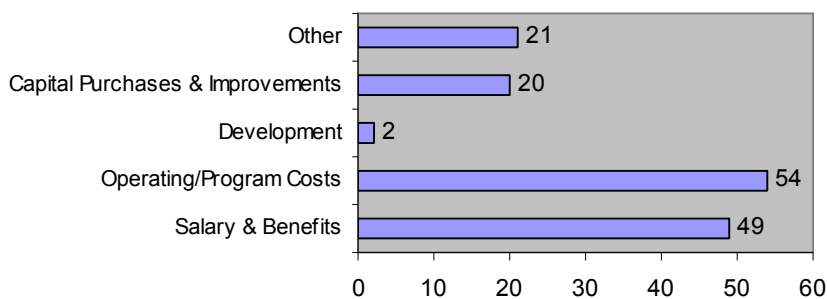
Layoffs are often the absolute last step that nonprofits will take to balance their budget, but more and more frequently they are having to leave positions vacant longer, thereby exacerbating work loads on already overburdened staff.

Requiring increased cost-sharing by employees for their health benefits is also a particularly troubling step for many nonprofits despite the increased frequency with which they must do it. It is no secret that nonprofit employees in Connecticut are paid drastically lower wages than their counterparts in state-operated facilities. Increased cost-sharing only intensifies an already glaring disparity and makes retention of quality staff more difficult to maintain.

Lines of Credit

Many nonprofits hold a line of credit, which is usually an open-ended revolving loan where a bank loans an organization up to a specified amount as needed. 66% of respondents report either holding a line of credit for over a year or having obtained a line of credit within the past year. The vast majority of respondents only access their line of credit in the case of an emergency, which often includes addressing cash flow problems created by late payments from state agencies.

Chart 6: Uses for Lines of Credit
(n=78*)



*Respondents were able to select all that apply

Chart 6 indicates that when nonprofits do access a line of credit, they overwhelmingly do so to support either operating/program costs or salary and benefits for their employees. As mentioned previously, several respondents indicated that this is a necessary step when they do not receive timely payment for services rendered on behalf of the state.

Approximately 44% of respondents report being able to sustain operations for 31-60 days on their existing line of credit, while 30% are only able to do so for less than 30 days. This means that when providers receive payments from state agencies that are upwards of 30, 60 and 90 days late, they teeter precariously close to the edge of being unable to provide services.

Only one respondent reported having been denied for a line of credit in the past year, while five respondents reported having their lines of credit reduced within the past year. Of the respondents who had their lines of credit reduced, two experienced a reduction of between 0-30%, while three saw a reduction of between 31-50%. Respondents cited a lack of financial reserve and economic instability as the main reasons given by banks for denying or reducing lines of credit.

While a clear minority of respondents have experienced denials or reductions related to lines of credit, it is likely that this group is somewhat under-representative of a potentially larger problem. This may be especially true if the economy and banking system continue to weaken.

Conclusion

It is clear that a problem exists for Connecticut's nonprofit providers. If a contract payment from the state is late, it creates a cash flow issue for the provider, who then often needs to either access funds from a line of credit or from their budget reserve. If providers access a line of credit, then they must make interest payments on that loan amount. This is done to provide services on behalf of the state, which provides no additional funding to cover those interest payments—it is simply a loss the agency must suffer. If the banking system continues to weaken and credit lines are tightened, even this less-than-ideal step may not be possible for some providers.

Conversely, using money from a budget reserve means that providers lose out on valuable interest payments made by the bank on whatever amount they must use. Of course, it is important to note that as the cost of providing services on behalf of the state continues to rise while state funding remains flat at best, it is difficult for providers to build an adequate reserve from which to handle their cash flow problems themselves. **Nonprofits that contract with the state to provide health and human services on its behalf are put at risk when they do not receive payments on time.** The agency itself is at risk, the employees are at risk, and the consumers are at risk.

The state continues to ask nonprofits to provide more services with less funding. The average cost-of-living adjustment applied to private provider contracts over the past 20 years stands at only 1.1% - an increase that is far below the actual increased cost of providing services. Unfortunately, it is growing increasingly difficult for private providers to meet the state's expectations, especially given the economic crisis and resulting increase in service demand. Smaller and smaller funding margins created by inadequate funding are putting nonprofit providers in a precarious position. Sustainability of our private provider health and human services delivery system continues to weaken and is only exacerbated by the additional burden of delayed payments. Nonprofits provide health and human services at a great savings to the state and should not have to wait to be paid.