



September 18, 2023

The Honorable Gavin Newsom
 Governor, State of California
 1020 O Street, Suite 9000
 Sacramento, CA 95814

Submitted via email to leg.unit@gov.ca.gov

RE: Senate Bill 557 (Limón) - California Prompt Payment Act: Nonprofit Organizations - SIGNATURE REQUEST

Dear Governor Newsom,

On behalf of the undersigned organizations, we write to express our strong support for Senate Bill 557 by Senator Monique Limón, which updates the state's Prompt Payment Act to increase equity and fairness for nonprofits by expanding it to cover all state contracts with nonprofits, setting a discrepancy amount to avoid delayed payment while trivial disputes are resolved, removing the existing eligibility cap on nonprofit contracts, and including any penalties paid to nonprofits in the required annual report. We are thrilled that SB 557 passed the legislature unanimously and urge you to sign it.

Background

Last October, more than 550 nonprofit, philanthropic, and community leaders representing organizations headquartered in 41 counties [wrote to you and other state leaders](#) to request state contracting improvements to bolster the nonprofit sector and outcomes for communities. Members of the driving force behind this letter - the California Coalition on Government Contracting - came together to share ideas for improving the ways nonprofits and the state work together to use taxpayer dollars equitably, fairly, and efficiently in furtherance of our state's health, human services, environmental, education, and other vital priorities.

Following delivery of this letter, our coalition members met with state leaders, including senior members of your Administration, to request engagement and partnership. We deeply appreciated the mention in the "A" pages of your proposed FY 2023-24 budget to: "consider changes to address issues within the nonprofit sector to support the sector's ability to deliver on meeting goals in state programs." (p. 110)

Championed by six legislators, the ideas formed a package of bills we have advanced as the California Nonprofit Equity Initiative. Our organizations, along with more than 500 other nonprofit and community leaders, are supporting to level the playing field for nonprofits. Improving how state government contracts with nonprofits is a question of equity for our most vulnerable communities and for the nonprofits that serve them. Nonprofits are a powerful force for equity.

The state relies on nonprofits to help put critical policies into action, partnering with community organizations to help the homeless, build affordable housing, respond to the impacts of climate change, support domestic violence victims, and in countless ways improve the lives of vulnerable members of our communities. To succeed, nonprofits need contracting terms that set us up to partner effectively.

Aligned with your "California for All" vision, the bill package responds to the impact the pandemic has had on our communities, the need to address equity and inequality in access to state resources, and the imperative to support strong and varied community-based organizations to address increased need.

All nonprofit partners of the state deserve prompt payment.

SB 557 levels the playing field for nonprofits regarding prompt payment on grants and contracts. Too many nonprofit reimbursement requests are delayed because there is no incentive to prioritize them, disadvantaging organizations that are working to support California communities and growing our economy.

When the state acts in good faith and pays nonprofit partners' invoices promptly, it supports a robust supply chain of providers. Many nonprofits consistently carry millions of dollars in delinquent Accounts Receivable from the State. The costs of borrowing funds to allow operations to continue must come from indirect costs or loans that often carry high interest rates.

The Little Hoover Commission confirms these realities, writing "Grant recipients face a straightforward problem: If service providers immediately and accurately complete their reimbursement request, and the state meets all of its statutory timelines in processing reimbursements, then service providers wait about 79 days from Day 1 of providing the service until receiving reimbursement. This assumes service providers complete their paperwork immediately after the 30-day reporting period ends and pay for overnight delivery to Cal OES. If service providers need more than a day to complete their request, the wait can be up to around 109 days between Day 1 of providing services and reimbursement – providing everything runs smoothly."¹

For example, the California Child Care Resource and Referral Network has annual revenues of approximately \$7 million and carries \$2.7 million -- almost half their income - in receivables from the State of California. Carrying 40 percent of income as a receivable would make any business struggle.

Currently, it takes anywhere from 30 days to eight months for the state to remit payment on contracts after nonprofits submit invoices. One nonprofit that contracts with the Department of Corrections and Rehabilitation typically waits 45-60 days after the end of

¹ https://lhc.ca.gov/sites/lhc.ca.gov/files/Report%20249_1.pdf

the month (arrears) to be paid. Other nonprofits report waiting up to ten months for payment on undisputed invoices. Many organizations have experienced delays in payments resulting from minor discrepancies, including rounding up or down by a single dime. As a result, payments to nonprofit organizations are often delayed due to minor discrepancies. That's why SB 557 proposes to require prompt payment unless the discrepancy is greater than \$250 or five percent of the invoice, whichever is smaller. The state can still pursue the discrepancy but cannot refuse to pay the invoice on time over such small amounts.

SB 557 is a no-nonsense, no regrets measure that simply places nonprofits on equal footing with the rest of California's grants and contracts partners.

Exemptions in the Prompt Payment Act statute place an undue financial burden on the organizations that can least afford it – in particular, smaller nonprofits and those serving disadvantaged communities are disproportionately harmed by these practices. Many of these nonprofits have only 30 days of cash on hand.

SB 557 course-corrects for the inexplicable language set in statute that specifically disadvantages nonprofits from receiving penalty payments when appropriate and clarifies key definitions for “grants” and “nonprofit organizations.” Consistent with the way you described your September 2022 Executive Order directing state agencies and departments to take additional actions to embed equity analysis and consideration in their missions, policies, and practices, SB 557 “will help the “improve outcomes and deliver better services by making its procurement policies simpler, faster, and more human-centered for buyers and vendor partners.”²

SB 557 will save the state money because spending weeks resolving a discrepancy of less than five cents (yes, truly!) is an unnecessary use of valuable government staff time that does not significantly increase accountability. If the state pays invoices on time, they will have no additional costs.

Enacting SB 557 will strengthen the essential partnership between the state and nonprofits and our mutual efforts to deliver the highest quality services to the people of California.

We respectfully request that you sign SB 557.

Sincerely,

The California Coalition on Government Contracting



Jan Masaoka
CEO
California Association of Nonprofits



Le Onda Clark Harvey, PhD
Chief Executive Officer
California Council of Community
Behavioral Health Agencies

² <https://www.gov.ca.gov/2022/09/13/governor-newsom-strengthens-states-commitment-to-a-california-for-all>



Krista Colón
Public Policy Director
California Partnership to End Domestic
Violence



Cindy Blain
Executive Director
California ReLeaf



Efrain Escobedo
President & CEO
Center for Nonprofit Management




Martine Singer
CEO
Children's Institute



Paul Towers
Executive Director
Community Alliance with Family Farmers



Raymon Cancino
CEO
Community Bridges



Jose Rodriguez
CEO
El Concilio of Stockton



Sandra Celedon
President & CEO
Fresno Building Healthy Communities



Melanie Morelos
California Strategy
The Greenlining Institute



Tony Duong
CFO
HealthRight360



Susan Gomez
CEO
Inland Empire Community Collaborative



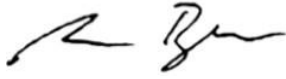
Kimberly Starrs
President
Inland Southern California United Way



Johng Ho Song
Executive Director
Koreatown Youth + Community Center



Daryl Twerdahl
Executive Director
Meals on Wheels California



Aisha Benson
CEO
Nonprofit Finance Fund



Jennifer Hark Dietz
CEO
PATH



Ari Neumann
Director
Rural Community Assistance
Corporation



Karen Delaney
Executive Director
Santa Cruz Volunteer Center



Tom Collishaw
President/CEO
Self-Help Enterprises



Manny Gonez
Director of Policy Initiatives
TreePeople



Anna Hasselblad
Director of Public Policy
United Ways of California