

Foraker Supports Senate Bill 129: Prompt Payment Parity

Good morning, Committee Chair Merrick, Vice-Chair Dunbar, and committee members. For the record, my name is Laurie Wolf. I am the President/CEO of The Foraker Group.

Thank you for inviting me to testify in support of Senate Bill 129 which establishes prompt payment parity for Alaska nonprofits, municipalities, and tribal organizations for grants, contracts, and reimbursements from the State of Alaska including federal pass-through funding.

We appreciate the attention from Rep. Himschoot and Senator Kawaski and other co-sponsors to one of the most important pieces of legislation supporting Alaska nonprofits since the passage of the Pick.Click.Give. program 16 years ago.

Here's what Alaska organizations are facing right now and why this legislation is critical.

- Three-six-nine months, some more than a year in delayed payments
- A couple of hundred thousand dollars to more than a million dollars in delayed payments

Delayed payment comes from almost every department in the state and impacts all types of services from seniors to childcare to domestic violence to housing, food security, transportation, public safety, and more. The state relies on us to deliver services as its partner through grants, contracts, and reimbursements.

Yet this partnership – when it comes to the money – is broken.

Because of the current process, we are asked to report on money they have not received in order to stand in line for the next payment, which will also be delayed.

This should sound odd and unbelievable, and yet, it's real for hundreds of Alaska organizations far too often. Some of our executives don't even know a reality that could look different because this has been their reality for so long. Sadly, delayed payments have become a normal and even acceptable practice for nonprofits that are providing essential services around the state.

Importantly, this is money that has been approved by the legislature. One would simply assume that if the money is budgeted, approved, and allocated, then spending could occur. That seems efficient. This seems like good government.

In fact, prompt payment is exactly the rule the state must follow when conducting transactions with for-profit businesses as directed by Statute: AS 36.90.200. Unfortunately, these rules do not apply to nonprofits, municipalities, and tribal organizations – and they should.

Over *many* years and multiple administrations – we have tried to solve this problem, hoping honestly that we wouldn't get to this stage. One former commissioner told us that nonprofits should just take out a line of credit to manage delayed payments – as though it was the job of the nonprofit to subsidize the state.

Not only do lines of credit require collateral, which many nonprofits will never have, it is not the job of nonprofits to subsidize the state and that is exactly what many of them do every day – what other choice do they have?

Our goal is to ensure the state is efficient and that the work organizations provide for Alaskans is predictable, stable, and available.

To demonstrate the severity of this issue, we surveyed Alaska organizations to learn more about their experiences. Here's what they told us about their reality. The survey data you

have in your packet of information from us is simply a point-in-time survey to give a snapshot of the pervasive nature of this issue. The top-line impact of delayed payments includes:

- **Cash Flow Issues:** Many respondents emphasized the severe strain on cash flow, with organizations needing to use reserves, lines of credit, or borrow funds to cover operational costs such as payroll, purchases, and bills. This was particularly difficult for organizations that rely on grant funding or reimbursable services.
- **Operational Delays:** Delays disrupted services, project timelines, and the ability to make necessary purchases (e.g., books, equipment, vehicles). Some organizations even had to pause operations or reduce staff until payments were received.
- **Increased Administrative Burden:** Organizations reported spending significant time and resources dealing with delayed payments, including advocating for overdue funds, rebilling, and communicating with funding agencies. This diversion of resources led to additional stress on staff and operational inefficiencies.
- **Uncertainty and Financial Planning Challenges:** The lack of predictability of payment schedules created uncertainty in budgeting and financial planning. Several organizations had to make difficult decisions about whether to proceed with projects or delay them based on the expectation of when funds might eventually arrive.
- **Negative Impact on Staff and Services:** Some respondents noted that delayed payments led to late payrolls, staff dissatisfaction, and the possibility of layoffs. In certain cases, it was reported that delays could jeopardize continuing vital services for vulnerable populations.
- **Strained Relationships:** Delays also strained relationships with contractors, vendors, and other third parties, with some organizations reporting difficulty in meeting obligations or renegotiating payment terms.

- **Impact on Program Continuity:** For some organizations, delayed payments threatened the continuity of programs and services, especially in critical areas such as health care and education, where funding delays can have immediate consequences.

Our reality is that nonprofits do not have the financial reserves to float a major state grant or contract to support a program or project with their own funds while waiting for allocated state dollars to come through. And even if they do, as I have already pointed out, it is not the responsibility of nonprofits to subsidize the state's delayed payments.

These impacts should be enough to compel us all to change how this process operates. But consider, too, that it's not just our entities and Alaskans who are hurt – the economies around the state also are harmed. Specifically, we know that:

- Delayed payment has a direct impact on the ability of Alaskans to access essential services.
- It has a direct impact on nonprofit staff recruitment and retention across Alaska.
- It hurts the whole economy because nonprofits cannot pay their bills to other for-profit and nonprofit vendors.

We need this legislation because unlike a business or contractor working on a public project, where current Alaska statute says they will be paid on time or receive penalties and interest, the rules also say the contractor can stop work until payment is received. Our reality is that we cannot just stop doing what we are doing to get the state's attention—the consequences are too high for Alaskans who depend on us.

I anticipate one of your questions is: “How much money are we talking about?”

Unfortunately, we have been trying to calculate this number for years. We have solid data from surveys and personal accounts, but there is no single system for tracking delayed

payments that we know about. Each state department has its own system and process for tracking.

I anticipate that you will also ask how we think this problem should be fixed. To be sure, we know the state faces workforce shortages and technology issues, but we can't tell you how to fix those. Still, we will say that we are no longer willing to remain silent while a broken system asks nonprofits, municipalities, and tribal organizations to carry the burden of both delivering services and covering the costs while we wait. We want parity with for-profit businesses and to be treated as partners in the work of serving Alaskans. After all, that is how Alaska's economy works best – when we as organizations come together with local, state, and federal governments to serve Alaskans.

To be clear, we are not asking the state to go back and address their past delays with penalties and interest. We simply want to establish a foundation for moving forward based on prompt payment parity, along with powerful incentives for the state to pay on time – just like the private sector. That is the purpose of Senate Bill 129.

I will end with this reminder. The health and well-being of Alaskans and Alaska's economy depend on strong working relationships among nonprofits, tribal organizations, municipalities, and the state. Payment for services is an expected part of this relationship. I strongly urge you to consider this bill favorably.

Foraker, Alaska's nonprofit association, is pleased to be working arm-in-arm with the Alaska Municipal League, Alaska's statewide association supporting local governments, and Senate Bill 129 sponsors on this critical issue. As part of this testimony, we will also share the resolutions that both Foraker and AML approved last year as well as our most recent survey results on the impact of delayed payment on Alaska organizations.

Thank you.