May 20, 2024

Members of the California State Assembly
State Capitol
Sacramento, CA 95814

RE: Assembly Bill 2557 (Ortega) - OPPOSE *(as amended on May 16, 2024)*

Dear Assemblymembers,

On behalf of the undersigned nonprofit organizations, we write to oppose AB 2557 because it will cause adverse impacts for hundreds of California nonprofits and the communities we serve.

We appreciate the conversations thus far with the author and sponsors conveying our desire to approach their objectives with these bills collaboratively. But as currently drafted, AB 2557 would create confusion, be redundant to already established reporting protocols, be costly to government and nonprofits alike, and ultimately would undermine and frustrate state and local government's ability to serve our communities, pursue equity, promote transparency, and deliver quality services.

Since mid-2022, our organizations have been part of an informal coalition on government contracting to share ideas and advocate 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. Our coalition backed the Nonprofit Equity Initiative package of seven bills introduced in 2023 thanks to a bipartisan set of legislators in both houses. Not a single state legislator voted against any of those bills, and we continue to advance several of those efforts in 2024. The message has been resoundingly clear thus far: legislators recognize that government cannot do it alone and must ensure the partnership with nonprofits is strong. We truly appreciate this support.

Similar efforts at the federal level are promising. Earlier this month, the Biden-Harris Administration finalized guidance that makes "grants more accessible and transparent for families, communities, and small businesses." The primary objectives achieved with this significant change in federal contracting are to reduce unnecessary compliance costs, remove barriers to entry, ensure assistance serves intended communities, and increase transparency.

The purpose of these efforts has been to *strengthen* the partnership between nonprofits and government by authorizing contracting practices that support reaching more underserved communities and improving access, performance, and outcomes, by addressing long-standing challenges with contracting practices that make partnership too expensive for most organizations. The reality is that most nonprofits partnering with government must fundraise to subsidize the costs of those programs, because the government dollars simply do not go far enough relative to the need. Nonprofits continue to show up – in many cases only those with the capacity and resources to raise those additional funds – because we believe it's our responsibility to serve our communities. Without us, people would suffer.

Federal, state, and local governments partner with nonprofit organizations and our employees to provide services to communities and complete projects that benefit Californians. Government funding makes up a third to half of contributed income to California nonprofits (when hospitals and higher education are included). These government-nonprofit partnerships provide nonprofits with the resources they need to meet government's policy, service, and program goals; and support the government with a robust and diverse supply chain of providers. Here are just a few examples:

- One-third of Medi-Cal services and more than one-fourth of Medicare services in California are delivered by nonprofits.
- Frontline homeless services like street outreach, temporary shelter, and innovative encampment resolution pilots are nearly always conducted by nonprofit service providers contracted by local governments. Nonprofit service providers are effective at mobilizing volunteers or partner organizations, and many are deeply rooted in historically disadvantaged communities.
- All food bank services in California are provided by nonprofits; the need for these services has increased exponentially since the pandemic struck.
- Community-based organizations are routinely contracted with during emergencies to help distribute food and water, provide temporary shelter, administer vaccinations, and assist with other basic needs.
- Domestic violence service providers in California are overwhelmingly nonprofits; in FY 21-22, they answered 149,148 crisis hotline calls and provided 354,227 shelter nights to 13,370 survivors and their children.
- Since 2006, nonprofit 2-1-1 providers have partnered with other nonprofit partners as well as local, regional, and state governments to assist with over twenty million requests for community resources all across our state. In that time, 2-1-1 has become a critical part of our state's infrastructure in disaster response, climate risk and resiliency, digital access, and human-centered systems navigation.
- More than five million acres of open land in California – the vast majority held for community benefit – are permanently protected thanks to the work of 136 nonprofit land trusts.

Government and nonprofits have always been interdependent, and our successful partnership is critical for meeting Californians' needs. To effectively collaborate, we rely on contracts, policies, and processes that lay out critical details governing our shared goals and working relationships to drive the results.

We believe that:

- Governments should seek to maximize taxpayer-funded benefits and services. This calculation should include capacity, capability, and cost.
- Governments should not contract out services that are best delivered by public employees and governments should not use nonprofits as a low-cost/low wage alternative to accomplishing that work.
- Some services are best provided by government, others by nonprofits, and still others by for-profits – with many best delivered in combination.
- Services should be delivered efficiently, fairly and, most importantly, should produce the best possible results for Californians who depend on them.
- Nonprofits bring significant value to their communities – their employees help bring additional government and philanthropic resources to problems that government is trying to solve, and nonprofits can often reach and help vulnerable Californians that government cannot.
- Government and the public deeply appreciate that nonprofits partner and support government work.
- Employees deserve to be paid fairly whether they work for nonprofits or government.
- Nonprofits are often "extenders" of government and can act as trusted messengers that further governments' ability to reach desired populations and communities.
- Nonprofits exist to serve and when they can't afford to comply with government contracting terms, then they're unable to serve as partners.

We are concerned by statements in the author's fact sheet that suggest we are not aligned with these beliefs. Some excerpts and responses include:

- "efforts to cut costs" are the reasons that "governments contract out public work to the lowest bidder"

  In fact, governments opt to partner with nonprofits for many reasons, not just to seek a low-cost alternative to public provision. There are important reasons that governments turn to nonprofits to partner with them on delivery of critical services such as health and human services, animal welfare, juvenile justice, domestic violence, immigration matters and more. Nonprofits have a long and proven track record of providing quality, cost-effective, linguistically appropriate, and culturally competent services that are trusted and deeply connected in communities of all types from rural to urban. What's more, there are major shortages in various professional classes that are making it very hard for employers of all types to hire qualified people needed to provide critical services.

- “an array of unaccountable service providers” and “such work has negatively impacted virtually all public services”

  Like any sector, there are “bad apple” instances of poor performance by contractors. Our experience is that nonprofit partners are almost always a boon to service provision and that the public trusts nonprofits to provide quality programs and services. There is no evidence of systemic problems associated with nonprofit service delivery. In fact, as noted in CalNonprofits’ 2019 report, Causes Count: The Economic Power of California’s Nonprofit Sector, the vast majority of Californians say that they have confidence that nonprofits provide quality services (87%), act in the public’s interest (84%), and spend money wisely (71%). These numbers are higher than those for the federal government, state government, or for-profit sector.

We can attest to the myriad ways that nonprofits along with our employees are held accountable to those who contract with us to ensure we are delivering on-time, quality, affordable programs. Nearly all contracts are made public through the city and county legislative processes. Nonprofits have historically filled service gaps because we are uniquely qualified to meet specific community needs. We are troubled by any characterization that such partnership negatively impacts service provision and do not think that reflects reality. Indeed, Californians trust nonprofits to deliver services by margins of as much as forty percentage points higher than the private sector or government.

California nonprofits attract more than $40 billion in out-of-state federal and philanthropic funding – a burden that would otherwise be borne by California taxpayers. What’s more, nonprofits routinely and successfully advocate for additional ongoing and one-time funding from the federal and state governments to support state and local programs that often create new, permanent public sector employee positions.

The various new requirements proposed by AB 2557 create serious concerns:

- Encompasses a wide and unclear scope of services and job functions;
- Goes further than the contracting standards that the state utilizes (Government Code 19130);
- Creates duplicative, expensive reporting requirements without clear additional public benefit;
- Seeks to expose sensitive information about nonprofit workers, potentially in violation of state and federal privacy laws;
- Drives up the costs of services provided by nonprofits when resources are already scarce;
- Increases organizational overhead, jeopardizing donor confidence and further restricting access to resources; and,
- Creates significant new risks, uncertainty, and compliance costs (e.g. paying for new audits) for nonprofits – without identifying a funding source for such expenses.

AB 2557 has the potential to dramatically reduce nonprofits' ability to pursue or renew partnered efforts and to reduce the flow of public dollars to already under-resourced communities.

We fervently believe that a robust nonprofit sector complements a strong public sector. As an example, a ballot measure is pending in Los Angeles County to raise more than a billion dollars annually supporting homeless services and affordable housing construction. The framework negotiated by civic leaders, nonprofit service providers, and public employee union leaders exemplifies an equitable approach to public and nonprofit service provision that expands support for the most vulnerable.

We are keen to work with labor and state leaders to thread the needle of ensuring robust public employment, improving the ability of nonprofits to partner with government, and continuing to ensure quality services for Californians who are counting on both the public and nonprofit sector to continue to work together on their behalf.

But AB 2557 raises serious concerns for California's nonprofits, and we respectfully request that you vote "no."

Sincerely,

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