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NONPROFITS IN PERIL

Common Sense Solutions to Stop Jeopardizing Critical Services for New Yorkers

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New York's safety net is in jeopardy.



The State has long contracted with nonprofits to provide essential services to communities across New York.

But persistent delays in payment, an over-reliance on nonprofits to front costs, and a burdensome contracting process have undermined the sector's stability for decades.

"Every two weeks I go through the same anxiety - will we have enough cash to pay payroll?"

It's like Groundhog Day."

-Nonprofit Leader in NY

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Introduction

New York State has long contracted with nonprofits to provide critical services in communities throughout the state — from early childhood education and mental health services to homeless housing programs, substance abuse treatment, and the arts. These social safety net services and cultural resources are an extension of the State, providing resources to millions of New Yorkers every day, strengthening the economy and all communities.

In addition to the services they provide, nonprofits are a critical part of the New York State economy. From the New York State Comptroller Tom DiNapoli's January 2025 report, [*The Critical Role of Nonprofits in New York*](#): "Nonprofits have a greater presence in New York than in many other states. While nonprofits in the U.S. accounted for 3.1 percent of all private sector establishments, in New York, the concentration was 5 percent. With 1.3 million jobs, New York has the greatest number of nonprofit jobs, 10.6 percent of the national total. In New York, just over 1 in every 6 private sector jobs were at a nonprofit."

"Given their crucial role in the State and regional economies and in delivering critical services, supporting NFP organizations must be a priority."

- Office of the New York State Comptroller 2023 Calendar Year Not-For-Profit Prompt Contracting Annual Report

Per the New York State Comptroller Tom DiNapoli's May 2024 report, [*2023 Calendar Year Not-For-Profit Prompt Contracting Annual Report*](#), of the total contracts reported by State agencies in 2023, 56% were processed after their start or renewal date. Additionally, 14 (45%) State agencies reported that 100% of their contracts were late.

New York State Finance Law states that reimbursements should be paid within 30 days, but delays in reimbursement payments consistently last months and can last more than a year. The end result is a destabilized nonprofit community providing free financing to the New York State government. To make matters worse, nonprofits regularly have to obtain lines of credit to continue operating while waiting for reimbursement for services delivered — often at 10% interest or more. Meanwhile, in the rare case that nonprofits receive an interest payment from New York State for the delayed reimbursements, they are only paid 3% interest — the gap must be made through private fundraising.

Organizations located in New York City face a dual challenge, as evidenced by the [*recent report*](#) by New York City Comptroller Brad Lander, making it even more critical that the State provide consistency.

Sample Challenges Faced by Nonprofits



Running out of funds

"We have 'floated' this program with reserves for six months as we continue to wait on a contract but are reaching the end of the line with our funds. Soon we will need to begin laying off the program's 11 staff and communicating to low-income residents that we cannot offer these vital services."



Navigating bureaucracy

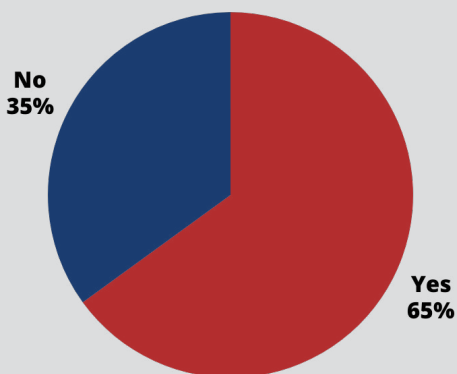
"During the voucher process, we were given specific instructions by one State agency and months after, another agency requested changes that were different from the initial instructions given. Halfway through the contract, New York State implemented a brand new way to process reporting and vouchers. I spent two years and many hours trying to get that \$20k contract paid. I eventually left the organization, and my colleagues spent another year trying to close it out."



Waiting on contract execution

"We have two contracts totaling almost \$2M with a State agency. We have had these contracts for many years. For the past two years, our contracts that began on July 1 were not executed until March and April of the following year, resulting in a significant strain on our cash flow."

% of NYS Nonprofits Concerned About Funding Basic Operations in 2025



Payment and Contracting Reform Needed Now More than Ever

Addressing these challenges is particularly critical now, as an increasing number of nonprofits report they are struggling financially. A recent statewide survey among the New York Council of Nonprofit's 3,100 members found that 65% said they are concerned about funding basic operations in 2025, up from 62% the year before.

These financial struggles are also directly impacting nonprofits' ability to recruit and retain staff to deliver critical services, a problem that is being further compounded by funding cuts (and the threat of additional funding cuts) to nonprofits by the federal government. Such challenges are also threatening nonprofits' ability to exist: the New York Council of Nonprofits has seen a growing increase in the number of nonprofits seeking to dissolve, now up to about 1 request every 10 days.

A Legislative Solution: S7001 Mayer/A7616 Paulin

A new bill ([S7001 Mayer/A7616 Paulin](#)), seeks to make changes to the [Prompt Contracting Law](#) that would help to address nonprofits' largest challenges with State funding. Those changes include clarifying language in the existing law, expanding the use of written directives, mandating and increasing the interest rate on late State payments, and more.

Similarly, clarifying, standardizing, and streamlining these processes would benefit the State agencies that process these contracts. The proposed changes are also written in a manner that would ensure continued integrity within the contracting process. Importantly, this bill will ensure that nonprofits are able to access the funds that have been appropriated for their services and contracted to them upfront. By ensuring all contracts include a 25% advance, which State agencies will recuperate during the contract, nonprofits will have the funding they need – when they need it – to pay for salaries, benefits and more.

Passage of this bill will help ensure critical services can continue to be provided.

KEY COMPONENTS OF THIS BILL INCLUDE:

Contract Execution

1) Streamlined Renewals - 179-q(9)

Expand the definition of renewal contract to include any contract between the State and a nonprofit entity to provide similar services as provided under a previously approved contract. This would eliminate the need for the renewal to be continuing an existing, in-process contract.

Rationale: This change will make more contracts a "renewal contract" and thus streamline the process for new contracts with known nonprofits. A streamlined process with more contracts will create efficiencies for State agencies and allow for more timely contract approval, future payments, etc. for nonprofits.

Current "renewal contract" definition: "The documents necessary to continue in effect an existing contract between a State agency and nonprofit organization, including any simplified contract documents in a form approved by the Office of the State Comptroller."

2) Services Prior to Contract Execution - 179-s(4)

Add language: When a State agency deems it necessary for a nonprofit organization to commence the provision of services prior to full execution of a contract, the State agency will issue a written directive stating the commencement date of services along with a schedule for submission of invoices for completed services and related payments.

Rationale: A clear timetable will provide clarity for nonprofits' budget planning and assurance that funding will be provided to cover expenses made before the full contract is signed.

3) Payment Schedule for Planning Purposes - 179-q(14)

Expand the definition of written directive to require that all written directives include a schedule for submission of invoices for work completed and the State's payment schedule. Any late payments from the State (based on the dates in the written directive) shall then be subject to automatic interest payments.

Specifically Prohibit: The use of stop the clock letters being used to circumvent State prompt payment laws and payment of interest (see #7 below).

Rationale: This change gives nonprofits clarity on when work should begin and when payment will be received, allowing for budget planning. This also gives State agencies an incentive to finalize a new contract.

4) Indirect Cost Rate - 179-ee(4)

Establishes a minimum indirect cost rate to be included in all nonprofit contracts with State agencies that is consistent across all agencies. The de minimis rate shall be 15%, or the nonprofit organization's federally-approved de minimis indirect cost rate, or the nonprofit's actual indirect costs related to allowable expenses under the contract — whichever is higher.

Rationale: All programs include costs that can't be directly allocated and consequently can only be recovered through inclusion of an indirect cost rate. For example, these costs include the finance and administrative personnel required to ensure compliance with nonprofit contracting and operations laws. Nonprofits typically do not receive enough State funds to cover these costs and requiring that a de minimis indirect cost rate be included in all contracts would ensure nonprofit viability.



Mitigating the Impact of Contracting Delays

5) Automatic Payments

179-u(1) provides automatic advances on all nonprofit contracts within 30 days of the contract's execution. 179-u(2) ensures automatic advances for renewal contracts where written directives have been issued if contracting is delayed, and allows for additional automatic advances if contract execution delays continue into subsequent quarters.

Rationale: These changes ensure that taxpayer dollars are being issued to commence or continue necessary services. For new contracts, this change ensures nonprofits have the cash on hand to pay for staff and operational expenses, thereby reducing the reliance on costly credit lines. If contracting is delayed by more than 30 days, written directives with advances must be issued. For renewal contracts, where services continue regardless of how long it takes to execute the contract, this change ensures nonprofits have the cash on hand to continue program operations regardless of contracting delays.





6) Immediate Interest Payment

State agencies shall pay any interest due with the first payment made under a contract to help nonprofits alleviate cash flow problems.

Rationale: This is a recommendation from the Comptroller's report. Such funding is most helpful at the beginning of a contract when nonprofit organizations are most likely to need to borrow funding due to delays in receiving State payments.

7) Payment of Prime Interest Rate - 179-v(2)

Change the level of interest payments to the current prime interest rate, communicated to nonprofit organizations and the Comptroller by the Commissioner of Taxation and Finance on a quarterly basis.

Rationale: The prime interest rate is likely the rate a nonprofit will need to pay if it must borrow funds because of a delay in receiving State funds. Bank credit lines are often used by nonprofits to cover basic operational costs when State funding is delayed, and they follow the prime interest rate.

8) Reimbursement of Interest Expenses

Require that interest paid on loans and lines of credit used to cover expenses as a result of State contracting/payment delays are included as reimbursable, direct expenses for the grant.

Rationale: Interest expenses for nonprofits are a program cost that should be reimbursed by New York State.

9) End Waiving of Interest - 179-v(7)

Eliminate this provision that allows State agencies to waive interest.

Rationale: This can be seen as a device to force a nonprofit to approve a waiver to finalize a contract. Waiving the right to interest also eliminates the incentive for State agencies to finalize contracts, which is the goal of prompt contracting law.

Mitigating the Likelihood and Impact of Payment Delays

10) Budget Modifications - 179-ee

Establishes timelines for agency response to a request for budget modifications and allows for final vouchers to consistently be used as budget variance requests for small changes.

Rationale: Currently there are no timelines for budget modification approvals, so requests for modifications regularly sit with an agency for many months with no response, during which time the nonprofit is unable to request reimbursements included in the modification. Also, currently some agencies do not allow for a final variance request at the end of the contract, resulting in unreimbursed expenses and underspent contracts.

11) Payment to Subcontractors - 179-f(2)(e)

Where a nonprofit contract has a subcontractor, allow the nonprofit to submit an invoice of a subcontractor as proof of the cost so that the nonprofit may pay subcontractors upon receipt of payment on the invoice or voucher by the agency, in which case proof of such payment by contractor to the subcontractor shall be provided by the contractor to the state within 30 days of the receipt of the voucher payment.

Rationale: Some State agencies contract with one nonprofit with the expectation that they will then subcontract to other entities to perform the service. This will ensure that a nonprofit has the cash in hand to make the payment, which is critical when the subcontracts combined may exceed the nonprofit's cash reserves.

12) Limits "Stop-the-Clock" Notices to Material Defects - 179-f(3)

Limits the practice of pausing the calculation of time for when interest is due for late payments to material defects in vouchers and only in the first 14 days.

Rationale: Ensures consistency across all agencies in the treatment of voucher defects, and stops the practice that some agencies currently engage in of compounding stop the clock notices — e.g. notifying a nonprofit of a defect, stopping the clock, and waiting for that defect to be corrected before notifying the nonprofit of another defect that was present in the original voucher, again stopping the clock, and so on, resulting in reimbursements that are months late with no interest paid.

Ensure Public Awareness of the Not-for-Profit Short-Term Revolving Loan Fund

13. Notice of Loan Program - 179-z(5)

Written directives shall include instructions on how to access the Not-for-Profit Short-Term Revolving Loan Fund. Information on the Fund shall be posted on the websites of the State Comptroller and the New York State Nonprofit Unit.

Rationale: Most nonprofits do not know that this program exists, and if fully funded, it could provide a viable and less-costly option for nonprofits to bank and market loans.



Additional Non-Legislative Steps

Ensuring Continuity of Services:

Automatic Contract Extensions

1) Provide automatic three-month contract extensions if the extension or renewal process is not completed within 10 days of the original contract end date.

a) From North Carolina's Grants and Contracts Reform law, such an automatic extension would give nonprofits the ability to plan a program's staff and budget even when there are unanticipated holdups with the renewal process.

Immediately and Aggressively Pursue Systems-Wide Efficiencies:

By creating clarity and consistency across New York State agencies, drawing from existing best practices, the governor has the power to radically improve the processes for nonprofit grantees, agencies, their staff, and the New Yorkers nonprofits serve.

1) Assess individual agency processes to determine efficient workflows, best practices, and staffing levels with a goal of identifying strategies or investments that will allow for faster processing of RFPs, execution of contracts, processing of vouchers for payment, as well as administrative efficiencies for government and contractors resulting in administrative savings across both sectors.

a) Specifically identify where fiscal savings can be achieved through use of consistent processes, documents, and templates across agencies; time saved, reduced training needs across agencies, ability to utilize staff from other agencies when needed for backlogs, etc.

b) Require consistent contracting and vouchering practices across all agencies.



i. All document submission should be electronic. Some agencies still require paper submission, including back up documentation. This can be hundreds of pages that need to be printed and mailed for contracts and voucher submission, taking up valuable staff time, wasting paper, and imposing costly shipping charges.

ii. Contracting and vouchering forms, including Minority and Women Owned Business Enterprise (MWBE) forms, should be consistent across agencies.

iii. Templates for budgets and data should be in Excel and include formulas as appropriate to reduce errors and save time.

iv. Make allowable costs consistent and inclusive of the real cost of providing services, including technology. Some agencies or contracts do not allow organizations to charge the cost of rent and other overhead costs that are essential elements necessary to run the organization and thus meet contract deliverables.

Additional Prompt Contracting Legislation

1) [S2075 Mayer/A506 Paulin](#)

Establish a “non-compliant State agency” category that outlines three circumstances of delayed or non-action by an agency on a contract.

Rationale: Nonprofit organizations provide critical services as an extension of the State via contractual agreements. However, the contracting process in New York State is consistently slow, delaying payment and undermining the financial stability of nonprofit providers. Establishing oversight of the State’s process of contracting with nonprofit organizations, including establishing clear contract payment schedules and reimbursement of interests for failing to meet these timelines, will ultimately improve the delivery of essential services to the most vulnerable New Yorkers. Without a reasonable degree of certainty of timeliness in payment, nonprofit organizations consistently struggle with cash flow and ability to meet service deliverable commitments and planning for retention and hiring of staff is severely impeded. This could help take critical steps to address the chronic delay in contracting execution in New York State.

2) [S2262 Cooney/A5659 Zinerman](#)

Move the Not-for-Profit Contracting Advisory Committee to report to the Comptroller’s Office.

Rationale: Currently the committee hears updates reported by the Governor’s Office but does not take the actions needed to implement change. Moving the committee to the Comptroller’s Office could help make real changes to help nonprofit organizations by advancing grantee government accountability and a better contracting system.



3) [S5756 Cleare/A5677 Zinerman](#)

Create an effective New York State online portal to track progress of nonprofit awards and contracts. This could be accomplished by expanding information available on the Open Book NY website or in the new Statewide Financial System (SFS).

Rationale: It is often impossible for nonprofits to determine where their contract is in the approval process. In addition, information would help nonprofits make staff and budget decisions for a program. Currently, organizations can go months not knowing when or if a contract will be finalized, making staffing and budget planning impossible. When agency staff change, valuable time is lost determining who to contact for questions. This also relates to the Comptroller’s suggestion (in his [2021 Not-for Profit Prompt Contracting Annual Report](#)) for State agencies to increase their use of the State’s grant management system and use tracking tools to identify and address processing delays. Also, the report recommended that “efforts to establish a single statewide grants management system in the Statewide Financial System should be supported by grant-making State agencies.”

Contracting Stories

Cash flow strains

"We have two contracts totaling almost \$2 million with a State agency. We have had these contracts for many years. **For the past two years our contracts that began on July 1 were not executed until March and April of the following year, resulting in a strain on cash flow.** Since the transition to SFS, this agency refuses to change the way they do things. It does not appear that all State agencies are changing the way they manage the contract process."

Poor institutional knowledge of grantees

"In regards to getting the new period budget approved (10/1/23 - 9/30/24), the process started in mid-August 2023. The contract is currently pending final execution from the State, as of 6/12/2024. The correspondence in-between consisted primarily of delay due to SFS; asking a list of clarifying questions; us responding to their inquiries; followed by another list of clarifying questions that were either duplicate in nature, or were not in the initial list, or were already provided. **In conclusion, there does not seem to be a mechanism that retains institutional knowledge of grantees that is learned by the contract manager, beyond following procedures and a checklist.** Having something in place that retains the knowledge will help significantly."

Contract payments that are years late

"The contract took time to finalize after much back and forth. The final budgeted amount was confirmed and signed with the agency but was not communicated to the finance team processing the voucher... **I spent two years and many hours trying to get that >\$20,000 contract paid. I eventually left the organization, and my colleagues spent another year trying to close it out.** Overall, I would like to say in regards to moving Grants Gateway to SFS, I would like to see the entire contract life cycle in one place."

Late contracting threatens client safety

"My organization received three NYS grants this year. While we submitted documents well ahead of the grants gateway to SFS transition, there was no record of our contract documents being submitted and no notification that this was the hold-up. Once we learned these documents needed to be uploaded again, they were submitted, and I reached out to the grants administrator for confirmation and next steps...**The State will now take up to six weeks to review the form and then we can move forward in the contract process. We had hoped to complete this project to replace our building ramp and stairs this fall as the snow and ice falling off the building is dangerous to anyone using the ramp.** Starting before the spring will likely not be possible unless we are willing to start the project "at risk" without a contract..."

Slow responses leave nonprofits in limbo

"...slow responses in some cases leave us in limbo when we are eager to lock in funding and programmatic direction. Also, trainings and other mandatory meetings can be limited, and with small organizations like ours, it can be difficult to meet all needs. Having a recording to watch and attest to viewing would be ideal when possible. Lastly, it would be best to have a clear target audience and summary for certain RFPs to help abbreviate details so smaller nonprofits can more quickly review eligibility and alignment."

Staff layoffs and reduced services

"We have been waiting on the execution of one of our contracts that began in July 2024. It is now the middle of November 2024 with no contract advance.... **Meanwhile, we have 11 staff who are directly affected and over 80 units to produce for that we cannot start, six months into our contract.** We have "floated" this program with reserves, but we are reaching the end of the line with funds. We will need to begin laying staff off and communicating to low-income residents that we cannot offer vital and needed weatherization services. This is one of many examples over the past several years, across departments, where funding has been delayed."

Delayed budget modification process

"Going into year four of a five-year contract, we were instructed to simply enter the same budget into the contracting documents to ensure the contract would be processed quickly. **When we then tried to modify the budget to reflect our actual anticipated costs, we received no response to the modification for 6 months. Not one update from the agency, despite repeated requests for information.** Because our staffing had changed, we were unable to voucher for reimbursement that whole time."

Rounding errors lead to payment delays

"With one agency, we regularly receive three or more "stop-the-clock" notices for each voucher, each for things that were present in the original voucher, sometimes for rounding errors. **This results in delays of six months or more for payment on each voucher.**"

Struggling to meet payroll

"We have over \$1.5 million in receivables from the State at all times. **Every two weeks I go through the same anxiety - will we have enough cash to pay payroll? It's like Groundhog Day.** On paper we have plenty of money, but in reality, we run out of cash. I have to call agencies over and over to beg them to move more quickly on payment for vouchers that are many months past due."

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