

# Nonprofits: Wage Hike's 'Domino Effect' Looming

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state's 1977 Lanterman Act.

While the legislation has been hailed as a turning point toward integrating individuals with disabilities into mainstream society, nonprofit leaders like Stevens say state budget cuts and the rising minimum wage threaten to hamper the progress made since its passage. Government-scheduled reimbursement rates payable to service providers like **New Horizons**, a North Hills nonprofit that offers vocational education and work programs for those with special needs, have increased only marginally during the past decade, according to Interim Chief Executive **Roschell Ashley**.

"We have people living longer and becoming medically fragile, but we don't have the additional funding coming in to provide extra support," she said.

Moreover, while monies allotted to regional centers by the Department of Developmental Services have increased in conjunction with the statewide minimum wage, local ordinances for higher minimum wages are not covered by such funding. If nothing changes, coming into compliance with both county and state mandates will cost New Horizons roughly \$6.3 million by the time the gap closes in 2022, according to Chief Financial Officer **Greg Santilli**.

Legislation introduced by Assemblyman **Chris Holden**, D-Pasadena, may provide some relief. If passed, Assembly Bill 279 would give regional centers and the DDS authority to increase rates paid to service providers to meet the cost of compliance with local wage mandates.

"It's critical that AB 279 is supported and passed," Ashley said. "That way, we'll at least have some way to offset the expenses."

## Ripple effects

The proposed bill would not eliminate every challenge nonprofits like New Horizons are facing in light of the minimum wage hike. For instance, some of the organization's job preparation programs are contingent upon partnerships with businesses that can afford to hire persons with developmental disabilities, some of whom may require extra time and supervision to complete tasks. With the higher minimum wage, those companies' labor costs increase. If profits do not rise in tandem, companies may be forced to take on fewer such clients or cut ties altogether, Ashley explained.

Still, the bill would allow service providers to stay afloat, which is vital not only for clients but for the business community as a whole, she added. The loss of day programs or residential facilities would place the responsibility of caring for individuals with intellectual disabilities on their family members, many of whom might have to quit their jobs in order to do so. Such implications led business advocacy group **Valley Industry & Commerce Association** to officially endorse AB 279 following a vote by its board on March 23.

"I think the domino effect is greater than people truly understand," Ashley said. "If people have to stay home, businesses are affected."

So far, the bill has faced no opposition, and is slated to go to the Assembly this spring.

## Payroll schedule

Organizations such as New Horizons have been weathering inconsistent funding for years, Santilli noted, and nonprofits generally are used to having to do more with less. Yet the speed at which L.A. County is moving toward a \$15 an hour minimum wage poses a burden that could prove fatal for some service providers.

"What's really creating the funding gap is the difference between the state minimum wage schedule and the city of L.A. schedule," Santilli said. "We're having to implement higher wages in advance, both in terms of time and in dollar amount."

The most dramatic increase is slated for July 2017, when the minimum wage in L.A. County will jump from \$10.50 to \$12 an hour – a full dollar greater than elsewhere in the state. Santilli



PHOTOS BY MIKE BAKER

**Optimists:** New Horizons Interim Chief Executive Roschell Ashley and Chief Financial Officer Greg Santilli at North Hills campus.

expects the move will cost New Horizons roughly \$857,000, which takes into account both the \$1.50 difference between the old and new minimum wage as well as the price of "compression," or raising the hourly pay of longtime employees to reflect their relative experience.

"If I bring everyone else up to \$12 an hour, am I going to leave that tenured person at \$12 an hour? No way," he said. "I have to bring them up to \$13.50 an hour, which is \$614,000."

Without policy changes, the first six-month gap between the implementation of wage hikes in L.A. County and the state will require New Horizons to foot \$202,000 of the \$243,000 needed to bump entry-level employees to the new minimum wage. Subsequent increases will compound the figure further; including compression, roughly \$6.3 million of the cost to comply with the new minimum wage will go unfunded, Santilli said.

Like all nonprofits, New Horizons technically will have an extra year to comply with the change. However, it plans to adhere to the regular schedule if possible, Santilli said, as offering employees less than they could make at a fast-food restaurant risks exacerbating already high turnover, which ultimately hurts clients by propagating instability.

"If we were to decide we only want to go up to \$11, why would anybody stay when they could go to McDonald's or Jack-in-the-Box and get \$12?" Santilli asked. "When you're at that wage level, that dollar an hour is huge."

## Chronic funding decline

While the cost of a higher minimum wage is weighing down regional centers and the businesses with which they contract, funding troubles started well before the "fight for 15." Reimbursement rates for service providers have changed little since 2000, according to the **Association of Regional Center Agencies**. In some cases they have decreased: In 2009, the state cut rates by 10 percent for employment education programs like those offered by New Horizons, Ashley said, after which they were not adjusted again until last year. Other sectors have fared even worse – rates for housing services have not increased since 2008, she added.

"You've got your cost going up for critical components like housing, but you don't have any additional funding coming in," Ashley said. "It's a huge threat, especially to smaller housing providers."

Pressure from rising fixed costs coupled with a higher minimum wage has forced as many as 30 percent of housing nonprofits to close their doors, she estimates. Finding a moderately-priced home



**Front Line:** Ashley with client in kitchen at Sam's Cafe, a training facility and eatery.

in Southern California is already a challenge; tracking down one that can accommodate a group or even an individual with disabilities is much more difficult, according to Stevens.

"(Residential services) are really the foundation of what we do," he said. "But prices in the San Fernando Valley are very high, which makes finding housing that can accommodate our clients even harder."

The Lanterman Act allows regional centers to appeal to the state for provider rate increases under certain circumstances. Community-based day

where a provider must receive a higher payout in order to comply with the statewide minimum wage. The application process for unanticipated rate adjustments is both time-consuming and frequently futile; more than two-thirds are declined, according to the Association of Regional Center Agencies.

The only other path to securing higher rates for providers is to submit a health and safety waiver, the use of which is generally limited to cases where more funding is necessary to ensure the continued welfare of specific clients. Still,

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GREG SANTILLI, New Horizons

care centers, such as the **Tierra del Sol Foundation** in Van Nuys, and in-home respite services can apply for "anticipated" rate adjustments for the following year in the case of staffing, program or location changes, according to the DDS.

Requests for immediate rate increases are designated "unanticipated" rate adjustments, which are most commonly used in situations

a lack of viable alternative means for soliciting rate increases for providers has left organizations without other options. One Northern California regional center recently received 4,000 separate health and safety waiver requests from transportation vendors who otherwise would have been unable to comply with local minimum wage ordinances, the association said.