Testimony of Michael Owh,

Director of the Mayor's Office of Contract Services, and

City Chief Procurement Officer

Before the New York City Council Committee on Contracts

"Oversight – Challenges Facing Nonprofits in City Contracting"

April 4, 2016

Good afternoon Chair Rosenthal and members of the City Council Committee on Contracts. My name is Michael Owh and I am the Director of the Mayor's Office of Contract Services (MOCS) and the City Chief Procurement Officer (CCPO). Thank you for the opportunity to testify about the City's efforts to strengthen nonprofits and the communities they serve.

The City recognizes the importance of nonprofit organizations to communities throughout the five boroughs, both as service providers and employers, and manages a number of initiatives to support nonprofit organizations. These initiatives have been delivered in close collaboration with nonprofits and advocates, such as the Asian American Federation, Black Agency Executives, Coalition for Asian American Children and Families, Federation of Protestant Welfare Agencies, Hispanic Federation, Human Services Council, New York Immigration Coalition, The New York Urban League, UJA Federation, United Neighborhood Houses, as well as others. The City – through its human service agencies, MOCS, and HHS Accelerator – is committed to offering quality services to clients and supporting our nonprofit providers throughout the procurement and contracting process.

MOCS provides specific support to nonprofit providers as well as the City's human service agencies. In partnership with the Council, MOCS provides regular, free trainings to nonprofit professionals and board members, including subjects such as financial management and budgeting, board development and strategic planning, volunteer management, fundraising, and contracting with the City. To date MOCS has trained more than 4,000 nonprofit leaders and has provided trainings for

Council Members and their staff. MOCS also operates the NYC Nonprofits helpline and responds to more than 10,000 requests for assistance annually from nonprofits on questions related to City contracts as well as nonprofit governance.

In addition, MOCS has completed hundreds of governance reviews, which we have leveraged to develop and disseminate best practices for nonprofits in an effort to reduce risk to our providers as well as the City. MOCS manages the group purchasing program, which allows nonprofits to maximize savings through volume purchasing and provides regular engagement through our helpline, website and social media.

MOCS also partners closely with the HHS Accelerator team, which is dedicated to reducing administrative burden and improving the business relationship between providers and City Agencies through a series of activities:

- Collaborating with City Agencies to standardize and simplify Requests for Proposals (RFPs);
- A prequalification process where providers share their organizational profile and submit critical background documents once every three years;
- Electronic issuance of RFPs and submission of proposals;
- Electronic submission of budgets and invoices;
- A consolidated view of contract financial data and provider activity;
- And increased transparency for providers and agencies, allowing providers to track the status of all procurements, proposals, contracts, budgets, invoices, payments, and amendments in the Accelerator system.

In addition to facilitating these operational benefits, HHS Accelerator is at its core a service organization committed to providing support to its users and stakeholders. Since the launch of Accelerator in 2013, system users have grown to more than 7,000. We have more than 2,000 organizations, mostly nonprofits, prequalified and ready to respond to human services RFPs through the

Procurement Roadmap portal. The Accelerator team has conducted 255 trainings for 1,878 provider staff, and 91 trainings for 697 City staff for the various functional components of the system and these numbers continue to grow as we offer ongoing training in person and online. The Accelerator team is also present at each agency RFP pre proposal conference to ensure providers are aware of what is necessary to compete. In addition, as an RFP due date approaches the Accelerator team reaches out to providers to ensure they feel comfortable working with the system and know how to submit.

The City has issued 93 RFPs through the Accelerator system thus far, resulting in 1,451 awards. In addition to RFPs, usage of Accelerator Financials – the portal used for contract budgets, invoices, and payments – is also on the rise. In Fiscal 2015, Financials managed $591 million and 499 contract budgets across six agencies. In Fiscal 2016, this has grown to $1.2 billion and 656 contract budgets across nine agencies. And in Fiscal 2017, we expect Financials will manage more than 1,900 contracts and more than $2 billion in contract funding. This shift to the standardized management of human services contract budgets, invoices, and payments not only reduces administrative burden for both the City and nonprofits by removing paper and providing financial controls, but also provides tremendous transparency for providers as they manage their City funding portfolio.

This Administration understands the importance of strengthening communities through human service contracting, and is committed to rethinking the process for procuring human services to ensure that the process reflects the Administration's values. As the Administration moves forward with ambitious reforms, it is essential that our nonprofit sector is strong and viable to achieve these goals. The City currently contracts with approximately 1,200 organizations for $4 billion annually in human services funding. A healthy sector requires diversity, and we have been working City agencies and our nonprofit stakeholders to promote equity through community based program design in each RFP, increase access and community outreach during the RFP development and proposal process, support the capacity of community based organizations, and further reduce administrative burdens. We are committed to addressing the needs of the sector to ultimately better serve the residents of New York City.

We look forward to working together with the Council to support the City's nonprofit sector. Thank you again for the opportunity to testify today. I would be happy to answer any questions the committee may have.

United Neighborhood Houses

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Testimony of United Neighborhood Houses Before the New York City Council Committee on Contracts Honorable Helen Rosenthal, Chair On Challenges Facing Non-Profits Contracting with New York City

Presented by Gregory Brender, Co-Director of Policy & Advocacy at United Neighborhood Houses
Judy Zangwill, Executive Director at Sunnyside Community Services
Elizabeth Hoagland, Senior Manager of Education & Workforce Development at Stanley M. Isaacs Neighborhood Center

April 4th, 2016

Good afternoon. Thank you for convening this hearing and for the opportunity to testify. My name is Gregory Brender and I am here on behalf of United Neighborhood Houses, New York City's federation of settlement houses and community centers. I am joined by two colleagues from UNH member agencies- Judy Zangwill from Sunnyside Community Services and Elizabeth Hoagland from Stanley M. Isaacs Neighborhood Center. I will discuss general issues facing settlement houses and other nonprofits working under contract with the City. Constantine and Elizabeth will talk about two urgent and pending RFP's that currently present enormous challenges for nonprofits. Constantine will discuss the Department of Health and Mental Hygiene's RFP *Decreasing Depression and Increasing Social Connectedness* which utilizes the funds formerly allocated by the City Council's Geriatric Mental Health Initiative and Elizabeth will discuss HRA's *Youth Pathways Program* which will provide assessment, service planning and wraparound support to help connect 18-24 year old public assistance recipients to workforce and educational opportunities.

Background

UNH's 38 member agencies provide a broad range of services including early childhood education, after-school programs, summer jobs for teenagers, adult literacy education and services for older adults at over 600 sites throughout all five boroughs. UNH member agencies work creatively to cobble together funding to provide the services that their communities need. They rely upon contracts from all levels of government as well as private philanthropy to ensure that the programs they offer are culturally appropriate for their communities. And because City funds remain the most important source of support for most of the services, we hope to work with both the administration and the City Council to address many of the issues facing city contracted program including:

- Inadequate pay and benefits for the non-profit workforce;
- Insufficient time to plan programs and services;
- Inadequate rates to support programs, especially to fund indirect costs; and
- Overlapping and contradictory program requirements.

Inadequate Staff Salary and Benefits

Despite the progress being made to implement the City COLA and wage floor and the expected increases in the minimum wage for the nonprofit human services sector, the pay scale for many human services staff funded by city contracts remains embarrassingly low. Many staff in early childhood education, after-school, adult literacy and older adult programs struggle to make ends meet and have incomes low enough to qualify for food stamps, Medicaid and child care subsidies. For these staff, as much as they appreciate having jobs where they are able to serve their communities, they simply cannot afford to live or raise a family in New York City on the salaries that government funded contracts provide. These low wages drain the field of talented, committed individuals who for financial reasons leave to work in fields that pay a livable wage.

Last month, United Neighborhood Houses and Campaign for Children released a report, *Losing the Best*, which analyzed the performance of different Pre Kindergarten programs using the City's own metrics. We found that on average community based organizations outperformed public schools on nine out of ten metrics including language reasoning, program structure and classroom organization.

However, the very programs which by the City's own metrics were providing the highest quality early childhood education are themselves facing instability due to City policy. The staff, teacher and directors in community based early childhood education programs are paid much less than their similarly qualified colleagues in the public schools. For example, a certified teacher with a master's degree in a community based organization may have a starting salary below $40,000 while her colleague with the same qualifications would start at $58,000. After ten years this cap would grow even larger. The teacher in a community based organization would have seen her salary grow to only $41,000 while if she had been a teacher in a public school, her income would have increased to $79,000.

This inequity in salary has caused nonprofits to lose many of their teachers who simply cannot afford to stay in jobs where they are so inadequately compensated. And we are seeing the results in an outflow of staff. A survey of community based organizations providing early childhood education, conducted by the Day Care Council of New York, found that 56% were operating with vacancies for certified teacher positions.

It is a dangerous precedent to set up a two tiered salary level for staff with the same credentials providing services in different venues. What is happening in early childhood education programs can be seen throughout nonprofits as dedicated staff weigh their dedication against the cost of living in New York City with a low-wage job. UNH urges the City to make the investments necessary to ensure adequate wages for staff in contracted nonprofits.

Insufficient Time to Plan

Most of the City Budget is baselined and City agencies can plan programs to re-occur over multiple years. However, the small percentage of the City budget that is allocated annually by the City Council makes up a large portion of the funding that supports nonprofits and provides many core services. For example, the City budget for the current fiscal year has the City Council funding cores services including weekend meals in senior centers, several Naturally Occurring Retirement Communities supportive service programs, 50 COMPASS Elementary School After-School Programs and 13,000 jobs through the Summer Youth Employment Program.

Since City Council members know the neighborhoods that they represent, they are well positioned to choose services and providers that their communities need. However, with key programs such as those mentioned above, nonprofits are often only able to plan for services after the adoption of the City budget near the end of June. This means that program participants often do not know whether the services that they count on will be funded again and whether nonprofit staff know if they have a job next year.

For summer programs, the challenges are even greater. Summer programs start just days after the budget is enacted and SYEP providers, for example, need time to secure worksites and link young people to jobs in order to ensure that youth are receiving a valuable work experience.

Inadequate Rates

A major reason that non-profits struggle to operate fiscally sound programs is due to the inadequate administrative rates provided under City contracts. The narrow administrative margins and escalating costs of doing business, including finding and retaining qualified staff, leaves little room in budgets for the purchase of supplies and the maintenance or upgrade of capital needs. In fact, according to a recent survey of the field conducted by the Human Services Council, nonprofit contractors typically received an indirect rate ranging from 2.3% to 12% on New York City contracts.

In recognition of the need for adequate indirect rates to ensure the stability and health of nonprofit providers, the federal Office of Management and Budget issued a guidance for entities that serve as an intermediary for federal funding, requiring that they apply the federally negotiated indirect cost rate to a nonprofit provider's contract, or when that provider does not have such a rate, that the pass-through entity apply a rate of 10%. Although this requirement went into effect for contracts issued after

December 26th, 2014, neither New York City nor New York State have communicated a plan to comply with this federal guidance. UNH urges the City to:

- Implement the guidance and accept human services providers' negotiated federal indirect cost rates or pay the 10 percent de minimis rate without prejudice to direct costs,
- Follow Federal OMB's lead and apply the 10 percent minimum to all other funds disbursed to nonprofit human services providers,
- Adopt the definition of "indirect costs" set forth in the Uniform Guidance with respect to all funds for consistency and ease of administration, and
- Maintain, if not increase, existing levels of program services.

Overlapping and Contradictory Requirements

The nonprofit sector is committed to transparency and accurately reporting on both the actual operation of programs and financial information. Clear regulations are necessary for government to fulfill its mandate to ensure that communities are well served and tax dollars are spent efficiently. But many of the regulations for delivering programs and services are not clear or they are redundant and should be streamlined to better use scarce resources while complying with regulations and policies.

For example, many UNH member agencies operate programs in spaces where city government is our landlord such as a public school building or a community space in a New York City Housing Authority (NYCHA) development. Negligent maintenance and capital problems often lead to a fine by regulatory agencies because of an exposed pipe in a NYCHA building or an inconsistency in facility requirements between a Department of Education classroom space used during the day and a School Aged Child Care regulation governing the use of the same classroom space after 3:00pm.

Furthermore, when programs are designed without the feedback and experience of providers, it can be challenging for providers of any size to implement them. Providers have the on-the-ground experience of operating programs and understand what it takes to run them. RFPs that require large outcomes with little resources are becoming commonplace, making it difficult for small and mid-sized providers to compete for such contracts. Having a diversity of provider size, rather than favoring behemoth organizations, is beneficial to the nonprofit sector overall. It also allows for providers to bid for contracts where they have specialties and expertise. The trend toward subcontracting, when a smaller provider works with a lead provider who is usually a bigger agency, is also problematic when the resources are not there to do this in a responsible way.

UNH urges the City to work with program providers to streamline regulations so that they are clear and consistent without affecting resources devoted to programming.

Thank you again for convening this hearing. At this point, I would like to have my colleagues talk about how their organizations are responding to the challenges presented by two highly problematic RFP's and then we are happy to take your questions.

JCCA

Repair the world
child by child

JCCA Testimony at Committee on Contracts Hearing –

"Oversight - Challenges Facing Nonprofits in City Contracting"

April 4, 2016

For additional information: Harriet Lessel, Director of Government Contracts and Advocacy, 917-808-4824, lesselh@jccany.org.

Thank you to Chair Rosenthal and members of the Committee for the opportunity to testify at today's hearing on behalf of JCCA, formerly known as Jewish Child Care Association.

My name is Jacqueline Sherman and I am the Chief Legal and Administrative Officer of JCCA.

JCCA's mission is to meet the child welfare and mental health needs of all those children and their families in the New York metropolitan area who are referred to us for care. Our highly trained, dedicated staff works collaboratively with families to build on their strengths, preserve the family when possible, and help create new families when necessary, so that each child can thrive by having a sense of belonging to a family, being a part of a community, and possessing their own cultural identity. We've been doing this for nearly 200 years (although I, personally, have not been with the agency quite that long).

Every year, JCCA provides comprehensive care to a diverse cross-section of thousands of children, young people and families, largely from disadvantaged and underserved communities, the overwhelming majority of whom are Medicaid eligible. Last year we served over 14,000 children. We embrace those who need us most -- abused, neglected and traumatized young people who are struggling with poverty, developmental disabilities and complex mental illness. Our wrap-around services include foster and residential care, educational assistance and remediation, case management for young people with mental health challenges, and services to families to prevent child abuse and maltreatment.

JCCA contracts with city and state agencies to address these significant and enduring social problems. We receive approximately 64% of our total annual revenue of $110 million through government contracts. We view these contracts and the partnership they represent between government and provider agencies as recognition of the expertise organizations like JCCA possess, which positions us to deliver crucial services to vulnerable children who frequently have no place else to turn. As such, I would like to discuss two of the issues highlighted in the Human Services Council's most recent report. One is funding for "indirect" expenses and the second is tantamount to a decrease in the level of funding for services over time.

In order to provide quality services that address entrenched social problems, an organization must have an efficient infrastructure to:

1. Manage human resources;
2. Ensure fiscal and contractual responsibility;
3. Electronically store and track data and trends about clients, services and finances;
4. Manage facilities;
5. Communicate consistently and accurately with our staff, clients and the general public; and
6. Ensure quality and innovation.

What does this mean?

- On the Human Resources front, it means being able to recruit, on-board, manage/supervise and retain talented staff; accurately track staff time and compensation; provide competitive salaries, benefits and training opportunities that keep pace with mandates and best practices—all of which requires expertise and a professional HR team—**which requires funding**.
- On the Finance front, it means being able to record revenue and expenses accurately and account for all transactions internally as well as to oversight agencies, responding to routine audits and generating analysis for planning and reporting purposes. All of this requires a sophisticated level of expertise—**which requires funding**.
- On the Technology front, it means being able to provide real-time information on the numbers and types of clients, demographics, services provided and outcomes of those services so that our time keeping, payroll, electronic medical records, quality assurance and finance systems provide accurate and timely data so that we can analyze that data for strategic planning and predictive trending models. This requires significant investments in hardware, software and strategic planning—**which requires funding**.
- On the Facilities front, it means that the dozens of locations where we serve clients must be not only welcoming, comfortable and well-maintained but also safe and secure and compliant with all fire and safety code requirements. This requires considerable investments in materials and ongoing maintenance—**which requires funding**.
- On the Communications front, it means maintaining a website, email communications system, social media presence and extensive printed material that help our staff and clients stay informed. This requires communication and marketing expertise—**which requires funding**.
- And perhaps most importantly, on the Quality and Innovation front, out of a fundamental commitment to provide the most effective and clinically promising treatment to our children and families, it means having the resources to monitor ourselves, engage in continuous quality improvement and stay apace with new treatment standards and best practices. This doesn't happen through osmosis—but rather through the dedicated time and energy of staff whose function is to oversee our programmatic work, explore the latest developments and work

collaboratively with program staff to constantly improve on our programs and services. And yes, you guessed it, **this requires funding**.

All of these are commonly recognized costs of doing business -- whether in the for-profit or not-for-profit sector. When it comes to nonprofit organizations, however, city and state funded programs do not cover the full cost of the infrastructure required to provide the contracted services. One way to attempt to cover these expenses is to include them in the indirect rate, when it is allowed. However, even in contracts where an indirect rate is allowed, it rarely represents the true cost. The typical indirect rate that JCCA can collect from city and state contracts is 10% even though the federal government has approved a 12% rate for JCCA. This rate is closer to the agency's true costs.

The second issue I wanted to raise today is what amounts to a decrease in the level of funding over time. In most cases, non-profits appreciate multi-year contracts because they mean that the service provider will have a steady income stream and does not have to invest in costly and time-consuming procurement processes from year to year. However, these contracts typically freeze funding levels from year to year – in some cases for up to 9 years. For instance, there has not been an increase in preventive contracts with ACS since 2009. Obviously, the cost of providing the services has not remained static. The biggest driver of increased costs is personnel and benefits. Health benefits have risen exponentially – in 2014 by 37%, an additional 8% in 2015 and 14% in 2016. Salaries also rise over time, especially if an agency's goal is to retain well-trained and high-performing employees. When one considers these constantly rising expenses, one realizes that an agency cannot provide the same level of services in later years as in the first year of a contract without going into a financial deficit. This means a hard choice for organizations: either reduce staff and increase caseloads when a contract allows for those kinds of changes, take on debt, dip into savings (if there are any) and/or utilize other funds to support the work. When government shifts a lack of adequate funding to address a significant social problem to nonprofit partners upon which it relies to provide those services, it forces the nonprofits to make impossible choices between what they know to be best practices in care or best practices in managing a business; either of these options puts any agency at risk of failing.

JCCA would like to thank the City Council and the Mayor for including a 2.5% Cost of Living Adjustment and $11.50 wage floor in last year's budget. These were positive steps to address the issues raised today. We are interested in partnering with the city and state to find solutions to these problems. We understand the pressures that government is under to provide the best services for the best rates. Part of the solution to these problems is additional funding to support strong infrastructure to enable nonprofits to provide quality services. However, there are other fixes as well. Changes to contracting rules would help to overcome some challenges. For instance, the city and state could rely on the federal indirect rate and/or implement a common-sense threshold for budget modifications to allow for flexibility when all contractual obligations have been met. Additionally, reducing the number of duplicative audits would allow organizations to deploy scarce resources more efficiently.

On behalf of JCCA and the rest of the provider community, I urge the committee to take a close and realistic look at the state of not-for-profit contracting in NYC. Increased funding for organizations entrusted with providing essential services for our most vulnerable citizens will promote the health and well-being of this great city's citizens—and just as importantly, hold the promise of reducing costs over the long run. Preventive services, early intervention with children and families at risk and delivery of evidence-based treatment will all reduce the probability of in-patient hospitalization, incarceration and irreparable damage to the individual psyche—and our society. Let's continue our city's rich history of providing for the less fortunate with a positive partnership between government and the organizations whose mission and purpose it is to promote their safety and well-being.

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Challenges Facing Nonprofits in City Contracting

Testimony by Sara Rakita
Managing Director, New York Immigration Coalition
New York City Council
Committee on Contracts
April 4, 2016

My name is Sara Rakita, Managing Director of the New York Immigration Coalition. Thank you to Council Member Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting. This issue is of great importance to the nonprofit sector and particularly for immigrant communities in New York, and I appreciate the opportunity to offer testimony on the contracting issues impacting nonprofits in New York City.

The New York Immigration Coalition (NYIC) is an umbrella policy and advocacy organization for 175 multi-ethnic, multi-racial and multi-sector organizations and groups that work with immigrants and refugees in New York City and State. A leading advocate for immigrant communities on the local, state and national levels, the NYIC promotes and protects the rights of immigrants, improves newcomers' access to services, fosters their leadership, and provides a unified voice and vehicle for collective action. With member organizations located in every borough in New York City that collectively serve communities in more than 65 languages, the NYIC has a long history of coordinating collaborative efforts with our member groups and key allies to reach target populations and respond to issues.

Many of our member organizations have contracts with the City and they experience a number of challenges, including insufficient funds. Others member organizations are well-placed to provide human services to vulnerable communities but have been unsuccessful in obtaining City contracts to do so, leaving their communities underserved.

The NYIC has been engaged in a productive dialogue with the City about ways to improve City contracting with small Community-Based Organizations (CBOs) over the past several months, along with our partners at the Federation of Protestant Welfare Agencies, Coalition for Asian Children and Families, Hispanic Federation, Asian American Federation, NY Urban League, and YWCA. We have been encouraged to see the Administration take our concerns seriously and express a commitment to remedying a number of shortcomings. There are a number of steps that the city should take to improve the process for immigrant-serving CBOs in particular, falling into several categories: getting immigrant CBOs involved, providing sufficient funds, streamlining bureaucratic requirements, and building capacity of small CBOs.

Immigrant-serving CBOs play a crucial role in their communities. Their linguistic and cultural competency enables them to provide proper service. In addition, they are known and trusted by vulnerable individuals who might otherwise be afraid to come forward for help.

Getting Immigrant CBOs involved

Current bureaucratic processes in City contracting essentially deter immigrant-serving CBOs from applying for funds in several ways.

It is essential for City agencies to hire culturally competent staff to develop programs and evaluate proposals.

City agencies should do more outreach on Concept Papers, RFPs, and potential opportunities directly to communities that are under-served. Small CBOs are often unaware of opportunities to apply for City contracts. One strategy to overcome this is to encourage more CBOs to join HHS Accelerator, though that will not reach all immigrant CBOs. It is important for City agencies to also send people with cultural and linguistic competency out into communities where target populations live to let them know about opportunities.

In addition, RFPs are often seeking organizations to carry out programs using strategies that existing programs have already been using. However, these strategies may not always be the most appropriate for immigrant communities, particularly recently arrived immigrants. In order to better reach communities that are currently marginalized and under-served by city contracts, it would be advisable to consult immigrant-serving CBOs when developing programs and to allow applicants to propose different strategies to achieve the desired outcomes. This will also contribute to innovation in human service provision.

Budget & Finance Issues

The budget strictures of City contracts can also be problematic – while City contracts often provide insufficient funds for non-profits to meet their deliverables and to operate their organizations, there are also many times when contracts are actually too large, essentially shutting out small CBOs that lack the capacity to work city-wide or on a large scale.

To address the problem of City contracts that do not pay enough, it is crucial for contracts to allow CBOs to charge reasonable rates of indirect costs so that they can pay for basic necessities like rent and staff salaries. There should also be mechanisms to amend contracts when costs increase.

On the other hand, the City should create more opportunities to get smaller amounts of money to CBOs when that makes sense. Reducing the burdens involved in subcontracting would allow larger service providers to partner with CBOs and make sure to take advantage of the crucial role they play in immigrant communities. In addition, the City should educate agencies on the possibility of using micro-purchases to get small amounts of money to small CBOs that can meet a pressing need.

It presents enormous cash flow challenges for CBOs that City contracts are reimbursement-based, as opposed to foundation grants which are typically paid before work is done. The Fund for the City of New York's Cash Flow Loan Program is an important resource for this. However, the City can do much more to ensure timely payment for services that CBOs have completed. It is not uncommon for the NYIC's City contracts to take upwards of 9 months to be executed before we can even start submitting vouchers for reimbursements. In addition, slow processing of vouchers and requests for reimbursements are particularly challenging for CBOs to manage. Payment should be processed within 60 days of submission of a voucher.

Administration, Technical Assistance & Capacity Building

In addition, the City can and should do much more to level the playing field so that small CBOs without experience in City contracting or large administrative staff can participate.

The nonprofit sector is committed to transparency and accurately reporting how we do business and operate programs. Regulation is a necessary part of our industry and relationship with government, but many of the mandates we comply with are duplicative and can be streamlined to better use scarce resources and still adequately capture important compliance information. Creation of HHS Accelerator and its Document Vault have streamlined some of the paperwork required in City contracts. However, the volume of documents required to apply for and process a City contract remains excessive. It is not uncommon for multiple agencies to request the same documents, or even for the same agency to request the same document more than once. While best practices would dictate that agencies should inform CBOs of all requirements up front, the NYIC has frequently found that they later come back to request additional documents later in the process. In addition, multiple external audits which the City does not follow up on and other mandates that are not essential to the work or compliance are a substantial drain on resources.

Agencies should also help build capacity of small CBOs to take advantage of City contracting. The Department of Youth and Community Development (DYCD) has been a leader in this regard by offering training programs for CBOs that are new to City contracting.

Agencies should also provide funding for coalitions and federations to provide technical assistance and support for small CBOs.

When CBOs are unsuccessful in applying for City contracts, they should receive feedback regarding the shortcomings in their applications.

Conclusion

The NYIC and its members share the City's goals and we are eager to partner with the City to achieve those goals. We are pleased that both the Administration and the Council are committed to addressing the challenges preventing immigrant-serving CBOs from doing our part. There is much work to be done to ensure that CBOs receive sufficient funds to properly perform, to identify ways to modify rigid processes to allow CBOs to get services to immigrant communities, to streamline bureaucracy to make it possible for small CBOs to participate, and to strengthen the capacity of small CBOs to allow them to contract with the City, improve their governance, and provide better services for New York City's immigrants.

Thank you again for providing me with this opportunity to testify, and for your continued partnership with our sector. Please contact me at 212-627-2227 if I can provide further information.

Testimony before the New York City Council Committee on Contracts
"Challenges Facing Nonprofits in City Contracting"
Joseph Rosenberg, Executive Director of the Catholic Community Relations Council
April 4, 2016

Good afternoon Chair Rosenthal and members of the City Council Committee on Contracts. I am Joseph Rosenberg, the Executive Director of the Catholic Community Relations Council ("CCRC") representing the Archdiocese of New York and the Diocese of Brooklyn on local legislative and policy issues. I am here today representing Catholic Charities of the Archdiocese of New York and Catholic Charities of the Diocese of Brooklyn and Queens on this important topic.

Catholic Charities of the Archdiocese of New York which covers Manhattan, the Bronx and Staten Island, Catholic Charities of the Diocese of Brooklyn and Queens and all their affiliated agencies provide a lifeline of services to hundreds of thousands of New Yorkers. Their work is mission driven and focuses upon the poorest and most vulnerable among us. There are food pantries for the hungry, and housing for the homeless, the disabled and the elderly. Immigration services are expanded to assist immigrants and unaccompanied minors fleeing the terrible violence of their home lands. Youth programs focus on early childhood services, dropout prevention and employment training. When Superstorm Sandy devastated the coastal communities of our City, Catholic Charities was among the first responders and at the forefront of relief work. And this is just a fraction of what Catholic Charities, their affiliates and so many other nonprofits provide for New Yorkers of all walks of life.

As government agencies struggle with their budgets and mandates, nonprofit providers are increasingly called upon to fill the void and provide services to New York City residents. This is clearly seen in the continuing collaboration between the Catholic Church and the City in identifying and providing class room space for the universal Pre-K program and in working with the Department of Homeless Services to stem the homeless crisis. Catholic Charities intends and expects to provide this desperately needed assistance. Government, however, needs to understand and respond to the daunting fiscal challenges facing the organizations that provide these safety nets.

As partners in public service, we believe that government must acknowledge the real costs of operating human service programs. We have all seen an increasing trend among City and State agencies to limit or disallow administrative overhead costs outright in their funding solicitations, and inconceivably, to disallow these costs after contracts were executed, budgets were approved, and the performance period had begun. Shifting the burden of these operational costs to the nonprofit sector is detrimental, particularly to small and mid-sized organizations that cannot bear the cost of running programs without sufficient operational support.

It is important the contracts reflect the true costs borne by the nonprofit sector and that such contractual obligations are honored by the City. The current practice is unsustainable and impossible to maintain over the long term. Additionally, rising fringe costs, salaries and cost of living adjustments have not been paid for over many years. This unjustly shifts the cost burden to nonprofit providers who are forced to "do more with less." It is an untenable situation and must be addressed. In terms of direct services, the extremely modest per capita reimbursement rates in RFP's for legal and social services is a clear example of underfunding that jeopardizes the long-term programmatic capacity and fiscal health of nonprofits providing these services.

At a time when the City's senior population is growing, it is especially vital that programs serving seniors be adequately funded. The needs of this population include home delivered meals, periodic health screening, visiting volunteers, case management programs for the homebound elderly and other services. Funding for so many of these programs, however, has either decreased or been static at a time of increasing needs. Current allocations rarely cover expenses. Rental costs provided in contracts, for example, rarely take into consideration yearly increases, creating an added fiscal burden on the provider agency that far too frequently requires discretionary funds received from City Councilmembers if available.

We do appreciate and value the City's efforts to facilitate contracting through the Accelerator program, but more must be done to expedite and improve the contracting process. Chronic delays executing contracts by City agencies force many nonprofits to float the cost of these services until a contract is eventually executed, which may not occur until the end of the contract period. The Accelerator program is not used by all agencies and some agencies only post funding announcements on their websites reducing visibility of funding availability. As a result, the City's attempt to reform this process ultimately excludes potential applicants that might be interested and eligible to compete for funds for a given service.

It is essential contracts between government and nonprofits organizations for the provision of human services cover the full costs including administrative, technology and capital costs as well as cash advances, annual rent increases and utility requirements. Catholic Charities' is always willing to supplement governmental funding with philanthropic efforts. It is important, however, to avoid the unrealistic and sometimes fatal assumption, that charitable organizations have sufficient private resources to offset public funding shortfalls.

Contracts should be adjusted to comply with new governmental mandates. Catholic Charities strongly supports the increase in minimum wage passed by the State Legislature just three days ago and signed into law by the Governor today, but this additional and significant expense must be reflected in the contracts that the City and State enters into with nonprofit providers.

Nonprofit providers have always been dedicated to help those with needs in our City. They will not retreat from this responsibility. The contracts entered into with local government supporting this commitment, however, must reflect the true costs of ensuring that these programs do not only exist, but ultimately thrive.

Thank you.

The Fortune Society
BUILDING PEOPLE, NOT PRISONS

TESTIMONY OF THE FORTUNE SOCIETY

Committee on Contracts

RE: Challenges Facing Nonprofits in City Contracting

April 4, 2016

Presented by:
JoAnne Page
President/CEO

The Fortune Society
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Good morning. My name is JoAnne Page, and I'm the President/CEO of the Fortune Society (Fortune), one of the nation's leading non-profit organizations serving and advocating for formerly incarcerated individuals. I am here to testify on behalf of Fortune and as a member of the Human Services Council (HSC). I've been leading Fortune for 27 years. When I started, we had about 20 staff and an annual budget of about $1 million. Today, we have over 250 employees and an annual budget just over $25 million. We are recognized in New York and across the United States by researchers and policy makers as a pioneer in assisting former prisoners reintegrate into society.

The Fortune Society's mission is to support successful reentry from prison and promote alternatives to incarceration, thus strengthening the fabric of our communities. For the past 49 years, Fortune has provided comprehensive wrap-around reentry services to people with criminal records as well as alternatives to incarceration. We do this through a holistic, one-stop model of service provision that currently features, among other services: education, employment services, housing, licensed substance abuse and mental health treatment, health services, family services, alternatives to incarceration (ATI), discharge planning, case management, benefits enrollment, systems navigation, food and nutrition, an extensive referral network, and lifetime aftercare. In just the past few years, we went from serving approximately 3,000 people per year to now serving nearly 6,000 people per year! This is clearly a reflection of the increasing need for services among those released from incarceration, and the daunting challenges of surviving in this increasingly complex, competitive, and expensive City.

In all my years at Fortune, I have never seen the non-profit community in New York City under this much pressure to achieve results, with such tightening restrictions on government funding, and with the needs of the populations we serve escalating, along with the demands placed upon us to meet those needs. As charitable organizations, we are mission-driven. Fortune exemplifies this mission-driven focus, as we have evolved holistically to meet the needs of the men and women coming through our doors. This commitment to comprehensively addressing the complex needs of people with criminal justice histories and to serving anyone who walks through our doors, regardless of the nature of their criminal record or whether they fit into the ever-narrowing eligibility rules on government contracts, is CORE to Fortune's identity and mission. It is why we have become so effective at what we do and become recognized as one of the nation's preeminent reentry service providers.

Approximately 90% of our total annual revenue comes from 80 public and private contracts. Key to our success has always been maximizing the impact of these government grants by leveraging funding from multiple sources to pay our staff and cover our other OTPS and indirect costs. However, in recent years, this has become increasingly difficult and near impossible in many cases, because there are so many restrictions on the use of government funds. In many cases, we must report staff "time and effort" on contracts, meaning that staff covered under those contracts can only serve clients who fit the eligibility criteria for that particular program. It also significantly increases the amount of time that staff must spend on reporting and administrative tasks, reducing their capacity to serve clients.

We're also seeing more City contracts that restrict client eligibility very narrowly, such as by zip code, age, or specific criminal justice status (e.g. on Probation or recently released). This forces us to become more siloed in our approach, and it also limits our ability to maximize our impact and meet the needs of clients walking through the door. The reality is that the populations we serve are very transient – many are "couch surfing" and might be staying with family or friends in Brooklyn one month, and the next month living in the Bronx. We as an organization should not be restricted in receiving funding to serve them, simply because they do not yet have a stable address or because their place of residence is outside the specific zip codes allowable under the contract.

In addition, especially on City contracts – we are seeing contracts consistently executed late. Right now, we have numerous late renewal contracts and several pending new contracts that have been awaiting execution for months. We are actively providing services and incurring costs on these late renewal contracts, many of which had a start date of July 1, 2015 and yet have still not been finalized and fully executed – meaning we cannot submit vouchers or receive payments on them. When we are paid late, we have to draw on our line of credit, incurring significant interest that increases our debt.

Overall, many City contracts do not pay the full cost of providing services and achieving the outcomes that we are expected to achieve. So, that alone puts us in a position of deficit spending, as we need to subsidize these contracts with other funds. In addition, City contracts also limit funding for indirect costs. While we have a federally-approved indirect rate of 19%, too many City contracts restrict our indirect rate to 10% or as low as 5%. This means that we have less funding for infrastructure than we need to cover the costs of Information Technology (IT), Evaluation and Quality Improvement (EQI), Human Resources (HR), Finance, and Executive management and oversight. These infrastructure costs continue to increase each year, as we continually need more sophisticated equipment and technology, along with highly skilled staff to manage these increasing demands.

We are also facing financial challenges associated with **NYS' Medicaid Redesign Team (MRT)** reforms – specifically, we are confronted with tremendous hurdles to our Medicaid billing process caused by continually evolving regulations, transactional complexities, and competing federal requirements. Additionally, more of Fortune's major government contracts are performance-based than ever before, tying our primary funding streams to the full achievement of often-lofty milestones, which is especially difficult during the start-up periods of large contracts that require coordination with government agencies and changes in ways in which the criminal justice system "does business."

While we have always worked as hard as we can to effectively manage and maximize our limited resources, City contracts are making it more and more difficult for us to do that. In addition to the challenges outlined above, there is also increased scrutiny on our vendor selection process, where we are now required to solicit at least 3 bids for numerous types of vendor services. **For all of these reasons, it is now more important than ever for nonprofits to be given *increased* flexibility in the use of City funding, rather than face more restrictions and demands with less resources.**

It is also important to note that while the rest of the country is finally waking up to the crisis of mass incarceration – Fortune has been at the forefront in providing serves to thousands of people coming home from prison and jail each year for nearly 50 years. We also generate substantial government savings through our Alternatives to Incarceration (ATI) program in millions of dollars annually in reduced costs of jail time. I am proud to serve on the NYC Task Force on Behavioral Health & the Criminal Justice System and the NYS Council on Community Re-Entry and Reintegration, and very grateful that both the State and City government have recognized the urgent need to expand reentry programs and services and reduce the numbers of people who enter the criminal justice system. However, the current City contracting process imposes many unnecessary barriers to our success in meeting the complex needs of formerly incarcerated individuals and their families.

The recently published **HSC Report, "New York Nonprofits in the Aftermath of FEGS: A Call to Action"** captures many of these problems in excellent detail.[1] The report emphasizes the fact that government contracts rarely cover operating costs and provide payments late and unpredictably, resulting in cash flow obstacles and chronic underfunding. This is exactly what we're seeing and it's

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[1] http://www.humanservicescouncil.org/Commission/HSCCommissionReport.pdf

the reason why we need more flexible funding, so we can meet the increasing demands of the people we serve in the most effective and efficient way possible, while continuing to innovate and improve on the work we do.

Lastly, while we are very supportive of increasing the minimum wage to $15/hour, we need government contracts to increase the salaries for front-line staff *immediately* if this takes effect. Unlike for-profit companies, as non-profit employers, we are restricted in what we can pay our staff if we do not have government contracts that fully support these salaries. We are also concerned about changes in federal labor laws that will increase the portion of the workforce counted as non-exempt. With fewer staff and increased demands, the reality is we cannot serve clients, achieve results, and manage all of the administrative and reporting demands while limiting staff time to 40 hours/week.

We certainly recognize the importance of increasing the minimum wage and promoting Minority and Women Business Enterprises (MWBE) vendors. However, unless we receive a comparable increase in government contracts, the net impact of these well-meaning policy changes on nonprofits is to reduce our impact and effectiveness in meeting the needs of low-income communities – at a time when we urgently need to grow stronger and more effective.

The nonprofit world in New York City is at great risk right now. We've seen what happened with FEGS, but what we see now is an increasing pattern of government agencies only paying part of the cost of services, expecting us to raise the rest, having very tight restrictions about how we use the funds, increasing the amount of documentation that we need to do, and not being willing to pay infrastructure costs. All this while government agencies often look for more data and more financial reporting. We're seeing a critical period for the social services infrastructure.

I ask the City Council to will do whatever you can to push for needed changes to the City contracting process. If not, I am afraid we will see more nonprofits unable to keep their doors open and fewer services available overall to New Yorkers in need, while the crises of poverty, homelessness, and reentry continue to increase.

Thank you for this opportunity to testify today.

Respectfully Submitted,

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New York City Council Committee on Contracts
Challenges Facing Nonprofits in City Contracting
April 4, 2016

My name is Paul Feuerstein, founder and CEO of Barrier Free Living. Thank you to Council Member Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting.

Barrier Free Living focuses on Domestic Violence and Homelessness for people with disabilities. We operate the only homeless shelter that accommodates severely disabled homeless people who would otherwise be in a nursing home at an average cost of $142,116 a year (State Dept. of Health). We operate the first totally accessible domestic violence shelter for victims with disabilities, the number one issue of women with disabilities nationwide. We operate the city-wide community based domestic program for victims with disabilities. We recently opened and filled 50 units of family supportive housing for disabled victims of domestic violence and 70 studio units for individuals with disabilities who were victims of family violence or disabled veterans. Our organization has 3 contracts with the City for $4.1 million dollars and we collect about $3 million from HRA for our licensed domestic violence shelter.

Our biggest challenge is the capital needs of our homeless shelter. We were the first not-for-profit shelter in the city's system, funded in 1985 under Mayor Koch's Capital Homeless Housing Initiative. We were one of a dozen shelters funded under that initiative. Since it was 100% city-funded, value engineering was the order of the day. Whatever was less expensive was what we're going with. As an example, the city chose hydraulic elevators for our building. We learned that they were rated for 30 starts an hour. We documented double that use which has led to major maintenance problems. We made allowances for a capital reserve in our budget, anticipating that there would be systems in need of replacement in the 25 years we were committed to operate the program. The city response was we don't do capital reserves. Our budgets are "use it or lose it." We received verbal assurances that the city would take care of our every capital need.

Fast forward 20 years and almost all of our capital requests were rejected by Department of Homeless Services because we owned our own building. We applied three times for capital grants through the Borough President's office. The first for $360,000 to replace major parts of our elevators was rejected for being too little. The next year, we asked for $500,000, the minimum. Since we had to cover 10% of the costs, we were rejected again for only asking for $450,000. The next year, we asked for $1.2 million for elevators, replacement of dysfunctional windows and the rebuilding of leaking roll in showers and bathrooms. The windows were disallowed because we didn't request replacement of the working windows. The rule was 100% or nothing. The 12 bathrooms and 12 showers were disallowed because each one was considered a separate project and they weren't expensive enough to pass muster. By the time OMB was done, we were once again under $500,000 and disallowed.

The next year, I went hat in hand to Albany to ask for $1.2 million from the governor's office and the state legislature. We were advised by the governor's office to pursue funding through the Homeless Housing Assistance program.

Our board met with Commissioner Taylor to talk about our budget and our capital needs. In the last year of the Bloomberg administration, our budget was $1,000 less that it was when we started in fiscal 91. We had fulfilled our obligation to operate our building as a homeless shelter in June, 2013, but we wanted to continue since this was a critical part of our agency's mission. We got consideration for our most critical program needs. The commissioner suggested an engineering survey to determine our needs. The engineering survey documented that all of the deferred capital needs mushroomed into major structural problems with our building that will now take $4.4 million to fix.

The city has learned that it needs to make accommodations for capital reserves in its newest building programs, but it has left the pioneer programs in the dust. When I approached HPD about possible funding, I learned I represented the fifth of the original shelters to knock on their door. Without help, the city could lose 1,000 beds from its present homeless system. Our board has taken the position that without the funds to rehabilitate our building to a safe condition, we need to close. At the instruction of our engineers, we have closed four units (16 beds) for safety reasons and have roped off a large portion of our back yard. We shared our engineers report with the city over a year ago. Since the report was submitted, we have had five inspections by DHS, HRA, HPD, FDNY and the Coalition for the Homeless. A March, 2016 report from DHS Routine Inspection Report identified 9 severe deficiencies that we had identified in our engineer's report and gave us 14 days to respond with a corrective action report. The implication is that we will not have our contract renewed if all of these issues aren't fixed. The city already knows that a rehabilitation plan would require three months for engineering and architectural design as well as issuing of building permits and another fourteen months for construction. That requires money.

Placing 48 of our residents in nursing home beds costs the taxpayer $6.8 million a year compared to $1.5 million in our DHS contract. We save more than the cost of the structural rehabilitation every year. We cover the city's ADA/504 Title II responsibilities to make all of its programs accessible to all people with disabilities.

Thank you again for providing me with this opportunity to testify, and for your continued partnership with our sector. Please contact me at (929) 281-2264 if I can provide further information.

CITIZENS' COMMITTEE for CHILDREN
OF NEW YORK INC

Testimony of

Stephanie Gendell
Associate Executive Director,
Policy and Government Relations

Before the
New York City Council
Contracts Committee

Oversight: Challenges Facing Nonprofits in City Contracting

April 4, 2016

Good afternoon. My name is Stephanie Gendell and I am the Associate Executive Director for Policy and Government Relations at Citizens' Committee for Children of New York, Inc. (CCC). CCC is a 72-year-old, privately supported, independent, multi-issue child advocacy organization dedicated to ensuring every New York child is healthy, housed, educated and safe. I would like to thank City Council Contracts Committee Chair Helen Rosenthal and all of the members of the Contracts Committee for holding today's oversight hearing on the challenges nonprofits face when contracting with the City.

Today's hearing is particularly timely given the recent release of the Human Service Council's (HSC) report, *New York Nonprofits in the Aftermath of FEGS: A Call to Action.* CCC, an HSC Board Member, appreciates the tremendous work that HSC has done to document the needs and advocate for the non-profit sector, including the release of the report. This report documents the challenges facing the nonprofit sector and makes important recommendations for not only strengthening nonprofits, but ensuring their future.

It is important to note upfront that CCC does not accept any government funding and thus has NO contracts with New York City (or any other level of government.) That said, we are compelled to testify today because thousands of children and families receive critical services from the City's nonprofits.

These programs and services ran the gamut and include child care, foster care, child abuse prevention, homeless services, supportive housing, after-school programs, mental health services, health services, summer programs, and tax filing assistance. Thousands of children and families, particularly the most vulnerable, rely on these programs for economic security, housing, child care, education and safety. Many of these programs, such as homeless shelters and foster care, are functions that have been transferred from government to the nonprofit sector at a cost-savings to the City.

We are grateful to the City Council and the Mayor for including a 2.5% COLA and $11.50 wage floor in last year's budget. After many years of stagnant wages, this was a very necessary increase for workers. But this must only be a starting place, as we need much more investment in the nonprofit workforce. Without ongoing COLAs, the field will remain subject to high attrition rates. Losing experienced staff is always challenging and the costs associated with hiring and training further strain budgets.

As documented in the HSC report, contracts with the government are essential to nonprofit service providers and thus the families and communities who rely upon them. Stagnant funding levels, match requirements, duplicative reporting, low wages, insufficient overhead and underfunding of contracts all undermine the good work of nonprofit service providers. Following are some examples of the challenges non-profit service providers face in a number of child-serving areas:

- **Child care:**
  In January 2015, CCC and the Campaign for Children released a report that documented the challenges providers were facing with the EarlyLearn rate—most notably the gap between provider costs and the rate.[1] A survey of providers documented that over 80% of those surveyed were struggling due to the rate. The challenges they reported were with: staff recruitment and retention; facilities, including rent, maintenance and repairs; classroom supplies; and insurance costs.

  Since the release of that report, the City has made some changes to ease the strain on providers and now pays programs based on expenses. This has alleviated some challenges by addressing the full enrollment and provider contribution shortfalls, and should address shortages in insurance costs (should staff avail themselves of insurance). On the other hand, the early education staff still have no contract and have not had a contract in ten years—the issue of salary parity and the need for a fair health insurance and pension plan remain key concerns.

- **Foster care;**
  Foster care providers are essentially paid based on the number of care days they provide for each foster child. This means that those providers who invest in the services that reduce a child's length of stay in foster care end up reducing the funding they have available for foster care. This is a perverse incentive whereby the stronger programs often struggle to maintain the funds for the services proven to work.

- **Preventive Services**
  Services to strengthen families while keeping children safely at home and out of foster care not only produce a good return on the investment for government, but reduce trauma and the long-term ramifications for children. Unfortunately, preventive service providers often struggle because:
  - They have not seen a rate increase in many years;
  - They are not funded the full cost of their contract because there is a provider contribution;
  - If they do not open 25% of their capacity every quarter, they are penalized, regardless of whether the City made enough referrals.

We have also seen a number of additional challenges throughout the nonprofit sector. Examples of these are:

- Insufficient reimbursement for administration and overhead costs. It is important to note that costs often increase over time (e.g. rent, insurance) but there are often no corresponding rate increases.
- Low salaries and insufficient COLAs lead to high attrition rates.
- Delays in registering contracts/starting payments despite programs starting to operate and serve the community impact the cash flow of nonprofits.

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[1] Campaign for Children. *EarlyLearn Rate is Too Low to Sustain High Quality Early Childhood Education Programs in NYC.* January 2015. http://www.campaignforchildrennyc.com/wp-content/uploads/2012/03/EarlyLearn-Report-FINAL.pdf

- Uncertainty from one year to the next about whether there will be funds for a program and/or the capacity of a program. This is sometimes related to the budget dance (e.g. child care, summer programs, SYEP, etc.) and sometimes related to new RFPs.

We are very grateful to the City Council for your longstanding commitment to the nonprofit sector and for your interest in holding today's hearing. We look forward to continuing to be allies as we urge the administration to take the steps necessary to address the hardships nonprofits face when contracting with the City. The survival of the nonprofit sector, and thus critical services to children and families, depends on our taking the steps necessary to ensure there is no "Next FEGS."

Thank you for the opportunity to testify.

BROOKLYN
COMMUNITY
SERVICES

Testimony on Behalf of Brooklyn Community Services (BCS)
Before the City Council Committee on Contracts
Public Hearing (April 4, 2016): Challenges Facing Nonprofits in City Contracting
Presented by Marla G. Simpson, President/Executive Director (BCS)

Good afternoon, Chair Rosenthal and Committee Members. Thank you for the opportunity to appear today to address this important topic. As a member of the HSC Commission on Nonprofit Closures, and having served for four years as CEO of Brooklyn Community Services and for nine years as the City Chief Procurement Officer, I bring a unique perspective, one I hope is helpful as you consider these issues. I'm going to focus my comments on the particular set of nonprofit challenges in the areas of so-called overhead and "other than personnel" expenses.

It's time to recognize that our human services contracting system is at a breaking point. I'm not here to point fingers. The vast majority of folks in the City's human services agencies do that work for the same reasons all of us in the nonprofit sector do: to make a difference in the lives of New Yorkers. We do this work because it matters.

But resources are finite and needs are great. Cutting services to keep the doors open is a tough choice. But our sector doesn't have some magical pot of money at the end of a rainbow, and it just isn't sensible to expect that for every dollar it costs us to provide services, that it's OK for the City to pay 80 or 90 cents. If the City awarded contracts for bridge repair or office supplies with bids that said vendors should pay between 5%-20% of their own costs, no one from the business community would bid. Yet, because *our* part of the business community has a service mission, it's assumed that we'll figure out how to do the impossible. But we're businesses, too. We have to pay the rent, keep the lights on, buy everything from office supplies to insurance *and*, because we do business with the government, we must also meet tough requirements for fiscal accountability, regulatory compliance and program supervision. Our contracts should allow us to do those simple, basic things. If there isn't enough money in any given year to add funds to pay for documented, verifiable cost increases, then our contracts *must* be restructured to allow us to trim service levels down to what we can afford to pay for with the funds we get.

I'll give some of examples of what BCS faces under City contracts, but first, a quick overview of who we are. We're about to turn 150 years old. Our founders came together around the plight of children whose fathers were killed in the Civil War and who became homeless. Homelessness in Brooklyn – sound familiar? BCS today has a $30M budget, 21 sites, 400 staff and 900 volunteers. We're 90% publicly funded, and nearly half of that is from the City.

We're grateful, and proud of the City-funded programs we offer our communities, including two early childhood education centers, a home-based family day care network, preventive services, intensive family counseling, five elementary school and two middle school after-school programs, a transfer high school, four youth education/workforce training programs, a mental health clubhouse and a transitional living facility for homeless mentally ill women. We're one of the City's on-call disaster case management agencies, and in July, we'll begin operating four DYCD Cornerstones. In addition to the discretionary funds this Council provides for several of those programs, we're grateful for the Council's funding of some smaller initiatives, including our community garden, housing advocacy work, senior living services for developmentally disabled adults and art therapy programs.

Competitively awarded contracts last a very long time. On paper, the stated term (including renewal) is generally 6-9 years. Renewals are mandatory for providers under City contracts, not optional. And that's not usually the end of it. City agencies almost always use the PPB rules to add another "amendment extension" year and another year or two after that with a "negotiated acquisition extension." Technically, a provider can reject those three extension years, but we're typically locked into leases and our program staff is on payroll. Since there is no new RFP, there's no way to continue serving the community other than by taking the longer terms. Long contracts have some advantages, of course. Clients receive continuity of care, and providers and City agencies alike are spared having to go through complicated procurements. Bottom line, most human services contracts last 10 years or so. We typically get no additional funding midstream, although costs rise dramatically over time.

According to published data, last year the City did about $2.3B worth of human services contracts, including nearly $1B worth of new RFPs. But FY 15 also saw over $650M in renewals, $125M in amendment extensions and $600M in negotiated acquisition extensions. So it's clear that most contracts last well beyond the initial terms.

No one, least of all a thinly capitalized human services provider, can control costs well enough to keep them *flat* for 10 years. Cost-cutting can have some awful consequences. When I got to BCS in 2012 the staff hadn't had a raise for over five years. In 2014, after slashing every sort of cost we could, including by eliminating managerial lines, we eked out a one-time 5% increase for our line staff. We did this not because we could really afford it, but because we considered it essential to staff retention and program quality and it was simply the right thing to do. Most of that raise could not be charged to our contracts: most of the funding was private and continues to be.

This year, of course, we're delighted to provide another 2.5% increase to City-funded staff and 2% to most State-funded staff, as a result of the COLAs proposed by the Mayor and the Governor. For City workers, we were thrilled to bring part-timers up to $11.50 an hour, raises of more than a dollar an hour for those hard-working folks.

But we've been awarded no funds of any kind to address the no less challenging *cost of living* increases we feel every day, just trying to operate our business in Brooklyn. BCS currently holds 10 leases in neighborhoods from Downtown Brooklyn to East New York to Coney Island. For most of those leases, even if we're lucky enough to have a long lease term – not so easy to find in Brooklyn these days – our rents are typically pegged to go up by at least 2% a year during those lease terms, and often by even more when the lease is renewed.

For example, we have a youth program and a mental health program in two small storefronts near Broadway Junction in East New York. One contract was awarded in 2012 and has been renewed through 2018. The other was awarded in 2013 and is about to be renewed, probably through 2019. Funding has been flat, at roughly $1M a year for the two programs together – identical amounts for four years so far. Meanwhile, every major business expense category for those programs – things like rent, liability insurance and health insurance – has already risen by 5% to 39%. Already, in the first few years of the contracts, we had to lower spending by thousands of dollars in such areas as transportation, client meals and snacks, program supplies and internship stipends.

All those types of expenses are, at least nominally, supposed to be covered as programmatic expenses, and as I just explained, our contracts fall short. But we lose even more in the category of overhead expenses. Overhead pays for staff in human resources, community outreach, volunteer management, building services, purchasing, IT, fundraising, and yes, executive staff. Most importantly, it's how we pay for financial staff. Fiscal oversight is complex, with over 45 contracts and 12 different governmental funders. But if there's any lesson I took away from 22 years in government, it's that going "cheap" on fiscal or compliance functions is a really bad idea.

Our federally approved overhead rate is 15%, well within the range of best practices. For City contracts, we're lucky if the contract starts out with the City paying us at a 10% level, and as the contract term proceeds and we struggle to pay rising bills for costs we can't cut, our effective overhead rate on City contracts can sink below 5%.

Nonprofit executive salaries are matters of public record from 990 filings. BCS's executive salaries collectively fall well below the median for human services providers our size. Yet, even without counting the cost of our top administration, we lose over $1M a year in out-of-pocket overhead costs our government funding does not cover.

As a 150-year-old agency, we can (with great effort) cover some of those costs from private fundraising. But we also defer building maintenance, we hang onto equipment well beyond its useful life, we scrape by with out-of-date technology and sadly, we're too often unable to invest in programs the way we know our clients deserve.

In the end, talking about "other than personnel" costs is far from sexy. But it's essential. We're well past the time for action to help human services providers address our City's rising tide of inequity. It is hard for us to make ends meet as a business, even as the need in our communities continues to grow. The recent HSC report points the way to some practical, fiscally responsible measures that could make a real difference. I urge this Council to help us make them a reality, and to start the process of investing in our real cost of doing business this year.

UJA Federation of New York | Good together.™

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New York City Council
Committee on Contracts
Honorable Helen Rosenthal, Chair

Testimony of UJA-Federation of New York
Submitted by Louisa Chafee, Senior Vice-President, Public Policy & External Relations

Oversight Hearing—Challenges Facing Non-Profits in City Contracts
April 4th, 2016

Thank you to Chair Rosenthal and the entire Contracts Committee for holding this important hearing and for providing the opportunity to testify.

INTRODUCTION

My name is Louisa Chafee and I am the Senior Vice President for Public Policy and External Relations at UJA-Federation NY. UJA is one of the largest local philanthropies in the country. Central to UJA's mission is *Caring* -- assisting the vulnerable in our communities, and working with UJA Network – and the more than 35 human service nonprofit Agencies which provide comprehensive social services for all stages of life.

Prior to joining UJA, I worked in Local and State Government, including working very closely with Human Services Council to Strengthen Nonprofits by driving reforms in procurement and payment. Some of these have been discussed today in HHS Accelerator. I am happy to speak today with this dual experience.

NYC provides strong, diverse and vibrant social services to keep all New Yorkers safe, lessen hardship and improve opportunities. These services are provided by close to 1000 human service nonprofit organizations linked to NYC via contracts. These human service nonprofits are critical to NYC: as employers; as an economic engine (often in less developed areas) and as NYC Government could not have its human services delivered to clients were it not for the nonprofits that enter into the business relationships to serve the clients.

Your website states "The City Council's Committee on Contracts is responsible for ensuring that the City purchases goods and services that are **high-quality**, **efficient**, and **cost effective** to the city's taxpayers."

EFFICIENT

The issues raised in the HSC report, and testified to today, reduce efficiency. These include:

Requests for Proposals
The lack of consultation in advance on program design and structure ignores the expertise of nonprofits and too often fosters procurement structures that are unrealistic and are either amended during the procurement process (adding time and lessening efficiency) or left problematic, causing tax payer monies to be spent unwisely.

Duplicative Audits
The current structure of audits-- both desk and once books are closed by program-- without Government Agencies coordinating with one another is intensely inefficient. From a government agency perspective, by looking only at where their own funds flow, the Agencies risk missing critical knowledge. This structure, for nonprofits, often means auditors on site every working day of the year; not being able to use their own space and having ability to operate in their own

systems. Moving towards a coordinated, risk-based approach would lessen the work load and increase knowledge. Information technology allows such systems to be created and we strongly encourage the City Council to lead the charge in this efficiency and accountability measure.

COST EFFECTIVE

No doubt, best value is central when spending tax payer monies. In human Services it is recognized that the ability to achieve program model is critical and so cost effective means both lean operations and quality for the investment. Over years the growth of procurements, which are not priced to cover actual costs, have led to situations at odds with these values. Thus it's the margins that have become critical:

Fixed Costs
Current Human Service Government contract structure that does not recognizes that fixed costs (like rent, utilities, insurance) go up year to year while costs in contract of 9 years (and longer) stay flat.

COLAs
NYC's COLA process has been particularly time consuming (and yet to be put fully in place) – making it extremely hard for nonprofits to retain staff and have their pay reflect the reality of living costs increases.

Indirect Rates
Federal government's process of setting indirect rate - if all NYC contracts were to align this would have the clear benefits: for government easing audits standards (as standards would be same across all contracts); and ease of administration for nonprofits.

UJA looks forward to supporting and working with you to identify clear operational solutions to reduce and eliminate these challenges and return to cost effective structure.

HIGH QUALITY

Both Government and Non-profits embrace quality in service provision, but the business relationship stressors being discussed today risk lessening quality. Central is:

Costs of Providing Services and Contract Allocation
Government not paying the full costs of service provision, causing Nonprofits to supplement their costs and or trim every corner to complete contract required functions. The fat was long ago cut off the bone, and what remains are services of risk of retaining quality.

CONCLUSION

UJA, with its set of network Agencies that we work with year to year, is acutely aware of the challenges in the business relationship between Government and Nonprofits. We thank the Contracts Chair and Committee for holding this hearing, and giving the opportunity to analyze the challenges in alignment with your responsibilities. These problems are complex, but the good news is that these are solutions: while not easy, or particularly sexy, you have set the trajectory for how to reach them. UJA welcomes the opportunity to support you in your further exploration of ways to repair this structure and looks forward to action oriented work together.

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New York City Council
Committee on Contracts
Challenges Facing nonprofits in City Contracting
April 4, 2016

Comments by Patricia Jenny, Vice President for Grants, New York Community Trust

Councilwoman Rosenthal and members of the Committee:

Thank you for inviting me to testify on challenges facing nonprofits in City contracting. My name is Patricia Jenny, and I am the vice president for grants at The New York Community Trust, the community foundation for New York City. I manage what we call the competitive grants program at The Trust, which grants more than $40 million annually, largely to New York City nonprofits, with three main goals: to promote healthy lives, ensure promising futures, and create thriving communities in the City. We invite proposals from nonprofits for projects that meet our published guidelines in some 15 major program areas from youth development to the arts to public education to the environment. The Trust makes an additional $120 million in general operating support grants each year through donor advised and designated funds.

In order to accomplish our goals, The Trust and all other foundations in New York City rely on an innovative, productive, and thriving nonprofit sector. Like with City government, nonprofit organizations are our partners; we only supply the money—they get the job done.

But with the release of two reports—from Human Services Council and Oliver Wyman and SeaChange— we can no longer avoid facing the fact that many nonprofit organizations, especially those that deliver human services, are teetering on the brink of financial insolvency. As noted in the SeaChange/Oliver Wyman report, as many as 40 percent of New York City nonprofits have no cash reserves; 10 percent are insolvent – this number rises to 18 percent in health and human services. Why is this the case? A primary reason is that government, and philanthropy for that matter, do not cover the full costs of the services provided by nonprofits through their contracts and grants. While we share the responsibility, government is far and away the largest purchaser of these services from nonprofits.

The most contentious issue is the decreasing level of support for the administrative and infrastructure costs associated with any human service, community development, or other programs delivered by nonprofits. One of the most striking findings is shown in a chart on p.17 of the Human Services Council report: indirect cost payment rates in City and State contracts in 2013 ranged from 8.5 percent at City Department of Homeless Services down to zero at Administration for Children's Services, Department of Education, and HRA. It is not that administrative overhead doesn't cost anything: think rent, auditor, computers, website management, desks and telephones. It's just that the purchasers of the services won't pay for them.

Why does philanthropy care? As I mentioned before, like government, foundations are the bankers for nonprofits. Most of us take credit for the accomplishments of nonprofits. If the organizations are not solid, they cannot accomplish what we collectively aim to achieve.

Actually, we sometimes seek a bargain by asking for the moon, but not paying for the complete cost of getting there. In reality, each foundation has its individual approach to funding: some provide general operating support, often to a similar group of nonprofits over time. Of course this is the most desirable kind of grant from a nonprofit's perspective since it can be used for any purpose. At The Trust, we support specific projects, but we always include the administrative costs in the project budget, even though we might not support the whole project budget; we do get uncomfortable if the overhead rate gets in the high teens – 15 to 20 percent for example, however.

The Trust is the community foundation for the City and in that role, we have always been concerned about the solvency of the nonprofit sector. We are one of the only foundations that invests about a $1 million each year on technical assistance broadly, supporting the organizations that help nonprofits, regardless of whether they are grantees of ours or not. So we have followed this issue closely and already stepped up with come contributions. We:

- Supported the development of both the Human Services Council and Sea Change reports. Our senior program officer Patricia Swann was on the task force that created the Council's report and has helped organize a response from philanthropy.
- Worked with the Council and others to convene a session at Philanthropy NY, our regional association of foundations, to discuss the reports and what we are going to do about the findings.

- Made a grant to the Rockefeller Institute at University of Albany, SUNY to work with State OMB on case studies of how it could adapt the new federal guidance on overhead rates to alleviate the problem.
- Developed learning labs for health and human service agencies that must adapt to new financing schemes under managed care, a transition that is precipitating lots of financial upheaval.
- Provided intensive financial management assistance to selected arts organizations facing a major transition.

But we need to do more. Philanthropy, City and State government, and nonprofits are all in this together. None of us can accomplish our goals, indeed our mandates, without the other. The data are unequivocal: nonprofits cannot continue to deliver the levels of service we expect without greater financial support for the ancillary costs. And philanthropy cannot fill the gap that government creates by not paying for administration.

At a recent meeting on this topic, Michael Shaw, a program officer at the Michigan-based Kresge Foundation, noted that although the growing insolvency of nonprofit organizations is a national phenomenon, New York City is in a leading position given the scope of the sector here. We have to get this right, and document our efforts. This is business, not charity. We need the capacity to deliver the services in our communities. If nonprofits are operating payroll to payroll, in emergency mode, then that capacity is diminished. In order to set up the nonprofit delivery system for success, all three partners need to commit to the following:

- City and State government need to recognize and pay the proper administrative rates on all contracted services. (Remember, this is a business relationship.) They also need to reduce the unnecessary paperwork that drives up these costs.
- Nonprofits need robust enough fiscal management systems to identify the true costs of services and include them in bids. Boards of directors must commit to conducting timely oversight of an organization's finances and identify and address business risks.
- Philanthropy also needs to pay the full cost of the outcomes it seeks. The Sea Change report has additional suggestions, such as funding letters of credit or loan guarantees; coming up with a common proposal and/or reporting format; considering deeper investments in fewer nonprofits.

New York's nonprofits are a critical sector of the City's economy, providing more than 15 percent of all jobs. In order for them to continue performing, we all need to step up and do our part. The stakes are high; the closure of a nonprofit is similar to the failure of a business: jobs are lost; services are interrupted or eliminated; communities are hurt.

Let's get to work.

TESTIMONY
New York City Council
Committee on Contracts
Oversight Hearing: Challenges Facing Nonprofits in City Contracting
Monday, April 4, 2016

Submitted by
Allison Sesso
Executive Director
Human Services Council of New York

Good afternoon, Chairwoman Rosenthal and members of the New York City Council Committee on Contracts. I am Allison Sesso, Executive Director of the Human Services Council of New York ("HSC") and with me is Michelle Jackson, Associate Director of HSC. Thank you for organizing this hearing and for allowing us to testify regarding the challenges facing nonprofits in City contracting. We deeply appreciate your continued leadership and partnership in addressing these issues.

As you know, the City relies heavily on nonprofit human services organizations to deliver essential supports to New Yorkers of all backgrounds. These supports uplift communities across the City by empowering individuals to reach their full potential. Unfortunately, human services organizations are increasingly strained by unfunded, burdensome mandates and chronic underinvestment. Several have closed or merged under these pressures.[1] HSC formed the Commission to Examine Nonprofit Human Services Organization Closures ("the Commission") to investigate this trend. The Commission released its final report, *New York Nonprofits in the Aftermath of FEGS: A Call to Action*,[2] this past February. Today we will focus on the key findings and recommendations of that report, which pertain to:

- Indirect cost rates,
- Cost escalation,
- Program design,
- Streamlining of mandates, and
- Risk assessment.

You will then hear from many providers that are directly impacted by the issues identified in the report, as well as key stakeholders that see their work hindered by these obstacles. While there are many areas where the Council can intervene, today we make one consistent request: The

[1] Alianza Dominicana, GroundWork, Day Top Villages, and Palladia have merged or closed their doors, putting pressure on the rest of the provider community to pick up programs
[2] The report is available at http://www.humanservicescouncil.org/Commission/HSCCommissionReport.pdf.

Council should include one-time funding in the budget for all human services for "Supporting Human Services Nonprofit Operations." This amounts to a 2.5 percent increase on the other than personal service portion of all City contracts to provide human services.

About the Human Services Council of New York

HSC is a membership association representing more than 170 of New York's leading nonprofit human services organizations, including direct service providers and umbrella and advocacy groups. Our members provide essential supports to a broad spectrum of New Yorkers, including children, the elderly, the homeless, people with disabilities, individuals who are incarcerated or otherwise involved in the justice system, immigrants, and individuals coping with substance abuse and other mental health and behavioral challenges. We serve our membership as a convener, a coordinating body, and an advocate. We are also an intermediary between the human services sector and government, fostering cross-sector collaboration. We help our members better serve their clients by addressing matters such as government procurement practices, disaster preparedness and recovery, government funding, and public policies that impact the sector.

Creation of the Human Services Closures Commission

In March of 2015, the news that one of the City's largest nonprofit organizations would soon be closing sent shock waves through the City's human services system. FEGS, a $250 million organization that provided mental health, disability, housing, homecare, and employment services to 120,000 households, filed for bankruptcy on March 18, 2015. In a matter of weeks, an organization that had served New Yorkers for more than 80 years ceased to exist, leaving approximately 1,900 employees without jobs and creditors holding more than $47 million in outstanding debt. As government sprang into action to transfer FEGS' contracts and ensure continuity of services for the organization's clients, it became clear that the entire human services delivery system was facing a crisis.

FEGS' collapse was part of the growing trend of nonprofit closures, mergers, and reorganizations mentioned above. Prompted by this trend, HSC established the Commission, a diverse group of leaders from the nonprofit, for-profit, academic, and philanthropic sectors, to examine the systemic problems contributing to the instability of so many nonprofit human services organizations. Although FEGS was the impetus for this work, the Commission's inquiry was extended to the nonprofit human services sector as a whole. The Commission's charge was to develop thoughtful and succinct recommendations for building a strong human services delivery system in New York and addressing obstacles to providing high-quality programs. Those recommendations were released last month in the Commission's report, *New York Nonprofits in the Aftermath of FEGS: A Call to Action*.[3]

Indirect Cost Rates

Research shows that inadequate reimbursement of human services organizations' indirect costs is a penny wise and a pound foolish. "Organizations that build robust infrastructure—which

[3] The report can be downloaded at http://www.humanservicescouncil.org/Commission/HSCCommissionReport.pdf.

includes sturdy information technology systems, financial systems, skills training, fundraising processes, and other essential overhead—are more likely to succeed than those that do not."[4] For this reason, HSC has been working with both the City and the State to address the urgent infrastructure and administrative needs of nonprofit human services organizations. In particular, we have focused on the implementation of the now two-year-old Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards issued by the federal Office of Management and Budget ("OMB") on December 26, 2013 ("Guidance").[5] This Guidance requires that agencies receiving and redistributing federal funds to nonprofit organizations pay an indirect cost rate of no less than 10 percent on contracts supported by federal dollars. Unless and until contracts cover the full cost of services, any increase in indirect cost rates will mean a reduction in program funding. Like the minimum wage increase, however, the federal Guidance should be viewed as an attempt to "right-size" the funding of indirect costs.

Low indirect cost rates have starved the human services sector of adequate funding for many years. Our members report receiving indirect cost rates as low as 2.3 percent,[6] which is unquestionably a factor contributing to the precarious position of the sector. Stigma around indirect costs and the common misperception that philanthropy will cover these critical investments are the leading causes of contract "anemia." Without sufficient indirect cost reimbursement, organizations cannot:

- Acquire, maintain, or modernize mission-critical facilities and equipment;
- Harness the power of technology to realize efficiencies;
- Provide training for staff to ensure high-quality service delivery;
- Pay living wages and provide career ladder opportunities to attract and retain qualified staff;
- Invest in strategic planning or innovation to ensure sustainability; or
- Expand services to meet growing need as inequality becomes amplified.

A recent example of the consequences of low indirect cost rates is the New York City homeless shelter dispute of last Fall. Shelters are held to stringent safety and sanitation standards, as they should be, but their contracts do not cover the costs of meeting these standards. Now the Governor seeks to authorize city comptrollers to revoke contracts and close shelters for safety and sanitation violations, but he has not provided appropriate funding for repairs. The continued tension between ensuring that the increasing homeless population is sheltered and that shelters are in good condition—the perennial tension between quantity and quality—is a result of chronic underfunding in organizations. The solution requires investment by all levels of government.

As the City and State work to implement the OMB Guidance, it is an opportune time to take up the larger issue of the real cost of human services. The government should work closely with the sector to determine what it actually costs to run a successful program, to identify what is truly a program cost and what is truly an "indirect" cost, and to adopt a more accurate and just way of determining what a reasonable and realistic indirect cost rate is for a given program.

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[4] Ann Goggins Gregory and Don Howard, "The Nonprofit Starvation Cycle", *Stanford Social Innovation Review*, Fall 2009. http://www.ssireview.org/articles/entry/the_nonprofit_starvation_cycle/.
[5] 2 C.F.R. §§ 200.400-200.475. Available at http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl
[6] On some contracts, no indirect costs are reimbursed.

We note that failure to comply with the Guidance could result in the rescission of federal contracts, depriving organizations of the funding necessary to carry out their missions. HSC calls on the Council and the Mayor to take the lead not only in holding City agencies accountable for implementing the Guidance, but also to set an example for the State in extending the same indirect cost principles to City-funded contracts. We stand ready to assist in the development and implementation of a sensible indirect cost strategy.

Cost Escalation

Rising costs are a stubborn reality. In light of unrelenting increases in rent, as well as in the cost of labor,[7] utilities, health care and other types of insurance, it is unreasonable to hold a provider to the same level of funding for the life of a multiyear contract. Unfortunately, human services contracts do not contain cost escalation clauses. This means that as costs rise, organizations must engage in more and more fundraising activity or cut costs any way they can. This austerity can result in extremely low salaries and fringe benefits, hiring freezes, and even layoffs. All of these strategies make it difficult for human services providers to compete for qualified workers, and they are a major cause of high workforce turnover.

Human services agreements should include cost escalation clauses that accommodate increases in the cost of doing business and/or allow for the surrender of contracts when they become unsustainable due to unforeseen circumstances. In addition, with the transition to value-based payment under the Medicaid Managed Care system, providers will face costs associated with training, technology upgrades, and outcome measurement, to name a few.

Of course, the idea of cost *escalation* presupposes appropriate payment in the first place. The nonprofit human services sector suffers from cash flow problems and chronic underfunding largely because government contracts and philanthropic grants rarely cover operating costs—and with government, payment is often late and unpredictable. Contracts must fully cover indirect costs such as information technology, compliance, building maintenance, program evaluation, accounting, human resources, and employee training—and payments must be timely and reliable to avoid further destabilization of the sector.

Cross-sector Program Collaboration

Key among the Commission's recommendations is the creation of partnerships among the public sector, private funders, and human services providers to develop effective programs. The Commission found that Programs intended to build human potential and social welfare are too often developed without consulting the human services providers who will be responsible for implementing them, resulting in ineffective and unworkable programs. The City should leverage the on-the-ground experience of service providers—who truly know their communities—when creating programs and developing performance metrics. The opportunity for meaningful input will be even more important as the State transitions to a value-based payment model under the Medicaid Managed Care system.

The City has many mechanisms to help facilitate program collaboration, such as using HHS Accelerator to bring in prequalified vendors to discuss new programs, and surveying existing contracts before re-issuing a request for proposals ("RFP")or creating a substantially similar program. Additionally, the Council could use discretionary dollars to pilot innovative programs.

[7] We are deeply grateful to the City for including funding for the human services minimum wage increase, setting an example for the Governor.

The Council often funds the same programs each year, signaling their importance, and those programs should be baselined in the budget, freeing up discretionary dollars for innovation. The dollars can be used more flexibly and on a small scale to work with communities to test new approaches, and then share the lessons learned with City agencies as they craft RFPs.

Streamlining of Mandates

Providers must be held accountable for delivering the promised results under their contracts and for wisely managing the public funds that are entrusted to them. As we have seen, however, the current regulatory framework does not deter bad actors and poor managers from engaging in behaviors that put organizations and their clients at risk. The tendency of government has been to create more mandates in response to every high-profile case of fraud or mismanagement. As a result, nonprofits are subject to lengthy disclosure of sensitive, redundant, and in many cases irrelevant information through systems and forms such VENDEX and the City's cost-of-living adjustment process.[8]

Audits are another example of mandates that arise from good intentions but disproportionately burden providers without deterring bad behavior. Large nonprofit organizations undergo *hundreds* of audits each year, and yet red flags still go unnoticed until irreparable damage has been done. At the same time, duplicative, unfunded mandates divert resources from program delivery and hamper investment in infrastructure and administration.

Performance-based contracts are yet another example of good intentions yielding bad results. These types of contracts sound ideal because they are intended to incentive positive service outcomes, but often they set organizations—particularly small ones—up for failure. The metrics are often completely untested, developed without any research or input from providers and bearing no relation to actual lessons learned. The funding structure rarely covers the cost of the work involved, and organizations are given no allowance for outcome tracking and compliance. Finally, most of the funding is severely restricted so that rather than rewarding optimal service outcomes, performance-based contracts in many cases create greater need for philanthropic dollars.

The City Council and the Administration must work with the sector to replace ineffective oversight processes with meaningful government oversight approaches that ensure that providers are financially and programmatically responsible.

Risk Assessment

The recommendations above are directed at government and philanthropy. The Commission report also contains recommendations for providers. These recommendations share a common theme: responsibility for risk assessment. One such recommendation, which HSC will play a lead role in implementing, is the creation of solicitation rating system and government agency performance survey to illuminate the risks associated with doing business with government. We note, however, that until the issues of funding and streamlining of mandates are addressed, the

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[8] The implementation of last year's City cost-of-living adjustment ("COLA") has been slow and tedious. The COLA took effect on July 1, 2015, but most covered providers are still waiting for their increase. Additionally, the spreadsheet that providers were required to complete was time-consuming and confusing, and duplicitous of information already reported pursuant to contracts. Furthermore, while the City took months to articulate an implementation plan, providers were given only eight days to complete and submit a "one-size-fits-all" form that did not fit all providers.

vast majority of providers will struggle to engage in meaningful risk assessment. They struggle not because of a lack of will, but because of a lack of capacity, funding, and information. HSC is working with stakeholders to ensure that the sector has tools to engage in risk assessment, and by rating RFPs and government agencies, we will give providers more information about the hurdles they face when entering into a contract.

Risk is the common theme throughout the Commission process and the resulting report. The problem is not just that nonprofits are at risk of being in the red or closing; it is that the results of inaction are a risk to communities and the health of New York City. As in any sector, some organizations will fail, but we are seeing widespread signs of system failures and the sector cannot continue to absorb underfunded contracts or continued requests to do more with less, nor can it take on the programs of another failed organization.

Conclusion

HSC truly appreciates the Committee's leadership in organizing today's hearing. This hearing is a critical step toward the systemic reform that will be necessary to reshape the City's human services delivery system. Again, while I have identified many challenges today, and many of them require in-depth examination and long-term solutions, we urge the Council to take one action in the meantime by including a one-time increase of 2.5 percent on the OTPS portion of all City contracts to provide human services. We look forward to working with the Mayor, the City Council, and the Administration to ensure that our sector is better supported and that City policies help, rather than hinder, service delivery. Together we can make good on the promise of a fair, safe, healthy, and sustainable city. Thank you.

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Appendices

I. List of Commission members
II. Executive Summary of Commission Report

Human Services Council

HSC Commission to Examine Nonprofit Human Services Organization Closures

Participants

Chair: Gordon Campbell, *NYU Robert F. Wagner Graduate School of Public Service*

Douglas Bauer	*The Clark Foundation*
Ian Benjamin	*RSM US LLP*
Antony Bugg-Levine	*Nonprofit Finance Fund*
Joel Copperman	*CASES*
Don Crocker	*Support Center for Nonprofit Management*
Fred Davie	*Union Theological Seminary in the City of New York*
Sean Delany	*Lawyers Alliance for New York*
Julie Floch	*EisnerAmper*
David Garza	*Henry Street Settlement*
Eric Goldstein	*UJA-Federation of New York*
David Hansell	*KPMG*
Jack Krauskopf	*Baruch School of Public Affairs*
Thomas Krever	*Hetrick-Martin Institute*
Katie Leonberger	*Community Resource Exchange*
John MacIntosh	*SeaChange Capital Partners*
Dianne Morales	*Phipps Neighborhoods*
Gail Nayowith	*Consultant*
Mitchell Netburn	*Project Renewal, Inc.*
Hilda Polanco	*Fiscal Management Associates*
Jim Purcell	*Council of Family and Child Care Agencies*
Joanne M. Oplustil	*CAMBA*
David Rivel	*The Jewish Board*
Claire Rosenzweig	*Better Business Bureau Serving Metropolitan New York*
Phillip Saperia	*The Coalition of Behavioral Health Agencies, Inc.*
Allison Sesso	*Human Services Council*
Fred Shack	*Urban Pathways*
Michael Shaw	*The Kresge Foundation*
Marla Simpson	*Brooklyn Community Services*
Patricia Swann	*The New York Community Trust*
Kathryn Wylde	*Partnership for New York City*
Michael Zisser	*University Settlement*

HSC Commission to Examine Nonprofit Human Services Organization Closures

Committee Chairs

Julie Floch	*EisnerAmper*
Phil Gartenberg	*Fulcrum Associates*
David Garza	*Henry Street Settlement*
Katie Leonberger	*Community Resource Exchange*
John MacIntosh	*SeaChange Capital Partners*
Linda Manley	*Lawyers Alliance for New York*
Dianne Morales	*Phipps Neighborhoods*
Joanne Oplustil	*CAMBA*
Hilda Polanco	*Fiscal Management Associates*
Michael Zisser	*University Settlement*

EXECUTIVE SUMMARY

NEW YORK NONPROFITS IN THE AFTERMATH OF FEGS: A CALL TO ACTION

Nonprofit human services organizations play a critical and longstanding role in building and supporting the wellbeing of New Yorkers, enabling millions of people to contribute to their communities as students, parents, neighbors, and workers. These providers deliver services to an estimated 2.5 million New Yorkers annually.[1] They train and help keep workers in good jobs, provide early childhood education and after-school programs, run food pantries, respond to emergencies and natural disasters, provide mental health counseling, shelter people experiencing homelessness, and care for the elderly, among many other community services. By administering human services programs, nonprofits are building the wellbeing of New Yorkers, maximizing their potential and ensuring that New York maintains its global competitiveness. The collective services provided by human services nonprofits make the difference between success and failure for countless individuals and families. Yet the sector itself is facing a crisis.

As with any industry, nonprofits in the human services sector close and merge, but recently, there have been many questions about why so many have disappeared. Organizations, including Alianza Dominicana, GroundWork, Day Top Villages, and Palladia, have merged or closed their doors, putting pressure on the rest of the provider community to pick up programs. In March of 2015, the Federation Employment and Guidance Service (FEGS), a $250 million behemoth nonprofit human services provider, announced it would be closing; a clear signal that systemic issues threatened the survival of the sector as a whole.

Until it filed for bankruptcy, FEGS, one of the largest human services providers in New York, delivered an array of mental health, disabilities, housing, homecare, and employment services on an annual budget of about $250 million. The closing of FEGS after 80 years in operation left about 1,900 employees without jobs and unpaid creditors holding more than $47 million in debt. Additionally, the 120,000 households and individuals that relied on FEGS for services had to be transferred. The City and State agencies that contracted with FEGS were blindsided by its poor financial condition and were forced to find replacement providers to administer about 350 of its ongoing program locations.

FEGS, like hundreds of other human services providers, was funded largely through public contracts with governmental agencies. Over the past 40 years, government has transferred most legally mandated support functions to the more efficient and nimble nonprofit sector at a fraction of what it would cost government to administer directly because of lower expenses at nonprofits and investments made by private funders. ("Private funders" refers to philanthropic giving from institutions, corporate donors, and individuals. It does not include loans or other private non-giving sources of funding.). The combined value of government human services contracts in New York is estimated at more than $5.8 billion for the current fiscal year.

The closing of FEGS raised urgent questions: How could such a large and well-established organization implode? Was FEGS unique or symptomatic of the financial challenges facing the nonprofit human services sector? How many other organizations are in trouble, and how many people would be affected if they close? How can more closures and the associated consequences be averted? What will it cost if this industry collapses? What is required to ensure that this does not happen? In March 2015, the Human Services Council (HSC) set out to answer those questions.

Since 1991, HSC has worked to unite and empower New York's nonprofit human services sector and has advocated for public policies that enable it to better serve New Yorkers. HSC recruited 32 seasoned human services executives, civic and philanthropic leaders, former government officials, and other individuals with critical experience and knowledge concerning nonprofit management and oversight (see Commission Participants, page 41). They were asked to conduct a rigorous assessment of the state of the nonprofit human services sector and to recommend measures to ensure that vitally needed organizations survive and thrive until they are no longer needed. Gordon J. Campbell, a former senior government official and former President and Chief Executive Officer of United Way of New York City, was appointed the Chair of the Commission, charged with examining the state of the nonprofit human services sector in the aftermath of FEGS.

Commission members met frequently over nine months in committees with specific agendas (see committee members and charters, attached as Appendices A.1 through A.5, respectively). The findings of their exhaustive review follow.

EXECUTIVE SUMMARY

Major findings

Human services nonprofits have a higher rate of insolvency than other types of nonprofits. Organizations with budgets from $10 million to $49 million are more likely to be in financial distress than those with budgets of less than $1 million, and a significant portion—60 percent—are financially distressed, having no more than three months of cash reserves.

Underfunded government payment rates are the primary driver of financial distress. Government contracts dominate provider budgets but pay only about 80 cents or less of each dollar of true program delivery costs, leaving budget holes that private funders cannot, or should not, fill.

Underfunding leads to salaries so low that many nonprofit employees depend on safety net programs, such as food stamps and Medicaid. It also results in inadequate investment to keep facilities safe and in good repair.

Chronic delays in contract payments force providers to undertake costly borrowing to make payroll and rents, often accruing interest not covered by government contracts.

Multiple and redundant audits, along with unfunded mandates and other oversight mechanisms, add up to staggering administrative costs.

The transition to Medicaid Managed Care poses considerable risk for human services providers and there is no assurance that any of the substantial State investment to prepare for this new system will flow to human services organizations.

Government does not fully leverage the expertise of human services providers to design programs, missing a significant opportunity to innovate and develop metrics and requirements that match the government dollars available for a given contract.

Too many government regulations are redundant and unnecessary. The multiplicity of procedures that accompany government contracts detracts from the focus on mission.

Human services providers need to expand their risk assessment and management capacity to ensure that executive staff and boards focus effectively on organizational sustainability and continued delivery of services to the community.

Because of weak internal financial and programmatic reporting, providers may not be alerted to short-term and long-term fiscal dangers early enough to address them. Inadequate funding of indirect expenses has contributed to the lack of resources available for investment in effective risk identification mechanisms.

The philanthropic community is a crucial partner in the capacity building efforts of nonprofit human services providers and should better facilitate investment in these functions.

Recommendations

To address these issues and ensure the future contributions of the human services sector, the HSC Closures Commission identifies three major problems and makes eight recommendations that are designed to work together to bring the sector back from the brink.

Problem #1: Programs intended to build human potential and social welfare are too often developed without consulting the human services providers who will be responsible for implementing them, resulting in ineffective and unworkable programs.

- Programs that work well require effective partnerships among the public sector, private funders, and human services providers. Human services providers with decades of experience would be instrumental in designing and implementing programs that more effectively serve New Yorkers and should be involved at the outset of program planning.
- Make certain that New York's transition to Medicaid Managed Care is a win for beneficiaries, taxpayers, and human services providers by ensuring that funding is available to nonprofits for investments in information technology, capacity building and training, metrics tracking, and providing a cushion against related risks.
- Oversight regulations and procedures that fail to catch bad actors are a waste of everyone's time and money and should be replaced with meaningful government oversight approaches that ensure that providers are financially and programmatically responsible.

Problem #2: Government contracts and philanthropic grants rarely cover operating costs and payment is often late and unpredictable, resulting in cash flow obstacles and chronic underfunding.

- Contracts and grants must fully cover indirect costs. Indirect (overhead) expenses like information technology, building maintenance, program evaluation, accounting, human resources, and employee training are vitally important to service delivery. Adequate funding by the public sector and philanthropies of indirect expenses is essential for providers to survive.
- Payments must be timely and reliable so that providers are not left "holding the bag." Contracts must allow for payment escalations to cover inflation and unanticipated expenses that exceed reasonable budget estimates. Contract renewals must accommodate cost increases or allow their surrender if they become unsustainable due to unforeseen circumstances, such as costly, new unfunded mandates.

Problem #3: There is a lack of adequate risk assessment in the sector. Providers must accept responsibility for aggressively identifying, assessing, and addressing risks to their fiscal health and put in place the checks and balances needed to protect themselves and the people they serve.

- Providers must implement financial and programmatic reporting systems that enable them to identify and quantify the financial impact of changes in the operating environment. Private and government funders must underwrite the development of robust financial and performance monitoring systems necessary for long-term sustainability and program quality.

- Provider boards, in conjunction with staff, must be engaged in risk assessment and implement financial and programmatic reporting systems that enable them to better predict, quantify, understand, and respond appropriately to financial, operational, and administrative risks. Private and government funders should help build their capacity to do so by facilitating access by nonprofit staff and board members to professional development, technical assistance, and coaching.

- The human services sector must establish an RFP rating system and government agency performance survey to illuminate the risks associated with individual government proposals and highlight problematic government agency policies and practices. Providers can start to level the procurement playing field by collaborating to evaluate government performance.

For the complete report, please see http://www.humanservicescouncil.org/Commission/HSCCommissionReport.pdf

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NPCC

NONPROFIT COORDINATING COMMITTEE OF NEW YORK

Testimony of Ian Benjamin
Board Chair, Nonprofit Coordinating Committee of New York
Partner, RSM US LLP
Commissioner, Human Services Council Commission To Examine Nonprofit Human Services Organizations Closures
to the
New York City Council
Committee On Contracts
Regarding Challenges Facing Nonprofits In City Contracting
April 4, 2016

Good afternoon. My name is Ian Benjamin. I am the Board Chair of the Nonprofit Coordinating Committee of New York, a Partner and the Leader of the Nonprofit Services Practice at RSM in New York. RSM is an accounting firm. I served as a Commissioner of the Human Services Council Commission to Examine Nonprofit Human Services Organization Closures. Thank you to Council Member Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting.

I appreciate the opportunity to offer testimony and I am here to urge the Committee on Contracts to take action with us to address the crisis that the nonprofit sector faces. Nonprofits are a critical part of our societies, communities and neighborhoods. They are our crisis centers, our community arts centers, our hospitals and our schools - organizations that we could not live without. They are an important part of our economy: the 30,500 registered nonprofits in New York City generate $118 billion in revenue.[1] The nonprofit community in New York City employs hundreds of thousands of New Yorkers who are providing many services that we all rely on. They house the homeless, feed those in need, educate our children, they care for us when we are sick, they support us when we grow old. We all benefit from the nonprofit sector every day.

As Board Chair of the Nonprofit Coordinating Committee, I know too well that nonprofits throughout the sector, and not just in the human services realm, face the same challenges as they work to achieve their mission in an environment of reduced funding, rising need, increased regulation and administrative burdens. Much nonprofit funding "comes in the form of government contracts or restricted grants that virtually guarantee a deficit," and private funding supply is fixed and not likely to be able to bridge the gap.[2] The Nonprofit Coordinating Committee is a member of the National Council of Nonprofits, the nation's largest network of nonprofits with more than 25,000 members throughout the country, which finds that nationally nonprofits face a number of threats, including underpayment of nonprofit indirect cost rates.[3] At the Nonprofit Coordinating Committee, we regularly hear from our more than 1,400 members

[1] National Center for Charitable Statistics (December 2015).
[2] *Risk Management for Nonprofits*, Oliver Wyman and SeaChange Capital Partners (2016).
[3] *2015 - 2016: The Years in (P)Review*, National Council of Nonprofits (2016).

throughout New York City that they face struggles to raise money, pay for operating costs, respond to complex regulatory requirements and meet their mission. What the recent reports from the Human Service Council and others[4] have demonstrated is that we are at a critical crossroads in our sector. Large social services agencies are going bankrupt and fewer than 30% of nonprofits are financially strong.[5] We, nonprofits, private founders and the government, must work together to find long term and sustainable solutions to strengthen nonprofits. We all know that our nonprofits form a necessary safety net for New Yorkers and we must do what we can to keep that safety net strong.

As an auditor I have worked with New York nonprofits for more than thirty years. In my experience nonprofits and in particular those that fund their activities with state and city grants do not receive adequate funds to cover all the costs of the services they contract to provide. It might be helpful to illustrate this with an example from everyday life.

When each of us goes to buy a meal at our local McDonalds, or to buy groceries at our local supermarket, the price we pay covers the entire cost, including the HR department, the training of the employees, the bookkeepers, the cost of providing computer systems and keeping them up to date. When the city contracts with a nonprofit to provide services, it agrees to pay the direct costs and sometimes, although not always, for some amount for indirect costs. The amount it pays for indirect costs is not adequate to cover training, to pay for the computer systems necessary to manage payroll and keep the accounting records, or for the other indirect costs needed to ensure a safe workplace and to meet the regulatory and governance requirements necessary to operate a nonprofit in New York City.

Nonprofits regularly operate on a thin margin - the median nonprofit has a negative 0.1% operating margin over the past three years[6] - and this is not a sustainable model. This is the norm throughout the sector and it is a problem. As the Wyman/SeaChange report pointed out,[7] nonprofit contingent liabilities (such as claw-backs for disallowed expenses, post-grant audits, and the like) place nonprofits at further risk. Private philanthropy cannot meet the gap between what it costs to provide services and what government agrees to pay. Government needs to cover the true costs of the services it is asking nonprofits to provide. Without doing so we will see the collapse of more nonprofits, and damage to the entire sector.

As a Commissioner on the HSC Commission, I believe our report is thorough, thoughtful and balanced and that the recommendations begin to address the structural problems that must be solved to create a strong system of delivering community services in our city. We know that the problem is not just a government problem. We know that nonprofits need to engage in careful risk assessments, understand the realities of their operating environments and make responsive governance and management decisions. But we also understand that the government is creating some of this operating risk by delaying contract execution, delaying voucher payments, underpaying actual program costs and not paying for the total cost of providing these services. Nonprofits must take responsibility for their governance and management, but even the best governance and management cannot overcome the systemic problems with government contracts.

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[4] *New York Nonprofits in the Aftermath of FEGS: A Call to* Action, Human Services Council Commission to Examine Nonprofit Human Services Organization Closures (2016); *Risk Management for Nonprofits*, Oliver Wyman and SeaChange Capital Partners (2016).
[5] *Risk Management for Nonprofits*, Oliver Wyman and SeaChange Capital Partners (2016).
[6] *Id.*
[7] *Id.*

One strategy that would begin to address this issue is to implement the Federal Office of Management and Budget's Uniform Guidance, which requires the payment of indirect costs with a baseline payment of 10% (which can increase depending on actual indirect costs - which the National Council of Nonprofits estimates to be 25-35% of all nonprofit costs.[8] Implementing the OMB Uniform Guidance, and relieving some of the burden of underpayment of indirect costs, is a good first step to addressing the fragile infrastructure of nonprofits. The Committee on Contracts is in a position to hold New York City Agencies accountable to implement this Uniform Guidance by both asking Agencies about their work to implement the OMB Guidance and by talking generally about the necessity of funding indirect costs. We urge the Committee to do this. While this is not a panacea, it is one strategy that will have a direct and positive impact on nonprofits in New York City.

Additionally, the Committee on Contracts should examine the redundancy in audits and compliance efforts. The nonprofit sector is committed to transparency and accurately reporting how they do business and operate programs. Regulation is a necessary part of the sector but many of the mandates are duplicative and can be streamlined to better use scarce resources and still adequately capture important compliance information.

There is much more to be done, including promoting thorough risk assessment, management and scenario planning; disaster planning; examining the relationship nonprofits have with the private sector and private funders; and addressing how we perceive and value our nonprofit partners and ultimately how we build the most effective and efficient approach and delivery of services for all New Yorkers. The Committee on Contracts could begin with the above steps, and we at the Nonprofit Coordinating Committee and within the nonprofit sector, will be there to support your work.

Thank you again for providing me with this opportunity to testify, and for your continued partnership with our sector. Please contact me at Ian Benjamin, Board Chair at ibenjamin@npccny.org or Sharon Stapel, President, Nonprofit Coordinating Committee of New York at sstapel@npccny.org if I can provide further information.

[8] *Investing for Impact: Indirect Costs are Essential for Success*, National Council for Nonprofits (September 2013).

Stanley M. Isaacs
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New York City Council Committee on Contracts Hearing
Challenges Facing Nonprofits in City Contracting
Monday, April 4, 2016
Council Chambers, City Hall

Testimony on behalf of Stanley M. Isaacs Neighborhood Center School
Elizabeth Hoagland, Senior Manager of Education and Workforce Development

Good afternoon. My name is Elizabeth Hoagland and I am the Senior Manager of Education and Workforce Development at the Stanley M. Isaacs Neighborhood Center. The Isaacs Center is a nonprofit, multi-service organization founded in 1964. Each year, we support the health and independence of more than 6,000 New Yorkers including children of low-income families, out-of-school and out-of-work youth, and aging New Yorkers including isolated and homebound elderly. We operate two community centers that are embedded within Isaacs Houses/Holmes Towers (Isaacs/Holmes), a New York City Housing Authority development. Although Isaacs/Holmes shares a zip code with Manhattan's Upper East Side, the demographics and socio-economic needs of residents more closely resemble that of East Harlem.

We have provided services and supports related to Education and Workforce Development to out-of-work and out-of-school (or disconnected) youth, between the ages 17 to 24, since 1979. Our services are characterized by a variety of approaches that help young adults enter or re-enter the workforce and pursue educational opportunities that boost hourly wage earnings and put them on sustainable career paths.

While our participants represent a diversity of backgrounds and achievement levels, a notable percentage face significant barriers to success in education and the workforce:

- 82% are Black or Latino—a population facing disproportionately higher levels of unemployment;
- 57% do not have a high school diploma or its equivalent;
- 52% do not have a resume or adequate information to place on a resume; and
- 45% are court-involved.

Because of our deep commitment to the *promise* of young adults who experience disconnection, and the extraordinary cost on our local economy when we do not invest in young adults, we were very enthusiastic about the release of the New York City Human Resources Administration's Youth Pathways concept paper in July 2015 and subsequent February 2016 release of a Request for Proposals (RFP) in support of Youth Pathways.

In the concept paper, HRA committed itself to taking the recommendations from the Mayor's "Jobs for New Yorkers" taskforce and transforming the entire New York City workforce development system into *a career pathways approach* - one that focuses on client's actual strengths and needs as opposed to the current one-size-fits-all approach. And it acknowledged the failure of the City to assist young adults in making meaningful connections to education, training, and employment.

However, the concept paper failed to deliver on three critical issues:

1. Assumptions regarding the cost to deliver the required services were grossly misaligned with the realities of servicing a young adult population.
2. The penalties for failing to reach the required performance targets were unduly harsh, and did not adequately reflect the challenges of providing *services over time.*

Despite numerous communications from youth workforce development focused providers and collaborative organizations to HRA following the release of the concept paper outlining these issues, HRA released an RFP that neither addressed nor remedied these issues. As a result, providers like us, cannot in good faith pursue engagement either as a lead contractor or as a sub-contractor in response to this RFP.

1-Cost to Deliver Required Services

The RFP cost structure is organized in such a way that many of the services that a provider would offer are expected to be funded through another non-government source. Youth Pathways has a per participant reimbursement rate of $826, but these services cost much more. For reference:

- DYCD's Out-of-School Youth (OSY) Programs provide similar services as YouthPathways, such as employment preparation skills, academic support services, and mentoring and job connection. OSY maintains contact with youth for an extra twelve months after program exit and YouthPathways does not, but OSY's reimbursement rates, ranging from $8,500 to $10,500 provide the funding necessary for its services.
- In spring 2014, the Isaacs Center was one of sixteen providers in New York State to be awarded a contract from the New York State Office of Temporary Disability Assistance to support young adults with vocational training. This model is similar to YouthPathways, and has a participant reimbursement rate in the range of $2,500-$12,500, with an average per-participant rate of $4,500.

2-Penalties for Failing to Reach Performance Targets

There are performance based penalties that could result in organizations being in a position to receive even less than the funded amount if a percentage of young adults don't achieve milestones, which would further increase the financial and programmatic risk that providers would have to take on to pursue this RFP. According to the RFP, approximately 30% of the contract dollars depend on milestone achievement (credential attainment and job retention), and many of those milestones may not be met in the contract year when considering young adults typical progression. This results in providers having to consider taking on the risk of achieving even less than the contracted amount per year. Even the most high-performing providers have difficulty achieving more than 60-70% of these types of milestones in a contract year.

Other Concerns
HRA has noted that these programs require a field-tested centralized management information system to track, and appropriately credit, participant outcomes. Rather than complete and field test such a system prior to the release of these RFPs, the RFPs note that HRA *anticipates* creating such a system. HRA explicitly states that "this system will not be available until after the contract start date." In other words, the data tracking system necessary to operate these programs will not be available when these programs begin.

Finally, as a neighborhood based organization, we hope that RFPs will make it possible for organizations that are not huge but have deep connections to the communities that they serve. **Youth Pathways provides for only 10 contractors with only 2 for all of Manhattan, and Queens and Staten Island having only one provider each.** *This means that not only the volume per provider will be tremendous, but also that organizations that have built trust in neighborhoods may not be able to provide these services.*

In conclusion, the effect of young adults disconnection affects everything from earnings and self-efficacy, to health and marital prospects; in essence, limited education, social exclusion, employment gaps and lack of work experience not only stifles their adolescent years, it snowballs across the course of their lives. This creates a significant taxpayer burden. Current statistics places the taxpayer burden of out-of-work and out-of-school youth 16-24 at $13,900 per year and an immediate social burden of $37,450. In total, a single 20-year old out-of-work and out-of-school youth will impose a full taxpayer burden of $235,680 and a full social burden of $704,020.[1] In order to address the promise of young adults, we hope the investment in their future will be more appropriately considered.

[1] The Economic Value of Opportunity Youth, Belfield, Levin and Rosen, 2012

New York City Council
Committee on Contracts
April 4, 2016

My name is Lester Marks, Director of Government Affairs at Lighthouse Guild. Lighthouse Guild is a proud member of the Human Services Council. The recent Human Services report, *New York Nonprofits in the Aftermath of FEGS: A Call To Action,* is a complete document that chronicles the issues nonprofits, both large and small, experience related to government contracts.

Today, I would like to underscore a few the points from the report that will improve the government contracting process:

First, governmental agencies can do a better job at designing programs, and the accompanying regulations and procedures regulating said programs, by consulting with providers prior to the issuance of a concept paper or a request for proposal. This does not mean that the providers will write the rules or regulations; rather, providers will have a more meaningful input into a specific program's design that will improve sustainability, and ultimately work better for the consumer.

Streamline the Oversight.

Lighthouse Guild provides an array of services, overseen by numerous city, state and federal agencies. Each agency has a different audit process that has different requirements, with different requests attached to each audit. Some audits request organizational information, such as, list of board of directors, board meeting minutes, organization charts, audited financial statements, fiscal policies, IT policies and similar material that is both time consuming and voluminous.

Creating a uniformed online auditing system could alleviate some of this duplicity. It would provide organizations the opportunity to upload information unrelated to the specific program operations one time, designate one individual to ensure continuous updates, and reduce time during the actual audit process. A streamlined approach would require a standard for specific information required as part of the audit process, and would be consistent from agency to agency.

I recently oversaw an audit of a program in which we were provided a list of thirty items needed by the auditors, two-thirds of which was administrative in nature. Subsequent audits of other programs asked for similar administrative information, in slightly different ways. This example illustrates how a uniformed system for program audits, in which administrative information was standardized across agency would reduce the number of time spent on compiling information, and free up staff to be more productive on mission focused work.

Audits are an important part of ensuring compliance and that public dollars are being spent as intended. Improving the audit process by looking at audits holistically, rather than in a silo with each agency having different audit procedures and policies, will alleviate unnecessary redundancy. Ultimately non-profit employees will be able to focus more time on the mission, and less on compiling information that is seemingly unnecessary and duplicative.

Thank you for your continued focus and commitment to improving the contracting process and to HSC for their steadfast leadership.

ABOUT

Lighthouse Guild is the leading not-for-profit vision + healthcare organization, with a long-standing heritage of addressing the needs of people who are blind or visually impaired, including those with multiple disabilities or chronic medical conditions. Through the integration of vision + healthcare services and the expansion of access through education and community outreach, our innovative and comprehensive approach helps people achieve and maintain the highest possible level of function and independence.

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NYC E&TC New York City Employment & Training Coalition

Testimony of The New York City Employment and Training Coalition

Before the NYC Council Committee on Contracts Regarding Challenges Facing Nonprofits in City Contracting

April 4, 2016

Background

My name is Annie Garneva and I am here to represent the over 160 member organizations of the New York City Employment and Training Coalition (NYCETC). Thank you to Council Member Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting. This issue is of great importance to our membership of workforce development providers, and particularly timely given the release of the Human Services Council's report "New York Nonprofits in the Aftermath of FEGS: A Call to Action." I appreciate the opportunity to offer testimony on the contracting issues impacting our more than 160 member organizations who collectively provide services to over 800,000 New Yorkers each year in all five boroughs, including the most vulnerable populations such as youth, court-involved individuals, the homeless, individuals with disabilities, veterans and immigrants.

Our members come together through NYCETC to strengthen the workforce development community and system and to provide a collective voice based on experience to government agencies. We are troubled that those within government continue to craft complex and risky contract terms and funding schemes, without considering input from the collective experience of those who provide the services on a daily basis. *Our members are seriously impacted by contracts which do not cover the full cost of the program, do not pay an adequate indirect rate to cover essential operating costs and do not provide timely payments for services rendered and outcomes achieved*.

We have been working hard to ensure that the collective expertise about what works within the workforce development system is used to inform policy and program development, and advocate for the provider community to be more actively included in policy and program design. However, we find that *rather than having a seat at the table, the provider community's expertise from years of operating programs is regarded as an afterthought and rarely consulted in program design*. Over time, the City RFPs fail to consider our lessons learned, expertise, and outcomes we find important to measure, and leave the overall community saddled with the responsibility of fulfilling unrealistic mandates.

We have been seeing some positive signals that this is slowly changing, as reflected in the opportunity to provide feedback and input to the concepts before the Request for Proposals (RFPs) were issued for both the NYC Human Resource Administration's Employment Services and the NYC Department of Youth and Family Development's (DYCD) Out-of-School (OSY) and In-School Youth (ISY) Workforce Programs. Both agencies listened to feedback during sessions we organized with some of our member organizations and partners, and accepted written feedback from NYCETC and individual providers.

Within this testimony I will discuss the challenges that we see within the contracting process between City agencies and nonprofits through the lens of the current HRA RFPs. Though I am specifically focusing on HRA because the current RFP process is one of particular relevance to many of our members at the moment, the overall types of challenges I discuss are seen within other agencies and contracts as well.

<u>Current HRA RFPs and Contracting Process</u>

Last fall, we were hopeful when HRA issued Concept Papers for a new transformational system and invited responses. We surveyed our member organizations and held workshops with members to provide constructive feedback in writing and in person meetings with HRA leadership, warning that overly complex contracts with low cost per participant rates would not facilitate the transformation or the outcomes desired. We were hopeful that HRA was listening to our voices, as the issuance of the RFP's were delayed by several months. We were ultimately disappointed that the RFPs' cost per participant are severely below comparable programs both within New York City and nationally. For example, the Youth Pathways Program is $826 per participant, up from the $621 in the original concept paper. This is still incredibly low compared to actual cost per participant for effective youth programming, both in New York City and nationally. In New York City, youth programs average $6,400, but can go up to $8,500 per participant. Two well-known programs, the city-established Young Adult Internship Program (YAIP) is at $3,500 per participant and the federal Out of School Youth program (OSY) at $8,500 to $10,500 per participant. Outside of New York City, the average for similar youth programs is $3,355 per participant. The other two programs - Career Advance and Career Compass – allow for $931 per participant and $437 per participant, respectively. The current cost per participant of NYC programs most similar to both Career Compass and Career Advance range from approximately $1,000 to $2,400 per client and up to $7,000 in some cases.

From our member organizations, more than 80 individuals attended a one and a half day session last month held by the Workforce Professionals Training Institute to assist providers in assessing the viability of the HRA RFPs for their respective organizations and to provide technical assistance to those organizations who were interested in responding to the RFPs. At the end of the sessions, it was clear that the majority of the organizations present, including several who currently have contracts with HRA for these services, determined that the funding offered to provide increased services and outcomes on a performance based contract are too low, and would prohibit the majority of the organizations from applying. In addition, with the low funding, much anticipated partnerships in the HRA concept between large provider agencies and smaller community-based organizations would also not be feasible given the cost structure and performance payment, thereby eliminating the potential for individuals on public assistance to receive high quality training that could prepare them and place them on living wage career pathways as envisioned. Furthermore, the newly designed system requires greater levels of collaboration to facilitate referrals of participants from one provider to the next in a continuum of services. However, there is no underlying system or standard assessment tool to facilitate such navigation of the system and data sharing between providers, and simplify reporting and the referral process. Without a standard assessment tool in place, referrals will be difficult for providers and may result in participants needing to undergo multiple assessments, wasting client and provider time and resources unnecessarily. The development of such a tool is one example of innovative program design that could have been integrated into the RFPs had the provider community been more involved in the overall development process.

HRA asserts that in addition to the employment programs funding of $60 million, they hope to leverage an additional $140 million for job development and internships via existing City programs such as HireNYC and the Parks POP program, making this a $200 million program. While these resources may be helpful, they do not reduce the cost to run the 3 programs outlined in the RFPs or lessen the work of the provider to prepare the candidates, make the match and track the candidates' progress.

<u>Conclusion</u>

Our NYCETC community has been providing essential training and employment services in all of New York City's communities, and although many are nationally recognized programs, they are *<u>rarely consulted in program design.</u>* The resulting RFPs fail to consider our lessons learned, expertise, and outcomes we find important to measure. Ultimately, the service providers are blamed for poor outcomes, trying to deliver essential services within risky and untenable contract terms. As the Human Services Council's recent report, *<u>New York Nonprofits in the Aftermath of FEGS states</u>*, "Underfunded government payment rates are the primary drive of financial distress...only paying 80 cents or less of each dollar of true program delivery costs." As you can see from the above mentioned cost per participant estimates, this 80 cents on the dollar drops to as low as 20 cents on the dollar for some proposed employment and training programs.

Contracts with government are essential to our organizations and the programs we offer, and government relies on our organizations to provide critical employment and vocational training services in the hardest hit communities on their behalf. With stagnant dollars, match requirements, duplicative reporting, and requiring outcome measurement without investment in tracking or technology, the cost of taking on government contracts has become a risk to our organizations' health.

By creating complex systems, such as HRA is proposing, without proper contract terms and underlying processes in place and *underfunding it*, government agencies may actually reduce overall service quality, not only putting New York City's non-profit provider community at financial risk but putting the Mayor's Career Pathways vision at risk by jeopardizing the opportunity to compete for living wage jobs for those who need it most.

The New York City Employment and Training Coalition supports the Human Services Council's vision of an RFP rating system and government agency performance assessments to publicly alert the provider community leadership and their boards of directors to potential risks for their organizations.

This process and issues I have detailed reflect overall challenges that plague the contracting system between the City and its nonprofit providers. Provider organizations and the years of experience they hold should be taken into bigger consideration much earlier in the program design and contracting process. This will lead to more innovative and impactful programs and systems that help New Yorkers efficiently access much needed services. With many programs and systems now requiring greater levels of complex collaboration in order to provide New Yorkers with quality services, it is imperative that the City's contracting mechanisms and processes reflect greater levels of collaboration that include provider organizations.

Thank you again for providing us with this opportunity to testify on behalf of our 160 member organizations and the 800,000 New Yorkers who receive services from them every day.

For more information, please contact:

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BRONX CONNECT

Contracting Issues

Rev. Wendy Calderón-Payne, Executive Director

BronxConnect was founded in 2000 by Urban Youth Alliance, which believes that every young person has gifts, talents and interests that need to be nourished and supported. Those conventions are the foundation of our work with nearly 2,000 youth who are less likely today to repeat risky and violent behaviors after experiencing value and purpose through our programming.

We love our youth and children like they are our own, yet the City's contracting system makes serving them quite difficult. There is a need to review the HHS Accelerator system, and also how the Contracting systems disfavor small community, "people of color" agencies from serving their own youth.

HHS Accelerator

- "Experience" no longer requires local experience.
- "Values" have shifted to program and from local experience and local success
- Relevant Experience forms no longer required, thus evaluator are scoring on "promised program features" not actual success with local populations.
- This detracts the ability of smaller, community based, "people of color" organizations from scoring high enough to win, even when our contract performance is excellent.

Contract Process

- Can take over 1 year for a contract to be registered.
- At any given time, the city has owed us over $300K in the last two years.
- In 2008 we were actually owed over $600K, on one contract alone. We had to run this program for 14.5 months with no funding from the city.
- Certain funding sources have ability to fund Performance based contracts, which have simpler invoices.
- At this moment, certain funding sources require so much back up (for say a $4.5 metro card) that it is "more cost effective" to pay for the metro card ourselves then hire the staff to manage the invoices.

Attachment 3: Relevant Experience Form

Arches: A Transformative Mentoring Intervention Expansion **PIN: 78112ARCHESRFAE**

Instructions: Complete for one program only; duplicate form as needed to report on other programs.

Indicate funding source for this program ______________________________

Program Name: ____

Program Time Period (Describe only one time period for this program.)	Target Enrollment	Actual Enrollment
Outcome 1:	Projected Achievement	Actual Achievement
Outcome 2:	Projected Achievement	Actual Achievement
Outcome 3:	Projected Achievement	Actual Achievement

FOR THE RECORD

United Way of New York City

Testimony of
Sheena Wright, President and CEO
United Way of New York City

Before the
New York City Council
Committee on Contracts

Regarding the
Challenges Facing Nonprofits in City Contracting

April 4, 2016

United Way of New York City

My name is Sheena Wright and I am the President and CEO of United Way of New York City (UWNYC). I would like to thank Council Member Rosenthal, as well as the members of the Committee on Contracts for holding today's hearing on the Challenges Facing Nonprofits in City Contracting. This issue is of great importance to the nonprofit sector and particularly timely given the release of the Human Services Council's report *New York Nonprofits in the Aftermath of FEGS: A Call to Action*, and I appreciate the opportunity to offer testimony on the contracting issues impacting human services providers.

Today I will focus on the following topics:

- United Way of New York City's work,
- The human services workforce and Self Sufficiency,
- Appropriate funding of contracts, and
- Cross-sector program collaboration.

United Way of New York City

For almost 80 years, United Way of New York City has worked to support vulnerable New Yorkers throughout the five boroughs. We partner across the business, government, non-profit and philanthropic sectors to invest in community level solutions, programs that are coordinated and aligned towards a common goal in the areas of education, income security, hunger prevention and nutrition assistance. Our mandate is to stem the root causes of poverty and create systems-level change so that all individuals and families can access quality education and the opportunity to lead healthy and financially secure lives. We seek to put more New Yorkers in neighborhoods of concentrated poverty on the path to self-sufficiency.

We address core community needs through community-focused solutions and the strategic deployment of resources. Through a coordinated system of programs, policy and advocacy, and community-level engagement, United Way of New York City remains uniquely positioned to collaborate across the business, government, nonprofit, and philanthropic sectors to leverage a placebased, collective impact approach to solve social challenges and create systems-level change. Our initial focus is to achieve results in four specific neighborhoods:

- South Bronx: Mott Haven and Morrisania/Hunts Point
- Brownsville Brooklyn, and
- East/Central Harlem.

Our work includes education programs **ReadNYC** and **EducateNYC**; nutritious, emergency food distribution through **FeedNYC**; benefits access, financial coaching and job-readiness through **WorkNYC**; and nonprofit infrastructure and leadership support through **StrengthenNYC**. United Way of New York City invested $26,210,403 in more than 500 New York City nonprofits through Fiscal Year 2015:

- **ReadNYC** is a comprehensive, integrated strategy to increase grade-level reading proficiency, bringing families together with schools, community organizations, health care providers and more, to ensure learning success for our city's young children. In 2013 ReadNYC was piloted in six schools in Mott Haven as a collaboration between

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UWNYC, East Side House Settlement's six public schools and key community partners. The program recently expanded to eight additional schools in Brownsville.

- **EducateNYC** is UWNYC's Community Schools strategy. It is a comprehensive, integrated approach to aligning academics, health and social services, youth and parent engagement to improve student learning in high needs K-12 schools. The NYCDOE grant, coupled with UWNYC funds, allows UWNYC to support 26 CBOs to improve academics and attendance rates for more than 20,000 New York City students in 45 schools each year over the course of four years.
- **FeedNYC** is UWNYC's strategy to ensure the efficient distribution of healthy emergency food to reach communities in need, supplying providers with food, operations and capital equipment funding as well as training and technical assistance. The Hunger Prevention and Nutrition Assistance Program (HPNAP) provides the large majority of funding from the New York State Department of Health, Division of Nutrition. 389 Emergency Food Providers are supported through HPNAP, making possible 2.1 million meals this year.
- **WorkNYC** is UWNYC's strategy to connect families with resources critical for building household assets and essential to self-sufficiency, including benefits access, financial skill building, and workforce development opportunities. The Food Support Connections (FSC) program is a community-based Supplemental Nutritional Assistance Program (SNAP) aimed at providing screening, application and enrollment assistance services for the hardest to reach low-income individuals and families across all five boroughs of New York City through the coordinated work of seven nonprofit partners. 18,902 individuals screened in 2015.
- **StrengthenNYC** is UWNYC's capacity building strategy, which undergirds and supports all Community Impact initiatives. The capacity building team provides internal and external resources and expertise so that funded programs not only deliver high quality results and achieving meaningful outcomes, but the community-based organizations are stable, strong and well-positioned to sustain their efforts.

The Human Services Workforce and the Self Sufficiency Standard

Our City looks to human and social service workers to deliver the programs that support vulnerable New Yorkers. The City of New York annually contracts $5 billion in social services to not-for-profit organizations that employ over 125,000 workers. From after-school enrichment to early childhood education to homelessness prevention, these are services that play an instrumental role in the lives of countless of New Yorkers every year. The complex and critical work of the social and human service sector requires a skilled and sustainable workforce. However, half of the current social and human service workforce themselves earns less than $14 per hour and 40 percent make less than $12 per hour. That is not a self-sufficiency wage and not nearly enough to provide for basic family needs. As a result, the people we depend on to help advance the City's equity agenda are themselves on the edge of requiring social services. And low-wage social service workers are disproportionately women and people of color, coming from neighborhoods of concentrated poverty.

Our workforce was very grateful to the City Council and the Mayor for including a 2.5% COLA and $11.50 wage floor in last year's budget. After many years of stagnant wages, this was a very necessary increase for our workers, but we need more investment in our workforce, as well as a continuing model for wage adjustment. Additionally, the implementation of the COLA and wage floor continues to be a challenge.

The current wage floor for Social Service workers is inadequate for even the least costly household in New York City. But human and social service workers are not alone. According to United Way of New York City's 2014 Self-Sufficiency Standard report, 2.7 million individuals - more than two in five households - in our City lacking enough income to meet their basic needs. Even more staggering, according to the 2014 self-sufficiency standard – a nuanced measure of the income a household needs in order to afford basics without turning to public or private assistance – 83% of these New York City households are working. Too often low wages are insufficient to meet basic needs and the cost of food, shelter, health care and childcare continue to rise faster than wages. The gap between income and cost of living is as wide as it's been since 2000.

United Way of New York City, in partnership with the Women's Center for Education and Career Advancement, The New York Community Trust, and City Harvest, published the 2014 Self-Sufficiency Standard Report, *Overlooked and Undercounted: The Struggle to Make Ends Meet in New York City*—a study that establishes a new model for economic self-sufficiency. Unlike the federal poverty level, it accounts for the variability based on the number of people in the household, their ages, geographic location and a specific point in time. This is critical because what it takes to become self-sufficient in New York City depends on where a family lives, how many people are in the family and the number and ages of children. The report demonstrates that the number of households unable to cover basic necessities has been grossly underestimated as measured by the federal poverty level.

The Self-Sufficiency budget is bare bones. It is the most conservative estimate of the income needed to afford a household's minimal expenses. It includes costs for housing, childcare, food, health care, transportation, taxes, one time emergency savings and a small percentage of items that includes things like clothes, phone and cleaning supplies. It does not include the costs of paying off debt or saving for a child's college fund or retirement.

The report shows that a single adult living in the Bronx - constituting the least expensive neighborhoods across the City's five boroughs - must earn at least $12.76 hourly, or $26,951 annually, to afford basic, minimal expenses. If that single adult lived in Queens, the hourly wage would need to go up to $15.36 and the annual to $32,432. If that adult in the Bronx were a parent, the hourly wage floor would go up to $24.99, to pay for the child's expenses and to afford the high cost of childcare so that he or she could work. The data provides a realistic picture of who these families are to combat deeply held misunderstandings about what those in need look like. New York City households with inadequate income come from every racial and ethnic background. 55% of households have at least one worker. Over one in three (34%) of households participated in SNAP. Over half (59%) of households below the standard have children, 65% of households have a child under the age of six.

Key Findings:

- Geographically, the Bronx has the highest rate of income inadequacy and South Manhattan, Northwest Brooklyn and Staten Island are the lowest.
- Four out of five households with inadequate income are people of color, with Latinos being the group most affected.

- Being foreign-born increases the likelihood of having inadequate income.
- Households with children are at a greater risk of not meeting their basic needs, accounting for more than half of households with inadequate income.
- Households maintained by single mothers, particularly if they are women of color, have the highest rates of income inadequacy.
- Higher levels of education are associated with lower rates of income inadequacy, although not as much for women and/ or people of color.
- Employment is key to income adequacy, but it is not a guarantee.

The report shows that we underestimate the number of households struggling to make ends meet. Consequently, a large and diverse group of New Yorkers experiencing economic distress is routinely overlooked and undercounted. Human and social service workers help fill the gaps for those individuals and households who do not earn enough to meet their basic needs. Our workforce is the front line in helping New Yorkers work towards Self Sufficiency. The City's contracting process affects the ability of these human services providers to effectively provide services. The relationship between the City and our human services providers – as exemplified in their contracts - should be used to advance our mutual goals, not serve as a barrier to more New Yorker achieving Self Sufficiency.

Appropriate Funding Of Contracts

Most City contracts do not cover the full cost of programs, and definitely do not adequately pay for indirect (overhead) costs to cover essential operating costs. Underfunded contracts compromise the quality of service provided to New Yorkers. Too often spending on administrative overhead costs is viewed as wasteful or inefficient, especially in our sector. In reality, contracts should cover indirect costs to ensure providers meet their basic organizational needs – rent, facility, technology and equipment maintenance, appropriate staff salaries, professional development for staff, and other day-to-day needs. Human service providers end up fundraising to fill those financial gaps and struggle to keep their head above water rather than expand and innovate. It is imperative that City contracts cover the true costs of programs as well as organizations to ensure providers are not in danger of reducing services or shutting their doors.

United Way of New York City is committed to strengthening the sector through capacity building. We invest in professional development, technical assistance and coaching to ensure providers are stable and able to sustain their efforts. Neighborhoods of concentrated poverty, in which we work, have unique needs and City contracts should reflect those requirements. For many of these communities, the struggle to meet basic needs is compounded by food insecurity, poor health outcomes, limited community resources, and a lack of education and employment opportunities. We recognize that implementation of programs and services can be more complicated in neighborhoods with fewer resources and less robust infrastructure, therefore these communities will necessitate a greater investment of operational support and the contracts should demonstrate this commitment. We urge this Committee to do all in its power to ensure that contracted services in neighborhoods of concentrated poverty receive appropriate support and funding to implement essential programs successfully.

United Way
of New York City

Cross-Sector Program Collaboration

United Way of New York City collaborates and invests in more than 500 New York City nonprofits and has been operating programs for years, but is rarely consulted in program design. Programs intended to build human capacity and social welfare are too often developed without consulting the human services providers who will be responsible for implementing them, resulting in ineffective, unworkable or redundant programs. New York City is home to numerous human services providers who have been in the trenches for years. And yet, the City does not fully leverage the expertise of human services providers —who truly know their communities—to design programs and develop performance metrics and requirements that are appropriate for a given contract.

Contracts with government are essential to our organization and the programs we offer, and government relies on United Way of New York City and other service providers to deliver critical services in communities on their behalf. It is mutually beneficial to work together to develop the most effective and efficient programs and RFPs, especially for long-term projects. There are already beneficial partnerships across philanthropy, public and private sector and city government within the human services sector but the City must provide space for this collaboration within the RFP and contract processes.

Without a formal feedback loop, the resulting RFPs fail to consider lessons learned, expertise, and outcomes we find important to measure. Throughout the life of a contract, feedback should be regularly obtained from selected providers to identify what is working and what is not to influence future iterations of RFPs and City contracts. We urge the Committee to advocate for a dialogue among stakeholders prior to releasing a new RFP to evaluate:

- community need,
- success of current initiatives and innovative new program models,
- payments that reasonably cover true cost of services,
- appropriate evidence-based outcomes and performance measures, and
- post-implementation evaluation to identify and share best practices.

Conclusion

In conclusion, we urge further investing in the human services workforce, aligning funding with the true cost of program delivery, and working with organizations like the United Way of New York City to optimize the human services planning and contracting processes.

Thank you again for providing me with this opportunity to testify, and for your continued partnership with our sector.

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KEY FINDINGS & RECOMMENDATIONS

Overlooked and Undercounted

The Struggle to Make Ends Meet in New York City

Prepared for
Women's Center for Education and Career Advancement

With support from
The United Way of New York City
The New York Community Trust
City Harvest

PREFACE

This summary contains the Executive Summary and Policy Recommendations from the report, *Overlooked and Undercounted: The Struggle to Make Ends Meet in New York City*. The full report, as well as a datafile of tables providing borough specific information for 152 family types, is available at www.selfsufficiencystandard.org or www.wceca.org. This report was authored by Dr. Diana M. Pearce and produced by the Center for Women's Welfare at the University of Washington.

For the past 14 years, Women's Center for Education and Career Advancement (WCECA) has arranged for the update of The Self-Sufficiency Standard for New York City in 2000, 2004, and 2010. The Self-Sufficiency Standard for New York City 2014 is the fourth edition. For the first time for New York City, this report combines two series—the Self-Sufficiency Standard plus Overlooked and Undercounted—into one report which provides a new view of how the Great Recession has impacted the struggle to make ends meet.

The Self-Sufficiency Standard for New York City measures how much income a family of a certain composition in a given place must earn to meet their basic needs. The Overlooked and Undercounted series answers the questions of how many households live below the Self-Sufficiency Standard for New York City and what are the characteristics of these households. Employers, advocates, and legislators can use it to evaluate wages, provide career counseling, and create programs that lead to economic self-sufficiency for working families.

ACKNOWLEDGEMENTS

This report has been prepared with the essential help of the staff at the Center for Women's Welfare at the University of Washington, particularly Lisa Manzer and Karen Segar. We also wish to thank WCECA, which assisted in the development of this report and its release, especially Merble Reagon and Melissa Berube. Additionally, we would like to acknowledge the contribution to the development of the first "Overlooked and Undercounted" report of Rachel Cassidy, demographer, as well as the editorial contributions of Maureen Golga and Aimee Durfee, and the statistical contributions of Bu Huang for past reports.

The Women's Center for Education and Career Advancement would like to thank the steering committee consisting of the following people and their agencies for their support and assistance in the development of *Overlooked and Undercounted: The Struggle to Make Ends Meet in New York City*:

- Sheena Wright, Nicole Gallant, Loren K. Miller, Suzanne Towns, and Lesleigh Irish-Underwood, United Way of New York City;
- Patricia White, The New York Community Trust;
- Jilly Stephens and Kate MacKenzie, City Harvest;
- James Krauskopf, Baruch College School of Public Affairs;
- Jennifer March, Citizens' Committee for Children of New York;
- Jennifer Jones Austin & Bich Ha Pham, Federation of Protestant Welfare Agencies;
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- James Parrott, Fiscal Policy Institute; and,
- Joel Berg and Lisa Levy, New York City Coalition Against Hunger.

We would also like to thank United Way of New York City, The New York Community Trust, and City Harvest for their generous funding which made this report possible.

Dr. Diana Pearce developed the Self-Sufficiency Standard while she was the Director of the Women and Poverty Project at Wider Opportunities for Women (WOW). The Ford Foundation provided funding for the Standard's original development. The conclusion and opinions contained within the report do not necessarily reflect the opinion of those listed above or WCECA. Nonetheless, any mistakes are the author's responsibility.

EXECUTIVE SUMMARY

More than two in five New York City households—over 940,000 households—lack enough income to cover just the necessities, such as food, shelter, health care and child care. Yet as measured by the federal poverty level (FPL), less than half that number is officially designated as "poor." Moving from statistics to people, this translates to over 2.7 million men, women, and children struggling to make ends meet in New York City. Consequently, a large and diverse group of New Yorkers experiencing economic distress is routinely ***overlooked and undercounted***. Many of these hidden poor are struggling to meet their most basic needs, without the help of work supports (they earn too much income to qualify for most, but too little to meet their needs). To make things even worse, their efforts are aggravated by the reality that the costs of housing, health care, and other living expenses continue to rise faster than wages in New York City.

To document these trends, we use the yardstick of the Self-Sufficiency Standard. This measure answers the question as to how much income is needed to meet families' basic needs at a minimally adequate level, including the essential costs of working, but without any assistance, public or private. Once these costs are calculated, we then apply the Standard to determine how many—and which—households lack enough to cover the basics. Unlike the federal poverty measure, the Standard is varied both geographically and by family composition, reflecting the higher costs facing some families (especially child care for families with young children) and in some places.

This report combines two series—the Self-Sufficiency Standard plus Overlooked and Undercounted—into one to present a more accurate picture of income inadequacy in New York City. The first section of the report presents the 2014 Self-Sufficiency Standard for New York City, documenting how the cost of living at a basic needs level has increased since 2000. The second section uses the American Community Survey to detail the number and characteristics of households, focusing on those below the Self-Sufficiency Standard. The report addresses several questions:

- How much does it cost to live—at a minimally adequate level—in New York City and how does that vary by family type and place in the city?
- How many individuals and families in New York City are working hard yet unable to meet their basic needs?
- Where do people with inadequate income live and what are the characteristics of their households?
- What are the education, occupation, and employment patterns among those with inadequate income?
- What are the implications of these findings for policymakers, employers, educators, and service providers?

We find that New York City families struggling to make ends meet are neither a small nor a marginal group, but rather represent a substantial and diverse proportion of the city. Individuals and married couples with children, households in which adults work full time, and people of all racial and ethnic backgrounds account for substantial portions of those struggling to make ends meet in New York City.

THE SELF-SUFFICIENCY STANDARD: A MEASURE OF ADEQUATE INCOME

The Self-Sufficiency Standard was developed to provide a more accurate, nuanced, and up-to-date measure of

TABLE A. Self-Sufficiency Standard for New York City Select Family Types, 2014

	1 Adult	1 Adult 1 Preschooler	2 Adults	2 Adults 1 Preschooler	2 Adults 1 Preschooler 1 School-age
Bronx	$26,951	$52,776	$37,488	$58,450	$70,319
Northwest Brooklyn	$34,746	$62,385	$44,880	$67,719	$79,138
Brooklyn (Excluding Northwest Brooklyn)	$28,861	$55,059	$39,074	$60,528	$72,160
North Manhattan	$27,126	$53,571	$39,164	$60,872	$73,758
South Manhattan	$48,520	$81,434	$60,135	$86,146	$98,836
Queens	$32,432	$59,502	$42,577	$64,961	$76,376
Staten Island	$29,015	$55,370	$39,553	$61,178	$73,015

income adequate for basic needs. The Standard reflects the realities faced by today's working parents and includes all major budget items faced by working adults: housing, child care, food, health care, transportation, taxes, and miscellaneous costs plus an emergency savings fund.

The Standard is a "bare bones" budget appropriate to family composition; it does not include any restaurant or take-out food or credit card or loan payments. The Standard is calculated for 37 states and the District of Columbia. It uses data that are drawn from scholarly and credible sources such as the U.S. Census Bureau, and that meet strict criteria of being accurate, regularly updated using standardized and consistent methodology, and which are age- or geography-specific where appropriate. For New York City, the Standard is calculated for all boroughs and 152 possible household compositions.

What it takes to become self-sufficient in New York City depends on where a family lives, how many people are in the family and the number and ages of children. For example, for a family consisting of two adults with a preschooler and a school-age child, South Manhattan has the highest Self-Sufficiency Standard at $98,836 per year. Northwest Brooklyn comes in a distant second at $79,138, and the least expensive area is the Bronx, with a Standard of $70,319 for this family type (see Table A).

Overall, since 2000, for a family with two adults, a preschooler, and school-age child, the Self-Sufficiency Wage—the wage a household requires to be self-sufficient—has increased on average by 45%, largely due to housing costs increasing 59% across boroughs. In contrast, the median earnings of working adults have increased only 17% over the same 14 years (see Table B).

TABLE B. The Self-Sufficiency Standard and NYC Median Earnings Over Time: Two Adults, One Preschooler, and One School-Age Child in 2000 and 2014

BOROUGH	2000	2014	% INCREASE: 2000 TO 2014
THE BRONX	$48,077	$70,319	46%
BROOKLYN	$49,282	-	-
NORTHWEST BROOKLYN*	-	$79,138	46%
BROOKLYN EXCLUDING NORTHWEST BROOKLYN)*	-	$72,160	41%
NORTH MANHATTAN	$52,475	$73,758	30%
SOUTH MANHATTAN	$75,942	$98,836	49%
QUEENS	$51,281	$76,376	43%
STATEN ISLAND	$50,972	$73,015	45%
BOROUGH AVERAGE			45%
NYC MEDIAN EARNINGS**	$29,079	$34,019	17%

* 2014 is the first year that Brooklyn has been calculated for two areas.
** U.S. Census Bureau, American Community Survey (ACS). 2000 and 2012. Detailed Tables. B20002. "Median earnings in the past 12 months by sex for the population 16 years and over with earnings in the past 12 months." Retrieved from http://factfinder.census.gov/. 2012 data is the latest available and is updated using the Consumer Price Index for the New York metropolitan region.

KEY FINDINGS

With more than two out of five New York City households lacking enough income to meet their basic needs, the problem of inadequate income is extensive, affecting families throughout the city, in every racial/ethnic group, among men, women, and children, in all neighborhoods. Nevertheless, inadequate income is concentrated disproportionately in some places and groups.

GEOGRAPHICALLY, THE BRONX HAS THE HIGHEST RATE OF INCOME INADEQUACY AND SOUTH MANHATTAN, NORTHWEST BROOKLYN AND STATEN ISLAND ARE THE LOWEST. With over half (56%) of all households below the Standard, the Bronx has the highest overall income inadequacy rate of the five boroughs. Within the Bronx, there are four districts/neighborhoods with income inadequacy rates over 75%, and four more with rates above 50%. However, every borough has at least one district with an income inadequacy rate above 50%, except Staten Island. While Staten Island, Northwest Brooklyn, and South Manhattan have the lowest rates of income inadequacy (29%, 29%, and 27%, respectively), most New Yorkers with incomes below the Standard live in the boroughs with income inadequacy rates that are near the citywide average: Queens

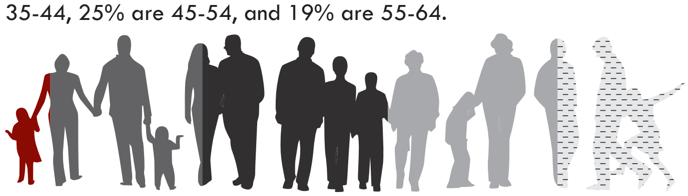
FIGURE 1. Profile of **Households with Inadequate Income: New York City 2012**
Each image represents the 941,856 households and 2.7 million individuals living below the Self-Sufficiency Standard in NYC.

Number of Employed Workers
17% of households below the Standard in NYC have no workers, 55% have one worker, and 28% have two or more workers.

Educational Attainment
Among NYC households below the Standard, 26% lack a high school degree, 27% have a high school degree, 25% have some college or associates degree, and 22% have a bachelor's degree or higher.

Household Type
Of the households below the Standard in NYC, 25% are married-couple households with children, 23% are single-women households with children, 5% are single-male households with children, and the remaining 47% are households without children.

Age of Householder
In NYC, only 6% of households below the Standard are headed by adults under 24 years of age. 22% are between 25-24, 27% are 35-44, 25% are 45-54, and 19% are 55-64.



Housing Burdern
81% of NYC households below the Standard spend more than 30% of their income on housing.

Race/Ethnicity
36% of households in NYC with inadequate income are Latino, 25% are Black, 22% are White, and 16% are Asian/Pacific Islander, and 1% are Other Race (including Native American and Alaskan Native).

Citizenship
U.S. Citizens head 71% of the households below the Self-Sufficiency Standard. Non-citizens head 29% of households without sufficiency income in NYC.

Public Assistance (TANF)
Only 6% of households with inadequate income receive cash assistance. In NYC, 94% of households below the Standard do not receive TANF.

Food Assistance (SNAP)
Over one in three (34%) households below the Standard participated in the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps).

Health Insurance
Of NYC households below the Standard, more than one in four (25%) did not have health insurance coverage in 2012.

FIGURE 2. Percent of Households Below the Standard by the Presence of Children: NYC 2012

*Youngest child less than 6 years of age

Source: U.S. Census Bureau, 2012 American Community Survey.

(43%), North Manhattan (45%), and Brooklyn (excluding Northwest) (49%).

FOUR OUT OF FIVE HOUSEHOLDS WITH INADEQUATE INCOME ARE PEOPLE OF COLOR, WITH LATINOS BEING THE GROUP MOST AFFECTED. While all groups experience insufficient income, Latinos have the highest rate of income inadequacy, with 61% of Latino households having insufficient income, followed by Native American, Alaska Natives, and other races (51%), Asians and Pacific Islanders (49%), African Americans (48%), and Whites (24%).

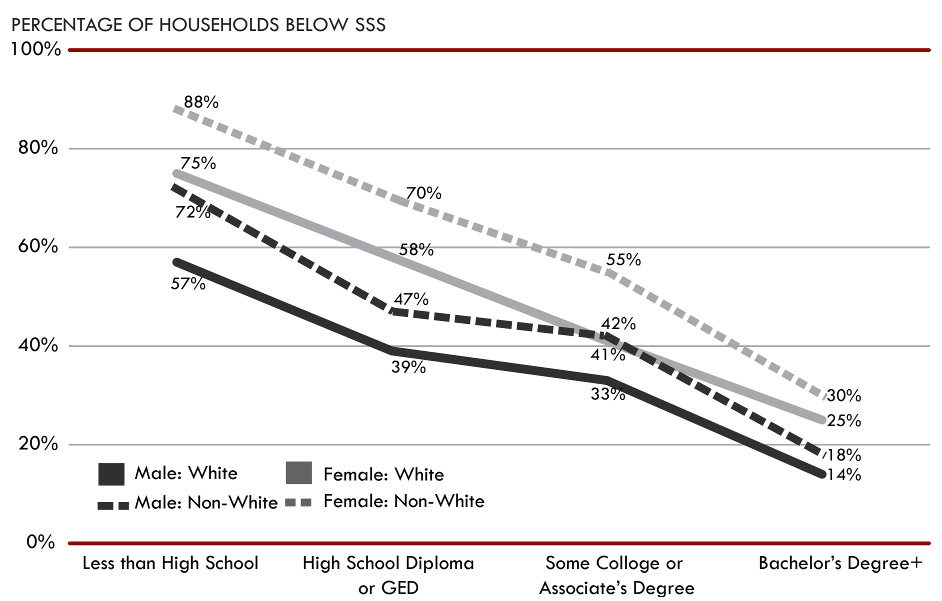
BEING FOREIGN-BORN INCREASES THE LIKELIHOOD OF HAVING INADEQUATE INCOME. While New York City householders born in the United States have an income inadequacy rate of 34%, the likelihood of having inadequate income is higher if the householder is a naturalized citizen (45%), and even higher if the householder is not a citizen (61%). Among non-citizens, Latinos have an even higher rate (75%) of income inadequacy than non-Latino non-citizen immigrants (53%).

HOUSEHOLDS WITH CHILDREN ARE AT A GREATER RISK OF NOT MEETING THEIR BASIC NEEDS, ACCOUNTING FOR MORE THAN HALF OF HOUSEHOLDS WITH INADEQUATE INCOME. Reflecting in part the higher costs associated with children (such as child care), families with children have higher rates of income inadequacy, 59%, and if there is a child under six, 65% have incomes under the Standard. Over half of households below the Standard have children (53%), compared to less than two-fifths of all New York City households.

HOUSEHOLDS MAINTAINED BY SINGLE MOTHERS, PARTICULARLY IF THEY ARE WOMEN OF COLOR, HAVE THE HIGHEST RATES OF INCOME INADEQUACY. Less than half (48%) of married-couple households have inadequate income, and about two-thirds (68%) of single fathers, but almost four out of five (79%) of single mothers lack adequate income. These rates are particularly high for single mothers of color: 86% of Latina, 76% of Asians and Pacific Islanders, and 75% of African American single mothers lack adequate income—compared to 63% for White single mothers.

Although single mothers have substantially higher rates of income inadequacy than married couples, because there are many more married couples with children, these two groups (single mother and married couple families with children) account for almost

FIGURE 3. Households Below the Standard by Education, Race/Ethnicity, and Gender of Householder: NYC 2012



Source: U.S. Census Bureau, 2012 American Community Survey.

equal shares of households in New York City that lack adequate income (23% vs. 25%), respectively, with single father households being 5% (the remaining 47% of households with inadequate income are childless households).

HIGHER LEVELS OF EDUCATION ARE ASSOCIATED WITH LOWER RATES OF INCOME INADEQUACY, ALTHOUGH NOT AS MUCH FOR WOMEN AND/ OR PEOPLE OF COLOR. As educational levels increase, income inadequacy rates decrease dramatically: rates decline from 80% for those lacking a high school degree, to 59% for those with a high school degree, to 46% for those with some college/post-secondary training, to 21% of those with a four-year college degree or more. Reflecting race and/ or gender inequities, women and/or people of color must have several more years of education than white males in order to achieve the same level of income adequacy. At the same time, three out of four householders with incomes below the Standard have at least a high school degree, including nearly half of these having some college or more.

EMPLOYMENT IS KEY TO INCOME ADEQUACY, BUT IT IS NOT A GUARANTEE. As with education, more is better: among householders who work full time, year round, income inadequacy rates are just 28%, compared to 77% for those households with no workers. About five out of six households below the Standard, however, have at least one worker. Whether there are one or two adults (or more), and whether they are able to work full time and/ or full year, affects the levels of income inadequacy. Nevertheless, just as with education, households headed by people of color and/or single mothers also experience lesser returns for the same work effort. For example, even when single mothers work full time, year round, almost three-quarters of their households lack adequate income.

The data further demonstrate that the unequal returns to employment efforts are due in part to being concentrated in just a few occupations. That is, those below the Standard only share six of the "top twenty" occupations (the occupations with the most workers) with those with incomes above the Standard. Eight of the top 20 occupations have median earnings less than the equivalent of a full-time minimum wage job. These low wage occupations are largely held by householders trying to support families and are not limited to part-time jobs for teenagers.

Differences in income adequacy rates are largely not explained by hours worked. While full-time, year-round work (regardless of the occupation) may help protect against income inadequacy, householders with incomes above the Standard work only about five percent more hours on average than those below the Standard.

TABLE C. Top 20 Occupations[1] of Householders[2] Below the Self-Sufficiency Standard: New York City 2012

BELOW THE SELF-SUFFICIENCY STANDARD					
RANK	**OCCUPATION**	**Number of workers**	**Percent of Total**	**Cumulative Percent**	**Median Earnings**
TOTAL		792,003			$20,000
1	Nursing, psychiatric, & home health aides*	60,174	8%	8%	$17,500
2	Janitors & building cleaners*	29,039	4%	11%	$16,000
3	Childcare workers	26,765	3%	15%	$10,000
4	Cashiers	23,413	3%	18%	$12,500
5	Maids & house cleaners	21,587	3%	20%	$13,300
6	Retail salespersons*	21,432	3%	23%	$19,400
7	Construction laborers	19,925	3%	26%	$20,000
8	Secretaries & administrative assistants*	19,470	2%	28%	$22,000
9	Taxi drivers & chauffeurs	18,148	2%	30%	$20,000
10	Waiters & waitresses	17,141	2%	32%	$15,000
11	Personal care aides	16,456	2%	35%	$17,000
12	Cooks	14,180	2%	36%	$17,000
13	Security guards & gaming surveillance officers	13,839	2%	38%	$23,000
14	Driver/sales workers & truck drivers	13,350	2%	40%	$23,000
15	First-line supervisors of retail sales workers*	13,226	2%	41%	$21,000
16	Teacher assistants	12,997	2%	43%	$21,000
17	Office clerks, general	11,479	1%	45%	$19,000
18	Customer service representatives	11,083	1%	46%	$20,000
19	Chefs & head cooks	10,815	1%	47%	$20,800
20	Designers*	8,476	1%	48%	$20,000

[1] Detailed occupations are based on the Standard Occupational Classification (SOC). For definitions of these occupations see the Bureau of Labor
Statistics Standard Occupation Classifications at http://www.bls.gov/soc/soc_majo.htm

[2] The householder is the person in whose name the housing unit is owned or rented or, if there is no such person, any adult member, excluding roomers, boarders, or paid employees.

* Occupation also within the top 20 occupations of householders above the Standard.

However, their wage rates vary greatly, with the hourly wages of householders above the Standard being almost three times as much as those below the Standard ($28.85 per hour versus $10.58 per hour). If householders with incomes below the Standard increased their work hours to match those with incomes above the Standard, that would only close about three percent of the wage gap, while earning the higher wage rate of those above the Standard, with no change in hours worked, would close 92% of the gap.

Thus, families are not poor just because they lack workers or work hours, but because the low wages they earn are inadequate to meet basic expenses.

HOW NEW YORK CITY COMPARES TO OTHER STATES

To date, demographic reports have been done on seven states (California, Colorado, Connecticut, Mississippi, New Jersey, Pennsylvania, and Washington State), but no other cities in detail. In five of these states (the exceptions being Mississippi and California), the proportion of households with inadequate income is strikingly similar, with about one out of five (non-elderly, non-disabled) households lacking adequate income. In California and Mississippi, both states with higher than average minority proportions, about one-third of households fall below the Standard. At 42%, New York City has a higher rate of income inadequacy than all of these states.

Even compared to other large cities, New York City still has a relatively high rate of income inadequacy. San Francisco and Denver are at 27% and 26%, respectively. Cities that are more similar to New York, demographically, such as Pittsburgh (32%) and Philadelphia (42%) show similar patterns of having higher income inadequacy rates than the states they are located in. Nevertheless, it is striking that when a realistic measure of basic living costs is used, New York City has an income inadequacy rate that is even higher than that of Mississippi which consistently has had the highest "poverty" rates.

CONCLUSION

These data show that there are many more people in New York City who lack enough income to meet their basic needs than our government's official poverty statistics capture. This lack of sufficient income to meet basic needs is grossly undercounted largely because most American institutions do not utilize the more accurate metrics available today that measure what it takes to lead a life of basic dignity.

Not only do we underestimate the number of households struggling to make ends meet, but broadly held misunderstandings about what those in need look like, what skills and education they hold, and what needs they have harm the ability of our institutions to respond to the changing realities facing low-income families. New York City households with inadequate income reflect the city's diversity: they come from every racial and ethnic group, reflect every household composition, and work hard as part of the mainstream workforce.

Despite recovering from the Great Recession, this is not about a particular economic crisis—for these families, income inadequacy is an everyday ongoing crisis. It is our hope that through the data and analyses presented here a better understanding of the difficulties faced by struggling individuals and families will emerge, one that can enable New York City to address these challenges, making it possible for all New York City households to earn enough to meet their basic needs.

POLICY ANALYSIS & RECOMMENDATIONS

Nearly one million New York City households do not have enough income to meet their basic needs. This amounts to more than two out of five households and 2.7 million people. The 2014 Self-Sufficiency Standard shows that for many New Yorkers, having a job no longer guarantees the ability to pay for basic needs.

More than four out of five households who are below the Self-Sufficiency Standard level—which translates to well over two million City residents—have at least one family member who works but does not make enough to afford a minimal, basic family budget. And for many more who are at or above self-sufficiency levels, current wages do not allow for the next step of building assets to attain economic security. In the last decade, New Yorkers of all stripes have struggled against ballooning costs of living, such as for housing, which has increased 59% for a two-bedroom rental. At the same time, median wages have increased barely 17%.

As the country's largest city—rich in resources and leaders—New York City must expand the numbers of New Yorkers living securely above the Self-Sufficiency Standard. This report's recommendations for moving the greatest number of New Yorkers towards self-sufficiency are consistent with the City's priorities and have been determined from a similar systematic, cost-effective and evidence-driven framework.[1] Our recommendations acknowledge that the obstacles to self-sufficiency are interdependent and to significantly reduce the number of people living below the Standard or just above it, solutions must also be coordinated and interconnected.

We call on leaders across all sectors—government, philanthropy, the private sector and the not-for-profit world—to examine practices, mobilize colleagues, and become part of the solution for making the following three priorities a reality:

1. Wages increased to align and keep pace with the costs of living;
2. Employment structured as a pathway to self-sufficiency and economic security; and
3. Access to quality, affordable housing, food and child care available to New Yorkers across the income spectrum.

INCREASE WAGES TO ALIGN WITH THE COST OF LIVING

The single greatest driver to increase self-sufficiency is higher wages. The income needed for a household with two adults, a preschooler, and a school-age child to be self-sufficient has risen on average by 45% across boroughs since the year 2000, while the median earnings of working adults have increased only 17%.

Consequently, more than two out of five working-age households cannot meet their basic needs while others are barely breaking even. Although many New Yorkers work insufficient hours, more hours would not raise standards of self-sufficiency as substantially as would an increase in wage rates. In too many occupations, wages have not kept pace with the rising cost of living. New York City's employment has now surpassed pre-recession levels yet most of the net job growth since 2000 has been concentrated in low-wage sectors, as opposed to jobs paying moderate- and middle-income wages.[2]

NEW YORK CITY'S LIVING WAGE LAW. New York City Mayor Bill de Blasio's September 2014 Executive Order expands the City's Living Wage Law from $11.50 per hour to $13.13 an hour (including $1.63 for health benefits).[3] This Living Wage Law[4] applies to a select group of workers employed in businesses or commercial spaces that receive more than $1 million in city

[1] New York City's Center for Economic Opportunity notes that many of the factors that drive poverty here are part of national or even international trends that are difficult to address at the City level. Nonetheless, strategies to reduce poverty and inequality are central to the agenda of Mayor Bill de Blasio and his Administration. NYC Office of the Mayor, "The CEO Poverty Measure 2005-2012," An Annual Report from the Office of the Mayor, April 2014, p. 47, http://www.nyc.gov/html/ceo/downloads/pdf/ceo_poverty_measure_2005_2012.pdf (accessed November 14, 2014).

[2] James A. Parrott, February 27, 2014, "Low-Wage Workers and the High Cost of Living in New York City," Testimony Presented to the New York City Council Committee on Civil Service and Labor, http://fiscalpolicy.org/wp-content/uploads/2014/02/FPI-Parrott-testimony-Low-Wage-workers-and-Cost-of-iving-Feb-27-2014.pdf (accessed November 14, 2014). Also see National Employment Law Project, "The Low-Wage Recovery: Industry Employment and Wages Four Years into the Recovery," Data Brief, April 2014, p. 1, http://www.nelp.org/page/-/Reports/Low-Wage-Recovery-Industry-Employment-Wages-2014-Report.pdf?nocdn=1 (accessed June 11, 2014).

[3] The City of New York, Office of the Mayor, "Living Wage for City Economic Development Projects," http://www1.nyc.gov/assets/home/downloads/pdf/executive-orders/2014/eo_7.pdf (accessed November 14, 2014).

[4] The City's older Living Wage Law (section 6-109 of the Administrative Code) covers a limited number of workers providing care under City government contracts. Enacted in 1996, this living wage covers workers providing day care, head start, building services, food services, and temporary services, with coverage extended in 2002 to homecare workers and workers providing services to persons with cerebral palsy. The wage level under this living wage law has been $11.50 an hour (including $1.50 for health benefits) since 2006, and is not automatically adjusted for inflation.

subsidies as defined by section 6-134 of the City Administrative Code. The executive order is projected to expand coverage of this Living Wage from a current cohort of 1,200 workers to an estimated 18,000 workers over the next five years. Beginning in January 2015, this Living Wage will be adjusted for inflation. The Mayor's office projects that with inflation adjustments, this City Living Wage will reach $15.22 in 2019.[5] The current New York State minimum wage of $8.00 per hour applies to a more comprehensive group of workers across most sectors. Along with 26 other states and the District of Columbia, New York State sets a higher minimum wage level than the current $7.25 federal minimum wage.[6] President Obama has proposed raising the federal minimum wage to $10.10 an hour.[7] The purchasing power of the federal minimum wage has fallen by 22 percent since the late 1960s.[8] Moreover, if the minimum wage had kept pace with overall productivity growth in the economy, it would be nearly $19.00 by 2016.[9]

Under present state law, New York's minimum wage will increase to $8.75 on December 31, 2014, and to $9.00 an hour on December 31, 2015.[10] It is not indexed to inflation. There is Albany legislation pending to increase the state minimum to $10.10, and a separate measure to give localities the authority to set a local minimum wage up to 30 percent above the state minimum. If both proposed laws were enacted, New York City could set a $13.13 hourly minimum wage. A growing number of large cities, and a few suburban counties, are establishing higher minimum wage levels. Seattle, San Diego, San Jose, San Francisco, and Washington, D.C. already have established higher minimums, and Chicago, Los Angeles, and Oakland are among the cities considering substantially higher minimum wages in the $12-$15 an hour range. Both Seattle and San Francisco have acted to raise their minimum wage levels to $15.00 an hour in coming years.

The expansion of New York City's Living Wage levels to cover more workers at a higher rate and indexed to inflation, or to establish a significantly higher minimum wage are important steps in providing a more reasonable wage floor in the job market, enabling more employed New Yorkers to achieve self-sufficiency through work. At the same time, it is critical to note that even an hourly wage of $13.13 does not constitute a self-sufficiency wage for most compositions of New York City households across the five boroughs (see box below, *Bronx Family of Three*).

It is necessary to broaden living wage coverage to the City's large indirect social service workforce, coupled with better career advancement supports. Existing City Living Wage law currently does not apply to the tens of thousands of workers at not-for-profit organizations providing essential social services under City contract. New York City spends $5 billion annually on social service contracts and, as such, is a major indirect employer of tens of thousands of workers at not-for-profit organizations. Wages in this sector are among the lowest for all industries. Half of non-profit social service workers are paid less than $14 an hour.[11]

SELF-SUFFICIENCY WAGE FOR A BRONX FAMILY OF THREE

An hourly wage of $13.13 in New York City yields an annual income of $27,310, slightly above the Self-Sufficiency Standard for a single adult living in the Bronx ($26,951). However, that single person's neighbors—a married couple with one infant—would not be self-sufficient even if **each** parent worked at jobs earning a $13.13 hourly wage. Indeed, in order to meet their basic needs, **each** parent would need to earn $14.66, working full time (totaling $61,965). Five years later, when their child is old enough for full-day public school their costs will fall as they would then only need part-time child care. In the unlikely scenario that there is no increase in living expenses, the Living Wage would then be above the minimum wage ($12.39 per hour) needed to meet their basic needs.

[5] City of New York, September 30, 2014, "Mayor de Blasio Signs Executive Order to Increase Living Wage and Expand it to Thousands More Workers," News, http://www1.nyc.gov/office-of-the-mayor/news/459-14/mayor-de-blasio-signs-executive-order-increase-living-wage-expand-it-thousands-more#/0 (accessed November 14, 2014).

[6] Currently 23 states and the District of Columbia have minimum wages above the federal minimum wage. Additionally, four additional states approved ballot measures in the 2014 election. National Conference of State Legislatures, "State Minimum Wages | 2014 Minimum Wages by State," http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx (accessed November 14, 2014).

[7] The White House, Office of the Secretary, "President Barack Obama's State of the Union Address," http://www.whitehouse.gov/the-press-office/2014/01/28/president-barack-obamas-state-union-address (accessed November 14, 2014).

[8] Jared Bernstein & Sharon Parrott, January 7, 2014, "Proposal to Strengthen Minimum Wage Would Help Low-Wage Workers, With Little Impact on Employment," Center on Budget and Policy Priorities, Economy, http://www.cbpp.org/cms/?fa=view&id=4075 (accessed November 14, 2014).

[9] David Cooper, December 19, 2013, "Raising the Federal Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost," Economic Policy Institute, http://www.epi.org/publication/raising-federal-minimum-wage-to-1010/

[10] New York State, Department of Labor, "Minimum Wages," Labor Standards, http://www.labor.ny.gov/workerprotection/laborstandards/workprot/minwage.shtm (accessed November 14, 2014).

[11] See Jennifer Jones-Austin (FPWA) and James Parrott (FPI), November 5, 2014, "Expanding Opportunities and Improving City Social Service Quality Through a Career Ladder Approach,"

Among those working in community and social service occupations, over a third are in households within 200 percent of the federal poverty level. A campaign is underway in which the City would increase contract funding to establish a $15 an hour wage floor, coupled with sector-wide support for greater professional development opportunities for lower-paid nonprofit social service workers.[12]

A minimum wage increase to $13.13 an hour and a $15 an hour wage floor for social service workers on City contracts represent considerable progress. Yet, these critical wage floors should not be misconstrued as ceilings. These wage levels would provide a worker with annual earnings around $25,000-$30,000. Neither wage rate constitutes a self-sufficiency wage for a substantial portion of the 780,000 working households below the Self-Sufficiency Standard.

Raising the wage floor is good for workers and communities with potential benefits to jobs and businesses. While raising the minimum wage provokes debate at the federal, state, or municipal level, there is considerable consensus among economists and social scientists who have studied the impacts of raising the minimum wage: raising the minimum wage has positive workplace impacts beyond the obvious one of increasing workers' earnings, including reduced turnover (increased job security for workers), increased employer investment in training, and improved employee productivity and morale. Moreover, it has negligible negative effects on employment and minimal effects on price increases.[13] For example:

- A 2011 study of citywide minimum wage increases by the Center for Economic and Policy Research examined minimum wage increases passed in Santa Fe, San Francisco, and Washington, D.C., and found that wages rose for low-paid cooks, servers and workers in fast-food, food services, retail, and other low-wage establishments without causing a statistically significant decrease in total employment levels.[14]
- A 2014 study of San Francisco's minimum wage, health care, and paid

Briefing at Philanthropy New York, www.philanthropynewyork.org/sites/default/files/resources/Presentation_Jones%20Austin%20and%20Parrott_11.05.2014.pdf

[12] Ibid.

[13] Arindrajit Dube, T. William Lester and Michael Reich, "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties," Review of Economic and Statistics (November 2010), available at http://www.irle.berkeley.edu/workingpapers/157-07.pdf; see also NELP Summary, available at http://nelp.3cdn.net/98b449fce61fca7d43_j1m6iizwd.pdf.

[14] John Schmitt and David Rosnick, 2011, The Wage and Employment Impact of Minimum-Wage Laws in Three Cities, http://www.cepr.net/index.php/publications/reports/wage-employment-impact-of-min-wage-three-cities (accessed October 22, 2014).

RECOMMENDATIONS: INCREASE WAGES TO ALIGN WITH THE COST OF LIVING

1. **Increase wage floors.** Wages that are sufficient to cover living costs is at base what defines fair compensation. If we are committed to restoring fairness and countering rising inequality, then a higher City minimum wage floor is needed and City living wage policies should be expanded, particularly to encompass the sizable non-profit social service workforce.

The City needs to increase social service contract funding levels to make up for years of inadequate funding and enable non-profits to improve pay and advancement opportunities for poorly compensated workers. Philanthropic grant-making practices could bolster these efforts by funding the full workforce costs of carrying out projects, including allocating funds to general operating costs and overhead, and ensuring the adequacy of human resource budgets and hourly pay rates.

In New York City, raising the wage floor is the most effective single policy for countering rising inequality.

2. **Index wages.** Once wage floors are raised to adequate levels they should be indexed to inflation so that workers' purchasing power is not inadvertently eroded by increases in the cost of living.

3. **Strengthen Employers' Policies.** Investment in a stable and robust workforce, whether direct or indirect, can improve the quality of products and services, enhance company reputations, and help build a loyal customer base. It is also critical for all employers to foster salary parity across gender and racial/ethnic lines. Employers should evaluate compensation levels and pay scales of their workforces, including through the lens of equity. Corporations that contract out service or supply functions to other firms should ensure that contractors fairly compensate workers. This is good for individual workers and it is good for the bottom line.

sick leave laws, which collectively raised the compensation of low-wage people to 80 percent above the federal minimum wage, found that these laws raised pay without costing jobs. From 2004 to 2011, private sector employment grew by 5.6 percent in San Francisco, but fell by 4.4 percent in other Bay Area counties that did not have a higher local wage. Among food service wage earners, who are more likely to be affected by minimum wage laws, employment grew 18 percent in San Francisco, faster than in other Bay Area counties.[15]

INDEXING. Wages across sector should be indexed to the cost of living. Indexing is key to maintaining the value of the new higher wages over time.[16] While we look to government to enforce an equitable floor, we look to employers across sectors to do more: raise wages beyond the floor, index them to cost of living increases, and ensure that compensation packages are fair, equitable and responsive to the need of employees to meet and move securely beyond the Self-Sufficiency Standard.

STRUCTURE EMPLOYMENT AS A PATHWAY OUT OF POVERTY TO SELF-SUFFICIENCY

In New York City, 780,000 households have at least one working adult, many of them full time, yet they lack adequate resources to meet even their most basic needs.

A critical driver of employment with self-sufficiency wages is education—80% of the people without a high school degree are living below the standard of self-sufficiency. At the same time, education is not a guarantee. Twenty-one percent of all people with a four-year college degree still earn inadequate incomes.

The Self-Sufficiency Standard report highlights the persistent gender and racial inequities around what it takes to earn a self-sufficiency wage. Even with equal education and equal work effort, income inadequacy is more severe among households maintained by women alone, households maintained by people of color, and households with children. For example, women of color with some college or an associate's degree have nearly the same income inadequacy rate as white males without a high school diploma or GED (55% compared to 57%). Well into the 21st century, our low-wage workforce disproportionately consists of women, people of color, and immigrants.

Building access to better employment requires investment in career ladders, pathways and apprenticeships with consistent, systematic, and large-scale opportunities for individual growth and advancement across sectors and industries. The surge in well-paying technology jobs is an example of a promising direction for more sectors to follow and should be a pathway for traditionally less-advantaged individuals and communities. Investment in high quality education beginning in early childhood is also critically important, as are the supports that place and keep children on college and career continuums. New York City's Universal pre-kindergarten program is a promising step and we urge the city to continue this direction of building an inclusive quality education system that begins in a child's first three years.

MAKE QUALITY, AFFORDABLE HOUSING, FOOD, AND CHILD CARE ACCESSIBLE TO ALL NEW YORKERS

As the family from the Bronx on page 8 highlights, even an increased Living Wage of $13.13 per hour still requires work supports, such as subsidized child care, in order to cover the costs of other basic needs. Without child care, at least one parent would have to stop working, creating the need for even more supports—such as food stamps, emergency food pantries, and the costly homeless shelter system. When wages and employment benefits' packages are not sufficient for people to meet their basic needs, New Yorkers turn to public and private charity to fill the gaps. Each year that wages fall further behind the cost of living, it increases the costs to government—and to all of us as taxpayers—as well as straining the already overburdened private charity system.

Affordable housing, food, and child care are essentials to anyone who seeks to attain and maintain employment. City, state, federal, and philanthropic dollars go towards programs that provide access to millions of New Yorkers who cannot access them on their own. While these programs are critical lifelines for individuals and families all around us, at the current level, these programs do not support everyone who needs them, nor

[15] Michael Reich, Ken Jacobs, and Miranda Dietz, The Institute for Research on Labor and Employment, When Mandates Work Raising Labor Standards at the Local Level, http://irle.berkeley.edu/publications/when-mandates-work.
[16] Such indexing since 2000 has resulted in Washington State by 2014 having the highest statewide minimum wage, $9.32 per hour in the country.

RECOMMENDATIONS: STRUCTURE EMPLOYMENT AS A PATHWAY OUT OF POVERTY TO SELF-SUFFICIENCY

4. Identify and develop structures that consistently highlight and create access to career ladders and pathways for individuals within companies and sectors, as well as out into other industries. Employers should assess pathways for advancement in their existing workforce and build opportunities for continued and advanced employment with better wages, particularly for entry level workers and populations which have historically worked longer or required more years of education to achieve the same level of self-sufficiency. City government can lead by example through supporting more systematic professional development and career advancement opportunities for lower-paid social service workers employed under City service contracts.

5. Strengthen policies and practices that improve retention and allow workers to better balance work and family life, such as flexible work hours, predictable scheduling, work-sharing, and paid sick leave.

6. Promote new jobs and emerging industries which provide wages that are at Self-Sufficiency Standard levels and support and encourage plans for workforce retention and advancement by tying incentives and employment contracts to Self-Sufficiency Standards.

7. Utilize workforce training and development resources for preparing people for higher wage jobs in all sectors, which should include apprenticeships along with degree and credentialing programs. Fund innovative pilots and promising practices.

8. Invest in the workforce required for redressing economic inequities by sufficiently funding social and human services. The lower-wage social and human services workforce consists predominantly of women of color. Appropriate compensation and intentional career pathways build the expertise and retention rates of the workforce. Increase funding towards education and skills to build highly effective staff at all levels and to advance individuals into better-paying positions.

9. Invest in effective cradle to college continuums for target populations and communities. Resources commensurate with need must be available to keep children—particularly those from households and communities below the Self-Sufficiency Standard—on the pathway to higher education or to quality apprenticeship programs and nontraditional training. Additional support is required for efforts that ensure timely and affordable completion of degree programs and higher education.

10. Fund and support advocacy for broad scale, systemic solutions.

do they provide the depth of support needed for those who have them.

HOUSING. While all basic needs' costs have risen, the largest increase has been in housing, which has risen on average 59% between 2000 and 2014. Rising rental costs make it increasingly difficult for New Yorkers to hold onto their homes and remain in their neighborhoods. As shown in Figure 1, *Profile of Households with Inadequate Income*, 81% of the New Yorkers living below the Self-Sufficiency Standard spend more than 30% of their income on housing. Home ownership—which is one of the most reliable ways to build assets and upward mobility—is prohibitive for most New Yorkers. Rent regulations and specialized rental support programs that restrain ballooning housing cost increases are critical yet are accessible to too few households.

CHILD CARE. After housing, child care is the single greatest expense in a family's budget for those with young children. Even with equal work effort, income inadequacy is more severe among households with children. Fifty-three percent of all households below the Self-Sufficiency Standard—more than half—have children. This reflects in part the significant expense associated with raising children and the way that lack of access to affordable, high quality child care is a roadblock to primary caretakers' careers, educational advancement, and opportunities for savings.

FOOD. The cost of food has risen an average of 59% in NYC since 2000. Unlike fixed costs such as housing and child care, food is “elastic” and spending can be reduced when available income is less. Households balance their budgets by foregoing food to pay rent, by eliminating more nutritious but costlier fruits and vegetables, and by turning to government supports such as the Supplemental Nutrition Assistance Program (SNAP), school meals and social hubs with meals, such as religious or senior centers. New York City’s emergency food network of soup kitchens and food pantries now struggle to serve 1.4 million New Yorkers annually, who are chronically uncertain as to where their next meal will come from. The impact from reduced purchasing power for food goes beyond individuals and families to food retailers. This effect was underscored by the 2011 supermarket need index which identified a widespread shortage of neighborhood grocery stores and supermarkets. High need for fresh food purveyors affects more than three million New Yorkers, with the highest need found in low-income neighborhoods.[17]

SAVINGS. Saving is unrealistic for many New Yorkers because there just is nothing left at the end of the month. For the first time, the 2014 *Self-Sufficiency Standard* Report calculates emergency savings as a minimum, required expense, alongside food, housing, child care, health care, transportation and taxes. Emergency short-term savings address the income and expense volatility that working poor households all too regularly face. Yet as is the case with all calculations in the Self-Sufficiency Standard, the savings’ estimates are extremely modest. They only cover short-term, one time emergencies. Long-term asset building, such as saving for higher education, retirement, and home buying, that enables upward mobility and economic security would require additional resources beyond Self-Sufficiency Standard level wages and emergency savings.

[17] City of New York, Office of the Mayor, “New York City Food Policy: 2013 Food Metrics Report,” http://www.nyc.gov/html/nycfood/downloads/pdf/ll52-food-metrics-report-2013.pdf.

RECOMMENDATIONS: MAKE QUALITY, AFFORDABLE HOUSING, FOOD, AND CHILD CARE ACCESSIBLE TO ALL NEW YORKERS

For too many, work does not pay enough to afford costly basic necessities. Ensure that New Yorkers across the income spectrum, from low-to moderate- income levels, can afford their essentials.

11. NYC must continue to roll out its ambitious Affordable Housing Plan, harnessing the power of the private market to help build, preserve, and expand affordable units. Priorities include the following:

- Preserve existing affordable housing in private rent-regulated buildings, and set standards so that the impact of city-subsidized housing affordability is not undermined by short-term affordability requirements. These preservation goals are the most cost-effective way to maintain affordability for the greatest number of people. For the city-subsided housing, the City must ensure that stronger standards are in place so that all programs are permanently affordable. The City should also work closely with neighborhood-based not-for-profit affordable housing developers, who ensure true permanent affordability. For the private rent-regulated housing, we call on Albany to repeal the Urstadt Amendment, ending state control over city rent regulations, and to also repeal the luxury decontrol threshold. We call on the NYC rent guidelines board to set yearly rental increases that are appropriate for and in line with interests of tenants as well as landlords.
- Ensure that new housing development result in the maximum amount of affordable housing by using multiple approaches and incentive levers, such as Mandatory Inclusionary Zoning and Tax Abatements. Mandatory Inclusionary Zoning would require developers who take advantage of increased zoning density to build commensurate levels of affordable housing. The 421A Tax Abatement laws are sun setting and the City and and State’s response must ensure that public benefits from subsidized buildings are commensurate with the financial incentive afforded to developers. A city-wide requirement could ensure that housing built anywhere in NYC includes affordable units and, moreover, that those units indeed provide public benefit by maximizing the percentage of affordable housing and deepening the level of affordability so that local neighborhoods are truly stabilized.
- When the City provides more than one benefit to the private housing sector, benefits to the public must in turn be stacked against each other, rather than combined, so that benefits developers receive are commensurate with the benefits they provide to communities.

RECOMMENDATIONS, CONTINUED: MAKE QUALITY, AFFORDABLE HOUSING, FOOD, AND CHILD CARE ACCESSIBLE TO ALL NEW YORKERS

12. Continue to expand access to high quality, affordable early education and afterschool programming:

- Successfully implement full-day universal prekindergarten to all four year-olds.
- Expand full-day universal prekindergarten to all three year-olds.
- Encourage child care centers and family day care homes to reach a diverse, economically integrated population of children by permitting sliding scale tuition and parent fee requirements and child care subsidies, engaging children from families across the income spectrum to those who pay market rate.
- Expand the capacity of infant and toddler child care provided in licensed, regulated child care centers and family day care homes.
- Expand the refundable state and local child care tax credits.
- Ensure that parents on public assistance have appropriate and complete information on the types of subsidized child care options available as well as information on available seats in high quality center based and family day care homes. Besides concrete information and options, also ensure that parents have sufficient time to secure appropriate and high quality child care.
- Successfully implement universal access to middle school afterschool programming and expand afterschool and summer programming to elementary school children and high school students.
- Ensure that the early childhood staff and afterschool staff benefit from adequate compensation, professional development and career ladders.
- Ensure that rates of reimbursement allow providers to meet quality standards.
- Overall, ensure that investment is commensurate with need, by fully funding quality, affordable, and reliable child care from birth through age five.

13. Responses to food insecurity must go beyond emergency food programs to long-term sustainable options:

- Decrease the numbers of New Yorkers living in areas with low access to fresh food purveyors by providing zoning and financial incentives to eligible grocery store operators and developers, incorporating food security priorities into affordable housing plans, and funding and expanding innovative pilots designed to increase access.
- Support 'good food/good jobs' initiatives that partner business, philanthropies, and government to bolster employment, foster economic growth, fight hunger, improve nutrition, cut obesity, and reduce spending on diet-related health problems by bringing healthier food into low-income neighborhoods and creating jobs. This includes seed money for food jobs projects, food processing, expanding community-based technical assistance, investment in urban aquaculture, and reduced bureaucratic burdens on food-related small businesses.
- Increase utilization and broaden and deepen access to WIC, SNAP, and School Meals, and endorse the Federal Child Nutrition Reauthorization Act with strong guidelines.

14. Ensure that all households can meet unexpected financial setbacks, especially those with the fewest resources, by building savings—both for emergencies and for asset building:

- Promote the capacity of New Yorkers at all stages of life to save with systematic, comprehensible and accessible savings options at their places of employment.
- Increase the likelihood that New Yorkers will save by instituting opt out, rather than opt in options for long-term savings programs.
- Maximize the take-up of tax credits, such as the Earned Income Tax Credit and the Child Care Tax Credit, and at the state level deepen and expand tax credits to more households at or below the Self-Sufficiency Standard. Use EITC and tax credit refunds to expand opportunities to save, both emergency and for longer-term investments.
- Remove disincentives to save. In particular, ensure that eligibility guidelines for work supports do not preclude basic and essential needs for building emergency savings. Individual Development Accounts allow welfare recipients to save for specifics like education, without losing benefits.

THE WOMEN'S CENTER FOR EDUCATION AND CAREER ADVANCEMENT (WCECA) is a 44-year-old nonprofit organization committed to the goal of economic self-sufficiency for all New York City women and families. Through innovative technology resources, work readiness programs and career services, we educate and advocate for socially just public policies and opportunities that lead to the empowerment of women. The Women's Center targets low-income women with serious barriers to workforce participation and helps them build competencies and develop strategies for setting and meeting lifetime career and economic goals for themselves and their families. For further information on WCECA, go to www.wceca.org or call (212) 964-8934.

Women's Center for Education and Career Advancement

UNITED WAY OF NEW YORK CITY (UWNYC) has been a trusted partner to government, corporations and community-based organizations for over 76 years serving low-income New Yorkers. Our collective impact approach enables us to diagnose neighborhood challenges, design solutions to expand education, income, and health opportunities, deploy resources and volunteers, and drive policy change guided by measured results. UWNYC envisions caring communities where all individuals and families have access to quality education and the opportunity to lead healthy and financially secure lives. Join us in making New York City work for Every New Yorker. For more information, visit United Way of New York City at unitedwaynyc.org, or call (212) 251-2500.

United Way of New York City

Since 1924, THE NEW YORK COMMUNITY TRUST has been the home of charitable New Yorkers who share a passion for the City and its suburbs—and who are committed to improving them. The Trust supports an array of effective nonprofits that help make the City a vital and secure place to live, learn, work, and play, while building permanent resources for the future. The New York Community Trust ended 2013 with assets of $2.4 billion in more than 2,000 charitable funds, and made grants totaling $141 million. The Trust welcomes new donors. Information at nycommunitytrust.org.

THE NEW YORK COMMUNITY TRUST

Now serving New York City for more than 30 years, CITY HARVEST (www.cityharvest.org) is the world's first food rescue organization, dedicated to feeding the city's hungry men, women and children. This year, City Harvest will collect 50 million pounds of excess food from all segments of the food industry, including restaurants, grocers, corporate cafeterias, manufacturers, and farms. This food is then delivered free of charge to more than 500 community food programs throughout New York City by a fleet of trucks and bikes. City Harvest helps feed the nearly two million New Yorkers who face hunger each year.

CITY HARVEST — RESCUING FOOD FOR NEW YORK'S HUNGRY — cityharvest.org

THE CENTER FOR WOMEN'S WELFARE at the University of Washington School of Social Work is devoted to furthering the goal of economic justice for women and their families. The main work of the Center focuses on the development of the Self-Sufficiency Standard. Under the direction of Dr. Diana Pearce, the Center partners with a range of government, non-profit, women's, children's, and community-based groups to: research and evaluate public policy related to income adequacy; create tools to assess and establish income adequacy; and develop programs and policies that strengthen public investment in low-income women, children, and families. For more information about the Center or the Self-Sufficiency Standard, call (206) 685-5264. This report and more can be viewed at www.selfsufficiencystandard.org.

Center for Women's Welfare
...advancing economic justice through research and the Self-Sufficiency Standard

New York City Council Committee on Contracts
April 4, 2016 Hearing
Bobby Watts, Care for the Homeless Executive Director

Good afternoon, distinguished members of the City Council Committee on Contracts. I am Bobby Watts, the Executive Director of Care for the Homeless, a Federally Qualified Health Center and the only health care organization in New York City dedicated exclusively to serving homeless men, women and children of all ages. We do this through our network of more than 25 clinics co-located in shelters, soup kitchens, and alongside street outreach teams in four boroughs. We also operate, under a contract with DHS, Susan's Place, a shelter in the Bronx for 200 mentally ill and/or medically frail women. Hopefully, you also know that we advocate for policies to end homelessness.

While we are very grateful for the funding to operate Susan's Place, I must say that compared to administering our federal grant, contracting with the City has been more challenging. I will focus on two areas: the lack of Cost of Living Adjustments for staff and for other escalating costs; and an issue that I understand that some other shelter operators also face – being reimbursed for property taxes on the leased property where the shelter is operating.

We began operating Susan's Place in 2008, and did not "receive" a COLA increase until last year. I say "receive" in quotation marks, because we have not seen the increase reflected in our contract yet. As an agency committed to social justice, and one that wants to practice what we preach, we gave bonuses and increases to our staff when the City did not. To do that, we had to subsidize the operation of Susan's Place from private donations and other sources – which could be increasingly difficult to sustain. As a result, we have lost shelter social service staff to other social service sectors, and have a harder time recruiting the talented and skilled staff the residents need to move out of the shelters to appropriate housing.

Because the property tax assessment by the Department of Finance is higher than anticipated in our initial contract and budget, for this recurring and largely predictable expense, we have to first pay the taxes and then apply for New Needs funding. While DHS has always honored the commitment, theoretically the New Needs funding application could be denied. It also results in several months' delay in getting reimbursed for the expense that is well over $100,000. It seems it would be more efficient for shelter operators, and for the City itself to adjust the shelter's budget to account for this necessary unavoidable, and predictable expense. It would increase cash flow, and increase predictability for the City and shelter operators, and reduce paperwork for all parties as well.

I again thank this Committee for your interest and commitment to making the contracting process with nonprofit providers of human services yield the best possible result for taxpayers, residents, and our neighbors in need. Thank you.

Testimony of Dan Lehman, Chief Financial Officer, The Children's Aid Society
Oversight Hearing on Challenges Facing Non Profits in City Contracting
Committee on Contracts, New York City Council
April 4, 2016

My name is Dan Lehman, and I am the chief financial officer for The Children's Aid Society. I would like to thank Chair Helen Rosenthal and the members of the Contracts Committee for having this timely hearing on the challenges that nonprofits are facing with the city's contracting process.

The Children's Aid Society is a multi-service organization whose mission is simple: we help ensure that children and their families living in our targeted neighborhoods can capitalize on their potential and talent—from cradle through college. Children's Aid has an annual budget of roughly $120 million, nearly two-thirds of which comes from government contracts. We serve nearly 50,000 children and families each year through our network of community centers, community schools, after school, summer programs, and health clinics in the South Bronx, Washington Heights, Harlem, and the north shore of Staten Island.

We are glad the City Council is devoting time to the critical issue of the condition of nonprofit human services organizations and the human services sector as a whole. Elected officials need to grasp the breadth and depth of the challenges our sector faces, and the implications if they remain unaddressed.

I will be addressing three of these challenges, which cut across nearly all human services nonprofit organizations: inadequate reimbursement for management and general expenses (often referred to as "indirect"); inadequate cost escalators in government contracts, for both personnel and non-personnel expenses; and excessive audits and reporting requirements related to government contracts.

Indirect Costs

Children's Aid currently has 122 government contracts, with a total stated value of almost $75 million. City contracts comprise about 80% of our government contracts and about one-half of our total budget.

We also have a federally approved indirect rate of 13.5%, well within the 15% "best in class" standard that has been established by the New York State government and private organizations such as Charity Navigator. This is meant to cover such support activities –

including fiscal, human resources, facilities operations and information technology – that are essential to a well-functioning organization.

However, not one of our city cost-reimbursement contracts accepts this rate. At best, we are capped at 10% for indirect costs, but often at even lower rates, or have no allowance for indirect costs at all.

This failure to adequately and efficiently reimburse indirect costs forces us to devote most of our unrestricted private fundraising dollars to covering gaps in funding for our back office, and not to supporting programs and enhancing services. Or, it means recovering costs for support areas by cumbersome direct-allocation of central staff to program contracts, which is an administrative nightmare. At one point some central staff were cost-allocated across more than 40 government contracts!

The federal government has made clear that reasonable indirect cost recovery is an expected aspect of government-funded programs and services. No one would expect the city government to operate without central functions such as a budget office, a contract services office, an administrative services department, or an information technology department. As a person who worked extensively in New York City government for the Department of Health and Mental Health, the Human Resources Administration, the Department for the Aging, and the Office of Management and Budget, I know firsthand how critical central functions are to both government and nonprofit agencies. We have the same needs, and those needs must be recognized and funded in an equitable and efficient manner.

Cost Escalators

Death, taxes, and inflation are three certainties of life. Yet city government contracts have largely disregarded this truism. While we applaud the mayor's steps to address the need for regular cost-of-living adjustments (COLAs) for wages and salaries, this is unfortunately only a half-step towards what is truly needed, which is regular cost escalators built into city contracts that account for all types of expenses, not just wages and salaries. COLA-type increases are essential for staff recruitment and retention, but without addressing COLAs for non-personnel costs, there will never be the funds needed for the sector to properly train and develop its workforce because of the inevitable cost increases in areas such as rent, utilities, health benefits, supplies, and insurance. Therefore, contract COLAs must be broader than just wages and salaries.

Keep in mind that a typical human services contract can run nine years or more, including normal renewals, so that over the life of a contract, the purchasing power of the funds paid to the provider might drop 20% to 30%. So as expenses go up, we are locked into the same funding as when the contract began. Yet we are expected to continue to provide the same (or greater) levels of service. How does this make sense? How is this fair?

Audits, Documentation, and Reporting Requirements

Having government contracts means enduring government audits – lots of them. In one three-year period, we averaged roughly 50 government funder audits a year. This a tremendous drain on staff resources, especially since these are the very same units (central fiscal departments) that suffer from inadequate indirect rate recovery. Moreover, most government funders tend to audit every provider every year, regardless of the risk profile of the provider, which could be assessed through readily available tools like IRS 990 reports, annual financial statements, and Federal Single Audits when required.

For years – decades, really, with one memo dating to 1989 – the city has discussed coordinating and consolidating audits of contracted providers across city agencies, to no avail. I know – I sat on those committees and workgroups twice. Yet the routine continues, largely unevolved.

With respect to contract documentation, despite the progress of HHS Accelerator, tremendous variations continue to exist, across city agencies and even across programs within a city agency. While HHS Accelerator strove to establish a single portal and standard for contract document management, city agencies continue to impose their own requirements outside of HHS Accelerator. Add to this the citywide contract documentation and clearances, which require countless hard-copy wet-signature pages, and the result is staff who are solely devoted to contract administration, and nothing else.

Lastly, there are the ever-increasing reporting requirements. While we applaud and appreciate the recent city COLA, the implementation process left many provider agencies wondering if it was really worth it. We had to submit a spreadsheet listing every single employee and position that is city-funded, and if a staff person was funded by multiple city contracts, then one row for each contract for that staff person. The result? A spreadsheet over 2,000 rows long, which took a half-dozen staff several weeks to complete. This is staff time diverted from other critical (often funder-mandated) tasks. A simple across-the-board contract increase with an attestation by each provider in the form of a contract amendment would have been vastly more efficient, and would have gotten us to largely the same place with fare less effort.

These are all real-world examples of the issues and challenges highlighted in the recent Human Services Council report. Continued failure to address these issues will result in a nonprofit sector that is even more distressed than it is today. And, ultimately, the people in need that we all serve, and whom the city depends on us to serve, are the ones who will lose out. Because without meaningful change, the abilities of even the strongest and most dedicated nonprofit human services providers will ultimately be stretched too far, and inevitably some will snap.

I thank the City Council again for the opportunity to testify today, and hope that the council's sincere interest and commitment to these critical and challenging issues yields real results. Please know that The Children's Aid Society is more than willing to be a partner in addressing these issues. I am happy to address any questions you may have.

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SUNNYSIDE COMMUNITY SERVICES

Judith Zangwill, MSW
Executive Director

Testimony from Judy Zangwill, Executive Director, Sunnyside Community Services
City Council Oversight Committee - Challenges Facing Nonprofits in City Contracting
April 4, 2016

My name is Judy Zangwill, Executive Director of Sunnyside Community Services. With four decades experience serving youth, families and seniors – currently 14,000 annually – we have a wealth of experience implementing city contracts that change the lives of people. We have 22 city contracts adding up to over ten million dollars. I am here to tell the story of how our organization will not be able to apply for critical funds for a long-standing program – something almost unheard of in our work.

For ten years Sunnyside Community Services has received funding from the City Council for our Geriatric Mental Health Initiative. Operating under the oversight of the Department of Health and Mental Hygiene, we have served hundreds of seniors in their homes and out of our senior center as they face the challenges of anxiety, depression, alcohol abuse and social isolation. We have honed a model that works through screenings, educational workshops, support groups and counseling sessions. We were happy to learn that the funding was baselined in 2014, as this is an important way to ensure funding continuity.

This year DOHMH released an RFP for the GMHI program called "Decreasing Depression and Increasing Social Connectedness Among NYC's Older Adults. Unfortunately, it is not what Sunnyside Community Services, other providers, advocates, or City Council members envision for this program. The new model that DOHMH has introduced effectively ends our ability to serve the mental health needs of seniors in our communities for the following reasons:

1. **The model is one size fits all,** calling for six of eight counseling sessions to treat depression. The model assumes that seniors can then receive follow-up services via referral. These services are not widely accessible in Western Queens, especially for homebound and non-English speaking seniors (key targets of the RFP).
2. **We are assigned two areas on the opposite ends of Queens.** The RFP pairs community districts that are not near each other for services, but has one provider serving the districts. Astoria/Sunnyside/LIC communities and Jamaica are 10 miles and an hour apart. The model moves away from a community based vision to a consolidated plan that satisfies statistical target goals, but does not satisfy neighborhood needs or basic common sense.
3. **The service goals don't match the resources available.** We took DOH's mandate and counted hour by hour, person by person what it would take to deliver the required programming. DOH has provided guidelines for estimated service hours to achieve their goals. These guidelines don't match practice in the field, and do not sound accurate based on our 10 years experience of running our GMHI program. But even using DOH's own estimates, the required hours still surpass the funding they have made available.

Our approach is community based, client centered, comprehensive and effective. We use a mix of strategies based on the need of each senior. At Sunnyside Community

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SUNNYSIDE COMMUNITY SERVICES

Services we don't take lightly the decision to not apply for these DOHMH funds. We do so after hearing similar concerns from the majority of currently funded Geriatric Mental Health Initiative providers. We base our decision on ten years' experience. We know that with the close of this program hundreds of seniors will not have access to the mental health supports they need to live healthily in their communities.

There is only one reason we would make such a decision to not pursue much needed funding: what is being asked through this RFP would set us up for failure. We welcome all involved in this process to find ways to help set up community based organizations for success, and most importantly, to commit to models and resources that translate to critical services to New Yorkers most in need.

Thank you

Judith Zangwill, MSW
Executive Director

TESTIMONY OF HEIDI ARONIN, CHIEF ADMINISTRATIVE OFFICER OF JASA,BEFORE THE NEW YORK CITY COUNCIL COMMITTEE ON CONTRACTS
APRIL 4, 2016

Good afternoon. Thank you for the opportunity to speak here today on this very important topic. My name is Heidi Aronin and I am the Chief Administrative Officer for JASA, the Jewish Association Serving the Aging. Established in 1968, JASA is one of New York's largest and most trusted not-for-profits serving the needs of older New Yorkers in the Bronx, Brooklyn, Manhattan, Queens and Long Island. JASA's mission is to sustain and enrich the lives of the aging so that they can remain in the community with dignity and autonomy.

A large and established organization serving tens of thousands of older New Yorkers through our subsidized senior housing, licensed home care agencies and a rich array of services ranging from senior centers to legal services to case management to home delivered meals to adult protective and community guardian services, JASA has been a leader among New York's not-for-profit organizations for decades. In total, we have a consolidated annual budget in excess of $113 million and approximately 2,000 staff. Through good times and lean times, JASA and its extraordinary staff have provided support, assistance and varied programming to New York's seniors. Through variations in funding levels, in program requirements, in the regulatory environment and in our organizational structure, JASA has successfully navigated the funding and service environment to provide quality housing and services. Today, however, we at JASA feel that the not-for-profit sector in New York City is at a cross-roads. The gap between the funding we receive from government to provide services and the cost of providing those services as required by our government funders is large and growing. The interest of private foundations and individual donors in providing funds to fill that gap is waning. And left in the middle are the not-for-profits struggling to serve clients in need, with insufficient funds and demoralized staff.

Size does not mitigate these problems – larger not-for-profits like ours simply face larger gaps for which to raise funds. Quite simply, the structure of government funding for human services today does not work. Left at risk are a broad network of not-for-profit organizations and, more importantly, the hundreds of thousands of people who rely on them for support and assistance.

As with so many of New York City's human services organizations, the services programs at JASA are largely government funded. Approximately 70% of our $45 million services budget receives direct government funding, with an additional 10% coming from service fees that are the result of our government services. We are proud of our long-standing partnership with our government funders, in particular the New York City Department for the Aging and the New York City Human Resources Administration, and we are committed to serving the citizens of this city.

It has been accepted wisdom in the not-for-profit world that organizations relying on government contracts for their funding will not receive sufficient administrative cost reimbursement. Government pays for services and does not take into account fully the additional costs every organization must shoulder: rent; utilities; payroll; insurance; compliance; information technology; managing human resources functions; purchasing; facilities, etc. At JASA, even with an infrastructure too lean to meet our needs fully, our administrative costs (estimated at 14% of the current services budget) outpace the reimbursement we receive, which comprises 10 %, leaving a shortfall of $1.5 million for which we must fundraise each year. This has been a concern for more years than any of us can remember.

I have seen both sides of this issue, having spent the first 11 years of my career working in New York City government, ending with my service as Assistant Director for Social Services at the NYC Office of Management and Budget. As someone who was responsible at various government agencies for budgeting and implementing contracts with providers, I understand why government must strive to keep costs down and productivity high. As a not-for-profit executive, I understand that the gap in funding to cover the real costs of running a not-for-profit has been a part of the not-for-profit landscape since before anyone can remember. But with more than 25 years of professional experience on both sides of that arrangement, I believe it has reached a point where the funding levels are simply untenable. Because in 2016, not only are not-for-profits forced to pursue outside funding to pay for their administrative structures, we are also forced to raise private funds to cover the very real gaps in government funding for the direct cost of providing services.

Some of the core services JASA provides, services for which we are known throughout the city, exemplify the gaps I am describing. JASA staff deliver more than 600,000 individual meals to homebound elderly each year. Often, the drivers and meal assistants that deliver those meals are the only people these seniors see all day. The annual budget from the Department for the Aging for providing this core, valuable service is $5.1 million. This is an extraordinary commitment of public resources to help keep seniors in their homes. And yet, it is insufficient to cover the actual cost of these meals. This year, JASA is projected to lose more than $200 thousand dollars on its home delivered meals program, approximately 4% of the program's budgeted government revenue. A significant portion of that loss results from serving a disproportionate number of kosher meals to seniors requiring them, in neighborhoods like Coney Island, Brighton Beach and Manhattan Beach. This year's projected loss is an improvement over prior years, when our program losses for meals reached $500 thousand or 10% of the program's budget, because last year the City, in response to a coalition of providers and advocates including JASA and the UJA-Federation of Jewish Philanthropies, agreed to adjust the meal rates it pays based on providers' average complement of clients, helping to account for cultural differences. We appreciate the willingness on part of the City to make this adjustment. And yet, JASA – and other providers as well – is still being asked to subsidize the government's program by paying a share of direct costs.

JASA runs 22 senior centers in New York City through contracts with the City's Department for the Aging. Our centers are hubs of activity, socialization, learning and dining, known throughout the city by seniors, elected officials and other not-for-profit providers. We are proud of these programs and are known as an innovative leader in senior center programming. We run these programs with limited staffing – the average center has a director, a group work assistant, a part-time kitchen technician and a part-time community aide. And yet, our senior centers are projected to run a combined deficit of more than $250 thousand this year, approximately 3% of its annual budget of $7.8 million. This is not an administrative cost deficit. This is the deficit of directly running the centers, paying staff, utilities and rising food and rent costs.

The trend is clear and increasingly insurmountable. Program by program, we are being forced to cover 3, 4, 5 percent of the direct cost of running programs, plus anywhere from a quarter to half of the cost of running an administration to support those programs.

And this does not tell the whole story. Because the only way that we – and many not-for-profit organizations – can provide the services government contracts with us to provide at even close to what the government pays (and that frequently remains flat year after year) is by containing salary costs of the men and women providing those services throughout our communities. Our obligation to ensure that JASA remains a viable and operating not-for-profit has resulted in our falling farther and farther behind the market in salaries. In a particularly notable instance, the workers we employ to provide Adult Protective Services in adults at risk due to physical or mental incapacity, earn $34,500 on average, 14% less than the City employees providing the very same service. These gaps in salary leads to high turnover, recruitment difficulties and demoralized staff.

This year, for the first time in recent memory, the City has offered a cost of living increase for its human service contract providers. We appreciate that commitment and are in the process of working with our collective bargaining unit to pass it through to our employees. But 2.5% after years of limited or no increases cannot stem the tide of turnover and malaise among a workforce that understandably feels undervalued. When professionals with master's degrees in social work are earning salaries in the low $40 thousand range, it is hard to convince them that a 2.5% increase is meaningful to their lives. We seek for our staff what we seek for our clients – that they be able to live in the city in which they work with dignity, earning a livable wage for the extraordinary commitment they make.

The current plans to increase minimum wage to $15 per hour, without simultaneous proposals to increase government funding for programs employing people at less than that, could exacerbate our funding gap to the point that the programs are no longer viable. JASA estimates that a $15 minimum wage, when fully implemented, will add $626 thousand in costs to our services programs and a staggering $15.5 million for our home care agencies, a 36 percent increase in expenses. Without increased reimbursement from the City and the State, these increases will be unaffordable and our programs unsustainable.

We have had numerous conversations with our government funders about these concerns. On different occasions, the funders themselves have expressed concerns about particular programs experiencing turnover, or about the salaries we pay our staff to do the important work that government funds. When we ask the funders to put money on the table to help overcome these problems, doing the math to show them the gap, they make it clear that they do not have additional funds to give and, more often than not, they refer us to you, the City Council, to help make up the difference.

We have participated in many of the conversations, such as those resulting in the recent report coordinated by the Human Services Council, in which, together with our colleagues, have discussed reviewing government solicitations and assessing their feasibility before bidding on them. This is a helpful process for us all and we agree that we are each responsible for making that assessment before undertaking an engagement. Like other organizations, we have passed on some funding opportunities because it was clear we simply couldn't afford to run the programs being contracted. But that analysis will only take us so far. If government, the source of funding for the vast majority of what we do, does not pay enough to do the work, our choices are to continue underpaying our staff and trying to cover predictable program losses, or to cut back on the contracts we pursue to focus on the ones that lose the least. Speaking for JASA, neither is the direction we are hoping for. JASA is a mission-based organization in the business of serving seniors to make their lives better. We are proud of what we do, proud of our history and proud of the extraordinary staff that make that happen. We want to continue to do what we do, providing quality services to seniors across New York City. We ask your help in doing so.

Like all the providers and advocates that come before you, JASA is comfortable arguing for more total funding for meals, for legal services, for elder abuse prevention and case management services and for senior centers, among others, as these are critical services helping seniors live rich and fulfilling lives in the community. We understand, however, that, like us, government only has so much to spend. All we ask, then, is that government pay for what government asks us to provide. When our funding agencies contract with us to deliver $100 or $1,000 or $1,000,000 of service, those agencies should pay the full cost of the service provided. If funding to cover the full cost is unavailable, then we understand that we may be required to reduce the level of service we provide to meet the available funding and we are willing to work with government to reach the achievable levels. But it is unreasonable to expect the not-for-profit community to make up the difference that government can't or won't pay. I would argue that government would not ask the same of for-profit contractors, as it is understood that they are running businesses. Members of the Council, we too are running a business. The purpose of the business is not to turn a profit – which is, of course, why we are called not-for-profit organizations. But the fact that our purpose is not profit does not mean that we can, or should, be expected to sustain losses year after year because government does not pay the full freight of what it requires in its contracts. We cannot cover a portion of every service, and private funders are not interested in funding what government has cut back. More importantly, asking us to do so puts our entire sector at risk, because we cannot, any of us, expect to remain in business with year-after-year losses. All we ask is fair funding to provide quality service. With that support in hand, JASA looks forward to the next 50 years of serving aging New Yorkers, working with the City's agencies and elected officials to improve the lives of our elders.

Thank you for your attention today and for your leadership and commitment to addressing the needs of individuals who live and work in New York City.

PHIPPS NEIGHBORHOODS Rising above poverty

NYC Council Committee on Contracts Hearing
April 4, 2016

My name is Judith Castillo, Director of Finance at Phipps Neighborhoods. Our organization helps children, youth, and families in low-income communities rise above poverty through education and career programs, and access to community resources. We serve approximately 10,000 clients a year and 80% of our $25M budget is comprised of city and state contracts.

I'd like to speak to you today about the tremendous burden that complying with multiple contract audits places on our staff, the burden that it imposes on our budgets, and ultimately, how it affects our ability to fulfill our mission. I urge that this Committee take the necessary steps to streamline these auditing mandates in order to relieve some of these burdens and allow our organization, and other organizations like ours, to focus on our missions.

The purpose of an audit is to provide stakeholders with an independent opinion and assessment of the accuracy and fairness of an organization's financial records, business processes and accounting procedures. One of my primary responsibilities in my role at Phipps Neighborhoods is to serve as a liaison between my organization and external auditors. As a result, I am continuously exposed to the redundancies and inefficiencies that these multiple audit requirements impose on my organization.

As a nonprofit organization and recipient of federal funding, we are required to undergo an annual, independent audit that includes A-133 testing. As a part of the A-133, independent auditors conduct a thorough analysis that examines our financial records, statements, and internal controls. A-133 testing considers materiality at more rigorous levels than independent audits and auditors go through more criteria in order to assess compliance requirements.

In addition to the A-133 audit, city agencies consistently require that my organization undergo additional independent audits. We have been subjected to this added scrutiny over the last four consecutive years, despite consistently receiving unmodified opinions in our audits. DYCD, for example, deploys their employees to conduct a Mid-Year Fiscal Review of our all our contracts - reviews that use similar procedures that are a part of an A-133 audit. In other cases, funding agencies hire independent audit firms and subject us to audits for prior fiscal years, well after that fiscal year has ended.

Allow me to illustrate further. Over the last month, my team and I have been preparing for an FY 15 audit of all 20 of our DYCD-funded contracts. In preparation for that audit, the independent audit firm has requested that we submit copies of all monthly invoices. These invoices must contain handwritten signatures for the entire fiscal year. That is 12 invoices for each of the 20 contracts that are being reviewed - 240 invoices. With each invoice containing an average of 5-10 pages, this requires us to scan and upload almost 2000 pages of information that is already available in a spreadsheet format and in DYCD's Financial Management System.

About 30-40% of our finance team's time this year will be taken up by managing or following up on audits. With an annual personnel budget of $300,000, that means that we will spend approximately $90,000 of it on audits. If we add that to the cost of our A-133 audit fees, that's over $150,000.

While on the subject of cost, ACS recently required that we hire an independent audit firm to conduct a single program audit on a $300,000 program. That audit exhausted 2% of that program's already underfunded budget, funding that could have been used to help four year olds in our programs prepare for Kindergarten.

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Managing numerous, uncoordinated and redundant audits, whose ultimate purpose is the same, is a useless exercise and puts a strain on our organization's ability to meet demand, and more importantly, fulfill our mission.

Government agencies should instead accept the A-133 as the standard from those organizations that are required to file it, since it already serves the purpose of an audit, which as I mentioned earlier, is to provide stakeholders with an independent opinion and assessment on the accuracy and fairness of an organization's financial records, business processes and accounting procedures.

For those organizations that don't meet the threshold for an A-133, government agencies should establish a requirement for an annual independent audit. For those organizations that are struggling to meet this new standard or demonstrating material deficiencies and need the additional support, government agencies should deploy the resources currently being used in duplicative audit efforts to focus on quality improvement and technical assistance. That will ensure that organizations in the sector are able to spend more time and resources helping vulnerable New Yorkers reach their potential.

I want to thank Council Member Rosenthal and the Committee on Contracts for holding this hearing on the challenges facing nonprofits in city contracting and allowing me the opportunity to offer this testimony on the contracting issues impacting human services providers.

New York City Council-
Committee on Contracts
Challenges Facing Nonprofits in City Contracting
April 4, 2016

TESTIMONY of SANFORD WEINSTEIN, CFO/EVP- GOODWILL INDUSTRIES OF GREATER NEW YORK AND NORTHERN NEW JERSEY, INC.

My name is Sanford Weinstein, CFO of Goodwill Industries of Greater New York and Northern New Jersey, Inc. Thank you to Council Member Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting. Goodwill Industries of Greater New York and Northern New Jersey, Inc. is one of 165 independent affiliates of Goodwill Industries International and we are proud of serving New York City for over 101 years. This issue is of great importance to the nonprofit sector and particularly timely given the release of the Human Services Council's report New York Nonprofits in the Aftermath of FEGS: A Call to Action, and I appreciate the opportunity to offer testimony on the contracting issues impacting human services providers.

Goodwill Industries mission is to empower individuals with disabilities and other barriers to employment to gain independence through the power of work:

- In calendar year 2015 served 86,000 people.
- Served 99% of these individuals within the five boroughs of New York City.
- Our program areas are in Workforce, Disabilities, Youth and Community.
- We are excellent stewards of government resources, having an indirect cost rate of 10% or less consistently for over 20 years in a row.

Our organization has 21 contracts with the City for approximately $7,000,000 that do not receive reimbursement for organizational indirect costs.

- We have 17 Youth programs with Department of Youth and Community Development (DYCD), none of which provide reimbursement towards indirect cost of the organization.
- Our 4 New York City programs for the disabled with the Department of Health and Mental Hygiene (DHMH), not only failed to provide an indirect rate to cover essential operating costs, but do not fully cover direct costs.
- We estimate that the minimal indirect cost: technology support, accounting, security of running these programs is $700,000 annually, which Goodwill must subsidize.
- In contrast, we have a federal indirect rate of 10%, applicable to our federal contracts, which will reimburse Goodwill for its organizational indirect costs.
- Most known for our thrift stores, Goodwill is a social enterprise and runs 13 retail stores in New York City that have three objectives: 1) create jobs for those with barriers

to employment 2) revenue helps Goodwill support operations and 3) to divert thousands of pounds of textiles annually from the landfill. However, any revenue must be allocated to include our dues to Goodwill Industries International and reinvestment in retail improvement and their escalating costs - such as rent, insurance and wages.

- We are forced to take countermeasures because New York City government does not pay for indirect costs.
    - In order to keep essential indirect costs down, there have been numerous measures taken, such as: raises delayed a minimum 18 months, hiring only when absolutely critical; employees carry a greater workload; capital repairs delayed; more efficient and better equipment purchases delayed , for example 33% of our computers are beyond their normal life.
    - These measures can lead to higher employee turnover and lower employee productivity. Longer term employees at the lower paid levels leave as other options become available. Having less experienced people impacts productivity. Our infrastructure is strained to maximum capacity.
    - Our social enterprise model with retail means that we have no fundraising structure and we do not have this capacity beyond our stores.

An example of a Goodwill multi-year contract with the City that has no cost escalation clause or mechanism to amend the contract when costs increase is as follows:

For 20 years, we have operated Citiview Connections in Long Island City, Queens, funded by the Department of Health and Mental Hygiene (DHMH). This is a psychosocial program serving 140 people with severe and persistent mental illness. The purpose is to help them develop independent living skills and social relationships with a small job placement component and to minimize psychiatric hospitalization, dependence on shelters and other services.
It provides a safe and supportive environment and offers vocational, educational, recreational, and case management services.

- The program currently loses approximately $60,000 on a direct expense basis and loses approximately $100,000 including our essential indirect operating costs.
- In the past 13 years, revenues increased $28,000, while expenses went up by $99,000.
    - In the last 10 year period, rent escalated from $100,000 a year to $123,000.
    - Health care in past few years from $21,000 to $60,000 a year.

Our recommendation is to always include a 10% indirect reimbursement to Goodwill and all not-for-profits, as a mandatory part of all agency contracts.

Our workforce was very grateful to the City Council and the Mayor for including a 2.5% COLA and $11.50 wage floor in last year's budget. After many years of stagnant wages, this was a very necessary increase for our workers, but we need more investment in our workforce, as well as a continuing model for wage adjustment. Additionally, the implementation of the COLA and wage floor has been very difficult, with complications in the spreadsheet for COLA calculations which can take significant time for our small fiscal team.

The nonprofit sector is committed to transparency and accurately reporting how we do business and operate programs. Regulation is a necessary part of our industry and relationship with government, but many of the mandates we comply with can be streamlined to better use scarce resources and still adequately capture important compliance information.

- Audits
  - We are subjected to 3 to 4 city audits a year, in addition to our annual organizational agency audit by outside independent CPAs.
  - For each City audit, a week of a fiscal officer's time is needed. Altogether, the organization may lose a month of fiscal officer availability to these City related audits.
  - The City often follows-up on the results of these audits, which could necessitate additional time to be spent on these audits.

Goodwill recommends that NYC first accept the non-profits independent audit, before conducting another redundant fiscal audit.

Contracts with government are essential to Goodwill NYNJ and the programs we offer to help support the dignity of work for those with disabilities and other barriers to employment. Government relies on large organizations like Goodwill to provide critical and quality services in communities on their behalf, as well as have the infrastructure and capital to take over contracts if other organizations fail - a request we have fulfilled both for DYCD and HRA in the past two years.

With stagnant dollars, lack of payment for indirect costs, match requirements, redundant reporting, and requiring outcome measurement without investment in tracking or technology, the cost of taking on government contracts has become a risk to even a large organization like Goodwill NYNJ's health.

- Our 17 DYCD youth programs serve a most important need, this cannot be denied. Beginning in 1996, we have served thousands of youth and their families in some of the most challenging communities. Annually, we commit to approximately $500,000 in indirect costs to support these programs. Our organization can no longer afford to subsidize these programs at the risk of losing other equally important services such as employment and training programs for youth who are in danger of incarceration, homelessness, drug use and sustained poverty. Having a 10% standard indirect cost rate will significantly reduce the drain on the agency's resources.

- There will be more nonprofits shutting their doors, if these recommendations are not actioned and reimbursement for all costs associated with providing services, including critical essential operating costs found in our indirect costs at 10%, are not reimbursed by government.
- At this point, after 100 years of services to the severely disabled the mounting losses are forcing us to discuss the possible closure of programs.

Thank you again for providing me with this opportunity to testify, and for your continued partnership with our fellow non-for-profits. Please contact me at 718-777-6388 or sweinstein@goodwillny.org. If I can provide further information.

GOOD SHEPHERD SERVICES

We see what can be.

Testimony of Dana Altneu, Senior Manager of Government Contracts
New York City Council Contracts Committee Hearing
April 4, 2016

Good afternoon. I am Dana Altneu, Senior Manager of Government Contracts at Good Shepherd Services. I want to thank Councilmember Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting. This issue is of great importance to the nonprofit sector and particularly timely given the release of the Human Services Council's report *New York Nonprofits in the Aftermath of FEGS: A Call to Action*. I appreciate the opportunity to offer testimony on the contracting issues impacting human services providers.

Good Shepherd Services goes where children, youth, and families face the greatest challenges and builds on their strengths to help them gain skills for success. We provide quality, effective services that deepen connections between family members, within schools, and among neighbors. To achieve our mission, we lead in the development of innovative youth development programs; provide quality, effective services that strengthen participants' connections with family, school and community; and advocate on their behalf for broader change. We operate over 80 programs, which help nearly 30,000 youth and family members in struggling neighborhoods throughout New York City.

I wish to give examples today of some of the key contracting challenges we face as an agency: (1) current funding is inadequate to cover basic programming and administrative costs; (2) contract delays cause significant cash flow problems; (3) audits and unfunded mandates put an additional burden on our agency; and (4) efficiencies meant to streamline the contract process are not being fully implemented.

Good Shepherd Services currently has over 80 contracts with NYC totaling over $63 million. These contracts comprise three-quarters of the agency's budget. However, none provide sufficient funds to deliver the basic services expected by the funding agency, nor do they cover the necessary administrative supports. We used to raise private dollars to provide programmatic enhancements. Now the vast majority of the $20 million the agency raises is needed just to cover the rising costs of health care as well as increases in salaries, insurance, rent, and more. All of our costs have gone up, but our city contracts have had only had a COLA only on salaries in the past decade or more. Moreover, none of our contracts cover the agency's full indirect costs. Our current federally approved indirect rate is 16.9%, but the rate we are paid on our NYC contracts only ranges from 0% to 10%.

Because NYC contracts are inadequately funded, we struggle to pay competitive salaries compared to other industries. As a result, like many other non-profits, we have high rates of turnover. In our General Preventive Programs and Family Treatment/ Rehabilitation programs funded through the Administration for Children's Services (ACS), our turnover rate is 44%. While this is lower than our peers providing preventive services, it is more than double the New York City turnover rate of 16%[1]. Since we are unable to pay workers competitive salaries, staff leave for work in other better-paying fields. Once again, the ones who suffer the most are the vulnerable families we serve. They build a trusting relationship with their caseworker only to have to begin this all over again with a new person as staff leave for better opportunities. Additionally, the high turnover makes it very hard to meet our Performance-Based Funding mandates for this program, which are solely based on the number of cases opened in a calendar year – despite the fact that this has little to do with providing high quality services that prevent abuse or neglect. The high rates of turnover can have an adverse impact on how long families are served and, for some agencies, can become a cyclical process of loss of funds and increased staff turnover that have forced some small agencies to close their doors. In 2015, we fared better than nearly all of our colleagues and lost only $47,769 on our Performance Based Funding (only .5% of our contract; the total amount at-risk was nearly twenty times that amount). However, the contract was already not paying the basic costs of running the programs, so even this loss was problematic.

Delays in contract registration are also highly problematic and cause major cash flow issues as agencies are unable to bill for services we provide until contracts are registered – often many months after the contract begins. For example, our current Department of Education (DOE) Learning to Work contract began on July 1, 2015, but was not registered until February 12, 2016. Despite not being reimbursed nearly $2 million dollars over six and a half months, we still had to pay frontline and administrative staff, order supplies, and pay for space.

Duplicative audits also pose a challenge and drain scarce resource. The nonprofit sector is committed to transparency and accurately reporting how we do business and operate programs. Regulation is a necessary part of our industry and relationship with government, but many of the mandates we comply with are duplicative and can be streamlined to better use resources and still adequately capture important compliance information. We currently have two full-time staff members working on roughly 95 agency audits each year. These audits include, but are not limited to, our annual agency audit, the A-133 audit for our programs that have federal dollars attached, a DYCD audit for all DYCD funded programs, a DOE audit for all DOE funded programs, a Foster Care audit, a Workers Compensation audit, School Lunch audit, and many other program specific audits. In addition to the actual completion of the audits, we are always required to completed work plans of findings, regardless of how minor.

Additionally, unfunded mandates also drain our very sparse resources. For example, this past year the Department of Youth and Community Development (DYCD) required that contract agencies not only distribute voter registration materials, but also provide detailed reports. As an organization, we believe it is vitally important to empower participants to vote and have been helping participants with voter registration for years. However, DYCD now requires agencies to track and report on the number of people we offered voter registration forms to, the number of applications distributed, the number collected and sent to Board of Elections, and the number of front line staff trained. This is incredibly burdensome. It will take us nearly 150 staff hours this year to collect and complete the required report, none of which are we being paid for.

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[1]SHRM Human Capital Benchmarking Database (2015)

When NYC introduced the HHS Accelerator system, we were thrilled, as we have spent years making multiple copies of dozens of procurement documents for each of our 85 NYC contracts every time they are renewed. HHS Accelerator offers the promise of streamlining a very burdensome system, but only if it is used. Unfortunately, in the past five months, NYC agencies required paper submissions for 9 of our 11 city contracts going through the procurement process. We had hoped that the increase in work resulting from our organizational growth would be offset but the efficiencies of HSS Accelerator. Since this has not turned out to be true, we had to hire an administrative assistant to process procurement documents at a cost of $45,000 (including salary and fringe). We urge all city government agencies to use HHS Accelerator for procurement documents for all city contracts, including discretionary contracts awarded through the City Council.

Contracts with government are essential to our organization and the programs we offer, and government relies on us to provide critical services in communities on their behalf. With stagnant dollars, contract delays, and duplicative reporting the cost of taking on government contracts has become a risk to our health.

Thank you again for providing me with this opportunity to testify, and for your continued partnership with our sector. I am happy to answer any questions.

CAMBA

where you can

CAMBA
Testimony Before the New York City Council
Committee on Contracts
April 4, 2016
Thomas J. Dambakly

My name is Thomas J. Dambakly and I am the Chief Administrative Officer at CAMBA. Thank you to Council Member Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting. This issue is of great importance to the nonprofit sector and particularly timely given the release of the Human Services Council's report, and I appreciate the opportunity to offer testimony on the contracting issues.

CAMBA is one of New York City's largest and most trusted community-based organizations and is unique among peer agencies in scale, quality, and responsiveness. Founded in 1977 as a merchants' block association, the agency has grown in direct response to the needs of the Brooklyn community and beyond. Today, CAMBA provides services to 45,000 individuals and families annually through an integrated set of six program areas: Economic Development, Education and Youth Development, Family Support, Health, Housing, and Legal Services. Through our comprehensive continuum of care, CAMBA provides tools to help individuals, families and communities reach their full potential.

CAMBA has 88 contracts across 11 City agencies for a combined total of nearly $105 million. As such, we are deeply experienced with the City's procurement and contracting procedures. I oversee all of the agency's operations and administrative functions and, as such, I am directly familiar with the challenges that we face with government contracting. Today, I would like to highlight three key concerns – the challenges of operating programs with stagnant budgets in the face of escalating operating expenses, the costs associated with maintaining operations in the face of late payments on contracts, and the burden of complying with numerous government audits.

CAMBA and other nonprofits are not immune to the impacts of inflation across a wide range of operating expenses such as rent, personnel, and insurance costs among others. As costs escalate over time, contracts with government agencies become less and less affordable each year. Without some sort of contact amendment, these contracts can ultimately become untenable for the human services providers that operate these programs. For example, CAMBA has had contracts to operate scattered site housing for people living with HIV/AIDS since 1993. Designed to provide case management in addition to housing in market rate apartments in the community, today, we have three such contracts for a total of 270 units. The budgets for these contracts have not increased in 26 years – since the median rent was only **$501** in New York

City! This cost escalation has eaten away at our operating budgets, straining our ability to pay qualified staff and to deliver effective services.

In 1993, CAMBA began operating Beacon Community Centers. Today, we operate three Beacons across the borough of Brooklyn that together serve 4,400 youth, families and community members each year. Similarly, while inflation has increased by 64%, our budget has increase by 0%. Cost escalation devours our budgets, impairing our ability to continue to deliver new and innovative services in response to emerging community needs.

To enable nonprofits to keep pace, contract amendments and renewals must accommodate costs escalations, including costs associated with legislative and policy changes as well as inflation. While we are truly delighted to see that the minimum wage in New York State will be increasing to $15 an hour by 2018, enabling more New Yorkers to earn themselves out of poverty, we have not way of accommodating that kind of increase in programs whose budgets were adopted when the minimum wage was $4.25!

Like our peers in the human services sector, CAMBA is funded primarily by public dollars. Indeed, revenue from City contracts currently accounts for nearly 78% of our operating budget. This predominance of City government funding puts CAMBA at financial risk and causes great operational uncertainly because payments are often made very late. Late payments often result from delays in contract registration. Registration delays can be financially devastating, as services are expected to begin on the first day of a contract, even if the contract has not yet been registered by the relevant agency. These delays cause us to incur substantial expenses for service delivery before we have a legal right to be paid. We are often forced to borrow against a line of credit to meet payroll. Interest payments on such borrowing are substantial. In Fiscal Year 2015, CAMBA paid $375,354 in interest on our use of our line of credit. These payments are not reimbursable. Thus, instead of investing in organizational infrastructure, piloting new programs in response to emerging needs or more systematically evaluating the impact of our services, we pay interest to our bank.

CAMBA, like our fellow nonprofits, is committed to transparency and the accurate reporting of how we do business and operate programs. Regulation is a necessary part of our industry, our relationship with government, and our commitment to the public good. However, the number and scope of the audits which we must undergo are needlessly duplicative and counterproductive. In Fiscal Year 2016 to date, CAMBA has undergone no fewer than 106 City audits. The volume of information being captured is so enormous that meaningful government review is impossible. In the meantime, nonprofits must absorb tremendous costs associated with the labor-intensive process of audit compliance. Full-time employees must be assigned to answer the questions of auditors rather than address their core functions. The amount of staff time and paperwork required for these audits can interrupt services, compromise program outcomes, and reduce the number of clients that can be served.

City agencies should standardize and consolidate audit requirements to avoid repeated and unnecessary audits, to minimize interruptions in nonprofit program services, and to reduce the costs to taxpayers of multiple audit teams who review the same books and records. Where the federal OMB A-133 Single Audit is available, City agencies should accept it in lieu of their own audits. If additional program information is needed, the Single Audit could be supplemented with program-specific questions.

Thank you again for the opportunity to testify on these important topics. I hope that our recommendations will prove useful as the Committee continues its deliberations.

The Jewish Board
Health and Human Services for All New Yorkers

Testimony of Cara Berkowitz, Senior Director, Government Relations, The Jewish Board

New York City Council Contracts Committee Oversight Hearing on Challenges Facing Nonprofits in City Contracting; April 4th, 2016

Good afternoon Council Committee Chair Rosenthal and members of the Committee. My name is Cara Berkowitz, and I am the Senior Director of Government Relations for The Jewish Board.

As a large provider that receives millions of dollars through contracts with several city agencies, including DOHMH, HRA and ACS, the city contracting process is critically important to funding our services in a timely and efficient manner. While the process has improved over the years with greater transparency and innovations like the HHS Accelerator, there are still ways to improve the system for all parties involved.

The greatest issue is inconsistencies in the process, both among different city agencies and different contract managers within the same city agency. For example, The Jewish Board has an overhead rate of 12%, which, per the mandated federal indirect non-profit reimbursement rate, we are supposed to receive in all city and state contracts. However, ACS only allows for a 10% overhead rate, which does not sufficiently cover our expenses and creates a lack of uniformity amongst our contracts that should be resolved due to the federal guidelines.

Additionally, the City Council awards funding for a general purpose, but when a non-profit agrees to the contract, city agencies oftentimes require narrowly defined scopes and do not allow enough flexibility to most effectively use the funding. Non-profits know the needs of their clients. Thus, direct service providers should have greater input in the most efficient, culturally competent means to fulfill the intent of the city contracts. For example, sometimes it is easier to assist mental health clients in a clinic rather than through home-based services, but that may not be allowed per the rules of a city agency. Our recommendation is that the city, of course, continue to be diligent stewards of public funding but allow additional discretion to the non-profits who have the expertise in providing direct services.

Additionally, city contracts mean that non-profits must undergo multiple, separate audits through DOHMH, ACS and other city agencies in addition to a federal audit. There are many overlapping requirements for each audit and the need to comply with these multiple audits is wasteful of both non-profit and city resources.

Another example of redundancy is that non-profits such as The Jewish Board are required to use various city and state managed computer systems as mandated by the city or state government - CONNECTIONS, used by child welfare residential programs, and PROMIS used for child preventive programs are two such examples. Our analysis of these and other mandated systems shows that data entry is relatively inflexible; in other words, each system has unique entry and update screens and no mechanism for entering data one time and uploading to multiple systems/databases (i.e. there is no bulk data entry mechanism).

Internal and external reporting requirements that were in effect prior to the advent of these systems necessitated the creation and use of in-house databases and systems, built in-house or purchased, and over time increased regulation has necessitated additional systems. For many years, faced with multiple systems that do not necessarily interface, we have been concerned about the staff inefficiency and data entry error rates associated with data entry into multiple systems. Additional reporting requirements and consolidation of agencies come at a time when internal agency resources are already strained.

We propose that the various government-mandated systems add a bulk data load mechanism. Each system would make public a format for an electronic file. The specified format would include fields, their sizes and formats, and other relevant information. Any agency can use their own internal systems and then produce data in that format and submit the file to the government for bulk loading of data. Secure electronic submission meeting state and city standards would be developed.

For non-profits, the benefit would be the ability to enter data once and extract it in various forms to meet government needs, saving administrative costs and decreasing the data entry error rate. This would help advance the goals of minimizing the number of systems, of permitting one-time entry of each piece of data, increasing data accuracy, and of electronic submission to as many government systems as required.

In the meantime, we also propose the creation of a mechanism for extracting data that non-profits enter into government systems. While some systems have methods of extracting data, they are generally bulky, slow, not user friendly, and, most importantly, do not permit accessing all of the data. Non-profits that enter the data in state and city systems can download it to their network, and then upload it into their local systems for client outcomes reporting and performance improvement initiatives.

Thank you for allowing feedback on the contracts process and I look forward to answering your questions.

FEDERATION OF PROTESTANT WELFARE AGENCIES

TESTIMONY

Presented to

New York City Council, Contracts Committee
Challenges Facing Nonprofits in City Contracting

Monday, April 4th 2015

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My name is Carlyn Cowen and I am a policy analyst at the Federation of Protestant Welfare Agencies (FPWA). Thank you to Council Member Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting, and for the opportunity to testify. We appreciate your leadership on issues affecting nonprofits and human service organizations at such a critical time.

FPWA is an anti-poverty, policy and advocacy nonprofit with a membership network of nearly 200 human service and faith-based organizations. FPWA has been a prominent force in New York City's social services system for more than 92 years, advocating for fair public policies, collaborating with partner agencies, and growing its community-based membership network to meet the needs of New Yorkers. Each year, through its network of member agencies, FPWA reaches close to 1.5 million New Yorkers of all ages, ethnicities, and denominations. FPWA strives to build a city of equal opportunity that reduces poverty, promotes upward mobility, and creates shared prosperity for all New Yorkers.

In order to support our nearly 200 human service member agencies, as well as other nonprofit and human service organizations, to successfully provide the variety of critical services they deliver, FPWA urges the City Council to invest in strengthening then nonprofit and human service sector. This can be done through the following recommendations.

1) **Invest in Social Service Organizations**
    a. Working to implement the Federal OMB Indirect Guidance
    b. Working to support Small Community Based Organizations (CBOs) by improving the RFP process, streamlining the subcontracting process, increasing outreach, education and technical assistance and providing administrative support
    c. Strengthening HHS Accelerator
    d. Building financial stability

2) **Invest in the Social Services Workforce**
    a. Supporting the $15/hr minimum wage for nonprofit and human services workers, as well as funding
    b. Working to prevent wage compression for nonprofit and human service workers
    c. Fully implementing the Cost of Living Adjustment

OMB Indirect Guidance and the Real Cost of Human Service Contracts

Nonprofit human service organizations and contracts suffer greatly from underfunding, and reimbursement of indirect costs is one example of such underfunding. Indirect costs are defined as costs that cannot be identified with a single cost objective such as a program or facility (indirect costs often include personnel and administrative costs). In 2013, the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards issued by the federal Office of Management and Budget, known as the OMB Guidance, required state governments, local governments and other organizations that pass through federal funds to reimburse the reasonable indirect cost on nonprofits, either at a de minimus rate of 10% or at a federally negotiated rate. However, thus far, New York City and State have not yet implemented this guidance and their contracts are still plagued by low indirect payment rates. According to Nonprofit Finance Fund's State of the Nonprofit Sector 2015, over half of nonprofit respondents reported indirect cost rates of 9% or less on City contracts, and over half of nonprofits reported indirect costs rates of less than 10% on State contracts, although federal rates ranged from 17% to 23%.[1]

In most cases, government and private funders underwrite few of the necessary indirect costs of organizational operation, such as rent, facilities maintenance, equipment and furnishings, fundraising, risk assessment or accountability. There is a false, yet pervasive, notion that nonprofit human service organizations spend too much on indirect costs, or that philanthropy will cover these important investments.

The underwriting and underpayment of these costs means that organizations struggle to afford the most basic costs like rent or building repair, never mind more abstract costs like developing more efficient financial systems, or creating new monitoring and evaluation systems. Inadequate reimbursement of indirect costs means that organizations cannot successfully perform key functions, such as:

- Acquire, maintain, or modernize mission-critical facilities and equipment;
- Harness the power of technology to realize efficiencies;
- Provide training for staff to ensure high-quality service delivery;
- Pay living wages and provide career ladder opportunities to attract and retain qualified staff;
- Invest in strategic planning or innovation to ensure sustainability; or
- Expand services to meet growing need as inequality becomes amplified

Low indirect cost rates on human service contracts are especially difficult for nonprofit organizations because government funding often accounts for the majority of revenue, and private funders are unlikely to offer significant indirect funding, if at all. Nonprofit human service organizations facing low indirect rates often struggle to maintain infrastructure and keep up with rising costs. For example, nonprofits are still subject to rent increases, rising health insurance premiums, and other inflation-adjusted costs, but automatic contract renewals do not account for those increased expenses, making government contracts more unaffordable each year. When government contracts become so unaffordable that nonprofits try to surrender them, they are faced with the double bind of being forced to find another provider to assume the contract, as happened when Turning Point Brooklyn, a supportive housing provider, tried to surrender a contract to the Department of Health[2]

In order for nonprofit human service providers to deliver and maintain quality services, and continue providing critical services across the city and state, the City and State must reform the way they contract with nonprofits, including creating contracts that reflect the true cost of human services. The OMB Guidance should be seen as an attempt to "right-size" the funding of indirect costs.

FPWA urges the City to work to implement the OMB Guidance, and to use this avenue as an opportunity to take up the greater issue of funding the real cost of providing human services. In order to successfully implement the OMB Guidance, the City should work closely with the nonprofit human services sector to determine the true cost of running a successful program that achieves meaningful results, to define program costs, overhead costs, administrative costs and indirect costs, and adopt a more accurate and just way of determining reasonable and realistic indirect cost rates for programs.

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1 State of the Nonprofit Sector 2015, Nonprofit Finance Fund (NFF), 2015

2 City Won't Let Homeless Group with Poor Record Out of Contract, James Fanelli, DNAinfo, November 24th, 2015

Support for Small Community Based Organizations

New York City and New York State contract over $4 billion per year to nonprofit organizations to deliver vital social services. Large and mid-size nonprofit organizations are the vast majority of contracted social services providers. While there are challenges faced by all nonprofit organizations in doing business with the government, there are unique challenges faced by small organizations, or those that have budgets of $1.5 million or less.

FPWA has been collaborating closely with the Mayor's Office of Contract Services on this issue, and we are grateful for their concern and attention to issues that face small Community Based Organizations (CBO's). Based on these conversations, we have developed a series of recommendations that the city can implement to support small CBOs

Reform the Request for Proposal (RFP) Process

Revise the Request for Proposal (RFP) process to promote opportunities for organizations that are small and that serve communities of color and immigrant communities. Because of procurement policies, the RFP is the most important mechanism in determining what services will be provided, which communities will be targeted, and which organizations will receive contracts. Current RFP formulation practices result in favoring large organizations and overlooking emerging neighborhood and community needs.

Ensure the Program Design section of RFPs allows for innovative service delivery, reduces citywide or borough-wide providers, and identifies priority populations and neighborhoods. RFPs have become prescriptive and inflexible. Instead of mandating the specific type of staffing and funding to deliver services, the Program Design can better appreciate how *different services can achieve intended outcomes*. The City should reduce the number of RFPs seeking citywide or borough-wide providers and instead should explicitly identify populations and neighborhoods to be served. Because many populations are not concentrated in one area to qualify for geographic-based contracts, the City should also look for services targeted at "*communities of shared interest*" with similar cultural, linguistic, and/or socioeconomic characteristics. RFPs should also not assume that the *cost per person* is the same for all populations and should rely on *Census tract data* as opposed to zip code data, which often obfuscate needs due to gentrification.

Ensure City agencies have culturally competent and linguistically appropriate staff to develop RFPs and evaluate grant applications. Equal access depends on the City not only conducting outreach to diverse organizations and communities but also having staff qualified to work with diverse communities. City agencies should be intentional in engaging *multicultural, multilingual staff* to write the concept papers and RFPs as well as forming diverse panels to review grant applications. Increasing the number of small organizations responding to RFPs is only effective if the City agency staff evaluating these responses understand the cultural and linguistic contexts in program design.

Conduct outreach to community based organizations and throughout each borough when concept papers and RFPs are released. Small organizations can respond to RFPs only if they know when funding opportunities become available. The City should improve its outreach to ensure as many qualified organizations as possible are aware of RFPs. This can be done by issuing concept papers for each RFP, holding (multilingual) information sessions to increase clarity and access to information on RFPs and by publicizing in hard copy so that organizations without internet access can still be aware of funding opportunities.

Facilitating Subcontracting Between Larger and Smaller Organizations

Facilitate subcontracting between larger contracted organizations and smaller organizations with the capacity to work with targeted communities. Larger organizations receive points on proposals when subcontracting with a small organization to work on a specific focus in a targeted community which the larger organization is not able to reach. These partnerships are formed because many smaller organizations do not have the same business infrastructure to compete with larger organizations and to manage government contracts. Unfortunately, there are few contract protections for the smaller organizations. To ensure successful subcontracting, the City should first actively *educate larger organizations* on the benefits of subcontracting with smaller organizations. Second, the City should create *guidelines* on how to best structure these subcontract relationships. For example, these guidelines should address:

- Incentives for larger organizations to subcontract (e.g., a reasonable administrative fee),
- Protections for subcontracted organizations (e.g., reimbursement at levels equal or close to rates for directly contracted organizations, periodic increases, shared budget decreases, etc.),
- Standard Memorandum of Understanding (MOU) for prime and subcontracted organizations,
- Guidelines to handle disputes, and
- The role of the administering City agency to monitor these relationships.

Targeted Outreach and Education

Provide outreach and education at every step of the city contracting process. MOCS should provide targeted, culturally competent outreach and education aimed to help small CBO's better access the city contracting process. Topics include the RFP process, the subcontracting process, use of HHS Accelerator, the auditing process, administration and other areas of contracting. The outreach should be multilingual, culturally competent and targeting at neighborhoods and areas where small CBO's work to target underserved communities.

Leverage micropurchasing to contract with small organizations to provide social services. MOCS should conduct *education and outreach efforts* to inform all City agencies that they are permitted to utilize micropurchases up to $20,000 for discrete services from contracted organizations, which do not need to go through the RFP process. Micropurchases provide the City with a useful mechanism to contract with small organizations to both serve emerging neighborhood needs and build capacity to compete for future RFPs. To maximize opportunities for small organizations, City agencies should *designate a portion of each funding solicitation* for micropurchases targeting small organizations. The City should have a *prequalification process* so that small organizations receive micropurchases based on expertise, not relationships.

Providing Technical Assistance

Contract with federations and coalitions to provide training, technical assistance, and capacity building grants to nonprofit organizations. Individualized assistance and increased funding are necessary for small organizations to build their capacity, effectiveness, and sustainability. The City should replicate the U.S. Department of Health and Human Services' Compassion Capital Fund (2002-2008) and contract with qualified federations and coalitions to provide training, technical assistance and capacity building grants to small organizations. *Federations and coalitions would be contracted to improve the leadership, organizational,* *program, and financial capacity of small organizations.* In-depth training and technical assistance can be provided on financial management, contracting, grant writing, reporting, and other crucial operational issues. This support could be delivered through group workshops, onsite individualized support, and mentoring relationships with experienced contracted organizations. In addition to training and technical assistance, contracted organizations need increased financial resources to address their own capacity building needs. Federations and coalitions would also allocate capacity building grants to small organizations, which can use this funding for staff, consultants, workshops, and equipment. Additionally, the Capacity Building Unit of the Mayor's Office of Contract Services (MOCS) should be a key partner in this effort, and MOCS should work with each City agency to *develop capacity building units and to track the number of contracts for small organizations.*

Provide Administrative Support

Provide back office support to nonprofit organizations receiving first government contract. Because many small organizations do not have finance, development, or operations departments, MOCS should provide back office support for contracted organizations. This support would be provided by either *City agency staff or outsourced experts* for the first three years of an organization's first City contract. To avoid any conflicts of interest, nonprofit organizations would have the *authority and oversight* of the back office support.

Strengthen HHS Accelerator

Enact a customer relationship model (CRM) between the City and nonprofit organizations by strengthening and expanding HHS Accelerator. Like the State's Charities Bureau, HHS Accelerator could be the *City's centralized office for all nonprofit matters.* While HHS Accelerator provides information for nonprofit organizations on funding opportunities, it could be more proactive and comprehensive in responding to the needs of nonprofit organizations. The City should consistently conduct *outreach* to register small and new organizations with HHS Accelerator. Organizations put information into HHS Accelerator but often do not get information out of HHS Accelerator. The City could develop a *help desk* to provide individualized guidance on how to utilize HHS Accelerator, submit information to the document vault, and update organizational profiles and services. Because of the time lapse between contract execution and organizational documentation, including but not limited to general liability insurance and Form 990, HHS Accelerator should be more timely and proactive in providing *updates* to organizations on their documentation, Vendex scores, prequalification steps, Charities Bureau filings, etc.

Reform the Payment System to Deliver Funding Efficiently

Reform the City's payment system to ensure contracted organizations receive funding within 60 days. Organizations of all sizes struggle because of the City's prolonged contracting and payment process, but small organizations face additional barriers because they may not have endowments, private funding, reserves, or other means to float City contracts while delivering the services. The City should ensure the financial stability of its contracted organizations by streamlining its own processes and leveraging its relationships with the State and banks.

- Replicate the U.S. Department of Health and Human Services' Payment Management System which allows for *online financial reporting and payment* through direct deposit throughout the contract period.
- Replicate the State's practice of providing *advanced payments* up to 25% of the contracted amount at the start of the contract period.

- Review the payment procedures of the Administration for Children's Services and the Human Resources Administration's HIV/AIDS Services Administration (HASA), which have been rather efficient once contracts are executed.
- NYC Economic Development Corporation should provide bridge loans for contracted organizations, going beyond the one-month *bridge loan* provided by the Fund for the City of New York.
- Work with *banks to provide no interest loans and lines of credit* for contracted organizations.

Living Wage, Salary Parity and Cost of Living Adjustment

The City annually contracts out $5 billion in social services to nonprofits. These nonprofit employees provide a range of vital services from early childhood education, foster care, senior care and case management, to after school programming, care for homeless families, and supportive housing for vulnerable populations. Since they provide important City services, this nonprofit workforce is effectively the City's indirect workforce.

Living Wage

FPWA applauds the Mayor for last year's inclusion of a first-ever $11.50 per hour wage floor for the City's contracted social service workforce, and for this years commitment to a phased in $15 wage floor by 2018, and thanks the Council for its support. We look forward to working with the administration to support the implementation of this important wage floor.

In addition, FPWA applauds New York State's announcement in the FY17 budget that it is committed to a path towards a $15 minimum wage. FPWA, HSC and FPI have been working closely with the administration and the legislature to ensure that this minimum wage increase is fully funded in government contracts and Medicaid reimbursements. A fully funded minimum wage increase will not only improve the lives of nonprofit and human service workers, but it will ensure that critical services are successfully delivered.

Wage Compression

As the minimum wage floor is implemented, another important issue is wage compression. First, without additional funding to increase the salaries of workers who are already making the $15/hr wage floor, those workers will suddenly become minimum wage workers, effectively downsizing their salary rate. Secondly, as wages become compressed, without increasing the salaries of those in the ranges just above the minimum wage, workers with different qualifications, skill sets and responsibilities will receive similar wages, impacting employee morale, and the ability of organizations to retain quality staff through an attractive career ladder. **Therefore, FPWA encourages the City to recalibrate wages across the sector to prevent wage compression**

Salary Parity

While FPWA applauds the Mayor's efforts to establish a UPK program that attracts high quality teachers with a competitive salary, the lack of salary parity between DOE UPK teachers and teachers in nonprofit and Community Based Organization UPK programs makes it difficult for the latter programs to attract and retain quality teachers, directors and staff. Similarly, DFTA suffers from a 50% turnover rate every two years because of the lack of salary parity between their caseworkers and those in other social service agencies that do similar case management work.

The human services sector as a whole suffers from high attrition rates and inadequately paid workers leave for better paying jobs, and salary parity between similar programs only exacerbates this issue. **FPWA encourages the city to establish salary parity for human service workers.**

Cost of Living Adjustment

FPWA applauds the Mayor for his FY 2106 cost-of-living adjustment (COLA) for contracted human service and nonprofit workers in the city, many of whom previously had not received a pay increase for five consecutive years. However, the 2.5% COLA is only a first step towards recalibrating the entire human service and nonprofit wage scale to bring it in line with inflation and increased cost of living. Furthermore, implementation has been slow and for many providers has not yet taken effect. FPWA looks forward to working closely with the City **to systematize and streamline the process for implementation of last year's COLA, and urges the City to continue to utilize COLAs as a tool in the process of "right-sizing" human service wages.**

Conclusion

We thank the City Council for the opportunity to testify. We hope that you will consider our priorities and recommendations, and look forward to continue working closely with you to ensure that nonprofits and human service organizations receive sufficient support to help them achieve meaningful results throughout our City.

The New York Women's Chamber of Commerce respectfully submits the following testimony:

Introduction

Established in 2002, NYWCC is a 501 (c)(3), non-partisan organization with headquarters in the West Harlem area. The organization assists more than 3,000 clients per year and has 5 fulltime employees. NYWCC is dedicated to assisting women and other disadvantaged minorities achieve success and economic independence through small business, micro-enterprise ownership and self-employment.

On behalf of the NYWCC, I appreciate the opportunity to discuss New York City's efforts to discuss the challenges facing Nonprofits in City Contracting. The nonprofit sector provides critical services to New Yorkers from any and all backgrounds, as well as providing substantial employment opportunities. From providing services centered on providing economic opportunities to small business owners, beautifying outdoors spaces and providing direct services to some of the city's most vulnerable, residents of New York are able to benefit from nonprofit organizations, both directly and indirectly.

The Nonprofit sector is continually growing and thriving in New York City, with over 35,000 nonprofits, employing over 600,000 workers and spending $33.6 billion in payroll, it accounts for 18% of the city's total private workforce[1]. One would be remiss to deny the social and economic impact of our sector. Although we know the vital role the nonprofits within New York face, there seems to be little to no discussion regarding the many challenges that we as a sector come against on a micro and macro level. There has been a concerted effort from the city to deal with issues centered on capacity building, talent retention, and capital improvements. However, it is equally important to have a platform for us to discuss the complexities as it pertains to government processes, particularly city contracting compliancy, auditing and reporting. For the nonprofits that are smaller in scale, these complexities can be especially difficult to navigate. The small nonprofit sector, like the small business sector, faces many challenges for growth, among them- limited funding, lack of access to capital (banks refuse to lend to small nonprofits even when they have a contract with the city, citing lack of cash flow), limited employees, and excessive compliance when it comes to city contracting. The amount of time it takes to get the award letter to registering, executing the contract and getting pay is extremely long, meanwhile services continue to be provided by nonprofits that have limited funds to begin with.

City Contract-Related Inefficiencies

As a respected partner of the city, we acknowledge and honor our affiliation. We work tirelessly to provide the services to our members, and are able to do so through our respective partnerships. One of the challenges facing us, as an organization, can be categorized as contract-related inefficiencies. Particularly, we have experienced a growing frustration in the auditing process and reporting protocols for City procedures. These include:

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[1]http://www.nycedc.com/system/files/files/industry/NonprofitRoundtableReport_June2015.pdf

- Contract Registration and Payment:
  - The process is very long, repetitive, and causes delays in payments. Nonprofits are required to submit paperwork at the beginning of the fiscal year, by midyear you are informed that some of the documents submitted, such as your insurance policy, are about close to expiration and your contract cannot be registered. Another issue includes the city citing that they have not received a required form, although it has been submitted or being told mid-contract that an additional form has been added and needs to be completed in order to be in compliance. These types of issues cause delays with the registration of the contract and payment to the organization.
  - When you have multiple contracts with the same agency, you are asked to submit the same documentation for each contract, and multiple copies of each document. The documents for each contract are the same, except for the scope of services and the budget. We end up making multiple copies of the same document(s) and submitting them to the same agency for each contract.

Recommendations

We respectfully recommend a vault be created in which nonprofits can upload all required documents on the accelerator portal, and that city agencies retrieve them as needed. The only documents the agencies should require directly from the nonprofit are the scope of services and the budget for each contract. The rest of documents can be retrieved from the accelerator. This will streamline the process and limit the excessive use of multiple copies.

- **Solution(s) for Reporting Protocols:**
  - Since the certified reports are notarized and are being submitted with all the backup documentation, the signature of the ED should be sufficient. There is a Federal Reduction act to protect the environment, yet we do not follow it, the amount of hard copy documents we have to submit for reporting as well as for getting the contracts registered can be quite extensive. In the interest of time and to reduce the amount of paper use in both reporting and in the contract registration process, **all reports and contract registration documents should be submitted electronically.**

- **Auditing Process**
  - Audits are time consuming and disruptive to small nonprofits with limited staff. The nonprofit must allocate staff time for the audit; however the contracts do not pay for this time. Most of the time audits are not conducted in a timely manner and sometimes takes the agency two years or more to conduct and finalize an audit. Nonprofits are required to submit the same documentation that was previously submitted to the agency for the monthly financial reports, again duplicating documentation and utilizing staff time that can be used toward

delivering services. After audits are conducted, a year or two later, often you will get a report from the agency disallowing monies you have already spent on the program based on a technically. Disallowments can range from just a couple of dollars to thousands. There is no margin of error. If the agency disallows $5.00, you have to give back. You have to argue your case, which requires you to go back in time, reviewing old financial and employee records to address the issues raised by the agency, which is time consuming.

- **Solution for Auditing Process:**
  - We suggest extending the desk audit for contracts that are $100K or less or to use the monthly reports to streamline the auditing process since all the backup documentation is already submitted and there is only a final interview after the contract ends. We also recommend that a progress review meeting be done with the organization within the first six months, to address any program or financial reports issues. This progress review meeting would including conducting a thorough review of the monthly financial reports and all the supporting documentation in order to inform the nonprofit of any deficiencies before disbursing payment. This will give the nonprofit an opportunity to address the issues and make the necessary corrections in real time, avoiding possible penalties when the audit is conducted.

Our final recommendation is for the city to create a government agency, a department of small nonprofit services, solely dedicated to assisting nonprofits around issues including, but not limited to strategic planning, board governance and recruitment, contracting, accounting and compliance, capacity building, personnel, fundraising and access to capital.

Thank you for taking the time to review our testimony.

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eliminating racism
empowering women
ywca
New York City

April 4, 2016

My name is Gail Cruse I am the Chief Financial Officer of the YWCA of the City of New York. First let me thank Council Member Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting. This issue is of great importance to the nonprofit sector and particularly timely given the release of the Human Services Council's report *New York Nonprofits in the Aftermath of FEGS: A Call to Action*, and I appreciate the opportunity to offer testimony on the contracting issues impacting human services providers.

Established in 1858, the YWCA of the City of New York (YW) is one of the nation's oldest non-profit organizations committed to the personal, physical and social development of women, their families and communities—the YW has been on the frontlines of eliminating racism and empowering women in New York City for more than 150 years.

With its historic mission to improve the welfare of girls and women who needed assistance with housing, job training, sex education classes, access to books, physical fitness, and friendship, and as a pioneer in race relations, labor union representation, and women's health initiatives, the YW soared to the forefront of most major movements.

Today's YW is one of the oldest and largest membership organizations in the world. It is independently owned and operated, but connected to a worldwide network of sister YWCAs that serve 25 million people, in more than 100 countries. The YW stands for the elimination of racism and the empowerment of women

The YW focuses our resources on helping communities' in-need. Through our Early Lean Centers we provide affordable high-quality childcare services with centers located in Lower Manhattan, Coney Island and Brownsville Brooklyn. We serve a total of 145 children providing an educational jumpstart by teaching them basic skills, early science education, literacy and nutrition.

The YW provide services for five Out of School Time Programs located in Brownsville Brooklyn and three sites in Coney Island, serving 620 students. We offer homework assistance, hands-on science, technology, engineering and math (stem) training; leadership development and recreational time. Moreover our Comprehensive Adolescent Pregnancy Prevention program also known as (CAPP) serves 150 students.

Our Middle School programs located in Coney Island and Hell's Kitchen in Manhattan provide students with the ability learn new skills and engage in STEM training. These programs serve 180 students.

The YW has a total of eight (6) contracts and two (2) Discretionary awards with the City totaling $2.3 million dollars. These funds enable us to serve over 800 students however we face a number of challenges in providing these services.

Most of our contracts do not cover the full cost of the program, and definitely do not pay an adequate indirect rate to cover essential operating costs.

- Of the six city contracts our average indirect rate is 4%.
- Our federal grants which support our Early Learn Centers does not provide for indirect expense.

Funding for our elementary programs commenced in 2012 with single year Discretionary funds. In 2014 Middle school programs and in 2015 the elementary programs were funded through DYCD with multi-year grants. These multi- year contracts didn't include escalation clauses to account for increases in our direct or indirect programs expenses.

The rising cost of providing excellent programs has resulted in programmatic deficit. Not only has these deficits created financial ramifications but has also impacted the delivery of quality programing.

Many of our programs are located in hard to reach; high violence communities and we are not permitted to offer competitive rates that would attract quality employees.

- Usual rate for certified teachers/specialist: $42 our rate $36.50. Furthermore, our program runs for 15 hours per week yet we are only budgeted to pay instructors for 10 hours of weekly programming time. Group leaders and counselors make up the 5 hour difference.
- Usual rate for Group Leaders/Counselors: $15 our rate: $10 -$12. Due to our locations and non- competitive rates it's difficult to attract college students who would make the best candidates.

Consequently staff retention is difficult as employees often seek better employment situations.

In order to retain staff and become competitive we slightly increased the hourly rates offered for several positions. In doing so we remained within our budgeted confines, subsequently we were sited in our audit and required to reimburse the grant for the $1-$2/hr. salary increase.

Due to noncompetitive salaries and the increasing requirements put in place to ensure employees are safe to work with children, we're experiencing a slowdown in hiring. We've also noticed talented workers are often discouraged from applying or accepting open positions. Therefore Managing Directors have had to temporarily fill vacant Program Directors positions. The YW has been forced to incur the additional cost and or compromise quality programming.

This is having a trickledown effect on the organization. Noncompetitive salaries results in high staff turnover, which ultimately results in increased unemployment insurance, additional hiring cost and additional staff time to interview and onboard new employees.

Insufficient indirect rates have created a hardship on the organization. In order to offset the escalating cost we have deferred organizational wide salary increases, Increased fundraising efforts, drawn down on reserved funds, and compromised program delivery by cutting program supplies, consulting services and trips.

Our workforce was very grateful to the City Council and the Mayor for including a 2.5% COLA and $11.50 wage floor in last year's budget. After many years of stagnant wages, this was a very necessary increase for our workers, but we need more investment in our workforce, as well as a continuing model for wage adjustment. Additionally, the implementation of the COLA and wage floor has been very difficult for our finance department.

The process was very time consuming. The instructions did not address COLA calculations of staff that were hired and resigned within the same the fiscal year. The revised worksheet required a re-analysis of work previously submitted.

The nonprofit sector is committed to transparency and accurately reporting how we do business and operate programs. Regulation is a necessary part of our industry and relationship with government, but many of the mandates we comply with are duplicative and can be streamlined to better use scarce resources and still adequately capture important compliance information.

The YW undergoes 8 external audits per year. The finance staff spends 75-80% of our time in audit compliance and preparation. If there are any findings included on the audit we are required to attend an exit conference with DYCD to discuss the findings and the corrective action plan. Once again audit fees are not covered by most grants.

Contracts with government are essential to our organization and the programs we offer, and government relies on my organization to provide critical services in communities on their behalf. With stagnant dollars, match requirements, duplicative reporting, and requiring outcome measurement without investment in tracking or technology, the cost of taking on government contracts has become a risk to my organization's health.

Following are comments from two Managing Directors of the YWCA;

There is a complex failure of 3 agencies that should work together; DOE, DOH, DYCD, to help provide better programming.

- One agency often makes it impossible to meet the requirements of the other.
- DYCD doesn't provide enough money to meet the staffing requirements of the DOH.
- The DOE doesn't keep their buildings up to codes in accordance to DOH regulations, resulting in CBOs fines.
- The DOE closes school buildings during times DYCD requires Programming, CBOs are still responsible for these services or we lose money.
- DOE schools often fail to provide the building spaces they agreed to provide the CBOs, children are often held in a cafeteria or auditorium while teachers finish using classrooms for professional development or extended day.
- DOH does not follow up with licensing needs or with requests to increase capacity of programs Per DYCD instructions, CBOs are sited for having too many students by the DOH or Sited for not having enough students from DYCD.

- A new policy has emerged in which the office of school foods will only provide meals for the number of students on programs license, but the program may have more students as instructed by DYCD, CBO pays for supplemental snack.
- All of these agencies hold the CBO accountable for all of these factors that we do not control.

Second Managing Director

- DYCD deliverables for the SONYC grant includes a formula that limits the creativity and expertise of the partnering organization. In addition, it does not enable constituents to provide feedback on this formula and does not speak to their interests/needs.
- The average dollar amount spent on each student does not allow for high quality services. In order to implement programming, services and experiences that will impact lives, the average costs spent on each student must be higher.
- There is too much of a focus on enrollment numbers and not a focus on the quality of programming AND its impact on students.
- The current budget does not allow us to offer competitive salaries and hourly rates comparable to other positions in the nonprofit sector. This limits recruitment and retention.
- DYCD offers amazing training opportunities however it would be helpful for partnering organizations to receive the training calendar in the summer so that they can plan to attend them in a timely manner.
- DYCD Managers are overwhelmed and are not able to provide in depth technical assistance to support the programs.

Thank you again for providing me with this opportunity to testify, and for your continued partnership with our sector. Please contact me at 212 735-9816 if I can provide further information.

Gail Cruse

Gail Cruse
CFO of YWCA of the City of New York

GOOD SHEPHERD SERVICES

We see what can be.

Testimony of Dana Altneu, Senior Manager of Government Contracts
New York City Council Contracts Committee Hearing
April 4, 2016

Good afternoon. I am Dana Altneu, Senior Manager of Government Contracts at Good Shepherd Services. I want to thank Councilmember Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting. This issue is of great importance to the nonprofit sector and particularly timely given the release of the Human Services Council's report *New York Nonprofits in the Aftermath of FEGS: A Call to Action*. I appreciate the opportunity to offer testimony on the contracting issues impacting human services providers.

Good Shepherd Services goes where children, youth, and families face the greatest challenges and builds on their strengths to help them gain skills for success. We provide quality, effective services that deepen connections between family members, within schools, and among neighbors. To achieve our mission, we lead in the development of innovative youth development programs; provide quality, effective services that strengthen participants' connections with family, school and community; and advocate on their behalf for broader change. We operate over 80 programs, which help nearly 30,000 youth and family members in struggling neighborhoods throughout New York City.

I wish to give examples today of four key contracting challenges we face as an agency: (1) current funding is inadequate to cover basic programming and administrative costs; (2) contract delays cause significant cash flow problems; (3) audits and unfunded mandates put an additional burden on our agency; and (4) efficiencies meant to streamline the contract process are not being fully implemented.

Good Shepherd Services currently has over 80 contracts with NYC totaling over $63 million. These contracts comprise three-quarters of the agency's budget**. However, none provide sufficient funds to deliver the basic services expected by the funding agency, nor do they cover the necessary administrative supports.** We used to raise private dollars to provide programmatic enhancements. Now the vast majority of the $20 million the agency raises is needed just to cover the rising costs of health care as well as increases in salaries, insurance, rent, and more. All of our costs have gone up, however our city contracts have not included a yearly COLA for the current fiscal year and only on salaries, not on fringe benefits, nor the OTPS costs which are critically needed as the cost of doing business has increased dramatically over the past 10 years. Moreover, none of our contracts cover the agency's full indirect costs. **Our current federally approved indirect rate is 16.9%, but the rate we are paid on our NYC contracts only ranges from 0% to 10%.**

Because NYC contracts are inadequately funded, we struggle to pay competitive salaries compared to other industries. As a result, like many other non-profits, we have high rates of turnover. In our General Preventive Programs and Family Treatment/ Rehabilitation programs funded through the Administration for Children's Services (ACS), our turnover rate is 44%. While this is lower than our peers providing preventive services, it is more than double the New York City turnover rate of 16%[1]. Since we are unable to pay workers competitive salaries, staff leave for work in other better-paying fields. Once again, the ones who suffer the most are the vulnerable families we serve. They build a trusting relationship with their caseworker only to have to begin this all over again with a new person as staff leave for better opportunities. Additionally, the high turnover makes it very hard to meet our Performance-Based Funding mandates for this program, which are solely based on the number of cases opened in a calendar year – despite the fact that this has little to do with providing high quality services that prevent abuse or neglect. The high rates of turnover can have an adverse impact on how long families are served and, for some agencies, can become a cyclical process of loss of funds and increased staff turnover that have forced some small agencies to close their doors. In 2015, we fared better than nearly all of our colleagues and lost only $47,769 on our Performance Based Funding (only .5% of our contract; the total amount at-risk was nearly twenty times that amount). However, the contract was already not paying the basic costs of running the programs, so even this loss was problematic.

Delays in contract registration are also highly problematic and cause major cash flow issues as agencies are unable to bill for services we provide until contracts are registered – often many months after the contract begins. For example, **our current** Department of Education **(DOE) Learning to Work contract began on July 1, 2015, but was not registered until February 12, 2016. Despite not being reimbursed nearly $2 million dollars over six and a half months, we still had to pay frontline and administrative staff, order supplies, and pay for space.**

Duplicative audits also pose a challenge and drain scarce resource. The nonprofit sector is committed to transparency and accurately reporting how we do business and operate programs. Regulation is a necessary part of our industry and relationship with government, but many of the mandates we comply with are duplicative and can be streamlined to better use resources and still adequately capture important compliance information. We currently have two full-time staff members working on roughly 95 agency audits each year. These audits include, but are not limited to, our annual agency audit, the A-133 audit for our programs that have federal dollars attached, a DYCD audit for all DYCD funded programs, a DOE audit for all DOE funded programs, a Foster Care audit, a Workers Compensation audit, School Lunch audit, and many other program specific audits. In addition to the actual completion of the audits, we are always required to completed work plans of findings, regardless of how minor.

Additionally, unfunded mandates also drain our very sparse resources. For example, this past year the Department of Youth and Community Development (DYCD) required that contract agencies not only distribute voter registration materials, but also provide detailed reports. As an organization, we believe it is vitally important to empower participants to vote and have been helping participants with voter registration for years. However, DYCD now requires agencies to track and report on the number of people we offered voter registration forms to, the number of

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[1]SHRM Human Capital Benchmarking Database (2015)

applications distributed, the number collected and sent to Board of Elections, and the number of front line staff trained. This is incredibly burdensome. It will take us nearly 150 staff hours this year to collect and complete the required report, none of which are we being paid for.

When NYC introduced the HHS Accelerator system, we were thrilled, as we have spent years making multiple copies of dozens of procurement documents for each of our 85 NYC contracts every time they are renewed. **HHS Accelerator offers the promise of streamlining a very burdensome system, but only if it is used. Unfortunately, in the past five months, NYC agencies required paper submissions for 9 of our 11 city contracts going through the procurement process.** We had hoped that the increase in work resulting from our organizational growth would be offset but the efficiencies of HSS Accelerator. Since this has not turned out to be true, we had to hire an administrative assistant to process procurement documents at a cost of $45,000 (including salary and fringe). We urge all city government agencies to use HHS Accelerator for procurement documents for all city contracts, including discretionary contracts awarded through the City Council.

Contracts with government are essential to our organization and the programs we offer, and government relies on us to provide critical services in communities on their behalf. With stagnant dollars, contract delays, and duplicative reporting the cost of taking on government contracts has become a risk to our health.

Thank you again for providing me with this opportunity to testify, and for your continued partnership with our sector. I am happy to answer any questions.

Testimony by New York Legal Assistance Group (NYLAG)

before the NYC Council Committee on Contracts regarding:

Oversight – Challenges Facing Nonprofits in City Contracting

April 4, 2016

Chair Rosenthal, Council Members, and staff, good afternoon and thank you for the opportunity to speak to the Committee on Contracts regarding the challenges facing nonprofits in City contracting. My name is Beth Goldman, and I am the President & Attorney-in-Charge of the New York Legal Assistance Group (NYLAG). NYLAG is a nonprofit law office dedicated to providing free legal services in civil law matters to low-income New Yorkers. NYLAG serves immigrants, seniors, the homebound, families facing foreclosure, renters facing eviction, low-income consumers, those in need of government assistance, children in need of special education, domestic violence victims, persons with disabilities, patients with chronic illness or disease, low-wage workers, low-income members of the LGBTQ community, Holocaust survivors, veterans, and others in need of free legal services.

We want to thank the Committee for its swift response to the publication of the recent Human Services Council report[1] and hope that this hearing will lead to improvements in the contracting relationship between City government and nonprofit organizations. This City's commitment to providing services to assist low-income residents is extraordinary, and the Council and Administration have dedicated unprecedented funding for these essential services. Nonprofit human and legal service providers play a critical role in delivering these services. The City has essentially

[1] Human Services Council. "New York Nonprofits in the Aftermath of FEGS: A Call to Action." February 2016. http://www.humanservicescouncil.org/Commission/HSCCommissionReport.pdf

outsourced many of these social service functions to expert, community-based organizations who are uniquely qualified, indispensable partners in these endeavors. Legal services providers, community-based organizations, and other nonprofit entities bring unique perspectives and expertise to service delivery, gained from years of providing services to communities. This expertise yields efficiencies and cost-effective service delivery. Moreover, nonprofit agencies offer flexibility that large government bureaucracies rarely have, which allows organizations to pivot quickly to serve the needs we see in these communities, as NYLAG did when it established its Storm Response Unit and began providing services within 48 hours of Superstorm Sandy.

Thus is it crucial that the relationship between the City and nonprofits be mutually beneficial. The City needs to recognize the benefits of fostering robust, well-run, and strong nonprofits and acknowledge the role that the current contracting process can have in undermining that goal. For example, by delaying registration of and payments on contracts for months after performance starts on contracts, the City forces nonprofit organizations to front the cash to carry out government programs and creates cash flow crunches that often lead nonprofits to borrow money to pay their bills. Similarly, by not covering the full direct or overhead costs for the programs, City contracts often cause nonprofits to lose money on the contracts and, importantly, weaken the nonprofits' ability to upkeep or improve their infrastructure. I hope the City will work with nonprofit organizations to establish a contracting system that helps organizations build the infrastructure they need to run efficient organizations that truly serve the needs of low-income New Yorkers.

Late Registration

NYLAG has nearly 20 separate contracts with New York City in each fiscal year, which together comprise approximately $4.5 million in annual funding, a significant portion of our budget. While most of these contracts begin on July 1st of the year, we generally do not even receive contract documents from funding agencies until October. Most contracts are not fully registered until the spring, often more than three-quarters of the way through the contract. In fact, as of today, NYLAG is still awaiting final registration on nearly half its City contracts for FY16, despite fully staffing each one from day one. Because we cannot invoice on contracts until they are executed, we are often forced to incur hundreds of thousands of dollars in costs while we wait for completion of the contract process. When there is a setback in the contracting process, such as a new requirement or system through which a contract must flow, or a small error in a submitted budget, registrations can be even more delayed. In fact, on more than one occasion, we have had contracts that are registered after the end date of the contract. Further, the process is so opaque that we cannot determine the status of any particular contract we are waiting for and how soon we can expect registration. This uncertainty leads to enormous budgetary uncertainties and cash flow issues for nonprofits. A more transparent and streamlined contracting process that would allow nonprofits to invoice on costs more quickly each year is vital to keeping organizations healthy and functional. Even better would be a system that allowed at least partial payment at the start of the contract so that the nonprofit is not completely out of pocket for the costs of performing the contact.

Overhead and Indirect Costs

We recognize that the priority for City agencies and the City Council is payment for direct services; it is important for the City to see the return on investment of the funding it is giving to legal and social services providers in the form of direct program outcomes. Our priority is precisely the same – spend as much as possible on providing direct legal services to our clients in need. But an organization needs space, computers, telephones, financial and grants management staff, and case management systems, technology upgrades, human resources and compliance staff etc. in order to properly meet its contract obligations. None of our City contracts pays more than 8.5% indirect costs, and some pay less than that. Indirect and overhead costs, such as administrative, fundraising, fiscal, and human resources staff, are critical to keeping a nonprofit organization running, and direct services would not be possible without the people staffing these positions. Unfortunately, the move toward funding only direct services has left nonprofits struggling to find funding for these key positions and infrastructure needs. These issues are only compounded by multi-year contracts that do not allow for annual increases for natural increases in salaries, rent, and other costs. By loosening restrictions and allowing funding to cover more indirect and overhead costs, the City will ensure that nonprofits are able to run effectively and efficiently.

Contract Audits

Despite the lack of funding for indirect costs, City contracts come with a considerable number of audits, both program and fiscal. We understand and fully support the City's right to have oversight over the nonprofits it is funding to ensure that agencies are doing what they say they are doing, and to confirm that they have appropriate systems for performing and tracking services. Nonprofits with a significant number of City contracts like NYLAG must dedicate sizable financial and administrative staff resources to coordinate and compile information for these audits, as they can happen at any time and often require full-time management for days or weeks at a time. For example, we are currently preparing for an audit from a City agency on five FY15 contracts. The organization conducting the audit has requested 43 separate documents, charts, and questionnaires, many of which require separate documents for each of the contracts. Unfortunately, the City does not provide funding for these services, despite requiring them as a condition of taking funding for direct services. In the absence of funding for the indirect costs associated with contract audits, I hope the City will consider a more predictable and coordinated process across agencies.

Program Design

The funding that nonprofits receive from the City is absolutely critical to provision of services, but government entities and nonprofit agencies can improve the way they work together to maximize the efficacy of programs. Of late, Requests for Proposal from the City have gotten more complex, requiring organizations to form partnerships to provide wraparound services to low-income New Yorkers. While these new programs contain innovative ideas for service delivery, legal services providers, community-based organizations, and other nonprofits would appreciate the opportunity to work with the Administration and the Council to discuss the issues that we are seeing on the ground as the direct service providers, and how we think programs can best be designed and implemented to ensure positive results. Through the current system, nonprofits are often forced to make changes to successful programs to ensure that they will be eligible to receive funding from the City. Further, the RFP process has become almost a “race to the bottom,” forcing nonprofits to compete with one another for the lowest cost per case rate. Very low cost per case rates often force organizations to take on more “straightforward” cases and bypass those complex cases that will require more in-kind contributions from an organization. By allowing nonprofits a seat at the table, the City will be able to design even more effective programs that measure the real accomplishments nonprofits are achieving for low-income New Yorkers.

I want to once again take the opportunity to thank Chair Rosenthal and the members of the Committee for their exceptional leadership and commitment to overseeing the contracting process in New York City, and for taking the time to listen to providers. City contracts are integral to nonprofits serving low-income New Yorkers, and I welcome the opportunity to further discuss my suggested improvements to the contracting process with the Committee.

Respectfully submitted,

New York Legal Assistance Group

SHELTERING ARMS
18 31
Children and Family Services

Testimony prepared for the New York City Council Committee on Contract
Public Hearing on Challenges Facing Nonprofits in City Contracting
April 4, 2016

Good afternoon. My name is Elizabeth McCarthy, and I am the Chief Executive Office of Sheltering Arms Children and Family Services and Safe Space. I would like to thank Councilwoman Rosenthal and the Committee on Contracts for holding this hearing on Challenges Facing Nonprofits in City Contracting.

Sheltering Arms is one of the City's largest providers of education, youth development, and community and family wellbeing programs. Every year, we help over 22,000 low-income children and families through our work in the Bronx, Manhattan, Brooklyn, and Queens. We currently operate a number of Early Childhood Education (ECE) Centers, afterschool programs, juvenile justice homes, foster care, group homes, family preservation programs, and services for developmentally disabled adults. In addition, we operate three hub locations in Queens with co-located Article 31 licensed mental health services, as well as family preservation programs and community youth centers.

In Fiscal Year 2016, our total combined operating budget for Sheltering Arms and Safe Space is approximately $84 million. About 71% of the revenue comes from government contracts (68% city + 3% state), 25% comes from Medicaid, and 4% from private fundraising.

We work with several agencies to ensure high quality services for the low-income children and families we serve. Sheltering Arms and Safe Space closely partner with the NYC Administration for Children's Services (ACS), NYC Department of Youth and Community Development (DYCD), NYC Department of Education (DOE), NYC Department of Health and Mental Health (DOHHM), NYS Office of Children and Family Services (OCFS), NYS Office for People with Developmental Disabilities (OPWDD), NYS Office of Mental Health (OMH) and the U.S. Department of Housing and Urban Development (HUD), plus several additional agencies.

COLA and Wage

Our workforce is very grateful to the City Council and the Mayor for including a 2.5% COLA and $11.50 wage floor in last year's budget. While this is a very necessary increase for our workers, we need more investment in our workforce, as well as a continuing model for wage adjustment. We support raising the minimum wage to $15 per hour for all workers in New York, including human services workers, and we strongly believe that this needs to be fully funded in <u>all</u> government contracts. When some city contracts provide COLAs and some do not, we have to self-fund salary increases for the remaining staff in order to be fair to our workforce. This year, this will cost us about $182,000 (not including fringe benefits). As inflation has constantly reduced the value of wage, we recommend that COLA and minimum wage for all workers be indexed.

These are necessary steps to ensure equity across the city and to promote the highest quality programs. For example, in our early childhood education programs, which receive widespread recognition for positive results, we have Family Service Workers suffering from the same economic strains as the families they are serving, often finding it impossible to make ends meet. It is important that our sector is valued for the difference they make across the city, and COLAs and wage increase are an important step toward that purpose.

Cost escalation

Because the majority of our city government contracts are reimbursement-based, we are forced to borrow from a line of credit to ensure sufficient funds are available for payroll and program expenses. This loan has been up to $3 million dollar in our agency. The interest, which was $211,234, last year, is an expense that is not reimbursable to government contracts, and money that should be reinvested into our families. In addition, other essential expenses such as property costs, insurance, which has gone up approximately $120,000 this year, have not had corresponding increases in funding from the City or the State.

Managing Agency Infrastructure

Providing quality services to the City's children and families requires high caliber management, responsive human resource policies, sound financial management, quality control, and research and innovation, all areas that have required significant investment to maintain a quality organization. On top of this, we are saddled with an overwhelming array of contractual and audit requirements between City, State, and Federal agencies.

We applaud the Human Services Council for focusing on this issue in its recent report. An example of mismatched priorities in the contracting process is the treatment of "overhead," which includes the vital support functions and resources that fuel a high performing organization. Some contracts don't provide any overhead to be charged, some 5 percent, some a bit higher, yet all require fiscal and program reporting, and of course an infrastructure to support the very existence of the programs. Our average reimbursement rate for management and general operation in fiscal year 2015 was 8 percent, which is simply not even close to enough to responsibly operate.

When overhead expenses aren't sufficiently funded, we can't meet the demands of the children and families we serve. They deserve the highest quality staff and rapid innovation in response to their needs. Unfortunately, organizations like ours are placed in an unfair and unsustainable position when we have to utilize our own private funding to cover deficits and necessary investments. It results in a constant cycle of playing catch up, as opposed to scaling new and exciting programs that move the needle in NYC communities.

SHELTERING ARMS 18 31

Children and Family Services

Program Design

We can't over-emphasize the important of partnership in developing new programs and revising existing approaches. Sadly, the sector has frequently found itself reacting to policies and contracts with gaping opportunities. For example, the City's Human Resources Administration recently released an RFP called "Youth Pathways," which was intended to help vulnerable youth to develop the skills and pipelines they need to succeed in jobs. However, the initial concept was underfunded at $611 per participant, versus comparable programs that are funded at over $3,500 per participant. Our sector loudly voiced the need for sustainable funding for this program. In response, the final RFP allowed for $852 per participant. This situation is one of many examples where a government agency didn't account for the expertise or feedback from organizations in the sector, both during the initial program concept and the ultimate RFP.

Streamlining Mandates

We are burdened by double, and often conflicting oversight in many of our programs. One example is the oversight of both ACS and OCFS in our Close To Home program. A seemingly minor example, that actually becomes major, is that one of these agencies remarked that the notes in our log books were too short, while the other told our staff that they thought they were too long. In our Non-Secure Placement Program, the state contract manager and the state ombudsman each conducts visit once a month, while the city contract manager conducts a weekly check in. In our group home program, both city and state agencies visit the group homes frequently, but the two agencies often have conflicting suggestions. It would make the most sense if these visits were combined at one time, or at least had clearly defined areas of oversight.

There are also unreasonable expectations on contractors to address facilities issues over which we have no control. In the After School program, the audits of DYCD sometimes cite the agency for deficiencies in the school building – the lack of covers for radiators, and peeling paint. Even if private agencies wanted to, and had the funds available, we are not allowed to make repairs in the properties of the DOE, so citing this as our deficiency is unfair and unproductive. Similarly, in the Early Learn program, ACS and DOHMH visit our program sites in facilities of New York City Housing Authority and cite us for problems such as control of room temperature, despite the limitation we have to make any repairs at NYCHA facilities.

In conclusion, we appreciate the opportunity to testify. Please feel free to reach out to Sheltering Arms for any additional information about our work.

New York City Council
Committee on Contracts
Challenges Facing Nonprofits in City Contracting
April 4, 2016

TESTIMONY

My name is Garraud Etienne, COO of Turning Point Brooklyn. Thank you to Council Member Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting. I appreciate the opportunity to offer testimony on the contracting issues impacting human services providers.

Turning Point is a multi-service non-profit organization founded in 1975. Every year we proudly serve thousands of disadvantaged New Yorkers in Sunset Park, Red Hook and other Brooklyn Communities. Please let me highlight of some of our services

- 10,000 outpatient visits every year for primary care, mental health care and alcohol and substance abuse treatment
- Our NYC DYCD supported Education Center currently has 500 students enrolled in HSE training and college and career preparation
- We provide Supportive Housing for hundreds of NYC's most vulnerable residents: NYer's living with HIV, mental health issues and / or overcoming substance abuse problems
- We provide many other services include Mobile Outreach and HIV Testing Services and safe, clean housing for homeless young women

We currently have 13 contracts worth $6.7MM with the City of NY. City contracts are approximately 60% of our annual budget.

Over the past decade, our organization has faced numerous challenges. A few years ago a new management team was installed at TP and numerous funders such as NYC Department of

Homeless Services and several prominent foundations have responded to our new management by increasing their financial support to TP.

Our management strategy has included a systematic review of the fiscal viability of every program we offer. What I would specifically like to talk to the Council today about is the viability of City contracting for supportive housing programs.

I am sure the Council is familiar with supportive housing but in essence SH helps stabilize vulnerable homeless populations; this population includes mothers with children fleeing domestic violence situations, youth aging out of the foster care system and those suffering from a combination mental illness, substance abuse and physical disabilities. Our responsibility is to stabilize these homeless populations and help steer them towards self sufficiency. We the taxpayers win by keeping these vulnerable populations out of the much more expensive homeless shelter system, out of hospital emergency rooms, in-patient psychiatric facilities and in some cases the criminal justice system. Numerous studies have proven that SH works and we note that NY State has pledged to increase SH units by 20K. By all accounts SH is a worthy use of taxpayer money.

The essential challenge we are facing and the issue we believe the City Council should review is the City's funding of supportive housing contracts. NYC's contracts are typically multi-year but there is no mechanism to adjust contract funding to reflect the reality of housing cost in NYC. Supportive housing contracts have primarily two costs; social worker salaries and apartment rental expense. We currently rent approximately 200 apartments in Brooklyn for our supportive housing programs. Our landlords request rent escalations every two years but the City agencies we contract with, NYC HRA and NYC DOHMH, have no mechanism to adjust contract funding. We spend nearly $3.5MM every year to lease apartments and to provide stable housing for our SH clients. Even a very modest 1% annual rent escalation translates to $105K additional expense for us over the typical 3 year City contract term. How does this extra costs get paid? Not through fundraising – government contracts should be funded adequately to pay for contract mandated services. Fundraising should be used to provide enhanced, non mandated services. Most City contracts have no mechanism to adjust funding levels to the reality of the NYC housing market.

Our open question to our funders has been what is the City's expectation regarding managing these programs? As I stated there are two major costs involved with running these programs; social worker salaries and apartment rents. Why does the City have a mechanism to adjust salaries (through periodic COLAs) but no mechanism to adjust the other expense, rent? Also why does the City contracting process have two approaches to managing rent expense in City contracts? A few years ago The NYC Department of Homeless Services, recognizing the escalating apartment rental market in NYC, began adjusting annual funding for its apartment based cluster model housing contracts. DHS would annually adjust contract funding, within certain guidelines, based upon the non profits actual apartment rental costs. We have struggled to understand why the City use this reality based contracting approach on some contracts and a static, clearly unsustainable approach on other housing contracts?

We have been forced to make difficult but necessary decisions to preserve the fiscal viability of our organization. We recently agreed to discontinue operating two NYC funded SH programs. We approached the funding agency for additional funds but were told that there was no mechanism to increase contractual funding. We are in discussions with NYC HRA regarding increases to our other SH contracts. Our information is that HRA has not provided a rent related increase to its contracts since 2006!

We are grateful for our long standing relationship with our NYC government partners. We provide critical services to the community but we cannot continue to do so under the current static funding mechanism.

Thank you again for providing me with this opportunity to testify, and for your continued partnership with our sector. Please contact me at Turning Point if I can provide further information.

OLIVER WYMAN | SeaChange CAPITAL PARTNERS

POINT OF VIEW

MARCH 2016

RISK MANAGEMENT FOR NONPROFITS

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MARSH & McLENNAN COMPANIES

The 2015 bankruptcy of FEGS, the largest social service nonprofit in New York, shook the confidence of the city's nonprofits. Coming in the wake of the turmoil at Cooper Union and the collapse of the New York City Opera, many trustees are asking new questions about the organizations they govern. What risks do we face?[1] How risky are we in relation to our peers? Are we doing the right things to understand and mitigate our risks? How should we balance financial risk against programmatic reward? What should we do to reduce the potential hardships from financial distress?

Unfortunately, very few nonprofits have processes in place to address these issues of financial risk management. However, our research suggests that this can and must change.

- New York City nonprofits are fragile: 10% are insolvent (18% in health and human services); as many as 40% have virtually no cash reserves (i.e., margin for error); and over 40% have lost money over the last three years. We believe that less than 30% are financially strong. Yet many trustees do not understand the financial condition of their organization or how it compares to its peers.
- Distressed nonprofits have very limited ways to recover, so trustees must do all they can to reduce the risk that their organization becomes distressed in the first place. And they must take prompt, decisive action if it does.
- Practices such as scenario planning, benchmarking and self-rating, and setting explicit financial stability targets, can improve risk management. A few organizations already do these things. Most do not.

We believe that the nonprofit sector can make dramatic improvements in risk management over the next few years – and bring more stability to vital programs. Institutions ranging from nonprofit umbrella groups to regulators, such as the Charities Bureau of the Office of the New York State Attorney General, also support better risk management.[2] This report outlines concrete steps that organizations can take to manage risk better. These recommendations come from a study by SeaChange Capital Partners and Oliver Wyman on how to adapt private sector risk practices to nonprofits. It was motivated by recent failures and a concern that nonprofits face an increasing number of risks, including rising interest rates, the move to value-based payments in healthcare, and increased real estate costs. Organizations that don't adopt better risk management may find themselves in an increasingly precarious situation.

1 By "risk" we mean unexpected events and factors that may have a material impact on an organization's finances, operations, reputation, viability, and ability to pursue its mission.

2 The Human Services Council's Commission on Nonprofit Closures' recent report recommending a strong emphasis on risk management may be found at: http://www.humanservicescouncil.org/Commission/HSCCommissionReport.pdf.

THE CONTEXT: STRUCTURAL CHALLENGES

Trustees often fail to appreciate the difficult conditions under which nonprofits operate. These conditions can be far more difficult than any they have seen before.

- **Tackling the hardest problems:** Nonprofits address economically intractable and politically unappealing problems. This is true even though charities arose long before government social programs and have helped shape the public agenda.
- **Cost-minus funding:** Most nonprofit funding, especially in health and human services, comes in the form of government contracts or restricted grants that virtually guarantee a deficit. Government contracts also create working capital needs because funding arrives after expenses are paid. These funds are also subject to unpredictable delays in payment.[3]
- **One-way bets:** Nonprofits face contingent liabilities that can swamp them financially. These include claw-backs for disallowed expenses, after-the-fact audits, and unilateral retroactive rate reductions.
- **Zero-sum philanthropy:** The total supply of philanthropy is largely fixed.[4] Large organizations working in difficult issue areas will always be overwhelmingly reliant on government funding.
- **Cost disease:** Nonprofits provide face-to-face, labor-intensive services that do not get more productive from technology. The real cost of these services has risen substantially over time and is likely to do so in the future.[5]
- **Recruiting and retention:** Nonprofits face structural challenges in recruiting and retaining high-quality staff in finance, accounting, technology, and back-office functions. Factors driving this situation include the small size of many organizations, the challenge in providing career development, and competition from higher-paying for-profits.
- **Gales of creative destruction:** Nonprofits operate in a dynamic environment. Challenges include demographics, funding fashions, political priorities, and real estate costs. The weak financial position of many nonprofits can make it difficult to respond.

It is no surprise that many nonprofits are always living close to the edge.

3 Advocates for the nonprofit sector are working to educate government about the risks these contracts impose on nonprofits and to advocate for changes. While trustees should hope that these efforts are successful, they cannot shirk their governance responsibility for risk management on the basis that "it's the government's fault."

4 Philanthropy as a percentage of GDP has moved within a very tight band for at least the last 45 years (see https://philanthropy.com/article/The-Stubborn-2-Giving-Rate/154691), and philanthropy per nonprofit has actually fallen, as the number of nonprofits has grown faster than GDP and the population. Nevertheless, many nonprofits underinvest in development or have boards that do not recognize the vital role they must play in raising unrestricted funds.

5 See http://www.amazon.com/The-Cost-Disease-Computers-Cheaper/dp/0300179286 for a fuller explanation of this phenomenon. Nevertheless, many nonprofits could be more effective and efficient through better use of technology.

THE PATH FORWARD: MORE ROBUST AND SYSTEMATIC RISK MANAGEMENT

Enterprise Risk Management in for-profit companies[6] and our interviews with nonprofit leaders suggest a set of best practices for nonprofit risk management. They are in use at several leading nonprofits, and each one can make a real difference to any organization that adopts it.

1. **Governance and Accountability for Risk Management:** Oversight for risk management is part of the board's legal duties of care, loyalty, and obedience. It should be an explicit responsibility of the audit and/or finance committee,[7] with an appropriate dedication of time to the task. One leading organization reports that roughly 10% of total board discussion now revolves around risk. The committee responsible for risk must have direct communication with the finance function and with staff who have time to ask "What if?" It should report to and elicit input from the board as a whole. It should ensure that the board sets the right tone by communicating a commitment to risk management throughout the organization. This should be part of its strategy, culture, and pursuit of the mission.[8] Organizations should develop an explicit risk tolerance statement. This is similar to mission and vision statements. It needs to indicate the limits for risk-taking and the willingness to trade short-term program impact for longer-term sustainability. A thoughtful risk tolerance statement will reduce the likelihood that an organization is either cavalier about risk or paralyzed by excessive risk aversion.
2. **Scenario Planning:** Organizations should keep a running list of the major risks they face. For each, they should indicate its likelihood and the expected loss (probably in terms of unrestricted net assets) if it occurs. Then they should consider actions to reduce the likelihood of it occurring and mitigate the damage if it does. The list may include a wide range of possible risks depending on the organization. Examples include lease renewal, cost overruns on a capital project, the non-renewal of an important funder, investment performance, and succession.
3. **Recovery and Program Continuity Planning:** Organizations should have plans for how to maintain service in the event of a financial disaster. Large organizations should also consider developing "living wills" to expedite program transfer. These living wills should be discussed in advance during stable times with government agencies and partners so everyone is prepared to act in a crisis.

6 For background see http://www.oliverwyman.com/what-we-do/financial-services/finance-risk.html and http://www.mmc.com/global-risk-center/overview.html.

7 Some specialized risks – for example data/cybersecurity – might be located in other committees. Unlike financial institutions, even the largest nonprofits do not face the range of risks that would merit a dedicated "risk committee."

8 For a discussion on the importance of "tone" and of risk management in the for-profit setting see http://www.wlrk.com/webdocs/wlrknew/AttorneyPubs/WLRK.24301.15.pdf.

4. **Environmental Scan:** On an annual basis, organizations should brief trustees about longer-term trends in the operating environment. They should consider the potential benefits of exploring various forms of organizational redesign in response, such as collaborations, mergers, acquisitions, joint ventures, partnerships, outsourcing, managed dissolutions, and divestments.
5. **Benchmarking and Self-rating:** Organizations should compare their financial performance to peers on an annual basis using IRS 990 data.[9] They should also ask umbrella groups to collect more detailed and timely information from the peer group. Another option is to use a self-rating tool to combine financial measures into an overall indicator of organizational health.
6. **Financial Stability Targets:** Organizations should have targets for operating results based on minimum and long-term needs. An example might be not having two consecutive years of deficits. They should also have targets for cash, unrestricted net assets, operating reserves, and access to credit. Trustees should develop contingency plans for when minimum targets are not met. Since earning the requisite capitalization is so difficult, organizations must think creatively about how to build the necessary reserves. Ideas might include one-time capital campaigns and pledged funds from trustees for use in a crisis. Organizations should put in place monitoring and governance processes to ensure that reserves are not inadvertently used to fund operating deficits.
7. **Reporting and Disclosure:** Larger organizations should summarize their financial and programmatic results in a short plain-English report similar to the management discussion and analysis section of the SEC's Form 10-K. This report should also cover their opportunities and risks in the context of internal and external conditions. Creating this type of report would give a sense of urgency to the underlying processes. It could also help reassure stakeholders such as trustees, banks, and regulators that organizations are doing all they can to ensure long-run sustainability.
8. **Board Composition, Qualifications, and Engagement:** Risk management requires a functioning partnership between capable management and a critical mass of experienced, educated, and engaged trustees. Organizations serious about risk management must redouble their effort to recruit trustees with a wide range of experience.[10] They need to empower high-functioning committees. They also need to ensure ongoing education for both new and existing trustees. Trustees cannot participate in intelligent risk management unless they understand important contracts and the associated processes for approval and registration. They also must know the distinction between direct/indirect and allowed/disallowed costs. Many organizations, particularly large complex ones, would benefit from having an experienced nonprofit executive on their board with firsthand experience of the programs and the associated funding streams.

Few nonprofit organizations will be able to implement all of these practices, but all will benefit from spending more time anticipating and preparing for risks.

9 Tools like the Non-Profit Finance Fund's NFF Financial SCAN can help with this (see http://nonprofitfinancefund.org/financial-scan).

10 An engaged and experienced board can be difficult to build and maintain when fundraising is its primary duty. Organizations must accept that they will always have some members who just "write checks." Organizations like BoardSource and others have tools to help boards with self-assessment.

THE SCALE OF THE CHALLENGE: HOW "RISKY" IS THE NONPROFIT SECTOR?

Our analysis of the financial results of New York City nonprofits illustrates just how fragile many nonprofits are. It should provide useful context for trustees to understand their organization's absolute and relative risk profile.

If New York City's nonprofit sector were a single organization it would have revenues of $14.5 billion and a deficit (over the five years between 2009 and 2013) of -1.8% before investment income and asset sales.[11] After investment income and asset sales, those margins rise to 3.4%.[12] The aggregate figures suggest that things have been getting slightly better for the nonprofit sector taken as a whole.

There are three important measures of a nonprofits risk-bearing capacity that trustees should keep in mind: **cash** to cover immediate needs; **unrestricted net assets** as the best measure of a nonprofit's "equity" that is available to bear losses or make investments; and **operating reserves** (the portion of the equity that is available in the short term).[13]
In aggregate, the sector has cash, equity, and operating reserves equal to 2.9, 10.1, and 3.6 months of expenses, respectively (based on 2013 figures). These cash and operating reserve ratios are well below the six-month level that nonprofit experts suggest is appropriate for many organizations.

The aggregate statistics conceal the very different circumstances facing individual organizations (and even entire sub-sectors) as becomes clear when the data are disaggregated.

- **More than 10% of the nonprofits are technically insolvent** (i.e., their liabilities exceed their assets), including 18% in health and human services (in terms of service volume, these non-profits account for 8% and 11%, respectively.) Many of these organizations are limping from payroll to payroll with less than a month of cash, effectively borrowing from vendors (by delaying payment) and/or dipping into restricted funds. These organizations have no capital for investment and little ability to consider a thoughtful restructuring given the lack of resources to fund the associated one-time costs.

11 Based on a representative sample of approximately 1,335 nonprofits filing IRS Form 990s for which GuideStar has electronic data. This incudes all organizations with revenue of $1.0 million of more in each reporting year from 2009-2013, as well as a small fraction of smaller ones. We have excluded hospitals, medical research, organizations working abroad, higher education, private schools, and churches. See the appendix for more information.

12 The results of ResCare, a private equity-owned for-profit social service provider with high-powered incentives competing in a traditionally "non-profit" arena suggest that profit margins would only be a few points higher for large social service nonprofits if they were run to maximize profits. (See: http://seachangecap.org/wp-content/uploads/2016/02/ResCare-Form-10-K-2013.pdf).

13 Calculated as net unrestricted assets less fixed assets. FMA and others call variations on this liquid unrestricted net assets (LUNA). See www.FMAonline.net.

- **Roughly, 40% of the organizations have virtually no margin for error,** with cash and operating reserves of less than two months. (In terms of service volume, these organizations account for 36% in aggregate and 50% in health and human services.) Yet these figures actually *overstate* the real cushion for weaker organizations, since much of the available cash is restricted to certain purposes. At best, 20-40% of organizations appear to be financially strong, defined as having more than six months of unrestricted net assets.
- **The median nonprofit has earned an operating margin of -0.1% over the past three years (i.e., before investment income and asset sales.)** The median margin rises to 1% after consideration of these items, though 40-50% of the organizations have still lost money over the last three years.
- **Most nonprofits are small but the large ones provide the vast majority of services:** 50% are less than $2.4 million; 24% are between $2 and $5 million; and 80% are less than $10 million. Only 10% are $20 million or above.[14] There are fewer than 50 organizations of more than $50 million in the city.[15] However, the smallest 50% of the organizations contributed only 5.6% of total service provision while the largest 5% provided almost 50%.
- **Nonprofits differ greatly in their reliance on philanthropy, but the majority of service provision comes from groups largely funded by the government.** The median level of philanthropy is 32%. But roughly one-third of nonprofits receive more than 90% of their funding from the government. Nearly 80% of the largest human service organizations are 90%+ government-funded. When looked at by service volume, 53% of service is provided by groups with less than 20% private philanthropy (and 74% in health and human services).

We are not suggesting that nonprofit organizations should earn consistently large surpluses. After all, the organizations exist to pursue programs, not to build up internal resources. However, the profound under-capitalization and small scale of most organizations impedes necessary investments and makes prudent risk management all the more important. Yet, greater scale is not a panacea. For example, a large, well-run nonprofit organization with economies of scale *might* be able to earn a surplus of 1% on revenue in a typical year if it relies principally on government contracts. However, even after five years the resulting retained surplus would amount to less than three weeks of expenses. This is not enough to support appropriate investments in technology or infrastructure or to provide a cushion against unforeseen risks. Larger nonprofits typically have a lower proportion of revenue coming from private philanthropy. They are therefore more reliant on government contracts. Beyond a certain tipping point, even the most efficient organizations will not necessarily have sufficient private funds to offset the deficit from their government funding.

14 This is based on Guidestar data, which already excludes many organizations under $1.0 million, but this is not material to the distribution of service provision.

15 Again, excluding hospitals, higher education, nursing homes, FQHCs, etc.

THE TRACK RECORD: HOW NONPROFITS HAVE DEALT WITH RISK

The sector's overall fragility means that many nonprofits will experience financial distress. SeaChange and Oliver Wyman interviewed executive directors, board leaders, and funders of nonprofits that had struggled. Some went bankrupt. Others were rescued at the 11th hour by other organizations. Others "saw the writing on the wall" early enough to enter into an orderly merger or dissolution. Across the discussions, several themes emerged, as did some "worst practices."

1. The organizations were fragile to begin with. Before the crisis hit they had limited resources and several years of deficits that had eroded whatever resources had once been in place.
2. The organizations had a longstanding challenge in recruiting and retaining a strong chief financial officer.
3. The crisis was precipitated by an event: the departure of the executive director; the non-renewal of an important funder; a change in government priorities or in the nature of government funding; a very meaningful (25-50%+) increase in scale; a real estate project that was large compared to the operating budget; or the emergence of a contingent liability (e.g., a Medicaid audit).
4. The organizations failed to do explicit scenario planning despite facing inherently uncertain situations. They did not pay enough attention to contingencies and milestones. Organizations were surprised by crises that could have been foreseen.
5. Trustees were not made fully aware of important long-term trends in financial performance or the operating environment. Important trends were masked by an exclusive focus on annual budgets, and year-to-date and year-over-year "rearview mirror" comparisons.
6. Trustees did not get timely, actionable information at the appropriate level of detail (i.e., by contract, program, or project) before or during the early stages of the crisis.
7. Trustees took too long to realize that there was a problem and then delayed taking action **even after they had decided it was necessary.** Executive directors and trustees suffered from magical thinking, particularly with respect to fundraising.

While there is a risk of 20/20 hindsight, we believe that many of these struggling nonprofits would have fared better, with less disruption to clients, had they put in place some or all of our recommended practices.

THE WILL TO ACT

Risk management does not guarantee survival. Consolidation, mergers and acquisitions, divestments, and orderly wind-downs are part of a vibrant nonprofit sector. However, it *is* tragic when distress causes an organization to lose the capacity to make wise choices. This can result in exposing vulnerable people to the risk of disrupted services. It can also mean that hardworking staff lose paychecks or pensions and that trustees are exposed to personal liability for unpaid payroll taxes, etc. And in bankruptcy, everybody loses as scarce philanthropic assets are squandered on transaction costs. Similarly tragic are "zombie" nonprofits that are too weak to provide effective or efficient services and use whatever resources they can muster for organizational survival.[16]

Unfortunately, distressed or zombie nonprofits have few options for recovery. Unlike for-profits, they cannot attract funders with reduced price, seniority, or other advantageous terms. Nor are there any specialized nonprofit turnaround funders to evaluate and assume financial risks. In fact, most private funders run at the first sign of trouble, creating a nonprofit version of a run on the bank. Their best hope, if trouble comes, is to hobble along. This can mean hollowing out the program, freezing salaries, reducing headcount, borrowing from vendors, using restricted cash for impermissible purposes, and begging existing supporters (including trustees) for support.

Trustees must strive to maximize the good that their organization does while managing its risks. Balancing these can be challenging because of the passion they feel for the organization and its mission. Nonprofits lack the indicators of organizational health that reach the directors of for-profit businesses, such as stock prices or credit spreads. They also lack outside parties like activist investors, rating agencies, stock market analysts, and short-sellers to encourage them to step back and take an objective view of the situation.[17] In this context, nonprofit trustees in leadership positions must ensure that well thought-through risk management processes are in place. In a challenging operating environment, the status quo is no longer acceptable.

16 Since creditors cannot put a nonprofit into involuntary bankruptcy and many nonprofits are too small for creditors to bother with, the zombie state can continue for a protracted period.

17 Despite all the reporting that FEGS was forced to do for government agencies and funders, nobody saw its bankruptcy coming. In fact, we have never been able to ascertain what the government actually does with its most comprehensive financial report, the CFR. We suspect they do nothing with it as it is virtually incomprehensible.

APPENDIX

Exhibit 1: Contains aggregated financial information, including revenues, expenses, and balance sheet information, for selected New York City-area nonprofit organizations for the five years, 2009-2013. The “Ratios” table at the bottom of the exhibit expresses selected balance sheet data (receivables, payables, cash, etc.) for the industry as a whole as a function of the industry’s monthly expenses. The “2.9” figure for the cash ratio in 2013, for example, indicates that in 2013, the members of the industry in aggregate held an amount of cash on their balance sheets equal to 2.9 months of their average expenses over the course of the year.

The underlying financial data included in this exhibit, as well as the following appendix exhibits, were provided by GuideStar, the world’s largest provider of information on nonprofit organizations. The data covers a representative sample of approximately 1,335 nonprofits filing IRS Form 990s for which GuideStar has electronic data. This includes all organizations with revenue of $1.0 million of more in each reporting year from 2009-2013, as well as a small fraction of smaller ones. We have excluded hospitals, medical research, organizations working abroad, higher education, private schools, and churches. For comparability, we have also excluded organizations that did not report in at least four of the five years (in US$ 000s).

INCOME STATEMENT	2009		2010		2011		2012		2013	
Revenue, gains and other support										
Program revenues and fees for service	$ 5,223,278	42%	$5,128,111	39%	$5,402,443	39%	$5,538,738	40%	$5,570,411	38%
Contributions and foundations	$7,184,109	58%	$7,426,015	57%	$7,598,450	55%	$7,598,670	54%	$7,944,816	55%
Investments, rental, special events and other	$277,035	2%	$270,560	2%	$282,082	2%	$283,274	2%	$279,845	2%
Net gain (loss) from asset sales	($265,486)	(2%)	$214,608	2%	$590,255	4%	$551,110	4%	$684,988	5%
Total Revenues, Gains and Other Support	**$12,418,936**	**100%**	**$13,039,293**	**100%**	**$13,873,231**	**100%**	**$13,971,793**	**100%**	**$14,480,059**	**100%**
Expenses										
Program services	$10,874,010	85%	$10,897,413	85%	$11,222,968	85%	$11,368,302	85%	$11,501,606	84%
Management and general	$1,444,021	11%	$1,411,218	11%	$1,470,241	11%	$1,521,296	11%	$1,567,507	12%
Fundraising	$497,004	4%	$493,230	4%	$513,746	4%	$532,348	4%	$551,764	4%
Total supporting services	$1,941,025	15%	$1,904,448	15%	$1,983,987	15%	$2,053,644	15%	$2,119,271	16%
Total expenses	**$12,815,035**	**100%**	**$12,801,861**	**100%**	**$13,206,955**	**100%**	**$13,421,947**	**100%**	**$13,620,877**	**100%**
Net Income	**($396,099)**	**(3%)**	**$237,433**	**2%**	**$666,277**	**5%**	**$549,846**	**4%**	**$859,183**	**6%**
Other adjustments to net assets	**($1,509,869)**		**$841,774**		**$947,442**		**($781,706)**		**$1,079,639**	
Net Assets, beginning of year	$19,982,390		$18,141,074		$19,237,436		$20,907,277		$20,138,577	
Net assets, end of year	**$18,076,422**		**$19,220,281**		**$20,851,155**		**$20,675,417**		**$22,077,399**	
Program Economics										
Program expenses	$10,874,010	100%	$10,897,413	100%	$11,222,968	100%	$11,368,302	100%	$11,501,606	100%
Less: Program revenues and fees for service	($5,260,301)	48%	($5,182,084)	48%	($5,447,692)	49%	($5,595,041)	49%	($5,618,450)	49%

Program-level philanthropy need	$5,613,709	52%	$5,715,329	52%	$5,775,275	51%	$5,773,262	51%	$5,883,156	51%
Add: Management and general expenses	$1,444,021	13%	$1,411,218	13%	$1,470,241	13%	$1,521,296	13%	$1,567,507	14%
Pre-philanthropy deficit	($7,057,730)	65%	($7,126,547)	65%	($7,245,516)	65%	($7,294,558)	64%	($7,450,662)	65%
Add: Net philanthropy	$6,694,534	62%	$6,939,727	64%	$7,085,934	63%	$7,063,471	62%	$7,378,443	64%
Operating surplus/(deficit)	($363,195)	(3%)	($186,820)	(2%)	($159,582)	(1%)	($231,087)	(2%)	($72,219)	(1%)
Add: Gain/(loss) on investments and asset sales	($32,903)	(0%)	$424,253	4%	$825,858	7%	$780,933	7%	$931,402	8%
Net Income	**($396,099)**	**(4%)**	**$237,433**	**2%**	**$666,277**	**6%**	**$549,846**	**5%**	**$859,183**	**7%**

BALANCE SHEET (SELECTED)	2009	2010	2011	2012	2013
Assets (selected)					
Cash and savings	$3,146,439	$3,125,066	$3,270,493	$3,242,828	$3,321,957
Pledges, grants, loans and other receivables, net	$2,781,491	$2,733,467	$2,766,136	$2,612,081	$2,710,515
Accounts receivable (net)	$1,294,345	$1,232,475	$1,326,965	$1,334,013	$1,502,303
Securities and investment programs	$12,278,043	$13,048,281	$13,944,437	$13,912,682	$14,469,713
Intangible and other (incl. inventory)	$1,828,188	$2,279,656	$2,092,642	$2,268,351	$2,203,398
Fixed assets	$6,614,600	$7,243,752	$7,895,163	$8,045,310	$7,933,579
Total assets	**$27,947,204**	**$29,664,130**	**$31,295,861**	**$31,419,309**	**$32,141,716**
Liabilities (selected)					
Accounts payable	$2,734,847	$2,624,765	$2,737,697	$2,733,938	$2,751,513
Tax-exempt bond liabilities	$1,477,375	$1,829,027	$2,034,056	$2,073,507	$2,065,011
Secured mortagages and notes payable	$2,953,587	$2,903,511	$2,445,458	$2,221,272	$1,838,371
Other liabilities	$2,660,708	$3,070,052	$3,228,466	$3,731,593	$3,412,960
Total liabilities	**$9,806,734**	**$10,427,155**	**$10,445,512**	**$10,899,604**	**$10,068,607**
Net assets (selected)					
Unrestricted	$9,494,266	$10,570,169	$10,813,341	$10,689,738	$11,447,120
Temporarily restricted	$4,270,411	$4,189,961	$5,551,709	$5,410,933	$5,990,727
Permanently restricted (i.e, endowment)	$4,132,103	$4,180,165	$4,294,735	$4,404,275	$4,459,528
Total net assets	$17,896,780	$18,940,295	$20,659,784	$20,504,946	$21,897,374
Total liabilities and net assets	**$27,703,514**	**$29,367,450**	**$31,105,296**	**$31,404,549**	**$31,965,981**

RATIOS (MONTHS)					
Receivables	3.9	3.6	3.5	3.4	3.5
Payables	2.6	2.5	2.5	2.4	2.4
Cash	2.9	2.9	3.0	2.9	2.9
Unrestricted net assets	8.9	9.9	9.8	9.6	10.1
Operating reserves	2.0	2.4	3.1	3.4	3.6

Exhibit 2: Indicates the percentage of nonprofits that are insolvent, meaning that their liabilities exceed their assets, by year, sector, and size bucket. The final table in the Exhibit drills down on the results for the industry sector with the highest insolvency rate, Health and Human Services. The final table indicates that the elevated insolvency rates observed in the HHS sector are not confined to the smallest nonprofits, but in fact exist at four of the five size buckets defined for the purposes of this study.

NYC Nonprofit Insolvency Indicators.*

INSOLVENCY: LIABILITIES ARE GREATER THAN ASSETS						
Percentage of nonprofits that are insolvent by major industry group and year	**2009**	**2010**	**2011**	**2012**	**2013**	**Average**
1. Community capacity	8%	7%	7%	7%	8%	7%
2. Health and human services	16%	18%	18%	18%	18%	18%
3. Arts, culture and humanities	6%	7%	7%	8%	9%	7%
4. Education, science, technology and social sciences	5%	8%	6%	7%	8%	7%
5. Environment and animal-related	2%	6%	6%	2%	2%	4%
6. Youth development	5%	5%	7%	9%	10%	7%
7. Other	6%	6%	6%	6%	0%	5%
Total	**10%**	**11%**	**11%**	**11%**	**11%**	**11%**
Percentage of nonprofits that are insolvent by size and year	2009	2010	2011	2012	2013	Average
1. Grassroots	6%	8%	8%	8%	8%	8%
2. Small safety net	11%	11%	12%	13%	13%	12%
3. Mid safety net	14%	14%	16%	15%	14%	14%
4. Large safety net	11%	13%	12%	12%	14%	12%
5. Economic engines	6%	7%	4%	4%	5%	5%
Total	**10%**	**11%**	**11%**	**11%**	**11%**	**11%**
Percentage of nonprofits that are insolvent by major industry group, size and year	2009	2010	2011	2012	2013	Average
Heatlh and human services	**16%**	**18%**	**18%**	**18%**	**18%**	**18%**
1. Grassroots	10%	15%	15%	13%	14%	13%
2. Small safety net	22%	23%	23%	25%	24%	23%
3. Mid safety net	13%	15%	18%	17%	16%	16%
4. Large safety net	14%	15%	15%	16%	19%	16%
5. Economic engines	10%	10%	5%	5%	5%	7%

* Nonprofit size categories are as follows: Grassroots, <$1 million; Small Safety Net, between $1-$5 million; Mid Safety Net, between $5-$10 million; Large Safety Net, between $10-$50 million; Economic Engines, >$50 million.

Exhibit 3: Shows the months of different forms of financial reserves that nonprofit organizations (both generally and in the HHS sector specifically) hold, by decile. For example, the top table indicates that the bottom 10% of all nonprofits hold cash reserves equal to 0.3 months of expenses (or a little more than a week), while the top 10% (or 90th percentile) hold cash reserves equal to 12.5 months of expenses (or slightly over a year).

NYC nonprofit Liquidity/Debt ratios (2013).

MONTHS OF RESERVES BY TYPE									
Aggregate Distribution (2013)	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
1. Cash	0.3	0.8	1.4	1.9	2.6	3.7	5.0	7.3	12.5
2. Unrestricted net assets*	-1.0	0.0	1.1	2.7	4.2	6.5	10.3	16.3	38.8
3. Operating	-3.7	-0.3	0.3	1.4	2.8	4.4	6.7	11.1	24.8
4. Investments	0.2	0.5	0.9	1.6	2.5	3.7	6.0	10.0	21.2
5. Cash and investments	1.0	1.9	3.2	4.8	7.3	10.7	16.3	28.4	62.7
Health and human services distribution (2013)	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
1. Cash	0.2	0.5	0.9	1.5	2.0	2.7	3.9	6.4	10.5
2. Unrestricted net assets*	-4.4	-0.2	0.3	1.5	3.0	4.7	7.6	12.2	28.0
3. Operating	-10.1	-1.9	0.0	0.6	1.8	3.2	5.0	8.5	22.6
4. Investments	0.2	0.3	0.6	1.1	1.5	2.4	3.9	7.0	13.2
5. Cash and investments	0.8	1.4	2.2	3.2	4.7	6.8	10.9	18.9	49.3

* Unrestricted net assets is an equity proxy.

Exhibit 4: Shows average three year profitability margin, defined as net income/total revenue, by decile by sector and size bucket. The results indicate that roughly 30% to 40% of nonprofits have been unprofitable over the period. The bottom table demonstrates that, if the proceeds of asset sales and investment income are excluded and margin is measured purely on the basis of normal operating revenues, roughly 50% of nonprofits are unprofitable, across all sectors and size buckets.

NYC nonprofit marginal analysis (2013).

3 YEARS AVERAGE MARGIN (NET INCOME/TOTAL REVENUE)									
Distribution (2013)	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
1. Community capacity	-29.7%	-11.6%	-5.2%	-1.2%	0.5%	2.2%	4.5%	8.3%	13.2%
2. Health and human services	-19.6%	-7.3%	-3.3%	-0.5%	0.4%	1.7%	4.3%	8.2%	18.6%
3. Arts, culture and humanities	-24.6%	-10.0%	-3.9%	-1.5%	1.5%	3.7%	7.6%	13.9%	25.7%
4. Education, science, technology and social sciences	-28.2%	-7.5%	-3.0%	0.7%	3.7%	6.9%	11.6%	16.4%	32.5%
5. Environment and animal-related	-20.5%	-11.1%	-4.9%	-0.4%	2.7%	5.7%	9.2%	13.2%	25.4%
6. Youth developement	-18.3%	-10.4%	-5.9%	-2.5%	2.4%	6.4%	8.9%	18.6%	28.1%
7. Other	-37.7%	-14.8%	-1.3%	5.0%	5.8%	8.3%	9.3%	12.8%	16.2%
	-23.9%	**-9.4%**	**-3.9%**	**-0.8%**	**1.0%**	**3.2%**	**6.3%**	**11.5%**	**21.7%**

1. Grassroots	-58.4%	-20.0%	-9.1%	-3.4%	1.4%	5.6%	8.8%	17.1%	40.0%
2. Small safety net	-20.4%	-10.0%	-4.7%	-1.3%	0.7%	3.2%	6.4%	11.4%	19.7%
3. Mid safety net	-17.4%	-6.6%	-2.7%	-0.9%	0.4%	3.0%	5.1%	8.6%	16.1%
4. Large safety net	-10.3%	-4.1%	-1.8%	0.2%	1.3%	2.2%	4.1%	8.4%	15.1%
5. Economic engines	-1.3%	0.1%	0.5%	1.1%	2.0%	2.5%	5.0%	8.4%	15.9%
	-23.9%	**-9.4%**	**-3.9%**	**-0.8%**	**1.0%**	**3.2%**	**6.3%**	**11.5%**	**21.7%**

3 YEARS AVERAGE MARGIN (TOTAL EXPENSES BEFORE ASSET SALES AND INVESTMENT INCOME/TOTAL REVENUE)									
Distribution (2013)	10%	20%	30%	40%	50%	60%	70%	80%	90%
1. Community capacity	-25.8%	-12.0%	-5.1%	-1.9%	0.4%	1.6%	4.0%	9.1%	13.1%
2. Health and human services	-28.4%	-10.5%	-4.8%	-1.8%	-1.0%	0.9%	2.6%	5.8%	16.3%
3. Arts, culture and humanities	-34.8%	-18.0%	-8.2%	-4.0%	-1.3%	1.5%	4.8%	11.6%	24.3%
4. Education, science, technology and social sciences	-35.1%	-12.6%	-4.6%	-1.0%	0.9%	3.5%	7.1%	14.2%	22.9%
5. Environment and animal-related	-53.4%	-13.5%	-6.2%	-1.6%	0.2%	2.9%	5.5%	12.9%	22.0%
6. Youth developement	-28.8%	-11.3%	-6.6%	-3.8%	-0.8%	1.2%	7.2%	13.4%	27.5%
7. Other	-38.2%	-13.3%	-4.3%	4.2%	4.9%	6.9%	8.1%	9.9%	16.4%
	-33.3%	**-13.2%**	**-5.9%**	**-2.5%**	**-0.1%**	**1.5%**	**4.0%**	**9.4%**	**18.9%**

1. Grassroots	-68.9%	-27.7%	-10.9%	-3.6%	0.6%	3.6%	9.1%	15.5%	38.4%
2. Small safety net	-27.9%	-12.0%	-6.1%	-2.7%	-0.3%	1.6%	4.2%	9.2%	17.7%
3. Mid safety net	-26.1%	-9.5%	-5.0%	-1.8%	-0.3%	0.6%	3.6%	5.9%	12.4%
4. Large safety net	-24.6%	-7.3%	-3.9%	-1.5%	0.0%	1.1%	2.1%	4.9%	13.8%
5. Economic engines	-20.4%	-12.0%	-5.6%	-3.4%	-1.4%	0.1%	0.7%	1.7%	4.3%
	-33.3%	**-13.2%**	**-5.9%**	**-2.5%**	**-0.1%**	**1.5%**	**4.0%**	**9.4%**	**18.9%**

Exhibit 5: Shows the distribution of nonprofits by size (as measured by expenditures, by sector by decile.) For example, the median nonprofit had expeditures of $2.4 millions.

Distribution of nonprofit expenditure by size and sector (2013 functional expenses, in US$ 000s).

DISTRIBUTION OF SPEND										
Distribution (2013)	10%	20%	30%	40%	50%	60%	70%	80%	90%	95%
1. Community capacity	$701	$1,036	$1,361	$1,819	$2,426	$3,410	$4,971	$8,476	$17,102	$38,410
2. Health and human services	$537	$1,034	$1,552	$2,034	$2,926	$4,408	$8,268	$12,980	$32,001	$55,967
3. Arts, culture and humanities	$511	$839	$1,166	$1,484	$2,018	$2,624	$3,849	$6,217	$15,462	$40,217
4. Education, science, technology and social sciences	$566	$892	$1,220	$1,650	$2,224	$2,945	$5,208	$7,969	$15,042	$22,751
5. Environment and animal-related	$484	$1,112	$1,421	$1,706	$3,456	$4,905	$5,979	$8,985	$31,510	$93,187
6. Youth developement	$550	$1,079	$1,416	$1,889	$2,398	$4,308	$6,255	$9,278	$13,512	$23,708
7. Other	$961	$1,092	$1,409	$1,971	$2,178	$3,404	$5,465	$8,963	$24,002	$38,996
Entire sector	**$566**	**$966**	**$1,330**	**$1,762**	**$2,414**	**$3,533**	**$5,467**	**$9,511**	**$21,499**	**$45,824**

Exhibit 6: Shows the distribution of type of spend, by sector and by nonprofit size decile. For example, the largest 5% of nonprofits represented 51.2% of the spending. The smallest 50% of nonprofits represented 5.6% of the spending.

Distribution of aggregate nonprofit expenditure by size and sector (2013 functional expenses, in US$ 000s).

AMOUNT OF SPEND					
Distribution (2013)	≤10%	10%< x ≤20%	20%< x ≤30%	30%< x ≤40%	40%< x ≤50%
1. Community capacity	$11,689	$19,382	$29,282	$35,780	$51,564
2. Health and human services	$10,102	$37,022	$57,887	$78,171	$114,750
3. Arts, culture and humanities	$9,220	$25,172	$35,639	$45,167	$62,708
4. Education, science, technology and social sciences	$3,429	$8,794	$12,326	$17,401	$23,635
5. Environment and animal-related	$1,112	$3,679	$6,350	$9,134	$11,986
6. Youth developement	$2,296	$7,265	$10,070	$13,689	$17,481
7. Other	$1,090	$2,084	$1,289	$3,402	$4,160
Entire sector	**$36,217**	**$102,131**	**$150,654**	**$201,824**	**$272,870**
Percentage of entire sector	**0.3%**	**0.7%**	**1.1%**	**1.5%**	**2.0%**

AMOUNT OF SPEND						
Distribution (2013)	50%< x ≤60%	60%< x ≤70%	70%< x ≤80%	80%< x ≤90%	90%< x ≤95%	≥95%
1. Community capacity	$66,254	$97,123	$153,344	$295,542	$293,745	$1,100,983
2. Health and human services	$166,784	$270,920	$463,517	$922,347	$980,423	$2,379,165
3. Arts, culture and humanities	$81,761	$113,242	$176,421	$362,795	$446,192	$2,198,167
4. Education, science, technology and social sciences	$30,834	$48,200	$76,239	$122,829	$113,191	$516,403
5. Environment and animal-related	$20,104	$32,763	$37,118	$61,052	$171,600	$391,042
6. Youth developement	$26,967	$42,388	$62,031	$90,244	$76,832	$251,441
7. Other	$3,176	$8,394	$7,966	$23,496	$38,578	$40,667
Entire sector	**$386,347**	**$580,354**	**$955,848**	**$1,853,053**	**$2,110,060**	**$6,973,420**
Percentage of entire sector	**2.8%**	**4.3%**	**7.0%**	**13.6%**	**15.5%**	**51.2%**

Exhibit 7: Shows the portion of nonprofits' revenues that are accounted for by philanthropy – by sector, size bucket, and decile. The results indicate that the while median nonprofit receives roughly 32% of its revenue from philanthropic sources, the median nonprofit in the health and human services sector receives only 9% of its revenue from philanthropy – highlighting this sector's greater reliance on non-philanthropic, primarily governmental, sources of funding.

Distribution of philanthropy as a percentage of gross total revenue by size and sector (2013).

Distribution (2013)	10%	20%	30%	40%	50%	60%	70%	80%	90%
1. Community capacity	0.0%	0.4%	7.5%	20.7%	37.3%	59.3%	77.2%	87.5%	97.5%
2. Health and human services	0.0%	0.0%	0.5%	2.8%	9.2%	19.2%	37.6%	64.0%	87.5%
3. Arts, culture and humanities	6.5%	15.3%	25.8%	37.6%	44.5%	53.1%	61.7%	73.9%	86.5%
4. Education, science, technology and social sciences	0.0%	1.3%	8.2%	17.5%	38.0%	53.1%	73.1%	89.3%	96.7%
5. Environment and animal-related	2.2%	14.8%	27.1%	45.0%	63.6%	77.3%	85.5%	93.6%	99.3%
6. Youth developement	0.0%	5.0.%	20.2%	34.4%	44.9%	59.2%	76.0%	85.7%	94.3%
7. Other	0.0%	3.5%	13.7%	20.0%	38.2%	68.7%	89.7%	93.4%	97.9%
	0.0%	**1.3%**	**7.4%**	**17.9%**	**32.1%**	**46.6%**	**62.4%**	**79.3%**	**93.7%**
1. Grassroots	0.0%	1.7%	11.8%	30.3%	48.1%	67.4%	81.3%	90.1%	98.9%
2. Small safety net	0.0%	1.4%	9.0%	21.8%	38.1%	51.9%	63.8%	78.0%	92.2%
3. Mid safety net	0.0%	1.7%	6.1%	13.6%	23.2%	38.5%	56.5%	78.0%	90.2%
4. Large safety net	0.0%	0.5%	4.8%	11.2%	18.4%	23.0%	33.4%	49.0%	76.5%
5. Economic engines	0.1%	1.5%	3.9%	6.0%	14.8%	20.1%	28.4%	51.7%	74.5%
	0.0%	**1.3%**	**7.4%**	**17.9%**	**32.1%**	**46.6%**	**62.4%**	**79.3%**	**93.7%**
Health and human services distribution (2013)	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
1. Grassroots	0.0%	0.0%	0.1%	3.6%	16.3%	45.6%	71.2%	83.7%	99.5%
2. Small safety net	0.0%	0.0%	0.4%	2.4%	9.9%	21.8%	48.8%	68.4%	88.7%
3. Mid safety net	0.0%	0.1%	1.0%	2.8%	6.1%	13.5%	31.5%	58.2%	86.6%
4. Large safety net	0.0%	0.2%	0.6%	4.8%	10.5%	17.6%	22.3%	30.4%	57.5%
5. Economic engines	0.1%	0.7%	1.3%	2.7%	3.5%	4.6%	6.0%	12.4%	35.6%
	0.0%	**0.0%**	**0.5%**	**2.8%**	**9.2%**	**19.2%**	**37.6%**	**64.0%**	**87.5%**

Exhibit 8: Shows similar information to Exhibit 7, but represents philanthropic revenue as a percentage of total functional spend by size bucket and decile. For example, organizations with 10% or less of private philantrophy represented 37.4% of total spending.

Distribution of philanthropy revenue as a percentage of total nonprofit spend by size and sector (2013).

Distribution (2013)	<10%	<20%	<30%	<40%	<50%	<60%	<70%	<80%	<90%
1. Community capacity	39.3%	53.3%	59.0%	70.9%	73.3%	74.5%	76.5%	82.8%	94.8%
2. Health and human services	65.1%	73.5%	81.9%	83.7%	87.4%	89.6%	91.0%	92.5%	95.8%
3. Arts, culture and humanities	6.0%	31.3%	51.5%	62.2%	80.1%	86.5%	89.9%	94.1%	97.9%
4. Education, science, technology and social sciences	29.1%	66.5%	72.1%	79.2%	81.9%	84.5%	87.5%	89.8%	90.7%
5. Environment and animal-related	3.6%	12.8%	15.0%	21.8%	22.5%	22.5%	59.4%	90.0%	91.8%
6. Youth developement	24.7%	38.8%	54.5%	73.5%	75.4%	81.1%	81.5%	87.2%	92.6%
7. Other	6.9%	15.3%	45.6%	48.0%	50.6%	50.6%	50.6%	50.6%	62.7%
Entire sector	**37.4%**	**53.4%**	**64.5%**	**71.6%**	**78.5%**	**81.6%**	**85.6%**	**90.4%**	**95.1%**
1. Grassroots	25.6%	31.2%	36.1%	40.2%	48.9%	52.6%	59.8%	67.8%	80.6%
2. Small safety net	29.1%	38.3%	45.9%	51.8%	59.4%	66.8%	73.2%	81.3%	88.4%
3. Mid safety net	33.1%	44.5%	50.2%	58.8%	67.0%	71.9%	74.1%	80.4%	89.4%
4. Large safety net	39.5%	52.3%	64.9%	74.8%	81.5%	85.8%	87.4%	88.9%	95.2%
5. Economic engines	39.2%	60.2%	72.4%	77.7%	84.2%	85.3%	90.5%	96.2%	98.2%
Entire sector	**37.4%**	**53.4%**	**64.5%**	**71.6%**	**78.5%**	**81.6%**	**85.6%**	**90.4%**	**95.1%**
Health and human services distribution (2013)	**<10%**	**<20%**	**<30%**	**<40%**	**<50%**	**<60%**	**<70%**	**<80%**	**<90%**
1. Grassroots	43.0%	50.7%	54.1%	54.1%	57.6%	62.6%	64.6%	75.8%	81.9%
2. Small safety net	47.2%	55.8%	65.8%	69.7%	71.6%	75.3%	79.2%	84.6%	90.2%
3. Mid safety net	52.0%	64.4%	66.2%	71.8%	77.6%	81.4%	82.6%	87.4%	98.5%
4. Large safety net	55.2%	67.2%	80.9%	83.5%	87.3%	91.5%	93.9%	95.4%	97.0%
5. Economic engines	79.4%	84.0%	89.4%	89.4%	93.0%	93.0%	93.0%	93.0%	95.6%
Entire HHS sector	**65.1%**	**73.5%**	**81.9%**	**83.7%**	**87.4%**	**89.6%**	**91.0%**	**92.5%**	**95.8%**

ABOUT THE AUTHORS

SeaChange Capital Partners is a merchant bank focused exclusively on the nonprofit sector and itself a nonprofit. SeaChange assesses nonprofit risk in all aspects of its business – mergers and collaborations, lending/investment, and advisory work – and has observed first-hand both the critical difference that risk management can make for nonprofits and the wide range of risk-related practice in the sector. SeaChange wishes to thank The Clark Foundation, The Heckscher Foundation for Children, and The New York Community Trust for their support and encouragement of this work. The views and opinions expressed in this report are those of the authors and do not necessarily reflect the views of these supporters.

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The firm's consulting services cover the automotive, aviation, aerospace and defense, communications, energy, media, financial services, industrial products and services, health and life sciences, public policy, retail and consumer products, and surface transportation sectors. Its clients include numerous Global 1000 companies, more than 80 percent of the world's largest 100 financial institutions and heads of Fortune 1000 companies. The firm is especially known for its work on risk measurement and management in the financial services industry.

This report draws on SeaChange's experience and Oliver Wyman's 30+ years of experience advising the largest global financial institutions and regulators with respect to risk management; a rigorous analysis of the most comprehensive data set on the financial performance of New York's nonprofits provided by GuideStar, the largest source of information on nonprofit organizations; in-depth interviews with more than 20 executive directors, board members, and funders involved with nonprofits in distress; and discussions with the Human Services Council and the Center for an Urban Future, both of which have undertaken related projects to understand and improve the state of New York's nonprofits.

We wish to thank everyone who participated in these interviews and discussions, as well as those people who provided feedback on earlier drafts of the report.

This work is motivated by our recognition that nonprofits play a critical social role – improving education, alleviating poverty, providing economic opportunity, supporting our healthcare system, sustaining the arts – and that their health is vital to New York. We hope to have contributed to the important discussion taking place, particularly in the wake of the bankruptcy of FEGS, about how to mitigate the likelihood of acute financial distress for nonprofits of any size or sector. All New Yorkers are indebted to those nonprofit trustees who take seriously their duties of care, obedience, and loyalty to govern their organizations well, striving to maximize the good they do while managing the risks they face. We hope that this report will prove useful to at least a few of them.

For further information or to discuss risk management in the context of a particular organization, please contact:

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PROJECT RENEWAL

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Testimony of Steven Jones
New York City Council Committee on Contracts Hearing:
Challenges Facing Nonprofits in City Contracting
April 4, 2016

My name is Steven Jones and I am the Chief Financial and Administrative Officer of Project Renewal. Thank you to Council Member Rosenthal and the Committee on Contracts for holding this hearing on the Challenges Facing Nonprofits in City Contracting. This issue is of great importance to the nonprofit sector and particularly timely given the release of the Human Services Council's report *New York Nonprofits in the Aftermath of FEGS: A Call to Action.* I greatly appreciate the opportunity to offer testimony on the contracting issues impacting human services providers.

Project Renewal's mission is end the cycle of homelessness in New York City. We serve approximately 15,000 people every year. Our geographic areas of focus are Manhattan and the Bronx and our approach is to implement effective solutions in transitional and permanent housing, primary/psychiatric healthcare and employment.

The programs that we are most proud of are:

- Project Renewal has 721 shelter beds that we operate under contract with the City of New York. The newest of these is 108 bed facility known as Ana's Place in the Wakefield section of the Bronx.
- In the area of housing, Project Renewal has 1,178 beds (372 transitional and 806 permanent housing beds). The Villa Apartments that opened in December of 2015 is our most recent addition.
- We have mobile vans that deliver primary and psychiatric care to our clients and Article 28 clinics in three of our shelters.
- Our Next Step employment program places over 300 people in jobs during the year.

The overall budget for Project Renewal is approximately $60 million and we employ over 950 people. We have 11 contracts with City agencies totaling $23.3 million dollars and are faced with a number of challenges. But I would like to offer testimony today on the reimbursement of indirect costs.

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None of our contracts with the City reimburse indirect costs at a rate that comes close to allowing us to recover our actual costs.

The NYC Department of Homeless Services is our largest funder, totaling $17.3 million, with indirect rates of 8.5%. We also partner with the NYC Department of Health and Mental Hygiene. Those contracts total $5.4 million with indirect rates of 10%.

Project Renewal has a federally negotiated indirect cost rate of 18.00%. The rate is approved annually by the U.S. Dept. of Health and Human Services and is based on our audited financial statements. That leaves a shortfall of over $2 million a year that must be funded through other means ($1.6 million on DHS contracts and $430,000 on DOHMH contracts).

To make up the deficit between our contract and actual rates, we raise money in the private sector from individuals, foundations and corporations. These are resources that could be used for direct services to clients instead of subsidizing the government. And Project Renewal has to use 80% - 85% of the money raised privately to cover unfunded indirect costs.

Project Renewal has had to take drastic measures to make up the difference between contracted and actual rates. We have suspended employer matching contributions to our employee benefit plans. We have not been able to adequately develop our technology infrastructure. We are saddled with old computers that run outdated software. This hampers our efforts to efficiently collect and analyze data. The underfunding of incorrect costs also strangles our performance evaluation and quality assurance efforts. All these factors are critical to program development as our partners in government and the private sector move toward performance-based contracts and offer future funding based on outcomes.

Underfunding of indirect costs compromises services to an already underserved segment of our population. Internally, it makes morale difficult to maintain and it makes our ability to attract and retain employees impossible.

Project Renewal would like to thank Council Member Rosenthal and the Human Services Council again for convening this committee and giving us the opportunity to be heard on this very important matter.

The New York City Council
Contracts Committee
CHAIR, HELEN ROSENTHAL

HEARING: Oversight - Challenges Facing Nonprofits in City Contracting

Chambers at City Hall
April 4, 2016
1 PM

Testimony of

Jeremy C. Kohomban, PhD
President and CEO, The Children's Village
President, Harlem Dowling West Side Center

Good afternoon, I am Dr. Jeremy Kohomban, and I represent four organizations that employ over 1,500 New Yorkers. Together, The Children's Village, Harlem Dowling, Inwood House, and the Bridge Builders Community Partnership in Highbridge serve more than 20,000 New Yorkers each year.

We serve a broad range—from children considered to be at highest-risk for harm to children and families who simply need a meal or a safe and affordable place to call home.

The Children's Village has benefited from the leadership and support of New York City, which has historically been exemplary in helping us do this work. The Mayor's 2.5% COLA and the push for equity are examples of this leadership. In return, we, like the other nonprofits represented here today, have been there for New York City during the good times and in those difficult times. In fact, let me go even further by saying that charities like us created New York City's safety net. Today, during crises, we are the lifeline that New Yorker's depend on. We are embedded in communities, many of us are available around-the-clock and, in many cases, we are the visible representation of responsive government.

However, I believe that government has taken us for granted. We lack the support needed to continue to make our City the envy of the world. The current status quo of underfunding, delayed payments and competing and confusing regulatory demands is draining us of resources and driving many mission-critical organizations into survival mode.

Our entire sector provides services at rates far less costly than any government agency. Despite this reality, contract reimbursement often refuses to take into account the annual escalations that include healthcare, cost of living and a living wage for our staff. At The Children's Village, our Federally-approved indirect rate is 13%, but NYC caps indirect costs at 10%, forcing us to absorb the additional costs. In addition to this underfunding, we also deal with delayed reimbursement and the often hidden cost of unreimbursed interest payments that we are forced to make on extended credit lines.

While we are untiring in our fundraising, our donors are most interested in helping children and families and least interested in subsidizing what they are increasingly seeing as government shirking its responsibility. I would be remiss if I did not note that, without our generous donors, The Children's Village would not be in a position to serve New York as we do today, perhaps not at all.

Mandate overload and confusing and competing regulations are an additional burden, with real human and financial costs. There continues to be a trend of well-intended mandates and regulations that are imposed on us with no additional reimbursement. We have also seen the intentional shifting of liability from government to nonprofits. These translate into additional costs for the nonprofit and also for government. This also make our front-line work extremely difficult by creating a "gotcha" culture – basically, a culture of fear among those employees who we depend on to be on the front lines, often serving in very difficult circumstances.

What's stunning about all of this is that some, and possibly most of these mandates and regulations can be streamlined. Is it really necessary or useful to anybody to have a hundred plus program and fiscal audits every year? We believe mandates and regulations can be streamlined to be supportive rather than repressive, if we work together.

In closing, I ask that you consider working on three problems that would make a significant difference in our ability to serve New Yorkers: fund nonprofits at fair rates; pay us on time; and work with us to streamline and reduce unfunded mandates.

Thank you for the opportunity to testify about these important issues.

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I represent: CAMBA

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Name: Paul B. Feuerstein

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I represent: Barrier Free Living

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Name: Steven Helfand
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I represent: Federation of Mental Health Clinics Philanthropy
Address:

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Name: Sheena Wright
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I represent: United Way of NYC
Address:

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Name: Stephanie Gendell
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I represent: Citizens Committee for Children
Address:

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Name: Daniel Lehman

Address: ______

I represent: The Children's Aid Society

Address: ______

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Name: Sandy Weinstein

Address: ______

I represent: Goodwill Industries of New York New Jersey

Address: ______

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Philanthropy

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Name: Nicole Gallant

Address: ______

I represent: United Way of NYC

Address: ~~[illegible]~~ 2:30-3:30

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Name: Quenia Abreu

Address: ________

I represent: NY Women's Chamber of Commerce

Address: ________

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Name: Garrand Etienne

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I represent: Turning Point Brooklyn

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I represent: The Fortune Society

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Name: Marla B Simpson

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I represent: Brooklyn Community Services

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I represent: Phipps Neighborhoods

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I represent: Partnership With Children

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I represent: RSM LLC

Address:

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Name: Lester Marks

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I represent: Lighthouse Guild

Address:

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Name: Dana Altner

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I represent: Good Shepherd Services

Address:

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Name: Heidi Aronin

Address: ______

I represent: JASA

Address: ______

Philanthropy

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Name: Pat Jenny

Address: ______

I represent: New York Community Trust

Address: ______

Cost escalation

program design

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ______ Res. No. ______

☐ in favor ☐ in opposition

Date: ______

(PLEASE PRINT)

Name: Ron Abad

Address: ______

I represent: Urban Pathways

Address: ______

Please complete this card and return to the Sergeant-at-Arms

THE COUNCIL
THE CITY OF NEW YORK

Needs to leave by 3

Appearance Card

I intend to appear and speak on Int. No. ______ Res. No. ______
☐ in favor ☐ in opposition

Date: ______

(PLEASE PRINT)

Name: Carer Barkowitz

Address: ______

I represent: The Jewish Board

Address: ______

THE COUNCIL
THE CITY OF NEW YORK

Challenges re supportive housing w/ static funding

Appearance Card

I intend to appear and speak on Int. No. ______ Res. No. ______
☐ in favor ☐ in opposition

Louisa Chafee

Date: ______

(PLEASE PRINT)

Name: Garfield Atienne ~~of NY~~

Address: ______

I represent: Turning Point Brooklyn

Address: ______

THE COUNCIL
THE CITY OF NEW YORK

w/HSC

Appearance Card

I intend to appear and speak on Int. No. ______ Res. No. ______
☐ in favor ☐ in opposition

Date: ______

(PLEASE PRINT)

Name: Loplsin Chafee

Address: ______

I represent: UJA-Federation of NY

Address: ______

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w/HSC

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ________ Res. No. ________

☐ in favor ☐ in opposition

Date: ________

(PLEASE PRINT)

Name: Carlyn Cowan

Address: ________

I represent: FPWA

Address: ________

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ________ Res. No. ________

☐ in favor ☐ in opposition

Date: ________

(PLEASE PRINT)

Name: Stephanie Gendell

Address: ________

I represent: Citizens' Committee for Children

Address: ________

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ________ Res. No. ________

☐ in favor ☐ in opposition

Date: ________

(PLEASE PRINT)

Name: Gregory Brender, Judy Zangwill, Elizabeth Hoagland

Address: ________

I represent: United Neighborhood Houses

Address: ________

Please complete this card and return to the Sergeant-at-Arms

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ________ Res. No. ________
☐ in favor ☐ in opposition

Date: 4/4/16

(PLEASE PRINT)

Name: Louisa Chafee
Address: 438 12th st Brooklyn 11215
I represent: UJA
Address: 159 East 59th St

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ________ Res. No. ________
☐ in favor ☐ in opposition

Date: 4/4/16

(PLEASE PRINT)

Name: MARLA SIMPSON
Address: 285 Schermerhorn Bklyn 11217
I represent: Bklyn Comm. Services
Address: same

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ________ Res. No. ________
☐ in favor ☐ in opposition

Date: 4/4/16

(PLEASE PRINT)

Name: Quenia Abreu
Address: 177 W. 83rd Street
I represent: NY Women's Chamber of Commerce
Address: 1524 Amsterdam Ave.

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THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ______ Res. No. ______
☐ in favor ☐ in opposition

Date: 4-4-16

(PLEASE PRINT)

Name: Sara Rakita

Address: ~~131 W. 33rd~~ St. 35-26 Leverich St, Jackson Hts 11372

I represent: NY Immigration Coalition

Address: 131 W. 33rd St NY NY 10001

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ______ Res. No. ______
☐ in favor ☐ in opposition

Date: ______

(PLEASE PRINT)

Name: Rev. Wendy Calderón

Address: ______

I represent: BronxConnect

Address: ~~42~~ 432 E. 149th ST Bx NY

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ______ Res. No. ______

☒ in favor ☐ in opposition

Date: 4/4

(PLEASE PRINT)

Name: Joseph Rosenberg

Address: 80 Maiden Lane

I represent: Catholic Community Relations Council

Address: ______

Please complete this card and return to the Sergeant-at-Arms

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ______ Res. No. ______

☐ in favor ☐ in opposition

Date: 4/4/16

(PLEASE PRINT)

Name: Michael Owh

Address:

I represent: Mayor's Office of Contract Services

Address: 253 Broadway 9th Fl, NY, NY

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ______ Res. No. ______

☐ in favor ☐ in opposition

Date: 4/4/16

(PLEASE PRINT)

Name: Heidi Aronin

Address: 247 W. 37 St 9 Fl.

I represent: JASA

Address:

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ______ Res. No. ______

☐ in favor ☐ in opposition

Date:

(PLEASE PRINT)

Name: Pat Jenny

Address: NY Community Trust

I represent:

Address:

Please complete this card and return to the Sergeant-at-Arms

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ________ Res. No. ________

☐ in favor ☐ in opposition

Date: 4/4/2016

(PLEASE PRINT)

Name: JOHN WEED

Address: 1130 GRAND CONCOURSE

I represent: BRONX WORKS

Address: ________

Please complete this card and return to the Sergeant-at-Arms

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ________ Res. No. ________

☐ in favor ☐ in opposition

Date: ________

(PLEASE PRINT)

Name: DAN SYMON

Address: ________

I represent: HHS ACCELERATOR

Address: ________

Please complete this card and return to the Sergeant-at-Arms