
Strengthening the Nonprofit Ecosystem in New York City
Report on Stakeholder Roundtable by New York City Economic Development Corporation

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EXECUTIVE SUMMARY

The nonprofit sector is not only a substantial employer in New York City; it also provides critical services to New Yorkers from all walks of life. From reducing barriers to employment to preserving parks and outdoor spaces to increasing access to economic opportunity for people and communities, New York City residents experience the benefits of nonprofit organizations in hundreds of ways, large and small.

The New York City nonprofit sector, with over 35,000 nonprofits spending \$33.6 billion in payroll, employs more than 600,000 workers, accounting for upwards of 18 percent of the city's total private workforce. It provides critical services to its residents, from reducing barriers to employment to preserving parks and outdoor spaces to increasing access to economic opportunity for people and communities.

Within this framework, on December 16, 2014, the New York City Economic Development Corporation (NYCEDC) and the Center for an Urban Future (CUF) convened a roundtable of approximately 45 leaders in nonprofits, foundations, government, academia, and business to discuss opportunities and challenges facing New York City-based nonprofit organizations. The group gathered for the roundtable represented a wide range of organizations in size and mission reflecting the diversity of the independent sector. The goals and needs of small nonprofits vary drastically from large anchor institutions, and, similarly, the conditions for human services providers are distinct, for example, from community development groups.

Bringing together much of New York City's nonprofit leadership in this way is a recognition of the important economic and social impact of the sector on New Yorkers. NYCEDC created the Social Capital Desk in late 2014 specifically to bolster the City's mission-driven organizations and broader impact ecosystem for strong communities and lasting economic growth. The ensuing discussion offered crucial perspective from the nonprofit ecosystem, which not only has helped advance New City Government's collective understanding of the sector's pressing needs, but also has directly informed sector-wide programs, which NYCEDC has been exploring.

Although the list of topics addressed at the roundtable is not exhaustive, it reflects some of the most pressing challenges facing nonprofits in New York City and across the U.S. today. In brief, these are:

- **Widespread Misconceptions about Nonprofit Organizations**

Nonprofit organizations comprise a diverse network of job-creating, value-adding entities, yet they are commonly viewed from a deficit, rather than an asset, model. This misconception hinders the sector's ability to showcase its accomplishments, advocate for resources, and advance its collective interests.

- **Human, Physical and Financial Capital Shortages**

Capacity-building challenges included shortages of culturally competent talent, high-level strategic counsel, and financial assets. Resource constraints stemmed partly from the reluctance of foundations to fund administrative overhead as well as the lack of built-in cost escalations in government contracts.

- **Inconsistent Government Processes**

Challenges encountered when working with government included high volumes of paperwork, long reimbursements periods, and time spent navigating multiple city agencies with diverse contracting procedures.

To combat such formidable challenges, a number of existing solutions were cited. Stakeholders further proposed several ways in which NYCEDC could leverage its unique position to impact the nonprofit ecosystem. To help promote nonprofits' image as socially-driven businesses could consider adapting existing resources for small businesses and entrepreneurs to meet the needs of the nonprofit community. To rectify resource disparities, non-profits, with support from the Foundation or Government community, could consider innovative strategic partnerships both with other non-profit organizations and for-profit entities, such as the Citibank "quarterback model." Foundations could incentivize partnerships among nonprofits by modifying their grant allocation process to encourage inter-organization collaboration.

To deal with challenges around government processes, the conversation evolved around consolidating the coordination and paperwork required by nonprofits that hold contracts with government entities, which are in contract with the government. Finally, the need for data that informs both the design and evaluation of nonprofit services was also a high priority. While conducting research and purchasing data raises cost and capacity concerns, participants argued that more investment in this area would enable organizations to measure and illustrate impact, and create numerous opportunities to improve service delivery.

A detailed report on all of the challenges and solutions discussed at the roundtable on December 16, 2014 follows.

WIDESPREAD MISCONCEPTIONS ABOUT NONPROFIT ORGANIZATIONS

Problem Statement

We are creating jobs and doing real work, [yet] the nonprofit field is a siloed part of the city. People need to understand that our work is very important. [Without us] people would be doing much worse than they are now. – Roundtable Participant

Roundtable attendees described several misconceptions that they believe impede the sector's overall effectiveness, including a disparity between actual and perceived value, appropriateness of scaling, and range of services offered.

Compared to businesses, several participants spoke about a dominant perception that nonprofits are merely "charities" looking for a "hand-out." Instead of being regarded as assets, participants emphasized that nonprofit organizations are commonly viewed from a "deficit" perspective. This perspective, participants intimated, stems from a profound disparity between the sector's actual and perceived value. For example, while nonprofits comprise 15 percent of the City's workforce, the sector's role in creating jobs and providing stable employment is rarely acknowledged. Participants also argued that the citywide impact of nonprofit services is undervalued, both by recipients of services and nonprofit organizations themselves. New Yorkers may appreciate the value of nonprofits they have interacted with directly, yet they are less likely to associate those organizations, and their impact, with the sector more broadly. Similarly, nonprofit organizations themselves tend to fall into silos by field, with organizations focused on human services, for example, viewing themselves as separate from organizations focused on healthcare. To the public as well as internally within the sector, participants expressed desire for the impact of nonprofit organizations to be collectively associated, acknowledged, and appreciated.

Strategies From Business Do Not Always Translate to the Nonprofit Sector.

At the same time, participants articulated their frustration with the business community's lack of understanding of the mission, structure, and culture of nonprofit organizations. Attendees emphasized that, when private sector stakeholders did offer strategic input, their business-centric suggestions, such as monetary incentives for staff, tended to contradict the organization's socially conscious values. Moreover, while businesses share a profit-driven bottom line, participants argued that nonprofits require unique, tailored approaches to meet their goals. Many nonprofits, especially those focused solely on one area or neighborhood, also expressed frustration at the business community's emphasis on "scaling." For hyper-local organizations, participants stressed that the goal should not be "how to go bigger," but "how to go deeper," or "build upon competitive advantages." Nonprofits that do expand beyond their capabilities may take on too much risk, or scale at the expense of quality service. The need for nonprofits to understand and internally determine "appropriate scaling" was therefore emphasized.

Monolithic View of Nonprofit Sector Leads To Ineffective Solutions.

In addition, stakeholders felt that nonprofits are often perceived as a monolithic entity by the public, a near-identical bloc. This monolithic view is harmful because it obscures the complexity associated with the 35,000 nonprofits that exist in New York City, organizations that vary widely with regard to scale, scope, structure, and mission. This view also neglects the specific, individual factors that are essential to a nonprofit's success. For example, the needs of small, local nonprofits differ greatly from large, well-known organizations such as United Way, and the core "cultural competencies" necessary for staff differ depending on the specific community being served.

Solutions

Stakeholders proposed several ways to reduce the dominant misconceptions about nonprofits, which hamper their ability to be effective. City agencies that offer training resources for entrepreneurs, such as the Department of Small Business Services (SBS) and NYCEDC, could better target and tailor those resources to the nonprofit sector. Other stakeholders advocated for nonprofit organizations to significantly expand their focus on research and data. While conducting research and purchasing data raises cost and capacity concerns, participants argued that more investment in this area would enable organizations to measure and illustrate impact, creating numerous opportunities to improve service delivery. In addition, organizations with proof of impact programs could enhance their attractiveness to major donors and foundations, which in recent years have increasingly sought sophisticated evaluation methods from grantees. Geo-mapping, which would enable nonprofits to be visually represented by geographical location, could also help improve citywide service delivery by identifying which areas currently being served by the nonprofit community and which areas could benefit from an increased nonprofit presence.

HUMAN, PHYSICAL, AND FINANCIAL CAPITAL SHORTAGES

Problem Statement

We have to recognize that the expenses and revenues are not lined up. Nonprofit employees are mirroring their clients...[they are] just trying to live day-to-day. [They] cannot be thoughtful...they want to be creative, [but] do not have the time or money to figure out how to fix their model to operate in this new environment that has [dramatically] changed since 2008.

—Roundtable participant

Stakeholders described a number of resources, including lack of human capital, financial capital, physical capital, and high-level strategic counsel, which they believe hinder the sector's ability to meet demonstrated need and operate at full potential.

Talent Pipeline Shortage

Recruiting and retaining talented employees appeared to be at the forefront of resource difficulties. As one stakeholder explained, nonprofits cannot afford to pay at a level that is commensurate with the private sector, nor can they offer the generous benefits of government. Therefore, in the fierce bidding war for top talent, nonprofits often lose talent to the private and public sector. Further, nonprofits lack clear paths to advancement and dedicated professional development opportunities, another source of concern for young professionals (and their parents). At the same time, many older nonprofit executives will retire in the next few years, exacerbating the demand for a pipeline of high-level talent. While hiring top talent represents a continual challenge, stakeholders also felt that the quality and diversity of their boards could be improved to reflect a broader range of networks and skill sets.

Limited Financial Resources

To no one's surprise, stakeholders described feeling severely constrained by finances. Participants expressed their frustration at foundations' reticence to fund "overhead" (e.g. office supplies, utilities, IT, employee salaries) as opposed to programmatic initiatives. As a result of this institutional unwillingness to fund administrative costs, stakeholders argued that they are forced into "survival mode," at the expense of long-term planning or brainstorming ways to be more creative and innovative. Nor did participants feel that traditional capital sources were accessible; they described banks as seemingly "reluctant" to make loans to nonprofit organizations. Participants noted that obtaining sufficient funding is particularly problematic for small nonprofits, which often fall "under the radar" of big-time philanthropists and donors.

Finally, with regard to government funding, participants described what they perceived as a discrepancy between cost and reimbursement. While costs have continued to increase due to inflation and other factors, the rate at which nonprofits are compensated by government has not increased accordingly, which has led to lower purchasing power for the sector overall.

Increasing Real-Estate Costs

For neighborhood-based nonprofits, being able to afford rent constituted an additional, significant challenge. As the value of real estate has increased in numerous areas throughout New York City, nonprofits tied to a particular neighborhood face a unique dilemma: while moving would make sense financially, relocation would mean sacrificing their hyper-local mission and purpose. Yet in opting to stay put, nonprofits struggle to afford escalating rent payments. Nonprofits that depend on availability of space for their mission, including industrial manufacturing, also cited land use and financing challenges.

Need for Affordable and Mission-Fit Strategic Counsel

Finally, nonprofit leaders expressed an unfulfilled need for strategic counsel, particularly relating to organizational financing and long-term viability. Stakeholders emphasized that they do not have the capacity to engage in such processes online, nor can they afford to hire consultants who could provide the desired input on a case-by-case basis. Without this strategic guidance, nonprofits struggle to stay competitive or risk taking on projects beyond their expertise and entering into unwise partnerships with for-profit entities, among other imprudent decisions. Access to strategic counsel could spur innovation and creativity, improve the quality of programs and external partnerships, and ensure an organization's future sustainability.

As a result of significant deficits in monetary and human capital, combined with economic and other systemic factors that have rendered New Yorkers more reliant on services, participants felt unable to meet the demonstrated need of their communities. Many participants described feeling completely overwhelmed by the magnitude of demand for their services. According to one participant, demand for services in 2013 increased for 80 percent of nonprofits in the city, with 56 percent unable to meet that need.

Solutions to Human, Physical, and Financial Capital Deficiencies

Participants suggested a number of ways to improve nonprofits' resource constraints. Proposed remedies generally fell into two categories: reducing costs and increasing access to capital. With regard to cost savings, attendees emphasized the importance of joining forces with other entities. Other attendees advocated for an "economies of scale" approach, in which nonprofits could reduce their costs by sharing back-office space and services.

Innovative Funding From Private Sources

To increase access to capital, attendees stressed that the nonprofit sector, in tandem with philanthropy and the business community, needed to think more creatively about funding streams. Participants cited the Change Capital Fund, an initiative in which seventeen foundations and financial institutions joined forces in order to fund five community development corporations (CDCs), as a potential model for funders to maximize impact by combining resources. To mitigate cash flow issues, another participant mentioned an existing program run by the Fund for the City of New York, which provides interest-free loans to nonprofits awaiting payments from government and foundations. Participants suggested that banks could be encouraged to replicate the Fund's cash loan program as well. Yet another funding innovation cited was the quarterback model centers on funding a large nonprofit, which subsequently contracts out tasks to smaller nonprofits. This model allows local nonprofits to participate in the service delivery, while delegating the all-consuming administrative requirements to agencies with more capacity.

Creative Deployment of Government Resources

With regard to government funding, one participant suggested that the City leverage federal Community Reinvestment Act (CRA) dollars. While these dollars have been used traditionally for affordable housing causes, they could potentially be applied to economic development as well. Incorporating regular cost-escalations for government contracts was also proposed. Another participant suggested that NYCEDC help allocate part of the State's surplus to create a "nonprofit infrastructure fund," which organizations could use to fund technology, real estate, and other investments. Finally, participants highlighted the affordable housing sector's strategy of partnering with philanthropic and government entities to build a strong ecosystem, which was then able to advocate more aggressively for funding dollars. Participants suggested that the nonprofit sector emulate this successful approach to building an advocacy and resource network.

Attract Talent Through Creative Yet Feasible Incentives

To create a better talent pipeline for nonprofits, one participant suggested that donors fund fellowships which enable high-potential individuals to work at nonprofit organizations on a short-term basis. Another participant recommended that nonprofits (perhaps in concert with the business community) create corporate retention-like programs to incentivize longevity in the nonprofit sector, or exchange programs with the private sector to induce cross-sector perspectives. Recognizing a growing trend among young professionals for careers with a social mission or impact without sacrificing personal financial gains, a participant suggested that traditional nonprofit organizations consider a social enterprise model.

Convey Importance Of Funding Overhead

At the same time, several nonprofit leaders believed that nonprofits collectively could do more to communicate the critical importance of funding overhead. Without sufficiently "capturing the narrative" of why operational funds are crucial to an organization's long-term sustainability, donors will naturally gravitate toward funding programs. In the eyes of one participant, it is simply a matter of re-investing in the issue. Participants intimated that government agencies, such as NYCEDC, could play a pivotal liaison role in working with philanthropic organizations and other funders to persuade them into funding a greater share of overhead expenses.

INCONSISTENT GOVERNMENT PROCESSES

Problem Statement

If I'm doing youth services, I'm dealing with DYCD [Department of Youth and Community Development], housing is NYCHA [New York City Housing Authority], then there's children's services [NYC Administration of Children's Services], HRA [Human Resources Authority], seniors are DFTA [Department for the Aging], if I'm just doing one issue area but contracting with the city, there's MOCS [Mayor's Office of Contract Services], Comptroller's Office, community boards...what NYCEDC could do is help nonprofit organizations in the way they have to liaison with all these different government entities. [Because right now] it leads to great inefficiencies in the sector.

– Roundtable Participant

The final critical challenge facing nonprofits discussed at the roundtable involved what participants described as substantial contract-related inefficiencies. While participants identified bureaucratic issues amongst most types of funding institutions, including foundations, their main complaints rested with government, which functions as the primary funding source for many nonprofit organizations (particularly those focused on human services). Participants expressed frustration at having to liaise with multiple City agencies that operate on different databases and have varying contracting and reporting protocols for City procedures. The City's procurement and discretionary funding process were described as time-consuming and rigid, and participants felt that their organization's productivity suffered as a result. A number of participants had also experienced delays in government payments, which resulted in financial losses. There was discussion about the work of the Strengthening Nonprofits Task Force launched in 2009 to shape and guide initiatives addressing some of the above challenges. The HHS Accelerator and Greater NY were two of the programs which resulted from the Taskforce (For more information, see the policy brief "Strengthening Nonprofits through Effective Cross-Center Collaborations" by the New York City Center for Economic Opportunity).

Solutions

While attendees agreed that their volume of red tape needed to be reduced, few tangible solutions to the problem were discussed. One idea floated was for a single government agency to function as a "nonprofit liaison," helping nonprofits interface with other government agencies and advocating on their behalf.

CONCLUSION

NYCEDC recognizes the major contribution of nonprofit organizations and other mission-driven businesses in the social and economic health of the City. The insights gathered at the December 16th roundtable will directly inform a new set of solutions for nonprofits, which NYCEDC is designing in close collaboration with the sector and New York City government. For updates and information on existing tools for nonprofits, visit www.nycedc.com.

For questions, contact Eleni D. Janis, edjanis@edc.nyc, Vice President, Social Capital Desk, NYCEDC.

About the Social Capital Desk

The Social Capital Desk aims at growing and strengthening the impact ecosystem in New York City for strong communities and lasting economic growth. We cultivate the conditions for mission-driven businesses to take root and thrive; enable the broader business community to integrate financial objectives with social and environmental ones; and build institutional support for blended-value approaches and businesses.

About the Center for Economic Transformation

The Center for Economic Transformation (CET) at NYCEDC aims to develop the City's major business sectors by implementing policy and programmatic initiatives that address current issues faced by each industry, creating good jobs, and promoting entrepreneurship and economic diversification across the five boroughs.

About NYCEDC

NYCEDC is the City's primary engine for economic development, charged with leveraging the City's assets to drive growth, create jobs, and improve quality of life. We are an organization dedicated to New York City and its people. We use our expertise to develop, advise, manage, and invest to strengthen businesses and help neighborhoods thrive. We make the City stronger.