

Supporting the Non Profit Community

Improving Service Delivery, Enhancing Efficiency



A Joint Research Effort by
United Way of Long Island
and The Long Island Association
May 2008

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Executive Summary

Background. The nonprofit sector is an important component of the Long Island economy. It employed almost 117,000 persons and generated almost \$5 billion in payrolls in 2006. Between 2000 and 2006, nonprofit employment on Long Island increased by 14.5 percent as compared with a growth rate of only 2.5 percent for total Long Island employment. During the same period, not-for-profit payrolls grew by almost 45 percent as compared with an 11.6 percent increase for total Long Island payrolls. Despite this large increase in nonprofit salaries, the average salary for an individual in the social service sector is still only \$26,179 as compared with an average annual salary of \$49,794 for an individual working in the health care sector. The average annual private sector wage on Long Island was \$45,110 in 2006. The almost \$5 billion in payroll spending generated by Long Island's nonprofit community in 2006 is only the "tip of the iceberg" in terms of the total economic impact of the nonprofit sector. This payroll spending undergoes several rounds of "respending" so that its ultimate economic impact is a multiple of the original expenditure. This is the so-called multiplier or ripple effect. Nonprofit jobs also support jobs in other sectors of the Long Island economy through the multiplier mechanism. Direct payrolls of almost \$5 billion supported total Long Island payrolls of more than \$8.6 billion, either directly or indirectly in 2006. This was equivalent to more than 15 percent of total Long Island payrolls. Direct jobs of almost 117,000 supported a total of almost 197,000 jobs within the Long Island economy directly or indirectly. This was equivalent to almost 16 percent of total Long Island employment.

The nonprofit sector exists because the demand for the services they provide is not entirely – or in some cases even partially – satisfied by the private sector or government. In economic terms, the market mechanism that allocates supply and demand fails. This market failure results in an under allocation of resources to vital health, human and social services. The not-for-profit community fills this void. However, there are major functional differences between not-for-profit and private sector enterprises. Whereas private, for-profit enterprises are subject to the discipline of the marketplace, nonprofits are able to proliferate without market discipline as long as they can obtain funding. This often results in the creation of many small nonprofit organizations that lack the capacity to function efficiently. A recent wave of mergers, acquisitions and consolidations within Long Island's private sector economy has reduced the number of potential private sector donors and narrowed the funding stream available to local nonprofits. The slowing economy will further narrow this funding stream. Local nonprofits are cognizant of these changes and many have implemented cost-saving measures. However, additional cost-saving measures are possible.

The Optimization Survey. To develop cost-effective solutions to the challenges facing Long Island's not-for-profit sector, it was first necessary to determine what those challenges were. This was done by means of an online survey of United Way of Long Island's community partners. Seventy of the 116 United Way community partners answered all questions fully, a response rate of 60 percent. Affordable housing was listed as the most significant or among the top five most significant human service needs on Long Island. Many respondents expressed the opinion that without an affordable place to live, the services they provide cannot be effective. Other priorities listed were childcare, healthcare, workforce development, advocacy, and youth programs. Most respondents selected fundraising, grant writing, human resources/staffing and marketing, as their most pressing back office/administrative needs. Computer systems support, staffing and benefits administration were also listed. Most respondents do not currently outsource their back office or administrative functions. In discussing the obstacles to the functioning of their organizations, 35 respondents cited fundraising problems, 21 cited staffing problems and 19 cited marketing problems. Other obstacles mentioned included problems setting up computer software systems, obtaining computer support and legal services, finding finance staff, planning events, purchasing office supplies and administering employee benefits. Those respondents having contracts with Nassau and/or Suffolk Counties reported payment delays and the need for excessive supporting documentation as major obstacles.

Shared-Service Models. A literature search revealed that many nonprofits have begun to benefit from sharing various back office services. Such shared services enable nonprofits to concentrate more fully on their core missions and devote more of their resources to those missions. The most common model for shared services is a management service organization (MSO) that is created by a group of nonprofits as a freestanding entity. The MSO has its own separate organizational and legal identity but is owned by the nonprofit organizations it services. Shared service models can provide a single service or a range of services. For example, a human resources MSO might administer a single benefits program for participating nonprofits. Shared service models can reduce back office operating costs by consolidating costly overheads.

The Case for Mergers. For some nonprofits, going beyond collaboration to an actual merger of their operations may make sense. The fact that the growth of nonprofit organizations has outstripped the growth of donor dollars for some time has revived interest in mergers within the nonprofit sector.

The fact that the failure rate for small nonprofits exceeded 20 percent in the first half of this decade has given even greater impetus to the “urge to merge”. Because the legal issues involved in mergers and consolidations can be extremely complicated and the merger process extremely costly, some nonprofits have found alternative ways to merge. Sometimes mergers are achieved by reassigning government contracts from the weaker to the stronger merger partner, thereby allowing the weaker partner to go out of business. Mergers cannot be undertaken lightly. There is always concern that the merger will eliminate the unique identities of the merger partners or reduce their ability to serve the needs of their target communities. There is also concern that the resources and energies needed for a successful merger will divert the merger partners from their principal service missions. On the plus side, however, mergers can reduce unnecessary duplication of services and increase the reach of the merged organization by building capacity.

There is no general standard for determining how many nonprofit organizations should exist in a given community. Many nonprofit organizations serve vulnerable populations. Therefore, some degree of competition and overlap within the nonprofit community is justified. Moreover, the proliferation of nonprofits is not dangerous in and of itself. New nonprofit organizations are often needed to solve new problems. The flaw in the current system may lie in attempts to keep low-impact, poorly managed nonprofit programs and organizations afloat. Some believe that such organizations should be allowed to fail because they do not have the capacity to operate efficiently and maximize resources. A focus group hosted by United Way of Long Island to explore the potential for local nonprofit mergers and collaborations concluded that several Long Island nonprofits have, in fact, entered into initial discussions that could potentially lead to full-scale mergers. Participants in this process stressed the need to get to know each other well before proceeding to the next step in the merger process. They also stressed the need for board involvement in any merger discussions from the outset.

Financial Ratios. Nonprofit organizations are required to implement a sophisticated cost accounting and reporting system. As part of the analysis of United Way community partners, financial indicators showing sources of funding and distribution of expenditures by budget category and program area were developed. There were 111 United Way member agencies in the sample. The resulting financial ratios will allow individual nonprofit agencies to compare their financial status with the average for their budget category and program area. The results showed that the larger an agency’s annual budget, the more it can depend on program service fees. Conversely, the smaller an agency’s budget, the more it must depend on government revenues. Apparently, larger nonprofit organizations have the capacity to offer a broad array of services and charge for them. Moreover, the process appears to be exponential. That is having a certain level of capacity allows the organization to build even more capacity. The results also showed that overhead expenses declined as budget size increased. On average, overhead expenses for agencies with annual budgets of less than \$1.5 million were 23 percent. By contrast, overhead expenses for agencies with annual budgets exceeding \$10 million averaged 14 percent. Increased budget size was also associated with a higher proportion of expenditures for program services.

Conclusions. Nonprofit enterprises are a large and growing segment of the Long Island economy. They exist largely because the demand for their services is not completely or in some cases even partially met by the private sector or government. Recent mergers within the private sector coupled with the slowing national economy will narrow the stream of funding dollars at a time when the demand for nonprofit services is escalating. When the economy worsens, crime and other adverse social behaviors increase as does the need for a strong social safety net. The optimization committee overseeing this report drew several conclusions from the facts presented in the report. Their conclusions fell into several categories:

1. Establishing Clear Service Priorities

Closer cooperation between the human service, health service and government sectors is needed. These entities should develop community-based partnerships to identify service gaps, leverage their individual strengths and integrate care. It is important for nonprofit organizations to establish clear service priorities and to convey those priorities to government agencies through nonprofit umbrella organizations and the local business community. Establishing clear service priorities and conveying them to funders becomes even more critical as funding sources diminish.

2. Discussing Platforms for Shared Services

It would be useful for nonprofits to identify controllable and non-controllable expenses and begin to discuss possible platforms for shared services. Such platforms could enhance economies of scale, increase the level of expertise available to the nonprofit community and redress the back office deficiencies revealed by the optimization survey. Evidence of greater accountability and efficiency in the management of controllable expenses is likely to attract more funding dollars. Moreover, as nonprofit organizations become more efficient, scarce dollars can be better used to meet established service priorities.

3. Achieving Financial Stability

The financial indicators developed in the report clearly showed that some nonprofits are disproportionately dependent on government revenues. The committee concluded that if nonprofits are to be financially stable, they must have a diverse array of revenue sources. That is, they must balance government revenues with fees for services and philanthropic dollars. The financial ratios confirmed that the size of a nonprofit organization correlates directly with its capacity to diversify its revenue sources. The larger the organization, the greater the diversity of funding sources. Given anticipated future revenue constraints caused by the weakening economy, it is important to analyze what funding remains available and to realign existing programs with available funding sources. In pursuing philanthropic dollars, it should be recognized that individual contributions have historically been the most stable form of philanthropy and that individual donations should be actively pursued.

4. Meeting Back Office Needs

The optimization survey revealed limited skills or resources in several nonprofit back office functions including marketing and advertising, grant writing, information technology, legal services, accounting and reporting procedures as well as event planning. Given today’s increasingly stringent auditing requirements and Internal Revenue Service regulations, nonprofit organizations need sophisticated financial talent and accounting resources. The optimization survey showed that such talent is often lacking in nonprofit organizations. Closer cooperation between nonprofits and the local business community may make it possible to obtain needed back office resources. Local companies may be able to provide training in various back office specialties, give in-kind services, and encourage volunteer support to the nonprofits in their respective communities. By working together, nonprofits may be able to identify complementary roles or resources that they could share and leverage. Government agencies can assist by standardizing their reporting requirements so as to ease the accounting/reporting burden for nonprofits. The New York State Consolidated Fiscal Report (CFR) could serve as the model for standardized reporting procedures.

5. Addressing Inequities in Nonprofit Compensation

The optimization survey revealed that social service wages remain too low to attract and retain qualified staff. The inability to properly remunerate dedicated social service professionals has created recruitment problems and resulted in increased turnover.

This study was designed to serve as the basis for a call to action and an ongoing dialogue between the nonprofit community, the business community and the government sector concerning how nonprofits can maximize their resources to best fulfill their respective missions. The goal is to ensure the highest quality of care to the most people in need efficiently and effectively. Next steps will include the evaluation of available capacity within various segments of the nonprofit community. The number of clients served and the outcome of the services rendered will be an important component of such studies. Escalating economic problems and the social ills they generate make it essential to preserve a viable social service net. Long Island’s nonprofits can no longer ignore the challenge to become more efficient. A crisis is upon us. In crisis, change can happen.

Supporting the Nonprofit Community: Improving Service Delivery, Enhancing Efficiency

A Joint Research Effort by United Way of Long Island
And The Long Island Association
May 2008

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Introduction

In June 2006, the Long Island Association performed its first comprehensive analysis of the economic impact of Long Island's not-for-profit sector. It found that this sector was a rapidly growing and increasingly important component of the Long Island economy. Whereas not-for-profit employment increased by more than 9 percent during the 2000-04 study period, total Long Island employment increased by only one percent. Whereas not-for-profit payrolls increased by 33 percent during the study period, total Long Island payrolls increased by only 13 percent, however, despite this overall increase in nonprofit payrolls disparities remain within the sector. An individual working in the social services is paid an average annual salary of \$26,179 as compared with an average annual salary of \$49,794 for an individual working in the health care sector. The average annual salary for all private-sector workers on Long Island was \$45,110 in 2006. The report concluded that the not-for-profit sector was an important economic entity, accounting for more than 15 percent of Long Island's \$126.3 billion economy in 2004.

The current study updates these findings through 2006 based on preliminary New York State Labor Department payroll and employment data for the fourth quarter of 2006. However, the mission of this study is much broader. Recent buyouts, mergers and acquisitions within the business community have reduced the number of potential corporate donors at a time when nonprofit enterprises are proliferating and the demand for their services is growing. This means that more nonprofits are competing for scarcer corporate and individual donor dollars. The funding squeeze is likely to intensify as the nation's economy slows. The U.S. economy is clearly in recession and Long Island businesses and consumers will be feeling the pinch. Normally, recessions begin when consumers retrench. This leads to job layoffs that continue until balance is restored in the economy. This recession was triggered by the meltdown in subprime mortgages, which caused turmoil in the financial sector. Only once before in our recent history did financial sector problems trigger an economic slowdown and that was in 1929. Although we are not facing another depression, the current recession could be deeper and longer than most post-World War II recessions because it will take time to unwind the recent housing bubble and make ailing financial institutions whole. This means that Long Island's nonprofit community will be asked to do more with less. The goal of this report is to give the nonprofit community an array of options to help them function in the most cost-effective manner possible. It provides financial benchmarks that individual nonprofit agencies can use to measure their financial performance against the average for those providing similar services. It discusses how nonprofits throughout the nation are sharing administrative and back-office support services. It also presents case studies of voluntary efforts to leverage capacity through collaborations and consolidations among Long Island nonprofits.

United Way of Long Island has partnered with the Long Island Association in developing this report. United Way staff members and United Way's Committee on Nonprofit Optimization, shown in Appendix A, were extremely helpful in developing this report. The study is one step in a process designed to ensure the continued vitality and viability of Long Island's not-for-profit community. Although United Way's community partners submitted much of the information upon which the report is based, it is hoped that the material presented will serve as a template for the entire not-for-profit community.

The Not-For-Profit Sector on Long Island

According to the National Center for Charitable Statistics in Washington, D.C., nonprofits generate billions of dollars in revenue and account for 8.3 percent of all U.S. wages and salaries. Long Island's nonprofit community employed almost 117,000 persons and generated almost \$5 billion in payrolls in 2006. Between 2000 and 2006, nonprofit employment on Long Island increased by 14.5 percent as compared with a growth rate of only 2.5 percent for total Long Island employment.¹ During the same period, not-for-profit payrolls grew by almost 45.0 percent as compared with an 11.6 percent increase for total Long Island payrolls. As a result, the ratio of not-for-profit employment to total employment on Long Island increased from 8.4 percent to 9.4 percent between 2000 and 2006; the not-for-profit share of aggregate payrolls increased from 6.8 percent to 8.8 percent during this period. (See Table 1)

Table 1 – The Growth of the Nonprofit Sector vs. The Growth Of the Long Island Economy

Employment	2000*	2006*	Percent Change
Not-For-Profit Sector	101,873	116,693	14.5
All Covered Employment	1,206,490	1,237,151	2.5
Not-For-Profit Share	8.4%	9.4%	
Aggregate Payrolls			
Not-For-Profit Payrolls	\$3,420,568,773	\$4,956,535,759	44.9
Payrolls, All Covered Industries	50,661,142,475	56,532,866,380	11.6
Not-For-Profit Share	6.8%	8.8%	

Source: Computations based on the fourth quarter covered employment series of the New York State Labor Department for 2000 and 2006.

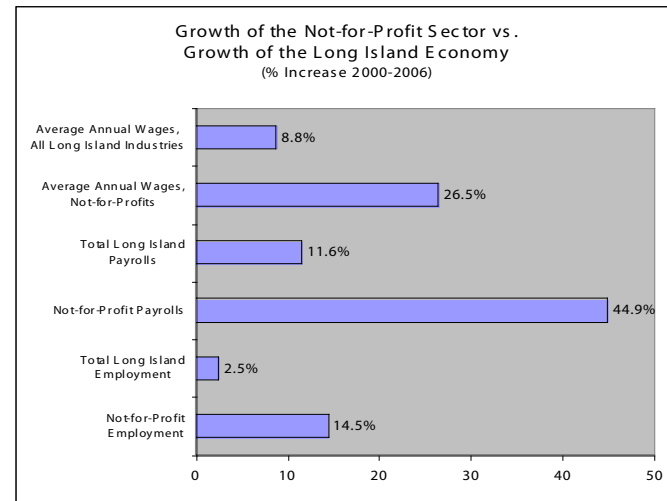
Wages at nonprofit organizations, historically among the lowest on Long Island, are rapidly catching up with average annual wages for all Long Island industries. However, the wage gap remains large for those employed by social service agencies. In 2000, the average annual wage for those employed in the nonprofit sector was \$33,577 as compared with an average of \$21,883 for social service industries and \$41,991 for all Long Island industries. The wage gap between nonprofit industries and all Long Island industries was 25 percent. The wage gap between social service industries and all Long Island industries was 92 percent. In 2006, by contrast, average nonprofit wages were \$42,475 versus \$45,696 for all Long Island industries, a wage gap of less than 8 percent. However, the wage gap between social service industries and all Long Island industries remained large, almost 75 percent in 2006. (See Table 2)

Table 2 – Average Annual Wages, Nonprofits vs. All Long Island Industries

Industry Sector	2000	2006	Percent Increase
Nonprofit Industries	\$33,577	\$42,475	+26.5%
Social Service Industries	21,883	26,179	+19.6%
All Long Island Industries	41,991	45,696	+8.8%
Percent Difference	25.1%	7.6%	

Source: Computations based on the fourth quarter covered employment series of the New York State Labor Department for 2000 and 2006.

1 This refers to employment covered by unemployment insurance.



There are three distinct sectors within the nonprofit community: health care, social services and a catch-all category dubbed “miscellaneous”. The market forces affecting each of these sectors are somewhat different. Therefore, each sector has been analyzed separately to obtain a clearer picture of what is occurring within Long Island’s not-for-profit community.

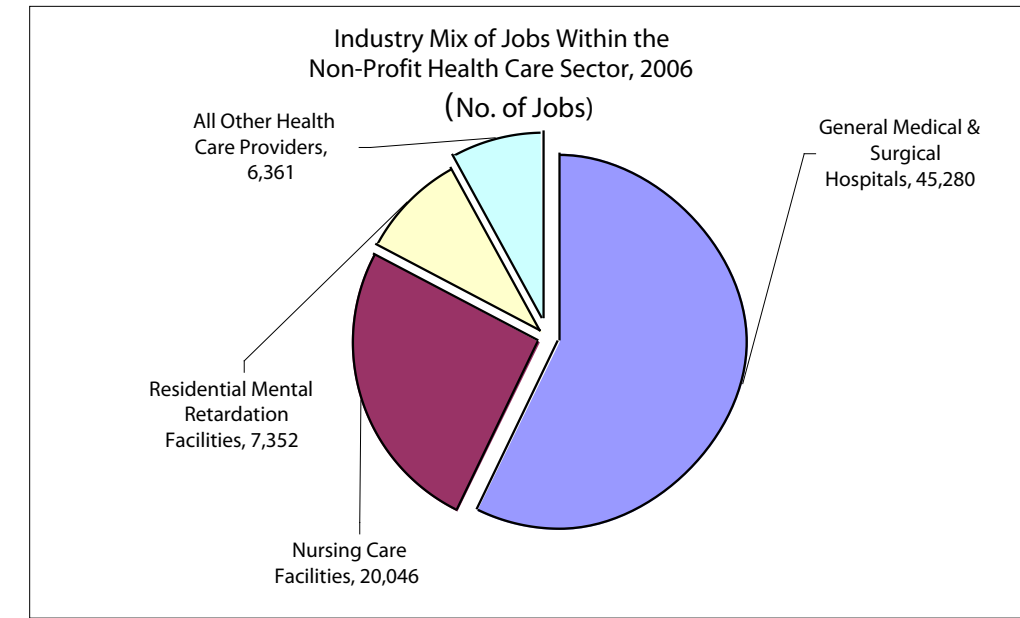
Health Care

The health care sector, which includes family planning centers, outpatient medical facilities, hospitals and nursing care facilities and residential health care facilities, accounts for the bulk of nonprofit jobs and payrolls on Long Island. In 2006, nonprofit health care providers employed more than 79,000 persons and generated payrolls exceeding \$3.9 billion. Average annual wages, almost \$50,000 in 2006, ranged from less than \$25,000 for those employed in residential mental health and substance abuse facilities to more than \$58,000 for those employed in general medical and surgical hospitals. Wages in this sector rose by almost 30 percent between 2000 and 2006, reflecting increased competition for scarce health care workers such as registered nurses. However, the combination of workforce shortages and cost containment efforts limited job growth in this sector to only 9 percent between 2000 and 2006. (See Table 3) The hospitals that dominate this sector were among the first nonprofits to leverage capacity by merging with each other and impose cost controls in order to cut costs and improve service delivery.

Table 3 – Employment and Payrolls Within The Not-For-Profit Health Care Sector, 2006

Industry Sector	No. of Providers	Jobs	Payrolls	Average Annual Wage	Average Provider Size
Family Planning Centers	11	226	\$9,915,985	\$43,876	21
Outpatient Mental Health/ Substance Abuse	54	2,010	70,479,926	35,065	37
General Medical & Surgical Hospitals	25	45,280	2,629,831,610	58,079	1,811
Psychiatric & Substance Abuse Hospitals	6	2,829	138,178,544	48,844	472
Nursing Care Facilities	101	20,046	810,188,758	40,416	198
Residential Mental Retardation Facilities	354	7,352	245,205,963	33,352	21
Residential Mental Health/ Substance Abuse	101	1,296	31,860,242	24,584	13
Total 2006	652	79,039	3,935,661,028	49,794	121
Total 2000	503	72,422	2,778,133,630	38,360	144
Percent Change 2000-06	29.6%	9.1%	41.7%	29.8%	-15.8%

Source: Computations based on the preliminary fourth quarter 2006 covered employment series of the New York State Labor Department.



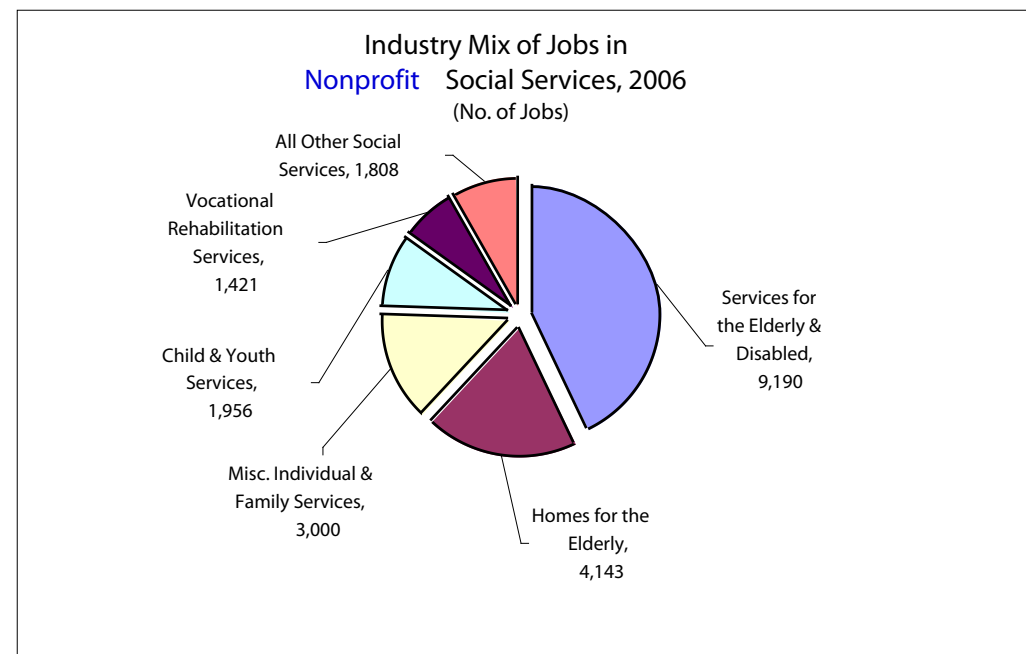
Social Services

This sector includes non-health related residential care facilities, child and youth services, services to the elderly and disabled, temporary shelters and other community housing services, community food services, emergency and relief services and vocational rehabilitation services. In 2006, this sector employed more than 21,500 persons and generated payrolls exceeding \$563 million, which is equivalent to an average annual wage of \$26,179 per worker. Payroll spending in this sector increased by almost 70 percent between 2000 and 2006, reflecting a 42 percent increase in employment. (See Table 4) This rapid employment growth suggests that the need for social services is growing exponentially due to Long Island’s increasingly diverse demography, a rise in direct immigration from abroad, an aging population, the economic consequences of a faltering housing market, rising food and energy costs and the difficulties associated with participating in an increasingly complex economy.

Table 4 – Employment and Payrolls Within Social Services, 2006

Industry Sector	No. of Providers	Jobs	Payrolls	Average Annual Wage	Average Provider Size
Homes for the Elderly	76	4,143	\$101,662,094	\$24,538	55
Other Residential Care Facilities	45	830	28,028,536	33,769	18
Child & Youth Services	85	1,956	42,833,975	21,899	23
Services for the Elderly & Disabled	120	9,190	230,118,335	25,040	77
Other Individual & Family Services	160	3,000	86,887,320	28,962	19
Community Food Services	25	207	5,151,435	24,886	8
Temporary Shelters	28	399	11,278,198	28,266	14
Other Community Housing Services	14	207	6,946,655	33,559	15
Emergency & Other Relief Services	7	165	5,702,096	34,558	24
Vocational Rehabilitation Services	32	1,421	44,710,571	31,464	44
Total 2006	592	21,518	563,319,215	26,179	36
Total 2000	560	15,164	331,838,290	21,883	27
Percent Change 2000-06	5.7%	41.9%	69.8%	19.6%	34.2%

Source: Computations based on the covered employment series of the New York State Labor Department.



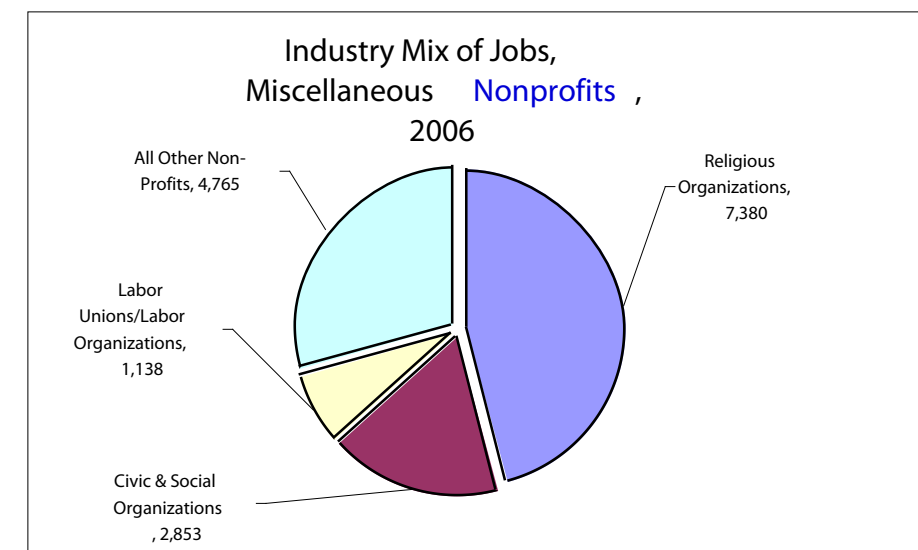
Miscellaneous Nonprofit Services

This sector encompasses a diverse array of nonprofit agencies and organizations, including museums, religious and grant-making organizations, human rights and social advocacy organizations, and civic, social, business, professional, labor and arts organizations. In 2006, there were more than 1,500 such entities employing more than 16,000 persons on Long Island. Their aggregate payrolls were almost \$458 million, which was equivalent to an average annual wage of \$28,356. Most are extremely small in terms of employment size. (See Table 5)

Table 5 – Employment and Payrolls For Miscellaneous Non-Profit Establishments, 2006

Industry Sector	No. of Providers	Jobs	Payrolls	Average Annual Wage	Average Provider Size
Museums	37	547	\$13,989,613	\$25,575	15
Religious Organizations	716	7,380	161,597,498	21,897	10
Grant-Making Foundations	52	129	5,917,731	45,874	2
Voluntary Health Organizations	50	855	45,116,674	52,768	17
Other Grant-Making & Giving Services	37	422	16,375,052	38,803	11
Human Rights Organizations	28	289	8,950,527	30,971	10
Environmental/Conservation/Wildlife Orgs.	32	620	22,320,397	36,001	19
Other Social Advocacy Organizations	63	442	14,819,853	33,529	7
Civic & Social Organizations	117	2,853	49,031,658	17,186	24
Business Associations	76	261	13,334,897	51,092	3
Professional Organizations	54	635	36,999,240	58,267	12
Labor Unions & Similar Labor Organizations	131	1,138	52,060,678	45,748	9
Political Organizations	17	41	1,716,878	41,875	2
Other Similar Organizations	138	524	15,324,820	29,246	4
Total 2006	1,548	16,136	457,555,516	28,356	10
Total 2000	1,416	14,287	310,596,853	21,740	10
Percent Change 2000-06	9.3%	12.9%	47.3%	30.4%	0.0%

Source: Computations based on the covered employment series of the New York State Labor Department.



All segments of Long Island's not-for-profit community experienced relatively rapid wage growth between 2000 and 2006. Payroll spending increased by almost 42 percent in the health care sector, by almost 70 percent in social services and by more than 47 percent for miscellaneous nonprofits. This translates into average annual wage increases of almost 30 percent in health care, almost 20 percent in social services and more than 30 percent among miscellaneous nonprofits. Job growth in all three not-for-profit sectors exceeded that of the overall economy, 2.5 percent, but was particularly rapid in social services, 41.9 percent. During the study period, nonprofit enterprises continued to grow at a faster rate than all Long Island enterprises, 12.6 percent versus 8.4 percent. However, the growth of nonprofit health care providers, 29.6 percent, was particularly rapid. This reflects the proliferation of new medical technologies and treatments and the fact that Long Island's aging population utilizes health care facilities more extensively. (See Tables 6 and 7)

Table 6 – A Summary of Jobs and Payrolls in Long Island's Not-For-Profit Sector

Description	Providers	Jobs	Payrolls	Average Annual Wage	Average Provider Size
Health Related					
Total 2006	652	79,039	\$3,935,661,028	\$49,794	121
Total 2000	503	72,422	2,778,133,630	38,360	144
% Change, 2000-06	29.6%	9.1%	41.7%	29.8%	-15.8%
Social Services					
Total 2006	592	21,518	\$563,319,215	\$26,179	36
Total 2000	560	15,164	331,838,290	21,883	27
% Change, 2000-06	5.7%	41.9%	69.8%	19.6%	34.2%
Miscellaneous Non-Profits					
Total 2006	1,548	16,136	\$457,555,516	\$28,356	10
Total 2000	1,416	14,287	310,596,853	21,740	10
% Change, 2000-06	9.3%	12.9%	47.3%	30.4%	0.0%

Source: Computations based on the covered employment series of the New York State Labor Department.

Table 7 – The Growth of Nonprofits vs. All Long Island Employers, 2000-2006

Year	Non-Profit Enterprises	All Long Island Employers
Total 2006	2,792	99,651
Total 2000	2,479	91,955
% Change, 2000-06	12.6%	8.4%

Source: Computations based on the covered employment series of the New York State Labor Department.

The Secondary Economic Impact of Long Island's Not-For-Profit Sector

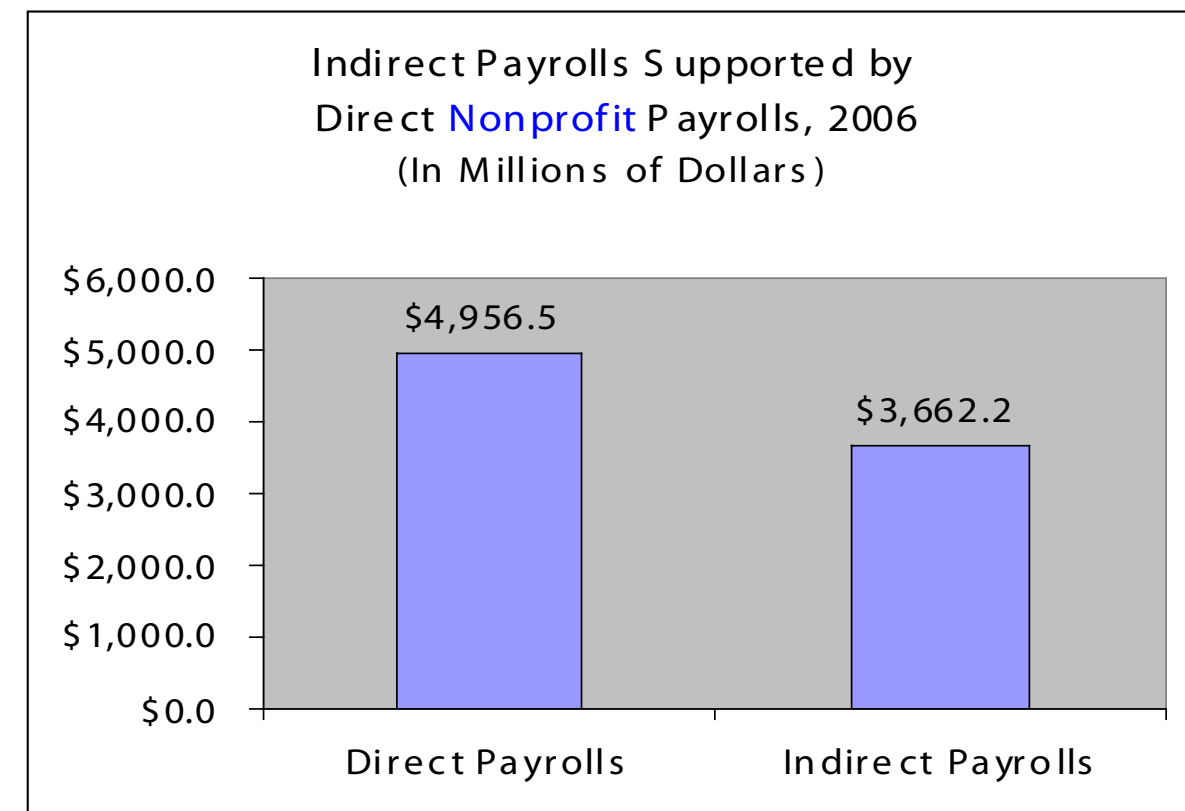
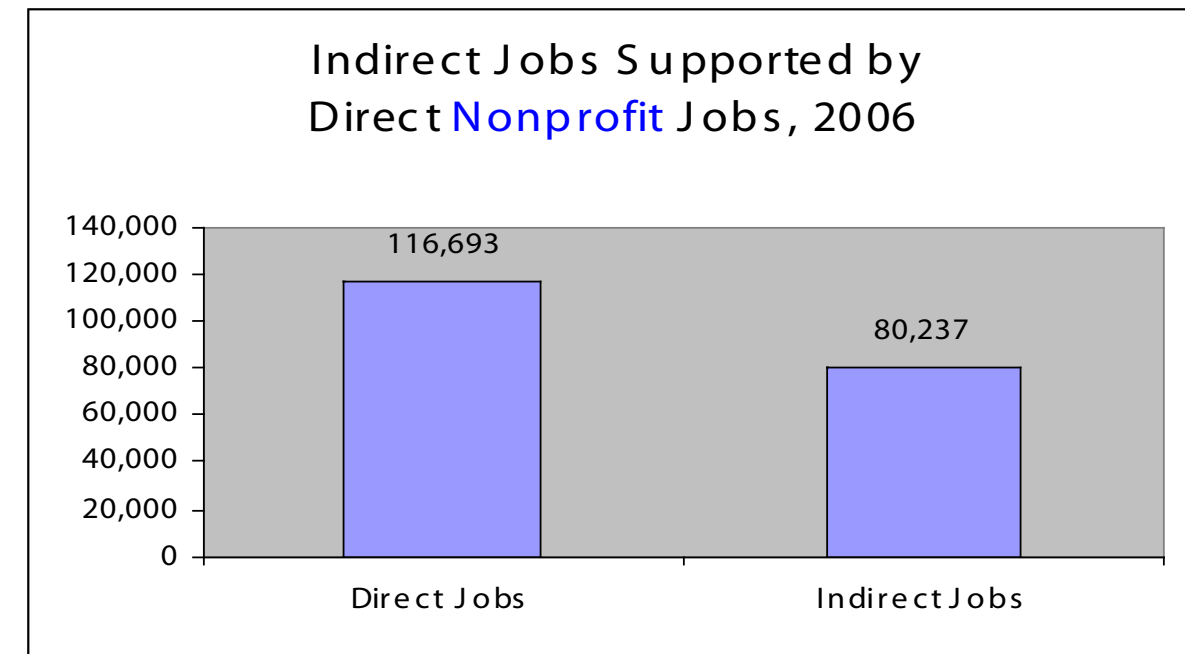
The almost \$5 billion in payroll spending generated by Long Island's nonprofit community in 2006 is only the "tip of the iceberg" in terms of the total economic impact of the nonprofit sector. Most of the payroll spending generated by Long Island's nonprofits remains on Long Island because employees of nonprofit enterprises tend to live locally and to spend their wages locally. This payroll spending undergoes several rounds of "respending" so that its ultimate economic impact is a multiple of the original expenditure. This is the so-called multiplier or ripple effect. Nonprofit jobs also support jobs in other sectors of the Long Island economy through the multiplier mechanism.

The RIMS II input-output model of the Long Island economy, developed by the Bureau of Economic Analysis of the U.S. Commerce Department, was used to estimate the dimensions of this multiplier effect. The model contains earnings and employment multipliers for all major not-for-profit industries. These multipliers were applied to 2006 employment and payrolls in the nonprofit sector. The results, shown in Table 8, indicate that the 116,693 nonprofit jobs identified in Table 1 supported a total of almost 197,000 jobs within the Long Island economy directly or indirectly. In effect, the nonprofit sector accounts for almost 16 percent of total Long Island employment. Direct payrolls of almost \$5 billion supported total Long Island payrolls of more than \$8.6 billion, either directly or indirectly. This was equivalent to more than 15 percent of total Long Island payrolls.

Table 8 – Employment and Earnings Supported by Long Island's Not-for-Profit Sector, 2006

Industry Description	Direct Jobs	Direct Payrolls	Direct & Indirect Jobs	Direct & Indirect Payrolls
Hospitals	48,109	\$2,768,010,154	92,413	\$4,875,573,085
Nursing & Residential Care Facilities	28,694	1,087,254,963	43,098	1,760,700,687
Ambulatory Health Care Services	2,236	80,395,911	4,591	148,024,951
Children's Services	1,956	42,833,975	2,515	75,182,193
Social Assistance, ex. Children's Services	19,562	520,485,240	27,389	908,246,744
Museums	547	13,989,613	1,120	28,983,680
Religious Organizations	7,380	161,597,498	10,302	245,191,884
Grantmaking & Social Advocacy Orgs.	2,757	113,500,234	5,809	246,670,059
Civic, Social, Professional & Similar Orgs.	5,452	168,468,171	9,693	330,180,768
Total	116,693	4,956,535,759	196,930	8,618,754,051
Total Covered Employment			1,237,151	56,532,866,380
Non-Profit Share (Direct & Indirect)			15.9%	15.2%

Source: Computations based on direct effect RIMS II employment and earnings multipliers.



Challenges Facing Long Island's Not-For-Profit Sector

The nonprofit sector exists because the demand for the services they provide is not entirely – or in some cases even partially – satisfied by the private sector or government. In economic terms, the market mechanism that allocates supply and demand fails. This market failure results in an under allocation of resources to vital health, human and social services. The not-for-profit community fills this void. However, there are major functional differences between not-for-profit and private sector enterprises. Whereas private, for-profit enterprises are subject to the discipline of the marketplace, nonprofits are able to proliferate without market discipline as long as they can obtain funding they need. This often results in the creation of many small nonprofit organizations that lack the capacity to function efficiently.

A recent wave of mergers, acquisitions and consolidations within Long Island's private sector economy has reduced the number of potential private sector donors and narrowed the funding stream available to local nonprofits. The slowing economy will further narrow this funding stream. Local nonprofits are cognizant of these changes and many have implemented cost-saving measures. However, even more can be done to deliver not-for-profit services in a cost-effective manner. The following sections discuss options that may help Long Island's nonprofit community achieve these goals.

United Way of Long Island's 116 community partners were used as "test cases" to identify the challenges facing not-for-profit organizations on Long Island. The first step was to map them according to their physical locations and principal service areas. Although many of these agencies provide more than one type of service, focusing on their primary service mission provides a better understanding of the types of services being provided to Long Islanders.

The Geographic Dispersion of United Way Community Partners

Some 72 United Way community partners were located in Nassau County. Many of the larger organizations, including the Nassau Chapter of the American Red Cross, Family and Children's Association, the Jewish Association for Services for the Aged, the Salvation Army of Greater New York, the Visiting Nurse Association of Long Island and the Nassau Girl Scout Council, were located in the Mineola/Garden City area, close to Nassau County government offices. Other United Way community partners were located in high-need areas, including Freeport, Glen Cove, Hempstead, Hicksville, Long Beach and Port Washington. Their principal service areas included mental health and substance abuse services, services to those with developmental disabilities, childcare, child welfare and youth services, senior and advocacy services. (See Appendix Table B) The 44 United Way community partners located in Suffolk were concentrated near the Suffolk County government center in Hauppauge and in high-need communities like Brentwood, Central Islip, Coram, Hampton Bays, Mastic, Patchogue and Wyandanch. Their principal service areas included housing, childcare, healthcare, youth and senior services. (See Appendix Table C)

The Optimization Survey

The next step in developing cost-effective solutions to the challenges facing Long Island's not-for-profit sector was to determine what those challenges were. A survey of United Way of Long Island's community partners helped to provide this information. In October 2007, United Way of Long Island surveyed its community partners online to elicit information about their budgets, employment levels and perceptions concerning the dominant human service needs on Long Island. The survey also requested information about how these member agencies are handling their administrative and back office functions and the extent to which they collaborate with other local nonprofit organizations. The survey content is shown in Appendix D. Seventy of the 116 United Way community partners answered all questions fully, a statistically significant response rate of about 60 percent. The salient characteristics of respondents were as follows:

- Agencies providing youth programs, mental health services and/or services to persons with disabilities accounted for more than 37 percent of all respondents (See Table 11)
- More than half of all respondents had 50 or fewer employees. Fewer than 10 percent employed more than 300 persons. (See Table 12)
- 6 percent of all respondents had annual budgets of under \$500,000; 17 percent had budgets between \$500,000 and \$1.5 million; 16 percent had budgets between \$1.5 and \$2.5 million; 16% had budgets of \$2.5 to \$5.0 million; 14 percent had budgets between \$5.0 and \$10.0 million; the remaining 20 percent had budgets of \$10.0 million or more. (See Table 13)

Table 11 – Primary Service Area of United Way Respondents

Service Area	Number of Respondents	Percent of Total
Youth Programs	10	14.3
Mental Health	9	12.9
Disabilities	7	10.0
Advocacy	4	5.7
Child Care	4	5.7
Domestic Violence	4	5.7
Housing	3	4.3
Substance Abuse	3	4.3
Healthcare	2	2.9
Seniors/Aging	2	2.9
Emergency Shelter	2	2.9
Child Welfare	1	1.4
Education	1	1.4
Emergency Food	1	1.4
Family Counseling	1	1.4
Information & Referral	1	1.4
Workforce Development	1	1.4
Other*	14	20.0
Total	70	100.0

*Includes multi-service agencies. Source: United Way of Long Island, Optimization Initiative Survey

Table 12 – Number of Employees, United Way Respondents

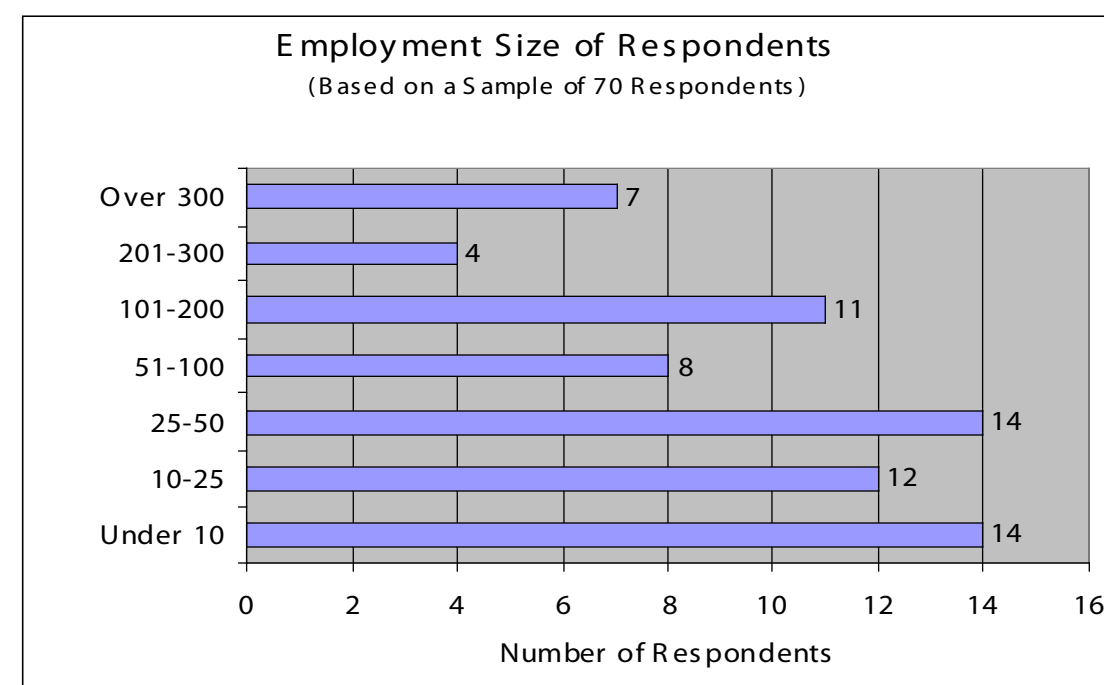
Number of Employees	Number of Respondents	Percent of Total
Under 10	14	20.0
10 – 25	12	17.1
26 – 50	14	20.0
51 – 100	8	11.4
101 - 200	11	15.7
201 – 300	4	5.7
Over 300	7	10.0
Total	70	100.0

Source: United Way of Long Island, Optimization Initiative Survey

Table 13 - Annual Budgets of United Way Respondents (Dollars in Local Gross Revenue)

Annual Budget	Number of Respondents	Percent of Total
Under \$500,000	11	15.7
\$500,000 to \$749,999	3	4.3
\$750,000 to \$1,499,999	9	12.9
\$1,500,000 to \$2,499,999	11	15.7
\$2,500,000 to \$4,999,999	11	15.7
\$5,000,000 to \$9,999,999	10	14.3
\$10,000,000 to \$24,999,999	12	17.1
Over \$25,000,000	3	4.3
Total	70	100.0

Source: United Way of Long Island, Optimization Initiative Survey



Affordable housing was listed as the most significant human service need on Long Island or among the top five human service needs on Long Island by 48 of the 70 respondents. Many expressed the opinion that without an affordable place to live, the services they provide cannot be effective. Other priorities listed were childcare, healthcare, workforce development, advocacy and youth programs. (See Table 14)

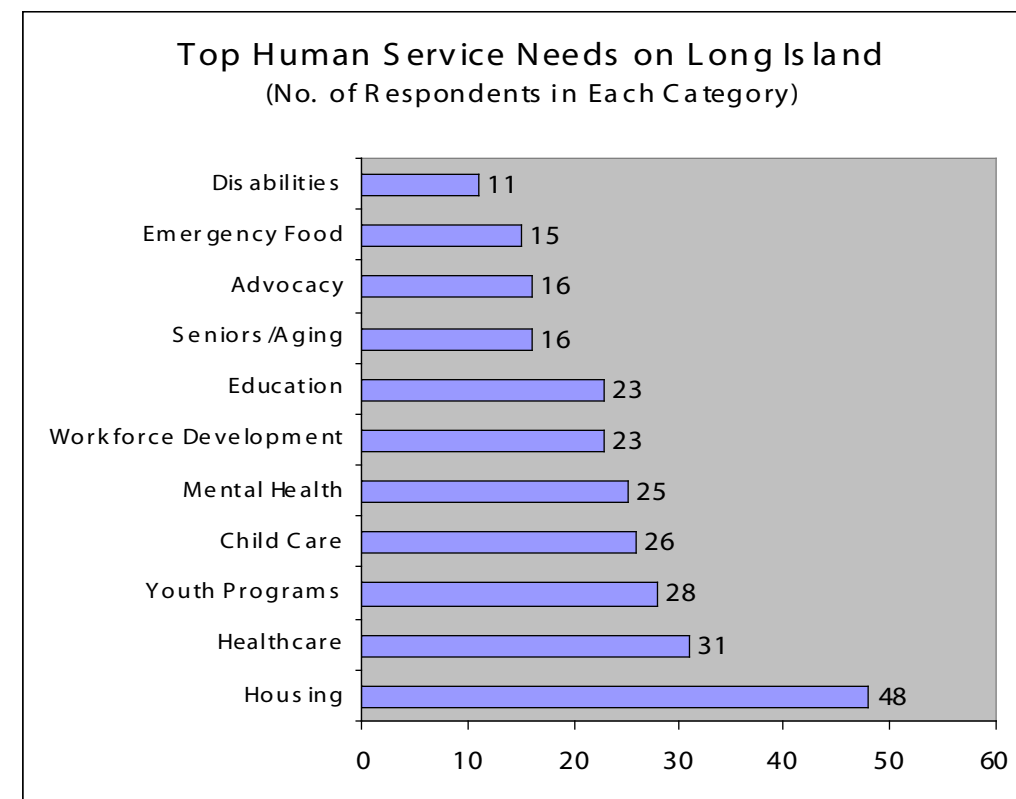
Table 14 – Ranking of Significant Human Service Needs By United Way Respondents

Human Service Need	Most Significant	In the Top Five
Housing	23	48
Healthcare	4	31
Youth Programs	8	28
Child Care	4	26
Mental Health	5	25
Workforce Development	0	23
Education	4	23
Seniors/Aging	5	16
Advocacy	4	16
Emergency Food	0	15
Disabilities	3	11

Source: United Way of Long Island, Optimization Initiative Survey

Some common themes running through their remarks were as follows:

- Long Island does not offer enough housing options to those who need help. Low and moderate-income housing is impossible to find. Lack of housing causes victims of domestic violence to remain in abusive households, which leads to substance abuse and mental health problems.
- Emergency shelter is a major priority. More shelters, volunteers, and resources are needed to ensure the safety and care of every long Islander.
- With both parents working, youth need constructive activities to deter them from gang activity and drug abuse. There is a tremendous need for mental health services, particularly for youth. Many of the youth we work with have no positive role models and are in unhealthy and often dangerous relationships.
- Child abuse and family violence have become major problems that lead to mental health issues, substance abuse and inability to maintain a job.
- The growing senior population needs services geared specifically to their needs.
- Lack of health care is particularly burdensome to low and moderate-income families.
- Parents can't work without childcare. Quality childcare is in crisis because of the rising cost of care and low pay among childcare workers.
- The disabled population is neglected. Services and funding for the disabled are inadequate. Accessibility remains a problem for them.
- More emphasis on advocacy, information, referrals and legal assistance is needed to enable people to navigate the bureaucracy. There is a lack of knowledge of and access to legal resources in minority communities.



Most respondents selected fundraising, grant writing, human resources/staffing and marketing as their most pressing back office/administrative needs or as one of their top five back office needs. Computer systems support, staffing and benefits administration were also listed (See Table 15).

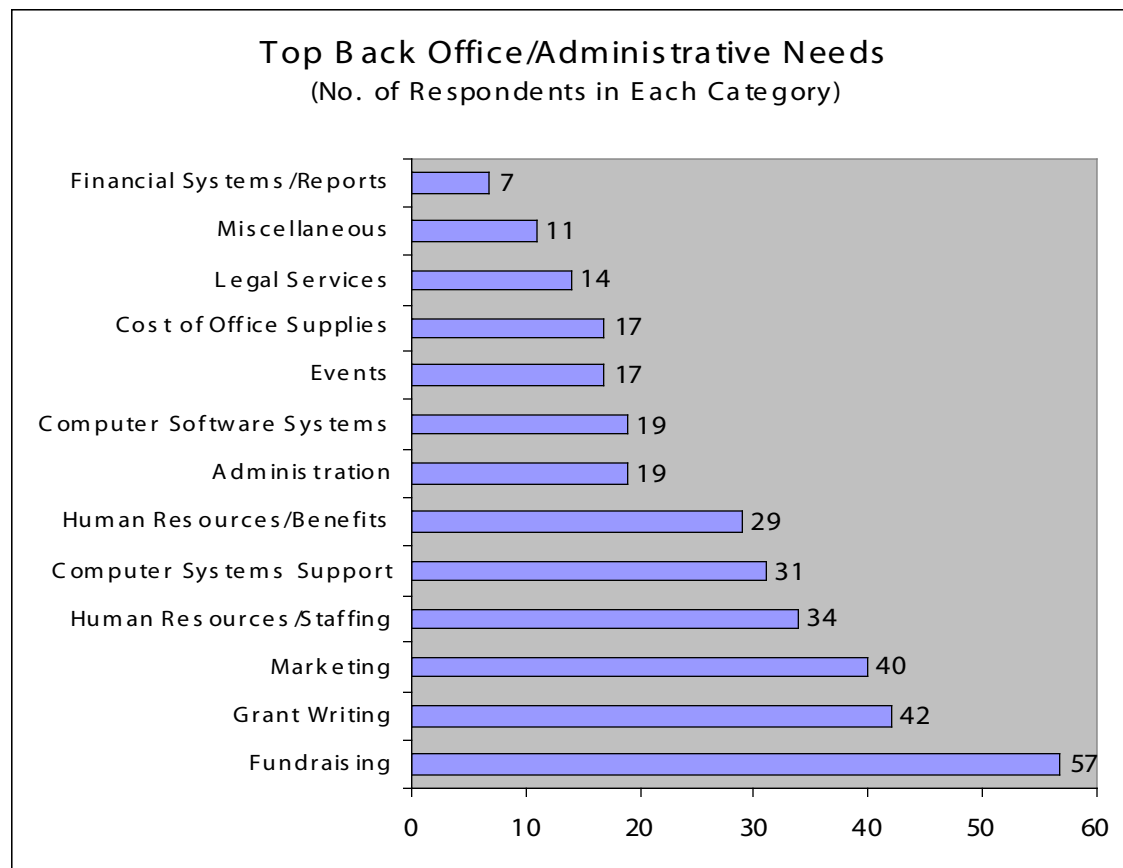
Table 15 - The Most Pressing Back Office/Administrative Needs of United Way Respondents

Back Office/Administrative Function	Most Significant	In the Top Five
Fundraising	18	57
Grant Writing	14	42
Marketing	6	40
Human Resources/Staffing	12	34
Computer Systems Support	5	31
Human Resources/Benefits	3	29
Administration	5	19
Computer Software Systems	2	19
Events	0	17
Cost of Office Supplies	0	17
Legal Services	0	14
Miscellaneous	3	11
Financial Systems/Reports	0	7

Source: United Way of Long Island, Optimization Initiative Survey

Some of the individual responses to this question were as follows:

- The [nonprofit] sector is traditionally weak in marketing and we don't traditionally invest in this area. We need to advertise, but its cost is prohibitive.
- The inability to properly remunerate very experienced and dedicated professional staff is causing a serious lack of candidates for the nonprofit field. Recruitment is a tremendous issue in our industry. There is high turnover and due to low salaries, it is difficult to retain staff. The medical [insurance] costs for a small agency are astronomical. Too many vacant positions impact quality of care.
- We don't have a grant writer on staff, so we miss out on this source of revenue. The need to do better development work through fundraising/marketing and especially grant writing becomes increasingly critical.
- Our computers and systems are outdated and need to be upgraded, but there is no money for that. The cost for computer systems is prohibitive and competes with money needed to support client services. Computer technicians are highly compensated and it is difficult for smaller agencies to pay for them.
- Keeping up with technology is very expensive. Our telephone system is in need of replacement and it's a big-ticket item to replace.
- Administrative support is limited by funding. Many grantors are unwilling to pay for administrative expenses. It is a challenge to raise dollars for general operations. Events take up a considerable amount of staff time and are not always monetarily profitable.
- We have need for truly knowledgeable and more available legal service staff. We also need staff that can make public presentations, write well and explain and defend clients' rights. Qualified financial staff is hard to come by because of direct competition with the private market.



Only 15 of the 70 respondents, 21 percent, indicated that they outsource or contract out any back office or administrative functions. Functions most frequently outsourced included computer systems support, legal and financial services. Respondents that did outsource one or more back office functions generally spent less than \$10,000 annually for these functions. (See Table 16)

Table 16 – Cost of Back Office/Administrative Services Contracted Out By United Way Respondents

Service Contracted Out	Number of Responses	Under \$10,000	\$10,000 to \$24,999	\$25,000 to \$49,999	\$50,000 to \$99,999
Computer Systems Support	8	4	1	1	2
Legal Services	6	4	1	0	1
Financial Services	4	0	2	2	0
Marketing	3	0	1	1	1
Financial Reports/Billing	2	2	0	0	0
Computer Software Systems	2	1	0	0	0
Human Resources/Benefits	1	1	0	0	0
Grant Writing	1	0	1	0	0
Office Supplies	1	0	0	0	1
Other*	5	3	0	2	0

*Principally payroll and consultant services.
Source: United Way Optimization Initiative Survey

Respondents that performed back office/administrative functions often spent substantial sums for these functions. Twenty respondents spent more than \$250,000 annually for administration; 12 spent more than \$250,000 for staffing; 18 spent more than \$250,000 for employee benefits. In-house costs for computer software and systems support, financial reports and billing, grant writing, events, marketing, legal services and office supplies were generally more modest, generally less than \$25,000 annually. Some nonprofits were able to obtain pro bono assistance with their back office or administrative functions. (See Table 17)

Table 17 - Cost of Back Office/Administrative Functions Performed In-House by United Way Respondents

Back Office/Administrative Functions	None	Under \$10,000	\$10,000 to \$24,999	\$25,000 to \$49,999
Administration	5	3	4	10
Human Resources/Staffing	14	9	3	9
Human Resources/Benefits	14	9	6	8
Computer Software Systems	20	24	10	8
Computer Systems Support	17	27	11	4
Finance Staff	14	4	7	9
Financial Systems/Reports/Billing	20	21	13	4
Grant Writing	32	15	8	5
Fundraising	16	14	11	5
Events	21	16	10	8
Marketing	29	20	5	6
Legal Services	34	18	10	2
Office Supplies	7	20	20	11
Other	43	9	2	3

Table 17 - (continued)

Back Office/ Administrative Functions	\$50,000 to \$99,999	\$100,000 to \$149,999	\$150,000 to \$250,000	Over \$250,000
Administration	15	3	9	20
Human Resources/Staffing	15	1	6	12
Human Resources/Benefits	7	4	3	18
Computer Software Systems	1	2	2	2
Computer Systems Support	3	2	3	2
Finance Staff	12	6	8	9
Financial Systems/Reports/Billing	5	2	1	3
Grant Writing	9	0	0	0
Fundraising	7	6	7	3
Events	6	2	4	2
Marketing	3	2	3	1
Legal Services	3	1	1	0
Office Supplies	3	2	4	2
Other	2	2	0	8

Source: United Way of Long Island, Optimization Initiative Survey

In discussing the obstacles to the functioning of their organization, 35 respondents cited fundraising problems, 21 cited staffing problems and 19 cited marketing problems. Other obstacles mentioned included problems setting up computer software systems, obtaining computer support and legal services, finding finance staff, coordinating and planning events, purchasing office supplies and administering employee benefits. (See Table 18) These answers were consistent with the answers regarding the most pressing back office or administrative needs of each organization.

Table 18 - Obstacles to the Functioning of United Way Respondents

Back Office/ Administrative Function	Most Significant	Second Most Significant	Total Responses
Fundraising	22	13	35
Problems With Staffing	14	7	21
Successful Marketing	10	9	19
Grant Writing	7	8	15
Miscellaneous	4	10	14
Benefits Administration	4	3	7
Setting Up Computer Software Systems	2	4	6
Problems With Computer Support	3	2	5
Obtaining Legal Services	0	4	4
Cost of Office Supplies	0	3	3
Finding Finance Staff	2	1	3
Coordinating/Planning Events	0	3	3
Difficulties with Administration	0	2	2
Preparing Financial Reports/Billing	1	0	1

Source: United Way of Long Island, Optimization Initiative Survey

Several respondents reported problems associated with their government contracts. Of the 70 respondents, 56 had contracts with Nassau County, Suffolk County or both counties. Of these, 29 reported some difficulties. Some of their individual responses were as follows:

- We have a problem with the reissuing of contracts and prompt payment.
- Many signatures are required at the county end, which delays our advances and causes us to borrow a great deal of money in January.
- We have had long delays in reimbursement of funds.
- We receive our contracts, on average, six months after they begin.
- The counties require excessive supporting documentation.
- We encounter delays in receiving specifics of whether awards have been committed.
- We have problems in getting the contract process started on the county end.

Of the 70 respondents, 60 indicated that they collaborated with other nonprofit organizations to some extent to leverage capacity. These collaborations often took the form of membership in various professional or advocacy organizations. Some of the individual responses to this question were as follows:

- As a member of the Nassau Coalition of Chemical Dependency Providers, we have collaborated for the past 19 years on local and state legislative issues.
- We are in the process of seeking space to co-locate with another [nonprofit] agency.
- We do many joint ventures with schools.
- We are a community center and we allow smaller nonprofit groups to use our facilities without cost.
- We participate in various coalitions involving other disability organizations.
- We have entered into an affiliation agreement with the North Shore-Long Island Jewish Health System to provide more effective and coordinated services.
- We provide services for victims of domestic violence once a week at Family Service League and participate in numerous other collaborations.
- We are members of the Alliance of Long Island Agencies, comprised of service providers for individuals with developmental disabilities.
- We place staff at other agency sites to serve victims of child abuse and neglect.
- We do joint fundraisers, community revitalization initiatives, health fairs and educational programs with other nonprofits.
- We collaborate with other domestic violence agencies, Catholic Charities and local colleges. We have merged with another nonprofit and have submitted funding proposals and implemented collaborative projects with many other organizations.
- We are collaborating with the Economic Opportunity Council of Suffolk to implement a re-entry program for those returning from jail.
- We partner with two other nonprofits on an annual fundraising event.
- We cooperate with other nonprofits on grant proposals.
- We share space for direct service programs.

Models for Cooperation/Collaboration Among Nonprofit Organizations

Many of United Way's community partners are actively involved in some form of collaboration and/or cooperation with other nonprofits to leverage capacity. Material presented in this section may encourage them to collaborate on an even broader scale. It was compiled based on a literature search concerning shared services and/or shared management among nonprofit organizations.

The History of Shared Services

The concept of shared services first emerged in the private sector in the late 1980s. In a shared service model, companies pull together the activities that support their core business processes, remove them from each business unit, and consolidate them into a separate operating unit that runs these support services as its core business.¹ This model seeks to improve service delivery while reducing service costs. The services provided under a shared service model may include: accounts payable and receivable; procurement; human resources, including payroll preparation; property and facilities management; and information technology operations. This model has proven benefits. When Pacific Bell consolidated seven separate internal support services into a single shared services unit in 1991, its service costs declined by 54 percent over a five-year period.

Shared Services in the Nonprofit Sector

Today, the shared services model is also being adopted by nonprofit enterprises. Shared services enable nonprofits to concentrate more fully on their core missions and devote more of their resources to those missions. Organizations providing shared services to nonprofits are generally called "management service organizations" or MSOs. An MSO is an entity created by one or more nonprofits to provide them with management and other administrative services. MSOs can take two forms. In one model, a single large nonprofit organization with well-developed management and administrative systems may provide core business services to a group of smaller nonprofits under fee-for-service contracts. In the more common model, a management service organization is created by a group of nonprofits as a freestanding entity. The MSO has its own separate organizational and legal identity but is owned by the nonprofit organizations it serves. Each participating nonprofit signs a separate agreement with the MSO and the MSO board of directors generally contains members drawn from the boards of each participating nonprofit. The MSO board determines the level, quality and menu of services to be provided as well as the fee and payment schedules for each participating nonprofit. In some cases, participating nonprofits may transfer some of their staff to the MSO. The second model is preferable when participating nonprofits are relatively equal in size and assets because it gives each nonprofit equal influence in the operations of the MSO. However, participating nonprofits must be able to work together, which requires a high level of trust. In this model, the operating agreement must clearly specify how each party will participate in the new entity, how the costs and revenues of the MSO will be apportioned and what the specific functions of the MSO will be. Procedures for exiting the MSO must also be clearly defined. The model works best if participating nonprofits standardize their procedures and processes prior to establishing the MSO. Both models can reduce back office operating costs by consolidating costly overheads. MSOs can provide a range of services or a single service. For example, a human resources MSO might administer a single benefits program for participating nonprofits. A financial service MSO might generate financial reports and provide centralized financial systems, financial software, cash management and billing services for participating nonprofits. An information technology MSO might provide a centralized help desk, shared software programs and centralized servers to participating nonprofits. Services that are unique to nonprofits, such as fundraising and social marketing, might also be provided.

Some Shared Services Models

The following entities have been successful in providing back office services or administrative functions to individual nonprofits or groups of nonprofits:

- **The Glasser-Schoenbaum Human Services Center, Sarasota, Florida.** This Center is a nonprofit organization that physically houses 16 nonprofit member organizations. Legally, it is the "parent corporation" of these member organizations. The Center's board of directors has seven community members, not connected to participating nonprofits, who oversee its operations. This arrangement provides cost savings for member organizations and improves client services by providing multiple services in one location.

- **United Way of Grand Rapids and United Way of Battle Creek.** These United Ways decided to share back office pledge processing operations in 2005. They jointly purchased document management software and hired a consultant to train their staffs. This joint investment in technology has allowed both organizations to reduce their costs and increase productivity. It also set the stage for future technology-sharing ventures.
- **The Georgia Center for Nonprofits.** This Center has 1,400 nonprofit participants throughout the State of Georgia. It recently partnered with IBM's Business Consulting Services group to establish a shared platform for procurement operations. Shared procurement is expected to generate cost savings of at least 10 percent on items ranging from office supplies to shipping services. Operating costs associated with procurement are expected to decline by 50%. The model is particularly applicable to small and mid-sized nonprofits that lack sourcing and procurement skills.
- **Shared Services Among Nonprofit Credit Unions.** Nonprofit credit unions have long shared back office and/or administrative services.¹
- **Bethpage Federal Credit Union** collaborates with three other credit unions that collectively serve 690,000 members and have almost \$7.6 billion in assets. This collaboration is unique in that each of these credit unions is located in a different part of the country. Their collaborative solutions include online loan origination, online new account processing, custom report generation and custom online banking. Participating credit unions have been able to reduce expenses per transaction and improve client services. Potential future collaborations include a shared call center, shared fraud management services, consolidated pricing for debit/credit card services and consolidated bill payment.
- **Seattle Credit Union Center** is a family-run business whose staff of 25 provides complete management and operational services for six credit unions with an aggregate membership of 13,500 and aggregate assets of \$40 million. Participating credit unions contract with the Center for five or more years. Each credit union retains its own board of directors but the Center provides physical facilities, management services, data processing and personnel services. It is compensated for these services based on a percentage of the assets of each participating credit union.
- **The Green Bay Credit Union** provides professional management for five credit unions in the Green Bay, Wisconsin area. Participating credit unions retain their own boards of directors but share the same physical facilities. The Center is organized as a cooperative and is wholly owned by the five credit unions it manages. Each credit union has two voting shares and the right to nominate two of its own board members as Center directors. The Center's Board of Directors allocates operating expenditures to the individual credit unions. Payments by the individual credit unions are based on a combination of assets, membership, gross income and activity levels. All personnel are hired and compensated by the Center, which maintains separate books for each credit union.
- **The Philadelphia Service Center for Credit Unions** in Bucks County, Pennsylvania offers affordable services to credit unions with assets of less than \$5 million. Three of the four credit unions it currently manages are physically located at the Center. The Center provides partial or complete management services for flexible time periods. It handles typical credit union functions such as loan applications and disbursement for its full-service clients. Fees are dependent on the size of the credit union, its assets and the services it needs.

Challenges Inherent in Shared-Service Models.

Shared services and/or shared management allow nonprofits, particularly small nonprofits, to reduce their operating costs and achieve economies of scale. They also enable nonprofits to obtain a degree of expertise that they couldn't afford on their own. Nevertheless, shared service models also present some challenges. Each nonprofit organization has its own unique mission and its own unique culture. It is sometimes difficult to blend these cultures into a separate functioning organization. Moreover, all parties must have realistic expectations concerning the benefits they are likely to receive from any shared services agreement. In all cases, the agreement should be put in writing, should specify the services to be provided and should define the financial obligations of each participant. There are also unique problems when a large nonprofit with advanced management systems contracts to help several smaller nonprofits. That assistance becomes ancillary to its primary service mission and may detract from that mission. Therefore, a single shared-service center that provides agreed upon services to several nonprofits is generally the preferred model in the nonprofit community.

¹ See Peter Walsh, Myles McGregor-Lowndes and Cameron Newton, "Shared Services: Lessons From The Public and Private Sectors for the Nonprofit Sector," Centre of Philanthropy and Nonprofit Studies, Queensland University of Technology, Brisbane, Australia, August 2006.

¹ "Outsourcing and Sharing Credit Union Management", A Colloquium Sponsored by the Filene Research Institute and the Center for Credit Union Research, University of Wisconsin School of Business, Madison, Wisconsin.

Going Beyond Collaboration to Mergers

The Case for Mergers Among Nonprofits. The U.S. currently contains an estimated 1.4 million nonprofits. A significant number of them were created since September 11, 2001. Some of these nonprofits no longer exist because they fulfilled their missions. Others may have failed because of lack of capacity. However, the bottom line is that the number of charitable organizations increased by 23 percent since 2001 while charitable giving has risen by only 12 percent. When adjusted for inflation, there has actually been a net decline in charitable giving since 1982. Giving per charitable organization, expressed in 2006 dollars, declined from \$382,000 to \$277,000 between 1982 and 2006 according to Independent Sector, a nonprofit trade group. The fact that the growth of nonprofit organizations has outstripped the growth of donor dollars for some time has generated new interest in mergers within the nonprofit sector. The fact that the failure rate for small nonprofits exceeded 20 percent in the first half of this decade has given even greater impetus to the “urge to merge.” (See Table 19)

Table 19 - Survival Rates Among U.S. Nonprofits, 2000 to 2005

Total Expenses	No. of Nonprofits 2000	No. of Failures 2000-05	% Failing	Surviving Nonprofits 2005	New Nonprofits 2000-05	No. of Nonprofits 2005
\$249,999 or less	154,830	31,677	20.5	123,153	73,007	196,160
\$250,000 to \$499,999	28,681	3,133	10.9	25,548	9,072	34,620
\$500,000 to \$999,999	22,178	1,975	9.0	20,203	6,524	26,727
\$1 mil. To \$4.99 million	29,855	2,179	7.3	27,676	8,179	35,855
\$5 million or more	15,953	942	5.9	15,011	5,025	20,036
Total	251,497	39,906	15.9	211,591	101,807	313,398

Source: Urban Institute, National Center for Charitable Statistics

As the rivalry for new donor dollars intensifies, more donors are becoming skeptical of the entire nonprofit system and the manner in which it is being financed.

And, the struggle for new dollars is motivating some nonprofits to seriously consider mergers with other nonprofits for the first time. In fact, the entire outlook regarding mergers among nonprofit organizations is changing. Whereas seeking a merger partner was once viewed as an admission of failure, pursuing a merger partner today is viewed as being “strategic.”

Some of today’s nonprofit mergers are marriages of convenience. Others are unions born of necessity and still others are motivated by shared passions and strategic goals and by the possibility of collaboration instead of competition. However, more and more nonprofit mergers are being donor-driven in the name of greater efficiency and better results. Today’s donors, particularly corporate donors, are more like investors. They expect greater returns on their nonprofit investments as well as accountability for the funds they contribute. To satisfy these demands, the nonprofit sector is shifting toward performance-based contracting. Nonprofit organizations must demonstrate that they are meeting measurable outcomes. In some cases, donors are putting up money to encourage mergers and capacity building. Some donors who currently serve on nonprofit boards of directors have experienced the positive results of private-sector mergers and are pressing for similar mergers among nonprofit organizations. Kevin T. Kirkpatrick sums up a growing consensus that “The nonprofit field is not structured to meet families’ needs. Although marriage might not be the solution to all social problems, I do think more marriages between nonprofits, in the form of mergers, would be good for the sector as a whole. If done right, nonprofit mergers would improve service delivery and broaden the range of needs that nonprofits can meet.”¹

¹ Kevin T. Kirkpatrick, “Go Ahead-Pop the Question, Why more nonprofits should merge,” *Stanford Social Innovation Review*, Summer 2007, P. 43.

The Legal Issues

Legally, mergers and consolidations occur through a statutory process by which two or more corporations become one. In a merger, the surviving corporation is one of the original corporations. In a consolidation, the two original corporations both cease to exist and a new combined corporate entity is formed. Legal mergers are both complicated and time consuming. They require review by the New York State Attorney General’s office and approval by the New York State Supreme Court. Moreover, a merger of property and assets also requires that the merged entities share liabilities, both current and potential. If the merger is driven by the financial problems of one merger partner, the stronger partner may justifiably be reluctant to assume the liabilities of its weaker counterpart. Moreover, legal mergers generally trigger “change of control” provisions that prevent the transfer of government contracts from one agency to another.¹

Because the legal issues can be extremely complicated, nonprofits have found alternative ways to merge. Sometimes mergers are achieved simply by reassigning government contracts from the weaker to the stronger merger partner, assuming they both provide similar services. The weaker partner then goes out of business. It is also possible to establish a parent-subsidary relationship whereby the bylaws of the subsidiary corporation are changed to transform it into a membership corporation. The parent corporation is the sole member and has the authority to appoint the subsidiary’s board of directors. The parent can be given power to elect the executive director of the subsidiary, approve its budget and approve the subsidiary’s expenditures. Unlike a legal merger, this approach does not require an application to the Attorney General’s Office or approval by the New York State Supreme Court. This approach also shields the parent corporation from the liabilities of the subsidiary corporation and generally does not trigger change of control provisions in government contracts. This type of strategic alliance maintains both the subsidiary corporation’s legal existence and its separate board of directors. It also helps to preserve a sense of programmatic and historic identity for the organization that is in essence being acquired.

Accounting Complexities and Mergers

The accounting complexities inherent in nonprofit accounting argue in favor of the merger of small nonprofits. Nonprofit organizations are required to implement a sophisticated cost accounting and reporting system. The system must meet the requirements of Generally Accepted Accounting Principles (GAAP), the IRS, and the requirements imposed by funding sources. Costs must be tracked and allocated to supporting and program services. Program service costs must be further disaggregated into the organization’s various service delivery areas and then to a multitude of funding sources. This procedure is complicated by restrictions that some funding sources, notably governments, place on the use of funds. An independent CPA must audit nonprofit entities whose gross revenues exceed \$250,000. Such entities must be able to prepare and report their financial activity in accordance with GAAP with little outside assistance. The failure to do so may require their accountants to report the deficiency to the organization’s board of directors and in some cases, directly to government funding sources. If it is determined that the weakness in financial reporting is material, future funding could be jeopardized. Performing the required accounting functions properly requires a minimum investment in an accounting and financial infrastructure. There is often a need to hire a controller who can develop and implement financial reporting systems. Mergers among small nonprofits can generate the size and capacity needed to meet these complex accounting requirements.

¹ See Fred Scaglione, “Mergers, Nonprofits Getting Together”, *New York Nonprofit Press*, November 2007.

Costs vs. Benefits of Nonprofit Mergers.

Because of their complexity, nonprofit mergers have become a growing field for lawyers, foundations, accountants and consultants who have been dubbed “strategic restructuring” specialists. Their fees can range from \$20,000 to \$50,000 although some nonprofits have been able to obtain pro bono merger services. Monetary costs are only one aspect of the problems that potential nonprofit merger partners face. There are also moving expenses and additional marketing expenses to promote the newly consolidated organization. There is always some concern that the merger will eliminate the unique identities of the merger partners or reduce their ability to serve the needs of their target communities. There is also concern that the resources and energies needed for a successful merger will divert the merger partners from their principal service missions. In any merger situation, decisions must be made about which executive will be displaced, what to name the new organization and if cutbacks are needed, whose employees will lose their jobs. Such decisions become easier if one of the executives is ready to retire.

In some cases the egos of potential merger candidates are involved. Ego involvement can undermine trust and lead to turf battles. Moreover, unlike the for-profit world, there are few financial incentives for nonprofit mergers. There are no “golden parachutes” for the displaced executive. And, whereas private sector merger negotiations are carried on behind closed doors and involve relatively few people, nonprofit mergers often occur in the public arena and many “stakeholders” must be satisfied that the merger is a good idea. This makes it extremely difficult to reach agreement.¹

While nonprofit mergers are fraught with problems, there are also significant potential benefits of a successful merger. There may be significant cost savings, if not immediately then somewhere down the road. Nonprofit mergers can also reduce unnecessary duplication of services and increase the reach of the merged organization by building capacity. A merger may also end the intense struggle for donor dollars, which is siphoning resources and energy from the primary mission of each nonprofit. In order to obtain increasingly scarce donor dollars, some nonprofits have been forced to differentiate themselves by increasingly specializing in narrow niches. That is, organizations devoted to child abuse may differentiate themselves from organizations devoted to spousal and elder abuse despite evidence that these problems are interrelated. Mergers between such organizations could eliminate these artificial distinctions. The benefits of increased size resulting from a nonprofit merger could also help the merged organization build the public support needed for major public policy changes.²

The Preconditions for a Successful Merger

There are certain preconditions for a successful merger in the nonprofit community. Organizations contemplating a merger should be able to communicate well with each other and share common goals and compatible organizational cultures. Moreover, the goal of the merger should be to build capacity in order to achieve sustainable social change rather than promote the interests of one of the merger partners. Careful consideration should be given to whether the merged organization will be sustainable in the long run. Funders need to be brought onboard early in merger deliberations. Ideally, they must “buy into” the merger and agree to retain their current funding levels to the merged partners following the merger. Funders should be encouraged to view newly merged nonprofit entities as better investments of their philanthropic resources rather than as opportunities for reduced financial support. If these preconditions cannot be met and the merger is motivated by the financial problems of one of the merger partners, it might be better to allow the financially troubled organization to fail rather than jeopardize the stronger merger partner.

Nonprofit organizations contemplating a merger would be well advised to go slowly at first. Sometimes, a long and thoughtful courtship is needed. Many mergers begin as collaborations and proceed at a slow and deliberate pace to a full organizational merger. The Stanford Project on the Evolution of Nonprofits examined the frequency and outcomes of nonprofit mergers. Its findings suggest that nonprofits seeking to merge must save more money, budget more time and get to know each other much better than anticipated before agreeing to merge. The length of time between initial collaboration and a full merger varies widely. In some cases, a merger may require three or more years to complete because of delays caused by unanticipated problems. Throughout the process, the respective boards of the merger partners must work closely together and must ensure that their staff learn to work together in order to take advantage of potential synergies. In addition, funders should be willing to pay for one-time start-up costs and unanticipated expenses.

¹ See Stephanie Strom, “Charities Trying Mergers to Improve Bottom Line”, *New York Times*, November 11, 2007.

² See Kevin T. Kirkpatrick, “The Merger Proposal, Go Ahead Pop the Question: Why More Nonprofits Should Merge”, *Stanford Social Innovation Review*, Summer 2007.

Collaborations and Mergers Among Long Island Nonprofits

There is no general standard for determining how many nonprofit organizations should exist in a given community. Many nonprofit organizations serve vulnerable populations. Therefore, some degree of competition and overlap within the nonprofit community is justified. Moreover, the proliferation of nonprofits is not dangerous in and of itself. New nonprofit organizations are often needed to solve new problems. The flaw in the current system may lie in attempts to keep low-impact, poorly managed nonprofit programs and organizations afloat. There is general agreement that such organizations should be allowed to fail because they do not have the capacity to operate efficiently and maximize resources. On January 10, 2007, United Way of Long Island hosted a focus group to explore the possibility of local nonprofit mergers and collaborations. The attendees, listed in Appendix E, represented a broad spectrum of nonprofit organizations on Long Island. Moderator Richard Dina of Adelphi University noted that many of today's nonprofit organizations originated during the 1960s and 1970s in response to the "Great Society" initiative. Many remain small community-based organizations whose structure may not be optimal for the delivery of future nonprofit services. He emphasized the need for change but stressed that change must emanate from within the nonprofit community rather than being imposed from without. Several Long Island nonprofit agencies then presented case studies of their efforts to collaborate and/or merge.

Case Study Number One

Sandy Oliva, representing the Coalition Against Domestic Violence of Nassau County and Cynthia Scott, representing the Coalition Against Child Abuse & Neglect, talked about their efforts to bridge the gap between the child welfare community and the domestic violence community on Long Island. Both represent strong organizations having compatible services. Due to the crossover in services to clients, these organizations plan to co-locate and form a family violence center as a "one stop shop." They set up a joint committee to find shared space and have identified several possible locations. Their motivations are programmatic rather than economic. They do not expect to save a great deal of money by co-locating. Rather, they want to "build capacity" and create a stronger organization with improved service delivery. Their respective boards of directors have exchanged financial information and both boards have set up committees to explore a future merger. However, they "plan to live together before getting married." In discussing the path to a potential merger, both Sandy Oliva and Cynthia Scott stressed the need to discuss the merger "at the board level." Originally, some board members were concerned about losing their agency's unique identity. However, because the process of collaboration is an ongoing one over a long period of time, members of both boards have become more comfortable with the thought of a potential merger between their agencies.

Case Study Number Two

Judy Margolis representing Family Counseling Services in Westhampton Beach discussed expanding mental health services to the Town of Brookhaven. Through a five-year renewable grant, Child and Family Clinic Plus, the agency will conduct mental health wellness screenings in schools and health clinics. Working with existing agencies and developing collaborative relationships with the school districts, this agency will be able to expand services and reach the target population assigned by the Office of Mental Health. Lynda Ravkin, representing Colonial Youth and Family Services, joined Family Counseling Services in the venture as one of the agencies in Brookhaven. The major task of implementing this grant was for staff to gain entree into the local public schools. It did so by sitting down with various school superintendents to iron out potential problems, including union problems and problems of confidentiality. Union representatives were reassured that bringing social workers into school districts would not jeopardize union jobs. There was also some question as to what would happen if they identified more children in need of mental health services than they could serve but they decided to take the process one step at a time. Once access to four local school districts was achieved, it was necessary to find social workers to perform the mental health screenings. They were able to purchase social work time from other agencies. For example, they purchased 18 hours of social work time from an agency that could no longer retain these workers on a full-time basis and agreed to cover their fringe benefits as well. The expanded program started on March 1, 2008. Both presenters noted the need to build trust with participating school districts and emphasized that the process of building trust is time consuming.

Case Study Number Three

Diane Cohen, representing the Long Island Fund for Women and Girls, discussed how the fund co-located with the National Association of Mothers' Centers for both programmatic and economic reasons. The Fund then acquired Women

Case Study Number Three (continued)

on the Job, a 26-year old organization whose Executive Director Lillian McCormick was nearing retirement and was seeking a home for her organization. Both the Long Island Fund for Women and Girls and Women on the Job had worked collaboratively prior to the merger. They knew that their programs were compatible and that their missions were similar. The challenge was to ensure that their cultures were similar. Each organization first established merger exploration committees. Negotiations between the two organizations centered on program implementation. Women on the Job wanted reassurance that the Long Island Fund for Women and Girls would continue its programs. They obtained that reassurance because many of Women on the Job's programs were incorporated into the Long Island Fund's programs prior to the dissolution of Women on the Job. The two agencies did not actually merge legally. A pro bono attorney determined that a legal merger would be too expensive. Rather, Women on the Job transferred its funds to the Long Island Fund for Women and Girls and then dissolved the organization. It was decided that three board members from Women on the Job would sit on the board of directors of the Long Island Fund for Women and Girls. Lillian McCormick will remain a consultant to the Long Island Fund for a period of six months to ensure the continuity of programs. Both organizations feel that they speak with a stronger voice as a result of the merger.

Case Study Number Four

Joseph Smith, representing Long Beach Reach, talked about how regulatory changes emanating from Albany have had a negative impact on small, community-based organizations such as his. This motivated his organization to collaborate with other nonprofit organizations in the Lynbrook area. Long Beach Reach and the Lynbrook Counseling Center, which treats chemical dependency, decided to forge a partnership that would enable them to expand their relationship with the Lynbrook school district and other local school districts. Long Beach Reach is also partnering with Family and Children's Association and Hofstra University resulting in additional funding secured to implement an innovative PINS (Persons in Need of Supervision) diversion program.

Case Study Number Five

Richard Dina concluded the formal presentations by discussing his 35-year history in nonprofit management and the nonprofit mergers in which he has participated. He started with Children's House in 1983 but discovered that he couldn't treat children in isolation because their families also needed help. To expand the continuum of care and better serve its clients, Children's House entered into three mergers and six acquisitions over the course of 21-years that blended mission with market reality. This culminated in today's Family and Children's Association, which has the capacity and scope to meet today's challenges. The presenter emphasized that the goal of these mergers was not to become bigger or more powerful but to build capacity and better serve clients. He acknowledged the dangers associated with nonprofit mergers. Often those seeking to be acquired don't have many assets and are, in effect, failing organizations. The acquiring organization must then decide if it has the capability, financially and morally, to save the failing organization. He concluded that mergers involve due diligence, financial, cultural and compatibility issues and that the decision to merge cannot be taken lightly.

An open discussion followed these formal presentations. Robert Nori, representing the American Red Cross in Nassau County, noted the need to train nonprofit managers who have a common point of reference in serving their clients. This would help build trust between nonprofit organizations that have unique and different cultures. He noted that Baruch College School of Public Affairs in New York City offers such a training program affiliated with American Humanics, Inc., the educational arm of many national nonprofit organizations. By training nonprofit managers in the techniques of professional management, it gives them a broader perspective that is conducive to collaboration within the nonprofit sector. United Way of New York City was instrumental in helping Baruch College to launch this program. Jack Jerdan, representing the Long Island Council on Alcohol and Drug Dependence, discussed his "courtship" of the Suffolk Coalition to Prevent Alcohol and Drug Dependence with a view of increasing the presence of both organizations on Long Island. He noted that these organizations are strong in different areas and that the synergies between them might eventually lead to a merger.

Christopher Hahn, the CEO of United Way of Long Island, concluded the focus group discussion by saying: "If there is a problem that's too big for any one of us to solve on our own, we have to find ways to work together. Is merger part of that conversation, yes...but merger is one of many options. We are here to make our resources go further. There are more people in need and there is less money available." His sentiments were echoed by Richard Dina who said, "There is little new money available and what funding is available generally requires collaboration." Most participants seemed open to greater collaboration with their peers. They recognized that changing financial circumstances mean that "business as usual" is no longer an option.

Measuring Financial Capacity: Indicators for United Way Community Partners

Financial indicators have long been used in the private sector to measure corporate performance. Basic financial indicators such as sources of funding and distribution of expenditures can also be helpful to not-for-profit organizations that seek to become more efficient. Financial data submitted by United Way of Long Island community partners were analyzed and average financial ratios were computed based on the budget size of each agency and their principal service area. These averages will make it possible for individual agencies to compare their financial status with the average for their budget category and program area. Four budget categories and ten service areas were used. (See Table 20)

Table 20
Budget Categories and Service Areas Used to Compute Financial Ratios

Service Areas	Budget Categories
Advocacy	Under \$1,499,999
Child Care	\$1,500,000 to \$4,999,999
Developmental Disabilities	\$5,000,000 to \$9,999,999
Healthcare	\$10,000,000 and above
Housing	
Information & Referral	
Mental Health	
Seniors/Aging	
Substance Abuse	
Youth Programs	

Funding Diversity, by Budget Size

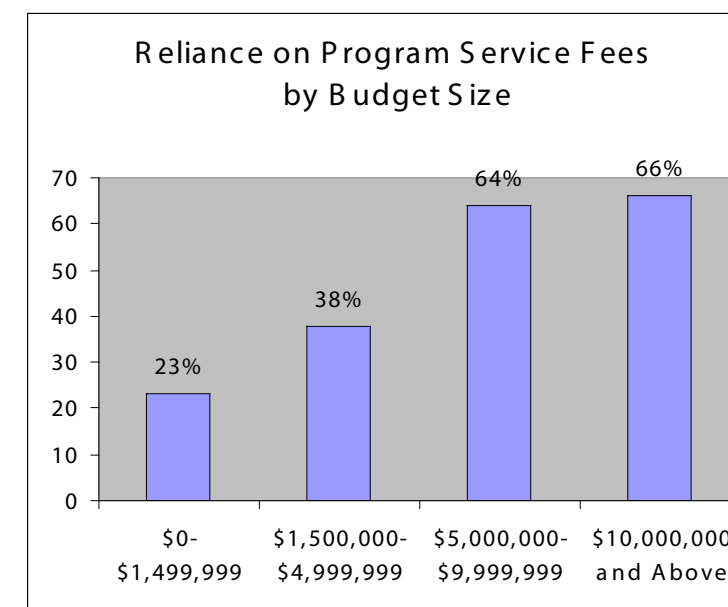
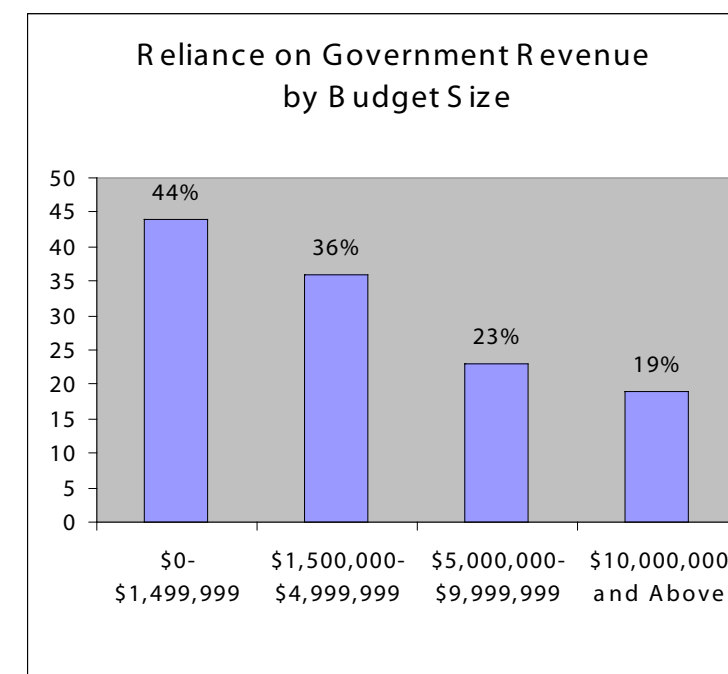
Data for 111 of United Way of Long Island's 116 community partners were used to develop average ratios of funding diversity by budget size. Funding diversity is extremely important to the fiscal stability of non-profit organizations. Agencies whose revenues come primarily from program service fees, defined as fees for the services they provide, generally have greater financial stability and greater operational flexibility than agencies that depend primarily on government funding. Not only is government funding highly variable, but it often comes with restrictions concerning how the funds can be used.

As Table 21 clearly demonstrates, the larger an agency's annual budget, the more it can depend on program service fees. Conversely, the smaller the agency's budget, the more it depends on government revenues. On average, member agencies with annual budgets of less than \$1.5 million, received 44 percent of their funding from government sources, 30 percent from fund raising campaigns and events and only 23 percent from program service fees. By contrast, member agencies with annual budgets exceeding \$10,000,000 received only 19 percent of their revenue from government sources, 6 percent from fund raising campaigns and events and 66 percent from program service fees. Apparently, larger non-profit organizations have the capacity to offer a broad array of services and charge for them. Moreover, the process is exponential. That is, having a certain level of capacity allows the organization to build even more capacity.

Table 21
Average Funding Sources for United Way Community Partners, By Budget Category (Percents)

Annual Budget	No. of Agencies (111)	Government Revenue	Contributions, Special Events	Program Service Fees	Other Revenue*
\$0-\$1,499,999	42	44	30	23	3
\$1,500,000-\$4,999,999	29	36	17	38	9
\$5,000,000-\$9,999,999	14	23	9	64	4
\$10,000,000 and Above	26	19	6	66	9
Overall Average		30	16	48	6

*Includes interest and investment income. Source: United Way staff with the assistance of Matthew Dapolito, CPA, Partner, Condon, O'Meara, McGinty & Donnelly LLP.



Funding Diversity, by Service Area

Data for 90 of United Way's 116 community partners were available for this part of the analysis. The findings showed that agencies providing substance abuse, housing and information and referral services obtained more than half their funding from government sources. More than three-quarters of the total funding of agencies providing substance abuse services came from government sources. By contrast, program service fees accounted for at least half of all funding for agencies providing child care services, services to those with developmental disabilities, healthcare services, mental health services and services to seniors. Contributions and special events were responsible for between one-quarter and one-third of total revenues for agencies providing advocacy, healthcare, information and referral, youth and senior services. (See Table 22).

Table 22
Average Funding Sources for United Way Community Partners, By Service Area (Percents)

Service Area	No. of Agencies (90)	Government Revenue	Contributions, Special Events	Program Service Fees	Other Revenue*
Advocacy	6	39	31	29	1
Child Care	14	24	12	60	5
Developmental Disabilities	12	11	5	74	10
Healthcare	10	12	33	50	5
Housing	5	57	15	25	3
Information & Referral	4	52	26	21	1
Mental Health	15	22	14	61	3
Seniors/Aging	6	20	23	52	5
Substance Abuse	6	77	9	14	0
Youth Programs	12	40	27	14	19
Overall Average		35	20	40	5

*Includes interest and investment income. Source: United Way staff with the assistance of Matthew Dapolito, CPA, Partner, Condon, O'Meara, McGinty & Donnelly LLP.

Expense Ratios.

Expense ratios for United Way member agencies were computed by functional and natural category. The analysis was performed both by budget size and principal service area of member agencies. The categories used are shown in Table 23. Occupancy costs include rent, utilities and related costs. Other expenses include the cost of supplies and postage and expenditures for legal, accounting and other professional services.

Table 23
Functional and Natural Categories Used to Compute Expense Ratios

Functional Category	Natural Category
Management & General	Personnel
Fund Raising	Payroll Taxes/Fringe Benefits
Program Services	Occupancy
	Other Expenses

Management, general and fundraising expenses are normally considered overhead expenses. Overhead expenses for the 111 United Way member agencies in the sample declined as budget size increased. On average, overhead expenses for agencies with annual budgets of less than \$1.5 million were 23 percent. By contrast, overhead expenses for agencies with annual budgets exceeding \$10,000,000 averaged only 14 percent. (See Table 24). Increased budget size was also associated with a higher proportion of expenditures for program services. The analysis by natural category shows that personnel expenditures, including payroll taxes and fringe benefits, were the largest expenditure category for all of the agencies studied. Such expenditures accounted for nearly two-thirds of agency expenditures regardless of budget size. (See Table 25)

Table 24
Average Expenses for United Way Community Partners, By Functional and Budget Category (Percents)

Annual Budget	No. of Agencies(111)	Management & General	Fund Raising	Total Overhead	Program Services Fees
\$0-\$1,499,999	42	17	8	25	75
\$1,500,000-\$4,999,999	29	13	6	19	81
\$5,000,000-\$9,999,999	14	12	2	14	86
\$10,000,000 and Above	26	12	2	14	86
Overall Average		13	4	17	83

*Includes interest and investment income. Source: United Way staff with the assistance of Matthew Dapolito, CPA, Partner, Condon O'Meara McGinty & Donnelly LLP.

Table 25
Average Expenses for United Way Community Partners, By Natural and Budget Category (Percents)

Annual Budget	No. of Agencies (111)	Personnel	Payroll Taxes/ Fringe Benefits	Total Personnel Costs	Occupancy	Other
\$0-\$1,499,999	42	57	9	66	8	26
\$1,500,000-\$4,999,999	29	54	11	65	9	28
\$5,000,000-\$9,999,999	14	52	11	63	9	28
\$10,000,000 and Above	26	55	13	68	5	27
Overall Average		54	11	65	8	27

*Includes interest and investment income. Source: United Way staff with the assistance of Matthew Dapolito, CPA, Partner, Condon O'Meara McGinty & Donnelly LLP.

Overhead spending as a proportion of total spending varied by service area. This ratio ranged from a low of 13 percent for agencies providing services to seniors and to persons with developmental disabilities to a high of 22 percent for agencies providing youth programs. (See Table 26)

Table 26
Average Expenses for United Way Member Agencies, By Functional Category and Service Area (Percents)

Service Area	No. Of Agencies (90)	Management & General	Fund Raising	Total Overhead	Program Services
Advocacy	6	15	11	26	74
Child Care	14	15	4	19	81
Developmental Disabilities	12	12	30	42	58
Healthcare	10	16	16	32	68
Housing	5	18	2	20	80
Information & Referral	4	17	10	27	73
Mental Health	15	14	14	28	72
Seniors/Aging	6	10	5	15	85
Substance Abuse	6	13	13	26	74
Youth Programs	12	17	7	24	76
Overall Average		15	11	26	74

*Includes interest and investment income. Source: United Way staff with the assistance of Matthew Dapolito, CPA, Partner, Condon O'Meara McGinty & Donnelly LLP.

Personnel costs also varied by principal service area. They ranged from a low of 48 percent for agencies providing information and referral services to a high of 75 percent for agencies providing substance abuse services. (See Table 27)

Table 27
Average Expenses for United Way Member Agencies, By Natural Category and Service Area (Percents)

Principal Service Area	No. Of Agencies (90)	Personnel	Payroll Taxes/ Fringe Benefits	Total Personnel Costs	Occupancy	Other
Advocacy	6	51	22	73	8	20
Child Care	14	62	15	77	6	16
Developmental Disabilities	12	57	25	82	7	10
Healthcare	10	47	17	64	4	31
Housing	5	49	20	69	4	27
Information & Referral	4	38	24	62	5	33
Mental Health	15	56	22	78	8	13
Seniors/Aging	6	50	20	70	7	22
Substance Abuse	6	63	20	83	9	8
Youth Programs	12	55	20	75	8	17
Overall Average		53	20	73	7	20

*Includes interest and investment income. Source: United Way staff with the assistance of Matthew Dapolito, CPA, Partner, Condon O'Meara McGinty & Donnelly LLP.

Conclusions

Nonprofit enterprises are a large and growing segment of the Long Island economy. They exist largely because the demand for their services is not completely or in some cases even partially met by the private sector or government. Recent mergers within the private sector coupled with the slowing national economy will narrow the stream of funding dollars at a time when the demand for nonprofit services is escalating. When the economy worsens, crime and other adverse social behaviors increase as does the need for a strong social safety net. The optimization committee overseeing this report drew several conclusions from the facts presented in the report. Their conclusions fell into several categories:

Establishing Clear Service Priorities

Closer cooperation between the human service, health service and government sectors is needed. These entities should develop community-based partnerships to identify service gaps, leverage their individual strengths and integrate care. It is important for nonprofit organizations to establish clear service priorities and to convey those priorities to government agencies through nonprofit umbrella organizations and the local business community. Establishing clear service priorities and conveying them to funders becomes even more critical as funding sources diminish.

Discussing Platforms for Shared Services

It would be useful for nonprofits to identify controllable and non-controllable expenses and begin to discuss possible platforms for shared services. Such platforms could enhance economies of scale, increase the level of expertise available to the nonprofit community and redress the back office deficiencies revealed by the optimization survey. Evidence of greater accountability and efficiency in the management of controllable expenses is likely to attract more funding dollars. Moreover, as nonprofit organizations become more efficient, scarce dollars can be better used to meet established service priorities.

Achieving Financial Stability

The financial indicators developed in the report clearly showed that some nonprofits are disproportionately dependent on government revenues. The committee concluded that if nonprofits are to be financially stable, they must have a diverse array of revenue sources. That is, they must balance government revenues with fees for services and philanthropic dollars. The financial ratios confirmed that the size of a nonprofit organization correlates directly with its capacity to diversify its revenue sources. The larger the organization, the greater the diversity of funding sources. Given anticipated future revenue constraints caused by the weakening economy, it is important to analyze what funding remains available and to realign existing programs with available funding sources. In pursuing philanthropic dollars, it should be recognized that individual contributions have historically been the most stable form of philanthropy and that individual donations should be actively pursued.

Meeting Back Office Needs

The optimization survey revealed limited skills or resources in several nonprofit back office functions including marketing and advertising, grant writing, information technology, legal services, accounting and reporting procedures as well as and event planning. Given today's increasingly stringent auditing requirements and Internal Revenue Service regulations, nonprofit organizations need sophisticated financial talent and accounting resources. The optimization survey showed that such talent is often lacking in nonprofit organizations. Closer cooperation between nonprofits and the local business community may make it possible to obtain needed back office resources. Local companies may be able to provide training in various back office specialties, give in-kind services, and encourage volunteer support to the nonprofits in their respective communities. By working together, nonprofits may be able to identify complementary roles or resources that they could share and leverage. Government agencies can assist by standardizing their reporting requirements so as to ease the accounting/reporting burden for nonprofits. The New York State Consolidated Fiscal Report (CFR) could serve as the model for standardized reporting procedures.

Addressing Inequities in Nonprofit Compensation

The optimization survey revealed that social service wages remain too low to attract and retain qualified staff. The inability to properly remunerate dedicated social service professionals has created recruitment problems and resulted in increased turnover.

This study was designed to serve as the basis for a call to action and an ongoing dialogue between the nonprofit community, the business community and the government sector concerning how nonprofits can maximize their resources to best fulfill their respective missions by delivering the highest quality of care to the most people in need efficiently and effectively. Next steps will include the evaluation of available capacity within various segments of the nonprofit community. The number of clients served and the outcome of the services rendered would be an important component of such studies. Escalating economic problems and the social ills they generate make it essential to preserve a viable social service net. Long Island's nonprofits can no longer ignore the challenge to become more efficient. A crisis is upon us. In crisis, change can happen.

Appendix A

The Committee on Nonprofit Optimization, United Way of Long Island

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Appendix Table B

United Way Community Partners in Nassau County

Name	Headquarters	Primary Service Area
Baldwin Community House	Baldwin	Substance Abuse
Adults & Children with Learning & Dev. Disabilities	Bethpage	Developmental Disabilities
Society of St. Vincent de Paul	Bethpage	Advocacy
AHRC Nassau	Brookville	Developmental Disabilities
JCC of the Greater Five Towns	Cedarhurst	Child Care
Sid Jacobson JCC	East Hills	Seniors/Aging
Child Care Council of Nassau County	Franklin Square	Child Care
Community Counseling Services of West Nassau	Franklin Square	Substance Abuse
Freeport Pride	Freeport	Substance Abuse
Hi-Hello Child Care Center	Freeport	Child Care
South Shore Child Guidance Center	Freeport	Mental Health
Woodward Children’s Center	Freeport	Mental Health
Coalition Against Child Abuse & Neglect	Garden City	Child Welfare
Epilepsy Foundation of Long Island	Garden City	Developmental Disabilities
Girl Scouts – Nassau Council	Garden City	Youth Programs
The Life’s WORC	Garden City	Developmental Disabilities
The Rehabilitation Institute	Garden City	Developmental Disabilities
Visiting Nurse Association of Long Island	Garden City	Healthcare
Angelo J. Melillo Mental Health Center	Glen Cove	Mental Health
La Fuerza Unida de Glen Cove	Glen Cove	Family Counseling
Y.M.C.A. of Long Island	Glen Cove	Youth Programs
COPAY	Great Neck	Substance Abuse
Open Door Parent Child Caring Center	Great Neck	Education
Education & Assistance Center	Hempstead	Advocacy
Economic Opportunity Commission of Nassau	Hempstead	Information & Referrals
Health & Welfare Council of Long Island	Hempstead	Advocacy
Helen Keller Services for the Blind	Hempstead	Developmental Disabilities
Hispanic Counseling Center	Hempstead	Mental Health
Long Island Council of Churches	Hempstead	Emergency Food
Mental Health Association of Nassau County	Hempstead	Mental Health
N.C. Coalition Against Domestic Violence	Hempstead	Domestic Violence
Nassau-Suffolk Law Services Committee	Hempstead	Legal Services
Selfhelp Community Services	Hempstead	Health Care
Catholic Charities	Hicksville	Seniors/Aging
Central Nassau Guidance & Counseling Services	Hicksville	Mental Health
Hicksville Teenage Council, Inc.	Hicksville	Youth Programs
Yours, Ours, Mine Community Center	Levittown	Child Care
Circulo de la Hispanidad	Long Beach	Advocacy
Long Beach Martin Luther King Center	Long Beach	Youth Programs
Long Beach Reach	Long Beach	Substance Abuse
Doubleday Babcock Senior Center	Oyster Bay	Seniors/Aging

Appendix Table B

United Way Community Partners in Nassau County (continued)

Name	Headquarters	Primary Service Area
The SJK Listening Therapy Program	Long Beach	Health Care
Boy Scouts of America, Theodore Roosevelt Council	Massapequa	Youth Programs
YES Community Counseling Center	Massapequa	Youth Programs
American Red Cross, Nassau Chapter	Mineola	Emergency Shelter
Family & Children's Association	Mineola	Child Welfare
Jewish Association for Services for the Aged	Mineola	Seniors/Aging
The Salvation Army in Greater New York	Mineola	Emergency Food
Harbor Day Care Center	New Hyde Park	Child Care
Long Island Hearing & Speech Society	New Hyde Park	Health Care
Friedberg South Shore Y JCC	Oceanside	Child Care
Youth & Family Counseling Agency, OB/E.Norwich	Oyster Bay	Mental Health
Assoc. for Children with Down Syndrome	Plainview	Developmental Disabilities
Mid Island Y JCC	Plainview	Child Care
Littig House Community Center	Port Washington	Youth Programs
Long Island Alzheimer's Foundation	Port Washington	Seniors/Aging
Parent-Child Home Program	Port Washington	Education
Port Counseling Center	Port Washington	Substance Abuse
Port Washington Children's Center	Port Washington	Child Care
Hispanic Brotherhood of Rockville Centre	Rockville Centre	Youth Programs
Rosa Lee Young Childhood Center	Rockville Centre	Child Care
United Cerebral Palsy Association of Nassau County	Roosevelt	Health Care
Building Blocks	Roslyn	Child Care
North Shore Child & Family Guidance Center	Roslyn	Mental Health
Hagedorn Little Village School	Seaford	Developmental Disabilities
Southeast Nassau Guidance Center	Seaford	Mental Health
F.E.G.S./Long Island Division	Syosset	Family Counseling
Variety Child Learning Center	Syosset	Education
Lutheran Family & Community Services	Uniondale	Emergency Food
Cancer Care	Woodbury	Mental Health
Peninsula Counseling Center	Woodmere	Mental Health

Appendix Table C

United Way Community Partners in Suffolk County

Name	Headquarters	Primary Service Area
North Amityville Community Economic Council	Amityville	Education
Pronto of Long Island	Bay Shore	Information & Referrals
Suffolk Coalition Against Domestic Violence	Bay Shore	Domestic Violence
Bellport, Hagerman, East Patchogue Alliance	Bellport	Housing
The Salvation Army of Greater New York	Blue Point	Emergency Food
Assoc. for the Help of Retarded Children	Bohemia	Developmental Disabilities
Long Island Housing Services	Bohemia	Housing
Adelante of Suffolk County	Brentwood	Family Counseling
Haven House/Bridges	Brentwood	Emergency Shelter
Community Development Corp. of Long Island	Centereach	Housing
Urban League of Long Island	Central Islip	Advocacy
Child Care Council of Suffolk	Commack	Information & Referrals
Suffolk Council of Girl Scouts	Commack	Youth Programs
Gurwin Jewish Geriatric Center	Commack	Seniors/Aging
Suffolk Y JCC	Commack	Child Care
The Ministries	Coram	Emergency Shelter
Suffolk Independent Living Organization (SILO)	Coram	Developmental Disabilities
East Hampton Day Care Center	East Hampton	Child Care
South Fork Community Health Initiative	East Hampton	Healthcare
Suffolk Hearing and Speech Center	East Islip	Healthcare
Labor Education & Community Services Agency	Farmingdale	Information & Referrals
Housing Help	Greenlawn	Housing
Dominican Sisters Family Health Services	Hampton Bays	Health Care
Suffolk Community Council	Hauppauge	Mental Health
United Cerebral Palsy Assoc. of Greater Suffolk	Hauppauge	Developmental Disabilities
Victims Information Bureau of Suffolk	Hauppauge	Domestic Violence
Family Service League of Suffolk County	Huntington	Mental Health
Pederson Krag Center	Huntington	Mental Health
Huntington Freedom Center	Huntington	Child Care
Colonial Youth & Family Services	Mastic	Child Care
Suffolk County Council of Boy Scouts	Medford	Youth Programs
National Multiple Sclerosis Soc., LI Chapter	Melville	Healthcare
Visiting Nurse Service & Hospice of Suffolk	Northport	Healthcare

Appendix Table C

United Way Community Partners in Suffolk County (continued)

Name	Headquarters	Primary Service Area
Skills Unlimited	Oakdale	Developmental Disabilities
Economic Opportunity Council of Suffolk	Patchogue	HIV/AIDS
SNAP Long Island	Patchogue	Youth Programs
Peconic Community Council	Riverhead	Advocacy
The Developmental Disabilities Institute	Smithtown	Developmental Disabilities
The Retreat	Wainscott	Domestic Violence
Federation of Organizations/Foster Grandparents	Babylon	Seniors/Aging
Family Counseling Service	Westhampton Beach	Mental Health
Wyandanch Homes & Property Development Corp.	Wyandanch	Housing
Wyandanch Youth Services	Wyandanch	Youth Programs
American Red Cross, Suffolk Chapter	Yaphank	Emergency Shelter

Appendix Table D

United Way Optimization Survey

1. Primary Area of Service

Healthcare, HIV/AIDS, Housing, Information and Referral, Legal Services, Mental Health, Parenting, Seniors/Aging, Substance Abuse, Workforce Development, Youth Programs, Other. If Other, please specify.

2. Organization's Budget (\$ in Local Gross Revenue)

Under \$500,000, \$500,000 – \$749,999, \$750,000 – \$1,499,999, \$1,500,000 – \$2,499,999, \$2,500,000 – \$4,999,999, \$5,000,000 – \$9,999,999, \$10,000,000 – \$24,999,999, Over \$25,000,000

3. Number of Employees

Under 10, 10 – 25, 26 – 50, 51 – 100, 101 – 200, 201 – 300, Over 300

4. What are the most significant human service needs on Long Island today?

Rank the top five in order of importance.

Advocacy, Child Care, Child Welfare, Disabilities, Domestic Violence, Education, Emergency Food, Emergency Shelter, Emergency Transportation, Family Counseling, Healthcare, HIV/AIDS, Housing, Information & Referral, Legal Services, Mental Health, Parenting, Seniors/Aging, Substance Abuse, Workforce Development, Youth Programs, Other. If other, please specify.

5. Please briefly explain why each has priority over all the others in regard to the Long Island community.

6. What are your organization's most pressing back office/administrative needs? Rank the top five in order of importance.

Administration, Human Resources/Staffing, Human Resources/Benefits, Computer Software Systems, Computer Systems Support, Finance Staff, Financial Systems/Reports, Grant Writing, Fundraising, Events, Marketing, Legal Services, Cost of Office Supplies, Other. If other, please specify.

7. Please briefly explain why each of these has priority over all the others.

8. Does your organization currently outsource/contract out back office/administrative services?

9. Which services do you outsource/contract out? Check all that apply.

Administration, Human Resources/Staffing, Human Resources/Benefits, Computer Software Systems, Computer Systems Support, Finance Staff, Financial Systems/Reports/Billing; Grant Writing; Fundraising; Events, Marketing; Legal Services, Cost of Office Supplies, Other. If other, please specify.

10. What is the annual cost of outsourcing/contracting out each of the above selected services?

The answers should match the services checked off above.

11. What is the annual cost of providing these services in-house?

Appendix Table D

United Way Optimization Survey (continued)

12. What are the greatest obstacles to the functioning of your organization?

Rank the top two in order of difficulty level.

Difficulties with administration, Problems with staffing, Problems administering employee benefits, Problems setting up computer software systems, Problems with computer support, Difficulties identifying finance staff (i.e., CFO), Preparing financial reports/billing, Grant writing, Fundraising, Coordinating/planning events, Successful marketing, Obtaining legal services, Cost of office supplies, Other. If other, please specify

13. Does your organization have a contract administered by Nassau and/or Suffolk County?

Yes, No

14. Does your organization have difficulties related to prompt contracting from local government?

Yes, No

15. For prompt contracting difficulties, please select the county that administers the contract.

Nassau, Suffolk, Both

16. Please specify the difficulties you have with prompt contracting.

17. Does your organization have difficulties related to prompt payment from local government?

Yes, No

18. For prompt payment difficulties, please select the county that administers the contract.

Nassau, Suffolk, Both

19. Please specify the difficulties you have with prompt payment.

20. Has your organization been collaborating with other nonprofits?

Yes, No

21. Please explain your collaboration efforts.

Appendix Table E

United Way Focus Group, January 10, 2008

Organizations Represented
Adelphi University
American Red Cross, Nassau Chapter
Bellport, Hagerman, East Patchogue Alliance
Boy Scouts of America, Theodore Roosevelt Council
Cancer Care
Catholic Charities
Child Care Council of Nassau
Child Care Council of Suffolk
Coalition Against Child Abuse & Neglect
Colonial Youth & Family Services
Economic Opportunity Commission of Nassau County
Economic Opportunity Council of Suffolk
Education & Assistance Corporation (EAC)
Family and Children's Association
Family Counseling Service
Girl Scouts, Nassau Council
Hagedorn Little Village School
Haven House/Bridges
Health & Welfare Council of Long Island
Hicksville Boys & Girls Club
Hispanic Brotherhood of Rockville Centre
Hispanic Counseling Center
Housing Help
Huntington Freedom Center
Jewish Association for Services for the Aged (JASA)
Long Beach Reach
Long Island Association, Inc.
Long Island Child & Family Development Services
Long Island Council on Alcoholism & Drug Dependence
Long Island Fund for Women & Girls
Mental Health Association of Nassau County
Nassau County Coalition Against Domestic Violence
Nassau-Suffolk Coalition for the Homeless
National Multiple Sclerosis Society, Long Island Chapter
SNAP Long Island
Society of St. Vincent de Paul
Suffolk Community Council
The Salvation Army
Touro Law School
Transitional Services of New York for Long Island
United Way of Long Island
YES Community Counseling Center