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New York’s Safety Net in Jeopardy

Since the start of the pandemic, NYC's human services nonprofits have stepped up to face the coronavirus crisis and meet new levels of demand for frontline services. But an alarming number of these nonprofits now are on the precipice of financial catastrophe—and their mounting fiscal problems have been compounded by city and state government.

by Sarah Amandolare

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New York's human services nonprofit organizations have been indispensable to the city's response to the COVID-19 crisis, serving as the safety net of last resort for hundreds of thousands of struggling New Yorkers. In communities across the city, these nonprofits have stepped up to meet an unprecedented increase in demand for lifesaving services, providing food and cash assistance to immigrant families that lost all sources of income but didn't qualify for federal relief, delivering meals and medicine to homebound older adults, providing tablets and technology assistance to low-income New Yorkers on the wrong side of the digital divide, and offering mental health counseling to teens struggling with social isolation.

Demand for emergency food services increased by nearly 4,000 percent at one Brooklyn nonprofit and by 900 percent at another organization in Northern Manhattan. At another organization, requests for mental health counseling spiked by 350

percent. Meanwhile, countless nonprofits, including many small community organizations that entered the pandemic with shoestring budgets, added entirely new programs and services to meet the massive uptick in need.

Yet despite their heroic efforts, an alarming number of the nonprofits that provide safety net services in New York are on the precipice of financial catastrophe—and their mounting fiscal problems have been compounded by city and state government.

As this report details, most of the two dozen human services nonprofits that we interviewed for this report told us they were experiencing a yearly budget deficit between 15 and 50 percent. The YMCA of Greater New York has lost more than $100 million in revenue, half of its annual operating budget. Citymeals on Wheels spent $3.5 million over budget last fiscal year and are budgeting a multimillion-dollar deficit in FY21. The New York Foundling lost $2.5 million, a 45 percent greater shortfall than normal. One quarter of the organizations we spoke with say that they spent more than $1 million in unanticipated costs during the pandemic, much of which was not reimbursed.

Due to these financial challenges, numerous organizations have already had to lay off large numbers of staff, even as they struggle to ramp up services and meet growing demand. For example, the Chinese-American Planning Council had to lay off or furlough about 200 staff out of a workforce of 700. Good Shepherd Services laid off 311 staff, or 20 percent of their total workforce, before later rehiring about 100 of them. Graham Windham laid off roughly 50 employees.

Thus far, New York City and State government has done little to ensure these organizations can stay afloat financially and deal with the massive spike in need. In fact, they have made things worse. Although the de Blasio administration made a few vital new investments in the safety net during the pandemic, including GetFoodNYC, an emergency food initiative that has already distributed over 200 million free meals to New Yorkers in need, it has shown little inclination to help stabilize the organizations that are on the front lines of delivering those safety net services.

In August 2020 the city cut $20 million per year from the “indirect cost rate initiative” (ICR), a decision that effectively slashed the amount the city would pay nonprofits to cover their indirect costs by 40 percent. This change has deprived several nonprofits of hundreds of thousands of dollars that they expected to receive this year, based on the new indirect payment rate that they had previously negotiated with city agencies. For example, Good Shepherd Services was owed an additional $1.3 million, but after the city cut had to settle for $700,000; Graham Windham now has a hole of $640,000 in its annual budget due to the 40 percent reduction in ICR; and Safe Horizon expects a loss of approximately $250,000 from their total budget that would have been covered by their new ICR. Mayor de Blasio recently proposed cutting another 10 percent from the current fiscal year ICR, meaning nonprofits would only get 30 percent of their funding request.

On top of this, both the city and state eliminated or sharply reduced funding to a number of programs. Last summer, for example, the city reduced discretionary funding that smaller organizations rely on by 20 percent. At the same time, the state decided to withhold roughly 20 percent of local assistance grants and 20 percent of payments due to organizations with direct state contracts. In effect, this meant that human services nonprofits saw a 20-percent reduction in expected funding from the state during a time of significantly heightened demand for their services. It also created massive cash flow problems for organizations.

Finally, several nonprofit leaders say that they are still awaiting payment promised by the city for costs incurred during the early months of the crisis.

All of this follows years of chronic public disinvestment in human services organizations, where city and state social services contracts were routinely failing to cover the full cost of service delivery and keep pace with rising rent, labor, insurance, and IT costs. (Governor Cuomo also underfunded human services nonprofits by more than half a billion dollars over the past decade by repeatedly deferring statutory cost of living adjustments [COLAs] in human services contracts. Although the recently passed Fiscal Year 2022 budget includes a welcome 1 percent COLA to nonprofits, the governor failed to fund COLAs in eight of the previous 10 years).

Unless this chronic underfunding of human services nonprofits is soon reversed, New York could experience a safety net crisis. Indeed, many nonprofit leaders say it is only a matter of time before these financial challenges completely reduce their ability to continue serving the most vulnerable New Yorkers and meeting demand for vital services in the long, challenging recovery ahead. "There's just not much cushion, and I think we're getting perilously close to the straw that breaks the camel's back," says Bill Baccaglini, the president and CEO of The New York Foundling. "I'm very, very concerned that the smaller neighborhood-based agencies just don't survive."

This troubling scenario could come to fruition in short order. If the city looks to cut programs in the upcoming budget, or if emergency injections of cash from philanthropic foundations come to end, the ability of organizations to continue providing safety net services could be in jeopardy. "I'm concerned that in FY22, when the city is scrambling for savings, they're going to look right at the human services sector and say, 'What kinds of reductions can we take here?'" says Greg Brooks of the victims services nonprofit Safe Horizon. "And it will have an impact on services that we're able to provide."

This report, based on interviews with two dozen leaders of human services organizations conducted between December and February, concludes that city officials will need to do more to stabilize, sustain, and strengthen nonprofit organizations as they confront unforeseen challenges to provide food, financial assistance, and technology. The study—a follow-up to our May 2020 report, "Essential Yet Vulnerable: NYC's Human Services Nonprofits Face Financial Crisis During Pandemic"—spotlights how the crisis continues to put untenable pressure on New York City's safety net and provides a new level of detail about the acute financial strain on the city's human services organizations. It also includes a number of recommendations for how city and state policymakers can ensure the sector can maintain its crucial role as a pillar of New York's recovery—including through restoring the indirect cost rate increase and maintaining new levels of administrative flexibility that have enabled frontline providers to quickly respond to the needs of the most vulnerable New Yorkers throughout the crisis.

Key findings include:

Demand for safety net services has skyrocketed since the start of the pandemic

- The Council of Peoples Organization (COPO) experienced a 3,700 percent increase in its emergency food distribution program since March and now serves approximately 10,000 families.
- At Sunnyside Community Services, demand for emergency food support from older adults increased by 400 percent. The organization also distributed roughly $500,000 in cash assistance, compared to $25,000 in a normal year.
- In FY20, Citymeals delivered over 2.6 million meals, a 26 percent increase over the previous fiscal year, due entirely to COVID. At the height of their response, Citymeals added nearly 3,000 new recipients to its home-delivered meals program and served an additional 50,000 older New Yorkers, many living in senior or public housing.
- Since March, Arab-American Family Support Center (AAFSC) has provided $300,000 in emergency financial relief, up from $25,000 in an average year. AAFSC also experienced a 350 percent increase in demand for counseling services for survivors of domestic and gender-based violence and provided $300,000 in emergency financial relief.

Community-based organizations have launched entirely new programs to meet growing demand.

- Of the over two dozen organizations we reached for this report, 40 percent began providing food and/or cash assistance for the first time.
- A nonprofit serving Manhattan and the Bronx created an entirely new cash assistance program that distributed $400,000 in June 2020 alone.
- Voces Latinas launched an entirely new food distribution program that served roughly 4,000 individuals and families between April and October.
- Red Hook Initiative provided 300 food boxes per week throughout the summer, a totally new program for them.

Human services nonprofit organizations report budget shortfalls of between 15 and 50 percent

- A nonprofit in Brooklyn focused on workforce development for refugees has lost between 50–60 percent of its earned revenue.
- RiseBoro has seen about an 18 percent decrease in rent collections for its affordable housing properties, which also means less management fees, and ultimately less revenue to help run the nonprofit itself.
- Red Hook Initiative lost 30 percent of its revenue.
- The New York Foundling lost an additional $2.5 million in FY21 due to decreased revenues and increased COVID-related costs, representing a 45 percent greater shortfall than normal.

Human services nonprofits have incurred a range of unanticipated costs during the pandemic

- A large organization focused on services for older New Yorkers spent $3.2 million on COVID-related costs between March-December, including overtime, transportation, salary differential, and technology.
- The Jewish Board has spent $3.5 million on additional staffing costs such as mandated paid leave, as well as $1 million on PPE, and $1 million on new equipment.
- Safe Horizon spent $300,000 to $400,000 on cleaning- and safety-related items, which the organization says were costs for which city government did not reimburse.
- Citymeals spent $50,000 on new technology expenses alone.
- The YMCA of Greater New York incurred upfront costs of about $10,000 per branch for pandemic-related costs such as cleaning services and PPE, amounting to an “over $2 million unfunded mandate that we've got to cover out of our operation,” says CEO and President Sharon Greenberger.

Human services nonprofits rise to the occasion to meet unprecedented needs

Since the beginning of the COVID-19 crisis, the city’s nonprofit human services sector has stepped up to face the coronavirus crisis and meet new levels of demand for food relief, cash grants, technology and connectivity assistance, and mental health supports. Organizations have ramped up existing programming while launching entirely new services and creating new partnerships to navigate the ongoing public health crisis. At the same time, they have adapted core programming to ensure services can be delivered safely and effectively throughout the pandemic. And these vital, mission-driven organizations have responded immediately to the needs of the communities they serve—including by filling gaps in direct city services—despite their own fiscal precarity.

Despite dwindling budgets, nonprofits are responding to overwhelming demand for food, cash, and technology

Nearly all of the organizations we reached either ramped up their existing food distribution services, started providing food for the first time, or needed to refer a greater number of people to food relief services in their communities. And they did so while

balancing their other services. The Stanley M. Isaacs Neighborhood Center, a nonprofit which serves primarily the Isaacs Houses and Holmes Towers NYCHA developments, has had to double and sometimes triple its weekly food distribution while contending with increasingly dire living conditions in the public housing developments. “The public health crisis only exacerbated the unjust living conditions under which public housing residents are forced to persevere. Inoperable elevators, heat and hot water outages, mold, and lead continue to exist. Many residents are now navigating these challenges along with rising food insecurity, physical and mental health issues, and job loss. The Isaacs Center's response has had to be swift, coordinated, and multidimensional,” said president and executive director Gregory J. Morris.

Even after the rollout of GetFood NYC, the city’s emergency food distribution program, organizations like Sunnyside Community Services have needed to "continue to fill in gaps," says the executive director Judy Zangwill. She worries the organization will not be able to maintain their efforts due to shortfalls in grants and donations. Meanwhile, Zangwill says, "We have people who are standing in line for two hours and they'll stand even in inclement weather. Sometimes the line is all the way down the block. Sometimes it wraps around the block. The need is only obviously increasing as the pandemic has gone on and on and on, so we're very concerned about that." Sunnyside Community Services is receiving four times the typical volume of calls from older adults in need of food shortly after the pandemic began.

- In FY20, Citymeals delivered over 2.6 million meals, a 26 percent increase over the previous fiscal year, due entirely to COVID. At the height of their response, Citymeals added nearly 3,000 new recipients to its home-delivered meals program and served an additional 50,000 older New Yorkers, many living in senior or public housing.
- RiseBoro Community Partnership has seen a steady, approximately 50 percent increase in demand for its home-delivered meal services over the course of the pandemic.
- A nonprofit serving Manhattan and the Bronx reports that its active pool of repeat food pantry users is now 2.5 times larger than it was pre-pandemic.
- COPO, which serves South Asian and Muslim communities in Brooklyn and beyond, has leveraged new partnerships to increase its food distribution services by 3,700 percent since March.

Like many of the nonprofits we spoke to, COPO needed to overhaul its approach to food distribution. The nonprofit has been able to provide for hundreds more families because of a new partnership with City Harvest and dozens of other nonprofits, an effort that serves 10,000 families altogether. COPO’s food pantry alone has been serving an average of 2,000 families per week compared to 60 prior to March, and their senior lunch program has grown by 75 percent. “Every week, we run out of food completely,” says the director of programs Kelsey Simmons. “There's always people who come to our pantry afterward, and there's nothing left.”

Similarly, the Isaacs Center has had to change its food production and distribution model in response to a nine-fold increase in food assistance requests. The organization has doubled its meal production to 2,400 meals per week by adding a second shift at its Community Kitchen (creating jobs and culinary training opportunities for vulnerable youth in the process).

And massive demand led RiseBoro to create a new food pantry that served 1,900 people between April and November, on top of expanding its existing home-delivered meal services.

Nearly two-thirds of the organizations we reached now provide cash assistance or help enrolling in public assistance programs.

Thousands of New Yorkers facing food insecurity have also needed cash assistance—and many for the first time. Goddard-Riverside, which provides services for families and homeless New Yorkers on the Upper West Side, has had to hire a new staff member to keep up with the demand for help from “people who’ve never had to apply for public assistance before [and] don't have a clue about how to get connected or what's available to them,” says the executive director Roderick Jones.

- A nonprofit serving Manhattan and the Bronx created an “entirely new program” for distributing emergency cash relief to households deemed ineligible for federal stimulus funds or unemployment insurance benefits based on their immigration status. Within roughly a month in June, the organization made 500 awards totaling $400,000. “Had we not cut off access to the application, the volume of requests would have been many times this figure,” says a representative of the nonprofit.
- Since March, Arab-American Family Support Center (AAFSC) has provided $300,000 in emergency financial relief to 500 families that didn’t receive federal stimulus aid or any other form of cash assistance. Many recipients didn’t qualify for public assistance and are survivors of domestic and gender-based violence, according to director of development Kerry Sesil. In an average year, AAFSC distributes about $25,000 in emergency funds.
- Sunnyside Community Services has distributed more than a half-million dollars in cash assistance to about 500 people, with the vast majority of funds going to undocumented people. In a pre-pandemic year, the nonprofit might have distributed about $25,000.
- The Jewish Board, over a span of five weeks in June and July, distributed $500 grants to 500 individuals who couldn’t access other forms of financial assistance. Most of the funds went to people unable to collect unemployment insurance benefits. “The biggest increase in demand we have seen is from clients who are asking for financial assistance with rent and food,” the nonprofit reports.
- JCCA estimates that it has provided financial assistance to at least 30 percent of its clients.

Nonprofits have stepped up to provide technology and connectivity assistance

Technology needs that existed before the pandemic have grown, while new challenges have cropped up. Organizations have needed to equip their employees for remote work while also ensuring clients have internet access and can apply online for public assistance. The transition to virtual programming has meant purchasing laptops and home-office supplies for their staff, and in some cases providing tech devices and Wi-Fi access for clients with school-age children attending classes remotely. Many organizations have moved most or all of their existing programs online in order to continue to reach isolated older adults, people out-of-work, and students in after-school programs. Additionally, while the DOE gave out more than 400,000 iPads to students in need, nonprofits have had to fill gaps by providing laptops, tablets, and more. "The district was sending one computer for five kids, or the computer didn't work. We were buying computers as well as other kinds of devices that made learning possible, like noise-canceling headsets," says Roderick Jones, Executive Director of Goddard-Riverside.

- In early March, Good Shepherd Services made the decision to purchase hundreds of laptops for the children in their programs, ultimately distributing about 750 when schools closed their doors. Good Shepherd needed to raise private money to cover the expense, as much of the cost was non-reimbursable. “It wasn’t just about laptops; it was about connectivity. We had to help people with Wi-Fi, and staff needed to go to people's homes to get kids connected, get apps set up, troubleshoot, and provide hotspots when necessary,” says Michelle Yanche.
- An organization in Brooklyn that could no longer offer its core career-development program during the spring and summer created a new program of "ongoing online support and education for our alumni who were suddenly out of work,” said a leader of the organization. “A lot of our alumni and students came to the United States fairly recently and were just getting their footing, became friends, and built a community [when the pandemic happened]. And those relationships have been paused since we haven't been able to connect in person with our communities as much as we used to."
- Red Hook Initiative’s existing program that supports small businesses by connecting them to Wi-Fi has become even more crucial for local residents who lack at-home Internet. During the pandemic, "We were averaging more users than ever before," says RHI’s chief strategy officer Javier Lopez.

Many human services nonprofits needed to create entirely new emergency provider programs

Nonprofits of all sizes have developed entirely new food distribution channels during the crisis. Good Shepherd Services,

which offers programs for children, youth, and families across Brooklyn, Manhattan, and the Bronx, has become “an emergency provider” of food, financial assistance, and technology, according to the executive director Michelle Yanche. "It’s one major area of our response effort that we don't see any end in sight for, and if anything, [we see it] potentially worsening over time," Yanche says. Among the approximately two dozen organizations we reached, nearly 40 percent began providing food and/or cash assistance for the first time.

- Red Hook Initiative provided 300 food boxes per week throughout the summer, a totally new program for them. "Our urban farm immediately transformed itself to being a food distribution operation, working in solidarity with mutual aid folks and other food providers across the city,” says Javier Lopez.
- Hamilton-Madison House had never operated a food pantry before, according to the executive director Isabel Ching, but the nonprofit now heads up four food pantries as part of a collaboration with Trinity Church.
- The Chinese-American Planning Council raised about $1.7 million in COVID relief grants, of which $1.25 million was distributed directly to community members as cash assistance. The balance was used to sustain 200 staff until the end of their fiscal year, June 30; layoffs/furloughs of those staff members began on July 1.

Nonprofits expand and adjust regular services to meet evolving needs

On top of responding to the need for food and financial assistance in their communities, many organizations are experiencing a surge in demand for their regular programs. Arab-American Family Support Center experienced a 350 percent increase in demand for counseling services for survivors of domestic and gender-based violence between March and November, and now has a waiting list for mental health services. “That's a tremendous increase, and we are mindful of the many individuals who might have digital barriers to access our support,” says Kerry Sesil.

RiseBoro has received about 1,200 additional calls from new food pantry clients in need of non-food-related services, largely mental health and emotional supports. CEO Scott Short says mental health will likely continue to be “a common theme throughout all the work we're doing on the ground with seniors and families,” and that at this point, mental health concerns “are not fully understood and are not fully being addressed.”

Multiple other organizations described upticks in demand for mental health services as well. “The pandemic has led to an increase in demand for services, as rates of anxiety, depression, substance use, and suicidal ideation have risen,” reports the Jewish Board. “Children are facing unprecedented emotional distress, yet are unable to access adequate primary and preventive services, resulting in stark increases of psychiatric distress and hospitalizations.”

A nonprofit that offers a variety of services for residents of the Bronx and Manhattan reports being overwhelmed by phone calls to their central intake line. From the start of the crisis through July, they were able to answer only about 20 percent of 13,249 calls seeking assistance with financial benefits/unemployment, housing, and immigration services. Additionally, demand for their young adult career programming has ballooned by 250 percent, with applicant pools increasing from 20 pre-pandemic to between 60 and 80 applicants per cohort.

New York’s nonprofit safety net on the brink of fiscal collapse

Despite their herculean efforts to support the neediest New Yorkers through this generational public health and economic crisis, many frontline provider organizations are at risk of fiscal collapse. Nonprofits’ budget shortfalls have risen dramatically as revenue from in-person programming and now-canceled contracts has disappeared while new program costs and COVID-related expenses have ballooned. With no end in sight to the economic and health crises affecting New York’s marginalized communities, safety net providers have shouldered new financial burdens with little security that they will be reimbursed, let alone made whole.

Human services nonprofits report budget shortfalls of 15 to 50 percent

Nonprofits have been taking on new responsibilities while seeing their budgets shrink. Revenues have fallen off as certain in-person programs have been forced to close or seen participation nearly vanish.

- The New York Foundling, which provides services for children and families across the five boroughs, saw its typical annual deficit of $5.5 million grow by an additional $2.5 million (45 percent) in FY21 due to decreased revenues and increased COVID-related costs, according to Bill Baccaglini. (In a typical year, the organization has to make up for a deficit due to insufficient funding in their government contracts.)
- One nonprofit serving Manhattan and the Bronx that had projected increased earnings in FY21 now expects a budget shortfall of about 14 percent, largely as a result of COVID-related costs and contract cuts, a canceled fundraising event, and greater overhead costs than anticipated.
- A nonprofit in Brooklyn focused on workforce development for refugees has lost between 50 and 60 percent of its earned revenue.
- RiseBoro has seen about an 18 percent decrease in rent collections for its affordable housing properties, which also means less management fees, and ultimately “less revenue to help run the nonprofit itself,” they report.
- Red Hook Initiative lost 30 percent of its revenue.

Many organizations were forced to lay off employees, even as they try to expand services to meet growing demand

Our findings suggest that layoffs have been more common among larger organizations, which neither qualified for PPP loans because they had more than 500 employees nor for certain philanthropic funds because their annual budgets exceeded $20 million.

- The YMCA has laid off about half its staff, or about 1,700 people, since the start of the pandemic.
- The Chinese-American Planning Council has had to lay off/furlough about 200 staff out of a workforce of 700.
- Good Shepherd Services laid off 311 staff, or 20 percent of their total workforce, after the Mayor’s proposed budget was announced. Two months and much advocacy later, a revised city budget was adopted and the nonprofit was able to hire back about 100 staff members.
- Graham Windham was forced to lay off about 50 staff in the spring when New York State cut funding for Raise the Age, a program that provides services for youth who commit nonviolent crimes. The organization gave those employees 90 days notice, according to CEO and President Jess Dannhauser.

Nonprofits incur new program costs and COVID-linked expenses that are rarely covered

Organizations throughout the human services sector have struggled to cover an onslaught of new costs related to the pandemic. For the Council of Peoples Organization, expanding its food distribution program has meant digging deep into its own pockets. "In general, administrative costs aren't covered at all, especially with food programs," says Kelsey Simmons. "There's always a huge focus just on getting the funding for the food, but you always need the hands to do it, and that's really hard to get funding for. Also, operational costs—all the supplies that are needed, whether it's plastic wrap to keep the boxes from falling over or gloves for the volunteers to wear—all those things have to come out of the organization's pocket." COPO was offered a $2,100 operational grant for the year for running a food pantry, but the total cost of the program, including supplies and staff, is around $160,000, according to Simmons. "Per week we spend at least $200 on supplies, and each food order is around at least $6,000, just to get enough spaghetti to 2,000 families."

Nonprofits are incurring costs to keep frontline workers safe and fairly compensated, and most are also providing at least some services remotely.

- A large organization focused on services for older New Yorkers spent $3.2 million on COVID-related costs between March and December, including overtime, transportation, salary differential, and technology.
- Citymeals' "primary cost increase was nearly $4 million in emergency food last fiscal year. For FY21/FY22, we are projecting to spend over $5 million on emergency food and an additional $300,000 for warehouse operations that were not in our budget." Citymeals also reports roughly $50,000 in additional technology costs.
- An organization that offers multiple services for families and individuals in Manhattan and the Bronx reports paying approximately $50,000 in staff hazard pay, which is "far less than we would like to be able to offer."
- The Jewish Board has spent $2.5 million on additional staffing costs such as mandated paid leave, as well as $1 million on PPE, and $1 million on new equipment.
- The YMCA of Greater New York incurred upfront costs of about $10,000 per branch for pandemic-related costs such as cleaning services and PPE, amounting to an "over $2 million unfunded mandate that we've got to cover out of our operation," says CEO and President Sharon Greenberger.
- Safe Horizon spent over $1 million on hazard pay without knowing if they would be reimbursed by the city (they will, for a good portion of it, according to Chief Financial and Administrative Officer Greg Brooks). However, the nonprofit also spent $300,000 to $400,000 on cleaning- and safety-related items, which it says are unreimbursed costs.

A deeper crisis: chronic public disinvestment and faltering government support throughout the pandemic

The city's nonprofit providers have long endured a funding structure that fails to reflect the true cost of safety net services. But long-term funding shortfalls have been compounded by city and state cuts to assistance grants, contract payments, and major government programs—even as these providers responded to massive spikes in need. Now providers say that without real, sustained support, they will be unable to address the most important needs of their communities, and the entire city will suffer.

Slashed indirect costs rate leaves nonprofits with budget deficits of up to $1 million

Many of New York City's human services nonprofits were struggling financially well before the pandemic, largely because their contracts do not cover the true cost of providing services. City and state contracts have both failed to keep pace with rising indirect costs, like rent, insurance, and administrative overhead. As a result, organizations can end up losing money just by accepting contracts. "If you start with the basic premise that for each contract, we get 80 cents on the dollar and then are required to run around and find that other 20 percent, that's a problem just to begin with," says Marin Correa, director of philanthropic gifts at the Isaacs Center. "It really does impact our operations. If I have to hire grant writers to get me private dollars to make up for the government gap, that's a legitimate expense."

In 2019, following years of lobbying by the human services sector, city council committed to covering more than 10 percent of nonprofits' indirect costs per city contract. Many nonprofits went through the expensive and time-consuming process of being approved for a new indirect cost rate (ICR) and created budgets to match. But last August, the city approved a budget that would cut $20 million per year from the indirect cost rate initiative, ultimately slashing those newly established ICRs by 40 percent. And new city guidance released in March 2021 indicates that reimbursement will be cut by 50 percent for the current fiscal year, meaning that nonprofits will receive just 30 percent of their ICR funding requests, despite new technology and administrative costs tied to the pandemic.

The setback has been devastating. "It was horrible," says Khristel Simmons, director of food and nutrition services at the

Isaacs Center. "It's overwhelming because, in the midst of all of this, my kitchen team now has to produce double or even triple what they were doing before, because we can't turn people away."

The discrepancy between city funding and real costs means that organizations must spend far more than they receive just to meet their contractual obligations—an increasingly unsustainable situation. "We're operating at a 10 percent indirect cost rate, which is the diminished rate that the city approved, but we are actually spending closer to 18 percent," says Kerry Sesil of the Arab Family Support Center. "Those are expenses that we have to cover in order to carry out these contracts and effectively meet our community needs. In this way, we are operating with unfunded mandates."

- Good Shepherd Services was owed an additional $1.3 million, but this amount has been reduced to $700,000.
- Graham Windham had been approved for a new ICR of 12.33 percent, but the city's 40 percent cut leaves them with a rate of 11.4 percent, and a hole of about $640,000 in their budget, according to Jess Dannhauser.
- Safe Horizon expects a loss of approximately $250,000 from their total budget that would have been covered by their new ICR.
- SAGE, a nonprofit focused on the needs of LGBT older adults, has been operating at an indirect cost rate of 10-12 percent while its true indirect costs amount to around 15 percent (the organization underwent an audit in order to submit an actual certified rate of 14.74 percent in December 2020, but it remains unclear how the city will move forward).
- Another large organization, which provides services for tens of thousands of older adults in New York City every year, had budgeted for an additional $1 million of their indirect costs being covered.

City and state cuts crippled nonprofits during a time of growing need

The city and state have enacted several debilitating cuts to programs and contracts, creating painful and sometimes massive holes in the annual budgets of many nonprofits who relied on these funding streams. The cuts include a 15-to-20 percent reduction in the discretionary grants that City Council members and Borough Presidents mete out to nonprofits every year, funding that is relatively small but which provides crucial funding for organizations around the city, especially smaller nonprofits.

- The Jewish Board's discretionary City Council initiative grants were cut by 15 percent, impacting services to foster youth, formerly homeless adults, and senior citizens seeking mental health care.
- According to Kerry Sesil of AAFSC, "Each of our city contracts [for adult education, young adult, and anti-violence programs] were cut and we are operating at a greater need now than we were last year, so it's tough to see."

In addition, the state withheld 20 percent of funds from local assistance grants, which include payments for many nonprofits contracted throughout the state. The Jewish Board experienced withholding of $100,000 in state funding for its mental health clinic that serves vulnerable teens and young adults. Because the state never clearly communicated how long the withholds would last, nonprofits felt as if funding had effectively been cut. Delayed payments on state contracts piled even more stress onto already overburdened organizations and interfered with continuity of services, according to several nonprofit leaders we talked to.

- "New York State has failed miserably in supporting nonprofit organizations," says Wayne Ho. "The emergency power given to the Governor has meant the rapid payment law has been paused, so the State has been extremely slow in paying contracts and CARES funded services. For example, the State owes Chinese-American Planning Council over $1.4M going back to April 1, 2020. This means that we have closed our FY20 books, finished our annual audit, and have to carry these receivables on our books. This amount includes about $500,000 in federal CARES funding for child care scholarships, which we were contracted to provide as an expanded service as a Child Care Resource and Referral agency."

- "We really lean hard on our government contracts in order to keep things going. There've been examples where the contract starts in July and we would find out in September that the state is actually not going to pay for that service. So we'd been providing the service to several families and then we're told that they were going to stop it immediately," says a staff member of a large general services nonprofit.

The city and state also reduced funding to a number of programs that nonprofits relied on, from the Summer Youth Employment Program (SYEP) and Learning to Work to Community Schools and the YMCA's New Americans Initiative.

At the same time, city and state governments didn't come up with new funding to help nonprofits meet exploding demand or cover most of the new costs incurred by nonprofits during the pandemic. On the contrary, says one nonprofit leader we spoke to, state officials in particular projected "an overall sense of apathy and lack of mission to serve the underserved, which really should be their role as much as ours."

Missteps by city officials including at least one “catastrophically bad decision”

Leaders repeatedly cited key decisions by city officials that interfered with their response to the crisis. The announcement in April that the city would reduce its commitment to the long-awaited indirect cost rate reimbursement at a time when nonprofits were in the thick of emergency response, was "a catastrophically bad decision that created a self-inflicted wound,” says Michelle Yanche of Good Shepherd Service. "All of the core teams that we needed to be responsive in this crisis were supported by the indirect rate.”

That decision, as well as the abrupt cancellation and subsequent reinstatement of the Summer Youth Employment Program (SYEP), set a divisive tone and interfered with what leaders say could have been an opportunity. “Investing in us to do what we do best in a crisis can actually be to the city's strategic advantage in weathering a storm,” Yanche says. Before the Mayor announced cuts to SYEP as well as DYCD-funded summer camp programs, Good Shepherd youth programs staff had been engaged in a “boots-on-the-ground effort” to find out what families needed and make sure they got it. “It was such a clear example of how the staff of community-based organizations is this amazing lever that the city could pull in a crisis.” But youth programs staff needed to be laid off and rehired following the Mayor’s actions, and nonprofits began advocating and developing contingency plans, further eating up time and energy “that should never have been diverted away from the response effort in the first place.”

Likewise, some leaders suggest that by creating GetFoodNYC (which has struggled with food quality and distribution issues) the city missed a chance to invest in nonprofits with existing food programs. “The GetFood/Home-Delivered Meals schism that the city created is really endemic of the way that they have disrespected nonprofit partners and a concrete example of how that has resulted in greater expense and poorer services,” says Scott Short of RiseBoro.

Ongoing difficulties with NYC DOE

On the education front, nonprofits also encountered one hurdle after another, including reduced funding for critical programs and DOE missteps around technology. Cuts to Learning to Work, a program that provides paid internships for transfer high school students, further hampered nonprofits’ ability to respond to needs, according to JCCA CEO Ronald Richter. "The families that depend on this money as income got slammed by the city,” he says. Other nonprofit leaders expressed frustration with the lack of technology services for housing-insecure students. The city is still working toward getting all of the approximately 100,000 children in shelters connected to Wi-Fi. Says the leader of a Manhattan-based settlement house, "Where were they last year? They didn't do it last year because it doesn't matter to them. Now it matters because politically it matters, because the mayor looks bad." (In the fall, a group of homeless families sued the de Blasio administration over the issue.) Some leaders faulted the DOE for its lack of support for homeless students.

- Christine Quinn, the president and CEO of WIN, the city’s largest family shelter and supportive housing provider, says,

> “DOE has been extremely hard to deal with and not responsive at all. The mayor said in the beginning that children in shelters and the housing authorities were going to be the first to get free iPads for virtual schooling. We didn't get iPads until two weeks after school started and after we got a cover story in the New York Times. So that was absolutely a promise made and a promise broken." When the iPads suddenly stopped working, the DOE dropped the ball again, says Quinn. "It would take five, six, seven, eight calls before you would get a call back from anybody at DOE. It was just really very disappointing." For students in the shelter system, "it's meant that they fell further behind. And these are kids who are already behind," she says.

Continued uncertainty regarding COVID-related costs and reimbursement

Additionally, some leaders report a lack of clarity from the city as to which COVID costs will be covered, as well as pressure to submit proposed pandemic-related budgets quickly, an incredibly difficult task given the overall uncertainty surrounding the crisis. Several leaders we spoke to also expressed concern that the city will ultimately not be as flexible with reimbursement for COVID-related costs as previously suggested. JCCA got pre-approval from the city for $2.2 million to cover pandemic costs through June, including for technology, cleaning services, hazard pay, and safety equipment for frontline staff, but has "not received anything as of yet," says JCCA CFO Charles M. Figliozzi.

According to a large nonprofit, trying to get reimbursed for hazard pay for its frontline workers has been fruitless. "The city had a very limited definition of staff positions eligible for a differential and none of our staff qualified. The city was continuing to require home visits. We were getting heavy volumes of referrals. And we got not a penny for differential or for transportation," says a source at the organization.

“The city stated it would provide up pay (hazard pay) for residential staff; months after CBOs provided up pay to staff, the city came back with guidance that capped up pay at lower amounts,” says Wayne Ho of CPC.

Many others have absorbed significant technology-related costs. Good Shepherd Services reports that much of the technology costs it incurred and continues to incur to provide technology and connectivity for students will ultimately not be reimbursed by the city. “It was an all-hands-on-deck moment,” says Michelle Yanche. “Our perspective was, DOE is doing what they can to get young people equipped to participate in remote school and they're not going to be able to do it fast enough, and our participants can't afford to wait.”

Supporting nonprofits in the vaccination effort

Concern is growing around the city’s vaccination effort, which has begun to put new financial and other pressures on nonprofits. We've heard from organizations that have booked appointments for clients who were struggling to get vaccinated, and transported clients to vaccination sites. But many nonprofits are not in a position to do something similar. "COVID vaccinations are just very anxiety-provoking at this moment for many of us. How do we start this vaccination process and get it out to our immigrant communities so that they can be safe? Education is a big, big part of it. It's been surprising that some people are very reluctant to want to take the vaccine,” says Isabel Ching of Hamilton-Madison House.

A deeper crisis around the corner when temporary funding sources run out

The human services sector has been propped up temporarily by philanthropy and emergency financial assistance programs and contracts, like PPP and city contracts for COVID-specific services. But nonprofits worry that rollbacks of these supports—and further cuts to city and state funding—would jeopardize their ability to continue meeting the current level of need. The outcomes could be devastating.

“There was energy for aiding and supporting nonprofits in March and April from the philanthropic community, and that was incredible, but there's fatigue with any crisis. It's more difficult to rally that energy now, even though the need is still so great, and even though we continue to offer intensive services with additional associated costs,” says Kerry Sesil.

Sunnyside Community Services has stayed afloat thanks to one-time emergency forms of assistance, including PPP and philanthropy. "The foundations were great in terms of responding to COVID, and the federal government kept us whole last fiscal year. That was really a lifesaver in terms of being able to retain staff and continue to deliver services, albeit most of them remote," says Judy Zangwill. "Next fiscal year, I think everyone is so concerned. Even if there's a stimulus package, there's concern that it won't fill the gap and how much of that will go into human services.”

According to a nonprofit serving Manhattan and the Bronx, “we will be in far worse shape budget-wise in our fiscal year 2022 than we are in our current fiscal year. Assuming we don’t receive a new injection equivalent to our forgivable PPP loan or our one-time foundation support for COVID-related needs, and that our annual COLA increases are consistent, we will open next year with a deficit of over $1.1 million if we want to maintain our current service levels.” This organization, like many others, benefitted from new city contracts related to the pandemic, such as for contact tracing efforts. But because the contracts employ temporary workers, the contracts can end up costing human services providers, which are left responsible for covering unemployment insurance benefits payments when workers are inevitably laid off. The organization cited above hired 11 new temporary staffers for a COVID-related city contract, "all of whom are projected to be laid off at a time when the city’s economy will remain far from recovered and the probability of at least some time on unemployment is high.” They expect to pay at least $10,000 per employee in benefits when the contract ends. “This is simply not a sustainable situation for us, especially when the costs will hit during our 2022 fiscal year when our budget outlook is even worse than it is this year.”

RiseBoro is facing similar circumstances. “On balance, we've actually received more funding than we've lost through COVID, but our concern is that this is really short-term, targeted funding for COVID response,” says CEO Scott Short. “We believe that the fiscal cliff that's coming for the city and the state in FY22 and beyond are going to lead to further erosion in government programs, and we're not confident that philanthropy is going to have the required attention span to really backfill the losses that we're going to experience on the government contracts. So we're doing okay for the current fiscal year, but very, very worried about the future.”

According to WIN CEO Christine Quinn, the city has “seemed unable to look around the corner or see the next step.” And if nothing changes the next year could be especially brutal for the whole sector. An estimated 1,800 nonprofits are at risk of permanently closing due to COVID, which could leave 14,000 staff unemployed, according to the Human Services Council. And while numerous small organizations are struggling, the leaders we talked to are convinced that larger nonprofits will also be vulnerable if restrictions on PPP and certain philanthropic sources are not lifted.

Without real, sustained support, organizations tell us they won’t be able to come close to addressing the most important needs of their communities, including a burgeoning mental health crisis and continuous demand for food and basic assistance.

Nonprofit leaders emphasized that a drop-off in services for any population or major area of need ultimately affects the city as a whole. "The things that would make the biggest difference for the older adult population are the same things that would make a difference for school-aged kids and working people," says the leader of a nonprofit focused on older adults.

"My desperate plea to our city leaders is to please support programs that serve young people and not have them continue to be the first on the chopping block,” says Michelle Yanche. “We need to provide stability to help our young people recover from the learning loss and trauma that they have experienced, and that they will continue to experience, and if we don't, they as a group and our city collectively will pay the price for a very long time."

Recommendations

New York City's human services sector has been an invaluable pillar of the city's crisis response, and yet many of the nonprofit organizations that make up New York's safety net are at risk of fiscal collapse if the city does not restore much-needed funding. At the same time, these organizations have reoriented their programming in real time and on their own to respond to the changing needs of the communities they serve, launching entirely new food and cash assistance programs, and pivoting to virtual programming, online education, and telehealth. In these recommendations, we put forth several concrete steps the city can take to protect these organizations and ensure that they have the flexibility and support to continue serving the neediest New Yorkers through this crisis and beyond.

1) End the chronic practice of underfunding human services nonprofits. The next mayor should commit to paying nonprofits the full cost of service delivery. Doing so will help ensure the continuity of essential services for millions of New Yorkers during the difficult months and years of recovery that lie ahead. It will also help stabilize organizations that had already become financially fragile even before the pandemic, thanks to years of city contracts that didn't cover the full cost of services provided and which failed to keep pace with rising expenses. The next mayor will need these nonprofits, not just to deliver safety net services to those in need but also to execute the programs and services that will be crucial to creating a more equitable city.

2) Restore Indirect Costs Rate increases. New York City must restore the $20 million cut from the city's indirect cost rate initiative and fully fund the program in the years ahead. The city's decision to cut this crucial funding created massive holes in the budgets of human services organizations, but it also made little sense at a time when nonprofits across the city have taken on significant new indirect costs. The city has saved billions of dollars over the years by devolving its safety net services to nonprofits; the least it can do is accurately pay organizations for the overhead and administrative costs they incur. Restoring the indirect cost rate increases would help ensure the continuity of essential services for millions of New Yorkers during the difficult months and years of recovery that lie ahead. Should the city go the opposite way, "that's what is going to lead to bankruptcies," says Bill Baccaglini of The New York Foundling.

3) Make permanent recent changes that gave nonprofits greater administrative flexibility. During the height of the pandemic last spring, city agencies began allowing nonprofits greater flexibility around certain administrative processes. For many organizations, agencies' emergency relaxing of regulations and processes around contracts and paperwork translates "directly into better, faster, more responsive service," says Michelle Yanche of Good Shepherd Services. The city should make permanent contractual changes that have reduced administrative overhead and allowed nonprofits to devote more resources and capacity to providing frontline, essential services.

4) Allow for greater contract modification. During the pandemic, the city has allowed providers to modify contracted services—including moves to virtual programming—and still get paid out. Without softening obligations, the city should look to develop new success metrics that allow nonprofit providers to adjust programming as needs evolve without facing funding interruptions. As city and state agencies issue new requests for proposals, they should acknowledge the situation continues to change and allow for modification in program delivery.

5) Support digital skills training and professional development for human services staff. On top of basic technology services and needs, a digital skills gap is affecting both organizations and the people they serve. Many nonprofit employees lack the tech skills they now need to do their jobs with confidence. Experienced staffers may excel at in-person services but lack the digital literacy to translate their skill set into a Zoom meeting or virtual whiteboard platform. Rather than penalize nonprofits for retaining staff that may be struggling with the new normal, the city and philanthropy should support digital skills professional development for human services providers so that staff can transition effectively to, and thrive on, remote services and virtual platforms.

Conclusion

Never has it been clearer that human services nonprofits are the city's safety net. During the past year, these organizations stepped up in heroic ways to meet the massive increase in need for a range of emergency services—and keep the city's pandemic crisis from becoming a calamity. With more than 600,000 New Yorkers still out of work and New Yorkers dealing with issues from learning loss to depression, demand for these services will almost certainly remain high during the long recovery ahead. But city policymakers should be legitimately concerned about the future viability of the organizations that deliver these services. Without a fundamental change in how the city funds human services nonprofits, some of these vital organizations will face fiscal collapse, many others will be forced to scale back their services, and most simply won't be able to meet the growing demand. As this report recommends, it's time to pay human services nonprofits the full amount it costs to provide their services.

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