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Nonprofit Response to Demographic Change: The Role of Government Support

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Note: The data reported here were collected before Sept 11, 2001. We are in the process of updating this information.

NONPROFIT RESPONSE TO DEMOGRAPHIC CHANGE: THE ROLE OF GOVERNMENT SUPPORT

by John E. Seley, Julian Wolpert and Ana Motta-Moss¹

Introduction: “Coverage”

The independence and autonomy enjoyed by nonprofit organizations enable them to develop service programs that are not constrained by market forces and public mandates. However, the aggregation of these efforts by individual organizations into a community’s nonprofit sector reveals some major negative consequences as well. One downside effect of the fragmentation of the nonprofit sector, the *coverage* problem, is the focus of this paper.

Presumably, the same *invisible hand* that operates in the fragmented private sector guides nonprofits to supply services in anticipation of demand and to “test the waters” in devising new services and reaching out to potential consumers of services. Furthermore, the same invisible hand analogy would lead nonprofits that supply unwanted services to adapt their service provision or cease to operate. But, what mechanism in the nonprofit sector assures adequacy of coverage? The private market is not obsessed with the inability of some consumers to afford toasters or legal services. However, the fact that some groups are underserved or some beneficial services are undersupplied by the “charitable sector” triggers concern. Yet, the fragmented structure of the nonprofit sector inhibits coordination and a reliable corrective mechanism.

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While adequacy of coverage is an important vindicating issue for the nonprofit sector as a whole, it is not an imperative for any single nonprofit organization or even federated support group.

How well does the nonprofit sector deal with the coverage problem? Relatively little is known even about who makes use of nonprofit services and which groups of the population receive which types of services. Few nonprofits collect and make public detailed information about the characteristics of their clients and virtually no data are systematically collected about those who are underserved.

In fact, the concept of “under-service” is not well defined and we know little about the incidence or impact of service neglect or deprivation, i.e. the consequence of not providing a specific service. Service neglect only occasionally manifests itself in a behaviorally dysfunctional form or in measurable pathology among the population. People simply go without the benefits of the service or pursue substitute remedies. After all, most nonprofit services are not part of any minimum safety net but intended only to enhance quality of life and well being, not save lives. Lack of access to the ballet performance of a nonprofit dance company may not be an issue that reflects poorly on a community’s nonprofit sector. However, the absence of affordable job counseling for physically handicapped people suggests a significant gap in coverage.

Unlike private firms, nonprofits need not recover their full costs from consumers of their services. They can appeal for contributions from donors and apply for grants from foundations and government contracts to subsidize service users who would otherwise be neglected. Still, service coverage by nonprofits is likely to be inadequate if the organizations do not avail themselves of these potential revenue opportunities for subsidizing their service fees. Nonprofits cannot be faulted for failing to reach all those who can benefit from their services. However, they

are still obligated as charitable organizations to solicit donations and grants to enable them to be as income-blind as possible in providing their services.

Equity and Fairness

Analysis of the coverage problem clearly requires that distinctions be made between different types of services and targeted consumers of these services. The complexity of problems would justify a comprehensive analysis of coverage over a variety of US communities although data needs for such a study would be enormous. Our objective here is more limited. Our study of the problem begins in a test community, New York City, with an assessment limited to the goals of *equity and fairness* in coverage by comparing the provision of specific types of services to rich and poor, immigrants and long-term residents, various ethnic groups, etc.

These comparisons also make it possible to determine how effectively nonprofits have extended their coverage by attracting supplementary funding to address the service needs of population groups that are prone to be underserved. The implication, of course, is that nonprofits have become accustomed to count largely on contracts from government-funded programs to underwrite their services for the poor. Other sources of revenues for nonprofits, like individual donations and income from endowments, are inadequate in magnitude and not appropriately targeted among service sectors and organizations to substitute for the government aid.

Thus, the proposed test of coverage among New York City's nonprofits is in reality an assessment of their commitment to the goals of equity and fairness expressed through their efforts in seeking this support. Their *success* in obtaining these funds, however, will also be

contingent on government funding opportunities. A more severe test of the adequacy of coverage would occur if government assistance were significantly curtailed. Unless revenues from other sources can be enhanced and redirected, nonprofits in sectors highly dependent on government contracts would need to restrict service coverage to consumers able to pay full fees.

The larger and more general context of this study is the three sector economy in which: the private sector is vigilant about capturing service activities that do not require subsidies from donations or government grants; and the public sector through its grants and contracts takes responsibility for ensuring that the charitable sector is indeed charitable. The *residual* scope for the nonprofit sector is to encourage government to fulfill this responsibility, while yielding profitable ventures to private firms.

SERVICE TARGETING BY NEW YORK CITY'S NONPROFITS

We completed a comprehensive analysis of New York City's nonprofit sector in 2001 that included a general inventory as well as specialized studies of a number of current policy concerns of the sector, such as: revenue problems; ability to recruit and retain managerial staff; affordable space; and use of computer technology. Some attention in the project was also devoted to the issue of nonprofit responsiveness to the city's changing demography. This paper is devoted to the findings about the diversity of those served by the city's nonprofits with a more specific focus on services to the Hispanic, Black, and white population groups.

Data resources for the study included responses from a mail survey supplemented by financial information for the same organizations obtained from IRS 990 reports. Survey

responses were received from 3,088 of the 8,034 active service providers in the NYC nonprofit universe of arts, educational, health, human service and public benefit organizations. Some initial attention is devoted, however, to the current context of NYC's nonprofit sector. We begin with a short overview of the challenge to nonprofits stemming from the City's changing demographic structure.

New York City's Changing Demography

New York City's population has not only grown in the past decade but become more diversified with continued suburban outflow of middle-income white families and immigration of substantial numbers of people from Hispanic and Middle East nations, Asia, Russia, Poland, Ireland, Haiti, and others. More than one-third (2.7 million) of New York City's population in 2000 was foreign born. Among immigrant groups, 17% came from the Dominican Republic; 10% from the former Soviet Union; 8% from China; 6% from Jamaica; 3% from Haiti, Poland and the Philippines; and smaller numbers from a hundred other nations. Hispanics/Latinos are currently 27% of New York City's population. They are highly diverse in ancestry, including those born in the City and other parts of the U.S. as well as immigrants from many Caribbean and South American nations.

New York's nonprofit organizations have been confronted with new challenges in adapting to the City's changing demography, increased income inequality, ethnic composition, community and neighborhood structure, and diverse service needs. The greatest need has been to dedicate and target affordable social, educational, and cultural services at the community level

and in appropriate languages. On the other hand, the demographic changes have enabled nonprofits to identify and hire staff with diverse ethnic and language background as well as to tap into the pool of low wage workers for their unskilled staffing needs.

Overview of Survey Findings

A brief summary of our survey analysis shows that New York City's nonprofit organizations reach out and serve all income, age, ethnic, language, and racial groups with an extensive array of social, cultural, educational, recreational, health and other services. The survey revealed that 2.2 million people are served daily in one way or another by the City's nonprofits in addition to the three million reached by public radio and television. They assist virtually all New Yorkers in a great variety of languages. Service users include audiences of nonprofit theaters, museum visitors, university students, in- and outpatients at nonprofit hospitals, clients of social service agencies, etc.

Almost 60% of the organizations, for example, reported in the survey that at least one-quarter of their service users are Black; more than 51% report that Hispanics form more than one-quarter of their users; and 15% have Asian-descent clients who number more than one-quarter of their clients (see Table 1).

TABLE 1
Ethnic Background of A Significant Share of People Served, by Sector

Sector	White (non-Hispanic)	Black (non-Hispanic)	Asian	Hispanic/Latino	Multi-racial
Arts	75%	42%	15%	33%	33%
Education	55%	63%	20%	52%	25%
Health	48%	69%	10%	62%	19%
Human Services & Religion	42%	66%	15%	59%	19%
Public Benefit	60%	60%	20%	50%	28%
Supporting Orgs	77%	56%	11%	41%	25%
Total	56%	60%	15%	51%	24%

Source: Survey Responses, Question 12

In addition, 24% report that more than one-quarter of those they serve are multiracial clients. Only the arts groups are currently somewhat less oriented to the city's minority populations.

A very large share of New York City's nonprofits reported a shift in the past two years in their service delivery to new or different target groups. Forty-nine percent reported a greater shift to serving immigrant groups, especially among the human service organizations at the neighborhood level (see Table 2).

TABLE 2
Increased Service to Specific Client Groups in the Past Two Years, by Sector

Sector	Children & Teens	65 and Over	Below Poverty Level	Immigrants	Mentally/ Physically Challenged	Gay/Lesbian/ Bisexual/ Transgender
Arts	65%	31%	21%	31%	22%	8%
Education	27%	20%	33%	52%	18%	7%
Health	45%	32%	40%	38%	21%	21%
Human Services & Religious	45%	20%	30%	58%	25%	9%
Public Benefit	42%	13%	35%	56%	32%	25%
Supporting Orgs.	41%	15%	23%	59%	19%	10%
Total	46%	22%	30%	49%	23%	13%

Source: Survey Responses, Question 13

Forty-six percent shifted to serving more children and teens, especially among arts and human service groups and those that provide borough-wide services. The elderly were targeted to a greater degree by arts and health groups, while education and health organizations focused increasingly on those below the poverty level.

Service sectors across the board also reported a significant shift in service to Hispanics over the past two years (68% overall), perhaps reflecting the growing presence and voice of Hispanics in New York City (see Table 3).

TABLE 3
Increased Service to Specific Ethnic Groups in the Past Two Years, by Sector

Sector	White (non-Hispanic)	Black (non-Hispanic)	Asian	Hispanic/Latino	Multi-racial	Total
Arts	18%	52%	50%	53%	68%	100%
Education	27%	40%	51%	62%	21%	100%
Health	5%	40%	42%	73%	43%	100%
Human Services & Religious	4%	28%	41%	64%	24%	100%
Public Benefit	8%	65%	51%	77%	42%	100%
Supporting Orgs.	10%	69%	24%	77%	17%	100%
Total	10%	49%	41%	68%	35%	100%

Source: Survey Responses, Question 13

Blacks, too, received substantial increased attention from all sectors, most notably arts, public benefit, and supporting organizations. Gay and lesbian groups were better served by agencies operating at the neighborhood level and not as well targeted for enhanced services by arts and human service organizations. Public benefit organizations reported a recent shift toward the mentally and physically handicapped.

Further analysis (through regression models) shows that the current share of revenues from government support is an important determinant of services targeted to poverty populations especially among Blacks and Hispanics. However, revenues from private contributions help significantly to account for recent agency *shifts* toward the poor and minority population.

The level of government grants and contracts tends to be higher for nonprofits that serve primarily the elderly, immigrants, and the mentally and physically handicapped and lower to organizations with greater targeting to children and teens, people of Asian descent, and households in poverty. On the other hand, individual contributions are greater in organizations

whose major client groups are whites and Asians and least in nonprofits that focus on immigrants. Furthermore, revenues from corporate and foundation donors are higher in nonprofits that serve whites primarily. However, nonprofits that primarily assist immigrants are the most optimistic that their revenues will increase this year, while those primarily serving whites expect a decline in revenues (as of the time of the survey at the end of 2000 and before the economy went into a recent tailspin). A revenue increase is anticipated especially among groups that have recently shifted to serving more immigrants, elderly, and whites, while a decline is expected by those that have recently shifted to serving more Gay and Lesbian groups, as well as more Hispanics.

NONPROFIT SERVICES FOR NEW YORK CITY'S HISPANIC COMMUNITY

Many of New York City's nonprofit organizations provide services to the City's Latino population. The survey analysis of all nonprofit service sectors revealed that 51% of the organizations have at least one-quarter of their clients who are Hispanic, including 62% in the health sector, 59% in human services, 52% among education organizations, and 33% in the arts. The survey also revealed that 68% of the nonprofits had increased their service to Hispanics in the past two years, including 73% in the health sector; 64% among human service organizations; 62% among education groups; and 53% in the arts. Hispanics now comprise 17% of full-time employees in New York's nonprofit sector. Among human and social service organizations, 159 report that they serve substantial numbers of Hispanics and 37 have increased their services to Hispanics in the past two years.

Those human service nonprofits reporting substantial numbers of Hispanic service users (relative to Non-Hispanics) tend to be larger organizations that are city or borough-wide (rather than neighborhood based) and have a larger share of their employees who are Hispanic. They receive larger (and recently increased) shares of their revenues from government grants, but face greater demand for service than they can meet. The same organizations also serve substantial numbers of Blacks, children, and people below the poverty level. Their services are focused on foster care, day care, emergency assistance, the homeless, food banks, shelters nutrition, crisis intervention, substance abuse, job training and placement, housing rehab, and legal and civil rights.

Emphasis on Hispanic Clients among Human Service Providers

The survey questionnaire has also made it possible to distinguish among nonprofits in the *human services* according to the emphasis given to the Hispanic/Latino population. The first category (59% of the organizations which we label *Very Hispanic*) not only includes a substantial number of Hispanics among its service clients, but can provide services in the Spanish language. The second group, *Somewhat Hispanic* (14%), serves a significant number of Hispanics but staff do not have Spanish language skills. The third group, *Few Hispanic* (27%) has fewer Hispanics among its clients.

Findings from the comparative analysis show that human service providers in the *Very Hispanic* category have a greater tendency ($p < .01$) than nonprofits in the other groups to:

- receive a smaller share of their revenues from charitable contributions and a larger share from government grants;

- depend to a greater degree upon government grants for the level of service they provide;
- apply for government and foundation grants they had not applied for in the past;
- provide services at the local rather than metro level but have inadequate facility space;
- also have a significant share of their clients who are Black, children and teens, below the poverty level, immigrants, and mentally or physically challenged (rather than whites, the elderly, Asians);
- focus on crisis intervention and housing and shelter services (rather than family counseling, day care, senior centers, etc.);
- employ a greater share of minority members; and
- have greater difficulty in recruiting professional and managerial staff and paying them competitive salaries than nonprofits serving fewer Hispanics.

NONPROFIT SERVICES FOR NEW YORK CITY'S BLACK COMMUNITY

Nonprofits reporting that Blacks were at least a quarter of their clients tend to be medium-sized and city-wide organizations that provide social, housing and shelter, and mental health and crisis intervention services, i.e. services targeted primarily to households in poverty. [At the other extreme are the arts and cultural organizations, few of which have significant numbers of Blacks among their service users.] The same organizations also report they have significant shares of their clients who are Hispanic/Latino, children and teens, mentally and physically challenged, immigrants, and gays, but few whites and senior citizens. These

organizations derive a significant share of their revenues from government support and relatively smaller amounts from individual donations or umbrella groups. They report their ability to provide services is highly contingent on government and foundation funding, they face considerable unmet service demand, and have shifted somewhat away from households in poverty in the past few years. Very significantly, they indicate recent application for government programs and foundation and corporate grants that have not funded them in the past. They also report recent implementation of new management structures. These nonprofits report their space needs have increased in the past two years and they lack adequate space.

NONPROFIT SERVICES FOR NEW YORK CITY'S WHITE NON-HISPANIC COMMUNITY

Nonprofits that primarily serve the White Non-Hispanic community have a greater tendency ($p < .01$) than the other organizations:

- to focus on the arts and culture, advocacy, environmental and animal related issues, and recreation and sports, but with some recent shift to services for children and teens and households in poverty;
- to be longer established in facilities they own, more regionally and nationally organized, larger in total revenues, and derive a larger share of revenues from earnings (i.e. service charges and fees) and less from government grants;
- to have staff who are predominantly white and with some facility in Russian, Hebrew, Polish and Italian, but not Spanish, Hindi, or Haitian;

- to have little problem in recruiting professional and managerial staff but difficulty in providing competitive salaries and benefits.

DUALITY IN THE NONPROFIT SECTOR

The findings from the financial and survey analyses point to some duality among NYC nonprofit organizations. On the one hand are a set of largely self-sustaining, older and well-established organizations with endowments that serve the majority white population with a variety of arts, cultural, health, educational and public benefit (i.e. *amenity*) services. They receive relatively little government support but individual donations and foundation support are important for the arts, educational and public benefit portions of this group. Coverage of service need or demand is largely dependent upon ability to pay, but cross-subsidies to extend coverage are made possible by charitable donations.

Another large group consists of nonprofits predominately in the human service and health sectors that serve minority and immigrant poverty and low-income households. Subsidies by government grants and contracts enable them to provide coverage for groups unable otherwise to afford service fees and charges. These organizations have little or no endowment and frequently experience year-end budget deficits. Cognizant of the constraints on their fee schedules and the limitations of too heavy a reliance on charitable contributions, these organizations opt to cope with the coverage problem by actively contracting with government agencies and foundations to underwrite provision of essential services. The implication is that coverage even now remains a problem for the services that are labeled *amenities*. Government programs provide modest safety line support to make social services more affordable and very little for these *quality of life*

services, while individual donors tend to target their contributions to organizations whose services they themselves use.

SUMMARY AND DISCUSSION

New York City's nonprofit sector has a massive infrastructure for providing a great variety of social, health, cultural, educational services to local residents. This infrastructure prominently includes facilities and staff to deliver services as well as capacity-building know-how to extend the range of services that are provided and to alter the service mix in response to the city's changing demography and socio-economic structure. The skills and experience also include know-how about tapping external funding for improving coverage and about strategic advocacy and lobbying to ensure that the public sector fulfills its critical role in addressing the service needs of poor and needy households. Coverage gaps remain but many of the city's nonprofits are energetically and faithfully pursuing funding opportunities that will enable them to maintain standards of equity and fairness in service delivery.