



Nonprofits' Real Cost of Doing Business *and What We Can Do About It*

October 15, 2018

Executive Summary

Community-based non-profit human service providers are a critical component of Contra Costa County's system of care. For example, fully 60% of publicly funded behavioral health services are provided by non-profit organizations, and a host of other organizations provide services ranging from homelessness, crisis services, economic development, alcohol and drug treatment, senior services, and many more.

Yet funding structures and budgeting practices do not take into account community-based organizations' (CBOs') full cost of doing business. This, combined with a history of no or very low increases in contract reimbursement rates, has created financial challenges that have severely impacted CBOs' ability to provide much needed services.

The Human Services Alliance of Contra Costa conducted a survey to assess the financial and service impacts of inadequate funding. The findings are stark: 75% of respondents reported that revenue has failed to keep pace with expenses over the past 3 years; 68% reported that they are not able to hire enough staff to serve their clients, and 62% have had to reduce services or refrain from taking on new clients because of inadequate funding.

The Human Services Alliance of Contra Costa proposes 5 strategies to redress this situation: 1) lower indirect costs by streamlining paperwork requirements, 2) improve turnaround times for reimbursement, 3) maximize leverage of state and federal funds, 4) provide an 8% COLA in FY 2019-20, and 5) commit to working towards compensation parity of County and CBO employees.

Introduction

Nonprofit, community-based organizations (CBO's) are a crucial component of Contra Costa County's human services delivery system. For example, the Behavioral Health Services (BHS) of the Department of Health Services estimates that approximately 60%¹ of expenditures for publicly financed behavioral health care are for services provided by CBO's, with the remainder provided directly by the Department.

Contra Costa, like other Bay Area counties, faces the daunting challenges of dramatically increasing cost of housing, a shortage of skilled professionals, and increasing needs for human services. For CBOs, these

¹ This figure is based on expenditures, and is not a measure of services provided per se. As the study illustrates, CBO's provide services at a lower cost than the county, so the actual percentage of services provided by CBO's is most certainly higher than 60%.



challenges are particularly acute, as the growth in funding, and the consequent ability of agencies to provide competitive salaries, have been stagnant relative to the growth in needs.

For example, many behavioral health CBOs rely heavily on Early and Periodic Screening, Diagnostic and Treatment (EPSDT) funding derived from state and federal funds. Beginning in the recession of 2007, EPDST reimbursement rates in Contra Costa did not increase for 10 years; only in the past two years have these rates increased, by a very modest 3% per year. County department employees also were impacted by recession-driven budget cuts, but in recent years have enjoyed salary increases of up to 5%.

These trends are not unique to Contra Costa. Nationally, and throughout California, nonprofit providers have long struggled with funding levels that do not account for the full cost of doing business, both in terms of direct compensation for service providers and unreimbursed administrative costs. For example, a study by the Urban Institute identified “five major issues that nonprofits face with government funding: government payments that do not cover the full cost of providing agreed-upon services; complex application requirements; time-consuming reporting requirements; changes to already-approved contracts and grants; and late payments for services rendered.”² The problems tend to be more acute in California:

Nonprofits Reporting Problems with Government Funding in California, by Size

Problem with funding	\$100,000 to \$999,999		\$1 million or more	
	CA	National	CA	National
Complexity of or time required by application process	82%	69%	81%	75%
Complexity of or time required for reporting	74%	66%	85%	77%
Payments not covering full cost of contracted services	65%	48%	73%	59%
Government changes to contracts or grants midstream	58%	39%	47%	48%
Late payments (beyond contract specifications)	56%	42%	62%	48%

Source: Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2013).

The Urban Institute study also concluded that: “lack of reimbursement for overhead costs might lead nonprofits to offer low pay for staff, particularly for administrative positions, making it difficult to recruit and retain skilled and experienced staff. Or they may sacrifice investments in technology, reducing productivity and effectiveness (Wing et al, 2005).”³

Elsewhere, a study in New York City by the Human Services Council found similar results: “the nonprofits that provide critical services to New York City must operate on funding that is both too little and too late.” This burden “pushes many organizations to the brink. In 2016, the Human Services Council

² Nonprofit-Government Contracts and Grants, **California Findings**, Brice McKeever, Marcus Gaddy, and Elizabeth T. Boris, with Shatao Arya, September 2015. <https://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000348-Nonprofit-Government-Contracts-and-Grants-California-Findings.pdf>

³ Ibid, p. 7



reported that 20% of New York City’s human service nonprofits were insolvent and 30% had cash reserves that covered less than one month of operating expenses.”⁴

These financial challenges severely impact providers’ ability to provide the care and services needed by our communities. An analysis by the General Accounting Office⁵ found that: “when indirect cost reimbursement is less than the amount of indirect costs nonprofits determine they have incurred, most nonprofits GAO interviewed take steps to bridge the gap. They may reduce the population served or the scope of services offered, and may forgo or delay physical infrastructure and technology improvements and staffing needs. Because many nonprofits view cuts in clients served or services offered as unpalatable, they reported that they often compromise vital “back-office” functions, which over time can affect their ability to meet their missions. Further, nonprofits’ strained resources limit their ability to build a financial safety net, which can create a precarious financial situation for them.”

In light of these ongoing challenges, the Human Services Alliance of Contra Costa (HSACC), a coalition of 25 human service organization executives, undertook a survey to better understand whether and how the revenue structure and funding levels for community-based providers are adequate to meet the needs of the residents of Contra Costa. This report highlights findings from that survey; they largely echo the findings of the previously mentioned studies.

The results clearly demonstrate that CBO providers are being asked to do more with less: 75% of respondents said that their revenue has failed to keep pace with increases in the cost of doing business over the past three years.

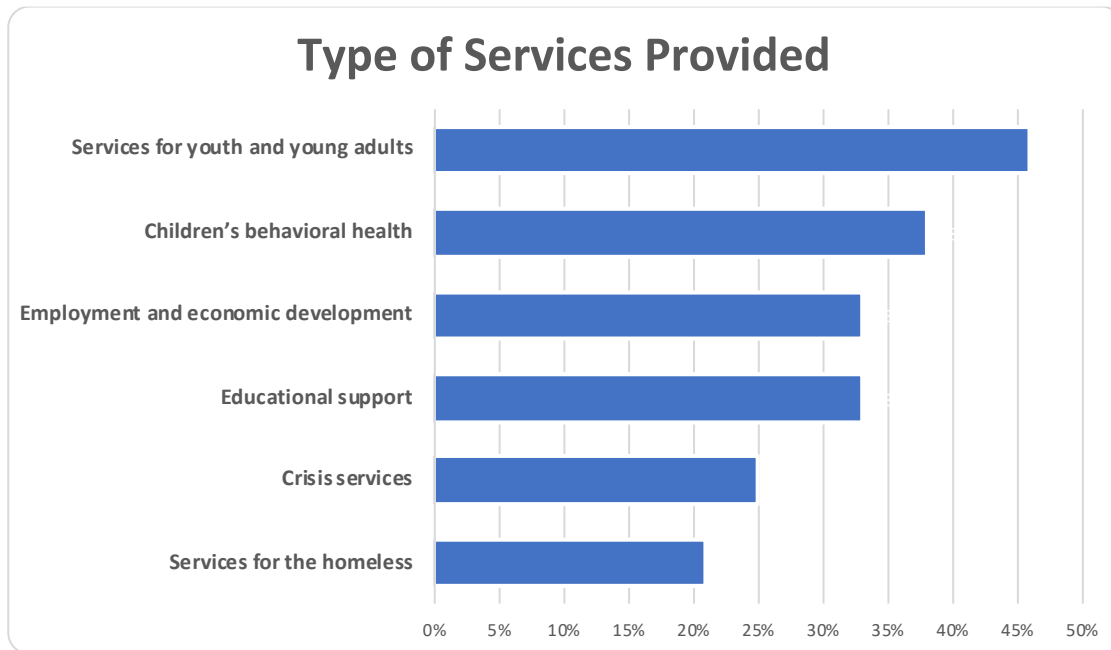
Profile of Respondents

This survey was designed to gather data and insights into the financial underpinnings of the network of community-based human service providers in Contra Costa and their impacts on the ability of the County’s system of care to meet the needs of the community.

The survey was distributed to Alliance members, and through other networks including [Ensuring Opportunity](#), [Family Economic Security Partnership](#), and the [Contra Costa Budget Justice Coalition](#). Forty agencies responded; about half of them submitted partial responses. This sampling represents an incomplete but significant subset of the entire network of service providers in the County.

⁴ “Nonprofits are still subsidizing crucial government services”, By Allison Sesso and Jina Paik. June 27, 2018. https://humanservicescouncil.org/wp-content/uploads/NewsArticles/CRAINS_oped_6-26.pdf

⁵ “Treatment and Reimbursement of Indirect Costs Vary among Grants, and Depend Significantly on Federal, State, and Local Government Practices”, GOA 10-477, May 2010. <https://www.gao.gov/products/GAO-10-477>



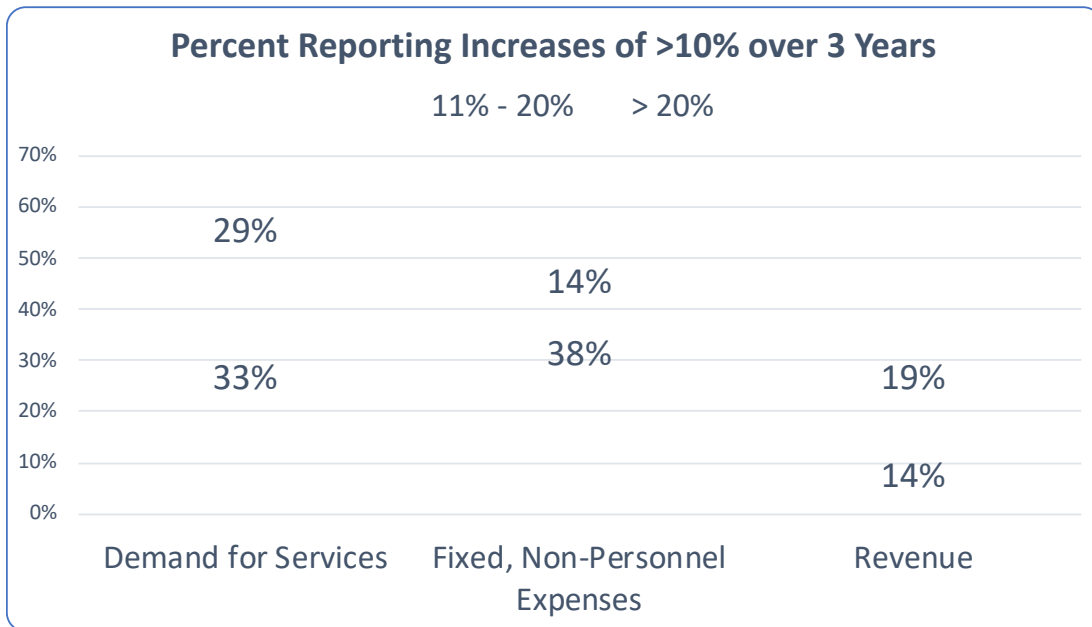
Many organizations provide more than one kind of service. *Other services provided include: alcohol and drug treatment, adult behavioral health, housing, immigrant and refugee support, legal services, juvenile justice, LGBTQI services, re-entry services, services for older adults, child abuse prevention, food bank, and financial counseling.*

Other highlights of respondent characteristics:

- Respondents serve 140,261 (unduplicated) clients (sum of 17 responses)
- 67% of clients are primarily low-income; 29% are mix of low and middle-income
- The combined budgets in Contra Costa of 19 respondents total \$88,907,000. The average budget is \$4.7 million
- The sum of 21 respondents' number of employees is 942
- Primary sources of funding: 53% receive more than 75% of funding from the County; 21% receive from 40% - 74% of organizational income from the County. Other revenue sources include foundations and individual donors (75% of respondents receive less than 20% of their revenue from these sources), and fees (100% receive less than 20% of their revenue from this source.)

Demand for Services and Changes in Capacity

Several questions explored trends relating to the demand for services and CBOs' funding levels and capacity to meet that demand. A comparison of three questions related to revenue, fixed non-personnel expenses and demand for services shows that the needs of the community and the growth in fixed expenses significantly outstrip increases in revenue:



Selected comments from the question: “What are the top three reasons your revenue is either growing or shrinking?”:

- *Our revenue increase has been the result of increases in government, foundation and individual donors, but our need is so great that our revenue is nowhere near enough.*
- *Our contracts have expanded, but our ability to attract qualified applicants to fulfill contract amounts is a challenge.*
- *1) County billing interpretations are very restrictive as well as huge delays with credentialing; 2) clinical staff have too many responsibilities and paperwork requirements and cannot keep up with set productivity goals; 3) difficulty retaining skilled staff.*
- *Alcohol and Other Drug treatment funding, Juvenile Drug Court closed, fewer probation offices to refer clients with co-occurring issues.*
- *Steady now, but fear changes to government funding structures with changes in leadership at federal level. Stiff competition for donor and foundation monies.*
- *Limited county funding; insufficient capacity to meet client needs; increased cost of doing business.*

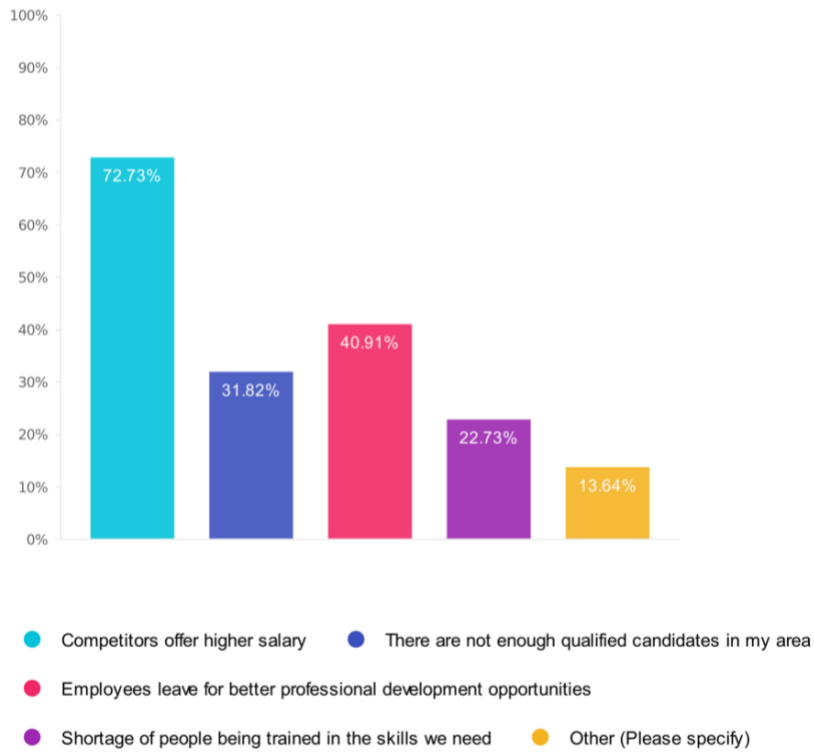
The HR Challenge and Its Impact on Services

The high cost of living and salary competition from County institutions and large institutions such as hospitals make it increasingly challenging for CBOs to hire and retain qualified staff people.



Sixty-eight percent of respondents said they are *unable to hire enough employees* to meet the needs of their clients in Contra Costa. The primary reason is compensation competition from other employers:

What is your biggest challenge in hiring and retaining staff?



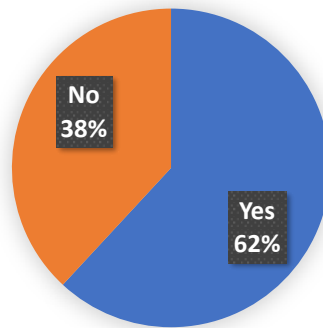
In addition, the survey found that:

- 41% of respondents had to *reduce staffing* in the past three years because of budget constraints.
- On average, respondents have an 8% staff *vacancy rate*.
- 37% are *never or rarely* able to provide cost of living increases to their staff. Only 14% are always able to provide cost of living increases.
- 54% are *never or rarely* able to provide performance-based compensation increases. Only 9% are always able to.
- 55% say that their salary structures are *highly uncompetitive* or *somewhat uncompetitive* with service providers such as the County, national nonprofits, large institutions or for-profit providers.
- 41% of respondents have had to *reduce health or other employee benefits*, or increase employees' share of health premiums in the past three years.



Not surprisingly, constraints in CBOs' ability to hire and retain qualified staff led to an inadequate level of service provision:

Have you had to reduce services or refrain from taking on new clients or programs in the past three years because of lack of funding or staffing?



- Of the eight respondents who provided an estimate of how many people were not served, the total not served is 570, or an *average of 71 per organization*.
- 55% of respondents *have a waiting list*; the average size of the list is 23 clients. Two-thirds say the list has grown in the past three years.

Parity: County Employees and Nonprofits

A comparative analysis of compensation levels of employees of nonprofit organizations relative to county employees with the same job title and responsibilities supports the perceptions reported in the



survey about the competitive disadvantages managers face in hiring and retaining staff⁶:

Comparison of County and CBO Compensation for Selected Positions*

Job Title	County Total Pay	CBO Salary	Variance	Variance %
Administration				
Administrative Assistant	\$73,701	\$48,382	\$25,319	52%
Contracts Administrator	\$101,296	\$76,994	\$24,302	32%
IT Analyst/Manager	\$135,952	\$71,578	\$64,374	90%
Office Manager	\$69,774	\$55,908	\$13,866	25%
Staff Accountant (Accounting Technician)	\$61,068	\$58,611	\$2,457	4%
Web site developer	\$78,776	\$74,221	\$4,555	6%
Service Providers				
Counselor	\$69,102	\$52,032	\$17,070	33%
Case Manager	\$65,282	\$47,024	\$18,258	39%
Clinical Supervisor	\$101,501	\$76,613	\$24,888	32%
Program Director	\$100,699	\$95,605	\$5,094	5%
Psychologist	\$96,115	\$75,482	\$20,633	27%
Social Worker	\$81,979	\$68,093	\$13,886	20%
Average			\$19,558	31%

Benefits are not reflected in these data, but it should be noted that total benefits for County employees range from a low of \$30,000 per year, up to more than \$125,000 per year, with many in the \$40,000 to \$50,000 range. Among nonprofits, most provide health insurance, but 23% provide no retirement plans, and of those that do provide retirement benefits, 20% are funded solely by the employee.

The Nonprofit Compensation Associates survey referenced above also found that 77% of nonprofit respondents answered yes to the question: “Do you anticipate that your organization will experience increased competition from other employers to attract and retain the ‘best and the brightest’”

⁶ Data is drawn from “Fair Pay for Northern California Nonprofits: The 2018 Compensation & Benefits Survey Report” by Nonprofit Compensation Associates, and 2017 data from *Transparent California* (<https://transparentcalifornia.com>), “California’s largest public pay and pension database”. Every effort was made to compare job titles and responsibilities as closely as possible, and individual salary outliers on the high and low ends were disregarded to minimize distortion. For County employees, “Total Pay”, which includes base pay, overtime and “other pay”, is used. The Nonprofit survey reported the average of Cash Compensation for all employees for a particular job title, in Contra Costa. It is fair to assume that higher compensation for some County positions, such as IT Analyst/Manager or high-level Director positions may be justified based on greater budget and personnel responsibility due to the significantly larger scale of operations in the County relative to most nonprofits.



employees in the year ahead?”, and 42% see “turnover as a significant problem in the year ahead,” closely mirroring the findings of our survey.

Just as importantly, contract terms fail to take account the total cost of doing business. An analysis by Alameda Council of Community Mental Health Agencies illustrates that when County employees do not receive a COLA, they are still able to fund increases in other items such as fringe benefits, retirement plans, rent, utility bills, communications, building maintenance, and other overhead items. Whereas when CBOs do not receive a COLA, they are simply funded at previous levels, and there is no provision for overhead items.

Conclusions and Recommendations

The results of this survey illustrate the severity of the challenges faced by community-based service providers, and are consistent with findings of other studies in California, nationally and other urban areas. As the other studies point out, insufficient funding is only part of the problem; delayed payments and cumbersome paperwork requirements also put a severe strain on organizations’ capacities.

Since County funding provided to CBOs is largely a function of state and federal funding levels and budget conditions, it is clear that there is no magic wand that can be waived to easily generate additional funds. County departments face similar challenges, and long wait times are an endemic problem in the County health system in part due to insufficient funding. Uncompetitive salary levels in one of the most expensive counties in the country are a major factor in the shortage of skilled professionals. Consequently, recently the Health Services Department increased compensation for key mental health professionals directly employed by the County in an effort to reduce wait times.

Given these findings, and in support of the Alliance’s vision that “all residents of Contra Costa County will have access to high-quality, cost-effective human services that support healthy, safe, and vibrant families and communities”, the Alliance proposes the following strategies to strengthen the capacity of CBO’s to provide needed services:

1. County departments and CBO’s should work collaboratively to identify opportunities to maximize state and federal matching funds to support an 8% increase in contract reimbursement rates for 2019-2020. For example, the County is reimbursed for nearly 100% of EPSDT expenditures and should weigh the minimal risk of possible future shortages of reimbursement against the real costs today of reduced capacity and services for the community. Specifically:
 - a. Contra Costa should strongly advocate for the maximum allowable rate of reimbursement from the state of California.
 - b. It should be noted that other counties have successfully increased EPSDT and other contract reimbursement rates significantly more than Contra Costa, with no negative consequences. For example: On July 27, 2018, **Santa Clara County Behavioral Health Services, issued a memo directing contract rate increases of 12%**. The reasoning and instructions are excerpted below:



“There are four primary reasons driving the adjustments to BHSD providers' contracts. The adjustments are intended to: (1) address providers' difficulty recruiting and retaining clinical staff given the statewide professional shortage and the competitive Bay Area behavioral health market, (2) provide contracted service capacity to meet the needs of BHSD clients/consumers, (3) comply with the Federal Network Adequacy and Timely Access Standards for Mental Health Plans (MHPs) and Drug Medi-Cal Organized Delivery System (DMC-ODS) Pilot Counties, and (4) ensure the County and BHSD providers meet reimbursement rate criteria and generate revenue for the system.”⁷

The memo continues: “BHSD reviewed contract provider requests sent to the County Executive, analyzed the County's salary survey of behavioral health clinical positions in Bay Area counties and in other health care organizations, and reviewed salary data submitted by contract providers. The BHSD has determined that salary increases are warranted for staff in key positions that are (1) difficult to fill, (2) provide direct client care, and (3) are necessary to ensure network adequacy for clients/consumers. *This process will allow for an up to 12% rate increase* targeting licensed and license-waived clinical staff and direct services staff, clinical supervisors and managers, and quality management staff who support the quality requirements specified in Exhibit A in each program.”⁸ (emphasis added)

Similarly, Alameda County has provided rate increases of up to 8% in recent years.

2. County departments and CBOs should work collaboratively to reduce paperwork burdens and disallowances, thereby reducing providers' indirect costs.
3. Improving turnaround times for approvals of work performed, and receiving remittances in a timely fashion would significantly reduce financial stress.
4. The Board of Supervisors and County departments should commit to a plan to work toward greater compensation parity between County employees and those of community-based providers.

⁷ FY2019 BHSD Provider Contract Rate Adjustment Follow-up Memo 7.27.18 (002).pdf;
<https://tinyurl.com/santaclaramemo>

⁸ Ibid