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NYC Budget Cuts: A Counter-productive Method to Effective Government-nonprofit Contracting Relationships?

Anna-Kay Sinclair

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**NYC BUDGET CUTS: A COUNTER-PRODUCTIVE METHOD TO
EFFECTIVE GOVERNMENT-NONPROFIT CONTRACTING
RELATIONSHIPS?**

ANNA-KAY SINCLAIR

2011

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Abstract

This study examines the relationship between New York City budget cuts and the expenditure of human service nonprofits specifically involved in the government contracting relationship. With a focus on the Department for the Aging (DFTA), I examine nonprofits that provide a variety of services to the aging population on behalf of the DFTA. Correlations and regressions are presented examining the relationship between DFTA budget and nonprofit spending. The results of my analysis do not indicate a positive relationship between these two variables.

Chapter 1

Introduction

“We are aging, not just as individuals or communities but as a world. In 2006, almost 500 million people worldwide were 65 and older. By 2030, that total is expected to increase to 1 billion.”ⁱ
(National Institute on Aging, 2007, p.2)

Many countries grapple with the reality of an aging population. While a longer human lifespan may be regarded as a significant achievement due to increased innovation and technology in modern medicine, it may have serious implication on a nation's economy especially in a time where financial constraints must be implemented. According to a report published by the United States Census Bureau, Vincent & Velkoff (2010): “The projected growth of the older population in the United States will present challenges to policy makers and programs, such as Social Security and Medicare. It will also affect families, businesses, and health care providers” (pg. 1).

As the nation faces challenges to continued funding for entitlements such as Social Security and Medicare, states and municipalities will also face considerable amount of pressure. The rapid growth of the aging population may not be a primary contributor to economic challenges, but the lack of federal funding support due to the economic crisis and a substantial budget deficit has and will continue to result in funding cuts to municipalities, departments, agencies, and human service nonprofits that provide direct support to the aging population. New York City (NYC) must face similar issues, and one of the main concerns raised by the media about NYC human service nonprofits is that budget cutbacks will result in dire reduction to critical program expenditure leaving these organizations unable to provide substantial, comprehensive services for the aging population of NYC.

For decades, the role of the nonprofit sector has been critical to the American society. Governments turn to nonprofits to provide essential social services to the public, a relationship controlled by various financial protocols and procedures that guide the partnership. Nonprofit organizations have helped to deliver much needed “hospital care, higher education, social services, cultural entertainment, employment and training, low-income housing, community development, social welfare, and emergency aid services...” (Salamon, 1986, p. 5). The nonprofit sector has become an integral part of United States’ history, culture and society, and has maintained resilience despite constant economic pressure and fluctuations.

The Federal government of the United States made the nonprofit sector a revolutionary movement by providing substantial support so that these tax-exempt organizations can deliver services and compliment governmental efforts in this area. In the 1960s, the surge in government financing of nonprofits was predominantly common practice. During this decade, federal spending increased in areas such as social and health programs like Medicaid and Medicare, and “community action agencies, community mental health centers, neighborhood health centers, and child protection agencies” (Smith, 2006, para. 4). Additionally, women shelters, rape crisis programs, government response to AIDS, homelessness, and hunger were human service issues addressed through contracting with nonprofit service agencies (Smith, 2006).

As this relationship continued to grow at the federal level, “states and municipalities increasingly pursued privatization as a way to deliver public goods and services” (Van Slyke 2002, p. 489). The onus typically rests on states and municipalities to provide their citizens with rudimentary resources to serve social and human service needs. Therefore, they are often required to source funds (sometimes federal grants or revenue) to create programs and initiatives to find solutions to social problems.

The Federal government continues to value the role of the nonprofit sector and create more opportunities for it to develop and make a positive impact in the society, and New York State and its municipalities are no different in its practices. New York City is the most populous area in the United States, deemed the cultural and financial capital of the world, and the city where advances in areas such as fashion, research, technology, entertainment, media, finance and others make a significant impact on global trends.ⁱⁱ According to the National Center for Charitable Statistics, New York State has a recorded 99,765 nonprofits as of 2010,ⁱⁱⁱ third highest in the country behind California and Texas with an estimated 30,000 located in NYC. Naturally, NYC will be the most convenient target geographic area to analyze. NYC continues to establish strong partnerships to help support efficient delivery of quality services to all city residents, and nonprofit contracting assistance is common practice throughout city departments and carefully budgeted for each fiscal year. In April 2009, the NYC Mayor Michael Bloomberg outlined several new initiatives that aim to help NYC's nonprofit organizations produce effective services and support in the economic downturn. One significant part of his plan involves focusing on "enhancing responsiveness and efficiency of city contracting procedures and facilitating new partnerships for stronger nonprofit management and governance."^{iv}

The economic downturn is merely one of many challenges faced by nonprofit organizations. Organizations that rely heavily on existing contractual relationships with local government must face a "battle with the budget" each fiscal year. As the financial woes heighten each year, NYC must adapt and adopt budget policies that aim to close gaps and budget deficits, leaving more money in the government coffer to serve the needs of the City at large.

Of all the government agencies in NYC, the Department for the Aging (DFTA) is one of the largest and most heavily reliant on government contracts to provide services. My analysis

will highlight the relationship between budget cuts and the DFTA's spending. The Council of Senior Centers and Services at its Annual Advocacy Day on May 11, 2011 made strong arguments against the "draconian cuts to services for the elderly" (New York Nonprofit Press, 2011, para. 1) funded through the Department of Aging. Advocates for aging services declare that each year they must participate in a "budget dance," and while some funding is restored, they still lose millions of dollars which result in a loss of service, and potentially a less than impressive program impact or outcome measurement report required to secure future funding.

Each year a budget proposal is revealed with suggested cuts, it is presented at hearings, undergoes modifications, and then is finally adopted for the fiscal year starting on July 1. Proposed funding cuts either remain in effect after adoption or are restored after some lobbying and prodding by City Council representatives and other interested parties advocating for the elderly: this was the case for the current fiscal year, like others before it. However, despite the restoration of some funds to the DFTA's budget, there are several questions that remain on the forefront regarding the government-nonprofit relationship and how budget adjustments interfere with the process.

The focus of this Capstone, therefore, is to test the "generally presumed truth" that budget cuts will affect the contractual budget and relationship between government and nonprofits. With the DFTA budget and contracts being analyzed, the following questions and statements will help to guide the research:

1. What significant relationships exist between the NYC budgets, DFTA expenditure, and the capacity of nonprofit contract recipients across the fiscal period 2000-2009?

2. What are the main characteristics, if any, of aging service nonprofits that appear to be affected by budget cuts?

Chapter 2

Literature Review

The Government-Nonprofit Contracting Relationship

U.S Governments rely heavily on nonprofits to provide a wide range of critical services; a relationship, which may be described as both complex and dynamic. According to Smith & Gronbjerg (2006) the relationship includes “exchanges of financial and other resources as well as efforts to influence one another through regulatory activities or political mobilization” (p.221). For decades, nonprofits or charities were created to cater to the specific needs of individuals who required it; the United States government in the post-1960s era encouraged the development of several charity organizations to fill this need. Various programs were created under the federal government in an effort to address the rapidly rising social ills of the time. Some of the organizations created include: neighborhood health centers, community action agencies, and youth service agencies.

Nonprofits have over the years become an indispensable partner of governments providing varied services to individuals and families. They account for a sizeable and growing share of our nation’s economy (Hansmann, 1980), and they make direct and indirect contributions to state and local economies. According to the National Center for Charitable Statistics (NCCS) database, as of 2011, there were 959,698 public charities registered (not including foundations and congregations) with combined total revenue of over \$1.4 trillion, and assets of over \$2.56 trillion. Over time, the astounding growth of the sector has remained consistent, which indicates an ability to withstand national, state, and local economic pressures.^v

Many researchers and theoreticians have produced literature explaining this unique and mutually dependent relationship between government and nonprofit sectors. One such explanation is the political economy theory, which states:

“Government as a monopolistic producer and distributor of goods and services, is inefficient because of higher salaries and more generous benefits, political patronage, union influence, red tape, and a lack of incentive and sanctions to reduce costs and budget... many of these same governmental attributes are frequently used as rationales for using contracting and working with nonprofit organizations.” (Van Slyke, 2002, p. 489)

Similarly, another leading scholar, E.S. Savas, supportive of privatization and its proposed benefit, accords little weight to the argument that a particular service is ‘inherently governmental’ or that it is a ‘basic function of government’ rather he argues that while a service might be inherently collective and even provided by government it need not be produced by a government agency and its employees.” (Savas, 1987, pp. 59-60)

Similarly, Lester Salamon describes that “This elaborate partnership takes a variety of different forms – outright grants from the federal government to nonprofits; federal grants to state and local governments which then enter into purchase-of-service contracts with nonprofits...” (1986, p. 6). The government, acknowledged for playing this vital role in aiding these organizations is lauded for improving the efficiency of public service through the contracting regime.

Van Slyke (2002) argues that the Government has historically contracted with nonprofit organizations for several key reasons:

“...(1) their expertise in providing certain types of services, such as substance abuse counseling and domestic violence services; (2) their proximity to clients and communities in need; (3) their use and reliance on volunteers; (4) their tax exempt status; (5) perceived mission and goal alignment with government’s mission to provide services that take into account the ideals and values of equity, access, and social justice; (6) the role of volunteer boards as a governance and oversight mechanism; and (7) their ability to raise private funds and foundation support to subsidize programmatic and administrative activities.” (pg. 504)

The work of nonprofit organizations is revered by citizens and the “trust” the sector has established in many communities is a noteworthy reason for allowing the nonprofit sector to provide services on behalf of the government. There are several growing social needs a community will face, and the government creates agencies whose onus is to oversee and address these problems directly, and subsequently provide funding opportunities for nonprofit agencies to facilitate some change in this area. According to Van Slyke (2002), “...one policy area in which government has privatized many services through contracting with nonprofit organizations is social services”(p. 489). Furthermore, he states: “The government-nonprofit social service contracting relationship has many different attributes...directed at achieving lower costs, improved service quality, and a reduced role for government in producing goods and services available in private markets” (p. 490).

The Aging Population

A rising life expectancy and rapidly declining fertility rate are the main causes behind this aging population. “As a result of rapid population ageing, the United States faces a risk of slower economic growth, serious labor shortages and rising tax rates over the next few decades. By 2030, almost one-fifth of its population is projected to be aged 65 and over compared with around one-eighth in 2000” (OECD Report, 2005, p. 11). In New York City, the current elderly population stands at 931,650 with a projected growth for 2020 and 2030 is 1,055,950 and 1,352,375 respectively.^{vi}

As one of the critical social problems of our time, federal, state and local governments must ensure that services are in place to cater to the needs of the aging population unable to adequately care for themselves. According to Van Slyke (2002), “Devolution, the process of

transferring power and responsibility from the federal to state and local governments for public service delivery, has accelerated the pressure on public officials...” (pp. 492-493). With that in mind, not only must the Federal government and/or New York State provide services to accommodate aging population and address their growing needs, but the local government must make specific provisions as well.

The NYC Department for the Aging (DFTA) is responsible for promoting, administering and coordinating the development and provision of services for the aging New York population. Like many human service agencies in NYC, the Department for the Aging offers various amenities to meet the needs of the aging population in all five boroughs of the city. While they are required to provide some direct service to this population, they are able to efficiently expand their efforts through a contracting regime; they contract with over 800 agencies in all boroughs which include discretionary funds with community-based organizations, as well as the administration of 259 contracted senior center, and also provides more than 10.5 million meals annually – home delivered and at senior centers.^{vii}

Budget Cuts and the Impact?

Human service organizations, according to the New York State Bureau of Contract Services, derive their revenues from a mix of funding sources, but many too heavily rely on government grants and contracts. Ironically, re-visiting Van Slyke’s earlier point, he noted that one main reason why governments contract with nonprofits was “their ability to raise private funds and foundation support to subsidize programmatic and administrative activities” (2002, p.504). With these somewhat contradicting statements, the literature speaks to various challenges in government-nonprofit contracting relationships that may affect both groups, but often times

nonprofits which rely too heavily on government funding face the full impact. Salamon (1986) alludes to the effect of spending (budget) cuts under the Reagan administration and the alleged impact it had on the nonprofit sector of the time: “By cutting back on government spending, therefore, the Reagan administration has significantly reduced the revenues of the nonprofit sector while calling on this sector to do more...”(p. 1). Furthermore, he states, “The same budget cuts that increased the need for nonprofit action threatened to reduce the revenues that private, nonprofit groups had available to meet even existing needs”(p. 12).

Likewise, Kelly & Lewis (2010) explain: “Government funding was a key catalyst to the expansion of human service sector nonprofits (HSNPs) in the USA from the 1960s to the mid-1980s”(p. 192). Irrespective of the fact that the literature speaks to the state of the voluntary sector and the government-nonprofit partnership of two-decades ago, the general principles can be applied to current research. Most importantly, Salamon’s point indicates that budget cuts and spending shifts have been a historical trend rooted in American political culture, and will continue to be that way. The nonprofit sector, fully aware of these constant changes each fiscal year, has remained resilient. Instead of succumbing to economic challenges, nonprofits have found new ways to adapt, hence their continued growth in the country. Salamon duly noted in his paper that: “the public-benefit, service portion of the American nonprofit sector alone had expenditures of approximately \$116 billion...” (Salamon, 1986, pg.3) More recent data reveals that public charities reported over \$1.40 trillion in total expenses and over \$1.41 trillion in total revenues; of the revenue, 76% came from program service revenues, which include government fees and contracts.^{viii} This indicates an astonishing growth in the sector, which therefore begs to question the argument that Salamon and other recent critics offer about budgetary adjustments

(occurring at Federal, State and local tiers of government) altering the performance and growth of the nonprofit sector.

Outside of the literature, the main concern expressed by human service nonprofits in the media is that governmental budget cutbacks will undoubtedly impact the organization's budget leading them to make drastic reductions to staff, expenditure, and programs. These reports suggest that as a result organizations may not be able to fulfill their goals because of a forced expenditure reduction due to a lack of contract services and grants. According to an Urban Institute report (2010): "If state and federal cutbacks continue and donations and investment income fail to recover in the next year or so, the strain on human service organizations is likely to reach a critical level" (p. 24). Kelly & Lewis (2010) also conclude that as government involvement decreased in the 1980s for social services, it resulted in programmatic decline and stagnation. They believe the shift of responsibility from federal to state and local levels also decreased the level of government funding available for social services. Human service organizations must deal with these budgetary constraints in a period where demand for their services have increased, and the volatility and uncertainty of funding sources impacts the operation of the nonprofit.

Conclusion

The literature vividly paints a complex picture of the long history of government-nonprofit relationship in the United States. While strong, enticing arguments are presented, the literature is limited in exploring in more detail the impact of budget cuts on this relationship. Earlier works make some reference to this concept, but often test other crucial components that constitute and control this relationship. Many researchers conclude that there is a great need for

research and analysis of this relationship. This Capstone will examine the relationship between budget cuts and nonprofit expenditure. Using an empirical analysis, the current study seeks to uncover whether there is some truth to the argument that budget cuts impede effective government-nonprofit relationships, thereby leaving nonprofits unstable in their ability to serve.

Chapter 3

Methodology

My analysis focused on answering the following question:

1. What is the relationship between budget cuts or change in government contract funding and nonprofit spending?
2. What are the main characteristics, if any, of aging service nonprofits that appear to be affected by budget cuts?

In order to examine the generally presumed truth that government budget cuts pose a detrimental problem to government-nonprofit contracting relationships, and subsequently nonprofit expenditure and performance, an analysis of the NYC budgets from FY2000-2012 was created and related to relevant changes in the budget of the Department for the Aging (DFTA), and expenditures of the contracting human service agencies. By doing this, I attempted to test the hypothesis that: *Budgets cuts strongly impact effective nonprofit service delivery*. Total Expenditure was used as the main proxy for nonprofit service delivery.

Sample and Data

Local government documents are public and made readily available via the Internet. The modified budget for fiscal years 2000-2011 and the adopted budget for 2012 were obtained from the City of New York Office and Management Budget (OMB). The OMB is responsible for overseeing the City's expense and capital budget. They also prepare and monitor the budgets and programs of over 80 city agencies.^{ix} The expense, revenue and contract line item budget related to the DFTA was isolated with particular attention paid to the line "Other than Personal Services" (OTPS) defined as Expenses other than salaries and fringe benefits, such as supplies, equipment, utilities and contractual services. The funding allocated to the DFTA by the City over

the fiscal years mentioned above was examined with focus on the following budget lines:

- **Appropriation:** A general term used to denote the amount authorized in the budget for expenditure by an agency.
- **Budget modification:** A change in an amount in any budget line during the fiscal year.
- **Other than Personal Services (OTPS):** Expenses other than salaries and fringe benefits, such as supplies, equipment, utilities and contractual services.
- **Unit of Appropriation:** Represents the amount for a particular program, purpose, activity or institution in an agency's budget. Agencies have discretion to spend money within a unit of appropriation. Supporting schedules provide information on the responsibility centers and budget codes within each unit of appropriation.

These budget lines offer specific information needed to move on to the next piece of the data collection process.

After examining the appropriate details from the budget, the next step was to access the City's contracting database. This information was acquired from the NYC Department of Citywide Services (DCAS) website. The role of the DCAS is to ensure that City agencies have critical services and support needed to provide the best possible services to the public.^x The DCAS provides a link to the City record On-Line (CROL), a searchable database of procurement notices, bid awards and other City announcements. This database was used to locate some of the main organizations awarded contracts by the DFTA over the nine-year period. This is considered an inclusive sample of nonprofits that have partnerships with the DFTA. They provide vital services to the aging population on behalf of the DFTA. In order to test the hypothesis, this specific sample of organizations represents the government-nonprofit contractual relationship and the sample was further evaluated.

After analyzing these results, the next step involved acquiring the contracted organization's Employer Identification Numbers (a Federal Tax Identification Number used to identify a business entity^{xi}) from the GuideStar database and entering them into the Urban Institute's National Center on Charitable Statistics (NCCS) Database where detailed financial

information recorded on the Form 990's of each organization is available. The Form 990 includes comprehensive information on the revenue, expenditure, assets and liabilities of each nonprofit registered in the United States. The IRS Business Master Files (BMF), and IRS Core Files were used to acquire data on each organization's operating budget. I extracted specific variables such as **Total Assets, Total Revenue, Program Service Revenue, Total Expenses and Public Contributions** for these organizations in order to understand the characteristics of these nonprofits and how they might affect the contracting relationship. The primary purpose codes (NTEE-CC): common codes that represent activities, such as research, fundraising, and technical assistance, which are common to organizations in all major groups, were identified as a means of further classifying the organizations.

Of the initial 258 organizations, 87 were discarded from the sample for the following reasons: (1) Duplicate organizations; (2) Unable to locate proper information, including correct name, or EINs; (3) Financial data for organization was not consistently available across the specific years; (4) Total Revenue was listed as a negative value (an impossibility and therefore a presumed data entry error). These variables, specifically Total Revenue and Expenses, were examined to further develop an assumption to either accept or reject the hypothesis being tested. This is done in an effort to explore alleged change in nonprofit spending patterns as a result of the yearly changes in government funding. For the purpose of this study, expenditure will be used as a proxy for potential programmatic impact.

Chapter 4 Findings

The Aging Population: National, State and Local Level

One motivation for this paper stems from the growing concern of the aging population and the ability for government to make provisions for the elderly. From my research, I uncovered the demographics of the aging population at the national, state and local levels, along with the projections for growth.

Table 1: National, state and local projections of population Aged 65 and over

Projections of Population Aged 65 and over: July 1, 2010 to 2030							
Number of Persons 65 and over							
	Projection 2010	Change	% Change	Projection 2020	Change	% Change	Projection 2030
US	40,243,713	14,388,178	35.75%	54,631,891	16,821,580	30.79%	71,453,471
NY	2,651,655	598,365	22.57%	3,250,020	666,871	20.52%	3,916,891
NYC	931,650	124,300	13.34%	1,055,950	296,425	28.07%	1,352,375

Data Source: File 2. Interim State Projections of Population for Five-Year Age Groups and Selected Age Groups by Sex: July 1, 2004 to 2030 U.S.Census Bureau, Population Division, Interim State Population Projections, 2005 Table compiled by the US Administration on Aging

The table above illustrates a breakdown of national, statewide and local projections of the aging population along with the percentage change over these years. At all levels, we see a significant growth in the aging population. NYC in particular, while the percentage growth may seem small (**13.34%**) over the years 2010 – 2020, the growth is still noticeable and significant in actual numbers. NYC projections for years 2020 – 2030 predict a considerable increase of **28.07%**, trailing closely behind national percentages. From 2010 to 2030, there will be an estimated **45%** growth in the NYC aging population. This figure reflects the potential growth in service demand over the next 20 years, and likewise in nonprofit spending patterns.

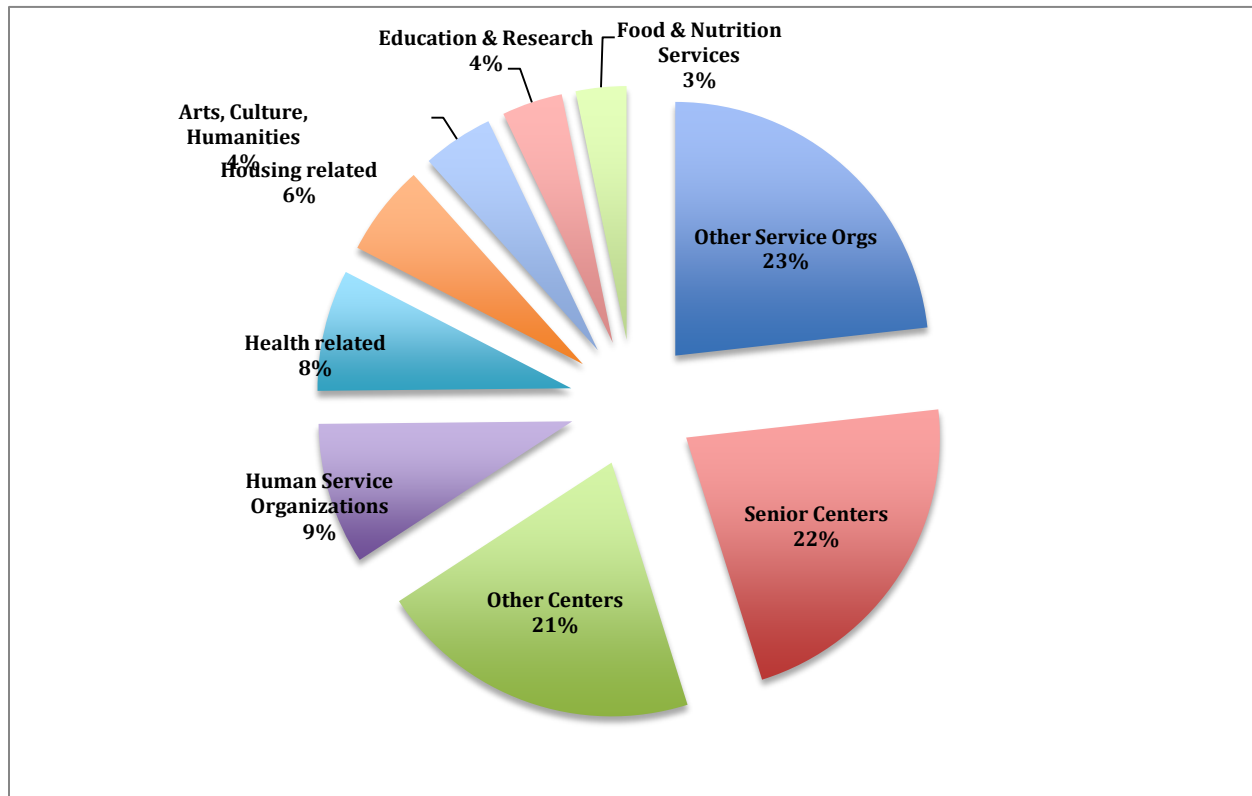
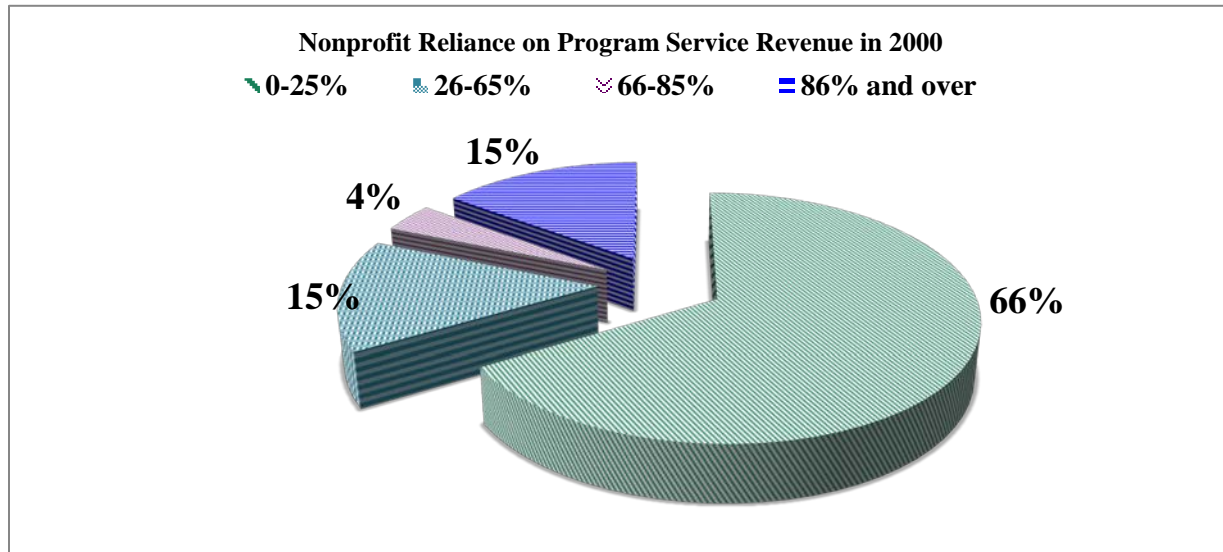
Figure 1: Services provided by Nonprofits within the sample of 155

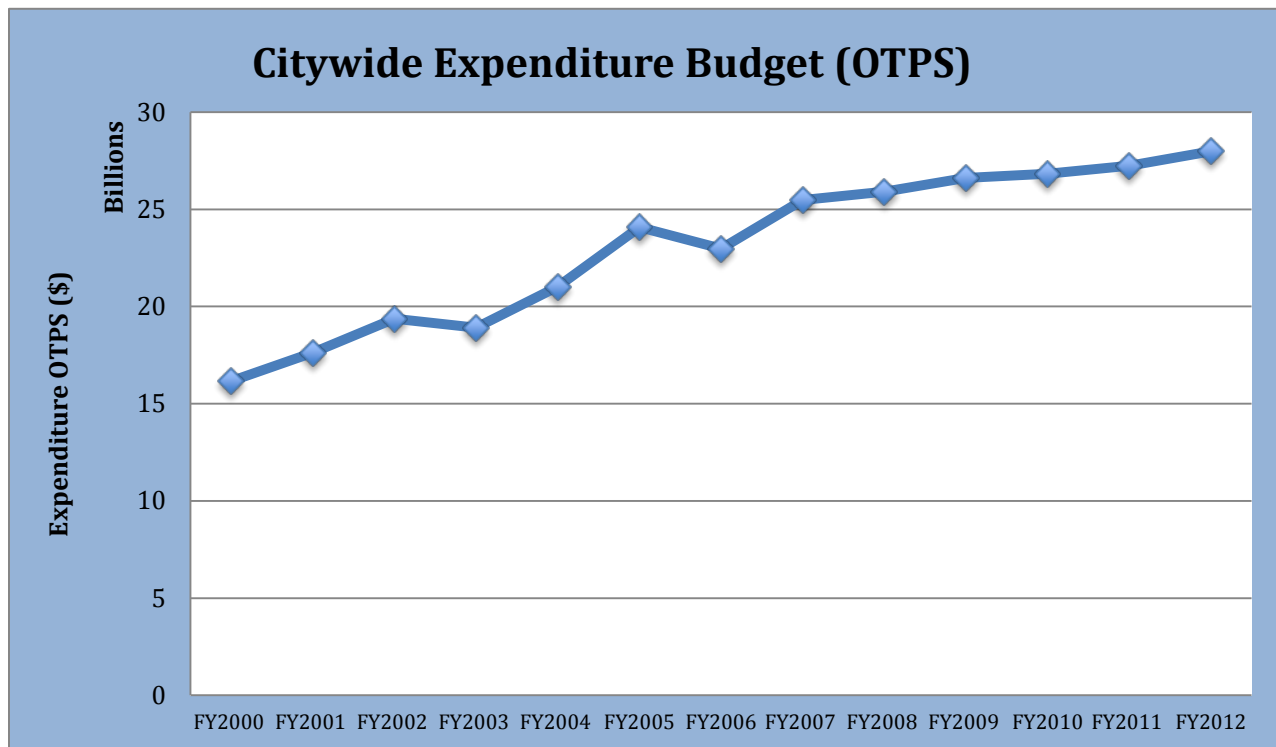
Figure 1 above specifies the primary purpose codes of organizations included in the sample (N=155). The NCCS database ascribes detailed codes to organizations, known as The National Taxonomy of Exempt Entities- Core Codes (NTEE-CC). Senior Centers make up **22%** of the sample and “Other Centers” make up a close **21%**. Finally, “Other Service Orgs” (**23%**), includes small numbers of organizations (one or two) that provide a variety of services such as youth and family services, maintenance and technical assistance, legal aid among others. (See Appendix for detailed list of groups of nonprofits).

Figure 2: Percentage of Program Service Revenue for nonprofits in 2000

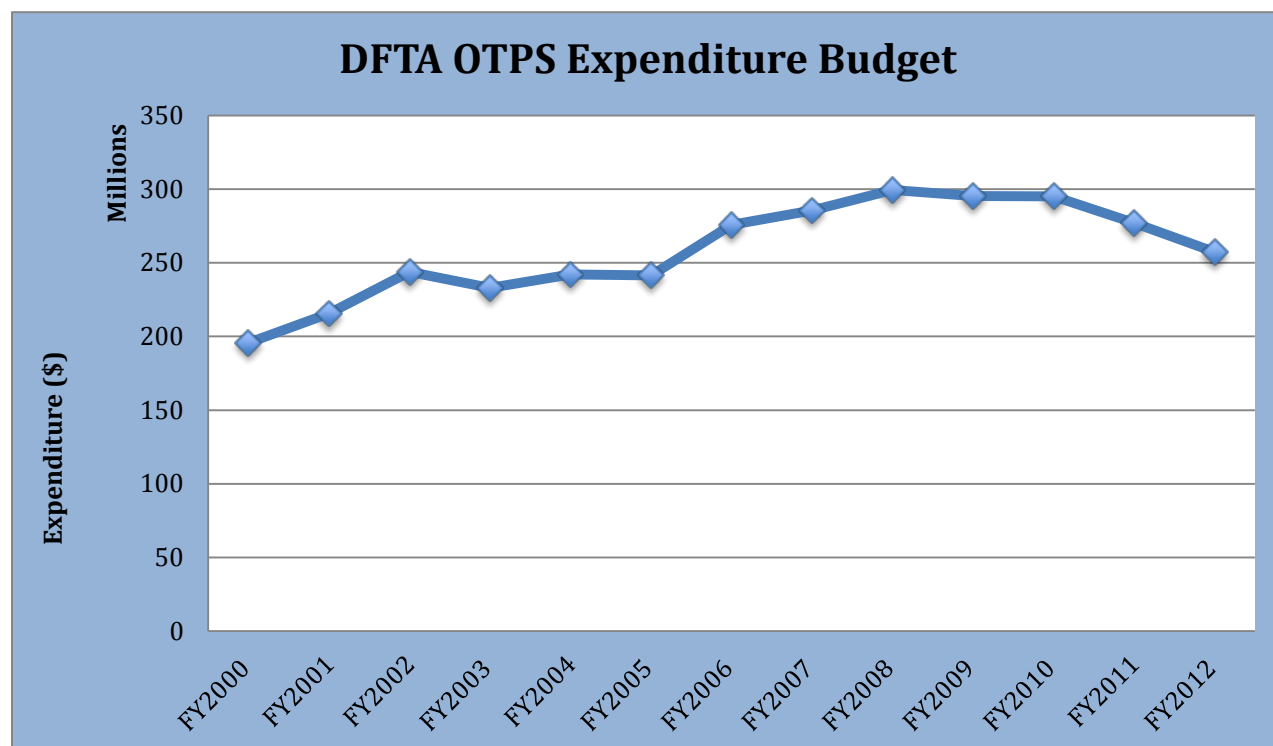


The figure above illustrates the percentage of program service revenue and contribution and grants for 2000. All organizations receive government contracts, which according to the Internal Revenue Service, should be reported as Program Service Revenue on line 2 of the Form 990. Figure # 2 reveal only 15% of organizations in the sample receive 86% and more in funds from Program Service Revenue. The largest percentage (**66%**) had 0-25% in program service revenue in 2000. This trend was similar over the years examined (**2000-2009**).

Figure 3: Change in the overall Citywide Expenditure Budget for the years 2000-2012



The Citywide budget did show a steady increase in the Other than Personal Services (OTPS) budget during FY 2000-2012 however, this indicates the overall expenditure data for NYC. In an effort to test the hypothesis: *Budgets cuts strongly impact effective nonprofit service delivery*, I will focus on the Department for the Aging (DFTA) Expenditure budget.

Figure 4: Change in DFTA OTPS Expenditure Budget 2000-2012

DFTA- Department for the Aging; *OTPS*- Other than Personal Services

The DFTA budget in actual numbers revealed modest changes and fluctuations over the fiscal years. After a sharp rise in 2006, the DFTA Expenditure shows steady growth until FY 2011 and 2012 where there is a notable decrease.

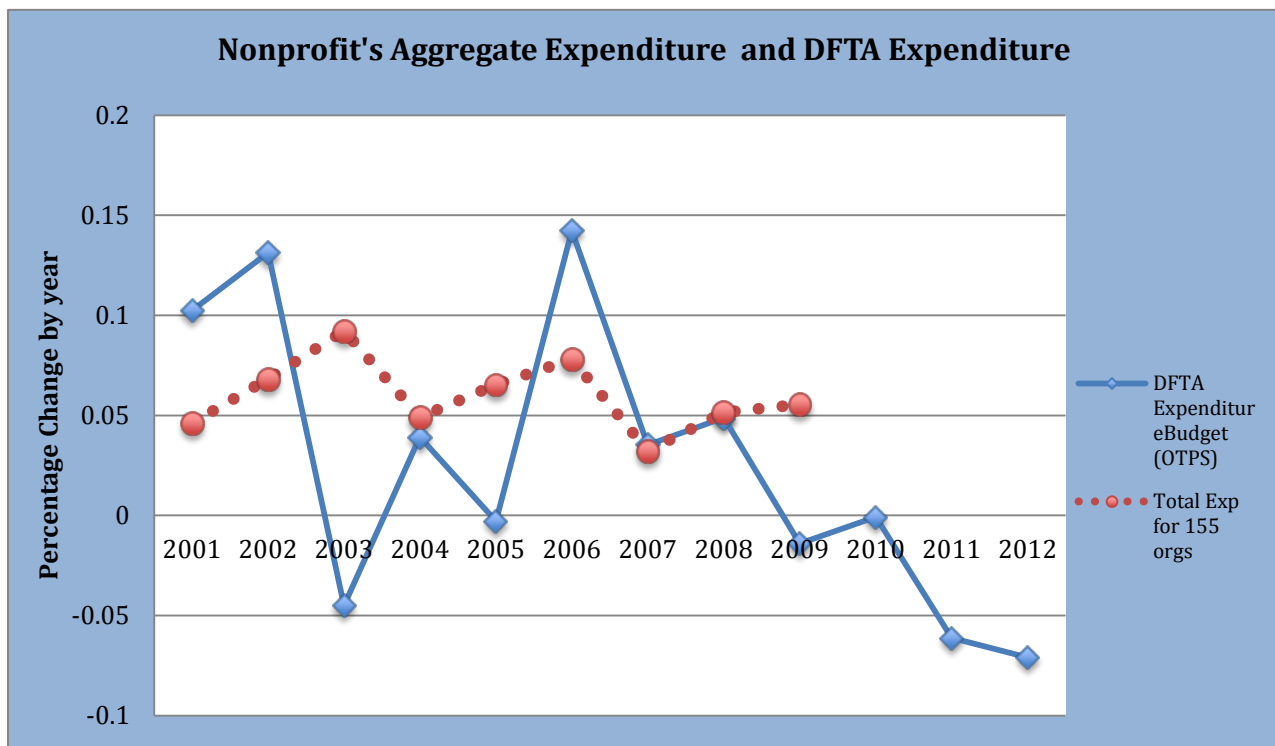
Table 3: Change in Citywide, DFTA Expenditure and number of Human Service contracts across FY 2003-2012

	Citywide Expenditure Budget (OTPS)	DFTA Expenditure Budget (OTPS)	# of contracts
FY2003 (modified)	18,918,240,001	232,977,943	1779
FY2004 (modified)	21,017,546,255	242,112,703	1875
FY2005 (modified)	24,084,044,003	241,428,380	1534
FY2006 (modified)	22,984,141,386	275,799,713	1531
FY2007 (modified)	25,489,003,972	285,523,847	1530
FY2008 (modified)	25,904,821,401	299,464,094	1538
FY2009 (modified)	26,620,444,018	295,290,405	1528
FY2010 (modified)	26,824,334,182	295,072,834	1407
FY2011 (modified)	27,239,165,739	277,019,901	1407
FY2012 (adopted)	27,981,328,243	257,381,786	1376

DFTA- Department for the Aging; *OTPS*- Other than Personal Services

The table above indicates the actual change over FY 2003-2012 of the DFTA's Expenditure Budget and the number of Human Service Contracts to be awarded for that Fiscal Year. Actual numbers for FY2000-2002 were unavailable, but changes were still duly noted and significant. From FY2003 to 2012, there was a 23% decrease in the number of budgeted DFTA contracts. After 2004, only moderate changes occurred. Fiscal year 2012 revealed the most significant reduction in awarded contracts. This change is critical to the analysis of this study. It shows that cuts have been more drastic in recent years, thereby affecting the expenditure budget of the DFTA and the number of contracts provided.

Figure 5: Percentage Change of Total Expenses of Organizations with % Change of DFTA Expenditure Budget FY2000-2012



DFTA- Department for the Aging; OTPS- Other than Personal Services

The Aggregate Expenditure for all organizations in the sample along with percentage change was calculated across 2000-2012 (where data was available) and graphed. Clearly, the DFTA has

experienced more drastic changes over these years with expenditure falling below zero in several instances. On the other hand, the aggregate expenditure of the nonprofits revealed more moderate spending patterns. By 2006, we notice a pattern consistent with changes in DFTA budget; however, the changes remain modest. Additionally, we notice a slight increase between 2008-2009 in nonprofit expenditure, whereas the DFTA's budget experienced a sharp fall in 2009. Overall, there was no clear relationship between the two variables. To further test this assumption, correlations were done and produced the following results.

Correlation 1: DFTA Expenditure and Total Expenditure of nonprofits

		DFTA_ExpenditureBudget_OTPS	Total_Exp_for_155_orgs	
DFTA_ExpenditureBudget_OTPS	Pearson Correlation	1	-.095	Correlation
	Sig. (2-tailed)		.807	p-value
	N	9	9	
Total_Exp_for_155_orgs	Pearson Correlation	-.095	1	
	Sig. (2-tailed)	.807		
	N	9	9	

The correlation matrix above shows a value of -.095. This represents a weak negative correlation and relationship between the two variables. The p-value shown on the table is used to determine the statistical significance of the correlation between the two variables; conventional p-values are $p < .05$ and $p < .01$. If p-values do not fall within that range, we must reject the hypothesis. The p-value .807 is consistent with the correlation value, and exceeds the alpha value (.05 or .01).

Therefore, the relationship is not statistically significant, so I reject the hypothesis; *Budgets cuts strongly impact effective performance of nonprofit service delivery.*

Result: $r(9) = -.095, p = .807$

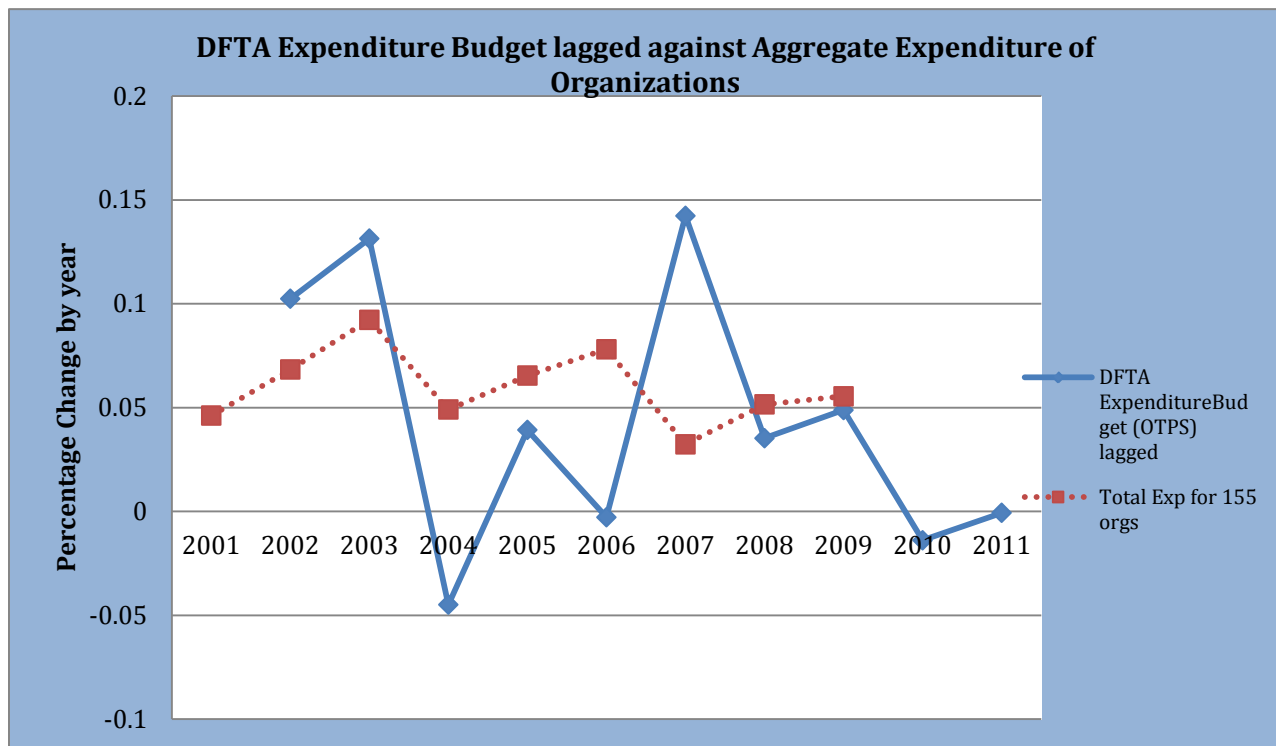
Regression 1: DFTA Expenditure and Total Expenditure of nonprofits

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.0611	0.0082	7.4510	0.0001	0.0417	0.0805	0.0417	0.0805
DFTA Expenditure Budget (OTPS)	-0.0265	0.1046	-0.2538	0.8069	-0.2739	0.2208	-0.2739	0.2208

Dependent Variable: Total Expenditure of Nonprofits (in sample)

The regression results above corroborate previous correlation calculations. The regression coefficient and t-stat value is negative similar to my previous calculations and the significance is also low.

Figure 6: Percentage Change of Total Expenses of Organizations against % Change of lagged (1 year) DFTA Expenditure Budget FY2000-2012



This graph was done to account for external factors that may affect the government-nonprofit contracting relationship, such as delayed payments. The DFTA Expenditure data was lagged by one-year to see if some clear pattern exists however, the relationship between the variables is not significantly clearer and regressions did reveal interesting results.

Regression 2: DFTA Expenditure (lagged 1 year) and Total Expenditure of Nonprofits

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.0604	0.0097	6.2544	0.0008	0.0368	0.0841	0.0368	0.0841
L1 DFTA EXP	0.0196	0.1164	0.1682	0.8719	-0.2652	0.3043	-0.2652	0.3043

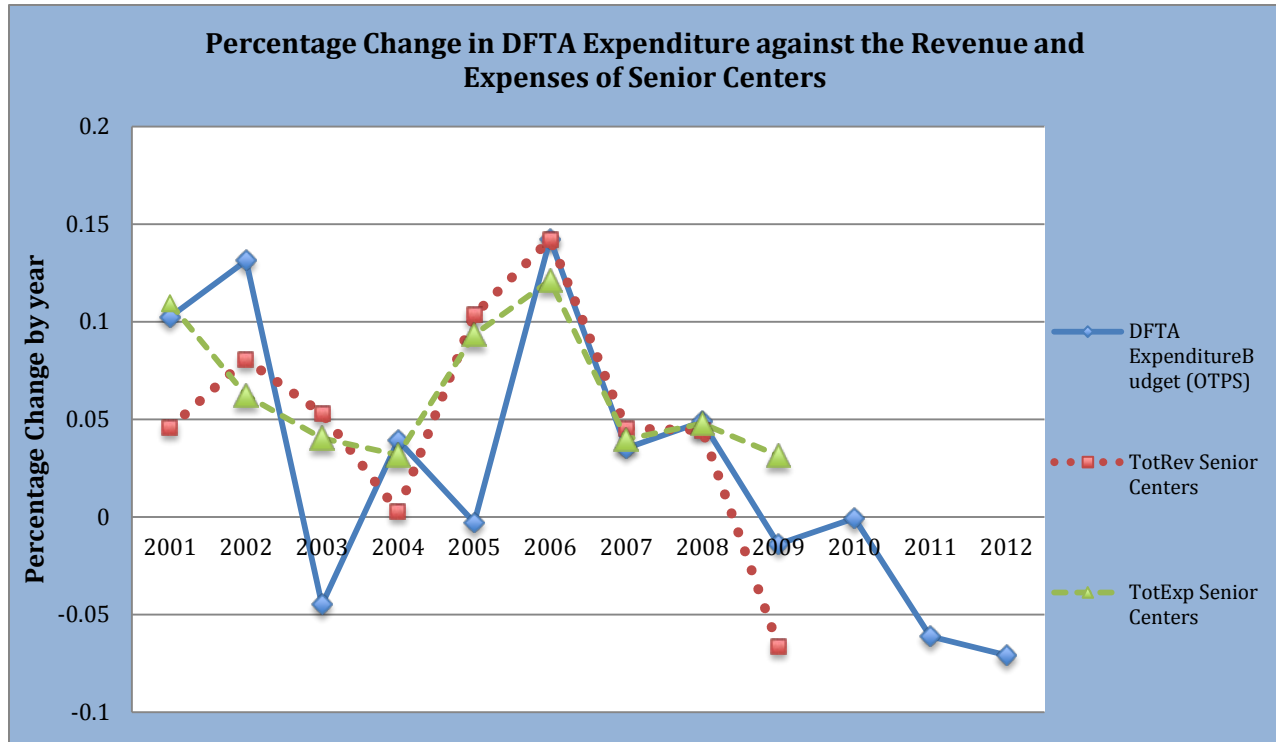
Dependent Variable: Total Expenditure of Nonprofits

Regression results above did reveal a change when the DFTA budget was lagged by one year.

The regression coefficient and t-stat number was now positive. However, the relationship was still weak and insignificant.

In order to answer my second research question about the main characteristics of the nonprofits affected, I looked closer at the financials for specific groups in the sample. For instance, Senior Centers was one group advocates claim deal with more severe cuts that impact services.

Figure 7: Change in DFTA Expenditure budget and the Revenue and Expenditure of Senior Centers



DFTA- Department for the Aging; OTPS- Other than Personal Services

The graph represents the Senior Center's reliance on government contract funding. Revenue and Expenditure follow very similar patterns along with the DFTA budget, however further correlations were done and the following matrix was the result:

Correlation 2: DFTA Expenditure with Senior Center's Revenue and Expenditure

Correlations				
		DFTA_Expenditure Budget_OTPS	TotRev_Senior _Centers	TotExp_Senior_Centers
DFTA_ExpenditureBudget_ OTPS	Pearson Correlation	1	.506	.606
	Sig. (2-tailed)		.164	.084
	N	9	9	9
TotRev_Senior_Centers	Pearson Correlation	.506	1	.728 [*]
	Sig. (2-tailed)	.164		.026
	N	9	9	9
TotExp_Senior_Centers	Pearson Correlation	.606	.728 [*]	1
	Sig. (2-tailed)	.084	.026	
	N	9	9	9

*. Correlation is significant at the 0.05 level (2-tailed).

The correlation matrix shows the values .506 and .606 for Senior Center Revenue and Expenses respectively. Both variables were correlated with the DFTA Expenditure. This value indicates that a positive moderate relationship exists. Interestingly, the p-values for both correlations do not fall within the range of conventional p-values, which suggests that neither relationship is statistically significant.

Result: DFTA EXP and SC REV= $r(9) = .506$, $p = .164$

Result: DFTA EXP and SC EXP = $r(9) = .606$, $p = .084$

Regression 3: DFTA Expenditure with Senior Center's Expenditure

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.0472	0.0125	3.7705	0.0093	0.0166	0.0779	0.0166	0.0779
DFTA Exp. Budget	0.2686	0.1672	1.6061	0.1594	-0.1406	0.6778	-0.1406	0.6778

Regression 4: DFTA Expenditure with Senior Center's Revenue

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.0290	0.0245	1.1838	0.2813	-0.0310	0.0891	-0.0310	0.0891
DFTA Expenditure budget	0.5170	0.3274	1.5790	0.1654	-0.2842	1.3181	-0.2842	1.3181

Regressions above further support previous Correlation results. The coefficients and t-stat values are positive but not significant. I also tested the lagged DFTA expenditure with both senior center's expenditure and revenue as dependent variables. The results were also insignificant with values close to zero.

Chapter 5

Analysis of Findings

The purpose of this research was to examine the impact of NYC Budget cuts on nonprofits providing various services to the aging population. The statistical significance of this relationship was tested to determine the relationship between budget cuts and spending on services provided to the elderly. Undeniably, the aging population is growing at a rapid rate and the City of New York must ensure the government provides substantial services for this population.

The government-nonprofit collaborative efforts provide a strong support for the elderly making this a critical relationship that must be sustained. From my calculations, only 15% of the organizations in the sample receive 86% or more of their revenue from program service, 4% receive between 66-85%, 15% receive between 26-65% and 66% receive between 0-25% in 2000. These values were similar to the 2009 sample.

For the purpose of this study, I examined the budget of the DFTA and number of contracts. Significant fluctuations were found in the nonprofit sample. Change in the DFTA budget was graphed against the Aggregate Expenditure for the organizations in my sample. No clear trend was observed in the graphical representation. Further scientific analysis was done using the Pearson Correlation function. Correlation coefficients testing the overall relationship between DFTA expenditure and nonprofit spending resulted in a value of $-.095$, indicating a weak negative relationship. The p-value of this correlation was $.087$, further indicating that the relationship was not statistically significant. This result led to rejection of the hypothesis.

Despite this statistical finding, the fact remains that as the elderly population grows, there will be an increase in demand for services and the government will maintain its contracting relations with nonprofits for this reason. If the budget is reduced each year, the revenue source of

nonprofits will be affected, however, the extent of the damage is questionable. Salamon (1986), for instance made strong assertions in his reference to the Reagan administration: “By cutting back on government spending, therefore, the Reagan administration has significantly reduced the revenues of the nonprofit sector while calling on this sector to do more...” (p. 1). He also believed that these budget cuts threatened to reduce the revenues that private, nonprofit groups had available to meet even existing needs. Conversely, my findings suggest that nonprofits have remained resilient throughout financial crises and budget constraints.

Additionally, descriptive statistics of my sample indicate a steady growth in revenue and expenses over the years examined. This suggests that the organizations were able to cover expenses, though as it continues to grow they must have sufficient revenue to maintain cost of programs. Salamon considered such growth to be vivid evidence of nonprofit resilience.

I also evaluated the financial details of the Senior Centers as this group purported to be the most vulnerable service providers. The findings suggested that they are heavily reliant on program service revenue. However, cuts in DFTA budget do not appear to severely impact this group’s spending ability. This suggests that they have diverse funding sources, which may make up for budget shortfalls. Correlation calculations indicate a moderate relationship however, the p-values reveal that the relationship remained insignificant. This detail is valuable to the entire study, as it continues to provide critical results that challenge the assumption of a strong direct relationship between NYC budget and nonprofit capacity to provide services.

Chapter 6

Conclusions and Recommendations

Motivation for this research stemmed from the most recent budget cut discussions of NYC. Nonprofit advocates expressed concern about budget cuts threatening nonprofit capacity, particularly those that provide services to the aging population. The literature thus far has explicitly supported this claim however, until now there has been no empirical study to test this generally presumed truth. This study focused on testing the relationship between City budget cuts and the proposed impact on contracting nonprofits of a NYC agency, the Department for the Aging (DFTA). Throughout the media, strong claims were made about the devastating impact DFTA cuts will have on nonprofit service delivery. By testing the statistical significance of this concern my results were unique and contradictory to popular belief. This added great substance to the current body of literature; nevertheless, there is a need for further empirical research on this issue.

Government contracting out to nonprofits for provision of public goods and services will undoubtedly progress and as the elderly population continues to grow this relationship will become critical. The Department for the Aging is responsible for providing core services to the elderly and it depends on this relationship to maintain proper service delivery. While I acknowledge that budget cuts can impact nonprofit capacity, the extent to which this occurs was questioned and my findings revealed that overall, this impact was a negative one. This suggests that as DFTA budget decreases, nonprofits are able to maintain spending.

Generalized validity may be limited to nonprofits in a contract relationship with a municipal agency. Therefore, as stated earlier, further empirical analysis of the relationship between budgets cuts and nonprofit spending would be valuable to the current body of literature

on government-nonprofit contracting. Also, myriad human service nonprofits as well as government agencies rely on the contracting relationship to provide public services therefore, a similar study may be done to examine other types of nonprofits and government agencies testing the impact associated with budget cuts. From this, the government will be able to make more informed decisions about this relationship.

Additionally, issues of late contract payments, variation in fiscal year reporting, and accountability and management are other core issues that may impact the relationship, so it may be beneficial to test the significance of these factors on contracting. For instance, if nonprofits receive late payments, this may lead to cash flow problems in which case this may harm effective nonprofit service delivery. If this relationship is tested empirically, it will provide a stronger case for the reform of policies that govern this contracting relationship.

As budget cuts are expected more frequently due to the current economic climate, human service organizations remain vulnerable irrespective of a growing demand for such services. Nonprofits may have diverse funding sources, however, the contracting relationship is an important vehicle for service delivery, therefore, both nonprofits and government agencies must work together to create a safety net to secure funding for services during financial turmoil.

In order to protect the City and ultimately the DFTA's investment in these nonprofits, legislators must create alternatives to lessen the impact of budget cutbacks on nonprofits. The City must generate additional aid for all aging services; this may involve securing funds that will go specifically to senior centers each fiscal year. If the City agrees to set aside a specific amount for senior centers each year, then this will reassure nonprofits that some funding will be available for them in coming years.

The City must also examine the overall contracting process and make an effort to improve areas that attract much concern or criticism. In lieu of budget cuts, the communication between government and nonprofits must be improved. If budget cuts and negotiations of funds become unavoidable, then the City and nonprofits must be able to find a common consensus and work together to improve funding sources while ensuring that nonprofits remain effective in service delivery.

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Endnotes:

ⁱⁱ Information received from the New York City Latin Media and Entertainment Commission website. Retrieved from <http://www.nyc.gov/html/lmec/html/about/nycapital.shtml>

ⁱⁱⁱ This data was obtained via the National Center for Charitable Statistics Database. This was the total number of ALL nonprofit organizations (public charities, private foundations and other 501(c)(3) nonprofit organizations) in New York State in 2010. Data was retrieved from: <http://nccsdataweb.urban.org/PubApps/profileDrillDown.php?rpt=US-STATE>

^{iv} This information was retrieved from the Mayor's Office of Contracting Services. The Mayor's Office of Contract Services (MOCS) is the City's compliance and oversight agency for procurement. They assist City agencies to comply with procurement rules and achieve their programmatic missions; to improve contract management practices; and to provide technical assistance to agencies and vendors. Retrieved from <http://www.nyc.gov/html/mocs/html/home/home.shtml>

^v This data was retrieved from the NCCS Urban Institute database. Public Charities are divided into 26 groups, including major sector groups such as Arts, Culture, Humanities; Education; Environment; Health; Human Services; International, Foreign Affairs; Public, Societal Benefit; Religion Related; Mutual/Membership Benefit; Unknown. Each of major group has subgroups and these are assigned National Taxonomy of Exempt Entities (NTEE) codes. This database will be used to locate Form 990s and relevant details on the nonprofits chosen for this research project.

^{vii} This information was retrieved from the 2010 Mayor's Management Report on the Department for the Aging. This report made available on the Mayor's Office of Operation website. The Mayor's Management Report (MMR), which is mandated by the City Charter, serves as a public report card on City services affecting New Yorkers. The MMR is released twice a year. The Preliminary MMR provides an early update of how the City is performing four months into the fiscal year. The final MMR, published each September, looks retrospectively at the City's prior fiscal year performance. Retrieved from <http://www.nyc.gov/html/ops/html/data/mmr.shtml>

^{viii} This data was obtained from the "quick facts" section of the National Center for Charitable Statistics website

^{ix} This info was retrieved from the Office of Management & Budget <http://www.nyc.gov/html/omb/html/about/about.shtml>

^x This info was retrieved from the Department of Citywide Services. The Department of Citywide Administrative Services (DCAS) ensures that City agencies have the critical resources and support needed to provide the best possible services to the public. http://www.nyc.gov/html/dcas/html/agencyinfo/about_dcas.shtml

^{xi} This definition was taken from the Internal Revenue Service (IRS) website. Retrieved from <http://www.irs.gov/businesses/small/article/0,,id=98350,00.html>