
Full Funding for Human Services Contracts

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SUMMARY

QUESTION: HOW CAN NEW YORK CITY DEVELOP AND UTILIZE A BETTER PROCURMENT MODEL TO DELIVER HUMAN SERVICES TO ADDRESS HUMAN NEEDS IN A TRANSFORMATIVE WAY?

WHY IMPORTANT:

1. *Nonprofit entities provide a myriad of essential programs to communities and individuals.*
 2. *Providing lifesaving services such as shelter, food and helping children and other vulnerable members in the community including seniors is a noble endeavor and challenges related to funding, financing and efficiency should be addressed.*
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RECOMMENDATIONS:

1. *The city should be obligated and committed to engage in a collaborative process with human service providers before putting out Requests For Proposals utilizing the "Guide to Collaborative Communication with Human Services Providers."*
2. *City agencies should adopt a model budget process with providers to demonstrate an understanding of real costs and so that providers can better find gaps in funding.*



CONSTRAINTS:

1. *Currently, no feedback loop between current experienced service providers and City agencies rolling out new programs which results in replicating programs that may not work.*
2. *The City often relies on paternalistic approaches to providing human service contracts. As such, the design and development of the policy frameworks only engage experts from national and local levels and fails to involve the actual service providers and participants.*



INTRODUCTION

Nonprofit human services providers in New York City are integral to the health and wellbeing of our communities, providing a myriad of essential programs to individuals and families of all walks of life. The COVID-19 pandemic highlighted just how vital these organizations are, as providers stepped up to deliver lifesaving services including home-delivered meals and food pantries, distributing technology so children could continue learning and seniors could stay connected, and keeping shelters for those experiencing homelessness open and safe. Government calls upon these organizations to assist million of New Yorkers every day, while at the same time grossly underfunding contracted services. Government contracts pay approximately 80 cents on the dollar¹, and 65 percent of New York City human services organizations report that government contracts do not cover the full cost of services.² At the same time, 80 percent of contracted human services providers get 90 percent of their budgets from government contracts.³ That math adds up to razor thin margins or deficit spending. While we often talk about the impact of this on the organizations themselves, underfunding has an impact on programs, making it difficult to move the needle on the pressing equity issues the sector really aims to address.

Human services programs should function to alleviate inequity and be a cornerstone in reversing the impact of racist, sexist, and ableist systems. These programs can help children who are being undereducated in underfunded schools, provide food access to those in food deserts, and provide host case management services to individuals and families experiencing poverty. The vast network of human services has the ability to transform communities, but only if they function to change lives and not simply minimize the worst effects of systemic racism and economic injustice.

The major funding mechanisms for human services are government contracts⁴, and the system is not designed for true transformation. Human services are procured in New York City based on a competitive model, which is not ideal; competition and low bids make sense for pens, construction, and towing contracts, but not for human centered services where individuals, families, and communities have unique needs. At

¹ Human Services Council, “New York Nonprofits in the Aftermath of FEGS: A Call to Action,” *Human Services Council*, <https://humanservicescouncil.org/wp-content/uploads/Initiatives/HSCCommission/HSCCommissionReport.pdf?q=commission/hsc-commissionreport.pdf>.

² Ibid.

³ Fiscal Policy Institute, “Undervalued & Underpaid: How New York State Shortchanges Nonprofit Human Services Providers and their Workers,” *Fiscal Policy Institute*, March 2017, <https://fiscalspolicy.org/wp-content/uploads/2017/03/Workforce-Report-.pdf>.

⁴ SeaChange Capital Partners, “New York City Contract Delays: Vol. 2,” *SeaChange Capital Partners*, April 2019, <http://seachangecap.org/wp-content/uploads/2019/04/NYC-Contract-Delays-Vol.-2-1.pdf>.



the same time, competition is good, as human services organizations should demonstrate competency, successful outcomes, and new providers should be able to enter the system. When you couple this onerous procurement system with underfunding, the result is a system that does not operate to truly address the systems that perpetuate inequities. How do we better utilize the competitive procurement model to better implement transformative human services? The answer sounds remarkably simple: collaboration.

THE CURRENT MODEL

If government wants 100 pens, they can put out a request for proposal (RFP) and get back a host of responses (bids) that meet the need and state a price. Government then picks the cheapest bid that also meets their needs. This system works for more complex needs as well — like construction and IT services — but becomes clunky when applied to human services. The lowest cost bid for a homeless shelter, for example, may not be the best bargain for actually addressing homelessness, and human need is complex and cannot be boiled down to a price point and simple program formula.

Government has attempted to address this tension by doing research and working with experts to design human services programs and putting out complex RFPs that are often very prescriptive in what they ask for, coming very close to, or actually setting, a price for the rate of service. Instead of asking for 100 pens and getting lowest bids, government asks for 100 pens that are blue ink, twist top, with a ballpoint tip and cost a \$1 each. It seems simple enough, but it does not take into account the actual production costs of those pens and minimizes the expertise of pen makers. Applied to human services, it makes even less sense.

COLLABORATE TO ACHIEVE TRANSFORMATION

An afterschool tutoring program has a current contract expiring, so the City goes about designing a new RFP. They look at national and local program models, data on childhood development and test scores across the City, and create a new RFP. What is unfortunately missing from this design is the feedback of the current program participants, who certainly have opinions on how the program is working, and also the service providers, who are now the experts in this program.

New York City takes an overly paternalistic approach to human services contracts. They rely on national and local experts to design programs, but do not engage actual



service providers or participants to get insight or feedback. The need to separate potential bidders from the RFP process is often used as the reason to not engage current contactors in designing programs, but it keeps the people closest to the program from weighing in, and is a perceived barrier, not an actual one. What is even more frustrating is that New York City has already acknowledged this hurdle by working with the nonprofit human services sector to create the “Guide to Collaborative Communication with Human Services Providers.”⁵

This guide dispels myths around not engaging potential bidders in program design and sets out several ways City agencies can seek feedback. Unfortunately, the guide is not mandated, and since it has been introduced, the City has continued to release a series of problematic RFPs.⁶ When the City sets out to procure a human service, the City agency should be obligated to engage in a collaborative process, using the Guide as a starting point, and no RFP should be released until there is a demonstration that:

1. A concept paper was released to the public with time for meaningful and public feedback: at least 30 days for feedback with the RFP not slated for release until at least 90 days from concept paper release.
2. Feedback was gathered on the currently contracted program from participants in the program along with contracted providers with key data collected on the real costs associated with the program, measured outcome attainment, and other metrics or outcomes providers associate with the program.

The City agency should be able to point to how this feedback has been incorporated into the RFP, and the Mayor’s Office of Contract Services should not release on RFP until this collaboration has taken place and reflected in the RFP.

Engaging program participants and contracted providers gives a clear sense of how the program runs on the ground. Participants are the “consumer” and should have an active say on how programs are designed for them and their communities. Providers know which elements of the program are working or are tangential to real outcomes. Getting feedback on what providers add to contracted programs or have seen as additional successes gives crucial information on how to alter future procurements to achieve more success.

⁵ “Guide to Collaborative Communication with Human Services Providers,” City of New York, January 2018, https://www1.nyc.gov/assets/nonprofits/downloads/pdf/20180101_Guide_to_Collaborative_Communication_FINAL.pdf.

⁶ HSC RFP Rater



FULL FUNDING LEADS TO TRANSFORMATION

If NASA says they need \$20 million to get to the moon, you do not give them \$15 million and hope for the best. Similarly, if a company says they need \$10 million to build a bridge, you do not sign the contract and then tell them to do it for \$8 million, unless you want an unfinished or unsafe bridge. Unfortunately, this is exactly how New York City treats human services programs, setting budgets based on political budget negotiations and trying to solve our biggest social issues without fully funding the solutions.

City agencies often have limited budgets and therefore create rates based on how much they have to spend, instead of what a program actually costs. Due to this, providers use philanthropic dollars or other private funding to fill the gap, as well as cut back on parts of the overall service they would like to provide. Often, this results in programs that simply do not make it to the moon. In 2018, the City released two RFPs through the Department of Youth and Community Development (DYCD): Comprehensive After School System of New York City (COMPASS) and School's Out New York City (SONYC). Providers quickly realized that the rate per child for these programs was not enough to cover the minimum program expectations, with a gap of \$100-\$200 per child based on information shared by a handful of providers.⁷ When DYCD was asked about the rate in a bidder conference, the response was “the model hasn’t changed. The price per participant, there’s a finite amount of money for these contracts and this is the current rate for each participant. The existing contracts are different and have a lot of different variations and things like that. But this is the actual price per participant for this RFP.”⁸ The response does not give a lot of insight into how the price was actually arrived at, but it does show that there is a “finite” amount of money. It does not explain if changes like the minimum wage increase were taken in to account when the RFP was updated for a new competition.

To fund programs for transformation and understand how the City arrives at a program budget, City agencies should be mandated to share a “model budget” in the RFP. The public should be able to see how the City determined the overall rate or price per participant, and how they factored in competitive wages, indirect, utilities, rent, and how costs will shift over the course of a 5-7-year contract.

⁷ RFP Rater: Comprehensive After School System of New York City (“COMPASS”) Elementary Programs 2018 RFP – Public Schools,” *Human Services Council*, May 10, 2018, <https://humanservicescouncil.org/rater/comprehensive-after-school-system-of-new-york-city-compass-elementary-programs-2018-rfp-public-schools/>.

⁸ Compass Elementary Programs,” *City of New York*, May 23, 2018, 64-65, http://www1.nyc.gov/assets/dycd/downloads/pdf/5-23-18_PM-PPC-transcript.pdf



A model budget should include:

1. Breakdown of physical costs, including food or equipment necessary to operate the program
2. Salaries of required staff with analysis of comparison of average salaries for similar positions in different industries
3. The average indirect rate for providers who run similar programs, using data gathered by the Indirect Cost Rate Initiative.⁹
4. How the budget has been structured to include cost escalators over the life of the contract.

The resistance to a model budget has been that providers would simply duplicate that budget in their response, but RFPs are already overly prescriptive, and partnership cannot be achieved if there is not a true understanding about how costs are calculated.

DYCD released the Unity Works RFP in 2019, which did, in fact, undertake a model budget, but the Department did not make it public and ended up with a substantial rate per participant that reflected competitive salaries for key positions.¹⁰ The downside to this model is that fewer slots were available, meaning that the program will not serve as many people as may be eligible for the program. Unity Works is a new program for the City, and, therefore, ensuring the program is fully funded should be — and was — top of mind. Demonstrating success could lead to more funding and more slots, whereas if the program is underfunded and therefore cannot demonstrate key outcomes, the program is unlikely to expand. DYCD understood the importance of funding the program to attract qualified staff and ensure quality programming, ideally leading to strong outcomes for clients and an expansion of the program.

TOWARDS TRANSFORMATION

There is a vast network of established human services organizations for New York City to utilize in addressing pervasive inequities, along with emerging community groups forming to address new or changing needs. This network is unfortunately not treated as a true partner in solving the City's most pervasive problems, while being on the frontlines of those very issues. The communities served by nonprofits are unique and require tailored approaches that are not best served by a clunky procurement

⁹ "City of New York Health and Human Services: Cost Policies and Procedural Manual," *City of New York*, March 5, 2019, https://www1.nyc.gov/assets/nonprofits/downloads/pdf/NYC%20HHS%20Cost%20Policies%20and%20Procedures%20Manual_8.25.20.pdf.

¹⁰ RFP Rater: Unity Works RFP," *Human Services Council*, January 24, 2020, <https://humanservicescouncil.org/rater/unity-works-rfp/>.



process designed to buy cement, not solve poverty. Funding streams are often determined by political budget negotiations and federal funding streams, meaning the City itself is hamstrung in some aspects of determining how and which programs to fund.

Despite all these obstacles, there is a way to let providers lead, hear from impacted communities, and design and implement truly transformative serves. Transformation in this case means outcome-driven programs that address the root cause of why a person is in need of a service: a home delivered meal with a trained social worker who can address isolation and health needs; a homeless shelter that can move people in to permanent, affordable housing; a prevention service that gives a family the tools to stay together and keeps a child out of the foster system; and an afterschool program that gives a child a safe place, a needed meal, and the learning tools missing from other aspects of their lives.

To achieve this transformation, the City needs to recognize the limitations of competitive procurement and utilize their own tools to build better programs, in collaboration with communities. Mandating the “Guide to Collaborative Communication with Human Services Providers” requires a new way of thinking, and a commitment to building out a thoughtful timeline for procurements, but the City has already done the work to create the guide. By engaging in a model budget process, the City will demonstrate an understanding of real costs, and providers and advocates can better find gaps in funding. The model budget process may require more money for certain programs, as the City realizes the expenses necessary to undertake the program. But all New Yorkers will be better served with a transparent process that is honest about how much is required for a robust human services system.

If New York City wants to make it to the moon — recover from the devastation of COVID-19 and build a better, more equitable New York — it must do so in collaboration with the human services sector, which has been on the frontlines of this work and will continue to lead the recovery of our communities.

The City should work to improve its contracting process so that nonprofits that are largely not evaluated on impact or performance are. That would allow public money to be reallocated towards those organizations that demonstrate positive community benefits. To achieve this transformation, the City:

1. needs to adjust rates routinely and set them appropriately to have an actual market of providers, rather than the same nonprofits over and over. Lacking this, providers do not bid and those that do have no incentive to prove results.
2. should include small scale demonstrations routinely as part of the RFP processes. As part of this, the City and providers can determine together real metrics to identify success or failure rather than arbitrary measures. This allows for new models of delivery to develop and be tested, or for program replication



from elsewhere to be tried. Another option is to try pre-contract funds to new providers to demonstrate impact in community.

3. should include money for program evaluation as part of RFPs so that grassroots providers that are smaller, newer, and perhaps more representative of the community it serves, are able to bid on contracts, diversifying the pool of service providers in the City.

