



Partnering with Nonprofits in Tough Times

Recommendations from
the San Francisco
Community-Based
Organizations Task Force

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Executive Summary

San Francisco is well known for its thriving and multi-faceted nonprofit sector that contributes to the city's social, economic, and community well being. Particularly in the health and human services arena, area nonprofits are critical government partners, relied on for providing quality, culturally appropriate, and accessible services to local residents. The City and County of San Francisco (henceforth "City") contracts with hundreds of these local nonprofits—amounting to contracts of almost \$500 million annually—for services such as primary and mental health care, shelter, job training, violence prevention efforts, and much more. As employers, San Francisco nonprofits also provide many thousands of jobs, representing nearly eight percent of local wages.

Yet the City is facing an unprecedented budget deficit, projected at \$438 million. City departments have been asked to submit recommendations for cutting their budgets by 25 percent—a considerable amount that will result in City staff and service losses as well as substantial reductions in contracts with nonprofits.

Compounding this grim situation locally, San Francisco nonprofits are also facing unprecedented declines in philanthropic support, state contracts, and individual donations at a time when service demand is rising. The sector is experiencing what many view as a restructuring and possible downsizing. While opinions vary regarding whether this a positive and necessary trend, stakeholders cannot ignore the risks it poses for delivery of City services to San Francisco's most vulnerable residents, as well as the potential negative economic consequences associated with the loss of nonprofit jobs, which total more than 54,000 on a quarterly basis.

The CBO Task Force

Given the gravity of circumstances, in January 2009, Mayor Newsom invited Dr. Sandra Hernandez, chief executive officer of the San Francisco Foundation, and City Attorney Dennis Herrera to co-chair a task force to determine what the City can and should do to be strategic in its partnership with local nonprofits in the coming years. The Community-Based Organizations Task Force included representatives from a number of City and County departments, as well as staff of the San Francisco Foundation, and met on more than ten occasions during a three-month period.

This report, "Partnering with Nonprofits in Tough Times," presents the findings from the work of the Task Force to confront the challenges that lay ahead.

Report Overview

The full report begins with an overview of San Francisco's nonprofit sector based largely on the results of a recent study by the University of San Francisco, along with information regarding City contracting with nonprofits compiled by the Controller's Office. This section includes a response to the current dialogue regarding the value of the nonprofit sector and addresses a few myths about the sector through a true/false test.

The section that follows first tackles challenges and then considers a few promising efforts to streamline and improve the use of nonprofits to deliver services. Looking first at challenges, the Task Force focused its attention on which program

delivery and contracting models are most effective—not on the fate of individual organizations—and identified a few areas for improvement. These included contract management and oversight challenges that stem from decentralized agency relationships; varying levels of City-provided technical assistance and concern about the organizational capacity of funded contractors; smaller, more vulnerable nonprofits that derive most of their revenues from City contracts; and the politicized environment in which agency funding decisions occur.

Turning then to promising practices, the Task Force also identified positive trends and opportunities. The *Nonprofit Contracting Task Force* has resulted in important contracting improvements, including earlier certification and electronic systems that facilitate more timely payment. The Controller’s Office has also developed the *Citywide Nonprofit Monitoring and Capacity Building Program* which provides centralized monitoring of fiscal, compliance, and organizational capacity elements for 125 nonprofits funded by more than one City department. Departments have also undertaken efforts to build the capacity of nonprofit

contractors; conduct joint planning and programming; coordinate funding efforts so as to maximize federal funds; and involve stakeholders in change management processes resulting from local budget cuts. These innovations suggest that the City recognizes the importance of finding new and smarter ways of doing business with nonprofits.

The last section of the report recommends strategies and action steps. Here the Task Force enlists government, philanthropy, and nonprofits to act decisively to reduce the risks facing nonprofit organizations, services to vulnerable residents, and the economic health of San Francisco. Recommendations are provided below.

While acknowledging that the threats posed by the recession are severe, the Task Force is united around its belief that San Francisco can meet the challenges ahead and that the City shares responsibility for the health of its local nonprofit sector. Difficult times also create new pathways for realizing change. The Task Force strongly believes that the recommendations below, if implemented, will facilitate long-term sustainable improvements in the City’s partnership with nonprofits.

CBO Task Force Recommendations Summary

1. **Consolidate nonprofit administration.** The City spent approximately \$58 million on nonprofit indirect costs in fiscal year 2007-08. The City should incentivize opportunities for nonprofits to use management services organizations (MSOs) and to consolidate back office functions.
 - 1.1. **Issue an RFQ.** The Controller’s Office should issue a request for qualifications (RFQ) to identify potential MSOs and their costs of service provision.
 - 1.2. **Promote MSO use.** The City should encourage nonprofits to work with MSOs, particularly those that are majority City-funded and/or that have negative monitoring and audit findings.
 - 1.3. **Reduce barriers to efficiency.** The City Attorney and Risk Manager should explore ways to address potential liability issues for nonprofits interested in sharing back office functions.
 - 1.4. **Identify funding sources.** The City should explore federal and philanthropic resources to support consolidation.
 - 1.5. **Support bulk-purchasing efforts.** The City should explore ways to support nonprofits interested in group purchasing of materials and services.

2. **Support nonprofits mergers and closures.** Given the importance of nonprofits to public service delivery, the City should actively work to ensure as smooth process as possible during the anticipated sector restructuring. Opportunities and critical points will arise that lead nonprofits to consider mergers or closures and it is urgent that the City play a proactive role in these discussions.
 - 2.1. **Assist nonprofits exploring mergers.** The City should support mergers among nonprofit contractors by communicating with nonprofit leadership and governance and providing funding and technical assistance.
 - 2.2. **Smooth service transitions.** In cases where a nonprofit faces risk of closure, City departments should work to minimize service disruption to the community.
 - 2.3. **Assemble a resource clearinghouse.** The City should work with the philanthropic sector to generate resources including planning and implementation grants, access to legal expertise, training provision, and development of guides and protocols.
 - 2.4. **Convene a forum for nonprofits.** The City should co-convene a forum with the philanthropic sector to educate nonprofit board members and executives about restructuring options and supports.

3. **Maximize revenue.** The City should aggressively prioritize finding new revenue. Potential opportunities include drawing down additional federal revenue through formula grants and entitlements; enrolling all eligible individuals in SSI/SSDI, strategically positioning agencies and departments to maximize receipt of stimulus funding; and applying for competitive government and philanthropic grants.
 - 3.1. **Deliver executive leadership.** The Mayor’s Office should issue a mayoral policy declaration that prioritizes revenue maximization strategies.
 - 3.2. **Identify opportunities for revenue maximization.** The Controller’s Office should conduct an analysis of nonprofit funding and programs that have the potential to draw down Medi-Cal dollars and other state or federal dollars.
 - 3.3. **Facilitate cross-department collaboration.** The Mayor’s Office should convene and facilitate interdepartmental conversations and negotiation to support revenue maximization in cases where departments are reluctant to collaborate.
 - 3.4. **Develop collaborative funding guidelines.** The City should provide guidance for interdepartmental funding collaborations to address budget oversight, outcome setting, and performance monitoring.
 - 3.5. **Reward collaboration.** Collaborations that result in new revenue should be recognized and rewarded through the Municipal Fiscal Advisory Committee Good Government award and other mechanisms.
 - 3.6. **Dedicate staff to investment efforts.** The Mayor should consider creating a philanthropic liaison position or office focused on fostering philanthropic and government investments in San Francisco.

- 4. Improve management and oversight.** The City should improve coordination and centralize oversight through joint corrective action plans in order to address under-performing nonprofits. This process would create greater nonprofit accountability by providing a clearer pathway for improvement and documenting nonprofit progress in meeting identified steps.
 - 4.1. Strengthen departmental response to poor performance.** City departments should more assertively implement, monitor, and take action on corrective action plans for nonprofits.
 - 4.2. Assess departmental capacity.** The Controller’s Office should assess departmental response to cases of corrective action and make recommendations for improving oversight capacity.
 - 4.3. Unify corrective action across departments.** The Mayor’s Office should periodically convene senior department decision-makers to identify nonprofit contractors whose performance merits development of an interdepartmental corrective action plan and to monitor progress of existing action plans.
 - 4.4. Direct nonprofits toward external administrative resources.** New nonprofits and those unable to comply with corrective action should be strongly encouraged to use MSOs.

- 5. Promote nonprofit sustainability measures.** City contracting should reflect best practices for nonprofit sustainability by encouraging funding diversification, continuity in times of natural or other disasters, and maintenance of reserves. These are commonly accepted best practice standards as well as positive indicators of solid governance and fiduciary accountability.
 - 5.1. Incentivize diversification of funding.** The City should encourage nonprofits to have at least 15 percent of funding provided by non-City entities. The City should identify interim targets and deadlines for reaching this goal for nonprofits that do not comply.
 - 5.2. Mandate disaster plans.** The City should require nonprofits to have a business continuity plan that identifies how an organization will recover and restore interrupted functions.
 - 5.3. Require nonprofits to hold financial reserves.** The City should require nonprofit contractors to have financial reserves totaling two months of operating revenue.

- 6. Plan strategically.** Personal, district, and departmental politics, reflected in the add-back process, challenge the City’s ability to align investments effectively. At the same time, nonprofits with potential to meet neighborhood and cultural gaps struggle with capacity issues. The City should develop a strategic plan for delivery of community-based services that identifies strategies to better align public investments across departments as well as ways to build the nonprofit sector’s capacity.
 - 6.1. Begin a strategic planning process.** The Mayor should initiate a strategic planning process aimed at strengthening delivery of essential community-based services. The plan should focus on ensuring the sector has capacity to meet priority needs and that City resources are aligned to support this effort.
 - 6.2. Obtain philanthropic support for strategic planning.** The City should work with philanthropy to generate resources to support a strategic planning process.

Introduction

Like many local governments, the City and County of San Francisco (“the City”) is facing an unprecedented budget deficit—a projected \$438 million. Despite the temporary promise of federal stimulus funding, this situation is expected to persist for the next several years. San Francisco could face a budget deficit as large as \$750 million by 2011 if present trends continue. Last December, Mayor Gavin Newsom asked City departments to submit recommendations for cutting their budgets by 25 percent—a significant amount that will result in City staff and service losses as well as substantial reductions in contracts with nonprofits, which total nearly \$500 million annually.

San Francisco spends substantially more per capita on public health and human services when compared to peer cities such as Los Angeles, Sacramento, and San Mateo. In fact, San Francisco spends twice as much per capita on public health services and up to three times more than these counties on social services.¹ Nonprofits are crucial partners in the delivery of these services. The City contracts with hundreds of these groups—approximately 500 in the last fiscal year—for health and human services including primary and mental health care, shelter, job training, violence prevention efforts, and much more.

Nonprofits also represent a substantial sector of San Francisco’s workforce, contributing nearly eight percent of local wages. Our city is known for having a particularly rich nonprofit network and these figures reflect the value San Franciscans have traditionally placed on the cultural, civic, and social vibrancy of our city. Indeed, many local nonprofits first formed as a grassroots response to pressing issues facing diverse cultural groups, be they immigrants, people of color, or members of gay, lesbian, bisexual, and transgender communities.

Today, nonprofits are struggling to cope with increasingly grim circumstances. Organizations are facing unprecedented declines in philanthropic support, government contracts, and individual donations at a time when service demand is rising. As the economic crisis and its impact on nonprofits evolves, San Francisco risks the loss of essential services and jobs for city residents. The sector is experiencing what many view as a deep restructuring that will fundamentally change the social and economic landscape of our city.

Given the gravity of circumstances, what can and should the City do to be strategic in its partnership with nonprofits in the coming years? This report highlights recent efforts to address that question and provides recommendations for meeting the challenges ahead. Many of the recommendations presented in this report will require tough actions and choices. However, failure to act now could lead to greater public health and economic challenges in future years. The Task Force offers this report as a call to action on the part of government, philanthropy, and nonprofits alike to act boldly to reduce the risks facing nonprofit organizations, services to vulnerable residents, and the economic health of San Francisco.

¹ San Francisco Controller's Office, "Budget Improvement Project: Presentation to the Mayor and Board of Supervisors." City and County of San Francisco, CA. 16 Mar 2009.

The Community-Based Organizations Task Force

In January 2009, Mayor Newsom invited Dr. Sandra Hernandez, chief executive officer of the San Francisco Foundation, and City Attorney Dennis Herrera to co-chair a task force focused on finding solutions to the challenges posed to both the City and nonprofits by the local budget deficit. The Community-Based Organizations (CBO) Task Force convened in January of this year to examine the nature of this problem and to develop recommendations for improving the City's collaboration with nonprofits to deliver community-based services.

The Task Force included representatives from the Mayor's Office, the Controller's Office, and the Department of Public Health (DPH), as well as staff of the San Francisco Foundation.

Over the past three months, the team met on more than ten occasions to:

- Review data on the local nonprofit sector as well as the scope and scale of City contracting with nonprofit organizations,
- Ascertain both the difficulties and the opportunities posed in the current environment from the perspective of key nonprofit sector leaders,
- Listen to the perspective of City department managers about their use of nonprofits to deliver community services,²
- Review promising practices on the part of City department leaders and their staff relevant to addressing the current situation, and
- Debate and agree upon recommendations for maximizing efficiency and effectiveness with respect to City purchasing of nonprofit services.
- Vet draft recommendations with local supervisors, thought leaders in the nonprofit, philanthropic, and government sector.

The Task Force identified the following set of guiding principles, which recognize the contribution of nonprofits to City service delivery, to guide development of recommendations.

Guiding Principles

- Maximizing state & federal funding opportunities is a priority in today's environment.
- A primary responsibility of the City in delivering services is to close disparity gaps and protect vulnerable populations.
- Cultural competency is a high priority for service delivery, as is prevention, community-based vs. institutional care, and access to neighborhood-based services.
- The nonprofit sector plays an essential and vital role in City service delivery. They also play a critical policy advocacy role in addition to providing direct services.
- Nonprofits should be assessed and evaluated based on cost, quality, and effectiveness of service delivery.
- The City's services should also be assessed and evaluated based on cost, quality, and effectiveness with respect to its role as both a provider and purchaser of services.

² The CBO Task Force did not evaluate the effects of the economic environment on arts nonprofits, as other groups and forums have been convened to assess this issue.

Through this process, the Task Force reached agreement on a set of recommendations outlined in this report. To provide context for these recommendations, this report first presents an overview of San Francisco’s nonprofit sector based primarily on the results of a study recently released by the University of San Francisco (USF), along with information regarding the scope and nature of City contracting with nonprofits compiled by the Controller’s Office. The next section presents a response to current widespread dialogue regarding the value added by the nonprofit sector. This is followed by a section that highlights key challenges as well as promising efforts to streamline and improve use of nonprofits to deliver services. The last section presents recommended strategies and action steps.

San Francisco's Nonprofit Sector

What are the characteristics of San Francisco's nonprofit sector and what contributions does it make to our local community? This section highlights key attributes of the local sector as well as the role that nonprofits play in the delivery of City-funded services.

Sector Overview

The nonprofit sector is integral to the life and functioning of San Francisco as a whole. Not only are nonprofits well positioned to address the diverse and unique needs of communities across the city, they also support the city's economy and workforce.³ How nonprofits fare in times of economic stress matters to all San Franciscans, not just those who benefit directly from services.

San Francisco's nonprofit sector is mature and stable. The nonprofit sector in San Francisco is well established compared to other cities and relative to the state of California. Nonprofits in the city have their beginnings dating back to the 1849 Gold Rush, when organizations began to respond to the needs of San Francisco's residents. Today, among the more than 7,000 nonprofits in the city, 57 percent represent organizations with annual revenues of \$25,000 or more. This includes 2,229 public charities and 862 foundations. Compared to the rest of California, San Francisco has a lower percentage of very small nonprofits. Subsectors that are especially strong in San Francisco include arts, culture, and humanities; environment; and human services.

While the nonprofit sector in the rest of the state experienced dramatic growth between 2000 and 2006, the stability of San Francisco's nonprofit sector is represented by a slower, steadier growth. San Francisco also exhibited a lower proportion of newly formed nonprofits and a higher proportion of nonprofits that remained in operation over this six-year period.

Nonprofits are a key part of San Francisco's economic engine. The economy of San Francisco is supported by nonprofit expenditures and wages. Expenditures by foundations and charitable organizations in 2006 represented more than \$1 billion and \$7.5 billion,

San Francisco Nonprofits by the Numbers

- 7,093 registered nonprofits
- 46% with revenues < \$25,000
- 63% target San Francisco as a city or one of its neighborhoods
- \$8.6 billion in annual nonprofit expenditures
- \$719 million in wages each quarter
- 18% concerned about ability to meet revenue needs for fiscal year 2008 when surveyed prior to recession

³ Data cited in this section are based on the following report, unless otherwise indicated: Silverman, Carol, Carol, Arleda Martinez, Jamie Rogers, Gene Waddell, Lina Morin-Calderon. *San Francisco's Nonprofit Sector: Contributions, Diversity, Challenges*. San Francisco, CA: University of San Francisco Institute for Nonprofit Organization Management, 2009.

respectively. Moreover, the amount of expenditures of nonprofits per capita in the city (\$8,406) represents the maturity of the sector, as this figure doubles the expenditures in Los Angeles (\$3,723) or California as a whole (\$3,436). San Francisco makes up only 10 percent of the population of the Bay Area, yet local nonprofits represent 19 percent of all Bay Area expenditures. A 2001 study by the San Francisco Urban Institute found that in San Francisco, 40 percent of human services expenditures in the city were accounted for by nonprofits.⁴

Nonprofits provide a substantial number of jobs with benefits. Nonprofits provide more than 54,000 jobs on a quarterly basis, and these jobs pay an average of \$1,022 per week. This is only slightly lower than average wages in the public sector (\$1,281 per week). Compared to the rest of the state, nonprofit wages in San Francisco are higher, and between 2000 and 2006, inflation adjusted wages increased by 19 percent. Nonprofits contribute nearly eight percent of San Francisco’s wages, totaling \$719 million in the third quarter of 2007.

Nonprofits comprise a largely female workforce. In addition to supporting San Francisco’s economy, the nonprofit sector further provides opportunities for females to actively engage in the workforce. Women are well represented among nonprofits in San Francisco, particularly in leadership positions. Importantly, almost a third of nonprofits (31 percent) have management staff comprised entirely of females. Board representation by women, however, is lower with only six percent of nonprofits in San Francisco having boards made up of only women.

Nonprofits represent a bimodal sector. Nonprofits in San Francisco represent not only large volume institutions serving many people, but also include niche players that have evolved in response to an unmet need, often with respect to cultural competency. The scope

Nonprofits employ more than 54,000 San Franciscans, and account for 8 percent of all wages paid to local workers.

of the sector is represented by 19 percent of nonprofits with annual revenues greater than \$5 million that exist alongside 46 percent of organizations with revenues less than \$25,000. These smaller, niche players tend to remain as small organizations, which may be the result of simply not needing to grow any further. Important to note is that these smaller nonprofits tend to have organizational development needs, relating to finance and administration, as well as governance, diversification, and fundraising.

Nonprofits address diversity and neighborhood density issues relevant to reaching ethnic populations, yet challenges remain. San Francisco is marked by the diversity of its residents, with the majority of the population representing a range of ethnic backgrounds.

⁴ Murphy, Brian M. “A Comprehensive Profile of San Francisco’s Nonprofit Human Service Providers.” *San Francisco Urban Institute, San Francisco State University*. Mar 2002.

The composition of the city, therefore, calls for diverse and culturally competent services. At present, about a third of San Francisco nonprofits (34 percent) specifically target people of color. Looking at the leadership of nonprofits, only 29 percent of board members and 32 percent of management staff are at least half people of color. In addition, about 20 percent of nonprofits with leadership of color are located in at least one neighborhood that they serve. The data indicate that these nonprofits are most likely to be located in Western Addition, the Tenderloin, SOMA, and the Mission. This suggests that diverse nonprofits are reaching diverse communities in San Francisco, although only to a limited extent.

Overall, diverse nonprofits are smaller than other nonprofits, as indicated by lower median revenues. Despite their size, these nonprofits still represent a vast range of activities, more so than other nonprofits. Diverse nonprofits conduct a broad set of activities in order to reach their target populations. They are also more likely to be headquartered in at least one of the neighborhoods they target.

Diverse nonprofits tend to be smaller and are more likely to be headquartered in the diverse communities that they target.

Despite this, the data suggest that the Southeast sector of the city remains under-served. It is important to note the lack of nonprofits in areas of San Francisco with especially high concentrations of poverty. Bayview Hunter's Point has some of the highest proportions of poverty yet is not home to many nonprofits; however, the ones that are there are fairly large in terms of revenue. The geographic distribution of nonprofits in San Francisco does not necessarily reflect the location of high poverty neighborhoods in the city.

Nonprofits face financial challenges. When surveyed in early 2008, substantial proportions of San Francisco nonprofits were unsure about their ability to meet 2008 budgets and raise enough operating support. The negative impact of the economic recession raises deeper concerns about the vulnerabilities of the sector, particularly in light of the large numbers of City residents employed by nonprofit organizations.

Nonprofits face staffing challenge. Although not covered in the USF study, many nonprofit and City leaders note that maintaining qualified and high performing staff members is a challenge in a city with a high cost of living. As nonprofits develop staff talent, staff members frequently leave for higher paying jobs with the City. One benefit of this is that City department leaders with nonprofit backgrounds bring new perspectives and ideas to government work as well as an in-depth understanding of nonprofit governance and service delivery issues. At the same time, nonprofits experience a sense of leadership lost and a desire for the City to return the favor by becoming a leadership training ground for future nonprofit leaders.

Nonprofits play an important role in addressing the social determinants of health. In examining local service needs, it is important to acknowledge and understand the role of the physical and social environment in shaping the health of San Francisco residents. These factors include income, race/ethnicity, neighborhoods, and housing, among others. Improving the health and functioning of residents requires addressing these inequalities and also recognizing the consequences and disparities that result from these factors. Disparities can result in high social and economic costs associated with greater likelihood of involvement with social welfare or criminal justice; less education often leads to lower incomes and less social mobility; and high levels of inequality slows overall economic growth. The City's attentiveness to mandated and priority populations is an impediment to its ability to maintain a focus on addressing social determinants of health. Local leaders recognize the vital role nonprofits play in reducing and advocating for the elimination of such disparities.

The Value of Nonprofits to Local Government

The City and County of San Francisco and the nonprofits that inhabit the city are mutually dependent upon one another. City contracts at times comprise substantial proportions of some nonprofits' revenue, while at the same time the City relies upon these organizations to deliver a broad range of culturally appropriate and accessible services to local residents. Worth noting is that the City is both a purchaser and a provider of services. This dual role can work in harmony as well as competition, with the City and nonprofits competing for scarce resources. Such competition can be healthy, fueling higher performance on the part of both sectors. Ultimately, both the City and the nonprofit sector share a common purpose and motivation to serve others. Regardless of occasional tensions, many recognize the value added that nonprofits bring to government services, as outlined below.⁵

Nonprofits offer competitive advantages with respect to service delivery. The City and County of San Francisco recognizes the ability and expertise of the nonprofit sector to deliver responsive and effective health and human services to local residents, particularly those made vulnerable by poverty and other factors. Nonprofits are recognized for their ability to provide culturally competent and geographically accessible services. They provide greater flexibility than City agencies in program implementation, are able to leverage funding in innovative ways, can often scale up programming more quickly than the City, and can experiment and take risks to achieve social change that the City cannot.

Nonprofits play a major role in City service delivery. The City and County of San Francisco contracts with nonprofits for a substantial percentage of its services. In fact, the City disbursed over \$483 million to 804 nonprofit vendors in fiscal year 2007-2008, approximately 500 of which provide health and human services. This represents a 6 percent increase in nonprofit payments compared to fiscal year 2006-2007, when total spending amounted to \$458 million.

⁵ City spending data cited in this section are based on the following report, unless otherwise indicated: San Francisco Controller's Office. "Nonprofit Data Summary." Memorandum prepared by Monique Zmuda, Deputy Controller, for the Community-Based Organizations Task Force. 2 Feb 2009.

The four departments providing the largest amount of support to nonprofits include Public Health, Human Services, Children Youth and Families, the Office of Economic & Workforce Development, and the Mayor's Office (Community Investment, Housing, and Criminal Justice). DPH by far comprised the largest sum of spending on nonprofits (\$194.6 million), and the average payment to the 190 nonprofits supported was \$1 million. In comparison, the Department of Children Youth and Families (DCYF) had lower total payments to nonprofits (\$54.2 million).

City contracts with nonprofits range in funding level, from less than \$100,000 up to over \$12 million per year. The average City payment per nonprofit was \$600,000 in fiscal year 07-08 and about 80 percent of city-contracted nonprofits received less than \$500,000 from a City department during the fiscal year. This suggests that the City purchases many services in fairly small increments and there is potential for greater operating efficiencies.

Nonprofits deliver a broad spectrum of City services. Nonprofit vendors provide a broad spectrum of community support to San Francisco's residents, including arts, health, and human services. For example, in fiscal year 2007-2008, DCYF supported 207 nonprofit organizations to deliver a range of services to families and youth. The Department of Public Health contracted with 190 organizations to deliver programs including mental health and substance abuse, housing, and HIV/AIDS. The city's Human Services Agency and Mayor's Offices work through nonprofits to provide workforce, housing, homeless, economic development and many other essential services.

City contracts comprise a substantial proportion of nonprofit revenue. Of the nonprofits supported by city contracts, an average of 56 percent of a nonprofits' revenue came from the City.⁶ Nonprofits that contract with the City are characterized by varying degrees of funding diversification. Among nonprofits receiving more than \$5 million, City payments comprised between 6 percent and 100 percent of the organization's total revenue

Looking at all nonprofits in San Francisco as a whole, revenue sources are highly diversified. In addition to government grants and contracts, a recent study by the University of San Francisco indicates that organizations also receive funding from foundation grants (72 percent), corporate grants (45 percent), individual donations (81 percent), as well as earned income (63 percent).

⁶ The 2008 Controller's Office analysis is based on a limited sample of approximately 100 nonprofits, largely consisting of those that received over \$500,000 in payments and over 30% of their revenue from the City in 05-06.

San Francisco Nonprofit Sector—True or False?

The current economic climate has focused a new level of attention on the City's use of nonprofits to deliver services. This attention has resulted in a lively debate about the role that nonprofits play in San Francisco as a whole and in relationship to City services. A close look at evidence and nuances behind nonprofits and their service delivery allows us to separate truth from fiction among the statements below.

1. **"The nonprofit sector is dispensable."** *False.* This is potentially a perilous assumption. Nonprofits bring significant economic benefits to the City through direct economic contributions of wages (8 percent of local wages) and expenditures (\$8.6 billion in expenditures in 2006), making them a key part of San Francisco's economic engine. Nonprofits have a financial impact on all San Franciscans, not only on those who benefit directly from services.
2. **"Nonprofits provide more than just services."** *True.* While nonprofits are widely recognized for the role they play in providing services to residents, they also play important education and advocacy roles. Indeed, more than 30 percent of local nonprofits report advocating for specific groups, places, or causes. This role distinguishes nonprofits from the government sector, which is constrained in its ability to advocate for policy changes that will benefit vulnerable populations.
3. **"There are too many nonprofits—organizations should merge."** *Mostly false.* While mergers may sound like a promising solution to our current predicament, the idea that they will solve current financial difficulties will most likely be false for the vast majority of nonprofits. Mergers require a significant up-front investment of dollars followed by a sustained investment of resources over time. Cost efficiencies are typically realized in the long run, and mergers can be more costly in the near-term. Consolidation efforts can pose risks to sustainability and lead to interruptions in services, particularly in cases where organizational cultures, boards, and funders do not readily blend.
4. **"It's cheaper for the City to contract with nonprofits than provide the services directly."** *Trick question.* Whether this statement is true or false depends on which costs you look at. While nonprofit salaries tend to be lower than that of civil servants, associated benefits (e.g., health coverage, retirement savings, etc.) are typically less generous. Analyses must also take into account City contracting and oversight costs, which vary depending on the size of the contract, the nature of the funding source, and the type of service provided. In general, the City elects to contract with nonprofits not for financial reasons, but because nonprofits are able to offer services in areas where the City lacks capacity and where nonprofits provide high quality services.
5. **"There are so many nonprofits that all of San Francisco's needs are being met."** *False.* Several neighborhoods and populations are underserved, according to data from the recent USF study. The Bayview, Excelsior, Bernal Heights, and Visitacion Valley have fewer poverty-serving nonprofits despite concentrations of people living in poverty. Likewise, the southern part of the city has many youth, but few youth-serving nonprofits.

Challenges and Opportunities

As illustrated by the data, nonprofits perform a crucial role in the delivery of services to the community and to the economic wellbeing of San Francisco as a whole. The Task Force believes this role should be preserved. It also recognizes that City departments and nonprofits must find new ways to collaborate and partner to avoid potential adverse consequences posed by the current budget environment. Key challenges facing the City and its nonprofit partners are identified below.

Challenges

- **Gaps and erosion in nonprofit capacity are evident.** Concerns about the adequacy of nonprofit administrative, governance, and fundraising capacities are prevalent. Some organizations reach underserved populations but may have weak or diminishing leadership, governance, or finances; there is a concern these diverse organizations do not receive necessary assistance to build capacity and sustainability. The nonprofit sector is also experiencing a leadership transition and potential workforce shortage as the baby boomer generation, many of whom were instrumental to the founding of today's nonprofit organizations, retires. While these issues are present in good times, economic hardships brought about by the current economic climate will place increasing pressure on nonprofit administrators and organizational performance.
- **The nonprofit sector is likely to undergo a significant restructuring.** The recession is anticipated to bring about a substantial restructuring and possible downsizing of the nonprofit sector. Recognizing associated risks, nonprofit groups are more open to merging or exploring group purchasing of benefits and shared back office functions. Nonprofit restructuring efforts could potentially reduce costs borne by the City for administration of nonprofit organizations. In addition, some nonprofits need to be encouraged to identify their placement within the nonprofit life cycle, and contemplate the possibility of closure.
- **There is a need for an overarching City vision and strategy.** The City lacks a clear vision and plan for delivery of community-based services. This work is generally delegated to departments with individual, and at times competing, priorities. The politically charged budget process means that final funding decisions for nonprofits do not always align with the recommendations of City and County staff or the needs of the community. The annual add-back process, whereby the Board of Supervisors restore funding to programs that have been cut by departments, is widely recognized as impeding the ability of City departments to hold nonprofit contractors accountable for poor performance. Higher-level coordination and collaboration is required to overcome these long-standing challenges.
- **The City must work harder to increase revenue.** The severity of the current budget environment means the City must work harder than ever to increase revenue. The Mayor has enacted a proactive strategy to obtain federal stimulus dollars. The City

should capitalize on opportunities to increase drawdown of federal entitlement funds and to garner state, federal, and private grants.

- **Contracting is complex and requires improved oversight.** Nonprofit organizations often receive multiple contracts from decentralized agencies and struggle to meet various—and sometimes duplicative or conflicting—requirements. Managing contracts can be cumbersome for city staff as well; the average cost for DPH to administer a contract is \$25,000-30,000 a year. In addition, City management and oversight of nonprofit contracts is frequently decentralized across departments, as departments hold the programmatic expertise necessary for setting performance targets and monitoring implementation. However, many contract management staff are responsible for managing dozens of contracts, among other duties, and lack the capacity, training, time, and tools necessary to resolve issues of poor performance. In addition, the current economic climate will exacerbate these issues as positions are cut.

While the City makes good use of nonprofit organizations to deliver services to residents, there are clearly opportunities for improvement. The good news is that the City is already implementing several experiments and promising initiatives that signal a positive trend toward greater coordination, improved oversight, and increased efficiency. These innovations suggest that the City recognizes the importance of this work and is willing to look at new and smarter ways of doing business with nonprofits.

Promising Practices

The following efforts—identified as promising practices—are particularly noteworthy because they represent innovations the City has developed to respond to challenges identified previously. They also demonstrate the City’s openness to changing current practices and point to new opportunities to build on and extend this work.

- + **Streamlining of nonprofit contracting.** The Board of Supervisors created the *City Nonprofit Contracting Task Force* in 2001 to review and make recommendations to the Board of Supervisors on improving how the City contracts with nonprofit agencies for professional services. The Task Force represented a true cross-sector partnership, with members from City departments and nonprofit health, affordable housing development, and human services providers working together to find ways to streamline the contracting process. The Task Force is widely recognized for spurring several improvements including earlier contract certification and development of electronic systems to facilitate timely payment.
- + **Centralized nonprofit monitoring and audits.** Another successful outcome of the *City Nonprofit Contracting Task Force* has been the development of a *Citywide Nonprofit Monitoring and Capacity Building Program* administered by the Controller’s Office. This program provides centralized monitoring of fiscal, compliance, and organizational capacity elements for 125 nonprofits funded by more than one City department. One of the key successes of the monitoring program is interdepartmental governance and

participation. Eleven City departments review and approve monitoring elements, policies and procedures, and training programs, contributing their expertise and knowledge of the needs of their nonprofit contractors. This program has resulted in operational efficiencies with respect to monitoring by public entities, standardized and increased the quality of oversight, eased the burden of compliance on the part of nonprofit contractors, and forged new interdepartmental collaborations and ways of working together.

- + Nonprofit capacity building.** Organizations that address critical neighborhood or cultural gaps are particularly important to the City because they provide essential pathways for reaching under-served populations. Yet too many of these nonprofits struggle with leadership, governance, succession planning, management, and financial issues. It is in the community's interest and therefore in the realm of City responsibility to look beyond funding of individual programs by supporting organizational capacity development for nonprofits serving populations most at risk. Several City departments currently provide capacity-building support to nonprofits using an array of funding sources including the Children's Fund, Community Development Block Grant monies, the Controller's Audit Fund, and federal grants from the Office of Minority Health. The shaded box on the following page provides highlights of this work.
- + Joint planning & programming.** Communities of Opportunity (COO) is a partnership between government, philanthropy and the community that is focused on coordinating care across City departments, nonprofits, and trained residents to benefit 2,600 at-risk families living in the Southeast corner of San Francisco. One of the innovations of COO has been its unflinching focus on bringing departments together to look jointly at program investments in the southeast sector and on developing mechanisms to coordinate services, track outcomes across systems, and deliver services in a seamless, easy to access manner for residents. Through partnerships with DCYF, the Juvenile Probation Department (JPD), the Human Services Agency, First 5, the Mayor's Office of Housing, and the Office of Economic and Workforce Development, COO is attempting to create "on-ramp" programs and implement innovative outreach methods to give residents the skills and resources they need to take advantage of the larger set of programs and strategies the City is employing to help children and families. Recognizing the importance of this strategy, the Mayor recently formed an Interagency Council (IAC) comprised of City department directors to improve coordination with respect to City priorities embodied in COO, the Transitional Age Youth Program, the Violence Prevention Plan, and HOPE SF. This body is responsible for overseeing the issue of aligning resources and works across City departments and the Mayor's Budget Office to ensure the priorities are reflected in department and citywide budget allocations.
- + Coordinated funding efforts.** DCYF, JPD, and the Mayor's Office of Community Investment (MOCI), all of which fund efforts that target youth at risk for involvement in the juvenile or criminal justice system, collectively faced reductions to violence response funding due to current budget challenges. DCYF initiated a meeting to explore ways in which the departments could collaborate with the goal of maximizing community benefit in the face of substantial cuts. Through ongoing conversation, the departments realized

City Capacity Building Efforts

- The **Department of Children, Youth and Their Families** offers a comprehensive set of capacity building programs including the *Roots Fellowship* which targets promising executive directors of grassroots organizations serving disenfranchised populations for intensive training, coaching and leadership development; a 2-day *CBO 101* training for new youth workers focused on the role of nonprofits in service delivery and youth development; the *Fundraising Academy* which focuses on grassroots fundraising skills for small nonprofits; as well as monthly core competency trainings, quarterly grantee meetings, and summits.
- The **Mayor's Office of Community Investment** provides its nonprofit contractors access to a variety of capacity building resources including workshops focused on organizational management and finance, vouchers for CompassPoint workshops and training series, Taproot grants, and a small pool of one-on-one coaching hours for organizations in need of more hands-on assistance.
- The **Department of Public Health** has successfully competed for several federal grants to support capacity building of nonprofits that contract with the AIDS Office. These include multi-year programming integrating group training, vouchers for one-on-one consulting assistance, development of best practices guides and manuals, and intensive program consultation for organizations serving communities of color.
- The **Controller's Office** *Citywide Nonprofit Monitoring and Capacity Building Program* provides guidelines, trainings, monitoring, and targeted technical assistance on financial management, compliance, and organizational best practices, including Board governance. Last fiscal year, the Program expanded to offer a technical assistance fund to provide external capacity building assistance to nonprofits delivering health and human services funded by the City. The fund is available to departments by request in order to assist nonprofits with demonstrated need in areas such as staffing analysis, program cost analysis, cost allocation methodology, cash flow management, and global budget development.

that the best approach would be to combine funds, identify common priorities, and issue a joint request for proposal. Through additional discussions between JPD and DPH, the group was also able to capitalize on JPD funding for Medi-Cal eligible populations and services by including DPH in their partnership. As a result of this coordination, the City will be able to draw down additional federal funding and thereby minimize the impact of budget cuts on services to the community.

- + **Stakeholder involvement in change management efforts.** The San Francisco DPH Community Programs division was tasked with identifying substantial cuts to its budget. Rather than going behind closed doors to wrestle with implications of these reductions to the existing system of care, the department chose to engage with community stakeholders—contractor associations, health equity groups, unions, and the department’s own staff—in developing recommendations to manage policy and program changes resulting from reduced resources and infrastructure. More than 160 individuals have participated in this planning process to date making recommendations that address the integration of primary care and behavioral health services, centralized management of residential beds, maintaining cultural competency of services in an environment of diminished resources, coordination of care for vulnerable populations, stabilizing and supporting families, and efficiencies in nonprofit infrastructure and service provision.

Recommendations

The risks posed to nonprofits, City services, and the financial health of our city by the recession are severe. Despite this, the Task Force believes that San Francisco can meet the challenges ahead and that the City shares responsibility for ensuring the health of the sector given its importance to both service delivery and the economic contribution it makes to San Francisco.

Tough times also create new pathways for realizing change. The Task Force strongly believes that the following recommendations, if implemented, would result in long-term sustainable improvements in the City’s partnership with nonprofits.

Recommendation 1:

Consolidate nonprofit administration

The City should identify and incentivize opportunities for nonprofits to use management services organizations (MSOs) and consolidate back office functions.

Rationale: Opportunities exist for the City to streamline administrative costs of services provided by nonprofits. Allowable indirect rates range from eight to 15 percent depending on City department and funding source. Altogether, the City spent approximately \$58 million on nonprofit indirect costs in fiscal year 2007-08. To take advantage of potential economies of scale, the City should actively encourage centralized administrative service functions through management service organizations (MSO) and administrative consolidations.

MSOs are independent organizations that provide management and administrative services (e.g., financial and legal services, human resources and payroll/benefits management, grants and contract management, bulk purchasing, risk management, real estate consulting, insurance) to multiple organizations, while allowing those organizations to maintain separate identities, governance structures, and programmatic independence. Administrative consolidations involve two or more organizations sharing, exchanging, or outsourcing administrative functions.

Both MSOs and consolidations integrate functions that were previously separate, resulting in operating efficiencies. The MSO model, in particular, has potential to standardize and improve the quality of administrative services and provide the City with increased notification and oversight of performance issues. In addition, this model may have potential for further consolidation of City agency administrative functions with respect to monitoring and administration of nonprofit contracts within the City.

Action Steps

- 1.1 Issue an RFQ.** The Controller's Office should issue a request for qualifications (RFQ) to identify potential MSOs and their costs of service provision. The RFQ should allow potential proposers to qualify for one or more service areas and should be open to nonprofit organizations that do not currently provide this type of service to other nonprofits but have a demonstrated capacity to do so in the future.

- 1.2 **Promote MSO use.** The City should encourage nonprofits to work with MSOs in order to achieve cost savings and efficiencies, particularly nonprofits that are majority City-funded. In addition, the City should incentivize MSO use for nonprofits that lack administrative and financial management capacity as demonstrated through monitoring and audit findings and/or failure to address corrective action plans. Nonprofits may initially experience some reluctance to consider these models, as many believe funders are more attracted to organizations with their own administrative staff.
- 1.3 **Reduce barriers to efficiency.** In cases where an existing nonprofit with strong management and administrative functions is interested in sharing its back office functions with one or more nonprofits, the City Attorney in conjunction with the Risk Manager should explore ways to address potential liability issues that could serve as an impediment to such arrangements.
- 1.4 **Identify funding sources.** The City should explore the availability of federal dollars to support these efforts including stimulus funds for nonprofit capacity building administered by the Administration for Children and Families. Philanthropic organizations integrally involved in this effort are another potential source of support.
- 1.5 **Support bulk-purchasing efforts.** The City should explore ways to support nonprofits interested in purchasing of materials and services in bulk, including a pooled fund for health insurance coverage.

Recommendation 2:

Support nonprofit mergers and closures

The City should play a proactive role in supporting organizations that are contemplating merging or closing.

Rationale: Current economic challenges may result in a deep restructuring of the nonprofit sector, creating potential for unintended consequences regarding the availability of critical services. Because the City and the general public rely on the services of these organizations, the City must work actively to ensure as smooth a process as possible regarding restructuring within the sector. Opportunities and critical points will arise in the coming months that lead nonprofits to consider these options. It is urgent that the City take a proactive role in these times with regard to mergers and closures.

At the same time, the City's role in this regard requires a nuanced approach given the purchasing power of City departments and the fact that nonprofit mergers and closures are ideally community-driven. In cases where a nonprofit is at risk of closure, the City can support responsible exit strategies, including program transfers, to preserve vital services. While much has been written on the subject of nonprofit mergers, there is a significant gap in the literature when it comes to dissolution of nonprofit organizations. The City and nonprofits should make note of and learn from prior successes and failures in the local landscape as it navigates this territory.

In general, the Task Force believes that there is currently a window of opportunity for the City to play a constructive role as the economic climate places increasing pressure on nonprofit sustainability. The City should support mergers, consolidations, and closures where there is a potential cost savings, where such actions do not compromise vitally important services, and where opportunities exist to improve service delivery quality. The time is ripe for collaboration with the philanthropic sector to ensure nonprofits have access to the resources they need to realize these pathways.

Action Steps

- 2.1 Assist nonprofits exploring mergers.** The City should support nonprofit mergers by identifying strategic opportunities, communicating with nonprofit leadership and governance of contracted organizations, and providing funding and technical assistance.

- 2.2 Smooth service transitions.** In cases where a nonprofit faces risk of closure, City departments should work collaboratively with nonprofits to support responsible exit strategies that minimize disruption to the community.
- 2.3 Assemble a resource clearinghouse.** The City should work with the philanthropic sector to generate additional resources for the nonprofit sector with respect to mergers and closures including planning and implementation grants, access to legal expertise, provision of training, and development of nonprofit guides and protocols.
- 2.4 Convene a forum for nonprofit board members and leaders.** The City should work with the philanthropic sector to co-convene a forum that highlights the impact of current economic conditions on San Francisco's nonprofit sector, educates nonprofit board members and executives about restructuring options, and links interested nonprofits with relevant resources.

Recommendation 3:

Maximize revenue

The City should aggressively pursue federal, state and private funding for community services.

Rationale: In these fiscally challenging times, the City must prioritize finding new resources to support community health and wellbeing. Several potential vehicles exist in this regard including drawing down additional federal revenue through formula grants and entitlements; enrolling all eligible individuals in SSI/SSDI, strategically positioning agencies and departments to maximize receipt of stimulus funding, and applying for competitive government and philanthropic grants.

For example, in fiscal year 2007-08, over \$40 million was provided by City departments other than DPH (HSA, Mayor's Offices, DCYF, Sheriff, JPD, and others) to roughly 25 Medi-Cal certified nonprofit contractors. If such contracting were consolidated within DPH, this amount could be used to draw down additional Medi-Cal dollars (at about a 50 percent match rate) to the extent that such dollars are used for Medi-Cal eligible services and populations and are not already leveraging other federal sources. Although there would likely be additional costs to administer programs in order to qualify for Medi-Cal payments (e.g., required staff certifications and documentation), this strategy has the potential to result in significant savings.

To effectively execute this and other strategies, the City must centralize and increase coordination among departments in order to use local dollars strategically and to compete successfully for funding. In putting forth this recommendation, the Task Force recognizes underlying deficiencies in the nonprofit financial infrastructure. The significance of this issue stretches beyond just the City's role and merits its own consideration and analysis.

Action Steps

- 3.1 Deliver executive leadership.** The Mayor's Office should issue a mayoral policy declaration that prioritizes revenue maximization strategies to the extent that such strategies are consistent with best practices and focused on increasing funds for priority communities.

- 3.2 Identify opportunities for revenue maximization.** The Controller’s Office should conduct an analysis of nonprofit funding and programs that have the potential to draw down more Medi-Cal dollars as well as other state and federal dollars.
- 3.3 Facilitate cross-department collaboration.** The Mayor’s Office should convene and facilitate interdepartmental conversations and negotiation to support revenue maximization in cases where departments are reluctant to collaborate in this manner. It is important to note that revenue maximization must not interfere with the City’s ability to provide critical services not eligible for federal support (e.g., prevention and services for undocumented individuals).
- 3.4 Develop collaborative funding guidelines.** The City should provide explicit guidance for interdepartmental funding collaborations that builds off the current work-order process. The set of written guidelines should include agreements and relevant protocols for ensuring appropriate budget oversight, outcome setting, and performance monitoring. Good models for this work have already been developed including: (1) collaborations between DPH and HSA for wraparound services in shelters; (2) participation by multiple departments in development of the City’s recent Violence Prevention RFP; and (3) HSA, DCYF, and First 5’s joint efforts with respect to family resource centers.
- 3.5 Reward collaboration.** Interdepartmental collaborations that leverage new state and federal revenue should be recognized and rewarded through mechanisms such as the Municipal Fiscal Advisory Committee Good Government award and through mayoral recognition.
- 3.6 Dedicate staff to investment efforts.** The Mayor should consider creating a philanthropic liaison position or office focused on bringing together government officials and foundations throughout the state and country to foster local investments. New Jersey’s municipal Philanthropic Liaison position and Michigan’s Office of Foundation Investment are examples of potential models.

Recommendation 4: Improve management & oversight

The City should improve coordination and centralize oversight with respect to under-performing nonprofits.

Rationale: Outside of the *Citywide Nonprofit Monitoring and Capacity Building Program*, City departments have different procedures for managing and overseeing performance of nonprofit contractors. Departments hold the programmatic expertise and knowledge necessary for setting appropriate performance targets and monitoring implementation of programs and services. However, capacity to respond effectively to major performance and compliance issues is variable across staff and departments.

Greater coordination in the City's response to under-performance of nonprofits, characterized by agreed upon action steps and a designated department lead providing oversight, would support more effective resolution of performance issues and would leverage City resources for working with nonprofits in this situation. Such a process would create greater nonprofit accountability by providing a clearer pathway for improvement, ensuring relevant City resources are in place to support progress, and documenting nonprofit progress in meeting identified steps.

Action Steps

- 4.1 **Strengthen departmental response to poor performance.** City departments should more assertively implement, monitor, and take action on corrective action plans for nonprofits with grave performance and compliance issues. A corrective action plan should articulate key performance and compliance issues, action steps the nonprofit must undertake to correct these problems, due dates for completion of action steps, related actions to be undertaken by departments, and status of progress with respect to each step.
- 4.2 **Assess departmental capacity.** The Controller's Office should assess departmental response to cases in which corrective action is needed, and make recommendations for improving department oversight and capacity including addressing staff training.
- 4.3 **Unify corrective action across departments.** The Mayor's Office should convene a meeting every four months with senior department decision-makers to identify

nonprofit contractors whose performance merits development of an interdepartmental corrective action plan and to monitor progress of existing action plans. Corrective action plans should have a designated department lead responsible for oversight and monitoring of the plan. That department lead should ensure that the board of the nonprofit undergoing corrective action is aware of the plan, as boards are ultimately accountable for nonprofit performance. The department lead should have the appropriate level of authority and expertise to carry out required negotiations on behalf of the City.

- 4.4 Direct nonprofits toward external administrative resources.** Organizations that have been unable to comply with corrective actions related to finance and administration, as well as newer, younger nonprofits, should be strongly encouraged to use MSO vehicles.

Recommendation 5:

Promote sustainability measures

The City should take steps to encourage nonprofit sustainability.

Rationale: Nonprofits are crucial to the delivery of health and social services to city residents, especially during economic downturns or times of disaster. Therefore, it is in both the community's interest and within the City's realm of responsibility to support sustainability of services and to prepare for crisis situations.

City contracting should reflect best practices for nonprofit sustainability by encouraging funding diversification, continuity in times of natural or other disasters, and maintenance of reserves. These are commonly accepted best practice standards as well as positive indicators of solid governance and fiduciary accountability.

Action Steps

- 5.1 Incentivize diversification of funding.** The City should incentivize funding diversification of nonprofits by encouraging nonprofits to have 15 percent or more of their funding provided by non-City entities (i.e., private foundations, individual donors, state, or federal revenue) through the contract award process. For organizations that do not meet this criterion, the City should identify interim targets and deadlines for reaching this goal. Stable, mature nonprofit organizations potentially have a role to play in mentoring boards and leaders of more vulnerable organizations in effective funding diversification strategies.
- 5.2 Mandate disaster plans.** The City should require all contracted nonprofits to have a business continuity plan that identifies how an organization will recover and restore partially or completely interrupted functions within a predetermined time after a disaster. The City should provide information and funding resources to support development of plans by nonprofits. Such plans are necessary for federal reimbursement of services provided by nonprofits after a disaster has occurred.
- 5.3 Require nonprofits to hold financial reserves.** The City should require that nonprofit contractors have financial reserves totaling two months of operating revenue. This standard should be systematically enforced to promote nonprofit sustainability and risk mitigation. In cases where nonprofits do not currently meet this standard, they should work with the City to develop plans and appropriate benchmarks to become compliant.

Recommendation 6: Plan strategically

The City should develop a strategic plan for delivery of essential community-based services to the City's neediest residents.

Rationale: The City has done a significant amount of important work in recent years to identify priority populations and neighborhoods and to articulate community needs and promising service delivery strategies. Several recent planning efforts—including Communities of Opportunity, the Transitional Age Youth Task Force, and the Violence Prevention plan—point to the need for greater attention and focus on the Southeast sector and other key neighborhoods. To achieve this vision, the City needs an overarching strategic plan that directs community investments and nonprofit capacity building.

Although there is a great degree of consensus in this regard, personal, district, and departmental politics challenge the City's ability to align and coordinate City investments in ways that will achieve measureable improvements in the lives of our most needy residents. Meanwhile, nonprofits with the potential to meet critical neighborhood and cultural gaps often struggle with leadership, management, and financial issues, and thus need capacity-building support.

City capacity-building efforts, which are currently decentralized, should be more strategically aligned with a clearly articulated set of citywide priorities. The City should build on these efforts by developing a strategic plan that identifies strategies to overcome inter- and intra-departmental fragmentation as well as ways to build the nonprofit sector's capacity to meet the needs of priority populations. Completion of such a plan would also prime the City to draw down more state and federal revenue.

Action Steps

- 6.1 Begin a strategic planning process.** The Mayor, in collaboration with the Board, should initiate a strategic planning process aimed at strengthening delivery of essential community-based services to San Francisco's most vulnerable populations. The plan should focus on ensuring the sector has capacity to meet priority needs and that City resources are aligned to support this effort. The planning process should address:

- *Agreement on priority needs, neighborhoods and service strategies that builds on recent planning initiatives and the work of the Interagency Council.*
- *Inventory of City and nonprofit resources (including Medi-Cal licensed facilities).*
- *An analysis of City investments in nonprofit service delivery (both service contracts and capacity building efforts) by funding source and alignment with priority needs.*
- *Development of a shared understanding of the utility of the sector to the City as well as the City's role in nonprofit capacity building.*
- *An analysis of how best to target capacity building to ensure that resources are addressing priority organizations as opposed to trying to build capacity of organizations ripe for strategic restructuring*
- *Strategies and recommendations for maximizing the impact of City investments in the nonprofit sector with respect to: (1) aligning and coordinating funding across departments; (2) building nonprofit capacity to meet priority needs; and (3) improving performance management through outcomes-based reporting.*

The process should use a convening strategy to gather stakeholder input. The resulting plan should articulate an overarching City vision for service delivery and establish a clear accountability framework for meeting desired outcomes.

6.2 Obtain philanthropic support for strategic planning. The City should work with the philanthropic sector to generate resources to support a strategic planning process.

Acknowledgements

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afterword

This CBO Task Force and process initiated by the City and County of San Francisco is one that has potential to be taken to scale and replicated throughout the nation in other urban areas with comprehensive nonprofit networks. An essential component to the success of the effort is the collaboration with a non-government, neutral entity that is known, trusted, and has a reputation for fairness. The goals and timeline of the Task Force were ambitious, and could easily have shifted to a more competitive and defensive community process. It was critical that the nonprofit stakeholders, advisors, and supporters felt they had a strong voice and role in the effort in order to move forward quickly with a common agenda.

The San Francisco Foundation, CEO Dr. Sandra Hernandez, and staff, served as trusted leaders, non-political conveners and expert advisors. Community foundations, which number more than 650 throughout the United States, are the most likely partners for a broader, national effort of this type. This approach would fit President Obama's new national public service agenda. By forging meaningful and lasting partnerships among the private and public sectors, that are inclusive of volunteerism, philanthropy, and nonprofits, this model maximizes resources, efficiency, and ultimately quality of products and services for the most vulnerable in our communities.

