Working Better Together, Part One: An Exploration of Shared Administrative Services

CAPLAW Training Webinar
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Agenda

- Why share services?
- Issues to consider before moving forward
- Nuts and bolts of shared services agreements
- Lessons learned from other CAAs
Polling Question #1

1. Has your CAA ever (select all that apply):
   a. Shared administrative (e.g., Executive Director, HR, fiscal, IT) services with another organization?
   b. Shared other types of services (e.g., programs) with another organization?
   c. Discussed sharing services but ultimately decide not to do so?
   d. Discussed (at the board/management level) whether sharing services was a good strategic fit for your CAA?
   e. None of the above

Why Share Services?

Imagine this is a CAA, and at its core is its mission.
Why Share Services?

In the space are all the things that support the **mission**: collecting fees, hiring and training staff, reporting and compliance, accounting, building maintenance, etc.

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Why Share Services?

Everyone wants to **feed the mission**

- **Strong**
- **Sustainable**
- **Successful**
Why Share Services?

But it’s hard to excel at both MISSION and all the things that SUPPORT the mission.

What happens is the MISSION begins to STARVE.
Why Share Services?

One SOLUTION is to POOL NEEDS with other like-minded organizations to meet these needs TOGETHER.

The overlapping space represents shared staff and other resources to meet those needs. When organizations share staff and tasks, more time, money, and energy is available to feed the mission.

What do we gain?
CAPACITY: THROUGH SCALE
CAPACITY: THROUGH SPECIALIZATION
Definition of Shared Services

- **Definition**
  - Arrangements between multiple organizations to share administrative or programmatic functions or physical resources.

- **Core idea**
  - Reduce costs and improve management and services delivery by sharing administrative and programmatic functions with other organizations that provide similar types of services.

### Shared Services Case Study

<table>
<thead>
<tr>
<th>Agency A</th>
<th>Agency B</th>
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</thead>
<tbody>
<tr>
<td>Non-profit; $25M annual revenue</td>
<td>Non-profit; $4.5M annual revenue</td>
</tr>
<tr>
<td>15 board members; 420 employees</td>
<td>18 board members; 20 employees</td>
</tr>
<tr>
<td>Serves 24 counties (mix urban/rural)</td>
<td>Serves 9 counties (rural)</td>
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<tr>
<td>Programs:</td>
<td>Programs:</td>
</tr>
<tr>
<td>- Head Start</td>
<td>- CSBG</td>
</tr>
<tr>
<td>- Pre-kindergarten (State-funded)</td>
<td>- WAP</td>
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<tr>
<td>- Neighborhood service centers (CSBG)</td>
<td>- Long-Term Care Ombudsman</td>
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<tr>
<td>- WAP</td>
<td>- 5311 Rural Transportation Program</td>
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<td>- LIHEAP</td>
<td>- Emergency Food and Shelter (FEMA)</td>
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<td>- Long Term Care Ombudsman</td>
<td>- 5311 Rural Transportation Program</td>
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<tr>
<td>- Emergency Food and Shelter (FEMA)</td>
<td>- Homelessness prevention</td>
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<tr>
<td>- Rural Housing Preservation (USDA)</td>
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Benefits of Sharing Services

| Efficiency                  | • Reduce duplication & operational $  
|                            | • Standardize process  
| Economies of Specialization| • Access specialized services  
|                            | • Raise sophistication level  
| Sustainability & Investment| • Expand donor base  
|                            | • Preserve institutional knowledge  
| Purchasing Power           | • Bulk purchasing discounts  
| Keep identity & autonomy   | • While minimizing costs  

Issues to Consider Before Moving Forward
Issues to Consider

- What services to share?
- Which organization to partner with?
- How to structure the arrangement?
- Funding source rules
- Unrelated Business Income Tax (UBIT)

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Services That Can Be Shared

Physical Resources/Co-Locating

- Workspaces, libraries, kitchens, conference rooms, offsite storage and servers
- Buses, transportation systems
- Copiers/printers/fax machines
- IT, hardware, software, servers, cloud applications
- Communications systems, phones, video conferencing

**EASIEST TO SHARE**

easy to value, divide, monitor • pay rental or usage fee • does not require high level of trust • upfront investment and decisions about features/amenities • in-kind/match
**Services That Can Be Shared**

**Staffing**

- Financial & administrative data collection and analysis
- Human resources
- Group purchasing
- Fundraising & development
- Facilities management
- Executive director

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**Services That Can Be Shared**

**Programs**

- Client intake
- Program operation
- Curriculum research, development and delivery
- Community events
- Advocacy campaigns

**MORE DIFFICULT TO SHARE**
Requires high level of trust and commitment among participating organizations
Organizational Partners

- **What are some ways of identifying potential partners?**
  - Existing alliances and collaborations
  - Board or ED contacts/relationships
  - Working with a consultant
    - E.g., state CSBG office or CAA state/regional association

Organizational Partners

- **What should we look for in a partner?**
  - May, but need not necessarily be, another CAA or Head Start grantee
  - Nonprofit vs. for-profit organization
  - Expertise in needed services
  - Excess staff capacity
  - Geographic proximity
Structuring Arrangements

- **Program collaboration agreement**
  - Jointly applying to grants
  - Collaborating on aspects of implementing a project

- **Management/administrative services agreement**
  - Sharing staff or physical resources
  - Jointly operating a program

- **Fiscal sponsor agreement**
  - A nonprofit organization acts as a “fiscal sponsor” for another entity (typically one that does not have its own 501(c)(3) tax-exempt status)

Examples of CAA Shared Services Arrangements

- **CAA #1** manages the administrative and fiscal functions of **CAA #2** as well as **CAA #2**’s programs (but **CAA #2** continues to employ program staff).
- **CAA #1** engages another nonprofit to provide it with an executive director and chief financial officer.
- **CAA #1** provides a fiscal director to **CAA #2**.
- **CAA #1** provides fiscal and HR services to **CAA #2**.
- **CAA #1** provides an entire weatherization department, including the weatherization director, crews and inspectors, to **CAA #2**.
Funding Source Rules

- **Head Start**
  - Need OHS approval of change in (1) Head Start Director and (2) Executive Director/Chief Financial Officer (if >50% salary paid out of Head Start funds or listed in grant application as key personnel) *(45 C.F.R. § 75.308(c)(ii))*
  - Need OHS approval of change in use of real property or facilities subject to a federal interest *(45 C.F.R. § 1303.48(b))*

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- **Cost Allocation**
  - Need to properly allocate costs of services performed under shared services arrangement
  - Include an appropriate allocation of indirect costs
Funding Source Rules

- **Procurement**
  - Entity receiving services must follow its procurement policy and comply with the Uniform Guidance’s procurement standards (2 C.F.R. §§ 200.318 – 200.326)
  - Methods of procurement:
    - **Micro-purchase**: < $3,000; no need to solicit quotes
    - **Small purchase**: $3,000-$150,000; obtain quotes from adequate number of qualified sources
    - **Competitive proposals**: Publicly solicit proposals from an adequate number of qualified sources; have written methods for evaluating proposals

- Methods of procurement (continued):
  - May only use sole source procurement if:
    - Item is only available from a single source;
    - Public exigency or emergency exists;
    - CAA obtained prior written approval from funding source to use sole source procurement; or
    - After solicitation of a number of sources, CAA determined that competition was inadequate
  - Maintain written standards of conduct covering conflicts of interest and governing actions of employees engaged in award, selection, or administration of procurement contract
UBIT Issues

- Exempt organizations are subject to a tax on unrelated business income
- Identifying UBI:
  - Is it a “trade or business“?
  - Is it regularly carried on?
  - Is it substantially related to the CAA’s exempt purpose?

UBIT Issues
Providing Administrative Services

- Fees generated from performing administrative services for other non-profit organizations are likely to be deemed to be UBI
- Factors the IRS will consider:
  - Relationship of service provider to the recipient
  - Fee charged for services
  - Nature of services (commercial?)
  - Recipients of the services
Polling Question #2

2. What do you see as the biggest obstacle to your CAA sharing services with another organization? (select one)
   a. Finding the right partner with compatible administrative or programmatic needs
   b. Complexity of allocating shared staff time
   c. Funding source rules/approval
   d. Perception that sharing services is a precursor to a merger
   e. Not enough information about shared services process

Nuts and Bolts of Shared Services Agreements
Program Collaboration Agreement

- **Determine which party will act as:**
  - **Lead organization** – administer award and coordinate with funding source
  - **Fiscal agent** – submit invoices, distribute funds
  - **Project manager** – monitor partners’ performance, oversee program operations and project evaluation

- **Set standards for project performance**
- **Specify dispute resolution procedures**
- **Ensure parties remain independent contractors**
- **Specify term and process of amending agreement**

Management/ Administrative Services Agreements

- **Key provisions to address:**
  - Term of agreement
  - Scope of services being provided and supervision
  - Fee to be paid (cost vs. cost plus administrative fee)
  - Payment terms
  - Insurance coverage
  - Termination of agreement
  - Process for amending agreement
  - Standard contract terms (required by Appendix II to the Uniform Guidance, 2 C.F.R. Part 200)
Management/Administrative Services Agreements
Sharing Staff

- Determine which organization will employ the staff member
- Estimate how much time the employee will perform work for the partner organization(s)
  - Consider setting maximum amount of time, but pay only for time actually worked
- Track and allocate staff time performed for partner organization(s)
- Allocate appropriate portion of staff costs
  - Wages, fringe benefits

Management/Administrative Services Agreements
Sharing Physical Space

- Typically structured as a lease or sublease arrangement
  - If nonprofit CAA owns the property, may lease a portion of the facilities to another nonprofit organization without incurring UBIT
    - If building is subject to a federal interest, must get funding source approval
  - If nonprofit CAA leases the property, need to check lease re: whether sublease is allowed; must allocate part of the rent the CAA pays to the subleasing organization
Management/Administrative Services Agreements
Sharing Equipment or Software

- Determine how to allocate costs of use of equipment or systems
- Agreement for software services
  - Who is the contracting party? (e.g., state association)
  - Fees paid for services
  - Who has access to and owns the data? (privacy issues)
  - What rights do the individual CAAs have to modify or customize the services provided?
  - Indemnification rights
  - Term of agreement, renewal, and termination

Fiscal Sponsorship Agreements

- Definition
  - An arrangement in which a 501(c)(3) public charity sponsors a project that lacks tax-exempt status itself
- Why have a fiscal sponsor?
  - Receive tax-deductible donations before or in lieu of obtaining tax-exempt status
    - New groups unsure of viability
    - Groups intending to operate for only a short time
  - Project lacks administrative experience or infrastructure
    - Provides credibility to start-up project
  - Some awards limited to organizations with 501(c)(3) status
Fiscal Sponsorship Agreements

**Requirements for a fiscal sponsor**
- Must retain *complete discretion and control* over the funds received for the project (cannot just be a pass-through entity)
- Must ensure that funds are used in a manner that *furthers* sponsor’s own tax-exempt purpose

**Multiple ways to structure fiscal sponsorship**

**Two common models**
- **Direct project**
  - Project belongs to sponsor and is implemented by employees and volunteers
  - Project is not a separate legal entity
- **Pre-approved grant relationship**
  - Sponsor is a separate legal entity (but not a 501(c)(3))
  - Sponsor agrees to accept donations on behalf of project and to grant those funds to project under the terms of a grant agreement
Fiscal Sponsorship Agreements

- **Issues to address**
  - Project’s activities and programs
  - Maintenance and release of funds
  - Type and frequency of reporting by project
  - Means of inspection and access to project’s records
  - Any requirements of grantor
  - Will project staff be employees of project or of sponsor?
  - Amount of supervision and control sponsor will retain
  - Ownership of tangible and intangible assets of project
  - Payment of fees
  - Duration and termination of agreement

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Polling Question #3

3. If your CAA is considering sharing services, what type of arrangement is it most interested in pursuing? *(select one)*
   a. Sharing administrative services (e.g., Executive Director, grant writers, HR, fiscal, IT, etc.)
   b. Sharing programs (e.g., Weatherization, homelessness prevention, etc.)
   c. Fiscal sponsorship of a project that lacks its own 501(c)(3) status
   d. Other (type into chat panel)
Lessons Learned from Other CAAs

Lessons Learned

- **Ensure arrangement is properly structured**
  - Written shared services agreement

- **Exercise effective oversight over arrangement**
  - Board of organization receiving services must still exercise its fiduciary duties
    - E.g., ensuring compliance with terms of government grants and contracts, monitoring financial transactions

- **Keep organizations separate and observe corporate formalities**
  - Separate board meetings, bank accounts, tax ID numbers
Lessons Learned

- Consider impact on staff morale
  - Shared staff member’s familiarity with the organization receiving services
  - Ability to respond to day-to-day operational concerns
  - Perception of takeover or fear of future merger

- Be aware of UBIT issues
  - Revenue generated from providing administrative services likely counts as UBI
  - Must report all UBI on Form 990-T if CAA generates gross UBI > $1,000 in a fiscal year

- Get buy-in from boards of both organizations

Additional CAPLAW Resource

Working Better Together: CAPLAW's Guide to Shared Services and Mergers

http://www.caplaw.org/resources/PublicationDocuments/mergersandsharedservices/Introduction.html
Polling Question #4

4. What additional resources would help your CAA be in a better position to consider sharing services? (*select all that apply*)
   a. Additional case studies on CAA shared services
   b. Sample documents (e.g., shared services agreement)
   c. Resources/trainings on the shared services process
   d. Resources/trainings for board members on their role in the shared services process
   e. Other (please type into the chat panel)

Questions
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