



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*):

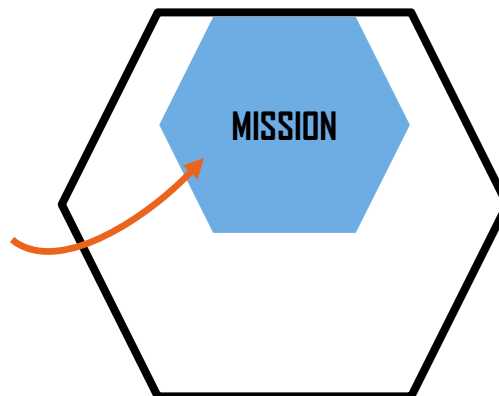
- a. Shared administrative (e.g., Executive Director, HR, fiscal, IT) services with another organization?
- b. Shared other types of services (e.g., programs) with another organization?
- c. Discussed sharing services but ultimately decide not to do so?
- d. Discussed (at the board/management level)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

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Why Share Services?

Imagine this is a CAA, and at its core is its **mission**

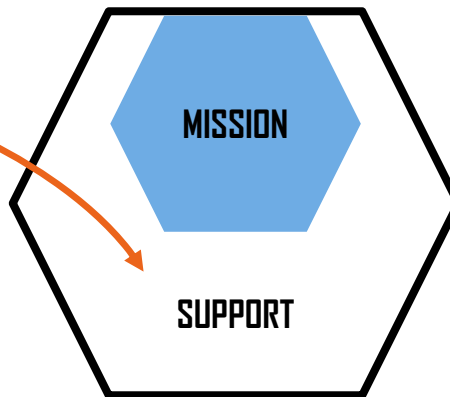


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Why Share Services?

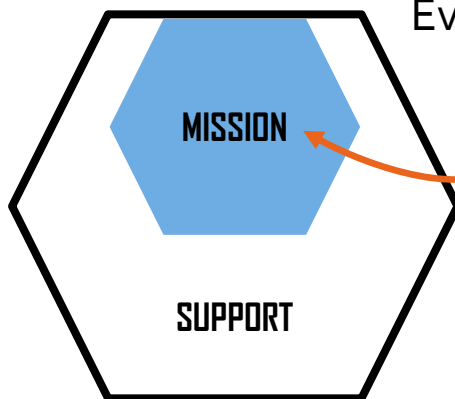
In the space are all the things that support the **mission**:
collecting fees,
hiring and training
staff, reporting and
compliance,
accounting, building
maintenance, etc.



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Why Share Services?



Everyone wants to

**FEED THE
MISSION**

- ➔ STRONG
- ➔ SUSTAINABLE
- ➔ SUCCESSFUL

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Why Share Services?

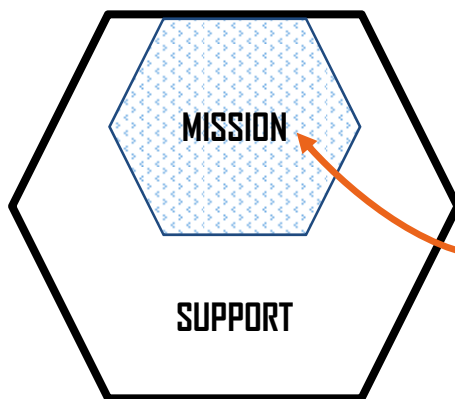
But it's hard to excel at both **MISSION** and all the things that **SUPPORT** the mission.



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Why Share Services?



What happens is the **MISSION** begins to

STARVE

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Why Share Services?

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

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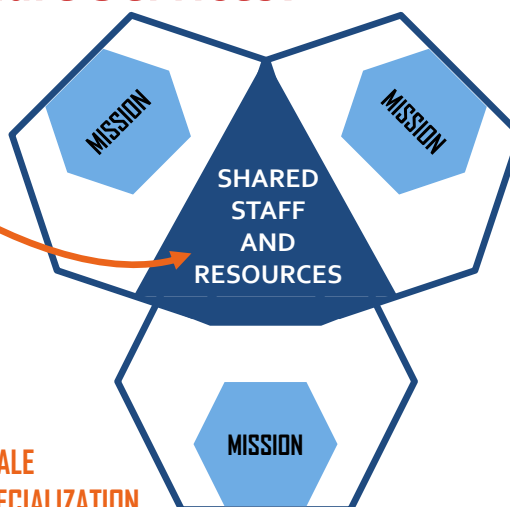
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Why Share Services?

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



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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

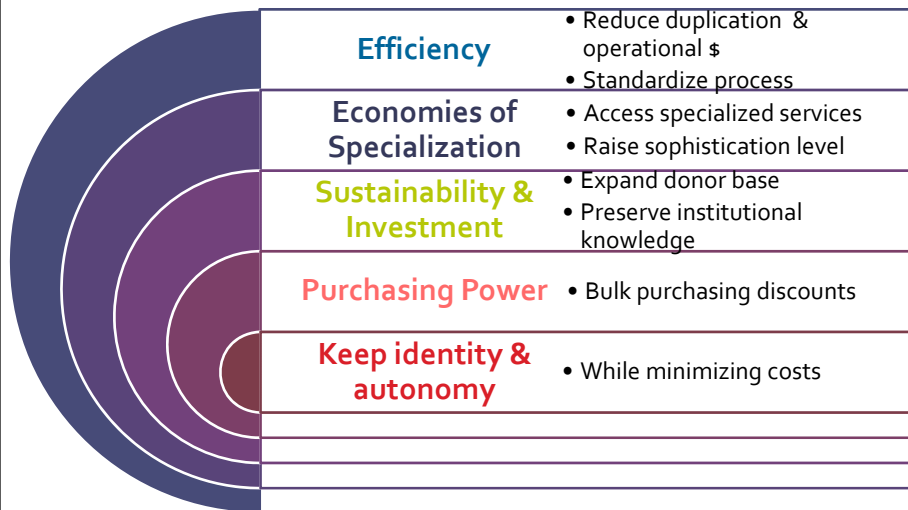
Agency A

- Non-profit; \$25M annual revenue
- 15 board members; 420 employees
- Serves 24 counties (mix urban/rural)
- **Programs:**
 - Head Start
 - Pre-kindergarten (State-funded)
 - Neighborhood service centers (CSBG)
 - WAP
 - LIHEAP
 - Long Term Care Ombudsman
 - Emergency Food and Shelter (FEMA)
 - Rural Housing Preservation (USDA)
 - Housing counseling/education (HUD)
 - 5311 Rural Transportation Program
 - Homelessness prevention

Agency B

- Non-profit; \$4.5M annual revenue
- 18 board members; 20 employees
- Serves 9 counties (rural)
- **Programs:**
 - CSBG
 - WAP
 - Long-Term Care Ombudsman
 - 5311 Rural Transportation Program
 - Emergency Food and Shelter (FEMA)

Benefits of Sharing Services



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)

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



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)*)

Funding Source Rules

- **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

Funding Source Rules

Procurement

- 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

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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

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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 **furtheres sponsor's own tax-exempt purpose**

Fiscal Sponsorship Agreements

- **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

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.caplaws.org/resources/PublicationDocuments/mergersandsharedservices/Introduction.html>

INTRODUCTION MERGERS SHARED SERVICES RESOURCES

Resources

- CAPLAW Shared Services and Merger Case Studies**
2016 Merger between Mesa Community Action Network (MesaCAN) and A New Leaf, Inc.
 This case study is based on CAPLAW's interview with Kathy Di Nolf, Executive Director of MesaCAN, and Michael Hughes, CEO of A New Leaf. This case study presents an example of a parent-subsidary merger between a small, non-profit CAA facing significant financial challenges and a larger, more financially robust non-profit organization providing overlapping social services in the same service area. [Read more](#)
- Merger of a Maine CAA and a non-CAA**
 This case study is based on CAPLAW's interview with Mike Tarpinan, Chief Executive Officer of the Opportunity Alliance in Portland, Maine, about the merger of a Community Action Agency, Peoples' Regional Opportunity Program, Inc., with Youth Alternatives Program to form the Opportunity Alliance. [Read more](#)
- Management Agreement between Georgia CAAs**
 This case study is based on CAPLAW's interview with Nancy Smith, Executive Director of Middle Georgia Community Action Agency, Inc. and Heart of Georgia Community Action Council, Inc., and a review of the management agreement between the two organizations and their annual reports. [Read more](#)
- Merger of CAA and non-CAA in Suffolk County, NY**

Working Better Together

- Introduction
- Merger
- Shared Services
- Resources

Introduction

Increasingly, Community Action Agencies (CAAs) are exploring shared services and merger as strategies to improve their sustainability and enhance their efficiency and effectiveness. CAPLAW has prepared this guide to help CAAs and other Community Reinvestment Bank (CRB) organizations better understand these arrangements. The guide includes questions and answers on shared services and mergers, as well as additional resources - including case studies prepared by CAPLAW on CAAs that have shared services or merged or both with another organization, information on loans and grant opportunities on these topics, and more. Review the various links in the guide to get an overview of shared services and mergers of CAAs on the particular topic and questions that are of interest to you. Stay tuned for future updates, as CAPLAW gathers more information about these topics, we will add additional CAA and resource to the guide.

Why Consider Sharing Services or Merging?

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

This training is part of the Community Services Block Grant (CSBG) Legal Training and Technical Assistance (T/TA) Center. It was created by Community Action Program Legal Services, Inc. (CAPLAW) in the performance of the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services Cooperative Agreement – Grant Award Number 90ET0441-03.

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