

Understanding New York Nonprofits

Working with New York nonprofits requires insight on the national and local economy, tax laws, best practices, market trends and donor relations.

For a deeper look at the current state of New York nonprofits, Crain's turned to Andrea S. Kantor, senior vice president and group head for education and not-for-profit lending at IDB Bank.



Andrea S. Kantor
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Q Crain's: The economy has been strong both nationally and in the state of New York for several years. Broadly speaking, how are nonprofits faring in this environment?

A Kantor: While there are some common factors, each nonprofit segment faces its own complexities. For example, the demands on social service agencies are high since some government contracts do not cover the total cost of delivering services. Social services agencies in New York State must contend with state rate-setting rules that discourage the accumulation of rainy-day funds, which provide a stronger foundation for sustainability. New York City's contract approval and registration process often slows reimbursements and strains cash flow for even the most stable nonprofit agencies.

Independent schools and private universities have unique challenges. Generally, tuition only covers a portion of the costs, so fundraising plays an important role in supporting operating costs, upgrading facilities to remain competitive and funding growth.

Museums often rely heavily on fundraising to supplement admission fees and membership to support operating expenses. Other organizations have benefited from owning and selling their property amidst higher real estate values. This allows them to strengthen their financial profile and sustainability by purchasing or leasing an affordable space and setting aside their realized real estate profit as an endowment.

Though interest rates are starting to rise, historically low rates in recent years have helped nonprofits in all segments to lock in lower fixed borrowing costs in order to purchase and renovate property to support programmatic growth.

Q Crain's: Donors are increasingly interested in both short- and long-term outcomes. How can organizations respond to that demand for accountability?

A Kantor: Measuring impact and outcomes is a growing trend. Twenty-first century foundations and philanthropists look at the return on their investment in terms of return to the nonprofit's mission. Government funders are increasingly requesting this information as well. While previous generations of donors at all levels funded the activities of an organization, such as serving 1,000 people, donors today want to know the impact of their donation—how were those 1,000 people positively affected?

Organizations need to develop internal systems and guidelines to measure the outcomes of their programs. They should also develop a compelling narrative to convey both the importance of their mission and the efficacy of their programs—in order to differentiate themselves to donors, by telling the story of how they are making a positive difference in the community.

Q Crain's: How are recent changes in tax law affecting nonprofits?

A Kantor: Charitable donations were at an all-time high in 2017. However, the new federal tax law will result in fewer people itemizing for 2018, which is widely expected to reduce donations starting this year. Lower donations will affect all nonprofits that rely on fundraising to support any portion of their operations, including social service agencies, independent schools, universities, museums and performing arts centers, hospitals and medical research charities.

We're seeing nonprofits in all segments borrow for acquisitions and renovation of property, or to bridge capital campaign pledges or provide working capital. At IDB, we are also seeing transactions on both a tax-exempt and on a taxable basis, with some uptick in taxable loans for smaller transactions due to banks' lower corporate tax rate.

Q Crain's: Tell us about a nonprofit organization you helped through a challenge. What was the issue, and how was it solved?

A Kantor: In order to maximize their new reimbursement rates, a few of IDB's social service agency clients missed financial covenants because of the need to spend down in a rate-setting year. We were able to waive the covenant breach because of our industry experience and deep understanding of the client's operations.

It is important in structuring a new loan transaction with a client to understand the client's operations, needs and preferences. There may be an unusual pattern to its operations and cash flow, or timing of incoming funds that will be used for repayment. There may be a special project that will ultimately generate additional cash flow but will drain resources in the interim,

or other variables to consider. We take these factors and others into consideration when working with our clients to structure a loan that meets their needs.

Q Crain's: Talented, engaged board members are key to a nonprofit's success. How should organizations onboard and orient new board members to encourage engagement and productivity?

A Kantor: Board recruitment is an important process, and every organization is unique in its needs. The more successful boards we have worked with take a holistic approach and consider what skills and experience they need to add to their board, such as financial expertise, programmatic experience, strategic planning, or fundraising ability and contacts.

Managing expectations is key to a successful board member relationship, and organizations should be candid about the time commitment and fundraising requirements. As such, many boards have a written agreement that includes these requirements and term limits. Asking the board for input on how they would like to be engaged can provide useful insight. If the organization is facing a particular challenge, be transparent. Inviting staff to make presentations at meetings is an important way to keep the board informed and engaged. Make the board aware of an issue and seek their advice. Often, they will come up with a resolution or a referral to a helpful resource. Engaging and leveraging board members in this way can play an important role in an organization's success. ■

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Social Services Agency			Community Organization
Direct Purchase Tax-Exempt Bond Financing for Property Acquisition & Renovation	\$11,040,000	\$22,500,000	Direct Purchase Tax-Exempt Bond Refinancing
Independent School			Higher Ed Institution
Direct Purchase Tax-Exempt Bond Financing for Renovation Project	\$10,700,000	\$17,000,000	Direct Purchase Tax-Exempt Bond Financing for Renovation Project
Cultural Institution			Independent School

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