

The Third Sector: Long Island's Misunderstood Economic Engine

**By
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Introduction

Thank you for inviting me to speak with you again. I am grateful to Ted Sasso for keeping me in mind.

And thank you for being a great partner. Over the past 15 years, Adelphi has sold nearly \$200 million in bonds through the Town of Hempstead IDA.

Today's topic is the so-called, "third sector." The first sector, of course, is for-profit businesses. The second sector is government, whether local, regional, state, or federal. The third sector consists of the numerous non-profit, really tax-exempt organizations of which we are familiar. Think of houses of worship, schools and colleges, food pantries, hospitals, Family and Children's Service, United Way, the Long Island Association, and after school programs for at-risk youth in under-resourced neighborhoods.

The United States is unique among nations in having such organizations and legitimizing them in the tax code.

Following a nine month visit to the United States in 1831-32, the French civil servant and aristocrat, Alexis de Tocqueville, marveled at the affinity of Americans to join associations in order to find common causes.

In his book, "Democracy in America," he wrote as follows:

"Americans of all ages, all conditions, all minds constantly unite. Not only do they have commercial and industrial associations in which all take part, but they also have a thousand other kinds: religious, moral, grave, futile, very general and very particular, immense and very small; Americans use associations to give fetes, to found seminaries, to build inns, to raise churches, to distribute books, to send missionaries to the antipodes; in this manner they create hospitals, prisons, schools. Finally, if it is a question of bringing to light a truth or developing a sentiment with the support of a great example, they associate. Everywhere that, at the head of a new undertaking, you see the government in France and a great lord in England, count on it that you will perceive an association in the United States."¹

¹ <http://www.press.uchicago.edu/Misc/Chicago/805328.html>

Tocqueville wrote with fascination about the “not-for-profit, non-governmental organizations which aimed to serve the public good and improve the quality of human lives.”² You, here, belong to at least one and perhaps to several which rely on voluntarism and tax deductible donations, a benefit which was made law for individuals in 1917. The tax-exempt status of organizations dates to 1894.

Many such organizations are created by an individual or a group hoping to promote an idea, such as Mothers Against Drunk Driving or Sustainable Long Island, or to sponsor research into a disease such as breast cancer, or to assist those who need food, shelter, or protection from abuse.

Such organizations in New York State fall under the purview of the University of the State of New York (not SUNY) and its Board of Regents.

According to 2013 IRS data, there were 12,515 tax-exempt organizations on Long Island, 6,804 in Nassau County and 5,711 in Suffolk County. Some are duplicate in mission although separately certified. For example, there are 563 PTA’s, 156 American Federation of Teachers units, 85 Knights of Columbus, and 65 American Legions. Overall, 49 have hospital as part of their names and 64 have medical in their title. 7.5 have college or university in their name, and 308 have school. In addition, there are 123 public school districts on Long Island.

As for religious organizations 748 have “Church” in their name, 83 “Jewish”, 78 “synagogue or temple”, 20 “Muslim” or “Islam,” and 3 “Hindu.”

The size of these organizations is significant. Overall assets total \$31 billion, income equals \$26.5 billion, and revenue approaches \$21 billion. However, the averages are much lower; \$3 million for assets, or 10% of the total; \$2.6 million for income, or 10% of the total; and 2.3 million for revenue, or about 12%.

According to the LIA, wages in this sector are relatively low when we exclude hospitals, schools and universities from the calculus.

To put this in perspective, private sector Gross Municipal Product in Nassau and Suffolk was calculated to be \$153 billion in 2013. Nassau and Suffolk County revenues were estimated at \$6.6 billion and expenditures at \$6.3 billion. Against these data, tax-exempt, non-profit revenues for the average organization, \$2.6 billion, is small, yet for many residents it is the food, the shelter, the safe haven they need.

In addition, there are eighteen colleges and universities on Long Island, and they represent a particular kind of tax-exempt institution. They enroll 212,554 students, employ 38,687 full-time and part-time staff pay salaries and benefits of about \$3.2 billion, and spend

another \$1.7 billion on other than personnel. They have endowments of \$1.1 billion and have about \$4 billion of capital projects underway or anticipated in the next five years.³

These institutions bring major amounts of federal aid to the region and generate income, sales, and FICA taxes. At Adelphi alone, it is estimated that our total economic impact is about \$500 million per year and growing, with nearly \$20 million in taxes paid by our 2,000 employees.

While these institutions are, in many ways, different from what we mean, generally, by tax-exempt organizations, they share many of the same characteristics. They must balance their government-approved mission with their ability to meet new market demands and changes in demographics, economics, and technology.

They must decide when to compete and when to cooperate, when to build a new program, partner with another provider, or even merge.

They must develop governing boards that honor the difference between oversight and management.

They must engage in succession planning, a particular challenge for smaller non-profits run by the founder.

The opportunities for working with the “third” sector are enormous. Think of the opportunities for lawyers, accountants, auditors, architects and engineers, commercial and residential real estate, skilled crafts, bonding, contractors, builders, suppliers of equipment and energy, hotels and restaurants, and other businesses and professions.

We at Adelphi saw opportunities in this sector, even though we exist in it. Years ago, we created the Non-Profit Institute to provide strategic planning, succession planning, and board and leadership development to tax-exempt organizations of all sizes.

We also created the Adelphi Community Fellows Program that provides trained and paid student interns to non-profit organizations in the greater region each summer. This year we will serve about 60 organizations. The groups are helped; our students learn about the non-profit world; and we fulfill our mission as the “engaged” university, always seeking ways to enhance our environment for teaching and learning and to serve the larger community.

The unique attribute of forming organizations observed by Tocqueville in 1831 still exists, and our region is more vibrant and more resilient because of it. Our own Walt Whitman called voluntarism the final form of society.

The founders of these groups are our social entrepreneurs and these new, or growing, organizations, which have found their way to the second or third generation of leadership,

² LIRACHE.

are our economic engines – seeing a niche, expressing a mission, organizing funding, and meeting a need that neither the first nor the second sector was serving.

Our society functions well when the three sectors function well. Business takes risks and can generate profits needed for taxation and donations. Government is intended to provide a safety net for times of travail, preserve order through uniformly administered laws, and provide for the common defense.

The third sector, the non-profit sector, initiates functions that often are too small, too local, or too new for either business or government to take on. It seeks neither profit nor order in pursuing its mission, which often challenges business and government to be more mindful of the needs of humanity.

Let's hear it for the third sector.

Thank you.