

NEW YORK NONPROFITS IN THE AFTERMATH OF FECS: A CALL TO ACTION

Human services matter.

New York's human services sector touches the lives of millions of children and adults each year. Nonprofit human services organizations play a critical and longstanding role in building and supporting the wellbeing of New Yorkers, enabling millions of people to reach their full potential and contribute to their communities as students, parents, neighbors, and workers. Human services providers make the difference between poverty and sustainable income, joblessness and employment, and illness and wellness for countless individuals and families.

The human services sector is an economic engine.

With nearly 110,000 workers, the sector is one of the City's major employers and, with spending that tops \$6 billion a year, it is a significant component of New York's economy. Statewide, the combined value of government human services contracts in New York is estimated at more than \$5.8 billion for the current fiscal year. Investment in the human services sector will support workers and the communities they serve, helping maintain our global competitiveness.

The sector is facing a crisis.

The sudden collapse of FECS, one of New York's largest nonprofit human services providers, was a wake-up call for the human services community. The latest in a string of high-profile closures and mergers, this failure jeopardized services for 120,000 households and individuals and left government rushing to find replacement services. FECS is indicative of a systemic crisis. Half of New York's nonprofit human services providers are insolvent or close to it. Organizations that serve hundreds or even thousands of individuals with budgets in the tens of millions operate at a deficit or barely break even, with no cash reserves.

Practices and policies of both government and providers create financial distress.

On the government side, chronic underfunding of programs, late payments, no contract provisions for cost escalation, and duplicative regulations cause financial instability and compromise service delivery. On the provider side, lack of tools and skills for assessing risk, combined with a fear of rejecting bad contracts, contributes to a cycle of fiscally detrimental contracts.

Now is the time to reinvent the sector.

A bright future for human services is possible, but we need the collective will to make meaningful reforms. HSC convened a Commission to Examine Nonprofit Human Organizations Closures, and their final report provides a roadmap for a new approach. The recommendations, summarized on the reverse of this sheet, were developed with the goal of addressing the underlying causes of systemic distress. We urge all stakeholders to join us in making these changes a reality.

Recommendations for a Stronger, More Effective Human Services Delivery System

The following recommendations were developed by the Commission to Examine Nonprofit Human Services Organizations Closures in order to address serious problems that undermine the financial health and effectiveness of the human services sector.

Programs should be developed in consultation with human services providers to drive more meaningful results and ensure that service delivery approaches are:

- Create partnerships among the public sector, private funders, and human services providers to develop effective programs.
- Make sure that New York's transition to Medicaid Managed Care includes making funding available to nonprofits for investments in information technology, capacity building and training, and metrics tracking.
- Replace ineffective oversight procedures with meaningful government oversight approaches that ensure that providers are financially and programmatically responsible.

The sector suffers from cash flow problems and chronic underfunding because government contracts and philanthropic grants rarely cover operating costs and payment is often late and unpredictable.

- Contracts and grants must fully cover indirect costs like IT, building maintenance, program evaluation, accounting, human resources, and employee training.
- Payments must be timely and reliable and must accommodate cost increases or allow for the surrender of contracts if they become unsustainable due to unforeseen circumstances

There is a lack of adequate risk assessment in the sector.

- Human services providers must implement financial and programmatic reporting systems that enable them to better predict, quantify, understand, and respond appropriately to financial, operational, and administrative risks. Private and government funders must underwrite the development of these monitoring systems.
- Provider boards, in conjunction with staff, must be engaged in risk assessment and implement financial and programmatic reporting systems that enable them to better predict, quantify, understand, and respond appropriately to financial, operational, and administrative risks. Private and government funders should help build their capacity to do so by facilitating access by nonprofit staff and board members to professional development, technical assistance, and coaching.
- The human services sector must establish an RFP rating system and government agency performance survey to illuminate the risks associated with doing business with government.

For the complete report, please see
<http://www.humanservicescouncil.org/Commission/HSCCommissionReport.pdf>