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A NATIONAL IMPERATIVE

Joining Forces to Strengthen Human Services in America - 2018

MARSH & McLENNAN COMPANIES

CONTENTS

EXECUTIVE SUMMARY

This report, *A National Imperative: Joining Forces to Strengthen Human Services in America*, started because of a growing concern about the financial health of community-based organizations (CBOs) which deliver human services. The project was designed to assess the financial health of the human services CBOs, identify underlying causes that lead to financial vulnerability, and to propose ways to make them stronger. The objective was to provide a path to make CBOs more sustainable.

The "National Imperative" initiative is a cooperative undertaking by a coalition of partners concerned about the human services ecosystem. The report was commissioned by the Alliance for Strong Families and Communities ("Alliance") and the American Public Human Services Association (APHSA) – two leading association networks representing human service organizations. The Alliance is a network of over 400 human services CBOs involved in the

delivery of all human services. APHSA is an association of over 300 state and local public health and human service agencies.

The contents of the report were principally developed and written by Oliver Wyman and SeaChange Capital Partners. Oliver Wyman is a leading management consulting firm, with global practices in financial services, health and life sciences, and commercial, industrial, and service sectors, as well as a strong commitment to social impact (including investment in creating this report). SeaChange is a New York-headquartered merchant bank focused exclusively on nonprofits.

In the course of conducting our research, we analyzed over 200,000 publicly available Form 990 tax filings by roughly 40,000 human services CBOs.[1] This dataset represents all electronically filed Form 990s for CBOs from selected human services-related NTEE codes and available on Amazon Web Services.

In addition to our comprehensive financial analysis, we fielded the National Imperative Survey[2] online, which drew responses from 177 human services CBOs and 40 government agencies, and we conducted detailed follow-up interviews with over 40 senior executives from human services CBOs, government agencies, and philanthropic foundations. Input was solicited from a diverse group of CBOs and government agencies, chosen to ensure coverage across organizations from different regions, of different sizes, and representing different types and subsectors. The survey and interviews were intended to provide context and to surface trends and common issues and concerns.

Our research and analysis build on and are largely consistent with several earlier efforts, including the 2015 report by the Human Services Council of New York, *New York Nonprofits in the Aftermath of FEGS: A Call to Action*,[3] as well as the 2016 report by Oliver Wyman and SeaChange Capital Partners on *Risk Management for Nonprofits*.[4]

We were guided in this undertaking by an Advisory Council whose members came from the nonprofit sector, government, the private sector, and academia. We are deeply grateful for the expert guidance provided to us by our Advisory Council members. The views and opinions expressed in this report are those of the authors and do not necessarily reflect the views of the Advisory Council or any of its members.

The project was funded by the Kresge Foundation and the Ballmer Group, with additional support from the Health Foundation for Western & Central New York, Mutual of America, Selective Insurance Company of America, and the US Chamber of Commerce. This project and report would not have been possible without their generous financial support. They also provided invaluable counsel and comment throughout this effort, for which we are deeply grateful.

Although we started with a focus on the financial health of the human services CBOs, our key findings and conclusions are much broader. They extend to the whole human services ecosystem and the critical role it plays in communities across the US, the value it provides to the US overall, and its potential to be even more valuable in the future. Providing these services

to our fellow citizens is a moral imperative. The improved outcomes also benefit society as a whole, through reduced costs and higher productivity

- Recipients of human services receive critical assistance and support – both preventative and when in crisis – which allow them to lead healthier and more productive lives. These outcomes then benefit broader society.
- The US economy also directly benefits from current economic activity spurred by the roughly $200 billion that CBOs spend per year on wages, benefits, rent, fuel, and all the other purchases necessary to run their organizations and to deliver services.
- While human services CBOs are providing clear value today, their potential value is much greater than what has been realized so far. Increased investment in CBOs and targeted, "upstream" human services that are demonstrated to improve the social determinants of health and future behaviors have the potential to transform how our society approaches and how much we pay for human services, but also a broader ripple effect on other vital sectors, including the healthcare, judiciary, and corrections systems.
- Conversely, both recipients of human services and society as a whole face significant risks if the human services ecosystem is not financially strong and able to deliver on its potential. The consequences range from negative health and behavioral outcomes to elevated health and criminal justice and corrections system expenses.

At the same time, the need for human services continues to increase, driven by factors including underlying poverty rates and income inequality; the aging of the American population; and specific challenges such as the opioid epidemic.

Against this backdrop of increasing need and huge future potential, a growing number of human services CBOs are not financially strong or sustainable – which makes it difficult for them to realize their potential and fully contribute what they are capable of to a healthy society and strong economy. About half of CBOs run persistent operating deficits, in part due to unfavorable contract terms with government agencies that chronically reimburse them less than the full cost of the programs and services being contracted for. Nearly one in three CBOs have minimal financial reserves, equivalent to less than one month of operating expenses. This lack of reserves makes them vulnerable to any fluctuation, even temporary, in their revenue and expense levels. CBOs also face problems such as lack of access to capital for investment in technology, staff development, and evaluation, as well as barriers across siloed information systems, which limit opportunities for data sharing and integration that are key to maximizing both efficiency and effectiveness.

Addressing these complex and interrelated challenges will require a comprehensive response. This will not be easy. Significant changes will be required of human services CBOs. Significant changes will *also* be required of the government and philanthropic sectors. The business case for making these required changes and investments, as outlined below, is strong given the potential for larger economic and social returns; to do so, however, will require our nation to embrace the potential value of human services to transform our society.

This report lays out five "North Star" initiatives which, when pursued by the entire human services ecosystem (including CBOs, government agencies, and other funders), can unlock the full potential value of human services CBOs, and set the US on a path to greater prosperity.

The report is divided into five main chapters. "Overview of the Human Services Ecosystem" provides a snapshot of the human services ecosystem today. "The Transformative Potential of Human Services" describes in more detail the sector's future transformative economic and social potential of human services CBOs. "Roadblocks and CHallenges" outlines some of the key challenges and roadblocks that must be overcome to unlock this potential. "North Star Initiatives" outlines the five proposed "North Stars":

- **Commitment to measure long-term outcomes** associated with human services interventions, and to skew funding to programs with demonstrable and highly promising impacts
- **Investment in capacity for innovation**, to ensure that newer and better approaches for human services and for managing human services CBOs are constantly being developed
- **Development of new operating models ("Operating Model 2.0 – A Strategic Partnership Approach")** emphasizing development of collaborative partnerships among human services CBOs and between CBOs and government agencies, with joint approaches to population needs assessment, program design and implementation, and impact evaluation
- **Development of new financial policies and practices**, including actions by CBOs (such as more careful and selective vetting of contract terms) and by government agencies (such as use of more flexible contracts, with full cost reimbursements) to address financial stress in the human services CBO community
- **Regulatory modernization**, including rationalization of overlapping regulations and elimination/restructuring of regulations that create compliance burdens in excess of their value, to reduce expense levels for human services CBOs

The final "Conclusion" chapter lays out the business case for investing in these initiatives, and the potential outcomes if our country chooses to do so.

Interspersed with these chapters, we have included direct quotations from our interviews with executives and senior leaders from CBOs, public sector agencies, and philanthropic organizations, as well as case studies of initiatives and organizations that are taking particularly innovative and promising approaches to their work. Bluntly, we anticipate that many readers will react to our recommendations by saying "we have seen these before" and "this won't be possible!" But the case studies demonstrate that while more work must be done, some organizations, including human services CBOs, government agencies, and for-profit companies, are already making meaningful strides to address these challenges. However, deeper policy, regulatory, financial, and systemic change will be required for their efforts to be successful, scalable, and sustainable.

We have also included a story – the story of fictional Freedom County, located somewhere in the United States. The first story of Freedom County is a look at the county today – its strengths, its challenges, and, of course, its human services ecosystem and the CBOs that play a critical role within it. The second story of Freedom County is about the possible county of the future. If CBOs can succeed in unlocking their transformative value – what might Freedom County look like ten plus years into the future? The story of Freedom County is meant to be aspirational, but it is also a way of translating the facts, figures and arguments laid out in

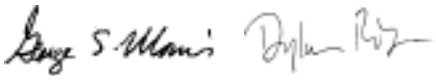
the body of this report. The story of Freedom County shows what these ideas could mean for real people and places.

Finally, in assessing the challenges facing human services CBOs and in proposing solutions, we have tried to be balanced and objective. No one group of stakeholders is responsible for all of the challenges facing the sector, and no one group will be able to solve them. This title of this report – "joining forces" – reflects our belief that human services CBOs, government agencies, philanthropic funders, regulators, and other stakeholders all have critical roles to play in strengthening human services CBOs and creating the high-performing human services ecosystem of the future.

We hope you find this report interesting and useful. We invite you to join us on our journey to strengthen human services in America.

Thank you.

George Morris and Dylan Roberts of Oliver Wyman,
on behalf of the National Imperative team
and the many organizations and individuals
who have contributed to this report



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FREEDOM COUNTY, 2017

The morning sun crests over the hills of Freedom County, USA. The streetlamps dim as lights flick on inside homes and businesses. Cars begin to fill the streets, heading west to fill a bustling metropolis. In the east, tractors roar awake and rumble across farm fields. Children pour out of yellow buses before the morning school bell rings.

The community has come alive, buzzing and whirring like a well-oiled machine. The County's roughly 200,000 residents go to work and go to school. They volunteer and take care of their loved ones. They are teachers, doctors, farmers, and small business owners. They are bankers, laborers, mechanics, and programmers. They work with their hands. They work with their brains. They are scholars, athletes, musicians, and artists. They are parents and grandparents, brothers and sisters, sons and daughters. They are caregivers and breadwinners.

Today, the County's residents will earn about $30 million in wages. Average household income in the County is about $55,000 per year, just slightly below the national average. As in many places, though, this average masks significant inequality – roughly the poorest quintile of the County is living below the poverty line. The residents will also generate an additional $15 million in related economic activity. They will spend almost 1 million hours at work and more than 200,000 hours at school. They will return home to tens of thousands of households, small and large, and spend time with their families, friends, and local communities.

Beneath the hustle and bustle, Freedom County is supported by a sprawling infrastructure. This infrastructure provides the foundation on which the County's residents can live and thrive, helping to fuel the County's economic engine. Fresh water flows through pipes into every building and home. Paved roads fan out across the County, dotted with streetlamps, traffic lights, and stop signs. Police officers and firefighters work to ensure that the County's residents are safe.

One crucial component of Freedom County's infrastructure is its human services ecosystem. An array of community-based human services organizations (human services CBOs) work in tandem with the Freedom County Department of Human Services (DHS) to provide critical support and services for the County's residents. The human services CBOs are private, nonprofit organizations which earn the bulk of their funding from contracts with DHS and other government entities. Private donations from foundations, corporations, and individual donors make up a much smaller portion of funding. In turn, human services CBOs deliver critical services

to individuals, families, and communities – from housing and transportation, to employment supports, to early childhood development and education, to behavioral health services, to supports that help strengthen families and assure children are safe and well. Freedom County's human services ecosystem works to ensure that all of the County's residents have access to the tools necessary to achieve health, well-being, and prosperity.

Mrs. Williams on DeKalb Street, for instance, relies on one of the local human services CBOs. She's 91 and has lived alone, in the same house that she and her late husband bought in 1957, since her son moved to Chicago three years ago. Mrs. Williams can't handle stairs very well any more – she hasn't seen the second floor of her house for a while – and also finds it increasingly hard to get to the grocery store. When her son first moved away, she felt a terrible cloud of depression settle over her. Now she says, "I couldn't do anything but sit on my couch and watch the sunlight on the walls," but at the time, she didn't tell a soul how she felt. She didn't want to worry her son when he was starting his new job. She stopped eating properly and started feeling weaker. When she stopped answering her phone, her son felt he had no choice but to call 911. Mrs. Williams ended up in the emergency room, dehydrated, and then in the hospital for three days. Two months later she had a similar incident – this time she missed a trip to the store, stretched her groceries, and ended up back in the hospital for a week with low blood sodium. Medicare covered the bill, but her two hospital stays ended up costing almost $50,000.

Mrs. Williams' son started thinking that he might have to move back to town to keep an eye on her, although he desperately wanted and needed to keep his new job to support his own children. Then, a social worker at the hospital suggested he reach out to New Hope Elder Services, a local CBO that provides nutritional services, companionship, and counseling to elderly residents across the County so that they can continue to live safely in their own homes.

New Hope has been, literally, a lifesaver for the Williams family. Once a week, a New Hope counselor drops by to check on Mrs. Williams. The counselor brings a bag of staple groceries and spends an hour chatting with Mrs. Williams about how she is doing and reviewing her menu plans for the coming week. They also take a peek in the refrigerator to make sure she is consuming food as planned and to throw out any spoiled items. Mrs. Williams hasn't made a trip to the emergency room in over two years. While her son still drives back from Chicago once a month to spend a night with his mother, he has decided to stick with his new job. "I couldn't sleep when Mom was in the hospital," he says. "I really feel like New Hope didn't just help her be safe and healthy, it also allowed me to keep my job and pursue my dreams for my own kids."

Stories like this play out all across Freedom County every day. In the northern corner of the County, Jessica Baine is receiving job training and placement from a local CBO after the chicken processing plant closed down. A few doors down from Mrs. Williams, tenth grader Jack Dandridge is getting extra help after school to learn strategies to handle his dyslexia. Jack used to hate school. This semester he made honor roll for the first time.

Despite these success stories, the County's human services ecosystem is under growing pressure. New Hope's Executive Director, Barney Ryan, describes the situation: "Some days it feels like we're holding everything together with tape." Their contract with the County's human services agency doesn't begin to cover their operating costs. They try to make up the difference through donations and an annual fundraising party. Mrs. Williams' son sends a donation of $200 every month, but many of New Hope's other clients don't have families with the financial resources to do so.

One of New Hope's delivery vans has 130,000 miles on it. Another will need new tires soon. The social workers are not provided with laptops or iPads – so they hand write their notes and then return to New Hope's offices to type them up at the end of the day. "There's a ton of things we need," Barney says. "Not luxuries, but things we really, really need."

It's not that these needs go unnoticed by the County DHS. Rather, DHS has been forced to make tough decisions about how best to allocate funding among the County's CBOs amid rising costs, increasing demand, and waning support from the state and federal levels. "I understand the situation for many of our CBO partners. They do amazing work, and it's amazing that they make it work

like they do," says Caroline McAllister, the head of the County DHS. "I wish we could do more. There are dozens of different programs and initiatives I'd love to fund with every dollar that passes through my door. But we have to make sure that the most essential needs of our clients are met, and that the most essential programs receive our support." This pressure isn't likely to go away. The need for services across the County has been increasing, and this need is only expected to increase in the future. Over the next 30 years, the population of adults ages 65 and older will double. Many of these adults will require transportation services and other forms of aging services and care in order to be safe and healthy. The rate of poverty in Freedom County has stubbornly hovered around 15%, and with the overall population experiencing growth, the number of residents experiencing poverty is also increasing. As rising income inequality squeezes the middle class, so does the American promise of economic opportunity and upward mobility. Behavioral health disorders are as prevalent as ever, and Freedom County joins much of the United States in being hard-hit by the ongoing opioid epidemic, seeing massive spikes in addiction rates and overdoses.

At the same time, Freedom County's human services ecosystem is stretched very thin. Government funding dramatically declined during the Great Recession and never quite bounced back. On average, for every $1 spent to provide critical services, human services CBOs are compensated for only 75¢ from DHS – and that's without taking into account costs from general operating activities and investments in capacity and innovation. (Regulations, however, continue to pile up, introducing even more costs to the equation.) Private funders help to fill some of the funding gap, but they have also become more exacting in recent years – stipulating that funds must be used exclusively for direct services or that human services CBOs must rigorously evaluate the success of their programs and realize a "return on investment."

Without adequate funding to cover the costs of providing services, human services CBOs are unable to invest appropriately in their own operational strength. They cannot invest in technology to unlock operational efficiencies and determine more effective ways of providing services. They cannot afford to pay competitive salaries and attract strong talent. They cannot take risks, experiment, and innovate to find better and smarter ways of improving the lives of so many in Freedom County.

Many human services CBOs in Freedom County are skating on very thin ice. More than 1 in 10 are insolvent, with liabilities exceeding assets. Nearly half do not have enough cash on hand to cover one month's worth of operating expenses. And just as there is little funding available to build reserves and capital cushions, few human services CBOs have the resources to create and

implement a robust risk management strategy. Cracks are beginning to show in the ice, and both county officials and human services CBO leaders are holding their breath, recognizing that many organizations are bound to fall through.

In particular, many are concerned about a potential domino effect from even one major human services CBO closing its doors. Those being served by that CBO would need to be quickly shuffled around to other organizations, few of which have the excess funding or capacity to adequately handle the added demand. This dynamic alone could tip the scales for yet another CBO, and the fallout would begin all over again. With services and care disrupted for many county residents, overall population health and well-being would decline. Rates of homelessness would increase. Those with mental health issues and substance abuse problems would be left without adequate treatment. Those with disabilities would lose access to mobility services. The strength and independence of many families and communities would be put in jeopardy.

Costs to the County would increase, too. Without much-needed support and intervention from the human services ecosystem, some of the County's residents would end up being treated in the emergency room for avoidable but expensive conditions. Others, without behavioral health support and intervention, might end up in the costly criminal justice system. Added pressure on the budget would only further tighten the County's purse strings, resulting in even less funding available for the human services ecosystem.

Freedom County's human services ecosystem could soon find itself facing severe financial strains, which would further limit its ability to provide the critical, effective programs and services needed in the County.

Here's the thing: it doesn't have to be this way. The CBOs know it. The County DHS knows it. Even the private funders know it. Everyone recognizes that something needs to be done to shore up the system and to ensure its continued strength and health into the future. The time is now, they realize, to work together to strengthen human services in Freedom County, and to ensure everyone is able to realize their full potential and live healthy and well.

But where to begin?

OVERVIEW OF THE HUMAN SERVICES ECOSYSTEM

For purposes of this report, we have defined human services CBOs as 501(c)(3) public charities (nonprofit organizations) belonging to the following National Taxonomy of Exempt Entities (NTEE) Major Groups (and codes): Mental Health & Crisis Intervention (F), Crime & Legal-Related (I), Employment (J), Food, Agriculture & Nutrition (K), Housing & Shelter (L), Public Safety, Disaster Preparedness & Relief (M), Youth Development (O), and Human Services (P). The total universe of these organizations we refer to as the human services sector. This definition attempts to limit the focus of analysis to nonprofit organizations embedded in and providing critical support in the form of human services to the community. A variety of organizations do not meet this definition even as they may be involved in delivering human services – and may even be critical to the strength and vitality of the community. Such organizations include: nonprofit organizations whose principal functions are not related to traditional human services, such as arts and culture institutions, recreation and sports organizations, and community associations; universities; churches and other religious institutions; for-profit providers of health care and human services; and for-profit and nonprofit health care systems, such as hospitals.

OVERVIEW OF THE HUMAN SERVICES ECOSYSTEM

Government agencies, human services community-based organizations (CBOs), and philanthropists all play a critical part in building the capacity of communities and delivering critical services to individuals in families within them. They are aided in their efforts by various other stakeholders, including regulators crafting policies and protocols, universities providing intellectual and human capital, associations facilitating collaboration and exchange of information and for-profit companies. People served by human services have a wide range of needs, as shown in Exhibit 1. We refer to the intersecting efforts of CBOs, government agencies, philanthropists, and other stakeholders to meet these needs and to deliver critical services in response as the "human services ecosystem."

In the 19th and early 20th century, governments at the local, state, and federal levels provided many of these services directly. Beginning in the 1960s, an increasing number of government agencies began outsourcing provision of these services to human services CBOs, after concluding that this approach was both more efficient and more effective. Use of contractual agreements between government and CBOs expanded dramatically in the 1980s, resulting in the current ecosystem in which both CBOs and government agencies play crucial and complementary roles in the delivery of human services.

Government policy recognizes the public good generated by providing important services and supports for lower income people, supporting the health and wellbeing of children,

Exhibit 1: Examples of services provided by the human services ecosystem

HEALTH AND WELL-BEING

- Child welfare
- Food and nutritional support
- Mental and behavioral health services
- Healthcare and medical services
- Substance abuse prevention and treatment
- Violence and abuse prevention and support
- Disabilty services

ECONOMIC AND EDUCATIONAL OPPORTUNITY

- Employment services
- Job training
- Family and community development
- Transition-to-Adulthood services
- Transportation services
- Early childhood education
- Special education programs
- Early childhood and youth development

SAFETY AND SECURITY

- Foster care and adoption services
- Criminal justice
- Legal services
- Housing and homelessness services
- Public safety and disaster preparedness
- Environmental programs

people living with disabilities and the elderly. There isn't a viable economic market solution to the situation. Government funding is needed to implement the policy, whether services are provided by human services CBOs or directly by government. Today, a growing percentage of private grants and donations supplement inadequate contractual payments by government agencies to human services CBOs.

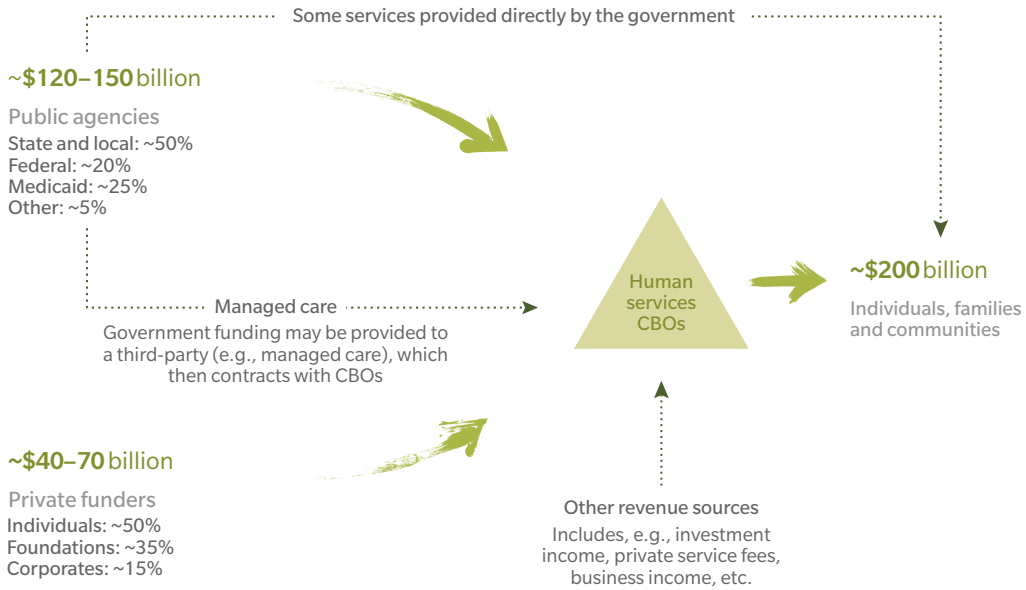
This section of the report provides an introduction to the human services ecosystem: what it does, how much value it creates, and its potential to be an even more significant transformative force for our communities and society if we make the necessary changes and investments.

THE HUMAN SERVICES ECOSYSTEM PROVIDES A BROAD ARRAY OF CRITICAL SERVICES

The human services ecosystem has evolved to provide critical services and supports for individuals and families in need of them.

These services are sometimes delivered directly by government agencies, but are more often delivered by human services CBOs (typically under contract with government). But these CBOs are more than just service providers. Human services CBOs contribute to the development of policies to improve the human capital of our nation. They create innovative approaches to produce better outcomes, and they produce significant economic return in their local economies as employers and purchasers of goods and services.

Exhibit 2: Human services ecosystem key stakeholders and funding and expenditure flows



Source: National Center for Charitable Statistics (NCCS), Urban Institute, IRS Form 990 data, Oliver Wyman analysis
Note: These figures do not include the value of volunteer time and in-kind donations.

More than 210,000 human services CBOs in the US deliver ~$200 billion in services to individuals, families, and communities each year.

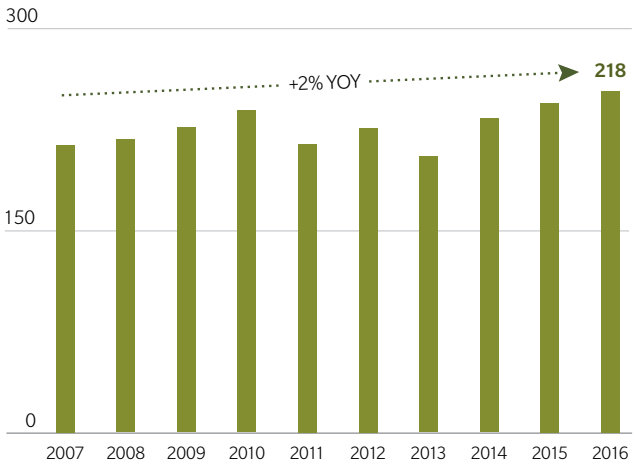
HUMAN SERVICES CBOS MAKE UP A LARGE, GROWING, AND VALUABLE PART OF THE ECONOMY

There are over 210,000 human services community-based organizations (CBOs) providing services to communities across the nation in 2017. These CBOs are a large and important part of the economy in every state and county in America. Over half of these human services CBOs (56%) have annual revenues of less than $250,000. These organizations tend to have at most a handful of paid staff, modest, if any, property, and provide a narrow range of services within a small geographic footprint. At the other end of the spectrum, about 10,000 human services CBOs have revenues in excess of $10 million. These large CBOs account for nearly 60% of the sector's revenues. In aggregate, human services CBOs receive more than $200 billion in revenues for the delivery of services to individuals, families, and communities.[5]

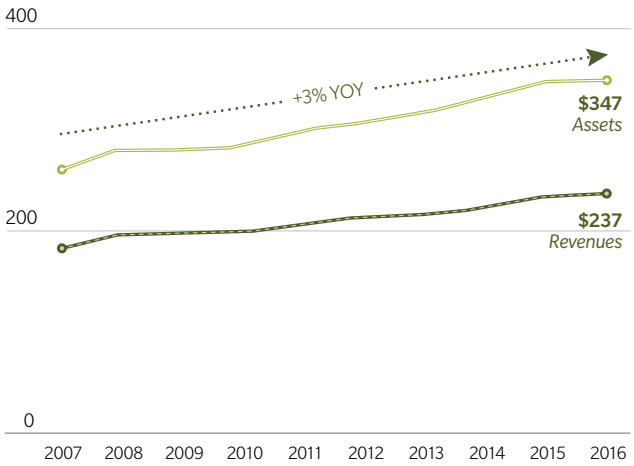
The number of CBOs is also growing. In the immediate aftermath of the Great Recession, government spending and charitable donations fell, and roughly 10% of CBOs closed their doors.[6] But the negative impact on human services CBO growth was short-lived. Formation of new CBOs is up sharply in recent years, such that there are now more human services CBOs with more assets and revenues than ever before. Over the last 10 years, the sector has grown at 2-3% per year on average, in line with overall economic growth, but growth has been more rapid since 2013. As discussed later, growth does not equate to financial strength. The Great Recession has accelerated a convergence of forces that are hitting the sector hard and making it increasingly difficult for human services CBOs to realize their fullest potential.

Exhibit 3: Growth of human services CBOs

TOTAL US HUMAN SERVICES CBOS (IN THOUSANDS), 2007-2016

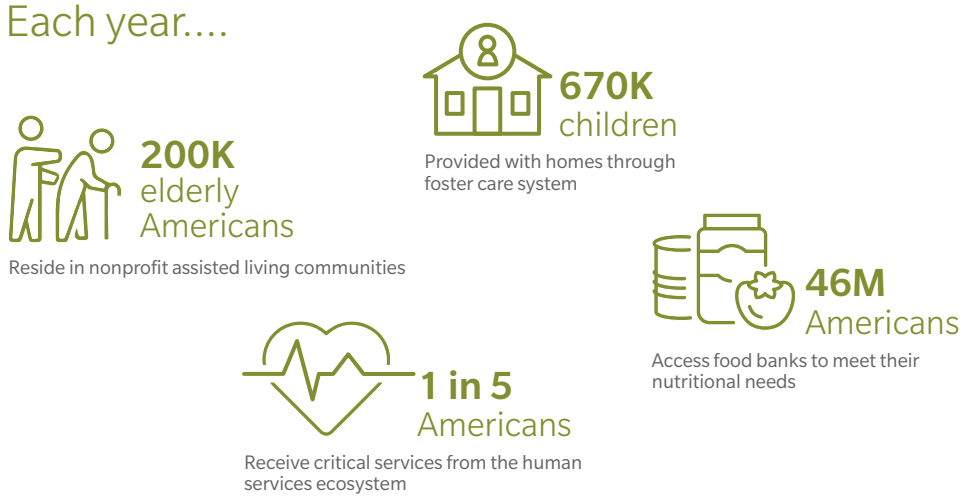


TOTAL US HUMAN SERVICES ASSETS AND REVENUES (IN $ BILLIONS), 2007-2016



Source: National Center for Charitable Statistics (NCCS

Exhibit 4: Populations receiving human services



Source: US Census Bureau, National Center for Assisted Living, Feeding America, Centers for Disease Control and Prevention (CDC), Children's Bureau; US Department of Health and Human Services

THE HUMAN SERVICES ECOSYSTEM PROVIDES SUPPORT TO MANY AMERICANS

Millions of older adults, working families, and children are served by the human services ecosystem. Human services provide support to our family members, friends, colleagues, and neighbors. We estimate that one in five Americans receive some form of support or services from the human services ecosystem each year. Providing these supportive services is a moral imperative.

Human services CBOs employ 3.2 million people, representing more than 2% of the US workforce

HUMAN SERVICES CBOS MAKE VITAL CONTRIBUTIONS TO THE AMERICAN ECONOMY

Human services CBOs employ approximately 3.2 million Americans, which is over 2% of the nation's workforce.[7] These employees earn almost $100 billion per year in aggregate, much of which is spent on rent, food, and services within their communities, leading to additional spending and economic activity within communities across the country. Non-wage spending by human services CBOs, in excess of $100 billion per year, creates additional jobs and economic activity for the economy. Childcare centers build buildings, creating jobs in construction. Food pantries buy refrigerated trucks and fuel to run them. And so on.

THE TRANSFORMATIVE POTENTIAL OF HUMAN SERVICES

THE TRANSFORMATIVE POTENTIAL OF HUMAN SERVICES

The value to society of a healthy human services ecosystem can be measured in a variety of ways. The first order impacts of effective human services are to the lives of recipients: when they receive quality services that meet their needs, they go on to lead healthier, more stable, and more productive lives. This enhanced productivity benefits society and our broader economy as well. Conversely, when people do not receive quality services in a timely fashion, future challenges in their lives can become more serious and persistent, and can require more extensive and expensive interventions later – ultimately imposing greater direct and indirect costs on them, taxpayers, and society than if issues had been appropriately addressed at an earlier date.

Human services have profound long-term economic impacts, with the potential to transform our society's financial health and well-being.

While the immediate economic impact of human services is substantial, the long-term economic impact is even greater. High quality, effective human services are capable of having a lifetime of positive impacts on clients, allowing them to realize their fullest potential and boosting the nation's productivity. The troubled youth who receives timely behavioral health support, the person or family experiencing homelessness who is able to find stable housing, and the children who receive nutritional support, are all more likely to be leading productive, employed lives ten and twenty years down the road as a result.

Despite spending more on healthcare than any other nation in the world, the US ranks near the bottom among economically developed nations in a number of key health outcome metrics, including life expectancy, infant mortality, and deaths from complications or preventable diseases.

Long-term impacts also include costs foregone. Imagine the life of the youth who does not receive behavioral health supports while still young, the family who is homeless and fails to find stable housing that leads to stable employment for a parent, or the child experiencing hunger who does not receive nutritional support that assures he or she is ready to learn in school. Not only are they less likely to go on to lead productive lives, but society will incur additional costs in expensive downstream services such as healthcare, child welfare, juvenile justice, and adult corrections. In fact, the evidence suggests that increased investment in "upstream" human services, if made wisely, will reduce society's total costs. Conversely, reduction in human services investment is likely to *increase* total costs to society.

HEALTHCARE AND HUMAN SERVICES

The overall cost of healthcare for Americans is a topic of much debate and anxiety. Our per capita healthcare spending, now over $10,000 per person per year, dwarfs spending in other developed countries.[8,9] However, our results on key health metrics such as life expectancy and infant mortality are worse. This situation drives a tremendous amount of research and analysis

and has been explored in books such as the aptly titled *The American Health Care Paradox: Why Spending More is Getting Us Less,* by Elizabeth Bradley and Lauren Taylor.

On average, other economically developed nations spend three times more on human services than the US, relative to healthcare spending

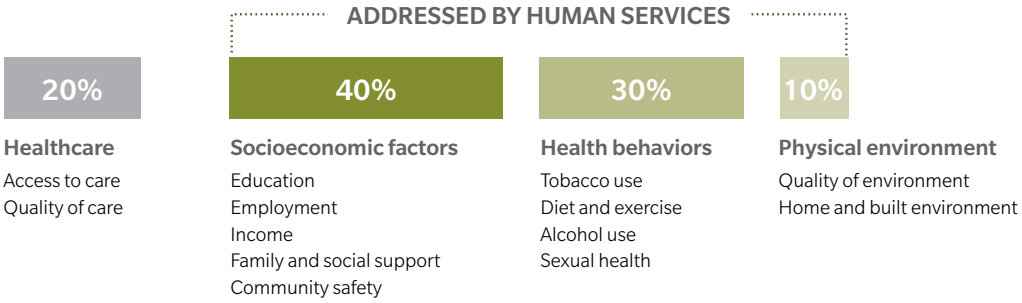
Research reveals that while the United States outspends its peers on healthcare, it massively underspends on human services. According to data compiled by The Brookings Institution, the average Organization for Economic Cooperation and Development country spends more on human services than on healthcare, whereas the United States spends more on healthcare than human services. Proportionally, human services spending relative to healthcare spending is three times larger in the average OECD country than in the US.[10] Research also suggests that the lower spending on human services contributes to the higher healthcare costs. While there are clearly other factors which drive United States healthcare spending, and which differentiate the United States from other countries, the relationship between social determinants of health and subsequent health spending and outcomes is strong. Provision of proper housing, for instance, has been demonstrated to lead to a wide range of positive long-term health outcomes associated with reduced lead and mold exposure, in addition to positive behavioral health outcomes associated with improved safety. Similarly, nutritional support during pre-natal and early childhood periods has been demonstrated to yield positive long-term health outcomes, and reduced long-term healthcare expenses associated with diabetes, hypertension, and other ailments.

Similarly, research suggests a strong linkage between a person's health and well-being as an adult and the presence of "Adverse Childhood Experiences," or ACEs, during childhood. ACEs include emotional, physical, and sexual abuse; household dysfunction, in the form of spousal abuse, substance abuse, mental illness, separation or divorce, and incarcerated family members; and emotional and physical neglect. An increasing number of ACEs has shown to be predictive of an increasing array and severity of health and well-being-related challenges across the course of one's life. Since human services and supports are targeted toward preventing and treating the impacts of ACEs, human services CBOs work to produce better health outcomes and ultimately lower healthcare spending.[11]

Skeptics have argued that the disparity between human services and healthcare spending in the United States relative to other countries reflects broader differences between these countries and cannot be interpreted as meaning that increased human services investment would result in reduced healthcare spending in the US. While there clearly are many structural and demographic differences between the United States and other OECD countries, research suggests that the relationship between human services and healthcare spending holds true across different locations within the United States. A recent study published in Health Affairs journal concluded that "states with higher ratios of social to health spending had better health outcomes one and two years later."[12]

As shown in Exhibit 5, fully half of health outcomes can be explained by socio-economic factors and physical environment factors, including housing. Interestingly, only 20% of health outcomes can be attributed to actual healthcare access and quality.

Exhibit 5: Social determinants of population health[13]



Only 20% of health outcomes are attributable to actual healthcare. 80% is attributable to environment, behavior, and socioeconomic factors – all of which are addressed by human services

Source: Data from the Bassett Healthcare Network and University of Wisconsin Population Health Institute, http://www.bassett.org/education/research-institute/population-health/

The potential to improve health outcomes and reduce demand on the healthcare system could have a massive impact on societal finances as well as well-being. Recall that human services CBOs, in aggregate, receive about $240 billion in total funding per year. Now compare that to healthcare spending: in 2016, total United States healthcare spending was $3.4 trillion and will likely reach $5.5 trillion by 2025 given current trends.[14] Even a small impact on healthcare spending will be large in absolute dollars.

We have relied here on Third-party research and acknowledge that comparability across geographies is made challenging by differences in data definitions (i.e., what is included in estimates of human services spending in different geographies) as well as the presence of factors other than human services spending which drive healthcare spending. Nonetheless, the research strongly suggests that spending on human services, if properly allocated to effective programs, results in reduced healthcare needs and expenses later. Even small impacts on total long-term healthcare spending will yield significant returns on investments in human services, given the current relative size of the two spending pools.

CRIMINAL JUSTICE AND CORRECTIONS SYSTEMS

Investments in human services also have the potential to produce significant societal returns by reducing costs in the criminal justice and corrections systems.

As in the case of health care, there is evidence that higher spending on human services correlates with much lower incarceration rates (and associated expenses). Countries that spend relatively less on human services (like Estonia, Chile, and New Zealand) tend to have much higher and costlier incarceration rates than countries that spend more on human services (like France, Denmark, and Finland). According to the International Centre for Prison Studies, US incarceration rates are very high even relative to other countries with similar levels of human services spending (for instance, the United States imprisons 716 people per 100,000 of population, compared with 238 in Estonia, or 266 in Chile).

Under-investment in human services increases demand on the criminal justice and corrections systems. The teen with a budding substance abuse problem is much more likely to engage in criminal activity as an adult if he or she doesn't receive appropriate counseling and other human services interventions. This drives increased need for spending on police (more officers, more training, more vehicles), increased burden on the court system (more judges, more clerks, more legal expenses), and ultimately greater demand for spending on incarcerations and parole-related expenses. The United States also relies on incarceration in place of treatment once criminal activities occur. "The network of social service programs is less developed in the United States than in comparable countries. That means the United States relies more on jails and prisons for people who otherwise would have been diverted to non-institutionalized care (i.e., people with mental health or substance abuse issues, the homeless, the youth)."[15] The result is still higher rates of incarceration and recidivism.

Only 20% of health outcomes are attributable to actual healthcare. 80% is attributable to environment, behavior, and socioeconomic factors – all of which are addressed by human services

A recent study sponsored by the Washington University in Saint Louis estimates the total direct and indirect costs of incarceration in the US to be over $1 trillion.[16] This estimate does not include the additional law enforcement and criminal justice system costs that precede incarceration.

The implication is that incremental investment in the $240 billion human services CBO sector offers the potential to have dramatic impacts on much larger "downstream" expenditures on law enforcement, judiciary, and corrections systems.

Important challenges for the human services ecosystem, including CBOs, government agencies, and philanthropic funders, include understanding the main barriers to realizing this transformative potential, and developing the initiatives and capacities necessary to overcome these barriers.

Bottom-line: effective investment of resources in front-end human services helps individuals and their families, friends, and communities reach their fullest potential, and it creates huge future savings for taxpayers.

The following sections of the report explore the challenges facing the human services ecosystem in further detail.

ROADBLOCKS AND CHALLENGES

ROADBLOCKS AND CHALLENGES

Realizing the transformative potential of human services will require a stronger and more sustainable human services ecosystem than we have in 2017. The research for this report surfaced many obstacles that the human services ecosystem, and especially human services CBOs sector, faces today in its pursuit of greater productivity and prosperity for Americans.

ROADBLOCK: FINANCIAL STRESS AMONG HUMAN SERVICES CBOS

Before diving into the challenges, it is important to understand the level of financial stress felt by human services CBOs. To develop a quantitative view of this stress, we analyzed IRS Form 990 filings of over forty thousand human services CBOs from 2013 to 2016.[17] Our analysis assesses the "financial vital signs" of human services CBOs, including:

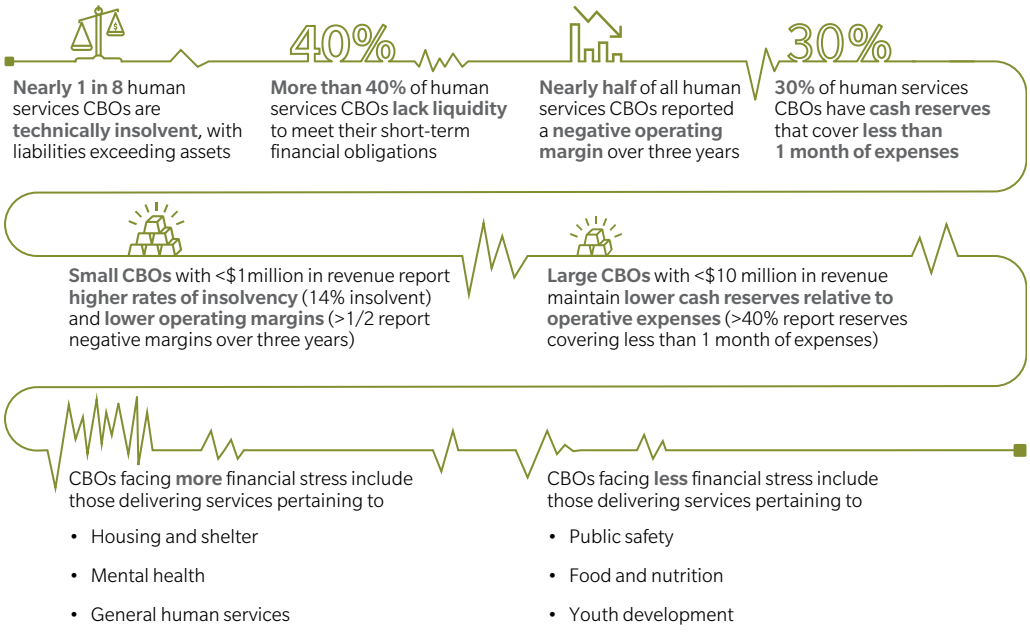
- **Solvency**: Total liabilities as a percentage of total assets, indicating a CBO's ability to meet its long-term financial obligations
- **Liquidity:** Short-term assets as a percentage of short-term liabilities, indicating a CBO's ability to meet its short-term financial obligations
- **Three-year operating margin**: Net income as a percentage of total revenue, indicating the extent to which CBOs are able to generate and retain financial resources above those required to cover expenses
- **Months of reserves**: The number of months that a CBO's reserves are able to cover operating expenses with months of reserves calculated for:
  - **Cash**: to cover immediate needs
  - **Unrestricted net assets**: as the best measure of a CBO's "equity" available to bear losses and make investments
  - **Operating reserves**: the portion of equity available in the short-term

Exhibit 6: Roadblocks and challenges facing the human services ecosystem

ROADBLOCKS TO REALIZING THE TRANSFORMATIVE POTENTIAL OF HUMAN SERVICES

Financial stress among human services CBOs	**Operational shortcomings** of the human services ecosystem	**Mistaken beliefs** about human services CBOs	Human services CBO **talent and technology limitations**
• Constraints imposed by government contracts • Constraints imposed by private philanthrophy • Challenging regulatory and legal environment • Underdeveloped financial risk management capabilities	• Organizational "siloes" • Transitioning from providing services to delivering outcomes	• Building trust among human services stakeholders • Building trust in the transformative potential of the human services ecosystem	• Human capital • Technology challenges

Exhibit 7: Financial "vital signs" of human services CBOs



Nearly 1 in 8 human services CBOs are technically insolvent, with total liabilities exceeding total assets. In addition, more than 40% of CBOs lack the liquidity to meet their immediate obligations, with short-term liabilities exceeding short-term assets. Many of these organizations limp along from payroll to payroll with limited resources on-hand, often delaying payment of other short-term obligations and dipping into restricted funds to cover their immediate costs. These organizations have limited capital for investment and are generally unable to consider a thoughtful wind-down given the shortage of resources to fund associated one-time costs.

Nearly half of all human services CBOs reported a negative three-year operating margin, with the bottom quarter reporting a three-year margin of -5% or less. These CBOs lost money, impacting their ability to remain solvent and build financial reserves. Conversely, about one-third of CBOs reported an average three-year margin greater than 5%, providing for the ability to cover liabilities, make investments, and add to reserves.

30% of human services CBOs have virtually no margin for error with cash reserves that cover less than one month of operating expenses – the absolute minimum required to demonstrate financial health, according to a leading municipal finance banker. Yet this actually overstates the available financial cushion for weaker organizations, since much of the cash is restricted to specific purposes. Accounting for investments – which are also less liquid than unrestricted cash – brings the percentage of CBOs with less than one month of expenses on hand down to 25%. At best, less than one-third of organizations maintain a strong financial cushion of reserves covering more than six months of operating expenses.

Insolvency rates are highest among small human services CBOs with less than $1 million in annual revenue. About 14% of these CBOs are insolvent, compared to 9-10% of CBOs with annual revenue of $1 million or higher. Small CBOs also report lower three-year operating margins, with more than half reporting negative margins compared to 30-35% of mid-size and large CBOs.

Larger human services CBOs tend to manage their cash reserves more tightly than smaller CBOs, with just 7% of large CBOs with more than $10 million in annual revenue maintaining at least six months of expenses in cash reserves, compared to 17% of mid-size CBOs (with $1-$10 million in revenue) and 34% of small CBOs. However larger CBOs are also more likely to maintain non-cash sources of funding, such as lines of credit and liquid short-term investment accounts.

There are a few noteworthy differences in human services CBO financial health based on geographic location. Among them, CBOs in the Mountain region (encompassing AZ, CO, ID, MT, NV, NM, UT, WY) are less likely to be insolvent, with a 9% rate of insolvency compared to a rate of 12% across all CBOs. In addition, CBOs in the East South Central region (AL, KY, MS, and TN) report slightly lower three-year operating margins, with a three-year margin of less than 0.5% at the median, compared to about 1% for all CBOs.

Human services CBOs providing housing and shelter-related services face significantly greater financial stress. Nearly 1 in 3 of these CBOs are insolvent, more than 70% lack the liquidity to cover short-term obligations, and 60% report a negative-three year margin – with a median three-year margin of -4.3%. Meanwhile, CBOs providing mental health services maintain slightly lower cash reserves of less than two months of expenses at the median. Public safety CBOs report stronger financial health, with comparatively low rates of insolvency (less than 3%), high margins (more than 4% at the median), and strong cash reserves (about nine months of expenses at the median). CBOs providing food and nutrition-related services and youth development services also report low rates of insolvency (3-5%) and high liquidity.

More detailed financial analysis is provided in the appendix. The overwhelming impression from analysis of the 990s is that a significant portion human services CBOs are feeling financial stress and may find it difficult to survive even short-term disruptions to funding or unexpected expenses.

The first four challenges that human services CBOs face are the root causes of their financial stress:

1. Constraints imposed by government contracts
2. Constraints imposed by private philanthropy
3. The regulatory and legal environment
4. Underdeveloped financial risk management capabilities

Each of these challenges is discussed in further detail on the following pages.

CHALLENGE #1

Constraints imposed by government contracts

Human services CBOs receive the majority of their revenues by contracting with government agencies to provide human services to populations for which those agencies are responsible. Given the great extent to which governments and the public rely on human services CBOs for provision of critical services, government contracting processes should consistently lead to financially healthy CBOs. Yet the research demonstrates that this is rarely the case. Common issues include:

Government contracts that fail to cover the cost to deliver the quality and outcomes desired. Government seldom reimburses a CBO for the full cost of providing services. Part of this stems from funding levels having failed to keep up with growing costs over time. Government agencies have also tightened up funding during lean years and subsequently failed to restore prior funding levels. The funding gap also often reflects an explicit policy choice to underpay. A common belief on the part of government agencies is that human services CBOs can and should rely on philanthropic funding to close the gap. One argument is that philanthropic donations represent appropriate "skin in the game" from the communities who benefit from CBO services. However, the result is that philanthropic donations are used primarily for program-related funding gaps instead of to enhance programs, research and development, testing new approaches, and investing in technology, reserves, people, knowledge and organizational strategy. The reluctance to cover full program-costs is further reflected in administrative spending caps that seek to minimize non-program spending. Covering indirect and non-program costs associated with general operations, capacity-building, and innovation is crucial to the long-term success of the programs and services of human services CBOs, and to the outcomes policy-makers desire. All of these issues are exacerbated by the fact that human services CBOs and government agencies often do not have a shared understanding of the full cost to deliver services and the benefits the services create. In addition, hospitals and for profits are increasingly able to "cherry-pick" the most financially viable contracts, leaving CBOs serving the neediest recipients under the most difficult contractual terms.

> "We're stuck between a rock and a hard place. The government funds us like a charity but expects us to run like a business. And make no mistake: we are a business. We have a business to run, and we have real costs associated with running our business. If we can't afford to cover these costs, how does anyone expect us to support our community?"
>
> – Human Services CBO CEO, Illinois

Late payments and extended accounts receivable cycles from government funders. Late payments can severely disrupt cash flows for human services CBOs. If funding is decreased, CBOs may have difficulty recouping costs incurred and investments made to meet their contractual obligations. In some cases, reimbursements may be delayed by months or even years. One CBO leader noted that he has been waiting six years for $500,000 from the state as reimbursement for setting up and operating a pilot program. His organization had adequate reserves to fall back on after making the upfront investments for the program, but not all human services CBOs have the reserves to remain strong in such a scenario. In addition, many government contracts prohibit CBOs from assigning payments to a bank or other third party, making it more difficult to borrow against them.

High administrative burdens for government contracts. Contractual rules often place significant burdens on human services CBOs, running up costs and impacting their ability to deliver efficient and effective services. For example, a Florida human services CBO executive stated that social workers at his organization can spend up to 75% of their time filling out paperwork to meet reporting requirements. As a result, social workers are able to spend less time working closely with clients to ensure their needs are met. As suggested by an Arizona-based human services CEO, "Regulators need to spend time listening to the people actually doing the work. They don't realize it, but when they roll out new regulations, it can have a big impact on our clients. The more time we must spend on compliance, the less time we have to serve our clients"

Restrictions on how human services CBOs may spend their funding (e.g., inflexible funds, artificial spending caps). Government contracts and grants often specify how human services CBOs are allowed to use funds, stipulating in detail the actions they must take in providing services and care. Similarly, private funders often place restrictions on their donations so that CBOs must use them for specified purposes. These restrictions can prevent CBOs from adequately covering their costs, meeting their needs as organizations, and meeting the needs of the community.

"They delay payment because they know they can get away with it for a while. I get it: they have budget pressures, too. But when they don't pay us, we are, in essence, a zero-interest creditor to the government."

– Human services CBO CEO, Washington

For government contracts, spending caps prevent human services CBOs from covering their indirect but necessary costs associated with delivering services. Disallowed expenses can prevent CBOs from pursuing more effective treatment strategies. Restrictions on the types of services covered can prevent CBOs from meeting community needs. For example, CBOs may not be allowed to use funding earmarked for housing services to address the actual, root causes of homelessness, such as substance abuse or mental health disorders. A human services CBO leader from Florida explained the tough choice he faced: "You can create programs to meet guidelines and get paid, or you can create programs that you know work better and not get paid. That's a tough place to be in as a mission-driven organization."

In 2014, the OMB issued Uniform Guidance ("Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards") intended to simplify and consolidate guidance to CBOs on which types of costs should be considered allocable to government contracts.[19] The guidance is intended to apply nationally to state and local contracts with CBOs to ensure consistent and fair contracting processes. Unfortunately, in our discussions with CBOs, many report that understanding of the Uniform Guidance remains uneven within the state and local agencies with whom they contract. In many cases, the Uniform Guidance is poorly understood, unevenly implemented, and has had little impact on the actual contracting process at the state and local level.

Overall, the constraints imposed by government contracts results in: a) expensive and time-consuming negotiations and accounting, b) an inability to allocate and include some critical costs; c) greatly reduced flexibility for human services CBOs' management and boards to determine how best to spend their organizations' money; and d) limited ability to invest in new capabilities and infrastructure.

NATIONAL IMPERATIVE SURVEY RESULTS:

GOVERNMENT FUNDING

We asked human services CBOs to estimate the percent of their expenses covered by government funding. We also asked government agencies to provide an estimate for the average CBO. Both human services CBOs and government agencies estimated that government funding covers about 70 cents on the dollar for direct program expenses. Human services CBOs reported that government funding covers just 30 cents on the dollar for indirect expenses, but government agencies provided an equivalent estimate of 44 cents on the dollar. In other words, government agencies appear to acknowledge that they provide limited funding for indirect expenses, but still overestimate the amount by nearly 50% relative to CBOs' own views.[18]

INFLEXIBLE SPENDING

Over 60% of human services CBO and public agency leaders agreed that inflexible funding impedes the impact and overall strength of the human services ecosystem.

CHALLENGE #2

Constraints imposed by private philanthropy

Philanthropic funders placing restrictions on donations want to ensure that their dollars go toward causes and activities they care most about. In this way, their donation restrictions are similar to stipulations in government contracts and create the same issues. In addition, restrictions may direct valuable funding toward programs that were once important but are no longer relevant or needed by the community. As one human services CEO in Louisiana explained, "Donors can't see the future. They don't know what the needs of the community are going to be five, ten years down the line. Restricted donations can leave me with a bucket of money I can't use unless I waste it on things that nobody needs or wants anymore."

Funders may not support human services CBOs' efforts to generate earnings to support investment and innovation. For example, a major philanthropic organization in the United States routinely reduces its support of human services CBOs able to retain earnings and build reserves (the rationale being that because the organization has reserves, it has less need of philanthropic funding.) These practices leave CBOs with limited opportunities to gain from their own efficiencies. As a result, human services CBOs face considerable difficulty investing in critical capacities and innovation, as well as building up reserves and capital and liquidity cushions to protect against financial stress. A CBO leader from Wisconsin iterates a common theme amongst CBO interviewees: "With no margin, there is no mission! People may not understand that all of our savings get reinvested into our organizations and the impact they provide, not shareholders!"

NATIONAL IMPERATIVE SURVEY RESULT:

SPENDING NEW MONEY

Resistance to allowing human services CBOs to "earn a profit" among government agencies may be due in part to agencies failing to understand the financial needs of CBOs. In the National Imperative Survey, we asked human services CBOs what actions they would take first if they were to receive additional flexible funding. We posed the same question to government agencies, asking them to predict what CBOs would do with additional funding. Among CBOs, most of the top responses focused on capacity-building and organizational strength, including "invest in strategy and innovation" (43% of CBOs), "increase salaries" (37%), "invest in staff and leadership development" (30%), and "create or add to endowment or reserves" (27%). By contrast, top responses among government agencies focused on service delivery: "improve current services provided" (55%), "provide current services to more people" (52%), "expand type of programs/services provided" (42%), and "hire more people" (42%). This divergence suggests that leaders of human services CBOs recognize that improving their own organizational capacities is critical to their ability to deliver more effective and efficient services.

CHALLENGE #3

Regulations and requirements

Overlapping, conflicting, and outdated regulations. Human services CBOs face regulatory requirements through multiple agencies at the federal, state, and local level. Regulations are often interpreted in drastically different - and sometimes needlessly conservative - ways by different federal, state, and local agancies. In many cases, these regulations overlap, conflict with one another, or are outdated. CBOs are required to perform redundant actions, including audits of programs and contracts, or straddle the line of non-compliance with one regulation to be in compliance with others. This phenomenon is pronounced when CBOs contracting with state or local government agencies receive funding that originates at the federal level. In such an instance, CBOs typically must adhere to regulatory requirements at both levels of government. This may in turn require CBOs to report program information in slightly different ways to multiple agencies, participate in redundant audits of program activities and spending, and, in some cases, choose between adhering to spending or service delivery requirements at one level of government or the other (e.g., caps on certain types of spending at the state or local level conflicting with service obligations at the federal level). Compliance costs incurred by CBOs are far from trivial. As one human services CBO CEO put it, "We get federal, state, and county funding. Each comes with its own set of rules, and at each level, they want a lot of the same information in slightly different ways. We could save a lot of time and money if things were more standardized."

Unfunded mandates in the form of new regulations. When government agencies and regulators introduce new policies and rules, human services CBOs typically incur costs to come into compliance. Very seldom do government agancies estimate compliance costs to CBOs of these policies in comparison to the potential benefits. Moreover, CBOs are often left to handle these costs alone without increases in funding. These regulations may serve important purposes – for example, requiring that CBOs remain accessible to those with disabilities or to those who do not speak English. But they are often created in a reactive manner, with regulators responding to publicized events such as an accident involving a CBO client or an incident of fraud or abuse. "The desire to just do something trumps any sort of logic," a human services CEO described. "No one takes a step back to figure out whether more regulations will actually make a difference, other than making it harder and more costly for us to serve our customers." Many CBO leaders we spoke to described this dynamic. They may agree with the intention behind new regulations. But as one CBO described it: "How can the government require us to spend more and then deny us funding increases in the same breath? The math just doesn't work out". These "unfunded mandates" can affect state and local government agencies as well. Many are issued at the federal level and create compliance requirements for state and local government agencies, as well as for human services CBOs.

Growing litigation risk. Human services CBOs often provide services to people in precarious and very high-risk situations (e.g., those impacted by domestic violence, child abuse, or who are at risk of suicide or with significant mental illness or complex substance abuse disorders). When the government directly provides these services, it generally enjoys some form of sovereign immunity. The government cannot be held liable for injuries or other

grievances resulting from the provision of services. However, when the government fulfills its responsibility to provide these services by contracting with CBOs, CBOs are not afforded the same level of immunity. As a result, when something goes awry in this very difficult environment – when a client is harmed or harms someone else – a CBO can find itself facing a series of lawsuits and multi-million dollar claims. CBOs with larger funding streams or endowments can become targets for these types of lawsuits. "The cat is out of the bag," explained a Pennsylvania-based CBO executive. "Tort lawyers smell blood in the water, and my insurance premiums have gone through the roof." Indeed, growing litigation risk has made liability insurance much more expensive for CBOs, with many seeing premiums doubling or even tripling over the last several years, according to a leading provider of liability insurance for human services organizations. Facing greater costs in this area, CBOs have less flexibility to use funding in more productive ways.

Policy uncertainty that can impact demand for human services and tax treatment of charitable donations. The supply of and demand for human services is directly linked with other policy areas such as healthcare, education, and taxes. Changes in these policy areas can have significant impacts on funding available to and costs incurred by human services CBOs as well. In the National Imperative Survey, about two-thirds of public agency leaders and human services CEOs indicated that changing healthcare policy was a major challenge to the stability of the human services ecosystem. About 30% saw tax policy as a major challenge. As of this report's publication, there remains considerable uncertainty as to how potential regulatory changes at the federal level in particular may impact CBOs and the broader human services ecosystem. In addition to potential changes in healthcare funding and delivery, changes to rules around itemized deductions for charitable donations, in particular, could have a major negative impact on CBO philanthropic funding levels.[20]

CHALLENGE #4

Underdeveloped financial risk management capabilities

Assessing the financial impact and risks of RFPs and contracts. Human services CBOs are mission-driven organizations. Their dedication, however, sometimes leads them to sacrifice financial stability in order to fulfill their missions. As a public agency leader described, "Some organizations are too focused on just winning the contract. They aren't honest with us or themselves about whether it's a good fit. They underestimate their costs and take on more than they can handle." In the National Imperative Survey, a number of human services executives noted that CBOs should be much more selective about accepting contracts that aren't economically viable, and much more willing (and better armed) to negotiate for economically viable terms, where those are not initially offered. Survey respondents remarked: "Don't accept contracts unless you are adequately reimbursed." "Stop performing services for unreasonably low payments." "Stop starving ourselves to death by saying yes to contracts that don't cover costs!" While the temptation to "chase revenue" will always be there, CBOs need to stop pursuing RFPs when there is either lack of clarity around the full costs to deliver the services, or when the contract does not fully fund the indirect and direct costs required. Initiatives such as the recently-introduced "RFP Rater",

developed by the Human Services Council of New York, can help CBOs make well-informed decisions.[21]

Limited capability to implement financial risk management best practices. Leveraging external and internal data is crucial for financial risk management yet many human services CBOs struggle to do it. When comparing the top third of organizations by solvency and the bottom third among those responding to the National Imperative Survey, stronger CBOs were 21% more likely to plan for financial stress, 29% more likely to perform environmental scans for potential risks, and 26% more likely to produce financial targets to better coordinate spending and investment. Among all CBOs responding to the survey, one-third have no plans in place to deal with financial challenges. One half have no plans laying out steps to return to financial stability in the event of a crisis. These and other risk management practices are important to maintaining financial health, but they require time, resources, and expertise to execute properly. Many CBOs simply do not have the resources or bandwidth to spare. "The current system doesn't provide the flexibility to absorb risk," a public agency leader for Connecticut observed. "We need to become better at calculating risks and rewards as a system, and we need to make sure the resources are available to support these activities. Only then will we see more financially stable organizations confidently managing risks"

Limited in-house financial risk management and cash management expertise. According to a human services CBO CEO in Washington State, "Finding the right people who can manage risk and who can really grasp what our financial picture should look like in the long-run is really hard. We're a complex organization with a complex financial situation. Really understanding us like that at our very core and building effective defenses for, say, another recession – that's not easy." Only 38% of CBOs in the National Imperative Survey indicated that they had risk management training for their program leaders and executives.

NATIONAL IMPERATIVE SURVEY RESULTS:

FINANCIAL RISK MANAGEMENT

CBOs were asked to report whether they were currently employing 15 different financial risk management strategies and whether they felt confident in their current ability to do so. These 15 strategies were previously outlined in the 2016 report by Oliver Wyman and SeaChange Capital Partners on risk management for nonprofits.[22]

For only 4 of the 15 strategies did at least 50% of CBOs responding to the survey report that were currently employing the strategy and doing so confidently. These strategies included setting formal financial targets, delegating risk responsibilities to an executive, making long-term strategic investments that mitigate risk, and reporting financial results and risks to stakeholders.

Just 1 in 5 CBO respondents reported confidently providing training to staff on financial risk management. Comparably low percentages of CBO respondents reported confidently planning for severe financial stress, including planning to recover from severe financial stress (28% of respondents), to maintain essential operations during periods of financial stress (25%), and to wind-down operations or pass them off to other organizations in the event of failure (6%).

ROADBLOCK: MISTAKEN BELIEFS ABOUT HUMAN SERVICES CBOS

CHALLENGE #5

How to build trust among the players in the human services ecosystem? How to build trust in the transformative potential of the human services ecosystem, and CBOs in particular?

For-profit corporations work toward clear outcomes: create profit and deliver shareholder value. Corporations that don't do this don't survive for long– investors cut them off, they go bankrupt or competitors take them over. The human services ecosystem exists in the form that it does in part because the market for its services is not economically viable, and the value that its services provide are not readily reflected in a single, simple financial metric like profit or shareholder value. For many observers, particularly those not directly involved in the human services ecosystem, the belief that "profit is good and lack of profit is bad" leads to a negative bias regarding "nonprofit" CBOs: profits reflect value-creation therefore "nonprofits" are not valuable. (Many in the sector, sensitive to these misperceptions, have questioned the continued use of the terms "charity" and "nonprofit." This was a consideration in our decision to use the term human services "CBO" in this report.)

Variations on this belief are that:

- Funding for human services CBOs are handouts for the poor (rather than valuable investments with real social and economic impacts for the broader community).
- CBO staff do not typically work as hard as private sector employees because they aren't working for "real" businesses.
- CBOs are simply pass-through vehicles designed to funnel donations to end recipients at minimum cost.
- CBOs are generally not well-managed.

Among members of the public who do not hold specific negative views of CBOs, there is commonly a lack of understanding and appreciation for CBOs' role and value. Unfortunately, restrictions that require CBO funding to be used for direct programmatic expenses, and limit resources for corporate marketing and communications functions, hobble CBOs' ability to address these misperceptions head-on.

> "Society fails to consider the true societal value of the services provided by human services CBOs, rather than just the monetary costs"
>
> – Human services CBO CEO, Minnesota

Research also suggests that the public has a negative perception of CBOs' basic management competence, relative to for-profit corporations.[23] The complexities and costs of running a CBO are often sorely underappreciated.

While these beliefs are not universally held, we feel they are common. In aggregate, they contribute to a lack of trust between government agencies, philanthropic funders, human services CBOs, and the American public. When CBOs are viewed as inefficient pass-throughs, rather than valuable economic entities and contributors to a healthy and productive society, funding tends to be highly restricted in nature. A human services CBO CEO in Illinois noted that "funders are more worried about what money is being spent on than what results the money is producing. They don't place much trust in us to run our own operations."

ROADBLOCK: OPERATIONAL SHORTCOMINGS OF THE HUMAN SERVICES ECOSYSTEM

CHALLENGE #6

Organizational "siloes"

People requiring human services assistance often have multiple related challenges and needs: behavioral health needs can contribute to housing needs, housing challenges contribute to health and nutritional challenges, all of these in turn lead to challenges in education and needs for employment readiness and placement assistance, and so on. Given the web of interconnected needs and challenges, the optimal treatment often isn't a single service but a coordinated and integrated response designed to address both immediate needs and longer-term root causes.

Organizational siloes, among both human services government agencies and CBOs, are a major impediment to the required degree of integration. In many counties and states, the public departments of health, mental health, human services, and family services function with separate leadership and funding, and often with limited interaction and information sharing. These siloes perpetuate challenges in data integration and sharing. They also impede collaboration between government agencies and with CBOs due to differences

> "We see a client from point A to point B in their treatment and hand them off to another CBO for treatment between points B and C. Apart from sending some paperwork, we don't collaborate and share information to improve the probability of effective treatment and the client's ultimate success"
>
> – Human Services CBO CEO, Illinois

Organizational siloes among both human services CBOs and government agencies serve as a major impediment to integration and collaboration.

in organizational goals, policies, structures, communication channels, and even culture. Similarly, many human services CBOs specialize in a particular type of service, so people needing diverse services must rely on an array of separate providers. This specialization can be valuable, given the deep and specific expertise that is required to deliver each type of service, but it can also create barriers to collaboration. The large number of entities involved makes it difficult to coordinate a holistic approach with individuals and families. In some cases, existence of organizational siloes is driven by federal and state funding structures. For instance, specific federal funding pools are associated with specific program types, and impose different rules and funding mechanisms down to the state and local level.

Organizational boundaries extend to data. The Health Insurance Portability and Accountability Act of 1996 and related privacy regulations designed to protect individuals have the unintended consequence of making it more difficult to share data across the human services ecosystem and between human services CBOs.[24] Even when laws and regulations do not entirely prohibit the sharing of data, CBOs may lack the expertise or resources to create the requisite processes and procedures that would allow them to do so (e.g., to de-identify and encrypt data).

The resulting web of organizational boundaries is complex and highly variable – different states and counties have different structures, different degrees of integration, and different types of siloes. This creates additional degrees of complexity, especially for organizations operating in multiple jurisdictions.

Compounding the matter, CBOs can be stubbornly independent and competitive with each other. "CBOs are very hesitant to partner or merge," according to a private funder. "In a given year, the private market tends to see over 14,000 mergers, while the world of human services sees only 50 to 60."

CHALLENGE #7

Transitioning from providing services to delivering outcomes

Increasingly, funders demand that human services CBOs demonstrate impact and return on investment ("ROI") from programs as a prerequisite for funding. One CEO from Texas explained, "Long-time funders are now approaching us to ask about the ROI of their investment.

> "If a study comes out showing how a program might or might not be effective, a CBO running that program can produce its own research contradicting or delegitimizing the research. There is no standardized, centralized institution for human services research"
>
> – Human Services CBO CEO, Wisconsin

Unfortunately, we are often unprepared for this conversation." This isn't surprising – preparing for such conversations is difficult. Unlike in the pharmaceutical industry, with its long history of mandated testing of drug and treatment efficacy, there has been relatively little research testing the efficacy and effectiveness of human services programs and treatments- especially when there are multiple interrelated issues.

Moreover, it is inherently difficult to capture and measure outcomes for services that are highly people-oriented. In this regard, the leader of a private foundation remarked that it was "incredibly difficult to track an entire family" over the years to determine the long-term effects. Benefits may surface years later, in different jurisdictions, and in ways not easily tracked back to the original programs.

ROADBLOCK: HUMAN SERVICES CBO TALENT AND TECHNOLOGY LIMITATIONS

CHALLENGE #8

Human capital

Attracting, developing and retaining the required staff and leadership is a key part of how human services CBOs can achieve better outcomes and realize their transformational potential. In the National Imperative survey, both public sector agencies and human services CBOs rated "difficulty maintaining talent" as the second largest challenge facing the secto (after financial stress). Current funding levels simply do not reflect the costs of providing competitive salaries and benefits. These talent difficulties impact management and service delivery positions. By 2025, for example, the Health Resources and Services Administration predicts that there will be a shortage of 20,000 – 50,000 mental health and substance abuse social workers, a shortage of up to 20,000 psychiatrists, and a shortage of up to 60,000 clinical, counseling, and school psychologists.[25] Undercompensating and overstretching staff can create a talent "doom loop" for the sector: it's difficult to attract new staff; the inability to attract new staff further stresses existing staff and results in higher turnover; higher turnover erodes "institutional memory" and adversely impacts organizations' long-term financial

> "We've essentially become a training ground for hospitals in the area. Get your feet wet with us, and then jump ship for a hospital where you get paid more and work less. Who wouldn't take that deal, really?"
>
> – Human Services CBO CEO, California

stability – and the cycle repeats. Moreover, CBOs are increasingly competing for talent with the health care industry, which is generally able to offer better pay and benefits, as well as better training and career development programs.

CHALLENGE #9

Technology

Outdated and incompatible IT systems and software greatly limit human services CBOs' operational efficiency and effectiveness. In the National Imperative Survey, one-third of CBO respondents indicated that inefficiencies from outdated IT were a top challenge, and 44% indicated that high IT costs were a top challenge. The technology problems affect both human services CBOs' internal systems and the external systems with which they interface. As a result, people often must enter the same data into multiple systems to be in compliance.

More and more human services contracts require the ability to demonstrate measurable outcomes. Achieving those outcomes requires access to integrated systems and IT infrastructure that facilitates measurement and tracking. CBOs lacking up-to-date IT find it difficult to meet these requirements, and hence to obtain funding.

Similarly, both human services CBOs and funders point to "big data" analysis of human services interventions and outcomes as critical to designing optimal, better coordinated, and integrated services, and to identifying and targeting upstream points of prevention and earlier intervention more effectively. Human services CBOs will not be able to realize these innovative approaches to service design and delivery, discussed further below, without the support of robust data analysis capabilities and integrated IT infrastructure.

Many human services CBOs recognize the imperative to upgrade their technology capabilities: in the National Imperative survey, over 40% of human services CBOs picked technology-related investments for how they would spend additional funds if given the opportunity. Yet government contracts and other funders are reluctant to pay for IT investments that are considered non-program related expenses – even though they are crucial to realizing desired program outcomes.

> "CEOs have to stop thinking that hand-me-down technology is okay. It undermines productivity and devalues work"
>
> – Human Services CBO CEO, Indiana

FREEDOM COUNTY, 2030

Much time has passed since our last visit to Freedom County, USA.

It is a warm September day in Freedom County, in the year 2030, and the community is more vibrant and prosperous than ever. The County's population has grown to over 250,000 residents, and social and health issues that have vexed the residents for decades have improved in recent years. The poverty rate has ticked down to below 10%. Homelessness has been effectively wiped out. Rates of untreated behavioral health disorders have fallen sharply. Though the number of adults ages 65 and up has swelled to nearly one in every four residents, fewer of those older adults find themselves without critical services and care. Among all adults, participation in the workforce is at an all-time high and unemployment remains well below the national average.

Mrs. Williams on DeKalb Street passed away years ago, at age 96. Thanks to the support of the New Hope CBO, she lived independently and relatively healthily until the end. The move to a nursing home, which she so much wanted to avoid, never became necessary.

Jack Dandridge, who was a 10th grader struggling with dyslexia when we last visited, is 28 years old now. He's a lawyer, with a practice on Main Street, focused on real estate and helping new families just moving into town. "By the time I got to college, I had plenty of strategies for dealing with reading. I've known so many kids with dyslexia who have struggled throughout school and with jobs too."

How did the county get here?

Freedom County's human services CBOs are now well-funded and supported. Working in tandem with CBOs and the Department of Human Services (DHS), the Freedom County legislature drafted and endorsed a "CBO Bill of Rights," setting the stage for a major transformation across the County's human services ecosystem. The DHS has reworked its contracts so that CBOs are reimbursed for the full cost of delivering services, including indirect operating costs. High-performing CBOs are also provided incentive payments for achieving target outcomes. Funding from DHS is now flexible, so that CBOs can determine how best to allocate funding and services to support the County's clients. This required a big shift in how DHS

approached thinking about procurement and its relations with CBOs. There's more emphasis on partnership and collaboration, less on transactions and costs.

For example: previously, funding provided to a CBO providing child welfare supports could only be used to cover services directly involved in supporting a child in their care. Now, if a CBO determines that a child's need is rooted in a parent's mental health or substance abuse disorder, funds can be more flexibly allocated to help both the parent and the child, with the ultimate aim of improving the overall well-being of the child. Similarly, if a CBO determines that investment in indirect expenses that are not program-specific, such as improved mobile technology infrastructure, is critical to their ability to deliver services effectively, they have greater flexibility to allocate funding to these types of expenses.

With costs to provide services fully funded by DHS, private funders have turned their efforts toward helping CBOs invest in organizational strength, capacity-building, and innovation. These funders generally provide unrestricted grants and donations that can be used by CBOs to cover costs where needed. Private foundations also work closely with CBOs and DHS to design, fund, and test new and innovative methods of delivering services.

Well-funded and financially strong, CBOs are prepared to handle shifts in demand and periods or financial stress. They have built up healthy cash reserves, and have contingency plans for how to respond to financial stress.

The County's human services CBOs have also invested some of their private funding in technology to streamline operations – to automate reporting and other administrative functions. As a result, CBO employees are spending much more of their time actually serving people and far less time on unnecessary and redundant paperwork. CBO employees report far greater satisfaction with their jobs and work environments, and CBOs now have the resources to provide salaries and benefits competitive with hospitals and for-profit providers.

How does the County DHS afford this new approach to reimbursement and contracting? Part of the answer is that the transformation of Freedom County's human services ecosystem has transformed the County, and the local CBOs are strong and successful. When the human service system reoriented itself to focus on outcomes over outputs, outcomes started improving. And as a result of these better outcomes, the County's residents are healthier and more productive – and impose fewer burdens on the County's hospitals, courts, and jails. The incidence of diabetes is down. Obesity is down. Petty crime is down.

Freedom County's DHS, CBOs, and private funders joined forces to align on the same objectives – to determine which services produce the best outcomes for the County's residents and to allocate funding toward CBOs providing those services. With support from both DHS and private funders, CBOs began

to invest in evidence-based approaches to delivering services and care. Programs showing promise or proven to be successful elsewhere were brought in to Freedom County, tailored to meet the specific needs of the County's residents. CBOs partnered with the nearby State University to test these programs and measure their outcomes in a statistically rigorous manner. Programs that produced solid outcomes were supported financially, maintained, and improved, while those that did not were defunded and adjusted or terminated entirely. Now, all public and private funding goes toward CBOs delivering and developing strong programs and services supported by evidence. And evidence is, in turn, being measured through application of technology and integrated and shared data, again supported in part by philanthropic donations that are no longer going to close gaps in program funding.

To be fair, the CBO landscape in Freedom County now looks a bit different. Some CBOs were unable to successfully make the transition to outcomes, and have since closed their doors. Some recognized that their portfolio of programs included some that seemed like they would help County residents over time… but actual data about long-term outcomes, once collected and analyzed rigorously, showed otherwise. Those programs have been shuttered and funding and energy have been reallocated elsewhere.

The best performing CBOs, though, grew stronger and expanded their organizations both through organic build-outs and acquisitions. They became, and are viewed by DHS, as critical members of a larger interconnected ecosystem focused on common outcomes. Many of the County's smaller CBOs have joined together to share "back-office" functions and a single technology infrastructure. Where demand has grown and programs have been proven effective, new CBOs have sprung up, embracing an evidence-based and outcomes-based orientation from their very inception.

It is now well-understood that the human services ecosystem produces significant social and economic benefits for the County. Armed with outcomes data, CBOs can translate funding and donations into tangible results for the community. Just as a financial investor can approximate the expected return on a given investment, public and private funders of human services in Freedom County can evaluate the projected impact of every dollar they inject into the system. Clear ROI metrics and demonstrable outcomes have incentivized additional funders, including social impact investing organizations, to support the human services ecosystem.

Most importantly, the residents of Freedom County embrace the need to invest in the human services ecosystem as crucial to lifting up their communities and providing the means for a happy, productive, and successful life for all. To the residents of Freedom County, the human services system is as much a part of their critical infrastructure as their roadways, their water pipes, and their schools.

“NORTH STAR” INITIATIVES

"NORTH STAR" INITIATIVES

Realizing the full transformative potential of America's human services ecosystem, including human services CBOs as a critical partner within the ecosystem, will not be easy. It will require concerted leadership and action by all parties involved across the human services ecosystem, including the CBOs themselves, the public sector, philanthropic funders, policy makers at all levels of government, industry associations, and the academic and research community.

We outline five major "North Star" initiatives to guide the actions needed to bring about change and unleash the full potential of human services CBOs as critical partners in the larger human services ecosystem. These initiatives aim to support the effective delivery of integrated services, in order to improve the health, well-being, productivity, and vitality of communities and society. The initiatives will also look to lower social costs over time by addressing stubborn downstream issues mentioned previously, such as rising healthcare costs, persistent chronic health issues, enduring unemployment and underemployment for specific population groups, and the high costs of people involved in the criminal justice system.

✵ NORTH STAR #1: COMMITMENT TO OUTCOMES

Delivering demonstrable results and outcomes is an important part of the business case in favor of any organization, including CBOs. Government agencies and funders, recognizing this, are increasingly demanding that CBOs demonstrate impact and "ROI" from programs as a prerequisite for funding. As discussed in the prior section, though, defining and measuring positive outcomes remains a challenge. Our first "North Star", therefore, is a call for all constituencies in the human services ecosystem to fully commit to the achievement and measurement of outcomes in all practices, policies, and regulatory and budget mechanisms.

Many stakeholders are already taking steps in this direction. The Washington State Institute for Public Policy (WSIPP), for example, is an institute created by the Washington State Legislature, jointly overseen by members of the state legislature and the academic community. WISSP conducts extensive research pertaining to evidence and outcomes related to state programs, and calculates cost-benefit estimates for 11 different categories of programs, including juvenile justice, child welfare, adult mental health, workforce development, and others.[26]

What steps can each group of ecosystem stakeholders consider to promote a true shift to evidence and outcome-based strategies?

Human services CBOs must commit to "owning" outcomes and accept accountability for demonstrating that their services are in fact producing positive long-term outcomes in a cost-efficient manner. In order to do so, CBOs will also need to prioritize investment in systems and capabilities necessary to measure outcomes. For many CBOs, this will translate to substantial requirements for long-term data collection and storage, as well as the capacity and commitment to developing measurement methodologies and analytics. Meeting these commitments will require investment, which may include the need for CBOs to make the

CASE STUDY: ORIENTING AROUND OUTCOMES IN DAKOTA COUNTY, MINNESOTA

In Dakota County, MN, it's all about outcomes. The County's Community Services Administration (CSA) structures all of its activities around one central question: "How are we improving the lives of our clients and communities?" Departments work together to respond to client and community needs, creating holistic service delivery approaches that aim to address root causes. They constantly look for opportunities to break down silos and deliver services based on what is needed, versus where clients show up in the system.

Measuring and tracking outcomes is key. Departments report what outcomes are achieved and how clients and communities are impacted, as opposed to merely reporting dollars spent and services delivered. CBOs contract with the County under a performance-based system, where payment is dependent on the successful delivery of positive outcomes. CBOs receive additional incentive payments for exceeding performance expectations and delivering services in a collaborative, integrated fashion. The CSA is tracking outcomes based on the social determinants of health – i.e., the conditions which allow Dakota County to understand what it takes to actually move the needle – to lower rates of homelessness and substance abuse, to ensure healthy birth weights, and to increase the well-being, independence, and prosperity of the County's citizens and communities. The CSA also uses this data to structure budget requests. Instead of proposing budgets for specific programs and services, the CSA can detail how much it needs to realize better outcomes. By linking funding directly to outcomes that strengthen the social determinants of health, CSA has successfully obtained budget increases every year.

difficult choice to prioritize investment in data and analytical capacities over investment in direct program capacity, which will be particularly challenging given the financial realities many CBOs face.

Government agencies and private funders must also commit to continuing the shift to more outcome-based procurement and contracting, prioritizing allocation of funding based on the CBO capacities needed to reach, measure, and report on outcomes rather than on outputs or services delivered, and modernizing related policies to reflect this focus on outcomes. There are two important qualifiers to this commitment. First, funders must recognize that new and innovative programs that lack an evidentiary track record may become the proven programs of tomorrow. Funders must continue to recognize and fund innovation and the development of tomorrow's evidence-informed programs. Second, funders must also recognize that over time, the best outcomes result from healthy, agile human services CBOs. The commitment to outcomes must be balanced with the need for payment terms that allow CBOs to meet their cash flow needs and make investments in the capacities required to reach optimum outcomes.

There are multiple ways in which procurement processes might be structured to achieve this balance. For programs whose outcomes are still uncertain, payments might be separated into upfront and deferred outcome-based components. Programs with a previously proven ability to produce positive outcomes, meanwhile, might be designated as qualified for non-deferred payments. Where outcomes are particularly uncertain or significant working capital is needed upfront, philanthropic and commercial investors can step in to fund programs at the start, with the government providing reimbursement once positive outcomes are demonstrated. Such funding arrangements, in the form of Social Impact Bonds or "Pay For Success" initiatives, are currently being developed and tested throughout the nation, at both state and local levels.[27]

Government agencies and funders also need to commit to funding this ongoing transition to a more outcomes-oriented world. For both CBOs and government agencies themselves, the transition will involve more than just a change in mindset – it will require hard work and investment. How will desirable outcomes be defined? How will they be measured? How will the requisite data be collected, stored, maintained, and manipulated? All of this will require hard dollar investment in the ongoing capacities required.

There is also an important opportunity for **industry associations** to explore the creation and promulgation of standardized evidence measurement approaches, and to support CBOs with the associated challenges of data collection and analysis. There is still relatively little consensus about what constitutes success in the delivery of human services – different CBOs and different government agencies may rely on very different metrics, even when evaluating the performance of broadly similar types of services. This makes it difficult to compare services on an "apples to apples" basis and to optimize funding decisions. Over time, more standardized measurement approaches could facilitate comparison of CBO performance, allowing for targeted allocation of funds to the most proven and promising programs.

CASE STUDY: FINANCING OUTCOMES AND INCENTIVES IN KING COUNTY, WASHINGTON

Third Sector Capital Partners is working with **King County, Washington** to create human services programs that align financial incentives with the attainment of positive outcomes. Such programs ensure that CBOs tailor their services and supports to achieve maximal impact for the individuals, families, and communities they serve.

Outpatient Treatment on Demand, one of the programs currently underway, aims to improve timely access to outpatient behavioral health care for citizens of King County. As part of the program, participating CBOs will receive bonus payments for achieving certain performance targets tailored to the program's objectives, which include delivering timely intake assessments and connecting patients to follow-up routine care. CBOs worked with the County to assess the currently available performance data and agree to meaningful outcomes metrics and targets that will trigger bonus payments. CBOs will have continuous access to data on their own performance, which the County will also use to assess which CBOs are performing strongly. The program is open to all CBOs contracting with King County to provide outpatient behavioral health services, which collectively serve about 48,000 individuals every year.

Outcomes-based programs like Outpatient Treatment on Demand introduce a number of benefits. Foremost, CBOs are incentivized to focus their efforts on achieving positive outcomes in order to qualify for bonus payments. This may help spur innovation as CBOs work to develop more impactful programs while phasing out those that are not up to par. Demonstrating outcomes requires rigorous study design, measurement, and evaluation, contributing to a culture of evidence and continuous learning in the human services sphere. These programs also help governments identify and allocate funding toward programs and services that produce the best results – a proposition more palatable to the taxpayer and more compelling to legislators and administrators making budgetary decisions.

As noted previously, smaller CBOs are also likely to find it difficult to meet all of the data collection and analysis challenges to apply these metrics to their programs and services. Industry associations should also explore opportunities to provide clearinghouse and service bureau-like support to CBOs in order to meet these challenges.

Finally, **universities and think tanks** also have a role to play. The challenges associated with defining and measuring outcomes go beyond just data collection. As noted previously, human services needs are often interconnected – a child's behavioral issues may be connected to a parent's addiction issues, an employment issue may be connected to a years-earlier housing issue, and so on. Rigorous, independent research will be required to identify and define desired outcomes and the packages of services, both "upstream" and "downstream," that are most likely to yield these outcomes in a sustainable, efficient way.

While CBOs are importantly affected by federal and state policy, most of the human services ecosystem is local. It is at the local - city or country - level where CBOs, government agencies, hospitals, and universities overlap. And the commitment to outcomes must be made at the local level.

✵ NORTH STAR #2: CAPACITY FOR INNOVATION

Our second "North Star" is a call for the human services ecosystem to develop its capacity for innovation. Faced with pressing immediate needs and tight budgets, human services CBOs and funders naturally and appropriately devote much time and attention to current service provision. The sector must also continue to evolve and improve over time. Population needs will evolve; technologies will evolve; and budget pressures will always drive the need for better, more efficient approaches to services. Put simply, yesterday's services approaches are unlikely to be optimal solutions for tomorrow's needs.

How can each group of human services stakeholders best contribute to accelerating the creation of capacity for innovation within the sector?

For **human services CBOs,** developing the capacity for innovation will require new learning, time and dollars, and will mean:

- Working to design optimal, better coordinated, and integrated services "packages";
- Developing innovative delivery mechanisms, including remote and technology-enabled services; identifying and targeting upstream points of intervention more effectively;
- Deeper partnerships and networks;
- And implementing more robust, cost-effective approaches to administrative functions such as accounting and reporting.

Realizing these goals will require "big data" analysis capabilities and investment in next-generation technology infrastructure to support capabilities such as improved data capture and sharing, more robust outcomes analysis, and automation of program cost tracking and accounting.

CASE STUDY: SPURRING INNOVATION THROUGH PRIVATE FUNDING

When it comes to fostering innovation and realizing impact, private funders are recognizing the need to provide flexible capital and a focused set of tools and resources. Two initiatives to fund social innovation that deserve special mention:

Blue Meridian Partners pools together funding, resources, and expertise from a group of leading philanthropic institutions to place "big bets" on promising and innovative human services programs. Led by the Edna McConnell Clark Foundation, Blue Meridian provides grants of up to $200M in flexible, unrestricted funding to supercharge the growth of high-performing CBOs over the course of 5-10 years. The goal of Blue Meridian is to develop and scale up path-breaking, evidence-based programs that have the potential to make a significant impact.

Blue Ridge Labs supports technology-enabled innovation in the design and delivery of human services. A program of the Robin Hood Foundation in New York, Blue Ridge provides funding and resources to social entrepreneurs and technology start-ups tackling the challenges faced by low-income Americans. With a focus on client-centered development and rapid testing and iteration, Blue Ridge embraces data-driven experimentation to optimize, roll out, and scale up the most impactful solutions.

These investments should be prioritized, potentially even above direct program-related spending, and should be presented to funders as key to CBOs' long-term efficiency and effectiveness.

In addition to technology investment, CBOs should seek opportunities to build collaborative environments that enable innovation. For instance, e-finance and personal health start-ups are developing innovative technology-enabled approaches to delivering advice and services in the for-profit sector; partnership with these types of organizations could potentially cross-pollinate the human services ecosystem with new ideas from tech industry and enable innovative problem solving. Other examples of this include test and reward experiments, fellowships for technology sector workers, and human services CBO 'innovation hubs'. Partnerships with high tech firms could include "hackathon"-style events to brainstorm and develop non-traditional approaches to key human services challenges.

These events can promote creativity, knowledge, and leadership exchanges between organizations to collectively improve the lives of American families and communities. These types of partnerships may also facilitate CBOs access to venture capital and technology sector funding opportunities.

CBOs should also explore participation in formal innovation labs and environments, including those used by private sector corporations. For instance, pioneering human services CBOs, including members of the Alliance, have invested in participation in innovation programs developed by the Innovation Engineering Institute, a cooperative undertaking of Eureka Ranch and the University of Maine.[28]

Public and private funders will also need to recognize the importance of the capacity for innovation, and the fact that it won't happen for free. We recommend that both public sector and philanthropic funders explore development of funding vehicles and contracting structures that will facilitate increased funding for human services CBOs' technology and data expenses to build this capacity. Ideas for exploration might range from the creation

"We in the human service ecosystem are at a crossroads and our futures will be determined by our ability to innovate. Without innovation and new ways of thinking and solving problems, we will become obsolete, like the many businesses that are no longer with us as a result of the changing times. We believe that innovation is a daily must!"

– Human Services CBO CEO, Hawaii

CASE STUDY: UNIVERSITIES DRIVING INNOVATION IN HUMAN SERVICES

Universities are catalyzing innovation in human services through collaborative programs that bring together academic researchers with government agencies, private funders, human services CBOs, and other community stakeholders. These university-driven programs look to develop, test, and deploy solutions that improve lives and strengthen families and communities.

The Stanford Center on Poverty and Inequality focuses on data-driven innovation in the development of policy solutions and human services programs. For example, the Center's Administrative Data Program looks to create a comprehensive data framework that allows CBOs to more effectively design programs and measure outcomes. In partnership with Third Sector Capital Partners and with funding from the Ballmer Group and the federal Corporation for National and Community Service's Social Innovation Fund, the program links data from federal, state, and local sources, providing for richer analysis of the drivers and indicators of program success.

The Harvard Kennedy School Government Performance Lab develops and pilots programs and solutions aiming to improve the effectiveness of human services. With funding from private donors, including the Laura and John Arnold Foundation and Bloomberg Philanthropy, fellows from the Government Performance Lab work alongside state and local government leaders to develop Pay-for-Success social impact bond programs, outcomes-based procurement methods, and performance improvement and systems re-engineering efforts aimed at optimizing both impact and spending.

The Ohio State University's Initiative for Food and AgriCultural Transformation (InFACT) aims to develop transformative models of food production and distribution to tackle the complex and growing problem of food insecurity. A collaboration between Ohio State researchers, food and nutrition-focused CBOs, private donors, policymakers, farmers, and other community partners, InFACT uses Ohio State's many campuses as living laboratories to engineer climate-resilient, secure, and equitable agricultural and food systems that can be scaled up and redeployed within communities as sustainable sources of healthy foods.

of CBO technology-specific investment funds; the creation of early-stage accelerators and incubators focused on human services CBOs; and changes in contracting rules that would create more flexibility in allocating contract revenues to technology expenses.

Funders must also be willing to allow human services CBOs to "fail forward". Innovative ideas and approaches may not – in fact, are unlikely to – succeed immediately. Trials may fail but yield learnings that make the next trial better; multiple iterations may be required before a successful innovation emerges. Human services CBOs need room for error and failure in order to plan for and execute the most impactful programs and services for individuals, children, and families. By embracing failure as an integral part of the continuous improvement and innovation process, funders can motivate organizations to take more risks to develop better services and programs for their clients and build the capacity for innovation. Funders must have the patience to fund the innovation cycle through these iterations, without restricting funding at the first sign of failure. As noted previously, this patience must also be balanced with the commitment to evidence and proven outcomes-based programs.

Government agencies can facilitate innovation by sharing client data with human services CBOs. Today, CBOs interested in systematically analyzing population needs and human services outcomes frequently face significant difficulties in accessing data held by government agencies. To help CBOs address this roadblock, we recommend that government agencies and policy-makers consider investment in data anonymization programs, so that client data can be shared without violating privacy laws, and creation of single-point-of-access portals to provide CBOs low-cost access to the agencies' data stores.

Regulators and legislators can also take actions to make data sharing easier and more likely to happen by modernizing archaic laws and regulations. We recommend that regulators and legislators start by engaging with human services CBOs and government agencies together to understand their data sharing needs, help them recognize where data sharing and privacy concerns are legitimate, and then refine rules and regulations as appropriate – balancing needs for client confidentiality with the public interest in accessing valuable data to design more effective and efficient human services approaches. Each of these constituency groups has independently studied regulation and developed their own strong opinions about the efficacy of specific regulations; our North Star call is for these groups to now collaborate and work together to develop a shared view.

Fifth, we recommend that **industry associations** play a role in sharing knowledge, identifying best practices, and developing methods to take best practices to scale across the sector and into the realm of policy. As many of the case studies included in this report demonstrate, innovation is already happening in the human services sector, but it is often happening in pockets and limited to specific locales. Sharing ideas and converting them into actionable solutions that can be widely implemented is key to ensuring that CBOs and the human services ecosystem realize the fruits of innovation.

Lastly, **universities and think tanks** should also explore ways to support and facilitate human services innovation. Ideas include creation of standard data models to facilitate

CASE STUDY: INTEGRATED SERVICES AND EXTENDED FAMILIES IN HAWAII

'Ohana Nui. That's Hawaiian for "big family" or "extended family." For **Hawaii's Department of Human Services**, it's also a guiding mantra. The Department's 'Ohana Nui initiative, adapted from the Aspen Institute's two-generation framework, aims to address the entire family's needs when providing services and supports. The initiative responds to research demonstrating that the well-being of parents and their children are highly interrelated; improving the lives of parents has a marked positive impact on their children, while ensuring the success of children serves as a powerful motivator for parents. 'Ohana Nui places the family at the center of the system, looking to provide services and supports for all family members in concert. The result is better outcomes for the whole family.

Responding to the collective needs of parents and children has required the development of integrated approaches to service delivery. DHS is working with human services CBO partners to create programs and processes that address a multitude of needs under one roof. The Family Assistance Center, for example, brings various CBOs in Hawaii together to provide both temporary shelter and longer-term housing services, federal benefits enrollment support, food and nutrition services, legal aid, educational programs, and a variety of other services and supports. CBOs in Hawaii have begun to incorporate 'Ohana Nui principles into their programs, tracking the impact of integrated, holistic service delivery on both individuals and families. In the future, DHS hopes to align legislative budget requests with the 'Ohana Nui framework. The goal is to be able to specify how funding will lead to improved well-being, independence, and prosperity for Hawaii's families. The ultimate impact on these families will be monitored and evaluated over time.

classification and sharing of data; creation of shared data hubs; and creation of human services start-up and innovation networks and hubs.

✵ NORTH STAR #3: OPERATING MODEL 2.0 – A STRATEGIC PARTNERSHIP APPROACH

Our third "North Star" initiative is a call for deeper partnerships and networks across the human services ecosystem. The intention of **"Operating Model 2.0 – a strategic partnership approach"** is to change how ecosystem actors work with each other and leverage assets more fully so that they can focus on and achieve outcomes, reduce friction and costs, and foster innovation. The limitations of the current operating model were earlier described as challenges. Creating, accelerating and maintaining highly effective generative partnerships and networks can address these limitations. It will also require leadership and funding. They won't just happen because of good intentions.[29]

What steps can each group of stakeholders consider in order to spur greater service integration and collaboration?

First, we recommend that **Human service CBOs** more deeply affiliate and partner with each other. Partnerships can encompass both programmatic and administrative functions. Program partnerships should create integrated service packages, spanning multiple program types, to meet populations' human services needs in a holistic fashion. Administrative partnerships should focus on establish shared service utilities that provide standardized administrative functions to member CBOs and lower administrative costs across the group. Standardized functions may include IT, data storage, finance and accounting, compliance and reporting, purchasing, and HR operations. Back office utilities for CBOs can also spread best practices and pursue continuous improvement programs that are then leveraged across participating CBOs. Utilities could also provide decision support services. For example, an "RFP rater" might assess the risks in RFPs to help CBOs, especially smaller ones that lack the required analytical capabilities, make informed decisions about which ones to pursue. By diversifying the risks and costs of investing in administrative and decision support services, a

> "We see a client from point A to point B in their treatment and hand them off to another CBO for treatment between points B and C. Apart from sending some paperwork, we don't collaborate and share information to improve the probability of effective treatment and the client's ultimate success"
>
> – Human Services CBO CEO, Illinois

CASE STUDY: ASSESSING THE RISKS OF GOVERNMENT CONTRACTS USING THE HUMAN SERVICES COUNCIL OF NEW YORK'S RFP RATER

Financial stress among CBOs is in large part driven by government contracts that fail to cover the full costs of delivering services and introduce unfunded mandates in the form of stringent compliance and reporting requirements. Heavily reliant on government funding, CBOs may be hesitant to push back on unfavorable contract terms, or they may lack the resources and sophistication to properly understand the risks associated with particular government contracts. At the same time, government agencies may underestimate the extent to which contracts place financial and compliance burdens on CBOs.

The Human Services Council of New York looks to upend this dynamic. Developed through a collaborative process between government and CBO stakeholders, the Council's publicly-accessible RFP Rater assesses the level of risk that state and local government solicitations impart on CBOs. Risk scores are derived from 60 different criteria that examine funding amounts for both direct and indirect costs, compliance burdens, standard contract protections and guarantees, and flexibility in how CBOs may deliver services, among other characteristics.

The RFP Rater aims to empower New York CBOs to make well-informed decisions about which government procurement opportunities to pursue. In addition, the Human Services Council hopes that the tool will motivate government agencies to improve contract terms and funding levels. By bringing transparency to the risks, challenges, and rewards inherent in government programs and contracts, the Council's RFP Rater looks to change the conversation around how human services programs should be funded and administered, while setting up CBOs contracting with the government for operational and financial success.

utility structure can provide advantaged access to capital for spending on infrastructure and talented professionals.

There may also be situations where CBOs should proactively consider mergers as a way to take their missions forward. Mergers may be the correct response when the nature of funding has changed in a way that requires greater scale, efficiency, or back-office capability. For example, in localities where human services funding is moving toward managed care or value-based payments, there will be pressure toward consolidation. The need for programmatic scale and the increased requirements for information technology, risk-bearing capacity, and financing may require CBOs in these localities to merge. Smaller CBOs serving limited populations may join a larger organization to obtain access to up-to-date systems and better financing, rather than trying to "go it alone." There is also pressure to consolidate when CBOs face competition from or need to engage deeply with significantly larger entities, including hospitals, managed care organizations, and insurance companies. These entities are more likely to engage with a small number of larger CBOs than with a large number of smaller ones. Of course, it is ultimately the CBO's board that must decide whether a given merger or partnership makes sense in light of potential alternatives. But boards serious about their duties of care, loyalty, and obedience must be open to the possibility – and not solely as a last resort.

Exploration, creation, and sustained implementation of this type of deeper partnership will not be easy; it will require time, attention, and most of all, funding. **Government agencies and private funders**, therefore, will need to commit financial resources to partnership development. This could be accomplished by making explicit grants and payments in support of partnership exploration or by allowing CBOs to direct some portion of their existing funding toward investment in the activities and capacities needed to realize successful partnerships.

We also recommend that **government agencies** examine their existing organizational silos. In jurisdictions where multiple government agencies, or multiple departments within agencies, are responsible for delivering human services to common or overlapping populations, these agencies must work to share information and to coordinate their contracting and service delivery. They should consider reorganizing around populations and high priority, high impact outcomes, instead of around specific programs.

With regards to human services CBOs, government agencies should recognize and invest in CBOs as strategic partners, rather than as transactional vendors. Many government agencies, when interacting with CBOs, first identify a specific service requirement (e.g., 100 beds of shelter capacity), then solicit bids from the CBO community to provide this capacity. They select from among those bids by placing a heavy emphasis on lowest possible cost.

We recommend that agencies seek to engage with CBOs earlier and on higher-level issues, to develop a mindset in which CBOs are viewed as partners in long-term community growth and development and continuous quality improvement. Important aspects of a partnership approach may include:

- Advisory Boards (with CBO membership) for population needs analysis
- Collaboration on program, service, procurement, and contract design

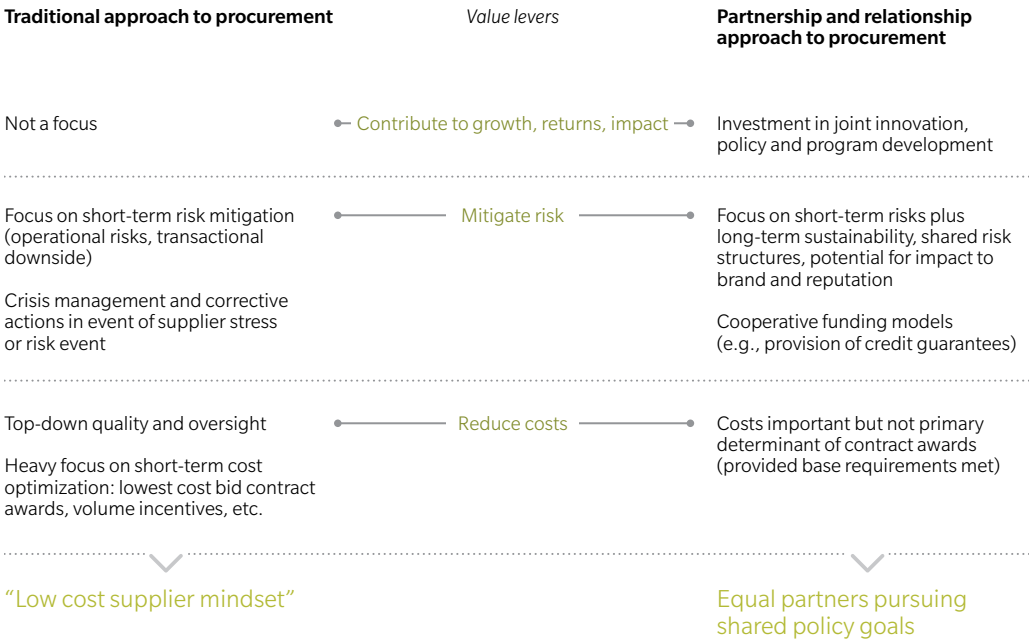
CASE STUDY: HOLISTIC SUPPORT FOR STUDENTS AND FAMILIES IN FLORIDA'S COMMUNITY PARTNERSHIP SCHOOLS

Learning is just one part of the agenda in Florida's **Community Partnership Schools**. Through a collaborative effort between the **Children's Home Society of Florida (CHSF)** and colleges and universities, health centers, and school districts throughout Florida, Community Partnership Schools provide a wide range of services, aiming to tackle root causes preventing students from reaching their full potential. CHSF coordinates with school districts and other human services CBOs to ensure that students have access to the services and supports they need to succeed, including health and wellness services, nutritional programs, recreational opportunities, and counseling services. In addition, support and resources are available for students' parents and families, including, for example, health and mental health services, substance abuse treatment, and financial literacy education.

Providing access to an array of human services in an educational setting and under one roof has led to considerable gains for students. Compared to peers at traditional schools, students attending community schools demonstrate improved school attendance, greater proficiency in a number of academic subjects, increased college readiness, greater parental involvement, and ultimately, higher graduation rates.

- Support of funding for programs, general operations, and capacity-building by expanding access to capital through creative use of CRA programs, credit guarantees, and social impact bonds
- Cross-staffing via fellowships and related programs

Exhibit 8: Proposed attributes of a strategic approach to human services CBO relationship management



This migration to a strategic partnership approach implies a significant change in how government agencies think about and approach the contracting process. Criteria for awarding contracts should be broadened to include demonstrated track record of success as well as factors like governance, staff and leadership development, financial health, and capacity for innovation, in addition to program delivery cost. One idea might be to only allow bids from CBOs that meet minimum standards for those factors. Contract terms likely need to change to allow for more flexible funding, and more reliable payment schedules. Contract performance metrics likely need to change to place greater emphasis on outcomes and on CBO capacities for deeper collaboration and innovation.

Industry associations should commit to encouraging and facilitating these partnerships. They can play an important role in introducing potential partners to each other and facilitating exploratory discussions, as well as in developing and promoting standard partnership models (e.g., shared services models, strategic collaboration approaches, lead agency models,

managed care models, certification of CBO sustainability, etc.) and contract templates. Industry associations should also seek opportunities to play a stronger and more proactive advocacy role for the human services ecosystem, to help correct common misperceptions about the system's role and the value and the importance of CBO's.

✵ NORTH STAR #4: FINANCIAL MANAGEMENT POLICIES AND PRACTICES

As discussed in the previous chapter, many human services CBOs do not have healthy, sustainable finances. Some are actively distressed. Many others lack the financial resources to avoid slipping into distress if they encounter any unexpected variations in their financial inflows or obligations. Most observers of the human services sector expect that, left alone, this situation will get worse before it gets better, given likely pressure on public spending levels in the near to medium term.

What steps can each group of stakeholders consider in order to spur the development of new strategies to create more stable, sustainable finances for human services CBOs? We recommend that **human services CBOs** undertake a number of actions, starting with committing to the development of more robust finance and financial risk management policies and practices. Recommended actions include:

Ability to say "no". CBOs must make more strategic decisions about which contracts and funding streams to accept. CBOs should look to renegotiate contracts and funding arrangements that do not cover their cost to provide services. If unsuccessful, CBOs should consider stepping away from these funding streams and turning their efforts toward more viable alternatives.

Scenario Planning. As part of their normal planning processes, CBOs should develop a list of the largest risks and uncertainties they face; assess the likelihood and potential financial impact of each; and develop plans for reducing likelihood and/or impact of each. Examples of risks to be considered might include lease renewal, cost overruns on a capital project, the non-renewal of an important contract, settlements from litigation, and succession.

Recovery and Program Continuity Planning. CBOs should also have plans for how they will respond in the event of a true financial disaster. Plans should include steps to be taken to maintain program continuity (e.g., laying off staff or selectively discontinuing some programs in order to preserve others). Large organizations should also consider developing "living wills" to expedite program transfer to other CBOs in the event of bankruptcy. These plans should be discussed in advance during stable times with government agencies and partners so that everyone is prepared to act in a crisis.

Benchmarking and Self-rating. CBOs should compare their financial performance to peers on an annual basis using IRS Form 990 data, and explore us of "self-rating" tools to combine financial measures into an overall indicator of organizational health.

Financial Stability Targets. CBOs should have targets for operating results associated with financial stability. An example might be not having two consecutive years of unplanned/unfunded deficits. Some organizations are consciously investing endowment proceeds and running deficits as capital investments. They should also have targets for cash, unrestricted net assets, operating reserves, and access to credit. Trustees should develop contingency plans for when minimum targets are not met. Organizations should think creatively about how to build the necessary reserves. Ideas might include one-time capital campaigns and pledged funds from trustees for use in a crisis. CBOs should put in place monitoring and governance processes to ensure that reserves are not inadvertently spent down to fund operating deficits.

Reporting and Disclosure. Larger CBOs with annual revenues exceeding $100 million should summarize their financial and programmatic results in a short, plain-English version of the management discussion and analysis section of the SEC's Form 10-K. This report should also cover their opportunities and risks in the context of internal and external conditions. Creating this type of report would give a sense of urgency to the underlying processes. It could also help reassure stakeholders such as trustees, funders, and regulators that the organization is doing all it can to ensure long-run sustainability.

Board Composition, Qualifications, and Engagement. CBOs should redouble their effort to recruit trustees with a wide range of experience, including financial and risk management expertise. They should empower high-functioning committees focused on finance and risk. They should also ensure that ongoing education is provided to both new and existing trustees. Trustees cannot participate in intelligent risk management unless they understand important contracts and the associated processes for approval and registration. They also must know the distinction between direct/indirect and allowed/disallowed costs. Many CBOs, particularly large, complex ones, would benefit from having an experienced nonprofit executive on their board with firsthand experience of the programs and the associated funding streams.

Financial Management Expertise. CBOs need to ensure that their staff possesses adequate financial expertise. For mid-size and larger CBOs, this need is best met through a dedicated Chief Financial Officer and supporting staff who possess both nonprofit and for-profit financial management experience. Nonprofit experience is critical to ensure that the CBO deals with the particular requirements of nonprofit accounting, program and grant accounting, and government contracting. For-profit experience is helpful as well, to ensure that the CBO's cash flow and capital management capabilities are robust. In addition, it is critical that financial expertise enables CBOs to account for and understand the full costs of delivering services, so that they can position themselves for financial success. The CFO should be positioned and compensated as a senior member of the CBO's management team.

Alternative Revenue Sources. Many human services CBOs receive much of their funding from a small number of sources (usually government funders) and it is often concentrated in a

CASE STUDY: SETTING UP CBOs FOR FINANCIAL SUCCESS IN MONTGOMERY COUNTY, MARYLAND

In **Montgomery County, Maryland**, CBOs are given access to tools and trainings to help them succeed financially and to navigate the process of contracting with government agencies. Training sessions are provided by the nonprofit association **Nonprofit Montgomery** and funded in large part by the County's Department of Health and Human Services. Training sessions look to equip CBOs and other nonprofits in the County with skills around financial management and budgeting, knowledge of contracting and reporting procedures, and approaches to collaborating successfully with government agencies.

Nonprofit Montgomery also serves as a forum facilitating collaboration between the County's government agencies and nonprofit providers. For instance, the County's Department of Health and Human Services works with CBO members of Nonprofit Montgomery to obtain feedback on and understand the impacts and implications of new and proposed regulations.

Recently, the Department worked with CBO members of Nonprofit Montgomery to refine and implement a standardized process of determining indirect rates for contracts with the County. The process specifies how CBOs should calculate their indirect rates, including what costs can and cannot be included in their calculations. The Department then corroborates CBOs' indirect rates based on their audited financial statements. With greater transparency and accountability in the rate-setting process, CBOs can bid on contracts more effectively, while the Department is provided a clearer view into CBO financial performance. Establishing clear guidelines around indirect rates has also signaled to CBOs that Montgomery County understands them as businesses and is invested in supporting their business needs.

relatively small number of contracts. We recommend that CBOs continue and redouble efforts to develop alternative revenue sources and to diversify their funding profiles. Examples might include the creation of for-profit or surplus-creating subsidiaries or programs, which focus on providing services similar to the CBOs' existing core program services, but to recipients or entities with greater financial capacity to pay for them.

Alternative funding sources. Human services CBOs also need to make changes to ensure that they have appropriate access to capital and debt funding sources. Steps in this direction should include meeting with potential bank lenders to understand underwriting criteria in advance; making modifications to financial practices and policies as necessary/feasible to meet these criteria; and applying for back-up lines of credit, even if they are not currently needed, in anticipation of possible future needs.

Human services CBOs cannot address all the causes of their financial stress on their own. **Public and private funders** will also need to change their practices and policies. First, and most importantly, funders need to commit to contract terms that cover the full costs of providing services and reviewing their funding models over time. Today, contracts frequently pay at levels that are below the actual costs incurred by the CBOs – either because public agency funders assume that CBOs will reach out to philanthropic funders to cover the difference, because they disagree about what an appropriate full cost level should be, or simply because the government agencies themselves are not fully funded (or some mix of all these reasons). CBOs will never be financially stable and sustainable if "cost minus" contracts are the norm. Full, reasonable costs should include all costs related to delivering services, including both direct program costs and indirect general operating costs, as well as costs related to general operations, capacity-building, and innovation. Reasonable full cost levels should be estimated and agreed, potentially with independent third parties playing a role in establishing a "standard" view of acceptable expected cost levels. For-profit vendors to government agencies expect to be fairly and completely compensated for the goods and services that they provide; CBOs should be able to expect the same.

Funders also need to commit to providing CBOs with more flexible outcome-based funding that incentivizes efficiency and performance and the ability to reinvest savings in increased capacities. Today, contracts typically specify artificially created caps on what portion of contract payments can be used for indirect costs. Contracts may also specify artificial compensation caps for senior members of CBOs. These restrictions limit CBOs' ability to manage their businesses in an optimal way. CBOs need the flexibility to invest in innovation and an infrastructure capable of supporting innovation. At times, this may require the flexibility to spend more on administrative functions or technology; at other time, it may require less. CBOs will always know their businesses best and will be best positioned to make these kinds of budget allocation decisions. In light of that, funders should provide CBOs with flexible outcome-based funding that can be allocated as necessary to support both service delivery and the CBOs' long-term organizational health and development.

Funders should also commit to contract terms and payment practices that support timely payments to CBOs. Contract terms should specify that late payments will trigger the payment of interest and/or penalties paid to CBOs, as is common in the commercial world. They should

CASE STUDY: ALTERNATIVE REVENUE STREAMS AT SPONSORS FOR EDUCATIONAL OPPORTUNITY

Sponsors for Educational Opportunity, or SEO, was founded in 1963 to assist underserved students with college preparation. The organization provides a free, rigorous 8 year academic and mentoring "Scholars" program for almost 1,500 students. These students come from economically disadvantaged families, the vast majority are first generation college students, and 90% of them, with SEO's support, ultimately graduate from college.

In 1980, SEO started a complementary program, "SEO Career," which provides career training and job placement services to underserved college students. The program places almost 300 students into internships with leading banks, investment firms, and corporations, and roughly 80% of these interns go on to receive full-time offers of employment from their intern employers. SEO added a "Law" program in 1986, pairing high-achieving minority students preparing to matriculate at top law schools with corporate law firms seeking a more diverse talent pool.

The Career and Law programs are completely consistent with the organization's core mission of helping underserved students. From a business perspective, though, these programs are very different. The Scholars program provides services to students free of charge. The Career and Law programs also benefit students, but they are also a valuable service for the corporate partners who hire SEO students as interns and for the law firms who recruit SEO law students as entry-level attorneys. Like other third party providers of recruiting services, SEO receives fees for these services.

Historically, the Career and Law programs together have earned a surplus (in effect a "profit"), which has helped fund other aspects of the organization's work (such as the Scholars program), for which SEO receive no fees its services, and which are otherwise funded by philanthropic donations. These in-house ventures are therefore critical contributors to the larger organization's financial health and stability.

also make it easier for CBOs to borrow against amounts due from funders by allowing these payments to be more easily assigned to lenders.

An important and simple step in this direction would be for government agencies to commit to more robust and uniform enforcement of the cost and contracting guidelines contained in the 2014 OMB Uniform Guidance.[30]

Finally, we recommend that funders also explore the creation of pooled capital funds that would make financial resources available to CBOs in the event of financial distress. Many CBOs do not have, and will find it difficult to develop, the level of financial resources necessary to act as buffers against distress. Moreover, were they to do so, the aggregate amount of these financial resources would be very large – and holding them in reserves rather than using them to support program delivery or organizational development would be costly. Because not all CBOs are likely to be financially distressed at the same time, though, pooled funds could provide a more capital-efficient way of protecting CBOs from distress. These funds could be organized to support specific sub-sectors or specific geographies, as appropriate. The funds could be managed as a source of short-term funds, likely provided via loan agreements, but with the same purpose and effect as in-house capital which would normally be drawn down in times of stress and need, and replenished subsequently.

Lenders specifically need to assess their underwriting criteria to ensure that they appropriately reflect the reality of CBOs' business models (while still meeting the lenders' needs to evaluate and control credit risk). They should also revisit their policies and practices to ensure that CBO lending is an active part of their internal CRA programs.

We also recommend that **regulators and legislators** explore how they also might more effectively promote growth in the social capital markets. Possibilities could include, for example, making it easier for human service CBOs eligible to participate in the issuance of public municipal bonds; the provision of public default protection on loans made to qualifying CBOs; or enhanced/expanded CRA treatment for bank loans to CBOs.

✵ NORTH STAR #5: REGULATORY MODERNIZATION

Human services CBOs are subject to a wide range of regulations, many of which are overlapping or even contradictory, covering reporting requirements, standards for service delivery protocols, and more. Many of these regulations were initially and well intentionally designed to protect the privacy and well-being of the recipients of CBOs' services, and many of these regulations do provide tangible benefits and value. The compliance burden for CBOs, however, is substantial, both in terms of time and hard dollar costs. The full portfolio of applicable CBO regulations has been developed over time, which has also led to the duplication, overlap, conflict between individual regulations within and across agencies, and regulations simply becoming outdated.

Accordingly, we call on **regulators** to commit to a fundamental review and reform of human services CBO regulation, and to work together in partnership with CBOs to:

CASE STUDY: DIGNITY HEALTH PROVIDING CAPITAL TO HUMAN SERVICES CBOs IN CALIFORNIA

As part of its mission to address the needs of underserved communities, California-based hospital system **Dignity Health** provides a variety of resources and funding opportunities to human services CBOs and healthcare providers. Dignity Health recognizes the importance of programs and services provided by CBOs and local health providers in tackling the social determinants of health. The organization also recognizes that financially strong organizations are better positioned to deliver services that improve the health and well-being of individuals, families, and communities.

To this end, Dignity Health provides direct loans, lines of credit, and capital guarantees to organizations committed to strengthening underserved communities. Investment terms are highly favorable, and interest rates are typically at or below-market. One of Dignity Health's programs looks to provide emergency loans to cash-strapped CBOs and healthcare providers impacted by delayed payments from government funders. As part of this program, Dignity Health maintains a more than $20M loan fund, which is used to provide short-term working capital to organizations facing financial hardship.

- Map the comprehensive portfolio of regulations impacting CBOs, and developed a shared view of the intent and expected benefits associated with each
- Determine where outdated and duplicative regulations can be pared back and overlapping regulations clarified
- Determine where regulations fail to produce intended effects and work to pare back/replace such regulations
- Determine where regulations are particularly costly, relative to their benefits, and work to pare back/replace/find alternatives
- Even in the absence of any change in regulation, work with peers to develop the least burdensome interpretation and to coordinate oversight wherever possible

In addition to this comprehensive review, we recommend two specific areas of regulation for immediate reform. The first relates to litigation risk, which has become a serious issue for CBOs. CBOs provide services to populations including at risk and difficult to serve individuals. Recent litigation has established costly precedent that CBOs can be held financially liable for a wide range of actions by recipients of their services, as well as for events impacting the recipients. (For example, one CBO director shared with us that his organization is facing potential financial ruin as a result of litigation over crimes committed by an individual who had previously received services from the CBO).

It is worth bearing in mind that CBOs, in delivering services, are often acting as contracted agents of government entities. These government entities can (and sometimes do) choose to provide services directly, or they can choose to contract with CBOs to do so. Technically and legally, though, the CBOs are viewed as "grant recipients", distinct from a commercial contractor. When government agencies provide services directly, they often enjoy "sovereign immunity" from litigation in connection to these services. As grant recipients, CBOs are not afforded the same protection, and in a small but growing number of cases, face catastrophic financial exposures as a result.

Regulators should explore opportunities to mitigate litigation risks for human services CBOs. Possibilities might include increasing the burden to prove negligence or to otherwise hold CBOs liable; providing CBOs some degree of immunity, much like that enjoyed by governments directly providing services; capping awards and damages resulting from litigation; or creating shared risk funding pools from which claims against CBOs can be paid out. We recommend that the regulatory reform initiative described above include a specific focus on litigation risk to explore solutions to this problem.

The second specific area for regulatory modernization relates to standardizing definitions around performance and returns with input from and in concert with CBOs. The proliferation

CASE STUDY: GOVERNMENT AGENCIES TACKLING THE CHALLENGE OF MODERNIZING REGULATIONS

However well-intended, regulations at the federal, state, and local level can combine to place significant burdens on CBOs without achieving their intended compliance goals. Regulations that require CBOs to expend considerable resources on reporting and compliance may stifle the development of outcomes-oriented programs and impair innovation in human services. Recognizing this, public sector agencies are working with CBOs to arrive at a regulatory mix that reduces burdens and allows for greater flexibility in the design and delivery of human services programs.

For example, regulatory modernization efforts by the **Colorado Department of Human Services** reduced state-level regulations by about 20%. Outdated regulations constraining how CBOs could deliver services or requiring CBOs to engage in unproductive reporting and compliance tasks were replaced with new protocols providing greater flexibility and reducing burdens on CBOs. The Department engaged CBOs and other community stakeholders to help identify outdated regulations, and community feedback continues to be solicited before new regulations are introduced.

of return metrics, and the variation among those which are espoused in particular rules and regulations across jurisdictions, is a barrier to developing a simplified "common language" for demonstrating and discussing positive impacts and should be rationalized. In addition, regulators should identify and address any rules and practices that may prevent CBOs from earning reasonable margins on their contracts, which would work against funding models that include performance-based incentive payments.

CONCLUSION

This report advances several important arguments about human services CBOs:

- Human services CBOs, both small and large/operationally complex institutions, require sophisticated management and administration
- The services provided by these CBOs are of critical important to their recipients, which include roughly 1 in every 5 Americans: housing, counseling, nutritional support, and employment training. These services make it possible for recipients to live productive, healthier lives
- The value provided and created by CBOs extends well beyond the recipients of services
  - **Employees:** Over three million Americans earn their living by working for human services CBOs, many in skilled jobs requiring extensive training
  - **Communities:** The communities in which CBOs operate benefit both from this employment, from the economic activity associated with it, and from the enhanced productivity
  - **National economy:** These benefits extend to the national economy – human services CBOs generate in excess of $200BN in direct economic activity, with additional multiplier effect as CBO employees spend their wages and as vendors to CBOs also benefit
- The potential value is even greater. Investment in proven, "upstream" human services has the potential to transform some of our society's most vexing and expensive problems – including our healthcare system and our judiciary/corrections system

Realizing this transformative potential is both a huge opportunity and a huge adaptive challenge. We have identified several important barriers that must be overcome, including organizational barriers between and among CBOs, government agencies and philanthropy, human capital challenges, and inadequate technology. The simplest and most foundational challenge is financial: many CBOs are financially strapped, and lack the capacity to perform at their highest potential, invest in new capabilities and improvements, to weather financial "bumps in the road", or to address the other challenges that they face.

We have identified five "North Star" initiatives which we believe the broader set of human services stakeholders – including CBOs, government agencies, private funders, regulators,

industry associations, and universities and think tanks – can pursue to unlock the transformative potential of human services ecosystem as a whole.

Two of these "North Star' initiatives – regulatory reform, and introduction of improved financial policies and practices at CBOs – will have the long-term impact of reducing CBO expenses and/or increasing CBOs financial reserves, creating more financial stability, improved capacities and necessary flexibility for CBOs. Other "North Stars", such as development of the ability to measure and analyze outcomes more rigorously and the development of new partnership-based operating models will require significant investment. Not all such efforts will succeed. Willingness to experiment – and in some cases, fail – will be required.

We have not attempted to estimate the dollar investment required to achieve these North Stars but it will be considerable. Just building financial reserves equivalent to three months of cash expenses – a relatively modest target – for all human services CBOs that do not currently have that level of reserves would require a capital infusion in excess of $30 billion. Private sector firms embarking on similar transformations of their technical and information infrastructures frequently have investment budgets in excess of 10% of their operating costs. In the case of human services CBOs, this would equate to another $20 billion.

Even if regulatory modernization and introduction of new financial policies and practices at CBOs are able to free up some funding for investment, it seems clear that our "North Star" initiatives will not be self-funding in aggregate. They will require substantial new investment and changes.

The business case in favor of this investment is strong – the long-term impacts on health care, criminal justice and corrections have the potential to be multiples of the investment required in CBOs and human services spending. The societal and economic cost of failing to make this investment will be large. But in a constrained funding environment, what is the path forward?

In the for-profit capital markets, investors provide capital to companies, assume some level of risk with regards to whether the company will make productive use of that capital, and then, if the companies do succeed, receive returns in exchange. Investors aren't the only beneficiaries of a company's success; employees and customers also receive benefits in different forms. But the financial investment "circle" is relatively clear. Investors provide capital and assume risk; companies succeed or fail in measurable ways; and returns flow back to investors.

In the CBO world, the investment cycle will never function in as straightforward a fashion. Funders, both private and public, provide financial support to the CBOs, but the benefits are often highly uncertain and difficult to measure or attribute back to specific human services.

The benefits also typically accrue either to the recipients of services, or to society as a whole, in a diffuse way. Funders are, too often, left without a clear, confident understanding of the specific benefits (or returns) earned by their investment. As a consequence of this uncertainty, they are more likely to view their provision of funding less as a successful investment, and more as a donation.

Our hope is that the "North Star" initiatives described in this report, and others like them, will ultimately lead to better-functioning funding mechanisms for CBOs. Once these initiatives have been successfully implemented, funder/investors will have higher confidence that their investments will result in long-term impacts, and CBOs will be better positioned and resourced to deliver these impacts. These impacts, including downstream impacts both to the recipients of services and to broader societal health and wellness, will be measured and reported. Positive financial impacts (such as reductions in required healthcare spending) will be linked to, and compared to, the human services investments that led to them. A market for ideas and impacts, effected through CBOs' services, will emerge.

We also hope that these North Stars will serve as a call to action for those who govern, fund, and contract with CBOs. Every CBO board must commit to understanding and implementing better financial policies and practices. Every funder must consider making a larger portion of their funding available for general operating support and capacity building. Every community must come together and build consensus around which outcomes matter most and commit to measuring and achieving them. Every government agency must commit to reviewing existing regulations with an eye to reducing, or simplifying, them where possible. And so on.

When fully and successfully implemented, the "North Star" initiatives can unlock new sources of funding for the human services ecosystem. This virtuous circle – of funding leading to positive societal impacts leading to more funding – will ultimately lead to financially stronger human services CBOs that will make a tremendous contribution to a healthier, more productive and prosperous America.

FOOTNOTES

1 As we note later in the report, there are over 210,000 CBOs in the US. However, only CBOs reporting gross receipts of $200,000 or greater, or assets of $500,000 or greater, are required to file a full Form 990 with the IRS. The subset of these CBOs filing electronically – about 40,000 in total – make up the group of CBOs whose financial data we were able to analyze for this report.

2 Survey results have a ±7% margin of sampling error with a 95% confidence interval. The National Imperative Survey was fielded to human services CBO members of the Alliance and other Leadership 18 human services associations, and to state and local government health and human services agencies from APHSA. Because the number and distribution of non-sampled and non-responding CBOs and government agencies are not completely random, we caution against drawing definitive conclusions about the broader CBO and government agency populations based solely on the survey results. However, survey results were cross-checked and found to be in agreement with additional research and analysis, including qualitative interviews, and the distributions of several CBO respondent characteristics were found to align with those of the full CBO population (e.g., assets, revenues, margin, etc.). Further discussion on the National Imperative Survey methodology may be found in Appendix B.

3 https://humanservicescouncil.org/wp-content/uploads/Initiatives/HSCCommission/HSCCommissionReport.pdf?q=commission/hsccommissionreport.pdf

4 http://www.oliverwyman.com/our-expertise/insights/2016/mar/risk-management-for-nonprofits.html

5 National Center for Charitable Statistics; Urban Institute; IRS Form 990 data; Oliver Wyman analysis

6 National Center for Charitable Statistics; IRS Statistics of Income

7 National Center for Charitable Statistics; Nonprofit Quarterly; IRS Form 990 data; Bureau of Labor Statistics

8 The Centers for Medicare and Medicaid Services (CMS)

9 Organization for Economic Cooperation and Development; World Health Organization

10 Brookings, "Re-balancing Medical and Social Spending to Promote Health: Increasing State Flexibility to Improve Health Through Housing," 2017

11 http://www.ajpmonline.org/article/S0749-3797(98)00017-8/fulltext.
https://web.archive.org/web/20151221202610/
http://www.cdc.gov:80/violenceprevention/acestudy/about.html

12 "Variation In Health Outcomes: The Role Of Spending On Social Services, Public Health, And Health Care, 2000–09" by Bradley, Canavan, Rogan, et al

13 Data from the Bassett Healthcare Network and University of Wisconsin Population Health Institute, http://www.bassett.org/education/research-institute/population-health/

14 CMS (the Center for Medicare and Medicaid Service)

15 Washington Post, Michelle Ye Hee Lee, 7/7/2015

16 The Washington University in Saint Louis, "The Economic Burden of Incarceration in the US"

17 Further detail about the methodology for our Form 990 analysis is contained in Appendix A to this document, under separate cover

18 Further detail about the methodology and findings of the National Imperative Survey are included in Appendix B to this report, under separate cover.

19 Refer to https://www.grants.gov/web/grants/learn-grants/grant-policies/omb-uniform-guidance-2014.html

20 A 2017 study by the Indiana University Lilly Family School of Philanthropy estimated that potential federal tax reform proposals could lower charitable giving by as much as $13BN. For additional detail, please refer to Tax Policy and Charitable Giving Results. May 2017, from the Indiana University Lil School of Philanthropy and Independent Sector: https://www.independentsector.org/wp-content/uploads/2017/05/tax-policy-charitable-giving-finalmay2017-1.pdf

21 https://humanservicescouncil.org/raters/

22 http://www.oliverwyman.com/our-expertise/insights/2016/mar/risk-management-for-nonprofits.html

23 Non-Profits are Seen as Warm and For-Profits are Seen as Competent" Jennifer Akers, Stanford, Journal of Consumer Research, 2010

24 https://www.hhs.gov/hipaa/for-professionals/privacy/laws-regulations/index.html

25 https://bhw.hrsa.gov/sites/default/files/bhw/health-workforce-analysis/research/projections/behavioral-health2013-2025.pdf

26 http://www.wsipp.wa.gov/BenefitCost?topicId=

27 For additional information on Social Impact Bonds, please refer to the work of Jeffrey Liebman at the Harvard Kennedy School Government Performance Lab – e.g., Liebman, J., & Sellman, A. (2013). Social impact bonds: A guide for state and local governments. Cambridge, MA: Harvard Kennedy School Social Impact Bond Technical Assistance Lab.

28 Eureka Ranch: https://eurekaranch.com/. Innovation engineering: https://innovationengineering.org/

29 Our recommendations here build on the work around generative partnerships by the American Public Human Services Association and the Alliance for Strong Families and Communities. For additional discussion, please refer to Wareing Evans, T., & Dreyfus, S. N. (2017, April). Joining Forces: Two National Organizations Strive to Model a Generative Partnership to Accelerate Their Shared Visions. Policy & Practice, 10-11.

30 Refer to https://www.grants.gov/web/grants/learn-grants/grant-policies/omb-uniform-guidance-2014.html

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Appendix A – Summary of Analysis of Human Services CBO Form 990 Filings, Tax Years 2011–2015

MARSH & McLENNAN COMPANIES

Exhibit 1. Percentage of human services CBOs that were insolvent each year, meaning that their total liabilities exceeded their total assets. For analysis, CBOs are segmented by size, geographic region, quartile of state social services spending, and types of services provided.

PERCENT OF INSOLVENT CBOs, TAX YEARS 2011–2015						
CBO size	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Small (<$1 M)	15.6%	14.9%	14.2%	13.7%	12.7%	14.2%
Mid-size ($1–10 M)	9.6%	9.7%	9.4%	9.1%	8.7%	9.3%
Large (>$10 M)	9.8%	9.4%	9.7%	9.8%	11.4%	9.9%
Region and subregion*1						
Northeast	13.9%	13.7%	13.4%	13.1%	12.4%	13.3%
New England	13.7%	13.4%	13.1%	12.6%	13.1%	13.2%
Mid-Atlantic	14.0%	13.8%	13.5%	13.4%	12.1%	13.4%
Midwest	12.7%	12.4%	12.0%	11.7%	11.7%	12.1%
East North Central	13.8%	13.4%	13.0%	12.7%	13.4%	13.2%
West North Central	10.9%	10.7%	10.2%	9.9%	9.1%	10.2%
South	13.3%	12.7%	12.3%	12.3%	11.9%	12.5%
South Atlantic	13.9%	13.6%	13.2%	13.1%	12.6%	13.3%
East South Central	15.6%	14.1%	13.5%	13.3%	12.2%	13.8%
West South Central	10.7%	10.0%	9.8%	9.9%	10.4%	10.1%
West	12.3%	12.3%	11.8%	11.9%	11.4%	12.0%
Mountain	9.7%	9.2%	8.2%	8.8%	7.9%	8.8%
Pacific	13.6%	13.8%	13.5%	13.3%	13.1%	13.5%
Quartile of state social spending*2						
Top quartile	14.1%	13.9%	13.5%	13.3%	12.5%	13.5%
Upper-middle quartile	13.5%	13.0%	12.6%	12.4%	12.6%	12.8%
Lower-middle quartile	12.0%	12.0%	11.6%	11.6%	11.5%	11.7%
Bottom quartile	12.2%	11.7%	11.3%	11.2%	10.6%	11.4%
Types of services						
Mental health and crisis intervention	8.0%	8.5%	8.1%	8.3%	7.6%	8.1%
Crime and legal-related	6.5%	5.3%	5.6%	5.1%	5.0%	5.5%
Employment	6.3%	6.1%	6.0%	5.6%	5.1%	5.9%
Food, agriculture and nutrition	3.4%	3.9%	4.3%	3.9%	3.2%	3.8%
Housing and shelter	31.6%	31.3%	30.5%	30.3%	30.0%	30.7%
Public safety, disaster preparedness and relief	2.7%	2.7%	2.6%	2.8%	2.5%	2.7%
Youth development	4.6%	5.0%	4.6%	4.0%	4.7%	4.5%
General human services	8.9%	8.7%	8.6%	8.2%	7.5%	8.4%
Total	**13.1%**	**12.8%**	**12.4%**	**12.0%**	**11.6%**	**12.4%**

*1 Regions and subregions based on US Census Bureau designations. New England includes CT, ME, MA, NH, RI VT. Mid-Atlantic includes NJ, NY, PA. East North Central includes IL, IN, MI, OH, WI. West North Central includes IA, KS, MN, MO, NE, ND, SD. South Atlantic includes DE, FL, GA, MD, NC, SC, VA, DC, WV. East South Central includes AL, KY, MS, TN. West South Central includes AR, LA, OK, TX. Mountain includes AZ, CO, ID, MT, NV, NM, UT, WY. Pacific includes AK, CA, HI, OR, WA.

*2 Social spending calculated as per-capita state and local government expenditures on health and hospitals, public welfare, and elementary and secondary education, as reported by the State & Local Government Finance Data Query System, from the Urban Institute-Brookings Institution Tax Policy Center.

Exhibit 2. Percentile distribution of CBO liquidity ratios, or the ratio of short-term assets to short-term liabilities. The liquidity ratio reflects whether a CBO is able to meet its short-term financial obligations. A ratio greater than or equal to 1 indicates that a CBO has enough short-term assets on hand to meet its short-term liabilities. For analysis, CBOs are segmented by size, geographic region, quartile of state social services spending, and types of services provided.

PERCENTILE DISTRIBUTION OF CBO LIQUIDITY RATIOS, TAX YEAR 2014									
CBO size	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
Small (<$1 M)	0.0	0.1	0.3	0.7	**1.6**	3.4	7.5	17.5	50.0
Mid-size ($1–10 M)	0.1	0.3	0.5	0.9	**1.5**	2.4	4.0	7.5	17.5
Large (>$10 M)	0.2	0.3	0.5	0.6	**0.9**	1.2	1.7	2.8	6.2
Region and subregion									
Northeast	0.1	0.2	0.4	0.6	**1.1**	1.8	3.4	7.5	21.5
New England	0.0	0.2	0.4	0.6	**1.1**	1.9	3.4	7.4	19.8
Mid-Atlantic	0.1	0.2	0.4	0.7	**1.1**	1.8	3.4	7.6	23.1
Midwest	0.0	0.2	0.4	0.8	**1.4**	2.5	4.6	9.8	27.5
East North Central	0.0	0.2	0.4	0.8	**1.3**	2.4	4.4	9.5	27.5
West North Central	0.1	0.2	0.4	0.8	**1.4**	2.6	5.0	10.3	27.5
South	0.0	0.2	0.4	0.8	**1.5**	2.7	5.5	12.5	35.7
South Atlantic	0.0	0.2	0.4	0.8	**1.3**	2.3	4.8	11.0	29.8
East South Central	0.0	0.2	0.4	0.7	**1.3**	2.5	5.0	13.1	43.6
West South Central	0.1	0.3	0.6	1.2	**2.1**	3.9	7.3	15.3	45.2
West	0.0	0.2	0.5	0.9	**1.6**	2.9	5.5	11.3	31.7
Mountain	0.1	0.3	0.6	1.2	**2.2**	4.0	7.4	14.2	37.0
Pacific	0.0	0.2	0.4	0.8	**1.3**	2.4	4.7	9.7	28.5
Quartile of state social spending									
Top quartile	0.0	0.2	0.4	0.7	**1.1**	1.9	3.7	8.1	23.5
Upper-middle quartile	0.0	0.2	0.4	0.8	**1.4**	2.5	4.6	10.0	27.1
Lower-middle quartile	0.1	0.2	0.5	0.8	**1.4**	2.6	5.1	11.1	30.9
Bottom quartile	0.1	0.2	0.5	1.0	**1.7**	3.2	6.4	13.9	40.9
Types of services									
Mental health and crisis intervention	0.2	0.4	0.7	1.1	**1.7**	2.8	4.8	9.3	23.2
Crime and legal-related	0.3	0.8	1.4	2.3	**3.8**	6.1	10.3	20.4	47.1
Employment	0.3	0.56	1.0	1.5	**2.6**	4.4	8.2	15.7	41.2
Food, agriculture and nutrition	0.3	0.8	1.5	2.9	**5.5**	10.0	18.3	31.7	78.0
Housing and shelter	0.0	0.0	0.1	0.1	**0.2**	0.4	0.8	1.9	7.0
Public safety, disaster preparedness and relief	0.2	0.4	0.6	0.9	**1.4**	2.2	3.9	11.9	49.9
Youth development	0.3	0.8	1.4	2.6	**4.4**	7.4	12.9	22.9	54.5
General human services	0.1	0.4	0.7	1.1	**1.9**	3.3	6.1	13.0	38.0
Total	**0.1**	**0.2**	**0.4**	**0.8**	**1.4**	**2.5**	**4.9**	**10.8**	**30.9**

Exhibit 3. Percentile distribution of three-year operating margins for human services CBOs, calculated as net income as a percentage of total revenue averaged over three years. The three-year margin reflects the extent to which CBOs have been able to generate and retain financial resources beyond what is required to cover expenses. For analysis, CBOs are segmented by size, geographic region, quartile of state social services spending, and types of services provided.

PERCENTILE DISTRIBUTION OF CBO THREE-YEAR OPERATING MARGINS, TAX YEARS 2012–2015									
CBO size	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
Small (<$1 M)	-41.0%	-19.5%	-8.3%	-3.0%	**-0.1%**	2.4%	5.5%	10.9%	21.7%
Mid-size ($1–10 M)	-8.0%	-3.0%	-0.8%	0.4%	**1.8%**	3.4%	5.8%	9.5%	17.1%
Large (>$10 M)	-3.9%	-1.2%	0.0%	0.8%	**1.6%**	2.7%	4.4%	6.7%	11.3%
Region and subregion									
Northeast	-27.3%	-10.1%	-3.6%	-0.6%	**0.9%**	2.7%	5.2%	9.7%	19.9%
New England	-28.4%	-11.9%	-4.0%	-0.7%	**0.9%**	2.5%	4.5%	8.5%	17.8%
Mid-Atlantic	-26.7%	-9.5%	-3.5%	-0.6%	**1.0%**	2.9%	5.7%	10.4%	20.9%
Midwest	-25.4%	-8.8%	-3.3%	-0.6%	**1.0%**	2.8%	5.4%	9.5%	17.9%
East North Central	-22.3%	-8.3%	-3.2%	-0.7%	**1.0%**	2.7%	5.2%	9.2%	17.2%
West North Central	-32.0%	-10.1%	-3.4%	-0.6%	**1.1%**	3.0%	5.8%	10.0%	19.3%
South	-28.0%	-10.0%	-3.8%	-1.0%	**0.8%**	2.9%	5.6%	10.2%	19.2%
South Atlantic	-27.0%	-9.6%	-3.8%	-0.9%	**0.8%**	2.9%	5.5%	9.9%	18.8%
East South Central	-31.7%	-11.6%	-4.9%	-1.6%	**0.4%**	2.4%	4.9%	9.0%	17.3%
West South Central	-27.5%	-9.8%	-3.3%	-0.7%	**0.8%**	3.0%	6.2%	11.0%	22.0%
West	-29.2%	-8.2%	-2.8%	-0.4%	**1.2%**	3.0%	5.5%	9.7%	18.3%
Mountain	-24.6%	-7.6%	-3.0%	-0.7%	**0.9%**	2.8%	5.3%	9.9%	18.0%
Pacific	-31.4%	-8.6%	-2.7%	-0.2%	**1.3%**	3.2%	5.6%	9.7%	18.6%
Quartile of state social spending									
Top quartile	-29.0%	-9.7%	-3.3%	-0.5%	**1.0%**	2.8%	5.4%	9.9%	19.7%
Upper-middle quartile	-28.8%	-10.7%	-3.9%	-0.8%	**0.9%**	2.8%	5.3%	9.4%	17.5%
Lower-middle quartile	-25.2%	-9.1%	-3.6%	-0.9%	**0.9%**	2.8%	5.3%	9.3%	17.9%
Bottom quartile	-26.0%	-8.2%	-3.0%	-0.6%	**0.9%**	3.0%	5.7%	10.3%	19.7%
Types of services									
Mental health and crisis intervention	-10.6%	-3.7%	-1.2%	0.2%	**1.3%**	2.7%	4.4%	7.0%	13.0%
Crime and legal-related	-12.3%	-4.8%	-1.5%	0.2%	**1.5%**	3.3%	5.8%	9.8%	16.8%
Employment	-9.8%	-3.2%	-0.8%	0.2%	**1.4%**	3.1%	5.6%	9.2%	16.8%
Food, agriculture and nutrition	-9.7%	-2.7%	-0.3%	0.5%	**1.9%**	3.9%	7.2%	11.5%	20.1%
Housing and shelter	-53.2%	-33.0%	-21.2%	-11.6%	**-4.3%**	0.1%	4.3%	9.8%	21.3%
Public safety, disaster preparedness and relief	-28.4%	-12.8%	-4.7%	0.2%	**4.2%**	8.6%	14.4%	21.7%	33.8%
Youth development	-14.6%	-6.2%	-2.4%	-0.1%	**2.1%**	4.4%	7.8%	12.3%	22.4%
General human services	-13.2%	-4.5%	-1.6%	0.0%	**1.3%**	2.9%	5.0%	8.6%	16.4%
Total	**-27.4%**	**-9.3%**	**-3.4%**	**-0.7%**	**0.9%**	**2.8%**	**5.5%**	**9.8%**	**19.0%**

Exhibit 4. Percentile distribution of months of cash CBOs have on hand to cover operating expenses. Months of cash indicates the number of months a CBO could continue to operate and cover its expenses, on average, using its cash reserves. At a bare minimum, CBOs should have 1 month of cash on hand; 3-6 months of cash typically provides an adequate financial buffer. For analysis, CBOs are segmented by size, geographic region, quartile of state social services spending, and types of services provided.

PERCENTILE DISTRIBUTION OF CASH RESERVES (IN MONTHS OF EXPENSES), TAX YEAR 2014									
CBO size	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
Small (<$1 M)	0.2	0.6	1.3	2.1	**3.3**	4.8	7.0	10.5	19.6
Mid-size ($1–10 M)	0.3	0.6	1.0	1.4	**1.9**	2.6	3.6	10.5	8.5
Large (>$10 M)	0.2	0.4	0.7	0.9	**1.3**	1.7	2.2	3.1	4.9
Region and subregion									
Northeast	0.2	0.6	1.1	1.7	**2.5**	3.7	5.4	8.5	16.7
New England	0.3	0.8	1.2	1.8	**2.5**	3.6	5.0	7.3	13.7
Mid-Atlantic	0.2	0.6	1.0	1.6	**2.4**	3.7	5.7	9.0	18.2
Midwest	0.2	0.5	0.9	1.5	**2.2**	3.2	4.7	7.0	12.3
East North Central	0.2	0.5	0.9	1.4	**2.1**	3.0	4.6	6.9	12.1
West North Central	0.2	0.6	1.1	1.7	**2.4**	3.4	4.9	7.2	12.4
South	0.2	0.6	1.0	1.6	**2.4**	3.6	5.2	8.0	14.4
South Atlantic	0.2	0.6	1.0	1.7	**2.4**	3.6	5.2	7.8	14.0
East South Central	0.2	0.5	1.0	1.6	**2.4**	3.4	5.0	7.4	14.6
West South Central	0.2	0.6	1.0	1.6	**2.5**	3.7	5.5	8.6	15.2
West	0.2	0.6	1.0	1.5	**2.2**	3.3	4.7	7.0	12.6
Mountain	0.3	0.7	1.2	1.7	**2.6**	3.6	5.0	7.5	12.8
Pacific	0.2	0.5	1.0	1.4	**2.1**	3.1	4.4	6.7	12.4
Quartile of state social spending									
Top quartile	0.2	0.6	1.0	1.6	**2.3**	3.5	5.1	8.0	15.1
Upper-middle quartile	0.2	0.6	1.0	1.6	**2.2**	3.2	4.8	7.2	12.7
Lower-middle quartile	0.2	0.6	1.0	1.6	**2.5**	3.6	5.2	7.8	13.9
Bottom quartile	0.2	0.6	1.0	1.6	**2.3**	3.4	4.9	7.5	13.2
Types of services									
Mental health and crisis intervention	0.2	0.5	0.9	1.3	**1.8**	2.5	3.4	5.2	9.0
Crime and legal-related	0.4	0.9	1.5	2.2	**3.0**	4.1	5.9	8.3	13.7
Employment	0.2	0.6	1.1	1.6	**2.3**	3.4	5.2	8.0	14.9
Food, agriculture and nutrition	0.2	0.6	1.2	1.8	**2.9**	4.1	5.6	8.2	14.2
Housing and shelter	0.1	0.4	0.8	1.4	**2.4**	3.8	5.8	8.9	16.4
Public safety, disaster preparedness and relief	1.2	2.6	4.3	6.3	**8.7**	11.5	15.9	22.8	39.4
Youth development	0.3	0.9	1.4	2.1	**3.0**	4.0	5.4	7.5	13.5
General human services	0.2	0.5	0.9	1.4	**2.1**	2.9	4.2	6.3	11.2
Total	**0.2**	**0.6**	**1.0**	**1.6**	**2.4**	**3.5**	**5.2**	**7.9**	**14.5**

Exhibit 5. Percentile distribution of months of cash and investments CBOs have on hand to cover operating expenses. This metric takes into account both cash and investments when determining the number of months a CBO could continue to operate and cover its average operating expenses. Though investments theoretically contribute to a CBO's financial buffer, they may be less liquid than cash and therefore difficult to dispose of in the event of financial stress. For analysis, CBOs are segmented by size, geographic region, quartile of state social services spending, and types of services provided.

PERCENTILE DISTRIBUTION OF CASH AND INVESTMENT RESERVES (IN MOS. OF EXPENSES), TAX YEAR 2014									
CBO size	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
Small (<$1 M)	0.2	0.7	1.4	2.4	**3.6**	5.2	7.6	11.5	22.5
Mid-size ($1–10 M)	0.3	0.6	1.1	1.6	**2.2**	3.0	4.2	6.2	10.9
Large (>$10 M)	0.2	0.5	0.8	1.2	**1.6**	2.1	2.9	4.3	7.1
Region and subregion									
Northeast	0.3	0.7	1.2	1.9	**2.8**	4.2	6.2	9.9	20.2
New England	0.4	0.8	1.3	2.0	**2.9**	4.1	5.7	8.7	16.4
Mid-Atlantic	0.2	0.6	1.2	1.8	**2.8**	4.2	6.5	10.7	21.7
Midwest	0.2	0.6	1.1	1.8	**2.6**	3.8	5.6	8.2	14.4
East North Central	0.3	0.6	1.1	1.7	**2.5**	3.7	5.5	8.1	14.0
West North Central	0.2	0.7	1.2	1.9	**2.8**	4.0	5.7	8.3	14.9
South	0.2	0.6	1.1	1.8	**2.7**	4.0	5.9	8.9	16.4
South Atlantic	0.2	0.6	1.2	1.9	**2.7**	4.1	6.0	8.9	16.4
East South Central	0.2	0.6	1.1	1.7	**2.7**	3.8	5.4	8.4	16.5
West South Central	0.2	0.6	1.1	1.8	**2.8**	4.2	6.0	9.4	16.6
West	0.3	0.7	1.2	1.8	**2.6**	3.8	5.4	8.1	15.3
Mountain	0.3	0.8	1.3	1.9	**2.8**	4.0	5.5	8.1	14.9
Pacific	0.2	0.6	1.1	1.7	**2.5**	3.7	5.3	8.0	15.5
Quartile of state social spending									
Top quartile	0.2	0.7	1.2	1.9	**2.8**	4.1	6.0	9.3	18.6
Upper-middle quartile	0.3	0.6	1.1	1.7	**2.5**	3.6	5.4	8.1	14.6
Lower-middle quartile	0.3	0.7	1.2	1.9	**2.9**	4.2	5.9	8.9	15.9
Bottom quartile	0.2	0.6	1.1	1.7	**2.6**	3.7	5.5	8.2	15.2
Types of services									
Mental health and crisis intervention	0.2	0.5	0.9	1.4	**2.0**	2.7	3.8	5.6	9.7
Crime and legal-related	0.4	0.9	1.6	2.3	**3.1**	4.3	6.1	8.9	15.2
Employment	0.2	0.7	1.1	1.8	**2.5**	3.7	5.6	8.9	16.5
Food, agriculture and nutrition	0.2	0.6	1.2	2.0	**3.1**	4.4	6.2	9.1	16.5
Housing and shelter	0.2	0.5	1.1	2.0	**3.2**	4.9	7.1	10.9	21.5
Public safety, disaster preparedness and relief	1.3	2.7	4.5	6.6	**9.1**	12.3	16.8	24.1	42.0
Youth development	0.4	0.9	1.5	2.3	**3.2**	4.3	5.8	8.3	15.8
General human services	0.2	0.6	1.1	1.6	**2.3**	3.3	4.8	7.2	13.1
Total	**0.2**	**0.7**	**1.2**	**1.9**	**2.8**	**4.0**	**5.9**	**9.0**	**17.1**

Exhibit 6. Percentile distribution of months of unrestricted net assets CBOs have on hand to cover operating expenses. As with cash reserves, months of unrestricted net assets indicates the number of months a CBO could continue to operate and cover its expenses, on average, using its unrestricted assets. An alternative view of reserves size, unrestricted net assets may in some cases overstate the size of reserves, as when assets are not immediately liquid. For analysis, CBOs are segmented by size, geographic region, quartile of state social services spending, and types of services provided.

PERCENTILE DISTRIBUTION OF UNRESTRICTED NET ASSETS (IN MOS. OF EXPENSES), TAX YEAR 2014									
CBO size	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
Small (<$1 M)	-8.9	0.0	0.0	0.8	**3.1**	6.2	11.4	23.4	59.1
Mid-size ($1–10 M)	0.0	0.5	1.8	3.2	**4.9**	7.2	10.3	15.6	26.3
Large (>$10 M)	-0.1	0.7	1.7	2.7	**3.8**	5.3	7.3	10.2	16.2
Region and subregion									
Northeast	-3.7	0.0	0.7	2.2	**4.0**	6.8	11.4	21.7	49.5
New England	-7.5	0.0	1.0	2.4	**4.1**	6.5	10.7	18.4	43.3
Mid-Atlantic	-2.6	0.0	0.6	2.1	**4.0**	6.9	12.0	23.2	52.6
Midwest	-3.8	0.0	0.6	2.4	**4.5**	7.1	11.1	18.5	43.9
East North Central	-6.9	0.0	0.5	2.2	**4.2**	7.2	11.0	17.8	39.4
West North Central	-1.0	0.0	0.9	2.8	**4.8**	7.1	11.4	20.0	54.0
South	-2.5	0.0	0.1	1.8	**3.8**	6.5	10.6	18.0	39.6
South Atlantic	-3.1	0.0	0.3	2.0	**3.9**	6.5	10.5	18.1	38.8
East South Central	-5.7	0.0	0.0	1.7	**3.8**	6.6	10.8	18.5	43.1
West South Central	-0.5	0.0	0.0	1.6	**3.6**	6.4	10.4	17.4	39.7
West	-1.4	0.0	0.4	1.9	**3.6**	5.9	9.2	15.2	33.3
Mountain	0.0	0.0	1.0	2.6	**4.3**	6.8	10.2	15.8	34.0
Pacific	-3.1	0.0	0.1	1.6	**3.3**	5.5	8.8	14.7	33.0
Quartile of state social spending									
Top quartile	-3.2	0.0	0.5	2.0	**3.8**	6.3	10.7	19.4	47.4
Upper-middle quartile	-8.9	0.0	0.2	2.0	**3.8**	6.3	10.0	16.7	38.6
Lower-middle quartile	-1.5	0.0	0.6	2.5	**4.7**	7.4	11.7	19.5	43.9
Bottom quartile	-1.2	0.0	0.2	1.9	**3.8**	6.4	10.1	16.4	35.3
Types of services									
Mental health and crisis intervention	0.0	0.0	1.2	2.4	**3.5**	5.2	7.3	10.8	18.0
Crime and legal-related	0.0	0.0	1.1	2.3	**3.7**	5.5	8.1	11.8	22.5
Employment	0.0	0.0	0.9	2.6	**4.3**	6.2	9.0	12.9	23.5
Food, agriculture and nutrition	0.0	0.0	0.4	1.8	**3.6**	5.7	8.7	14.9	30.9
Housing and shelter	-28.6	-15.6	-5.1	0.0	**2.2**	8.3	17.5	37.3	87.5
Public safety, disaster preparedness and relief	0.0	0.0	0.0	2.4	**8.7**	19.2	32.2	47.4	75.6
Youth development	0.0	0.0	0.9	2.5	**4.5**	7.3	10.9	17.5	33.9
General human services	0.0	0.0	1.0	2.3	**3.9**	5.9	9.0	14.0	28.0
Total	**-2.2**	**0.0**	**0.3**	**2.0**	**3.8**	**6.4**	**10.4**	**18.1**	**42.2**

Exhibit 7. Percentile distribution of months of operating reserves CBOs have on hand to cover operating expenses. Operating reserves reflect unrestricted net assets that are theoretically liquid and available for disposal. Months of operating reserves is therefore a more conservative measure of a CBO's ability to cover its average monthly expenses than months of unrestricted net assets. For analysis, CBOs are segmented by size, geographic region, quartile of state social services spending, and types of services provided.

PERCENTILE DISTRIBUTION OF OPERATING RESERVES (IN MOS. OF EXPENSES), TAX YEAR 2014									
CBO size	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
Small (<$1 M)	-74.3	-19.8	-2.9	-0.1	**0.1**	1.7	4.0	7.9	19.4
Mid-size ($1–10 M)	-15.0	-3.6	-0.7	0.1	**1.1**	2.3	3.8	6.4	12.9
Large (>$10 M)	-15.3	-4.4	-1.6	-0.3	**0.3**	1.1	2.2	3.9	7.5
Region and subregion									
Northeast	-51.4	-14.6	-3.1	-0.3	**0.4**	1.8	3.9	7.6	19.2
New England	-70.2	-19.9	-4.2	-0.6	**0.4**	1.7	3.5	6.4	15.3
Mid-Atlantic	-44.5	-12.6	-2.6	-0.2	**0.4**	1.9	4.1	8.2	21.2
Midwest	-42.0	-10.7	-2.1	-0.1	**0.6**	1.9	3.7	6.8	14.4
East North Central	-45.3	-11.3	-2.0	-0.1	**0.6**	1.9	3.8	6.9	14.5
West North Central	-38.3	-9.5	-2.3	-0.1	**0.5**	2.0	3.7	6.5	14.2
South	-40.1	-9.8	-1.9	0.0	**0.4**	1.8	3.6	6.5	14.5
South Atlantic	-40.4	-11.8	-2.4	-0.1	**0.4**	1.8	3.6	6.6	14.8
East South Central	-42.2	-10.5	-2.3	-0.2	**0.2**	1.5	3.1	5.7	13.0
West South Central	-38.9	-6.2	-0.9	0.0	**0.6**	1.9	3.7	6.6	14.7
West	-40.1	-6.8	-0.8	0.0	**0.6**	1.9	3.6	6.4	13.9
Mountain	-23.3	-3.8	-0.4	0.0	**1.1**	2.5	4.2	7.5	14.9
Pacific	-50.5	-8.9	-1.1	0.0	**0.5**	1.6	3.3	5.8	13.3
Quartile of state social spending									
Top quartile	-47.4	-12.1	-2.3	-0.1	**0.4**	1.8	3.7	7.1	17.4
Upper-middle quartile	-67.9	-16.7	-3.0	-0.3	**0.4**	1.7	3.4	6.2	14.0
Lower-middle quartile	-37.9	-9.6	-1.9	0.0	**0.5**	1.9	3.7	6.7	14.5
Bottom quartile	-32.8	-6.3	-1.0	0.0	**0.6**	1.9	3.7	6.6	14.3
Types of services									
Mental health and crisis intervention	-5.9	-1.7	-0.3	0.1	**1.1**	2.2	3.5	5.6	10.4
Crime and legal-related	-2.3	-0.1	0.1	1.1	**2.1**	3.4	5.3	8.3	14.7
Employment	-3.8	-0.5	0.0	0.4	**1.6**	3.0	5.1	8.3	16.1
Food, agriculture and nutrition	-3.7	-0.3	0.0	0.5	**1.5**	3.1	4.9	8.2	16.7
Housing and shelter	-122.7	-84.0	-48.3	-31.1	**-14.5**	-2.4	0.5	5.4	20.7
Public safety, disaster preparedness and relief	-43.3	-22.4	-9.7	-2.2	**0.0**	2.3	6.5	14.4	32.8
Youth development	-3.3	-0.3	0.0	0.5	**1.6**	3.0	4.8	7.8	15.5
General human services	-10.9	-2.3	-0.3	0.0	**1.0**	2.1	3.7	6.4	13.5
Total	**-41.7**	**-9.4**	**-1.7**	**0.0**	**0.5**	**1.9**	**3.7**	**6.9**	**15.6**

FORM 990 ANALYSIS METHODOLOGY

Form 990 data was retrieved from Amazon Web Services, which hosts publicly available electronic filings (https://aws.amazon.com/public-datasets/irs-990/). Data was extracted for Tax Years 2011 through 2015 (i.e., all fiscal years ending between December 2011 and November 2016). Human services CBOs were identified based on NTEE code, as indicated by the IRS Exempt Organizations Business Master File (EO-BMF). Human services NTEE codes include Mental Health & Crisis Intervention (F), Crime & Legal-Related (I), Employment (J), Food, Agriculture & Nutrition (K), Housing & Shelter (L), Public Safety, Disaster Preparedness & Relief (M), Youth Development (O), and Human Services (P).

Financial metrics and ratios were calculated using Form 990 income statement and balance sheet data. Segmentation was performed based on CBO size (in revenues), location (US region and subregion), state social spending, and NTEE classification (types of services).

Regions and subregions were based on US Census Bureau designations. New England includes CT, ME, MA, NH, RI VT. Mid-Atlantic includes NJ, NY, PA. East North Central includes IL, IN, MI, OH, WI. West North Central includes IA, KS, MN, MO, NE, ND, SD. South Atlantic includes DE, FL, GA, MD, NC, SC, VA, DC, WV. East South Central includes AL, KY, MS, TN. West South Central includes AR, LA, OK, TX. Mountain includes AZ, CO, ID, MT, NV, NM, UT, WY. Pacific includes AK, CA, HI, OR, WA.

Social spending was calculated as per-capita state and local government expenditures on health and hospitals, public welfare, and elementary and secondary education, as reported by the State & Local Government Finance Data Query System, from the Urban Institute-Brookings Institution Tax Policy Center.

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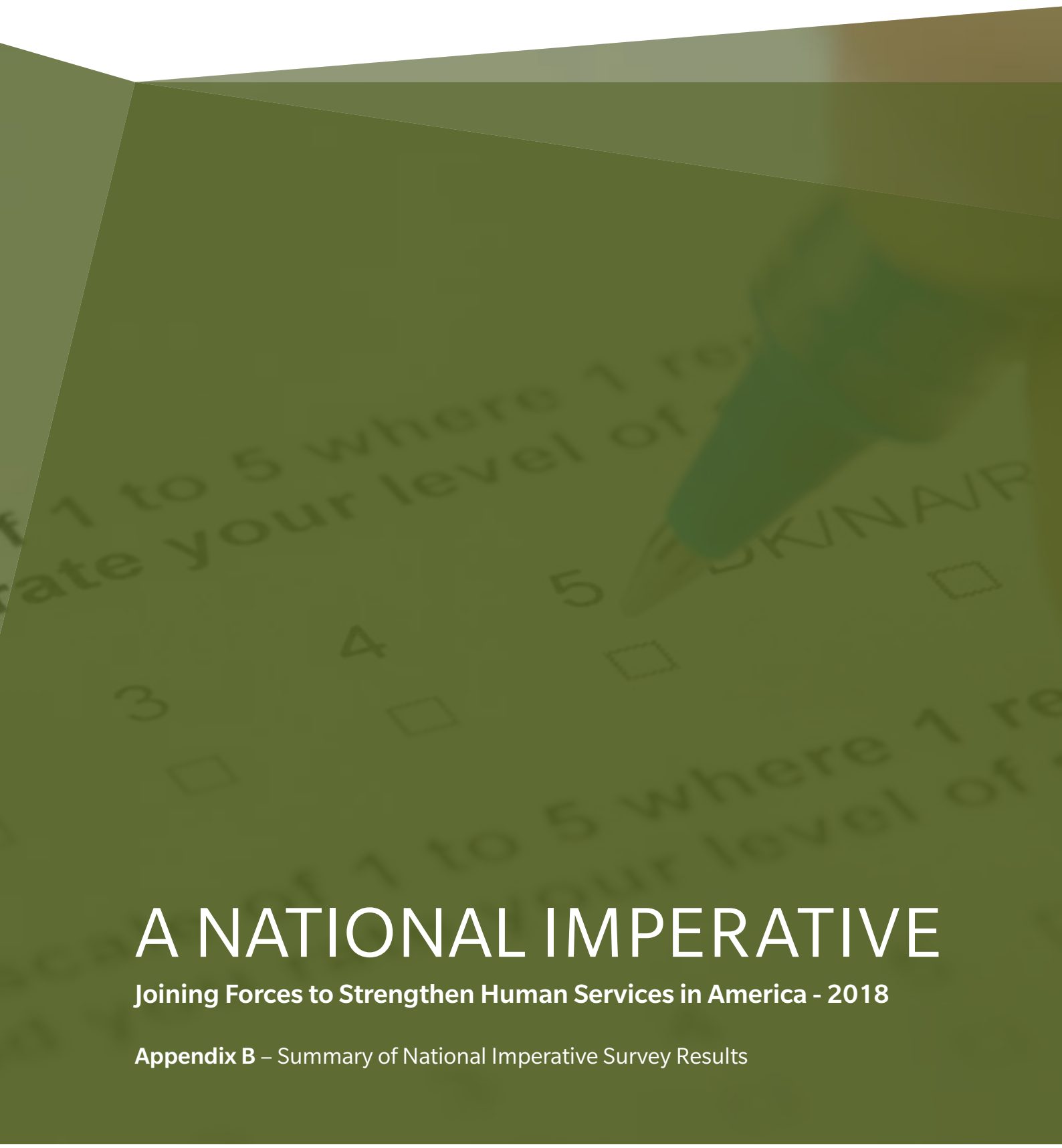


A NATIONAL IMPERATIVE

Joining Forces to Strengthen Human Services in America - 2018

Appendix B – Summary of National Imperative Survey Results

MARSH & McLENNAN COMPANIES

PART 1
CBO FINANCIAL HEALTH ASSESSMENT

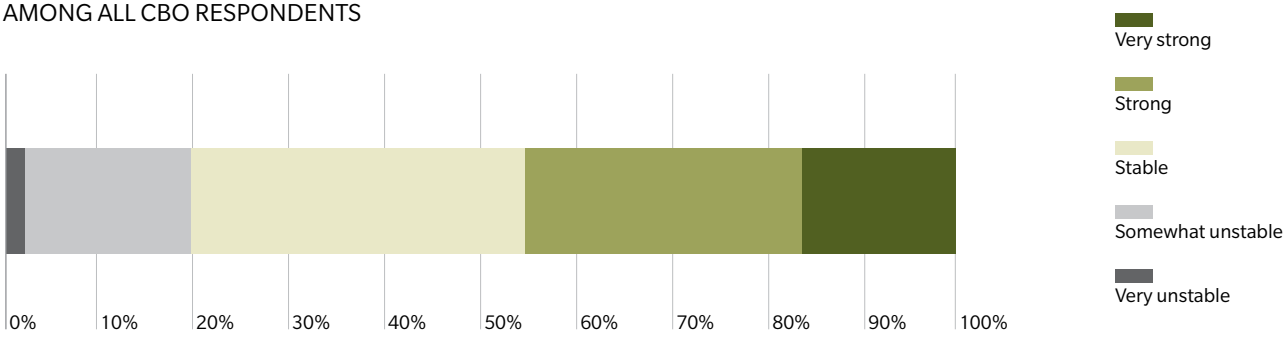
We asked human services CBOs a number of questions to gauge their current and projected financial strength and to understand how they are financing their programs and operations.

Survey results have a ±7% margin of sampling error with a 95% confidence interval[1]

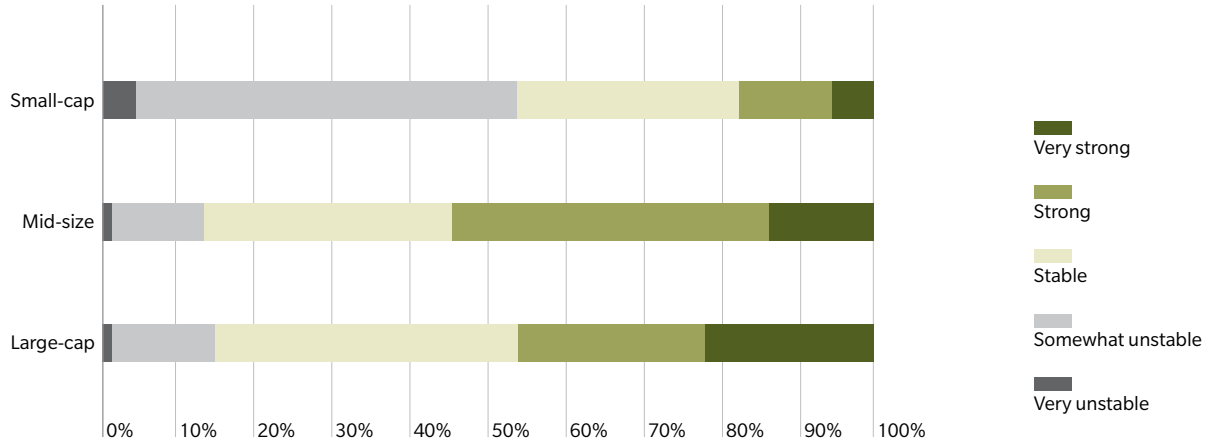
1 See Part 8: Survey Methodology for further discussion on methodological and statistical considerations.

Exhibit 1. **Assessment of current financial condition**

AMONG ALL CBO RESPONDENTS

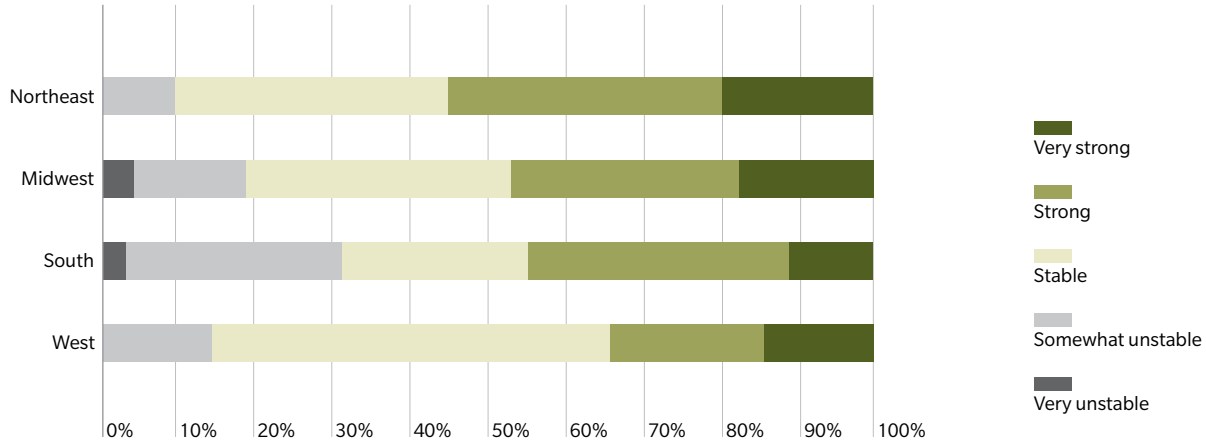


BY CBO SIZE*2



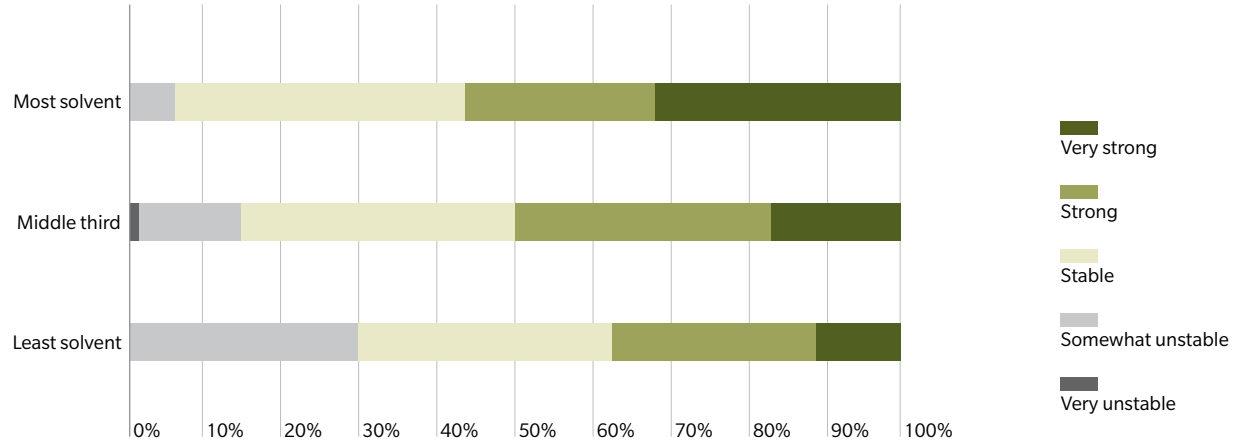
*2 CBO size based on total revenue from latest Form 990 filing. Small: <$1 M; Mid-size: $1–10 M; Large: >$10 M.

BY CBO LOCATION*3



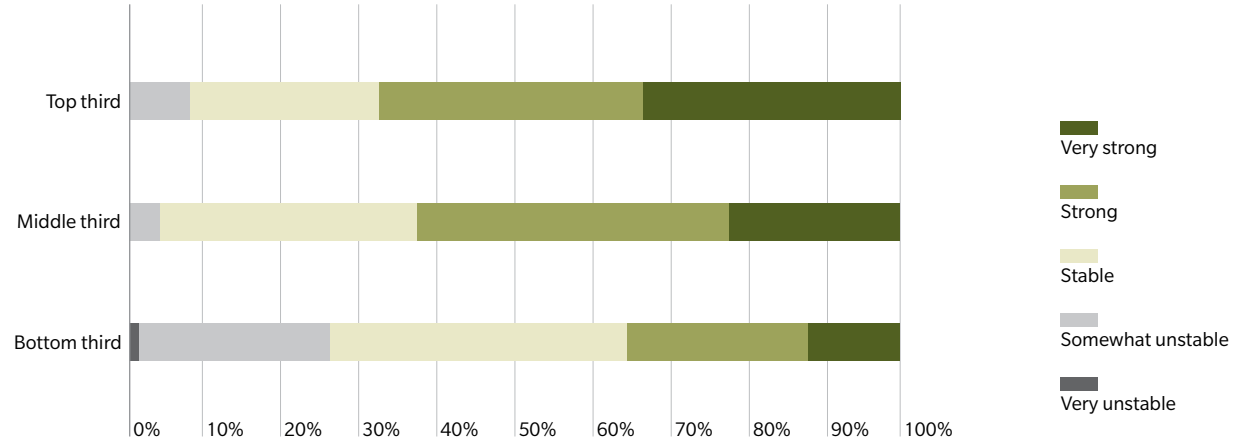
*3 Regions based on US Census Bureau designations. Northeast includes CT, ME, MA, NH, RI VT, NJ, NY, PA. Midwest includes IL, IN, MI, OH, WI, IA, KS, MN, MO, NE, ND, SD. South includes DE, FL, GA, MD, NC, SC, VA, DC, WV, AL, KY, MS, TN, AR, LA, OK, TX. West includes AZ, CO, ID, MT, NV, NM, UT, WY, AK, CA, HI, OR, WA.

BY CBO SOLVENCY*4



*4 Solvency was calculated using Form 990 data for survey respondents and the full population of CBOs filing Form 990. CBOs responding to the survey were segmented based on whether they fell into the top, middle, or bottom third of all CBOs filing Form 990 based on solvency.

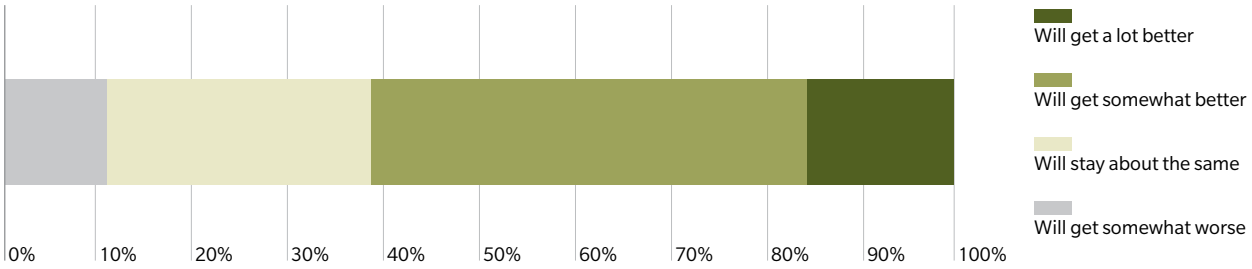
BY CBO CASH RESERVES SIZE*5



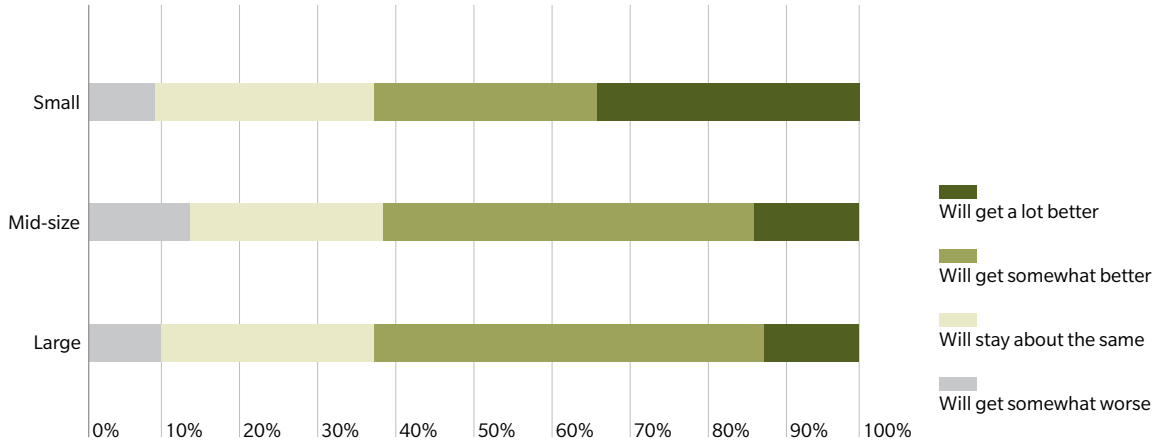
*5 Cash reserves were calculated and CBO respondents were segmented using the same approach as was used for solvency. (See Footnote 1)

Exhibit 2. Projected five-year change in financial condition

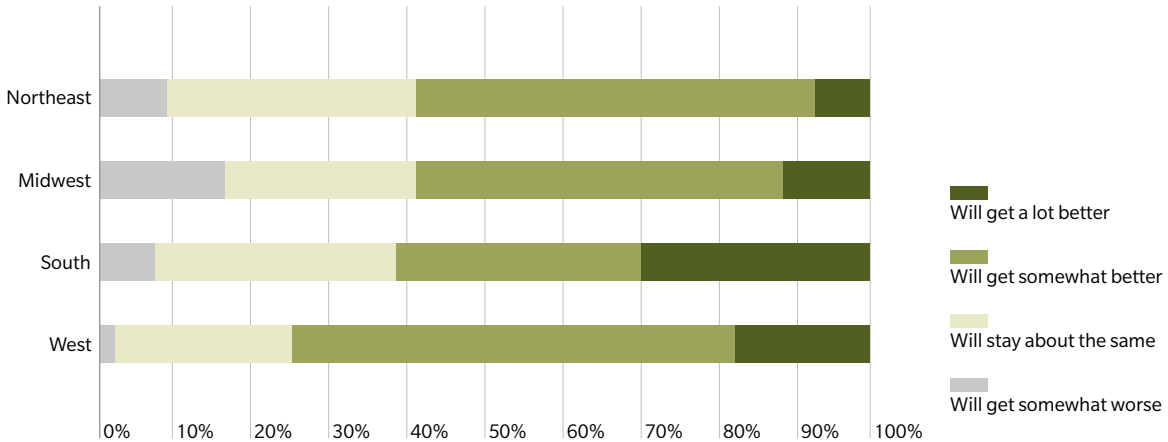
AMONG ALL CBO RESPONDENTS



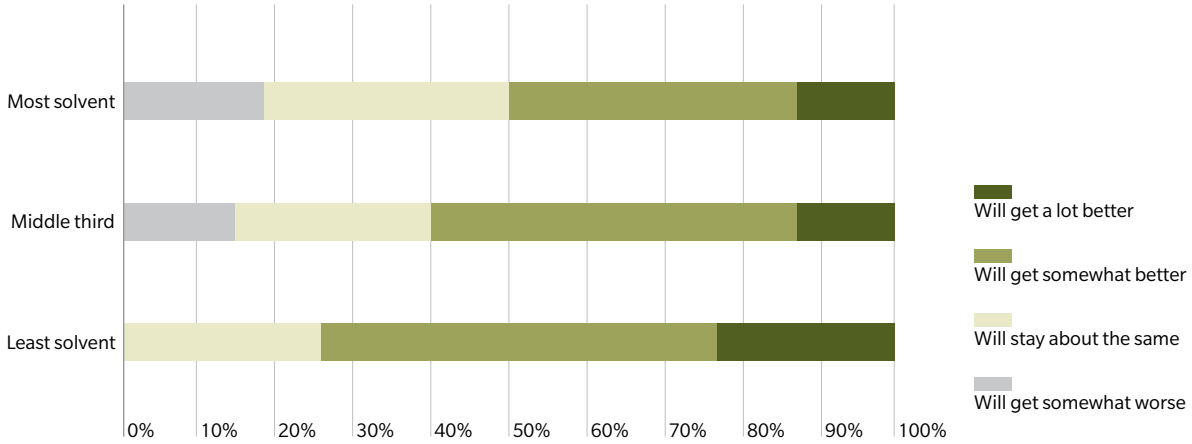
BY CBO SIZE



BY CBO LOCATION



BY CBO SOLVENCY



BY CBO CASH RESERVES SIZE

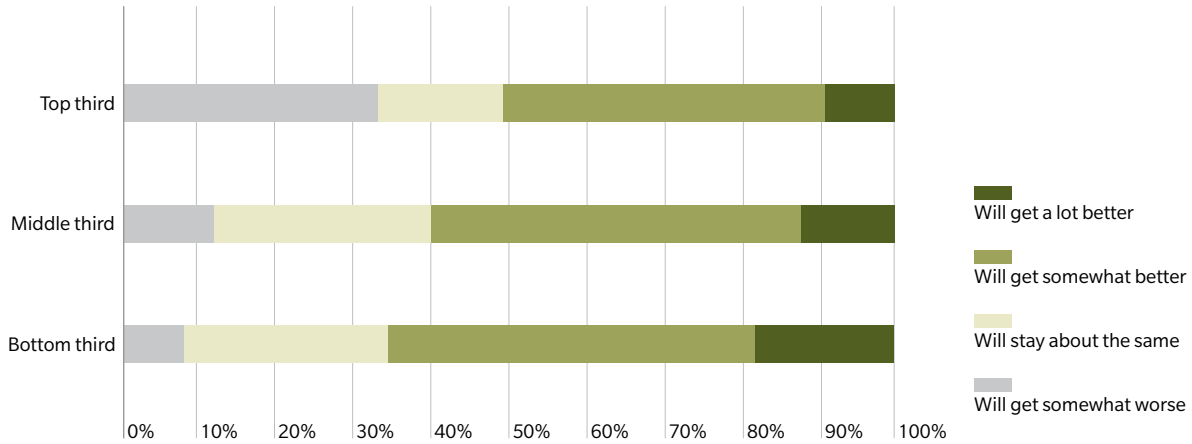


Exhibit 3. **Projected five-year change in financial condition by assessment of current financial strength**

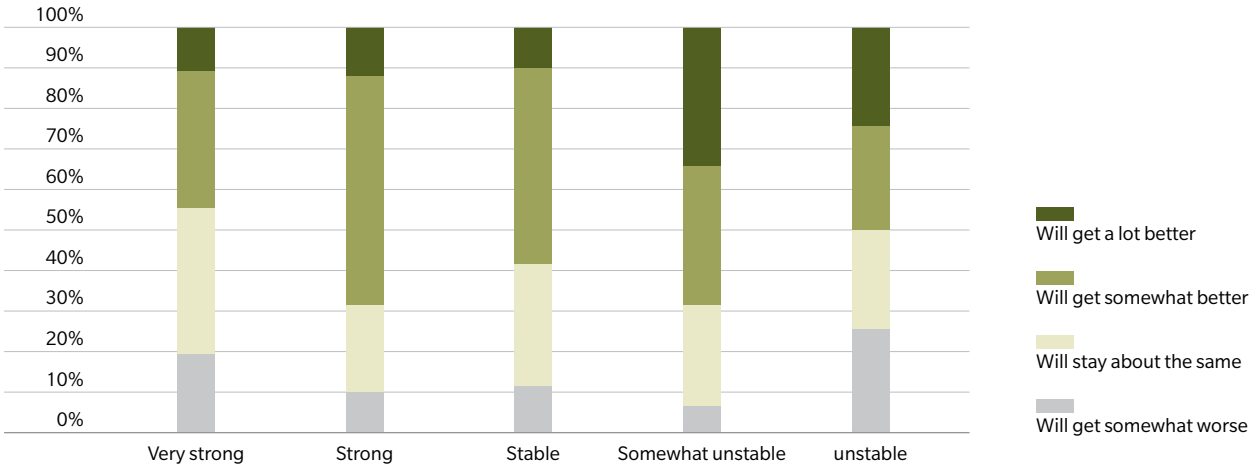
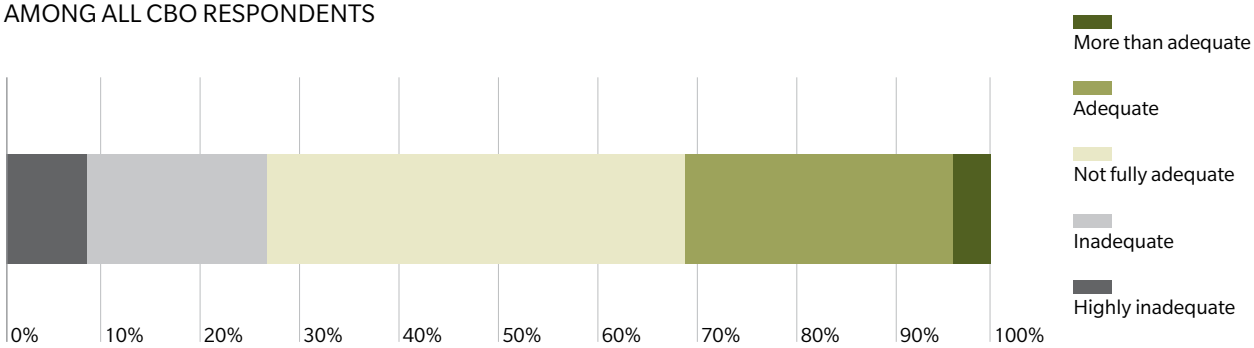
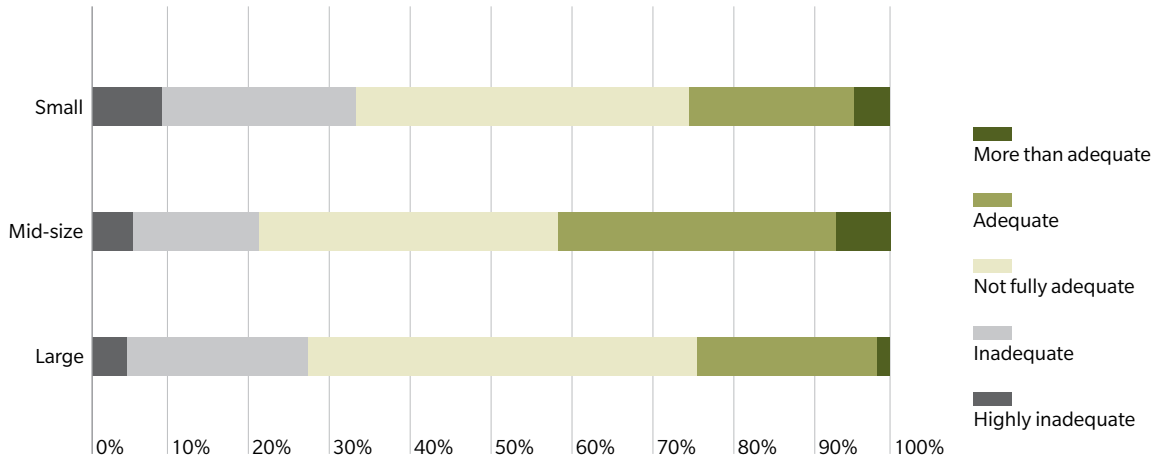


Exhibit 4. **Assessment of funding for administrative, overhead, and other non-program expenses over the last five years**

AMONG ALL CBO RESPONDENTS



BY CBO SIZE



BY CBO LOCATION

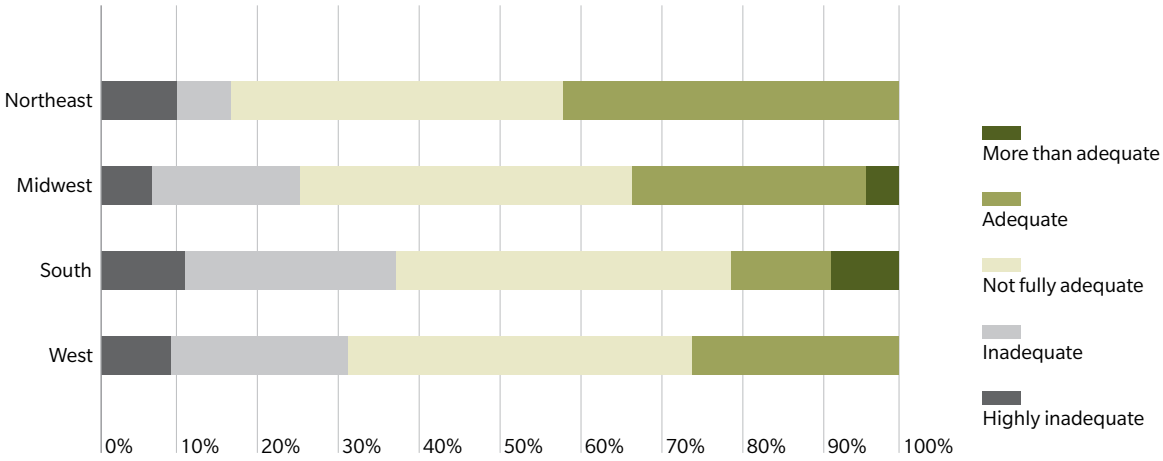
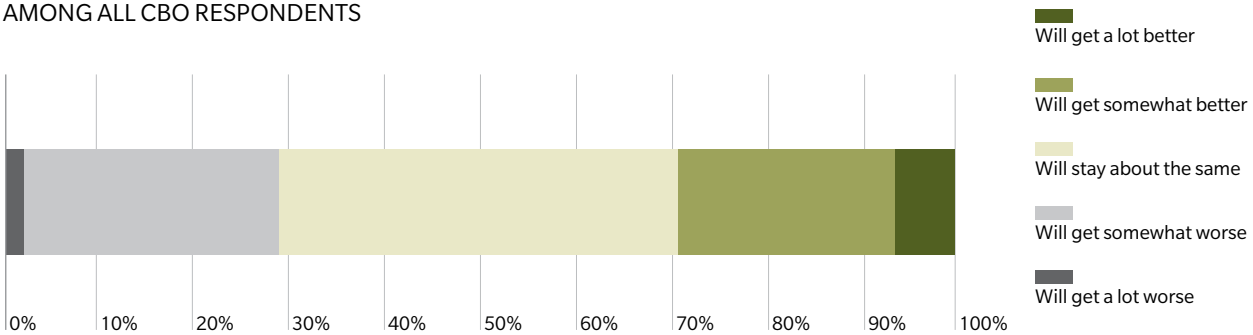
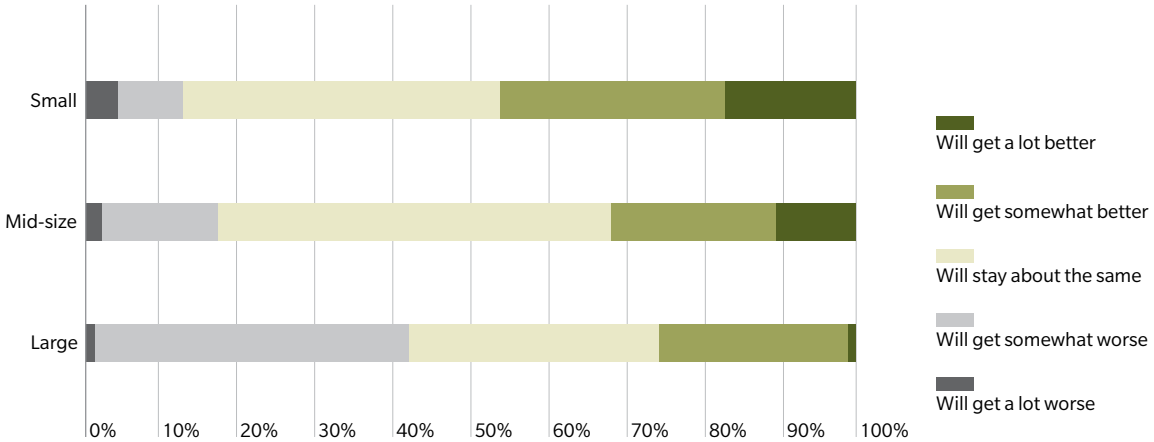


Exhibit 5. Projected change in funding for administrative, overhead, and other non-program expenses over the next five years

AMONG ALL CBO RESPONDENTS



BY CBO SIZE



BY CBO LOCATION

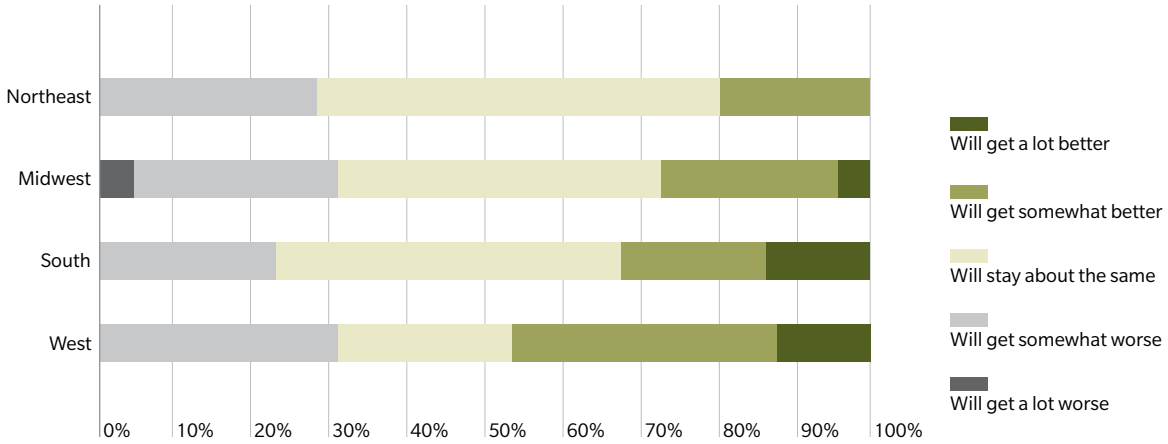


Exhibit 6. Projected five year change in overhead funding by assessment of overhead funding during the last five years

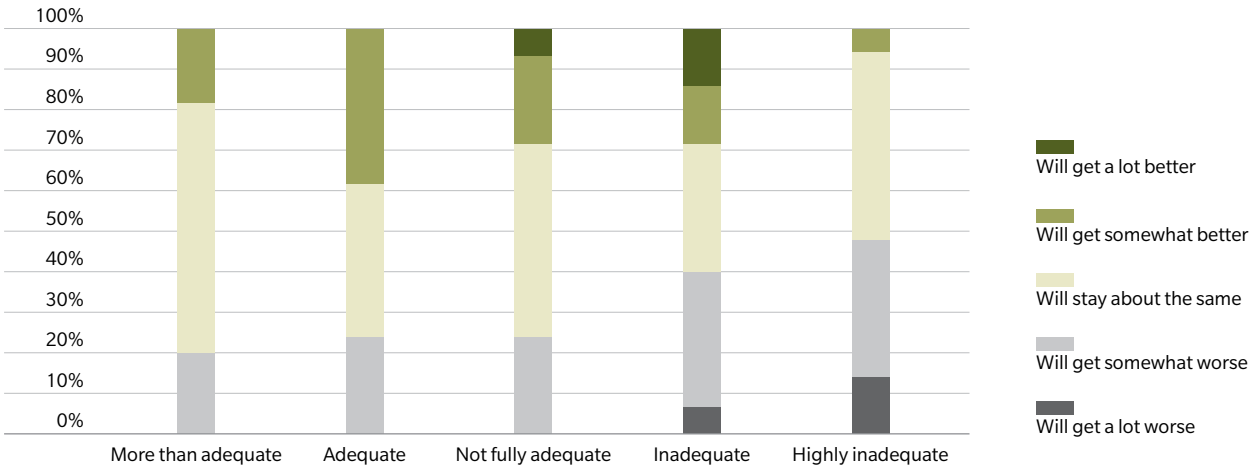
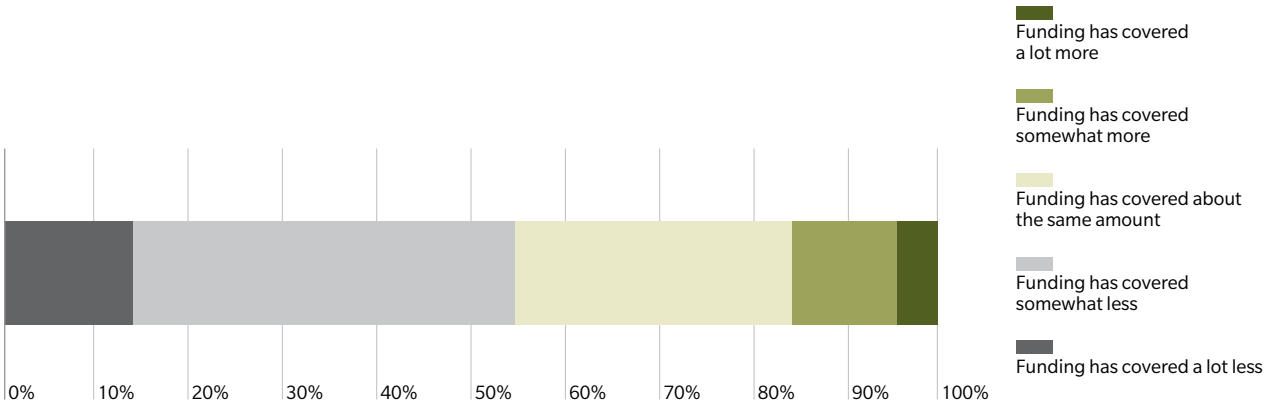
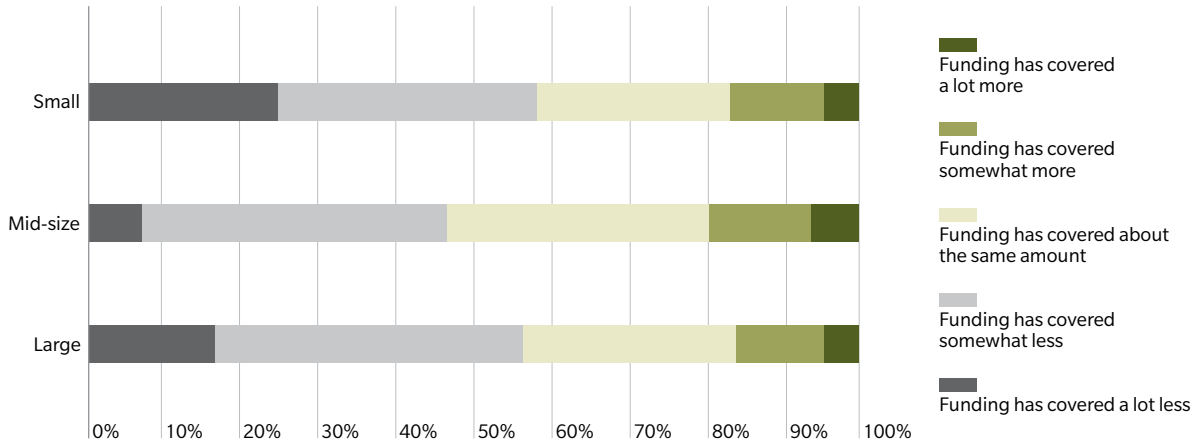


Exhibit 7. Assessment of government funding for the full cost of services, including direct and indirect costs, over the last five years

AMONG ALL CBO RESPONDENTS



BY CBO SIZE



BY CBO LOCATION

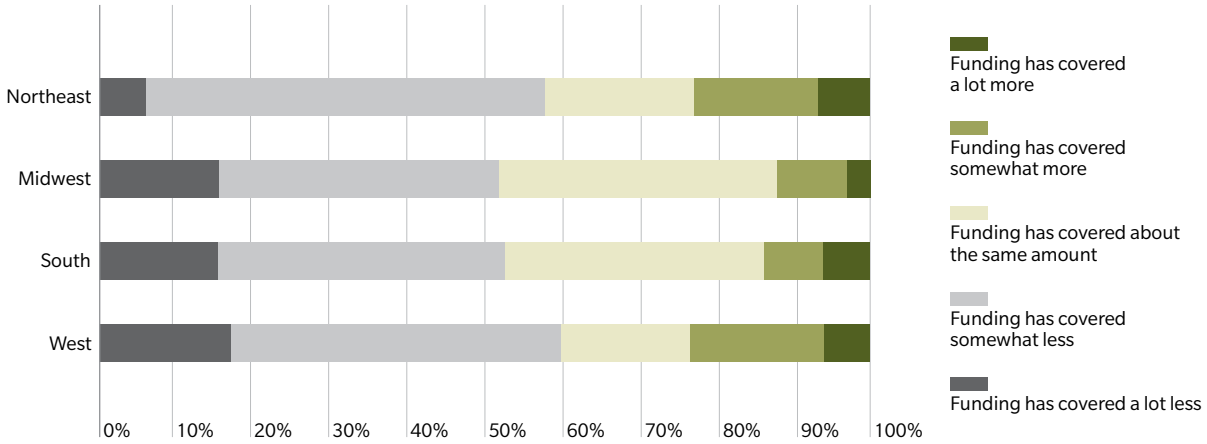
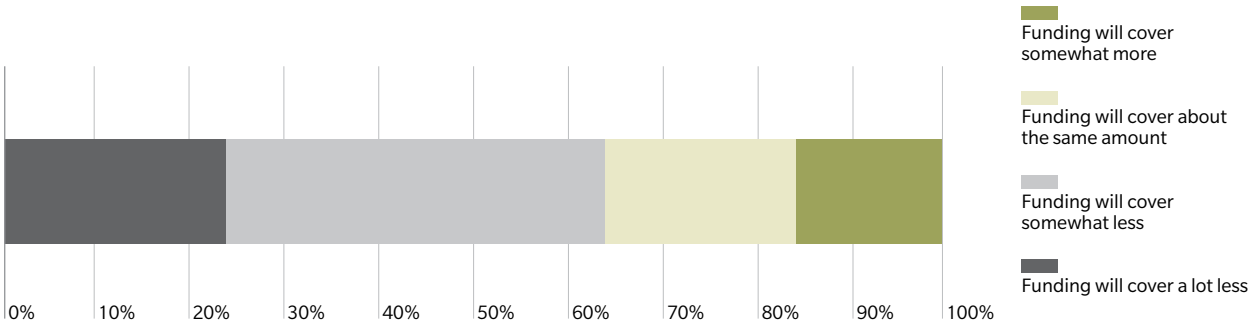
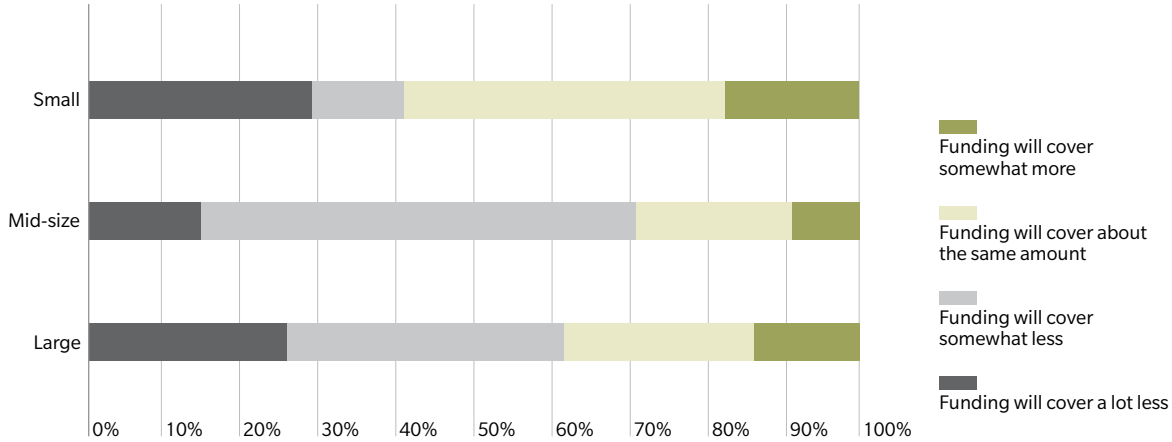


Exhibit 8. Projected change in government funding for the full cost of services, including direct and indirect costs

AMONG ALL CBO RESPONDENTS



BY CBO SIZE



BY CBO LOCATION

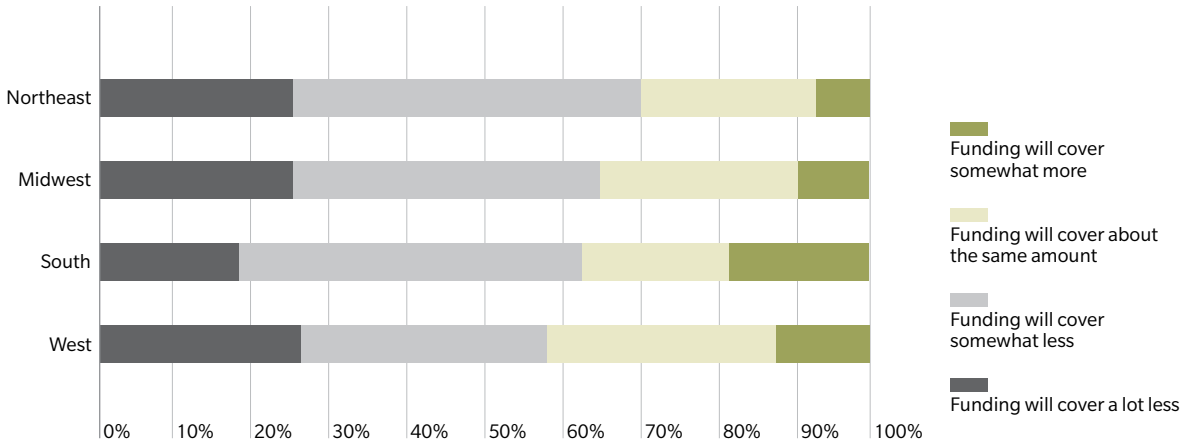
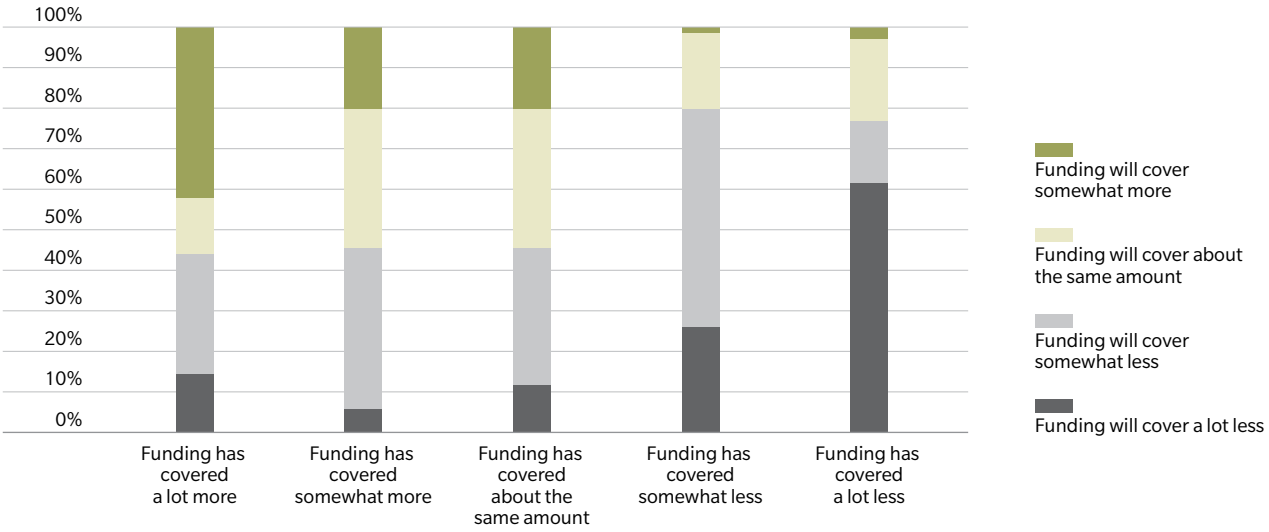


Exhibit 9. Projected five year change in government funding by assessment of government funding during the last five years

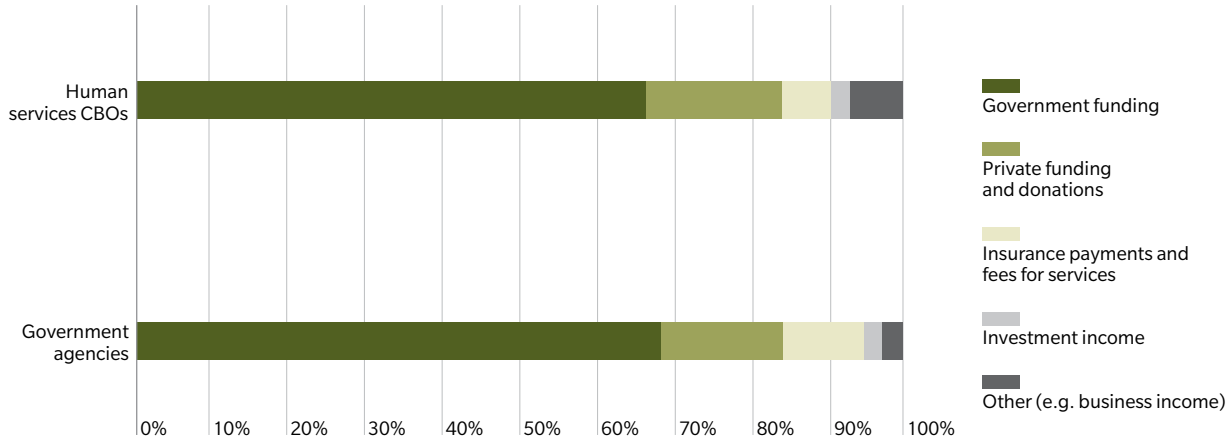


PART 2
CBO FUNDING BREAKDOWNS AND DYNAMICS

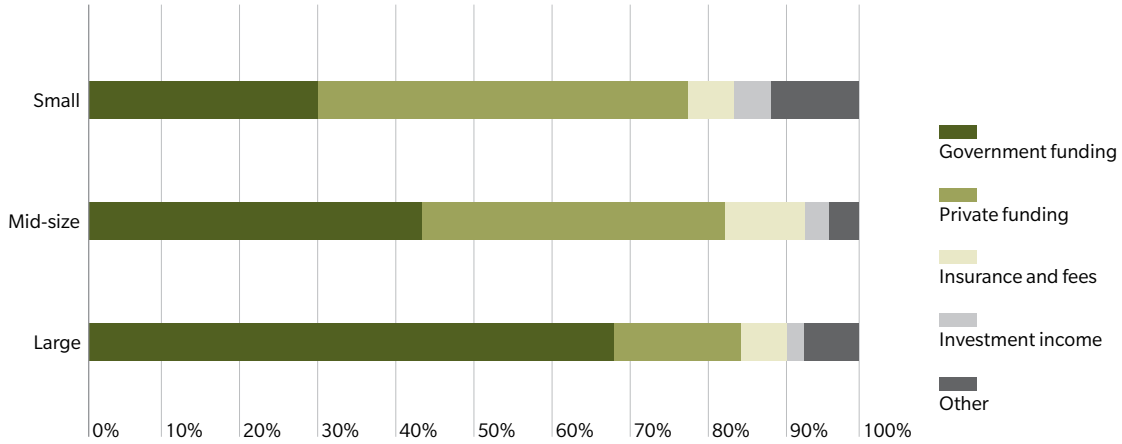
We asked CBOs to provide information on their current and projected funding, including estimates of their funding breakdowns between government, private, and other sources. We also asked government agencies to estimate these funding dynamics and breakdowns for CBOs on average. The results reveal differences in how CBOs operate and how government agencies believe that they operate.

Exhibit 1. **Overall CBO funding breakdowns**

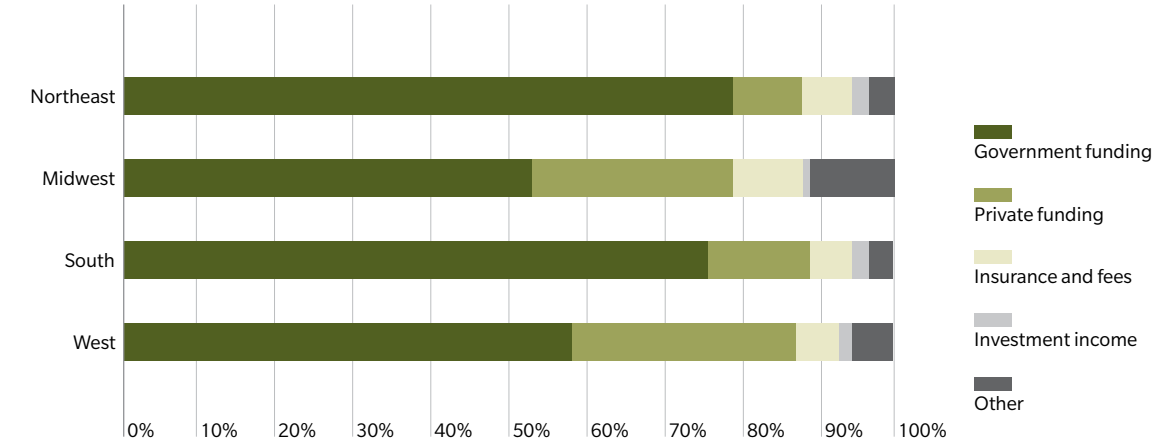
AMONG ALL CBO RESPONDENTS (WITH GOVERNMENT AGENCY ESTIMATES)



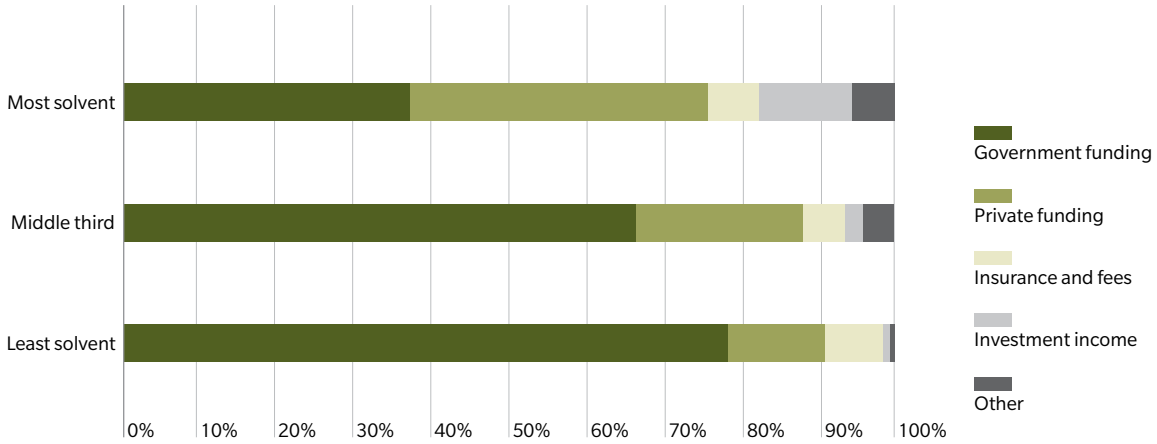
BY CBO SIZE



BY CBO LOCATION



BY CBO SOLVENCY



BY CBO RESERVES SIZE

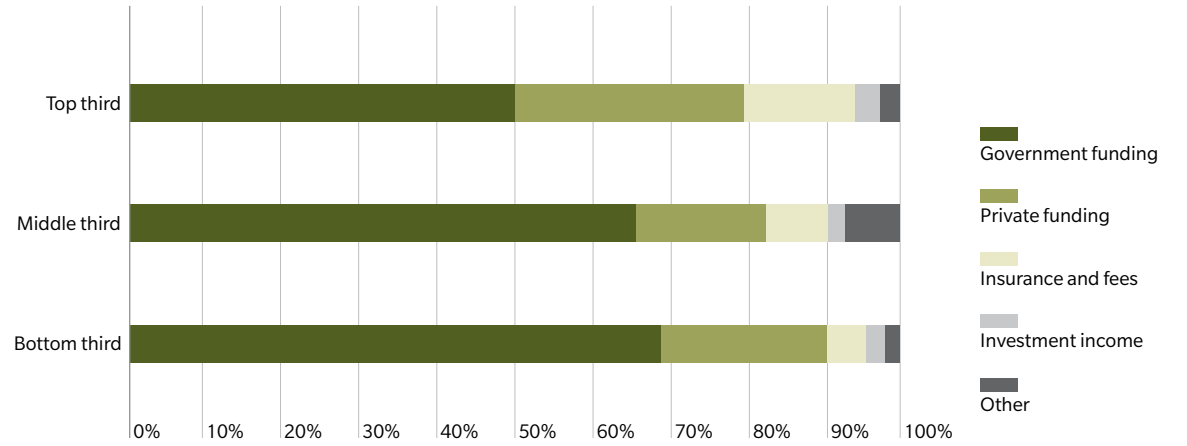
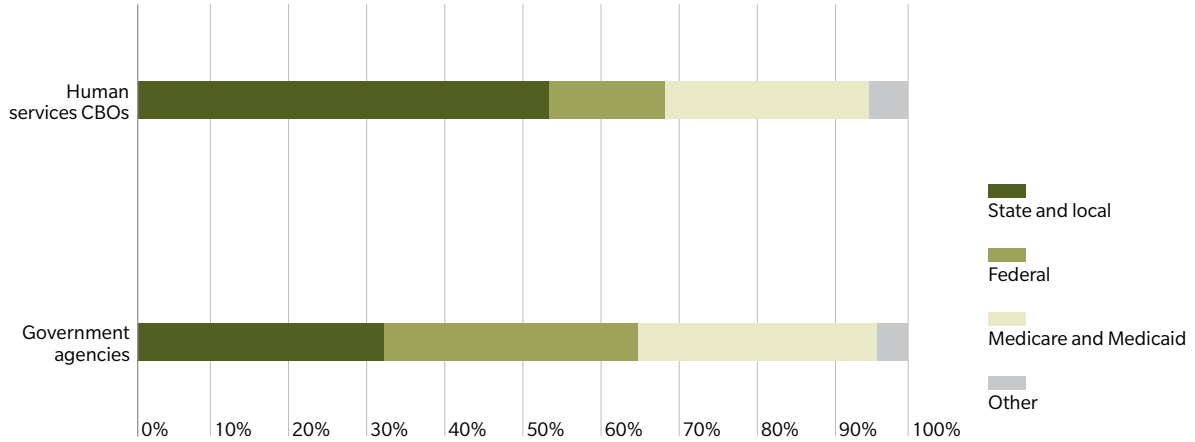
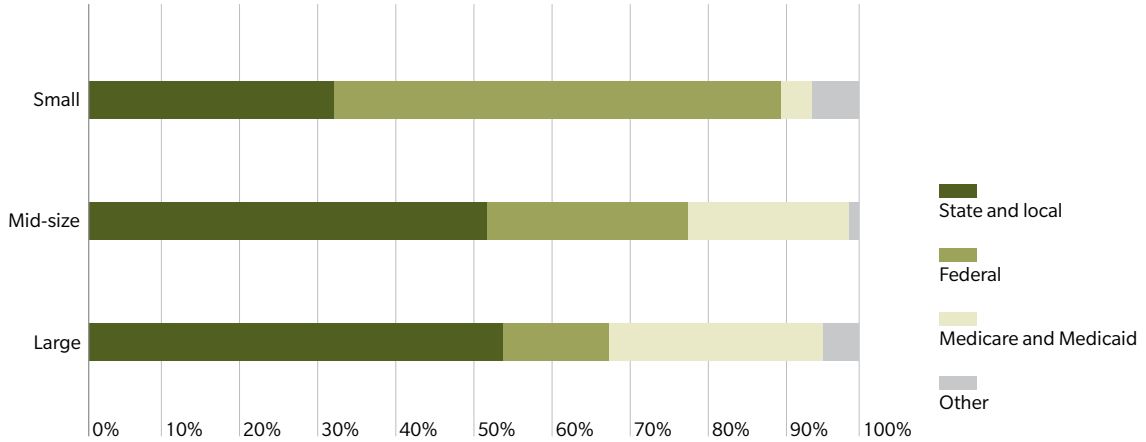


Exhibit 2. Breakdown in CBO government funding

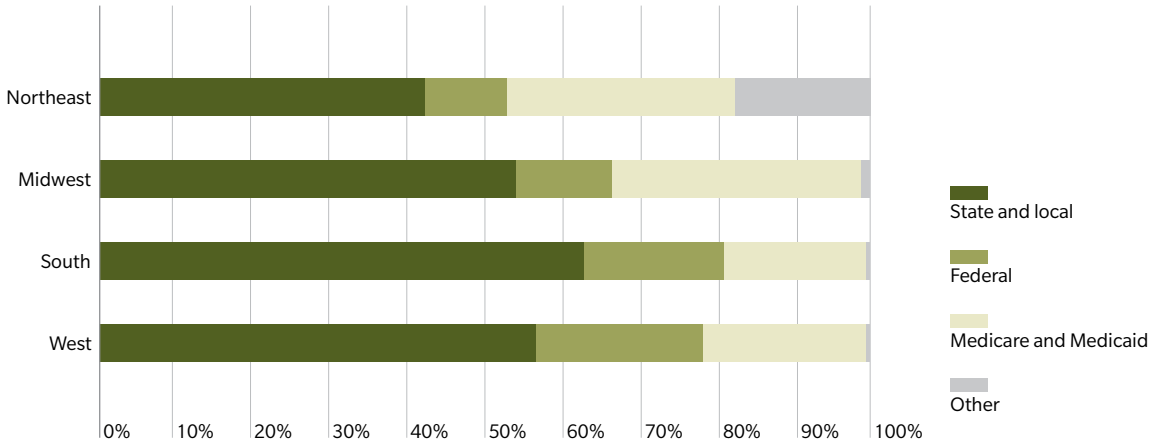
AMONG ALL CBO RESPONDENTS (WITH GOVERNMENT AGENCY ESTIMATES)



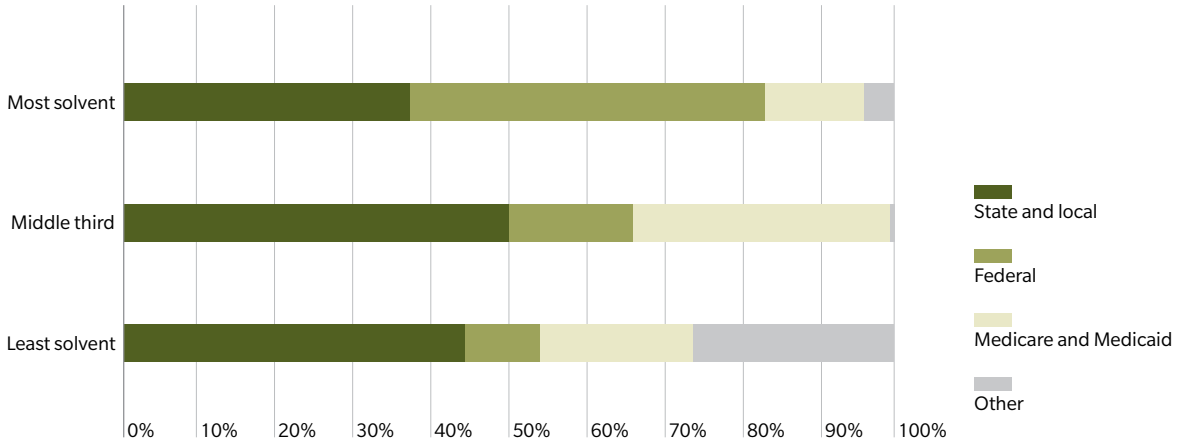
BY CBO SIZE



BY CBO LOCATION



BY CBO SOLVENCY



BY CBO RESERVES SIZE

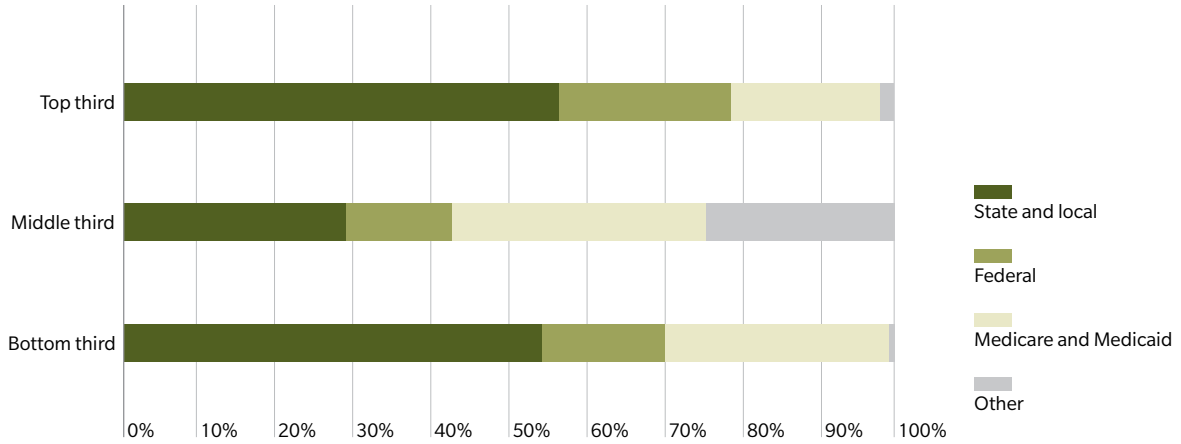
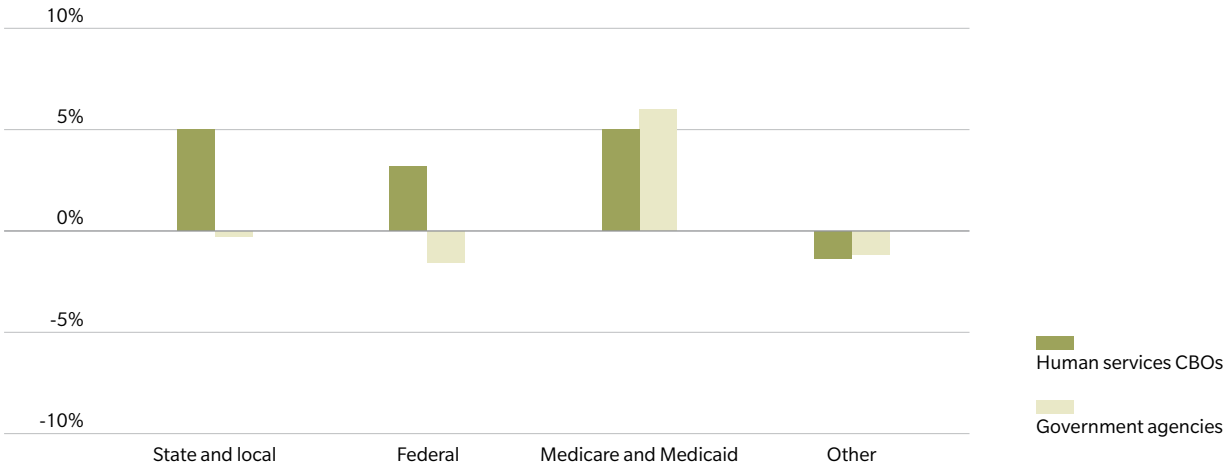
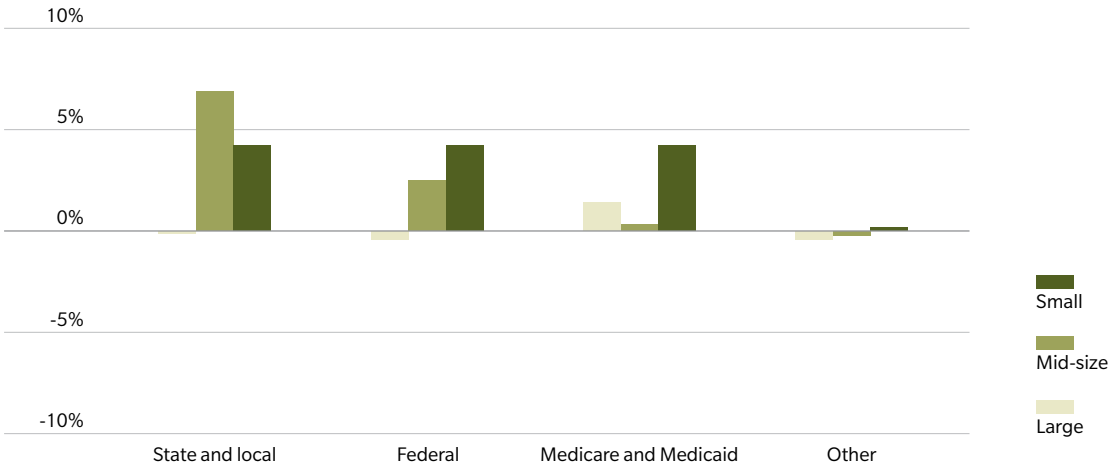


Exhibit 3. Changes in government funding over the last five years

AMONG ALL CBO RESPONDENTS (WITH GOVERNMENT AGENCY ESTIMATES)



BY CBO SIZE



BY CBO LOCATION

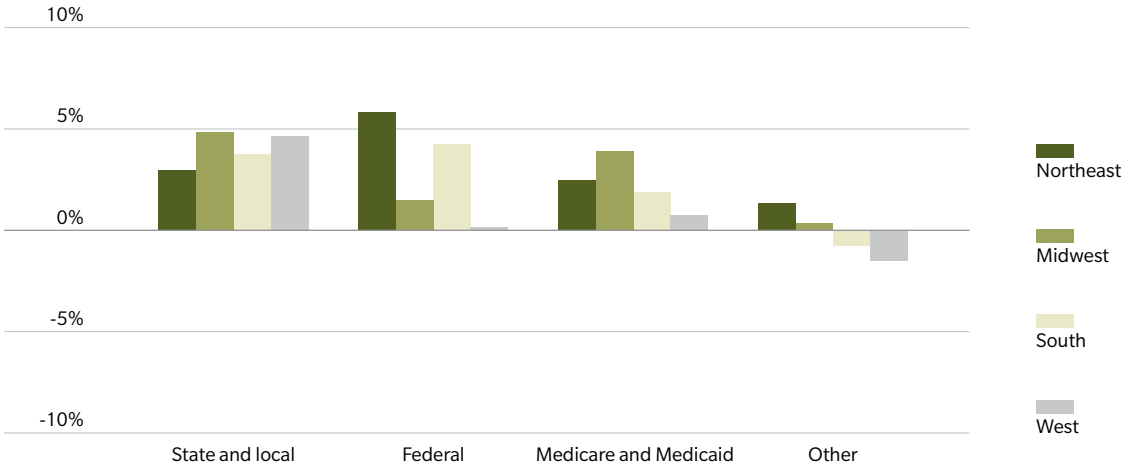
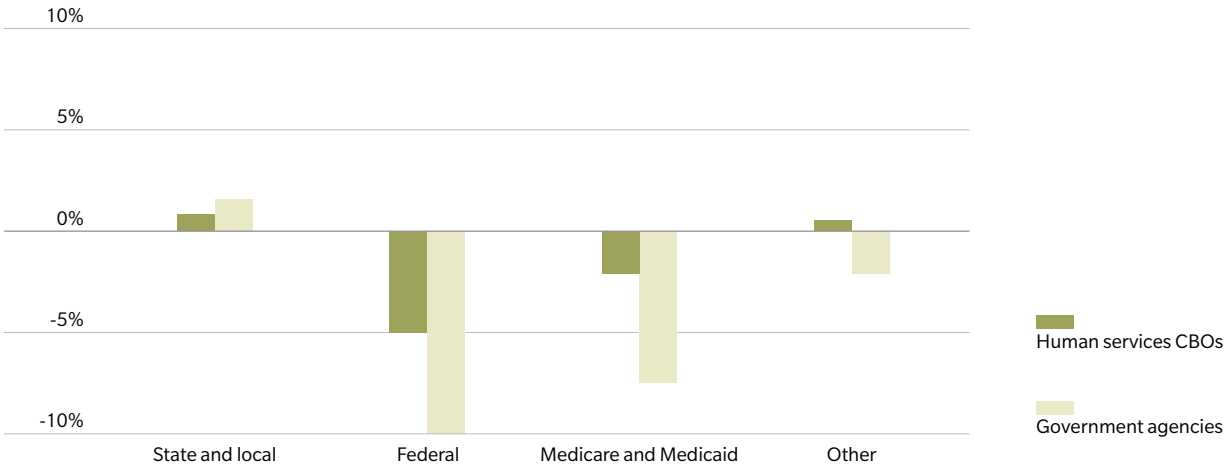
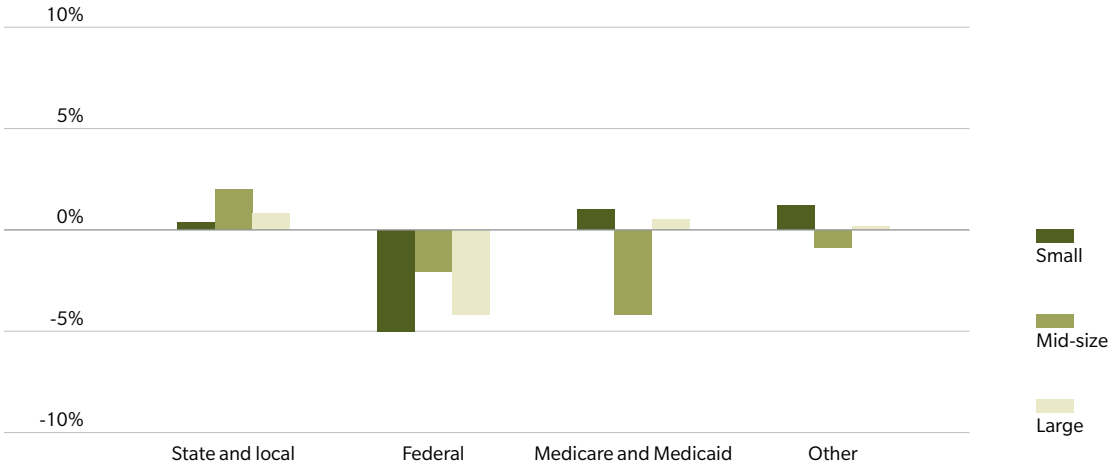


Exhibit 4. Changes in government funding over the last five years

AMONG ALL CBO RESPONDENTS (WITH GOVERNMENT AGENCY ESTIMATES)



BY CBO SIZE



BY CBO LOCATION

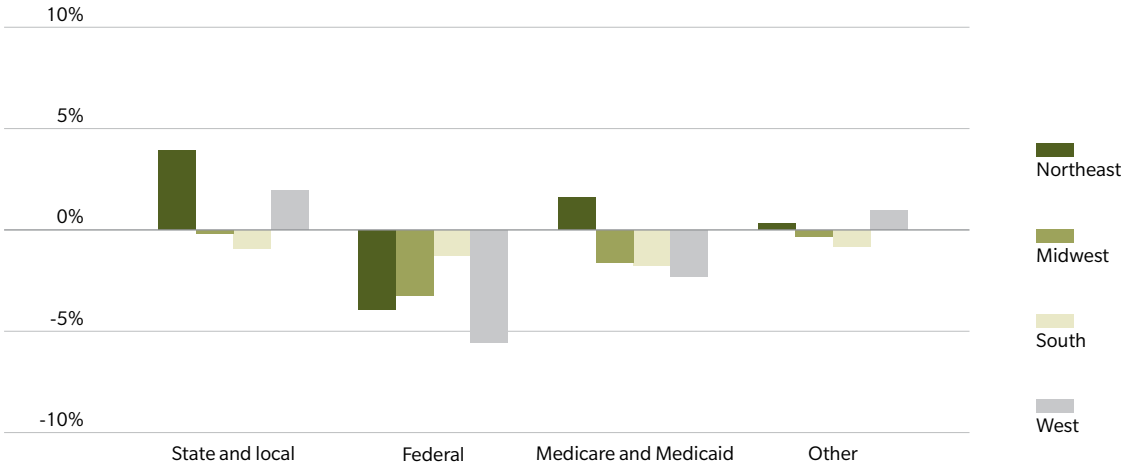
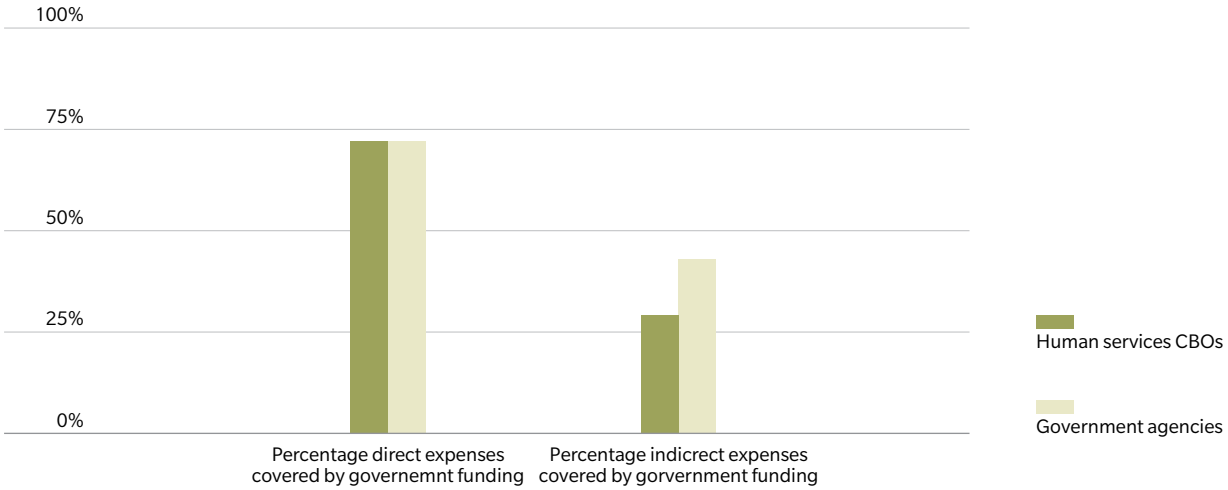
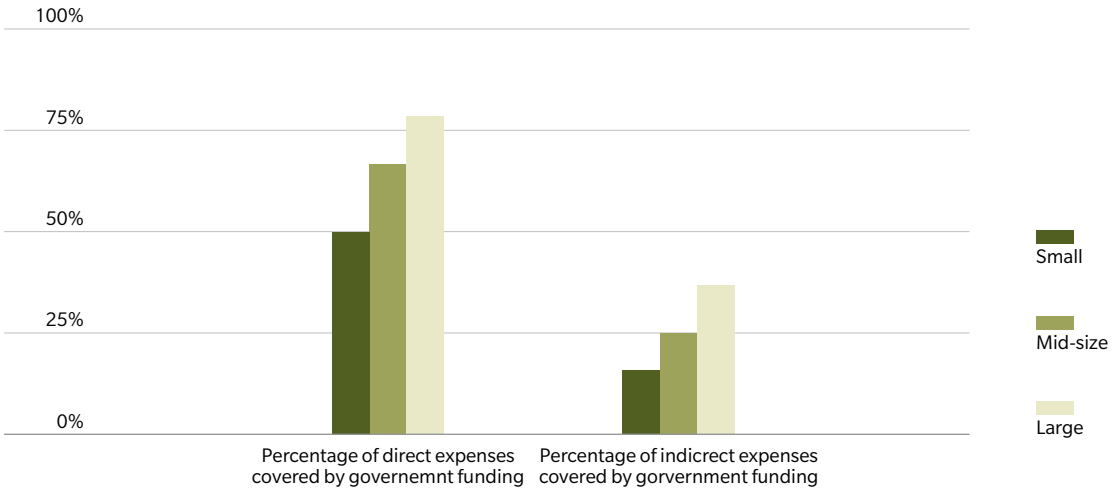


Exhibit 5. Coverage of expenses for CBO programs and services primarily funded by the government

AMONG ALL CBO RESPONDENTS (WITH GOVERNMENT AGENCY ESTIMATES)



BY CBO SIZE



BY CBO SIZE

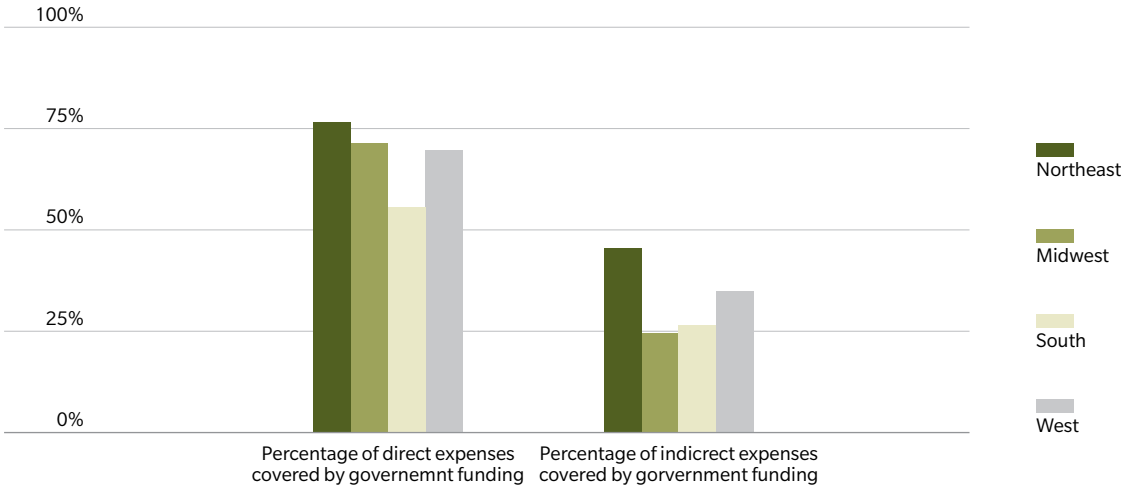

100%
75%
50%
25%
0%
Percentage of direct expenses covered by governemnt funding
Percentage of indicrect expenses covered by gorvernment funding
Northeast
Midwest
South
West

Exhibit 6. **Making up the funding gap**

MAIN ACTIONS TAKEN BY CBOs TO MAKE UP FUNDING GAPS

	AS INDICATED BY CBOs...	AS INDICATED BY GOVERNMENT AGENCIES...	AGENCY VS. CBO RANK
1	Securing additional philanthropy	Cost-cutting elsewhere in the CBO	▲
2	Using funds from other income streams	Securing additional philanthropy	▼
3	Cost-cutting elsewhere in the CBO	Scaling back types of services or size of programs	▲
4	Drawing from reserves	Using funds from other income streams	▼
5	Scaling back types of services or size of programs	Drawing from reserves	▼
6	Deficit budgeting	*Other*	▲
7	Taking on debt/loans	Deficit budgeting	▼
8	*Other*	Taking on debt/loans	▼

BY CBO SOLVENCY

	MOST SOLVENT	MIDDLE THIRD	LEAST SOLVENT
1	Securing additional philanthropy	Securing additional philanthropy	Securing additional philanthropy
2	Using funds from other income streams	Using funds from other income streams	Using funds from other income streams
3	Cost-cutting elsewhere in the CBO	Cost-cutting elsewhere in the CBO	Cost-cutting elsewhere in the CBO
4	Drawing from reserves	Drawing from reserves	Scaling back types of services or size of programs
5	Scaling back types of services or size of programs	Scaling back types of services or size of programs	Drawing from reserves
6	Deficit budgeting	Deficit budgeting	Deficit budgeting
7	Taking on debt/loans	Taking on debt/loans	Taking on debt/loans
8	*Other*	*Other*	*Other*

BY CBO RESERVES SIZE

	TOP THIRD	MIDDLE THIRD	BOTTOM THIRD
1	Securing additional philanthropy	Securing additional philanthropy	Securing additional philanthropy
2	Using funds from other income streams	Using funds from other income streams	Using funds from other income streams
3	Drawing from reserves	Cost-cutting elsewhere in the CBO	Cost-cutting elsewhere in the CBO
4	Cost-cutting elsewhere in the CBO	Drawing from reserves	Scaling back types of services or size of programs
5	Scaling back types of services or size of programs	Scaling back types of services or size of programs	Drawing from reserves
6	Deficit budgeting	Deficit budgeting	Deficit budgeting
7	Taking on debt/loans	*Other*	Taking on debt/loans
8	*Other*	Taking on debt/loans	*Other*

Exhibit 7. Actions CBOs would take in response to increased flexible funding

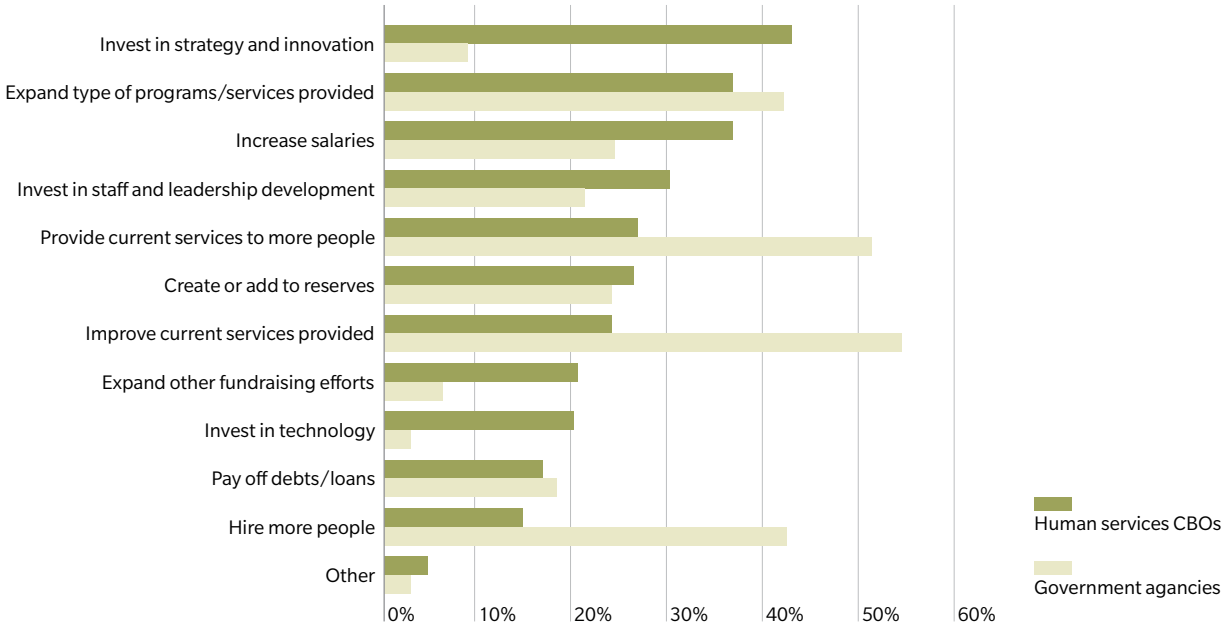


Exhibit 8. Actions CBOs would take in response to a 10–15% decrease in funding

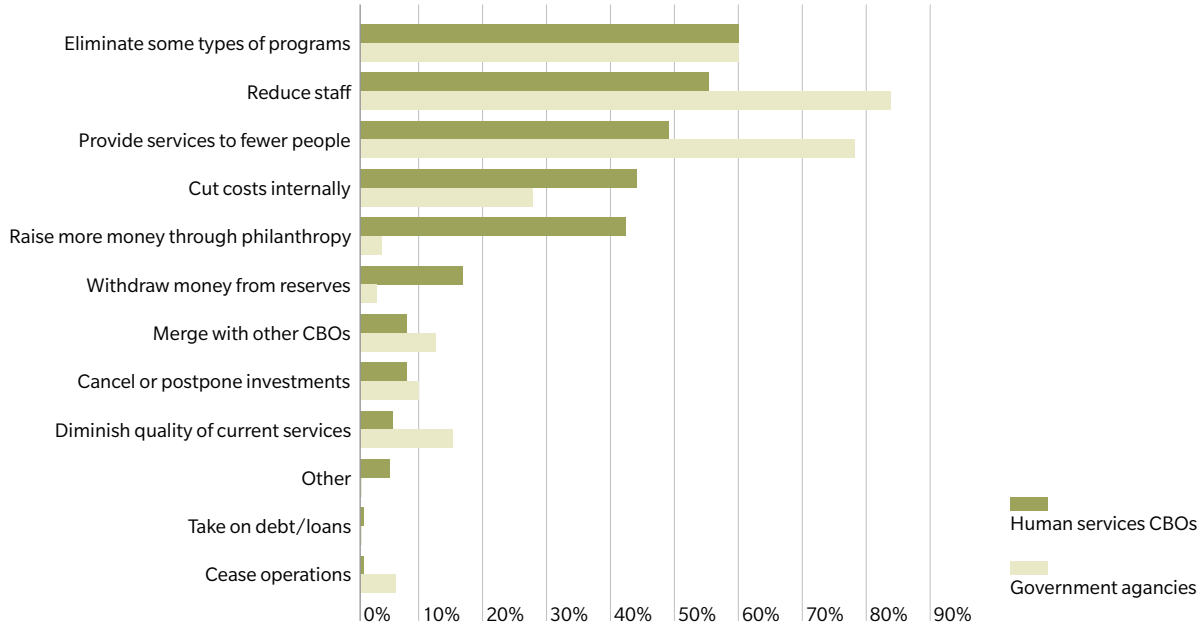
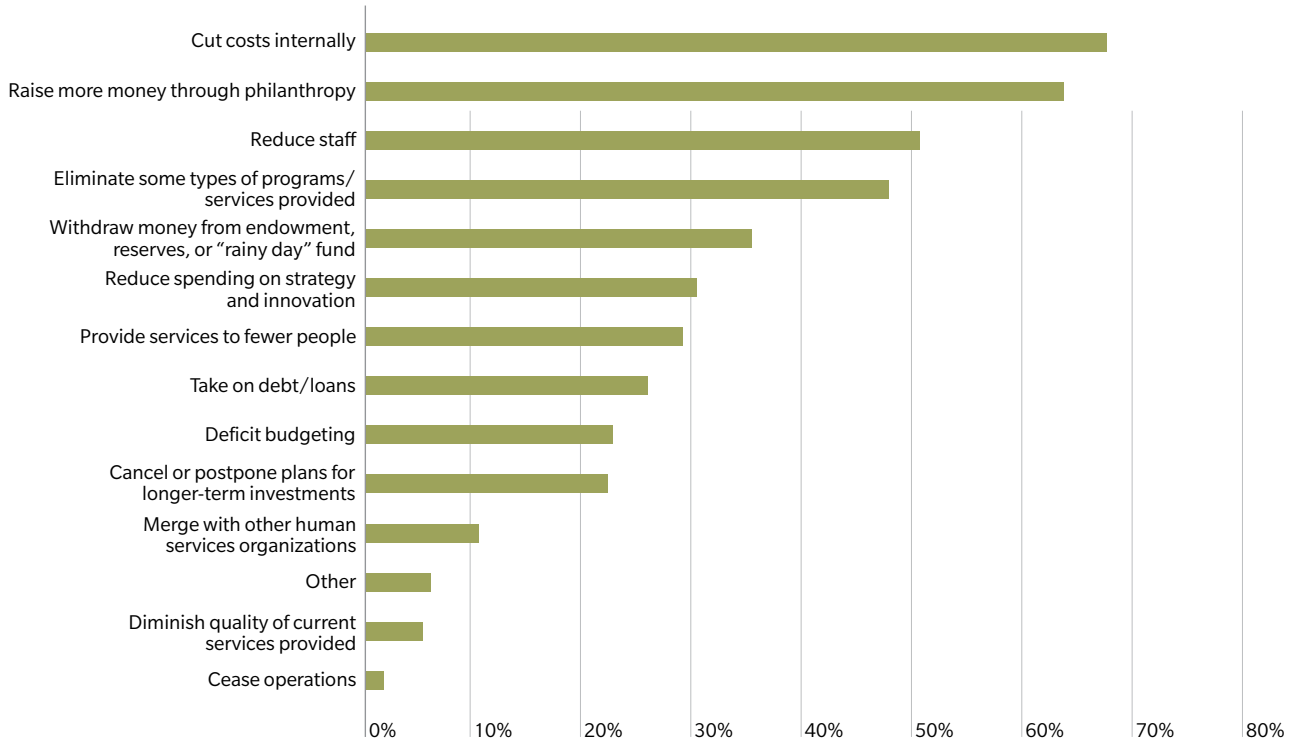
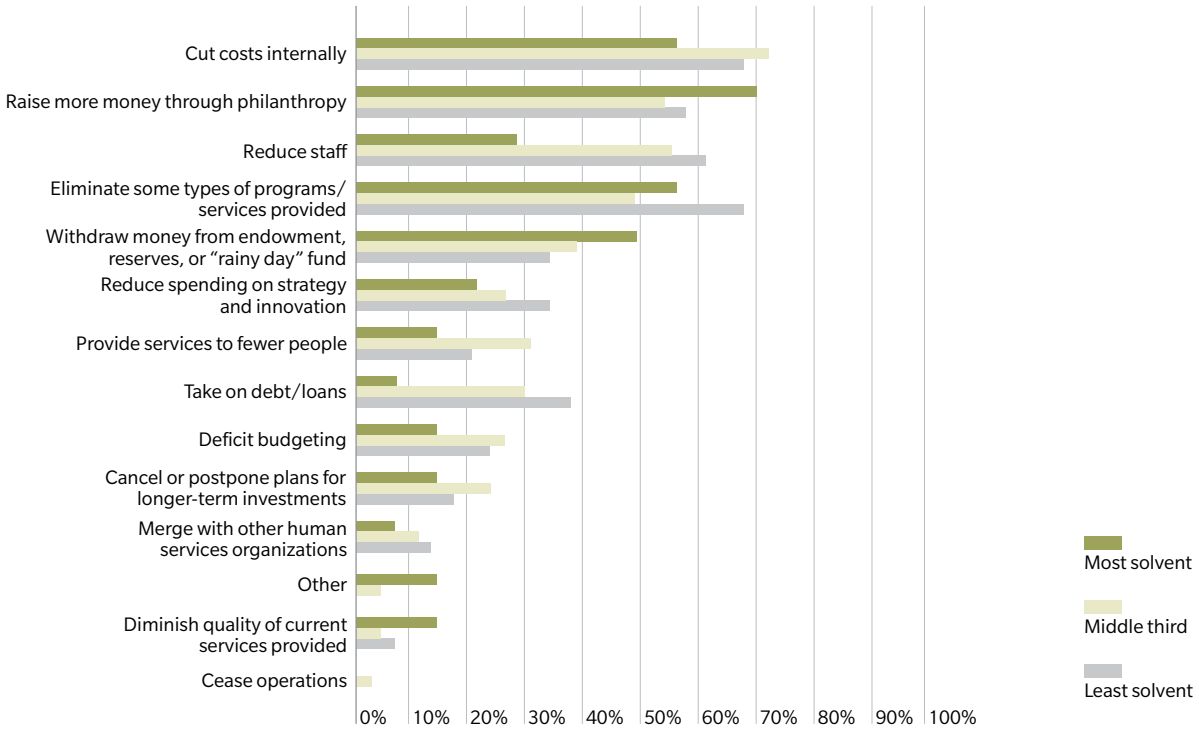


Exhibit 9. Actions taken by CBOs over the last five years in response to financial challenges*1



*1 Government agencies were not asked to provide estimates for the remaining CBO funding-related breakdowns and dynamics.

BY CBO SOLVENCY



BY CBO RESERVES SIZE

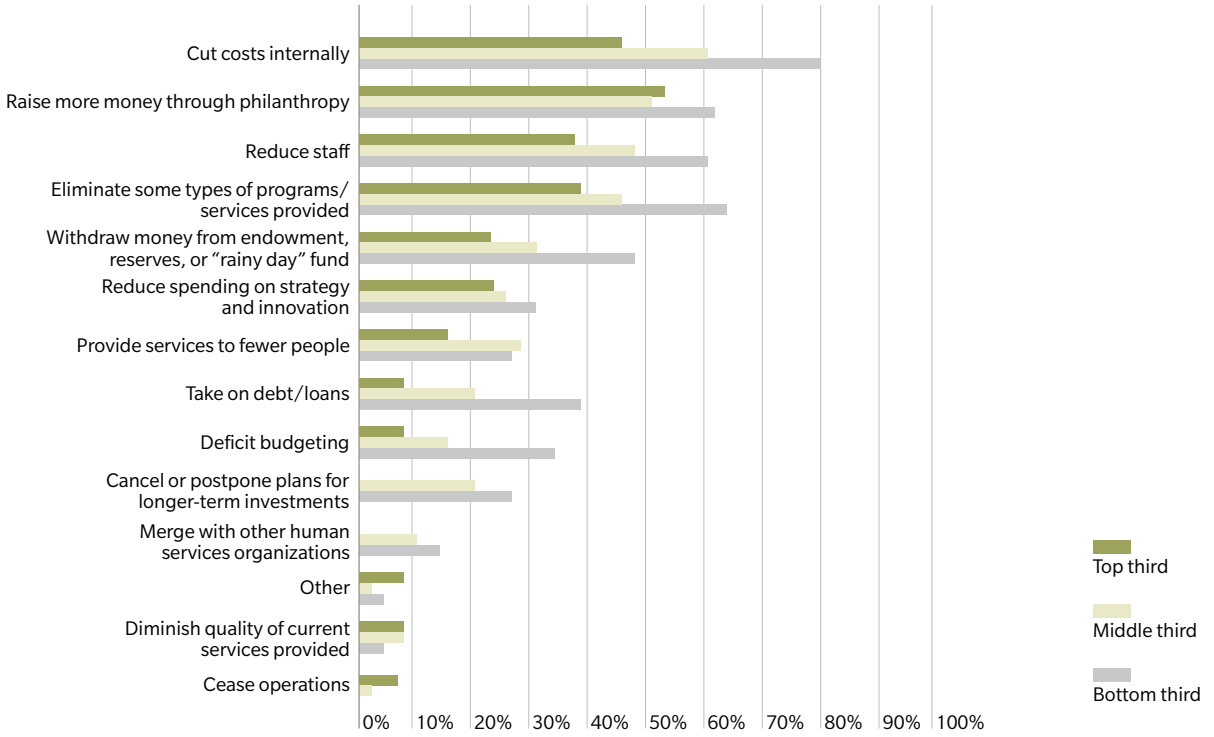


Exhibit 10. Breakdown in CBO private funding

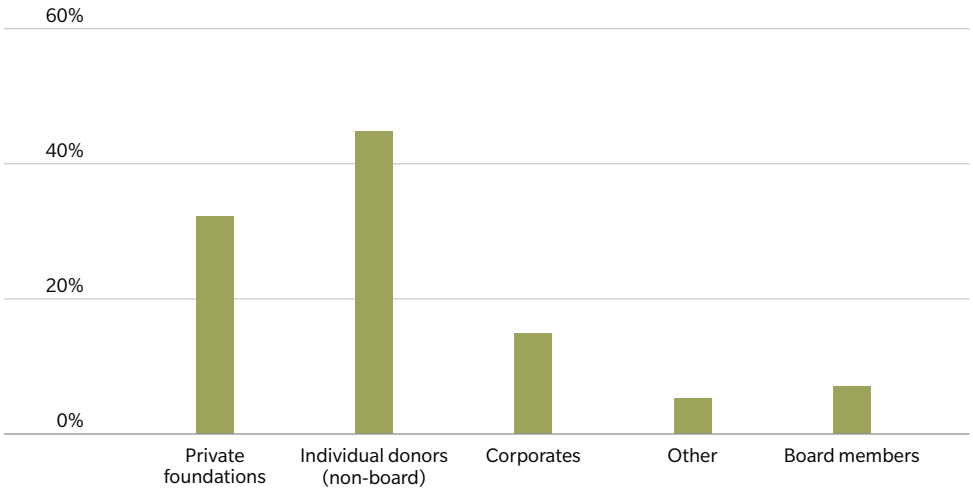


Exhibit 11. **Changes in CBO private funding over the last five years and projected over the next five years**

Exhibit 12. **Percentage of government funding from outcomes-based or pay-for-performance contracts**

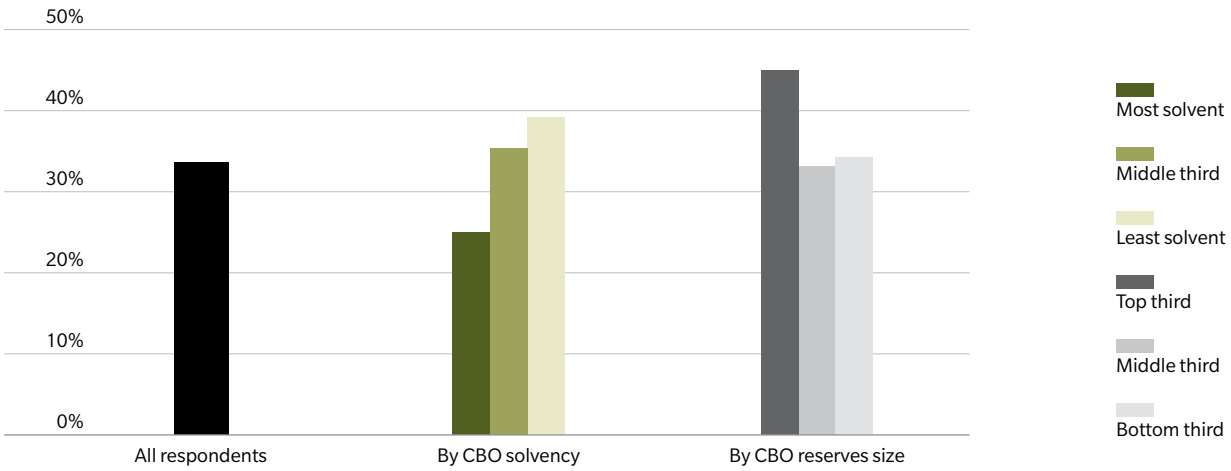
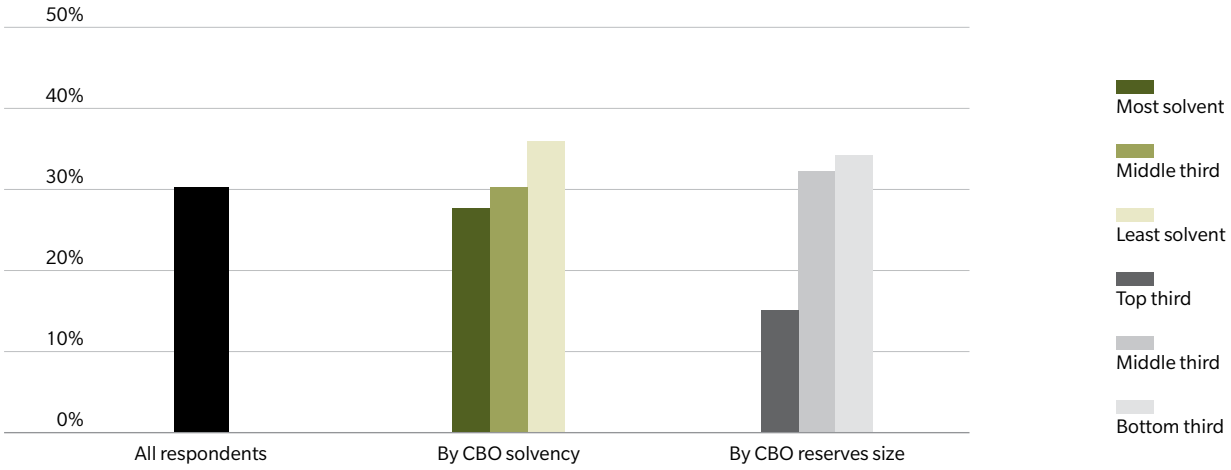
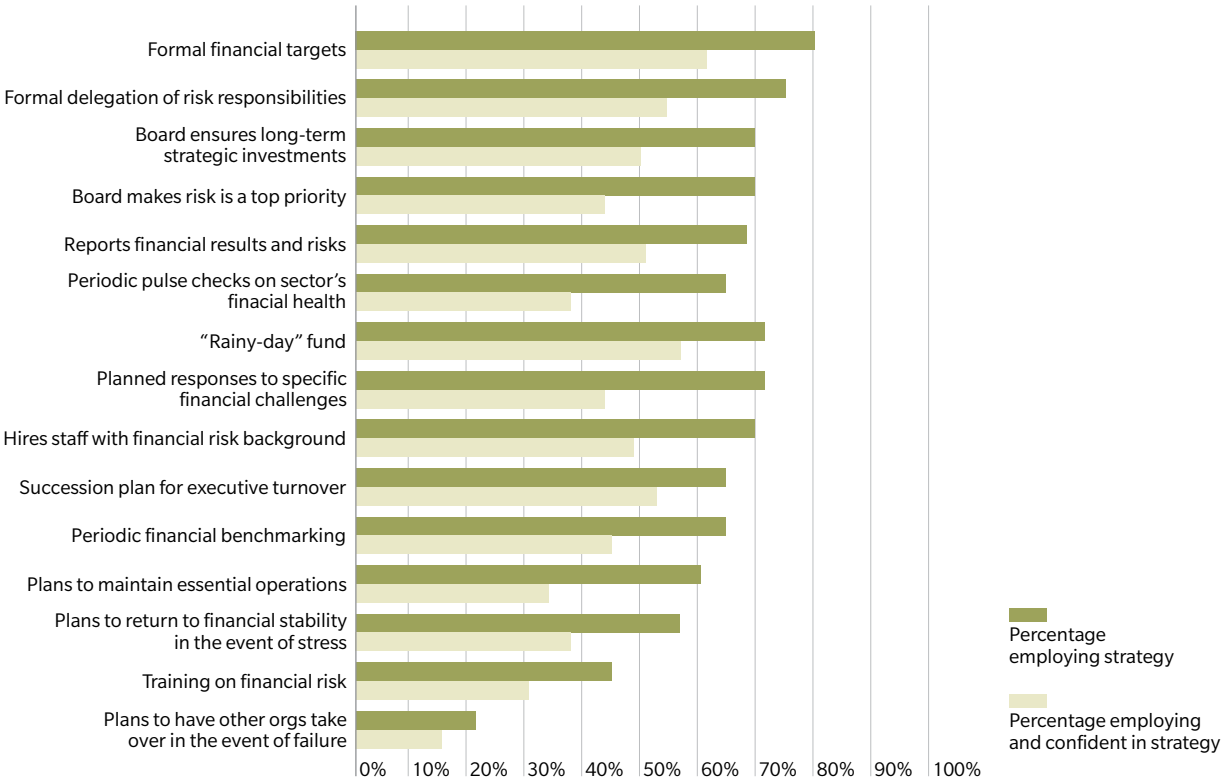


Exhibit 13. Percentage of private donations during last fiscal year that were restricted

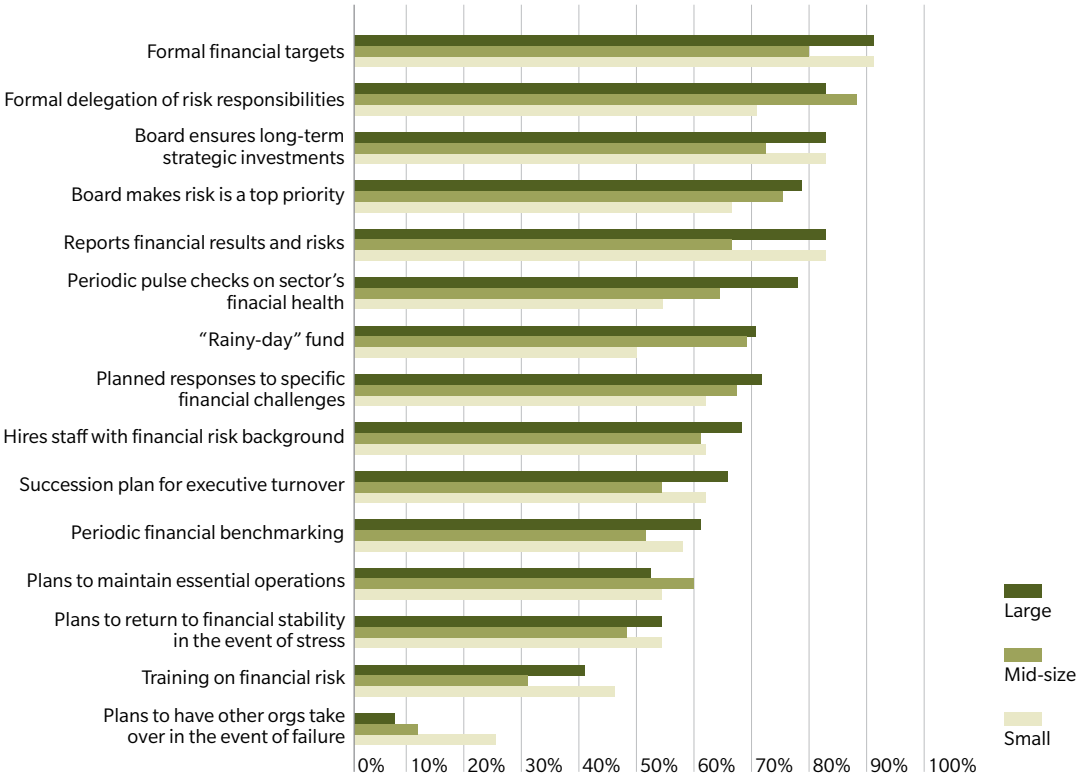


PART 3
CBO FINANCIAL STRATEGIES

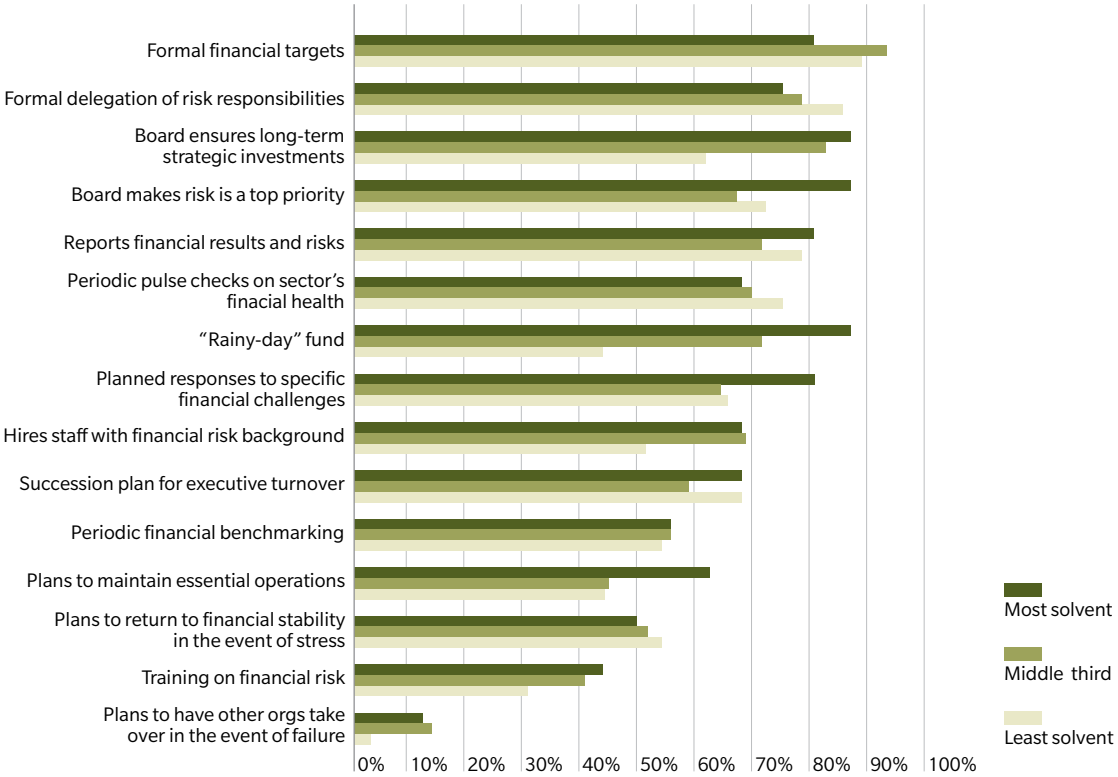
Exhibit 1. Financial risk management strategies employed by CBOs



BY CBO SIZE


Formal financial targets
Formal delegation of risk responsibilities
Board ensures long-term strategic investments
Board makes risk is a top priority
Reports financial results and risks
Periodic pulse checks on sector's finacial health
"Rainy-day" fund
Planned responses to specific financial challenges
Hires staff with financial risk background
Succession plan for executive turnover
Periodic financial benchmarking
Plans to maintain essential operations
Plans to return to financial stability in the event of stress
Training on financial risk
Plans to have other orgs take over in the event of failure
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
Large
Mid-size
Small

BY CBO SOLVENCY



BY CBO RESERVES SIZE

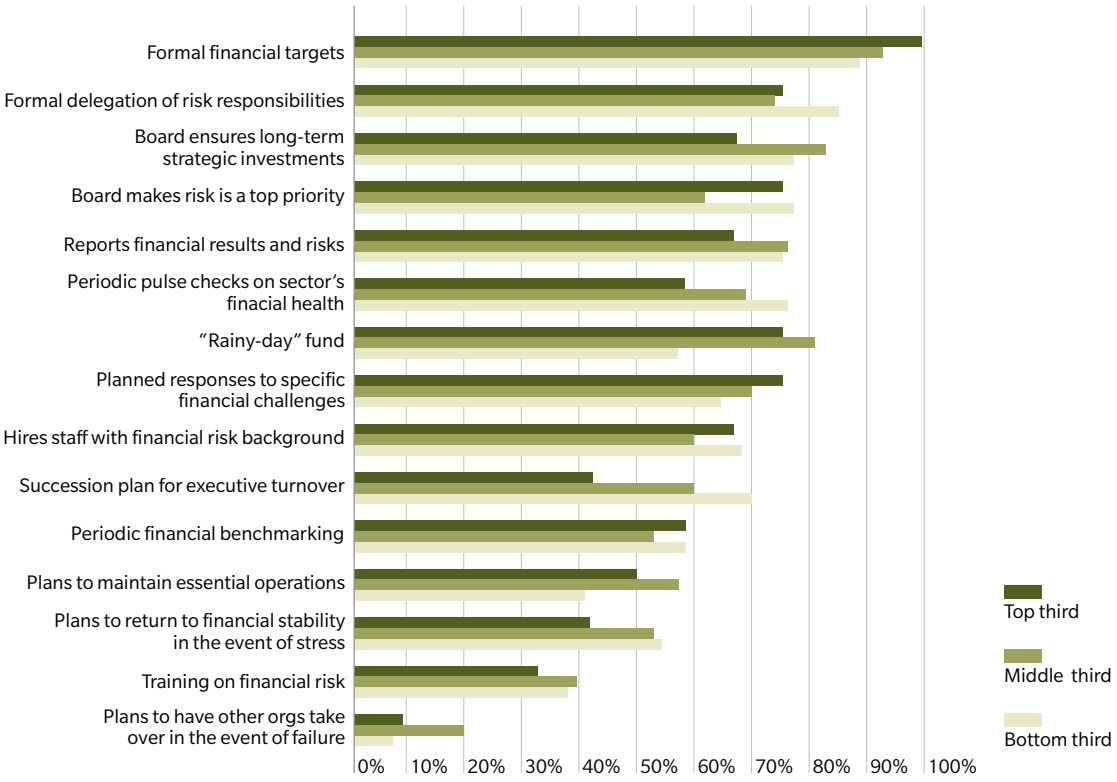


Exhibit 2. **Reasons for not employing financial risk management strategies**

NOT EMPLOYING STRATEGY

REASONS FOR NOT EMPLOYING STRATEGY

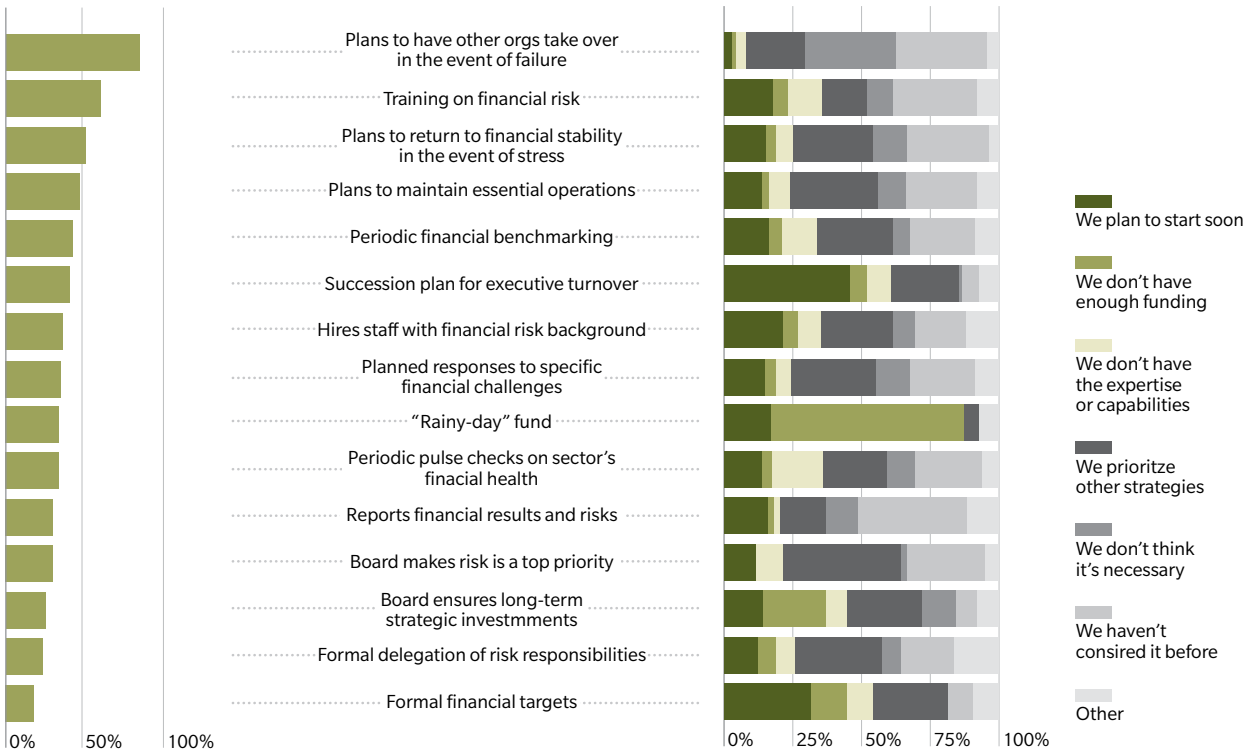
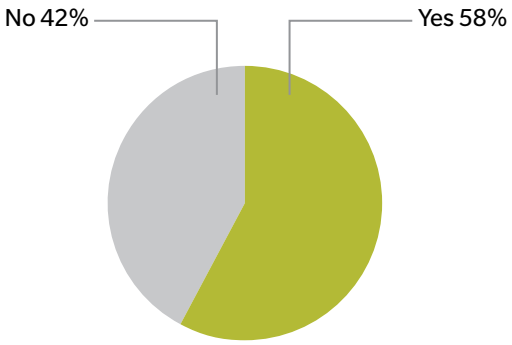


Exhibit 3. **CBO debt and access to debt**

DOES YOUR ORGANIZATION CURRENTLY HAVE DEBT?



IF YOU USE OR PLAN TO USE DEBT, DO YOU FEEL LIKE YOU HAVE ADEQUATE ACCESS TO DEBT?

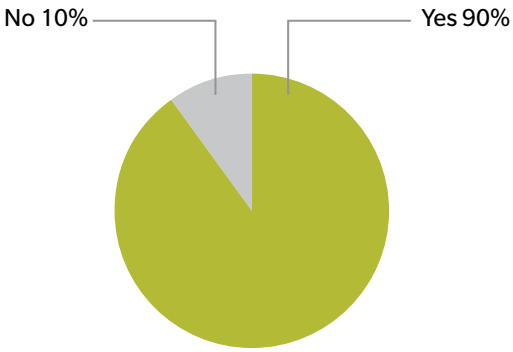


Exhibit 4. **Changes to CBO debt load over the last five years**

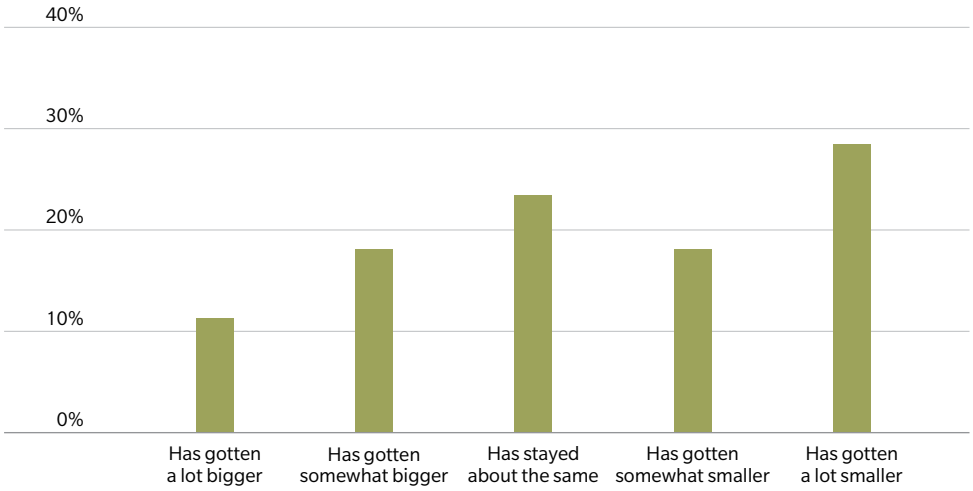
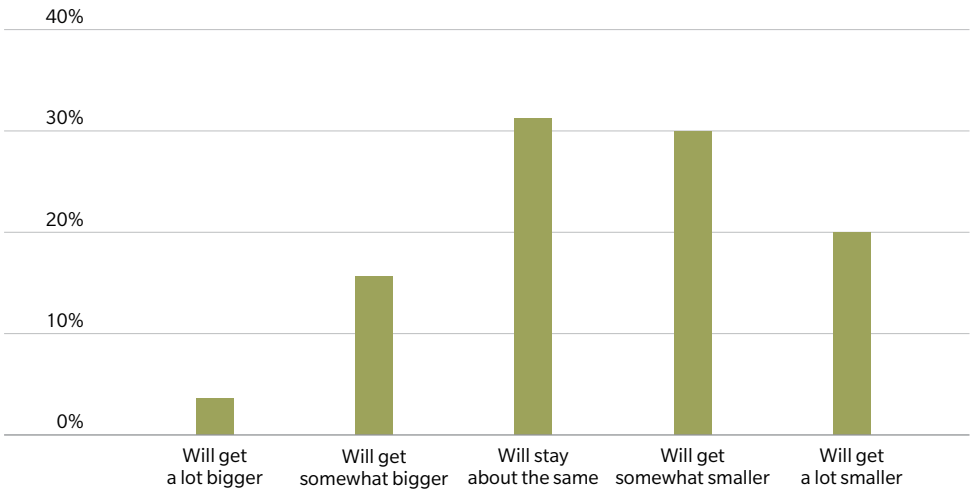


Exhibit 5. **Projected changes to debt load over the next five years**



PART 4
GOVERNMENT AGENCY FINANCIAL HEALTH ASSESSMENT

Exhibit 1. **Assessment of current ability to arrange services and care**

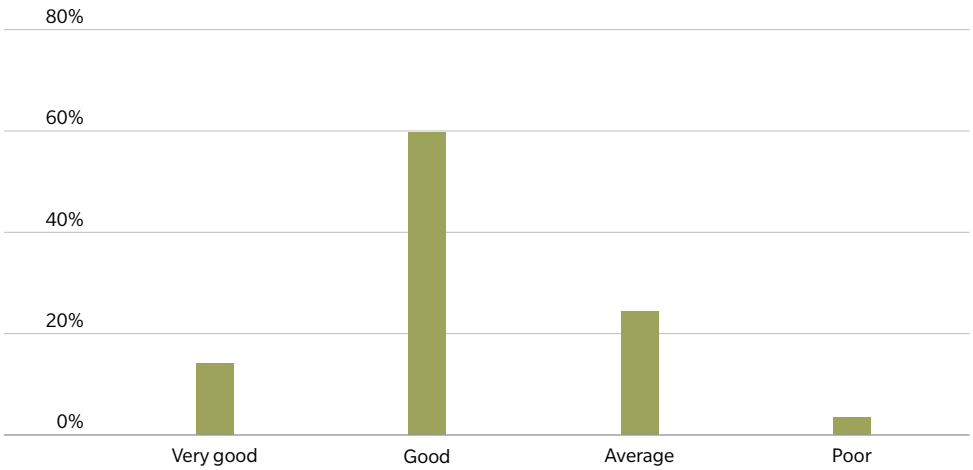


Exhibit 2. **Projected change in ability to arrange services and care over the next five years**

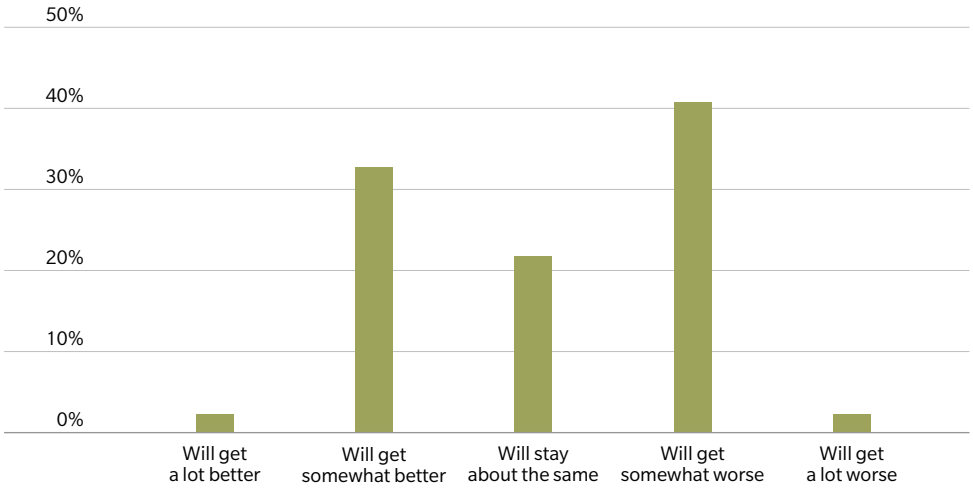


Exhibit 3. **Assessment of availability of funding to arrange for services and care over the last five years**

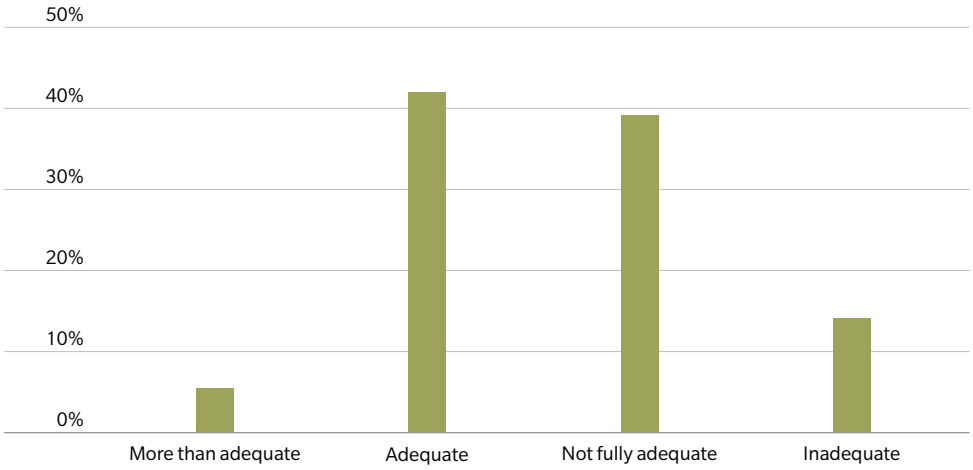


Exhibit 4. **Projected change in funding to arrange for services and care over the next five years**

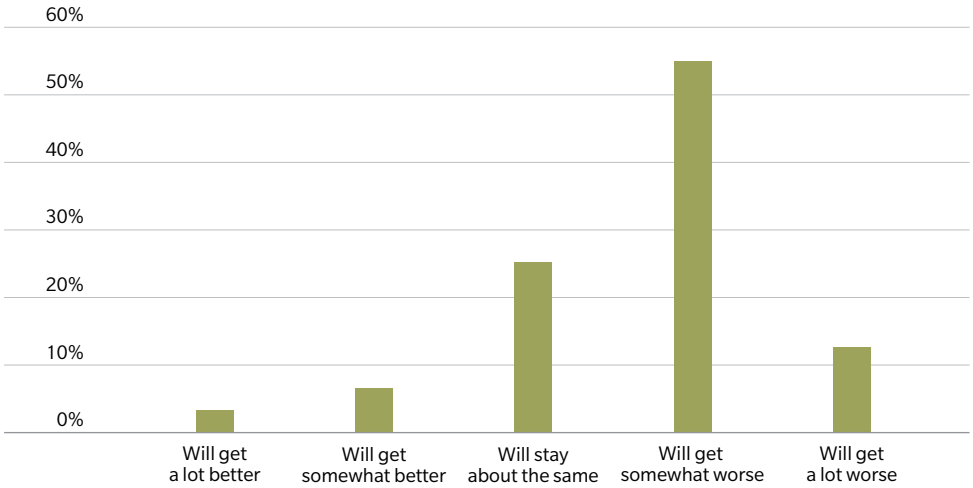


Exhibit 5. **Assessment of agency budget for administrative, overhead, and other non-program expenses over the last five years**

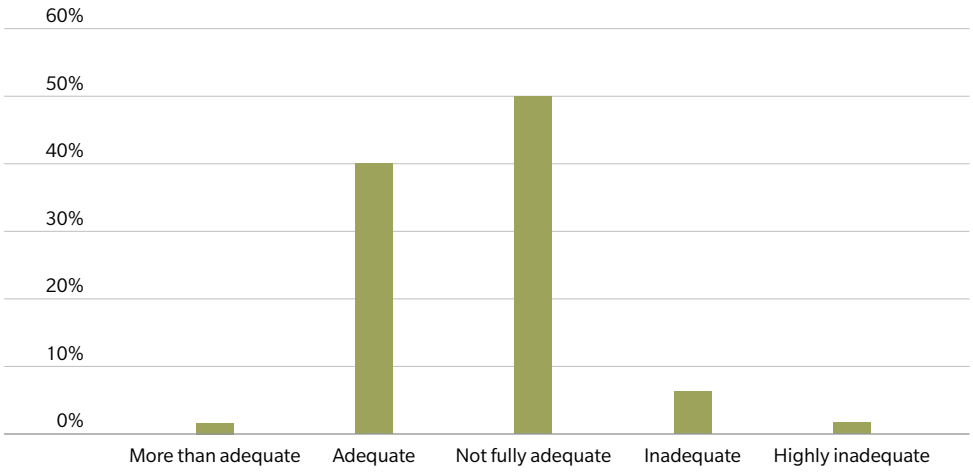


Exhibit 6. **Projected change in agency budget for administrative, overhead, and other non-program expenses over the next five years**

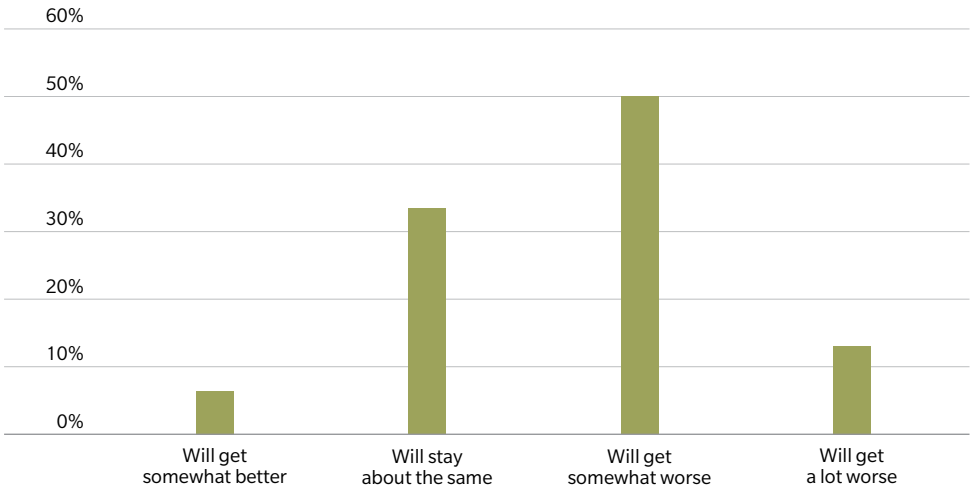


Exhibit 7. **Assessment of current ability to find strong, viable CBOs to provide services and care**

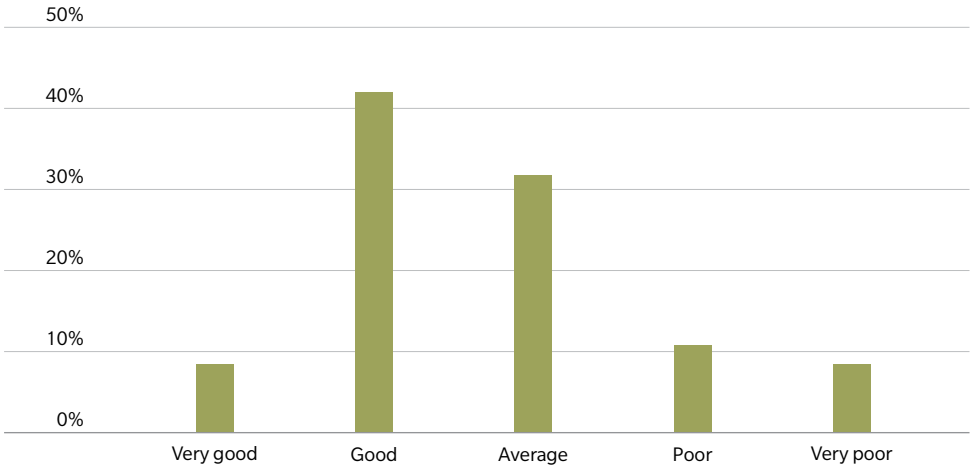


Exhibit 8. **Projected change in ability to find strong, viable CBOs to provide services and care over the next five years**

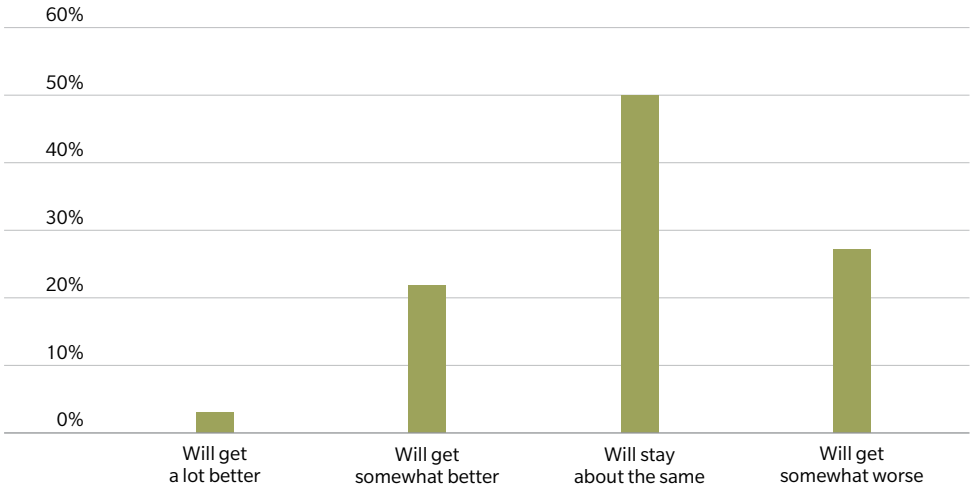
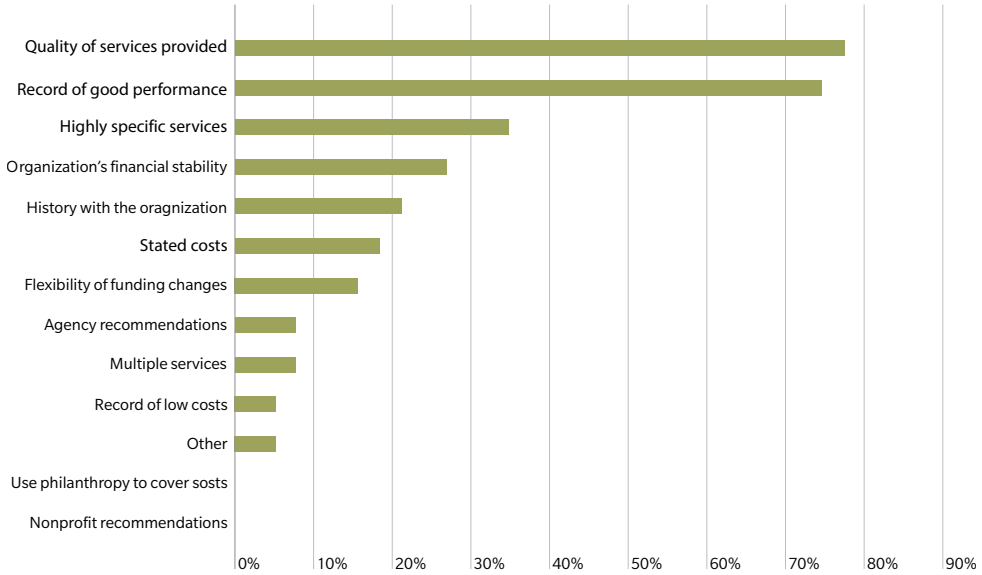


Exhibit 9. Factors considered when selecting CBOs to provide services and care (assuming basic procurement requirements are met)



PART 5
HUMAN SERVICES SYSTEM-WIDE FINANCIAL HEALTH ASSESSMENT

Exhibit 1. **Assessment of the current financial condition of the US human services system**

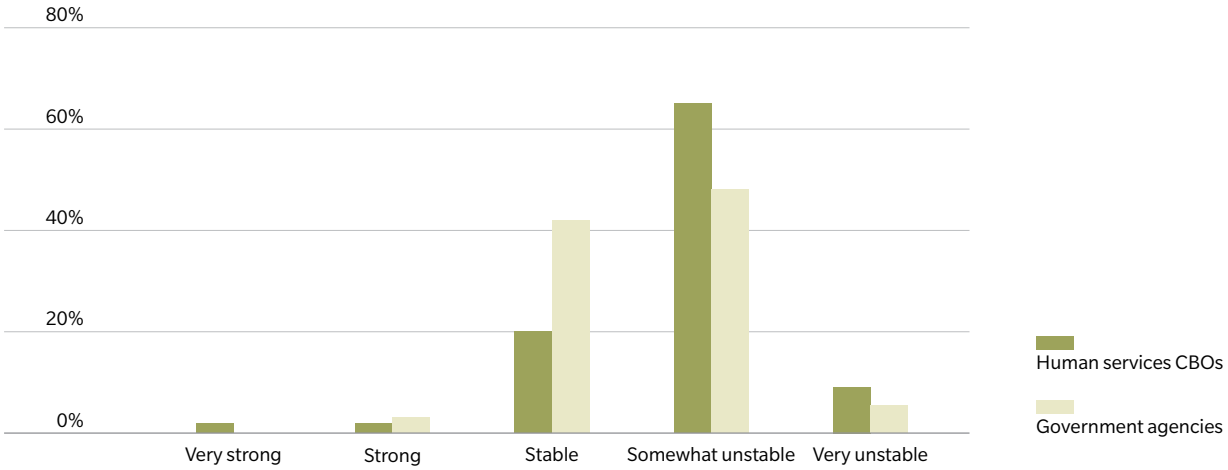


Exhibit 2. **Projected change in the financial condition of the US human services system over the next five years**

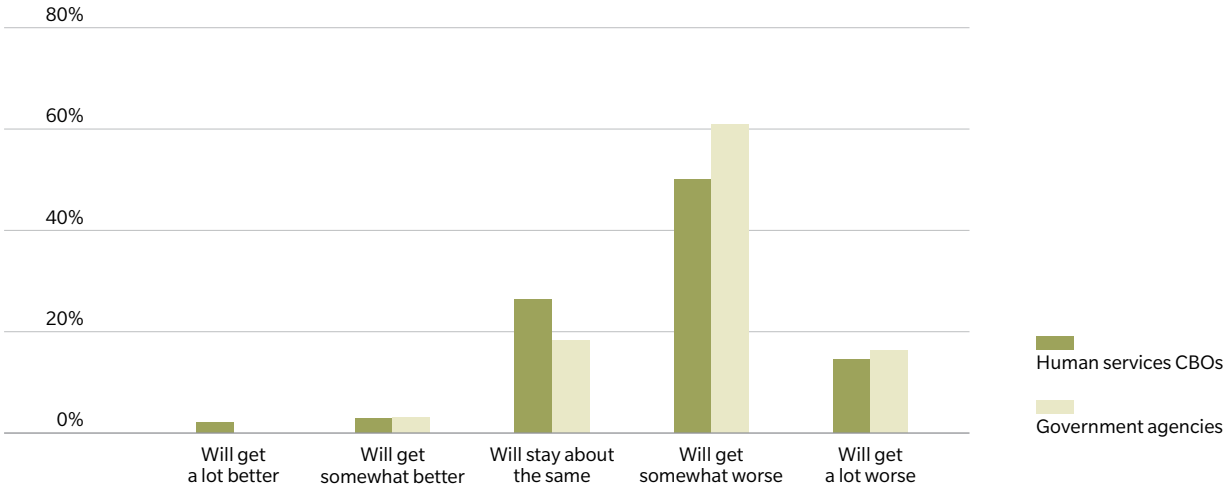


Exhibit 3. **Projected five-year change in financial condition by assessment of current financial strength**

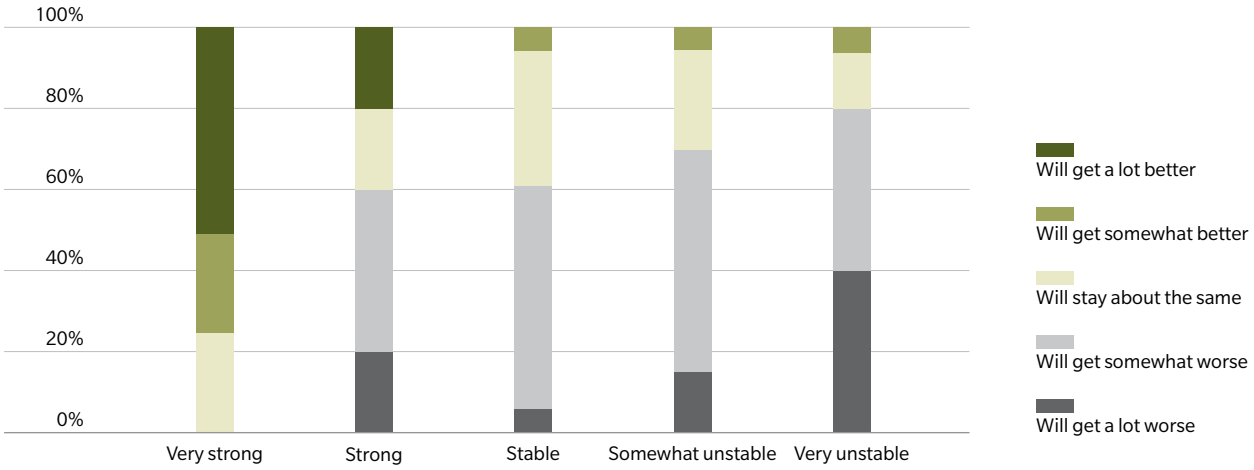


Exhibit 4. **Projected changes in demand for human services over the next 5, 10, and 20 years**

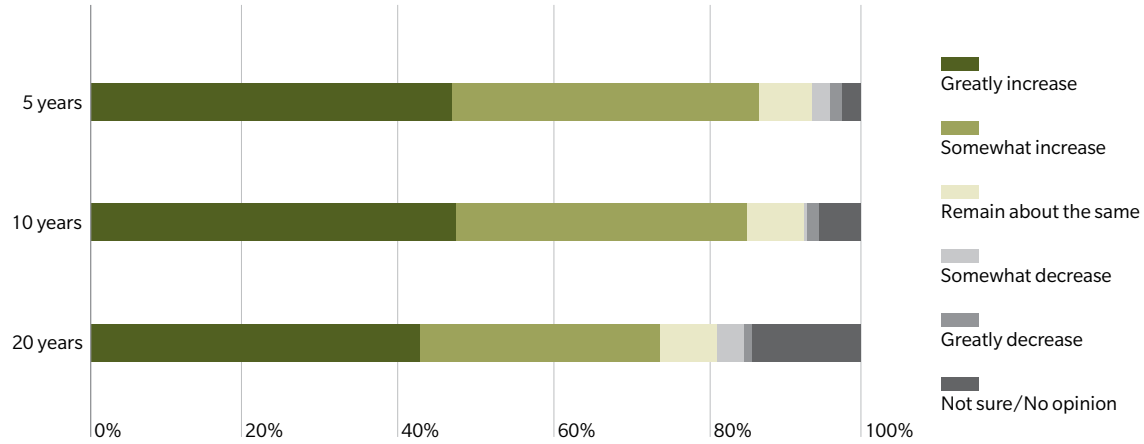


Exhibit 5. Confidence in the system's ability to meet demand over the next 5, 10, and 20 years

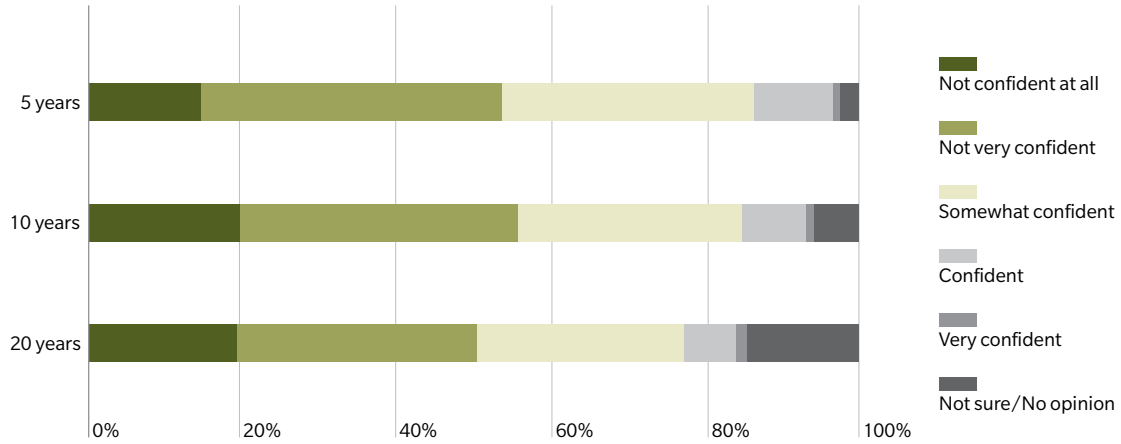


Exhibit 6. Most underfunded services

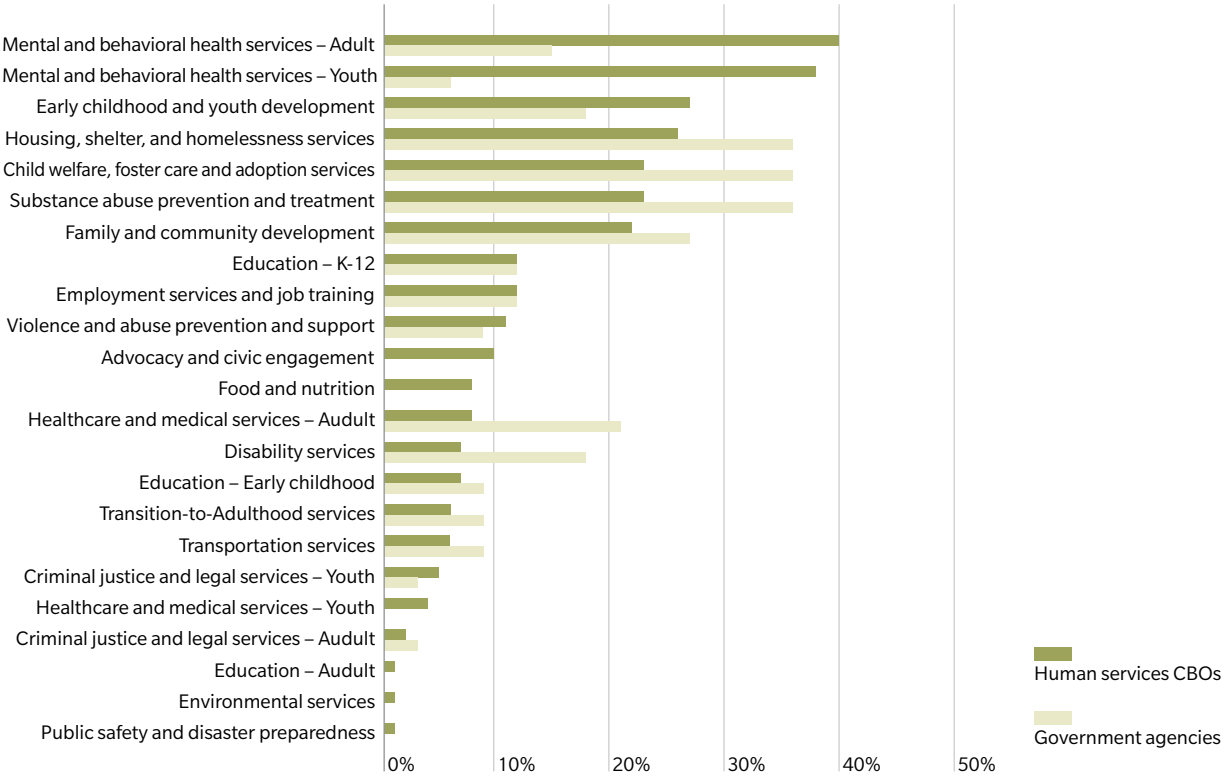


Exhibit 7. Services most likely to receive funding increases

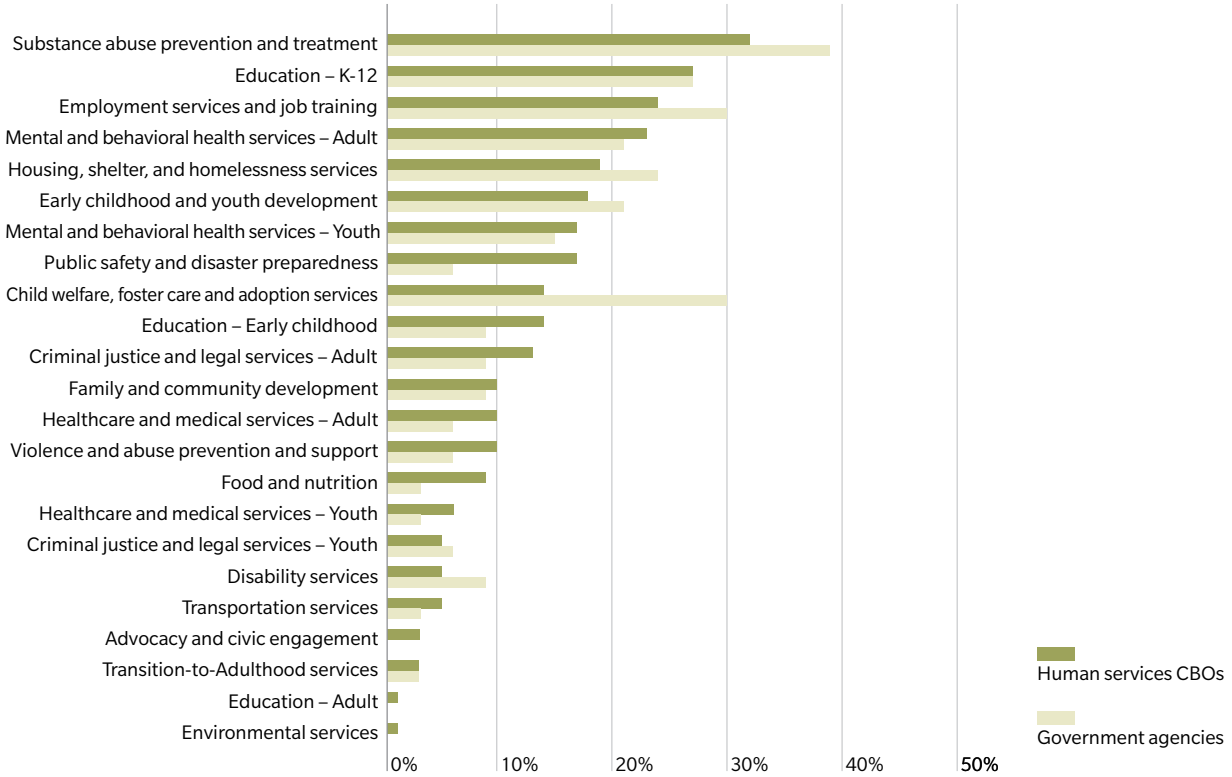


Exhibit 8. Services most likely to experience funding cuts

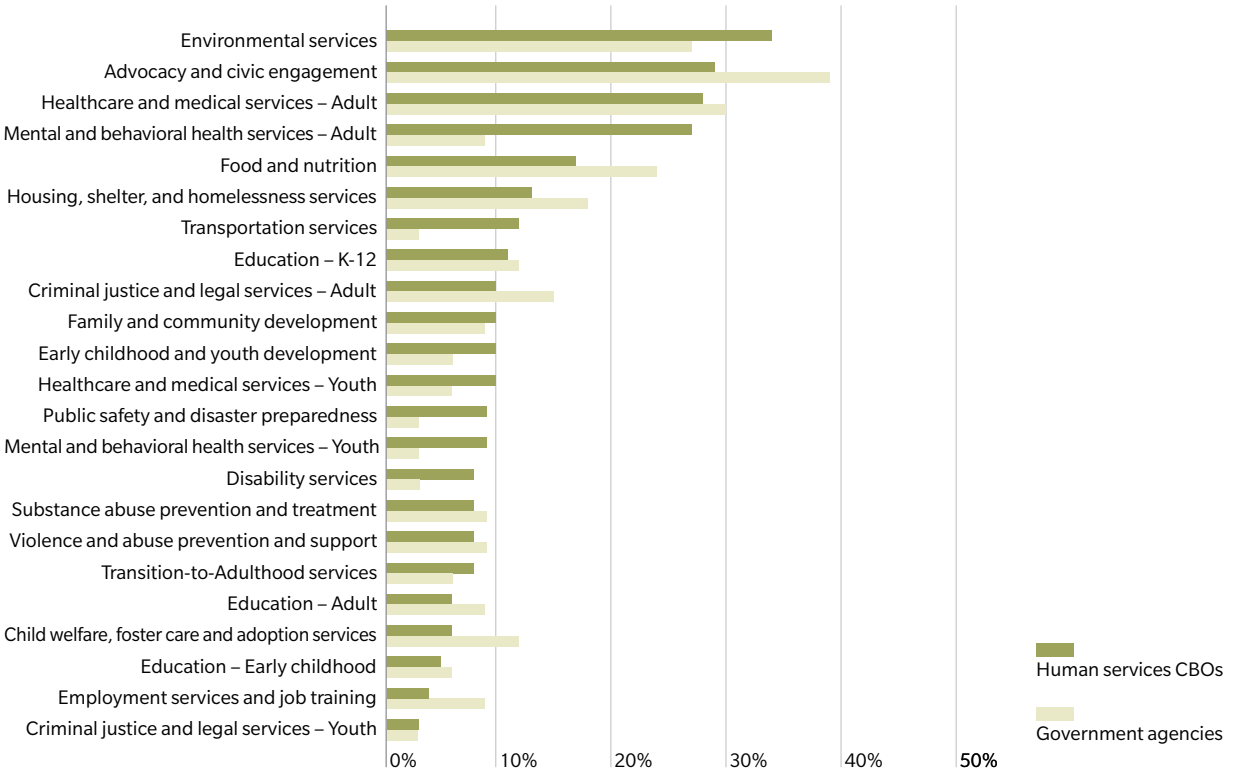


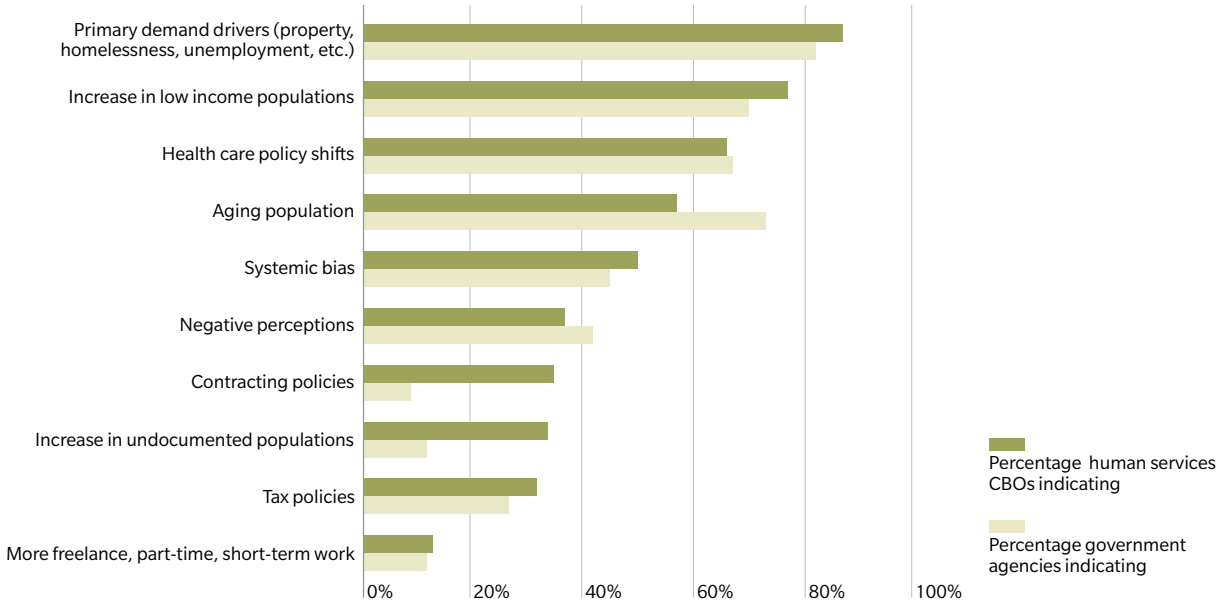
Exhibit 9. Overall service funding assessments

	MOST UNDERFUNDED SERVICES	MOST LIKELY TO RECEIVE ADDITIONAL FUNDING	MOST LIKELY TO EXPERIENCE FUNDING CUTS
1	Mental and behavioral health services – Adult	Substance abuse prevention and treatment	Environmental services
2	Mental and behavioral health services – Youth	Education – K-12	Advocacy and civic engagement
3	Housing, shelter, and homelessness services	Employment services and job training	Healthcare and medical services – Adult
4	Early childhood and youth development	Mental and behavioral health services – Adult	Mental and behavioral health services – Adult
5	Child welfare, foster care and adoption services	Housing, shelter, and homelessness services	Food and nutrition
6	Substance abuse prevention and treatment	Early childhood and youth development	Housing, shelter, and homelessness services
7	Family and community development	Mental and behavioral health services – Youth	Education – K-12
8	Education – K-12	Child welfare, foster care and adoption services	Criminal justice and legal services – Adult
9	Employment services and job training	Public safety and disaster preparedness	Transportation services
10	Violence and abuse prevention and support	Education – Early childhood	Family and community development

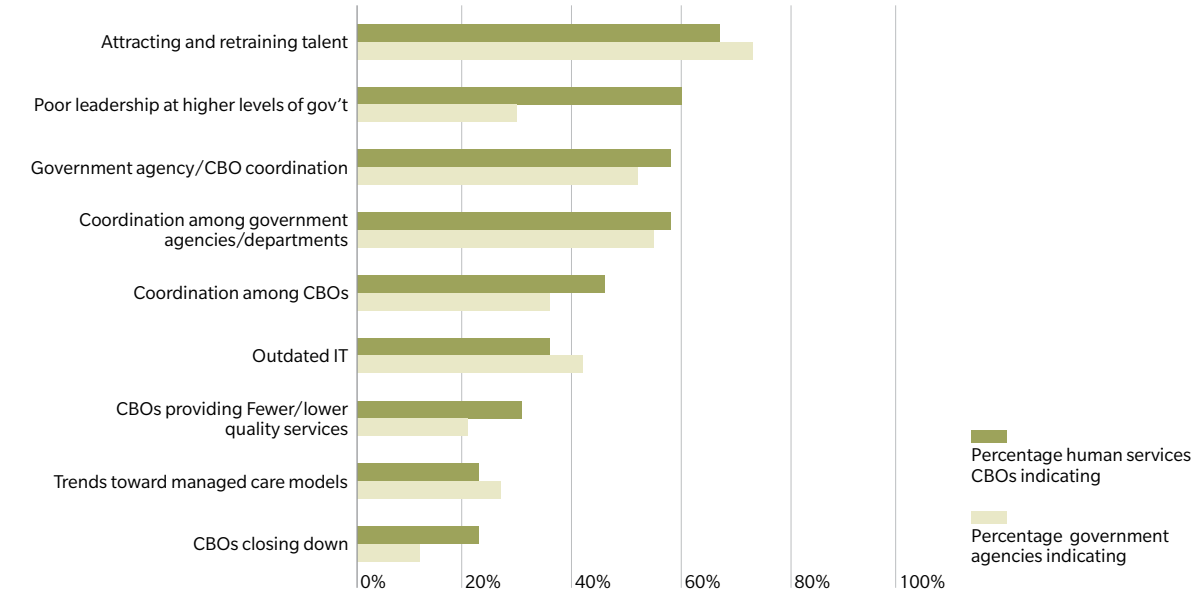
PART 6
CHALLENGES FACING THE HUMAN SERVICES SYSTEM

Exhibit 1. Challenges facing the human services system overall

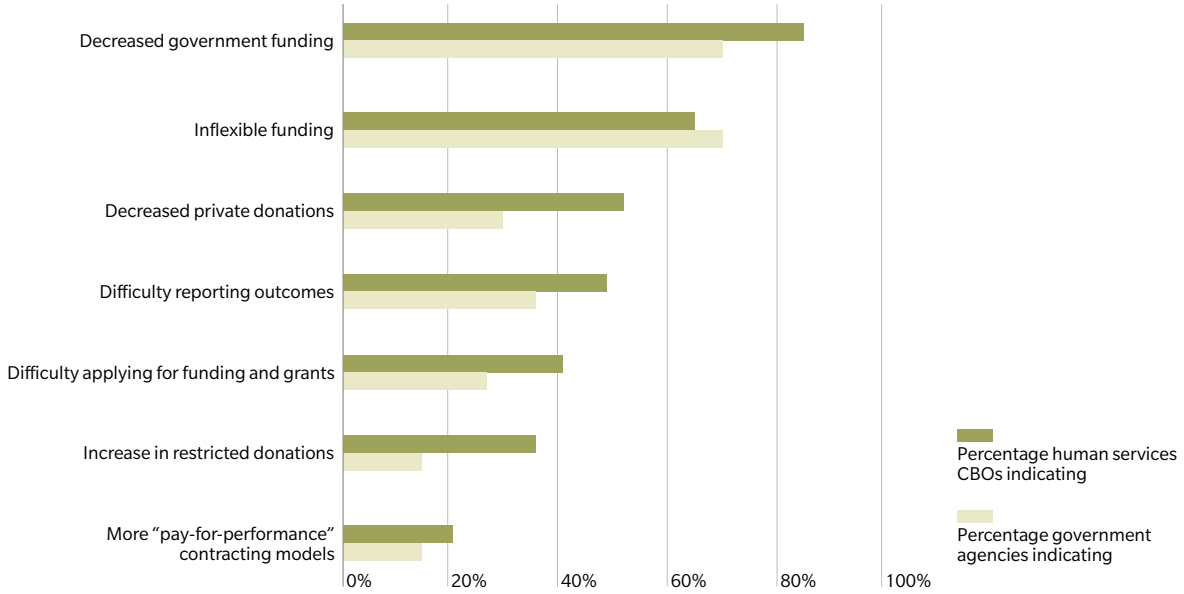
EXTERNAL CHALLENGES



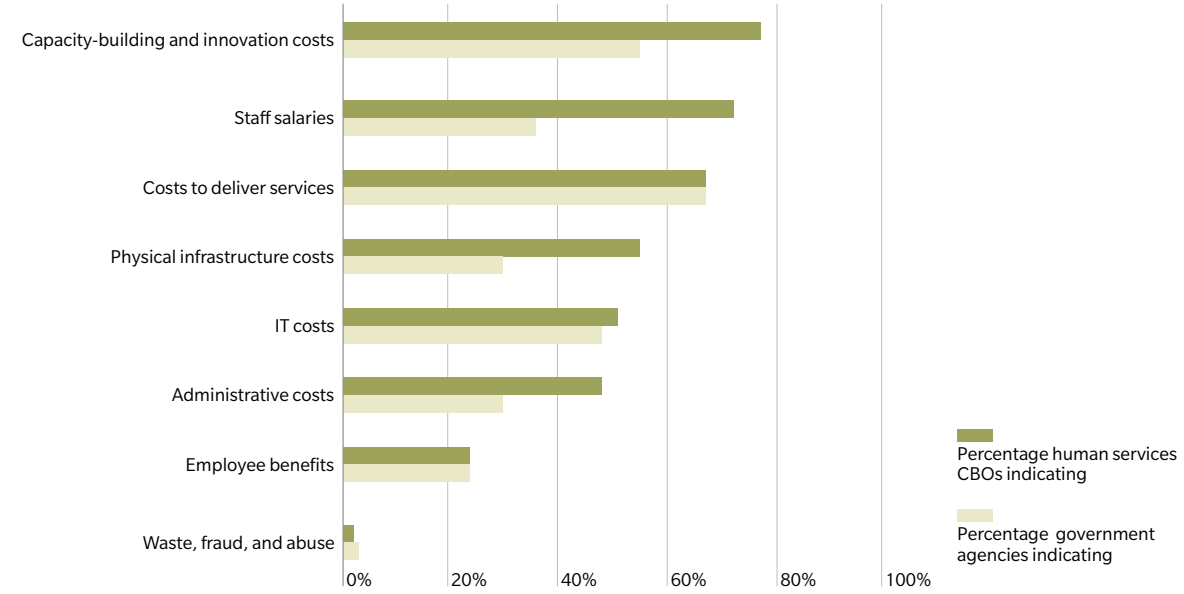
INTERNAL CHALLENGES



FUNDING CHALLENGES



COST CHALLENGES

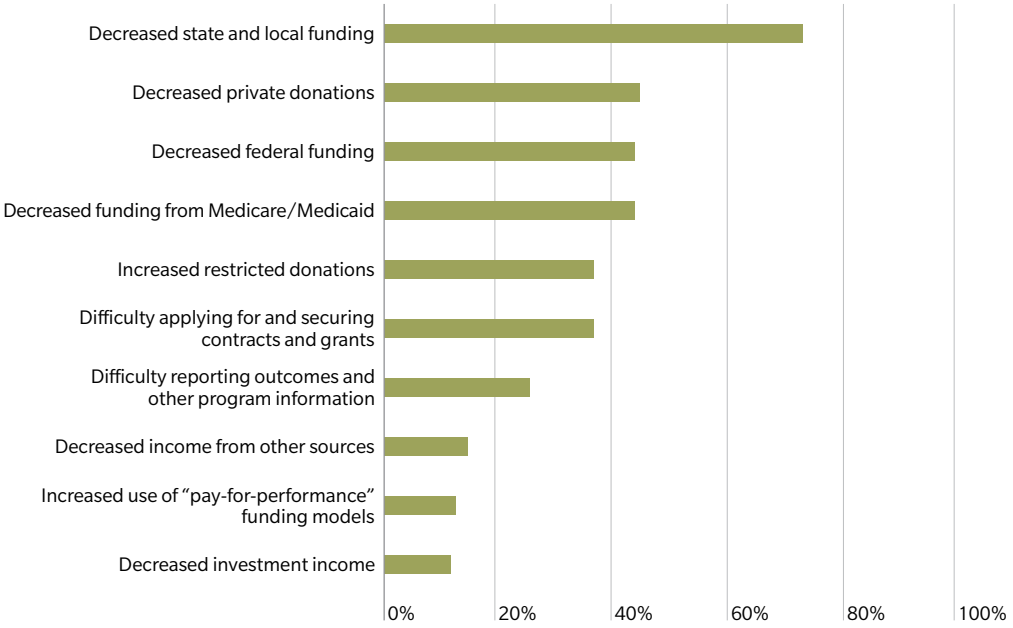


TOP CHALLENGES OVERALL

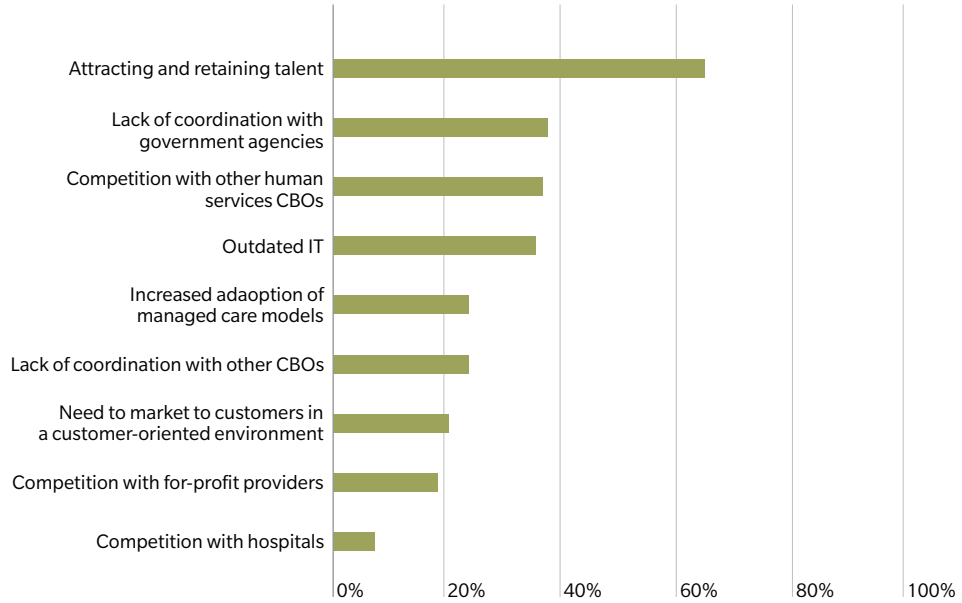
RANK	TOP CHALLENGES AMONG ALL RESPONDENTS	PERCENTAGE INDICATING THEY FEEL EQUIPPED TO HANDLE CHALLENGE
1	Primary demand drivers (poverty, homelessness, unemployment, etc.)	25%
2	Increase in low income populations	27%
3	Decreased government funding	9%
4	Aging population	37%
5	Systemic bias	19%
6	Health care policy shifts	10%
7	Attracting and retaining talent	22%
8	Staff salaries	21%
9	Poor leadership at higher levels of gov't	8%
10	Inflexible funding	8%

Exhibit 2. Challenges facing human services CBOs

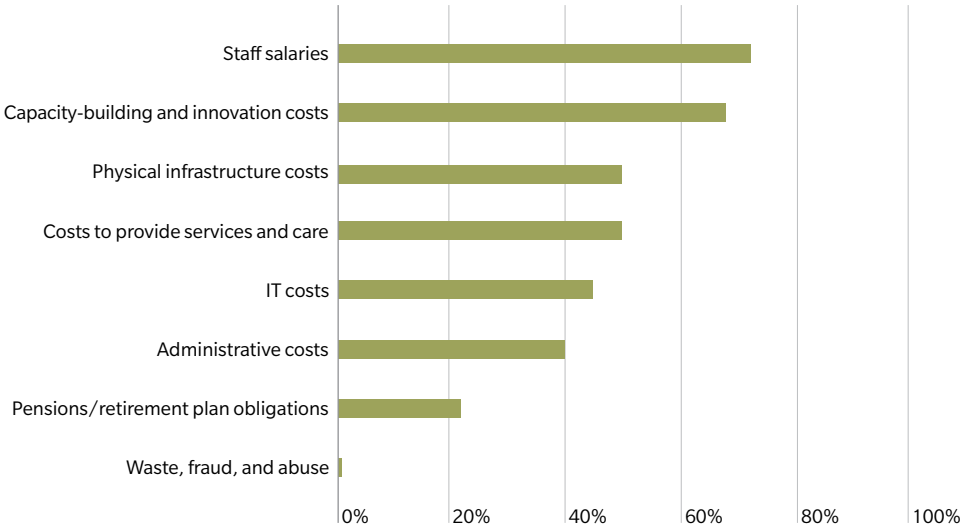
FUNDING CHALLENGES



FUNDING CHALLENGES



COST CHALLENGES



TOP CHALLENGES OVERALL (AND PERCENT EQUIPPED)

RANK	TOP CHALLENGES AMONG ALL RESPONDENTS	PERCENTAGE INDICATING THEY FEEL EQUIPPED TO HANDLE CHALLENGE
1	Decreased state and local funding	60%
2	Attracting and retaining talent	52%
3	Staff salaries	44%
4	Decreased federal funding	47%
5	Decreased private donations	63%
6	Decreased funding from Medicare/Medicaid	65%
7	Capacity-building and innovation costs	55%
8	Costs to provide services and care	49%
9	Physical infrastructure costs	60%
10	Increased restricted donations	62%

TOP CHALLENGES BY CBO SIZE

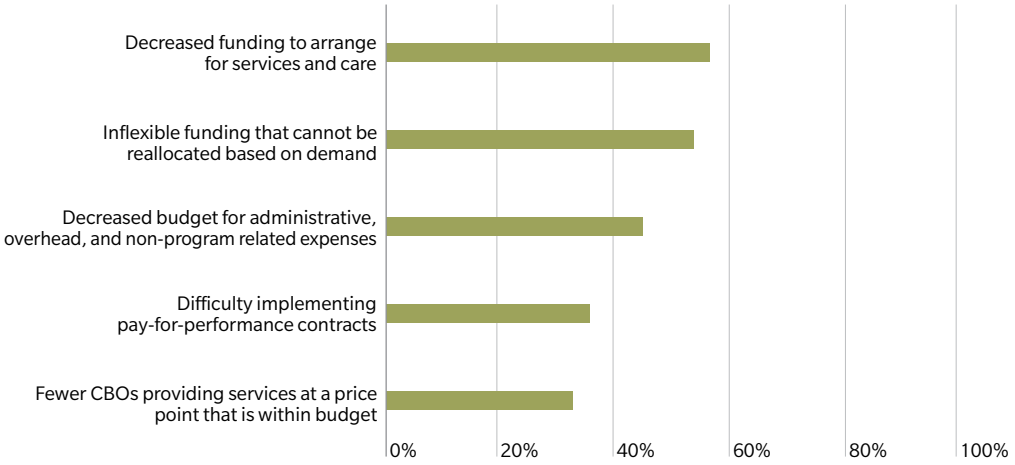
RANK	SMALL	MID-SIZE	LARGE
1	Decreased federal funding	Decreased state and local funding	Decreased state and local funding
2	Staff salaries	Attracting and retaining talent	Attracting and retaining talent
3	Decreased state and local funding	Staff salaries	Staff salaries
4	Decreased private donations	Decreased private donations	Decreased funding from Medicare/Medicaid
5	Increased restricted donations	Capacity-building and innovation costs	Decreased federal funding
6	Attracting and retaining talent	Costs to provide services and care	Capacity-building and innovation costs
7	Costs to provide services and care	Decreased federal funding	Physical infrastructure costs
8	Difficulty applying for and securing contracts and grants	Physical infrastructure costs	Costs to provide services and care
9	Competition with other human services CBOs	Decreased funding from Medicare/Medicaid	Decreased private donations
10	Decreased income from other sources	Difficulty applying for and securing contracts and grants	Outdated IT

TOP CHALLENGES BY CBO SIZE

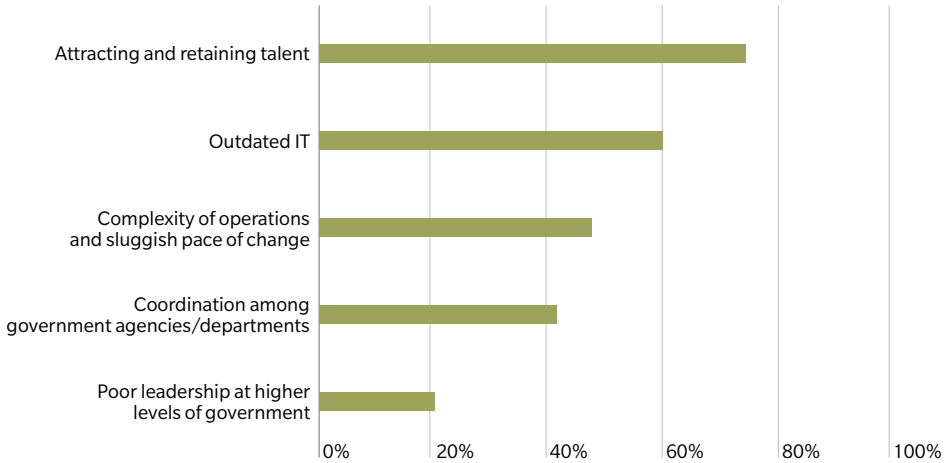
RANK	NORTHEAST	MIDWEST	SOUTH	WEST
1	Decreased state and local funding	Decreased state and local funding	Decreased state and local funding	Decreased state and local funding
2	Decreased federal funding	Attracting and retaining talent	Staff salaries	Staff salaries
3	Staff salaries	Staff salaries	Attracting and retaining talent	Attracting and retaining talent
4	Attracting and retaining talent	Decreased private donations	Physical infrastructure costs	Decreased funding from Medicare/Medicaid
5	Physical infrastructure costs	Capacity-building and innovation costs	Administrative costs	Decreased federal funding
6	Costs to provide services and care	Decreased federal funding	Increased restricted donations	Capacity-building and innovation costs
7	Decreased private donations	Decreased funding from Medicare/Medicaid	Costs to provide services and care	Decreased private donations
8	Decreased funding from Medicare/Medicaid	Difficulty applying for and securing contracts and grants	Decreased federal funding	Outdated IT
9	Increased adoption of managed care models	Costs to provide services and care	Decreased private donations	Costs to provide services and care
10	Capacity-building and innovation costs	Physical infrastructure costs	Decreased funding from Medicare/Medicaid	Increased restricted donations

Exhibit 3. Challenges facing government agencies

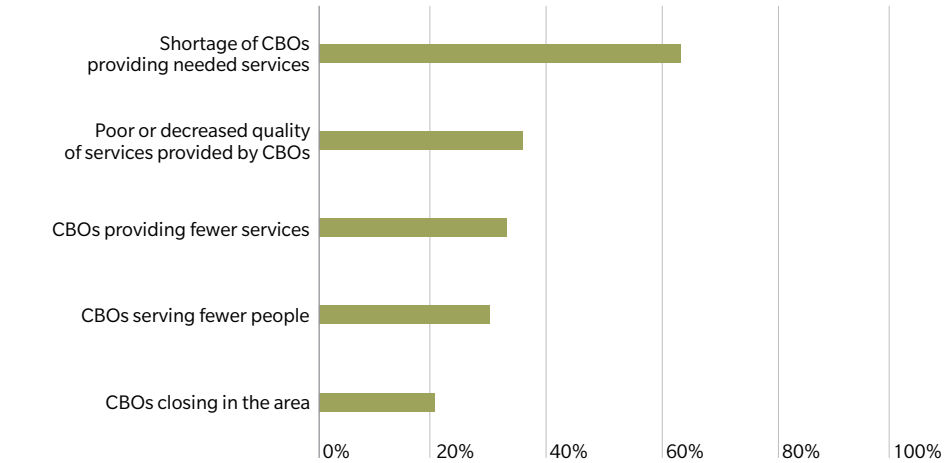
FUNDING CHALLENGES



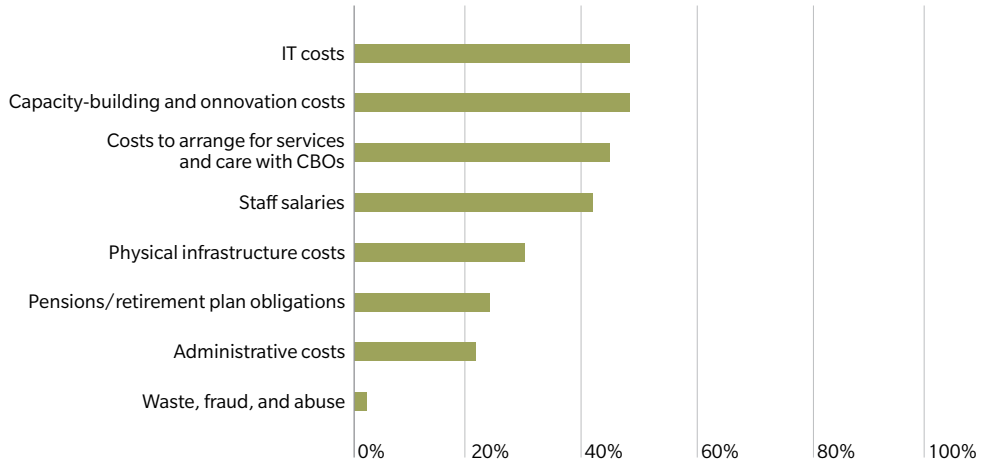
OPERATING CHALLENGES



CHALLENGES PERTAINING TO ARRANGING SERVICES AND CARE WITH CBOs



COST CHALLENGES



TOP CHALLENGES OVERALL (AND PERCENT EQUIPPED)

RANK	TOP CHALLENGES AMONG ALL RESPONDENTS	PERCENTAGE INDICATING THEY FEEL EQUIPPED TO HANDLE CHALLENGE
1	Decreased funding to arrange for services and care	14%
2	Attracting and retaining talent	36%
3	Inflexible funding that cannot be reallocated based on demand	8%
4	Outdated IT	40%
5	Shortage of CBOs providing needed services	25%
6	Coordination among government agencies/departments	90%
7	Staff salaries	29%
8	Complexity of operations and sluggish pace of change	67%
9	IT costs	67%
10	Difficulty implementing pay-for-performance contracts	50%

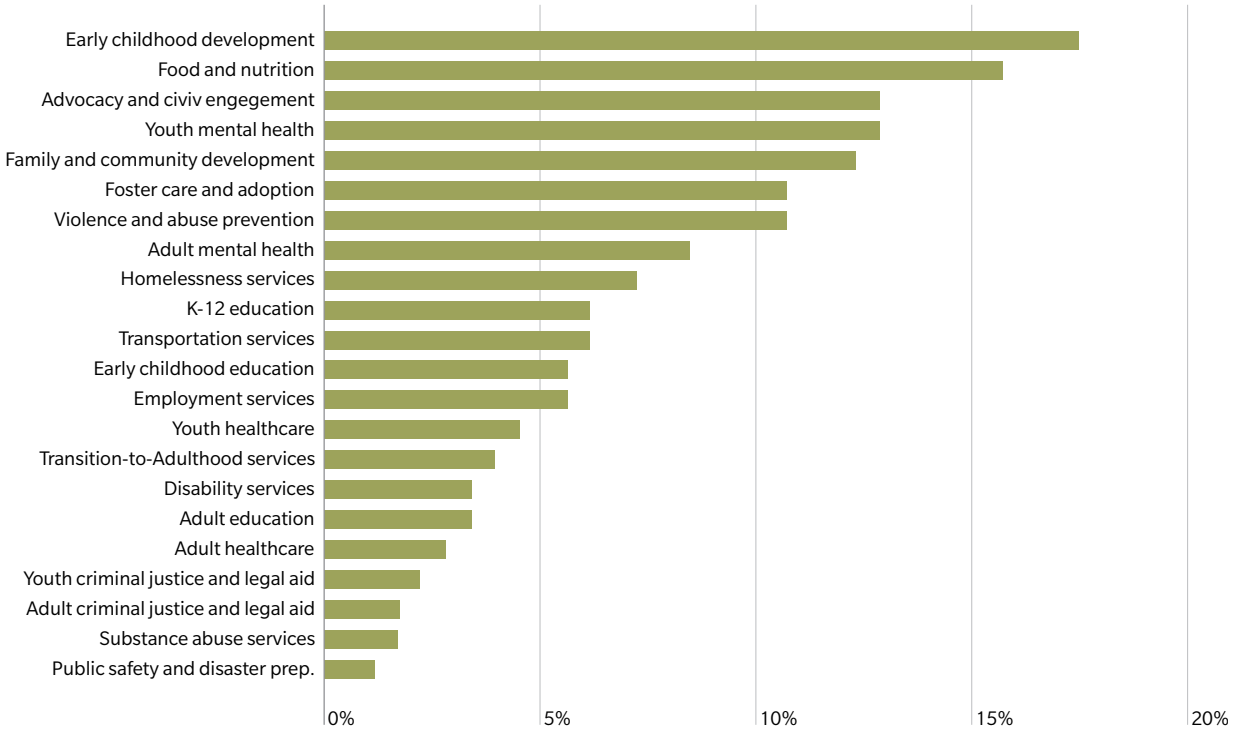
PART 7
RESPONDENT CHARACTERISTICS

Exhibit 1. CBO respondents

TOTAL RESPONDENTS: 177 CBOs

ALLIANCE MEMBERSHIP: 63% Alliance members

TYPES OF SERVICES PROVIDED



GEOGRAPHIC RANGE

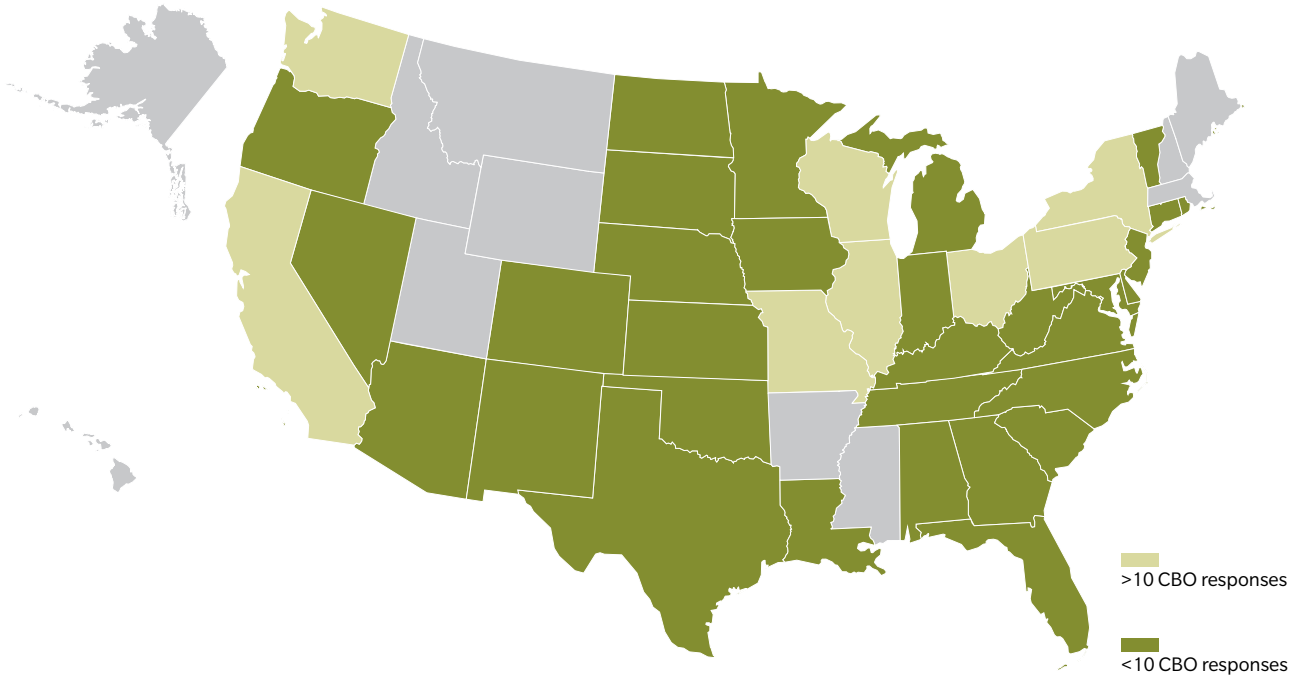
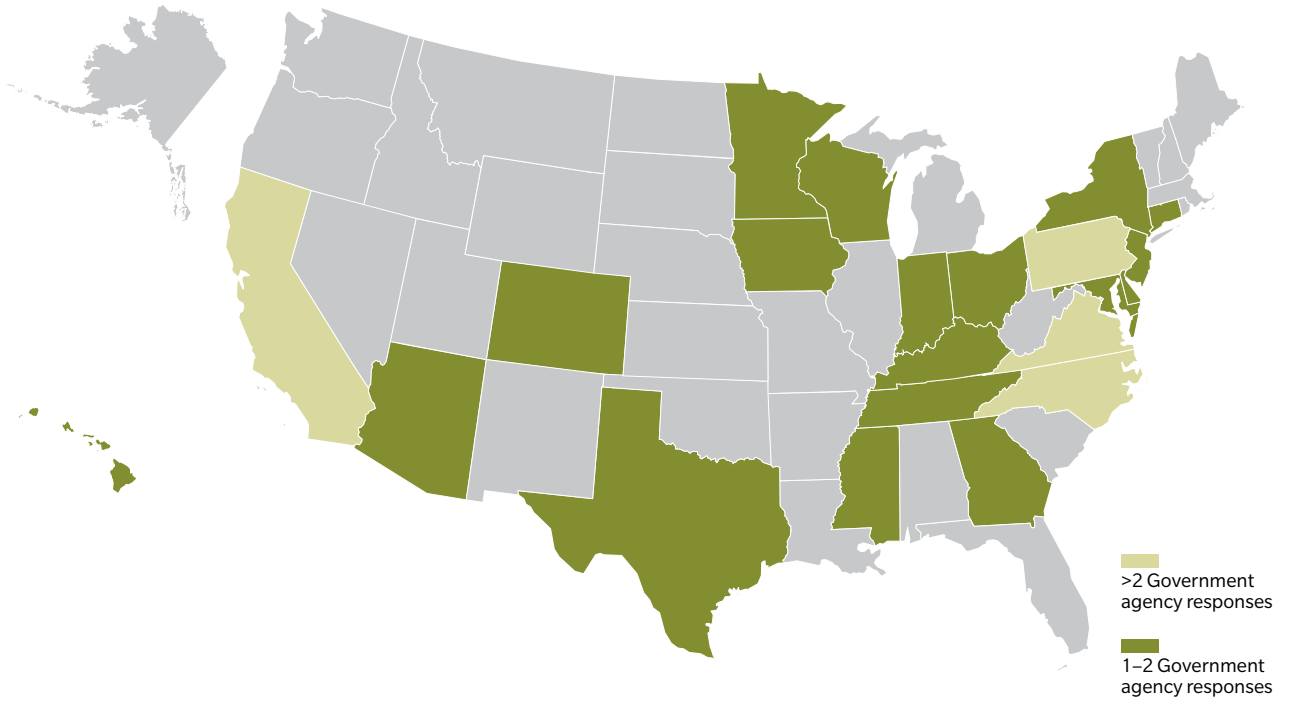


Exhibit 2. Government agency respondents

TOTAL RESPONDENTS: 40 government agencies

GEOGRAPHIC RANGE



PART 8
SURVEY METHODOLOGY

The National Imperative survey was created in consultation with the Alliance for Strong Families and Communities and the American Public Human Services Association (APHSA). The survey was conducted and responses were recorded using the Qualtrics survey platform. The survey was distributed to all members of the Alliance. Additional distributions were sent to human services CBO members of the associations that make up the Leadership 18 CBO network. The survey was also distributed to state and local health and human services government agencies that are members of APHSA. The survey remained open for just over six weeks, from June 12 through July 26, 2017. CBO respondents were segmented by region based on the state they provided in the survey, and by size based on their stated revenue. Segmentation by solvency and cash reserves was performed based on CBO respondents' most recent Form 990 returns. Segments were determined based on whether CBOs fell into the top, middle, or bottom third (tercile) of solvency metrics and reserves sizes among the full population of human services CBOs filing Form 990.

Survey results have a ±7% margin of sampling error with a 95% confidence interval. These estimates do not account for coverage and non-response effects. Because the number and distribution of non-sampled and non-responding CBOs and government agencies are not completely random, we caution against drawing definitive conclusions about the broader CBO and government agency populations based solely on the survey results. However, survey results were cross-checked and found to be in agreement with additional research and analysis, including qualitative interviews, and the distributions of several CBO respondent characteristics were found to align with those of the full CBO population (e.g., assets, revenues, margin, etc.).

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