

NONPROFIT NEW YORK

A relentless,
collective
force for good.

Sustainable Nonprofits Campaign: our aspiration, our values.

Nonprofits have been operating on an antiquated business model that no longer meets the needs of our communities. We have a plan to solve that problem.

We believe that nonprofits have a right to sustainable resources. This means funding that is dependable, flexible, and collaborative, and that fully covers all program expenses. Nonprofit New York, in collaboration with partner organizations, plan to turn this principle into action. We will advance a **Sustainable Nonprofits Campaign** in New York to shift the culture and practices of the sector. Our hope is that these shifts will create more financially healthy organizations.

First, our values: nonprofit support should be done sustainably

We believe that the business model to fund nonprofits is broken, and needs to be radically recalibrated. New York City's 40,000+ nonprofits provide incredible value to our city and state, addressing systemic and seemingly intractable social issues. But the model to partially fund costs, or to fund programs that originate with the funder and not the communities most impacted, has significantly weakened nonprofit organizations. Nonprofits cannot pay for all costs of programming or invest in the infrastructure, innovation, and talent that drives their work. We believe government, philanthropy, corporations, and individuals who decide to support an organization must do so responsibly. This means funding all costs of programs and services (both direct and indirect), livable wages and benefits for our workforce, resources for evaluation and innovation, facilities-related expenditures, contingency funds, and helping position organizations to build reserves. These models exist thanks to the work of organizations like Fiscal Management Associates (FMA), Nonprofit Finance Fund, and Bridgespan - we need only implement them (see footnotes #1, 2, 3 & 4).

Then, the solution

We believe nonprofits know our communities best. The nonprofit sector should be trusted to know which strategies work, how much they cost, and how long they will take. In return, we believe that nonprofits must be fully transparent in their reporting of the ways in which public and private funds are used (see footnote #5). We reject the scarcity mentality - that is, that there is only so much money to go around - and instead challenge all of us to think about ways we can voluntarily increase the 5% payout requirement for private foundations, and revise government spending to prioritize the sector that keeps our society strong. We also call on all nonprofits in the sector to stand united in this work to shift culture and practice, knowing that we will only succeed if we speak in one voice.

The problem: A broken business model

Nonprofit under-funding is rooted in a historical understanding of the purpose of the nonprofit sector, where nonprofits were a vehicle for volunteerism and giving to the "needy." This is reflected in donors

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restricting or not restricting money to certain actions or programs. But that's not the sector that exists today. A trend developed where nonprofits had very little influence in how funds supported their work, and accepted what they could get for their work, regardless of the cost, because that work had to get done. However, the business of nonprofits has changed: nonprofits now do much of the contracted work of the government, they lead movements of social justice, promote arts and culture, and fundamentally shift the inequities of society. The business model, on the other hand, remains the same. Our understanding must shift from one of bestowing donated money to individuals in need to one where we are investing in a sector that contributes mightily to societies' goals. We'll delve into the problems with government funding as well as private funding over the course of this campaign.

The impact

The lack of sustainable funding has significantly weakened nonprofit organizations. SeaChange Capital Partners found that 10% of nonprofits in New York City are insolvent (liabilities exceed assets), 40% have virtually no cash reserves, and over 40% lost money over a three year period (see footnote #6). **Fewer than 30% of nonprofits in New York City are financially strong.**

Because of this business model, nonprofits are not able to invest in the infrastructure, innovation, and talent that drives their work. In many cases, nonprofits do not know the actual cost of their work (that is, the cost if they had the staffing, equipment, and facilities they needed, not the costs of what they "make do" with now) because they are measuring what they have (e.g., what funders will give them), rather than what they need (e.g., what the program actually costs). We make do with duct tape and chicken wire often because doing some of the work is a better alternative than doing none. However, the work we can do is often not done comprehensively or deeply enough to actual address root issues, and so therefore is not an effective investment in solving the problem. This creates a cycle of nonprofit resource starvation (see footnote #7) - without the funds to invest, nonprofits have a harder time making the case for why investment of funds is a necessary and wise way to solve society's intractable problems.

Where we hope to go: Vision to action

Our collaboration hopes to bring together efforts that have focused on "full costs," "true costs," and "paying what it takes" under one campaign in New York City. Nonprofit New York did not invent this wheel. We look to the leadership of partners from FMA, Nonprofit Finance Fund, Bridgespan, Human Services Council, and other colleagues to thread together the hard work that has been done to move towards sustainable funding models. Because of the scale and scope of nonprofits and funders in New York City, we hope what we do here will be replicable.

We will need to make the case for why nonprofits are important to our society, and why they should be sustainably funded. To do this we plan to:

1. **RESEARCH:** Take the research in this Campaign Plan and make data and fact-based arguments for the value of the sector.

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2. LEARN: We intend to hold listening sessions with conveners in every field in the nonprofit sector and facilitate dialogue with funders.
3. COMMUNICATE: Once folks are aware of the issue and, using these arguments, we will release a series of communications (likely op eds or blog posts) that explain why this issue matters.
4. ACT: Create an action plan to shift funding practices to be more sustainable; advocate for legislation and policies that strengthen the financial health of the sector; take action against legislation that threatens nonprofits' financial health.

We hope you'll join us in this campaign.

Footnotes:

1. The Bridgespan Group and Give Smart. How to Research a Nonprofit's Financial Strength - Deep-Dive Approach. Retrieved from <https://www.bridgespan.org/insights/library/philanthropy/nonprofit-due-diligence-donor-decision-tool/in-depth-research-nonprofit-financial-strength>
2. Kim, P., Perrault, G., Foster, W. (August 2011). Finding Your Funding Model: A Practical Approach to Nonprofit Sustainability. Retrieved from https://www.bridgespan.org/bridgespan/Images/articles/finding-your-funding-model/Funding-Models-Guide_1.pdf
3. Nonprofit Finance Fund (November 2014). Strategic Plan 2014 - 2018. Retrieved from https://nff.org/sites/default/files/nff/docs/strategic_plan-final_111814R.pdf
4. Polanco, H., Summers, J. (March 2017). Keeping It in Reserve: Grantmaking for a Rainy Day. Retrieved from <https://nonprofitquarterly.org/2017/03/16/non-profit-rainy-day-grant-making-keeping-it-in-reserve/>
5. We recognize the need for compliance; however, compliance efforts must be efficient, effective, and least burdensome on nonprofits to avoid incurring yet more unfunded expenses. But we also seek to counter the narrative that program expense ratios and other benchmarks equal impact. We in fact believe these ratios do not have significant meaning on outcomes.
6. MacIntosh, J., Millenson, D., Roberts, D., Morris, G. SeaChange Capital Partners and Oliver Wyman. (March 2016). *Risk Management for Nonprofits*. Retrieved from <http://seachangecap.org/wp-content/uploads/2016/03/SeaChange-Oliver-Wyman-Risk-Report.pdf>
7. The Bridgespan Group (August 2009). *The Nonprofit Starvation Cycle*. Retrieved from: <https://www.bridgespan.org/insights/initiatives/pay-what-it-takes-philanthropy/the-nonprofit-starvation-cycle>