

A Report on the Chicago Region's Health and Human Services Sector

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**United Way
Metro Chicago**



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FORWARD

There are more than 2,200 nonprofit health and human services organizations in the six-county Chicago region (“the Sector”) that are working to strengthen the community by addressing the needs and aspirations of its most vulnerable residents. As a result of their work, these agencies help people overcome unemployment, homelessness, hunger, health challenges, substance abuse, violence and other pressing challenges to live fuller and more productive lives. Through a wide variety of services and approaches, agencies in the Sector nurture children, provide opportunities to youth and adults to develop key skills, and empower those who are marginalized by society. Led by and employing passionate and committed people, these organizations have been creative and resilient in their efforts to achieve results while facing many challenges.

The Sector is experiencing major changes in the demographics, and in the needs of the populations it serves, as well as in the public policies and funding that influence both the demand for and delivery of services. At a time when the demand for health and human services is increasing, the agencies within the Sector face the daunting tasks of managing increasingly complex operations within significant financial constraints. Yet we believe there are also significant opportunities for the Sector to positively shape the way the Chicago region responds to a changing community.

United Way of Metropolitan Chicago (“United Way”) and The Chicago Community Trust (“the Trust”), which together invest more than \$70 million annually in health and human services provided by the Sector, recognize that these nonprofit organizations are critical to building a strong community. To gain a better understanding of how our respective funding strategies and leadership can help to strengthen the Sector, our two organizations (“the Sponsors”) have jointly sponsored this study (“the Study”) to consider how major demographic shifts, policy changes and funding trends are affecting the performance of agencies and the total Sector.

The Study took place throughout the spring and fall of 2006. It included a review of research studies around issues and trends affecting the Sector, individual interviews and discussions with Sector members and key stakeholders, and an electronic survey (“the Survey”) of agencies that receive or have applied for funding from the Sponsors. We were pleased by the high rate of response to our requests for information, and greatly appreciate the honest feedback and experience that more than 200 Study participants generously shared with us, so that we might better understand both the challenges and opportunities facing the Sector.

Through the Study, United Way of Metropolitan Chicago and the Chicago Community Trust have begun to explore ways that our two organizations, separately and together, can collaborate with other Sector participants—additional private and public funders, agencies, policymakers and other community leaders—to strengthen the vital work of the Sector.

In 1893, Jane Addams, founder of the settlement house movement in Chicago and social work pioneer wrote,

“The one thing to be dreaded in the Settlement is that it loses its flexibility, its power of quick adaptation, its readiness to change its methods as its environment may demand.”

More than one hundred years later, the Sector and its supporters must step up to these same challenges as they face a new era of change and opportunity.



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EXECUTIVE SUMMARY

The health and human services sector in the Chicago region (Cook, DuPage, Kane, Lake, McHenry, and Will Counties, except as noted) is comprised of more than 2,200 organizations, small and large, that provide untold benefits to society. Fundamental changes in the region and shifts in the health and human services landscape present major challenges and opportunities to the Sector, with significant implications for the delivery of services.

Demographic trends and social policy changes are increasing and changing the nature of the demand for health and human services in the Sector, as exemplified by:

- A 14 percent growth in five years in the number of people living in poverty;
- A 10-year growth of 84 percent in the number of working poor families living in the suburbs;
- An increase to more than 1.5 million in the number of foreign-born residents in Cook County and its immediately surrounding counties;
- Growth in the over 65-year-old population, which by 2030 is expected to have doubled;
- An increased number of individuals released from state prisons annually who return to Chicago, now totaling 21,000 per year;
- The Chicago Housing Authority's Plan of Transformation resulting in the displacement of residents in 25,000 units of public housing;
- Significant changes in the State's Department of Children and Family Services child welfare system, with a decrease in the number of children in substitute care from more than 51,000 to less than 17,000; and
- An increasing spread of neighborhood gentrification and a growing lack of affordable housing.

These external forces raise questions from a Sector perspective about the levels, models and locations of health and human services in the Chicago region and suggest the need for comprehensive strategies that extend beyond the capacities of individual agencies.

Stagnant and decreased funding, combined with changes in funding-related processes (leading to less predictability and more complexity) and shifts in funding allocations, have created financial stress and management challenges for agencies that, in turn, limit the Sector's ability to more effectively respond to the growing and changing needs of the community. Sector-wide, there is not sufficient funding to meet growing needs. Government funding, which represents the most significant source of revenue for the Sector, is changing and has not kept up with increased costs. As a result, competition has intensified for private funding. Yet private philanthropy, such as foundations and United Way, has been unable to fill the gap. In addition to investing more time and resources into fundraising to address budget gaps and sustain operations, agencies have had to cut discretionary expenses, reduce staff and consolidate facilities, thus in many cases reducing service capacity.

A more complex environment requires that agencies develop stronger management skills and systems. However, many agencies are unable to invest in management infrastructure, as the grants or fees they receive do not pay for the full costs of service and flexible funding for general operations is scarce. While many organizations, especially smaller ones, are under-resourced in management areas, agencies recognize that there may be potential to more efficiently use resources across the Sector through back-office, cost-sharing partnerships and agency consolidation. However, many lack the time, resources and incentives to explore these alternatives.

The issues referred to here and throughout the Study have been the topics of numerous research projects and reports, and many lend themselves to additional research. This Study incorporates information from previous research and draws heavily upon input from approximately two hundred Sector agencies, other experts in the field and the experience of the project team in a broad review of the impact and implications of external forces for the Sector. All of these sources underscore what the Sector is experiencing and how it is responding.

It is evident that there are systemic issues creating barriers to Sector performance and its ability to deliver a fluid and efficient response. These issues are difficult for agencies to address individually. This Study reinforces the need to examine a sector-level approach to strengthen the Sector and improve community outcomes.

While there are no simple solutions to the Sector's challenges, there are four Sector-level opportunities that should be considered and explored:

1. Increase collaboration and coordination among agencies, funders and other Sector stakeholders to respond to Sector challenges that are larger than any one organization can address.
2. Strengthen the Sector's workforce, management capacity and leadership.
3. Improve utilization of Sector resources by developing and implementing best operating practices in efficiency and effectiveness.
4. Achieve wider public understanding of the community's health and human service deficit and the need for greater Sector-wide funding.

To increase positive community impact within the current environment, agencies, private and public funders and other organizations that interface with the Sector must work together in new ways and with a new sense of purpose to benefit residents who deserve and depend on a highly functioning health and human services sector.

METHODOLOGY

To develop a snapshot of the Sector and identify its challenges and opportunities, the Study draws upon information from a variety of sources.

DEFINING THE SECTOR: Data from nonprofits registered with the Internal Revenue Service (“IRS”) were analyzed to define the broad characteristics of the Sector. Major groups and subgroups were selected from the Health and Human Services categories of the National Taxonomy of Exempt Entities classification system, applying the United Way working definition of health and human services (see Definitions) and included direct service organizations whose efforts are focused primarily on low income client populations. It is understood that this source of information understates the Sector’s dimensions, as only those organizations with annual revenues of at least \$25,000 are required to complete the IRS 990 form from which the National Center for Charitable Statistics draws the data used for this analysis.

EXTERNAL FORCES AFFECTING THE SECTOR: Existing research on a variety of topics was reviewed to understand various trends within the Sector. This literature review was supplemented by a roundtable discussion with experts in areas of welfare reform, child welfare reform, affordable housing, gentrification, re-entry of formerly incarcerated people into the community, immigration and nonprofit leadership. While the Study does not claim to capture all the nuances of trends presented, it considers implications that they raise for the Sector. It also provides an approach through which other policies or trends not yet identified can be assessed for their potentially similar implications for the Sector.

VOICES AND EXPERIENCE FROM THE FIELD: The Sponsors sought the opinions and experiences of leaders and participants within the Sector to better understand how organizations are affected by community and funding trends and how the organizations are responding. One-on-one interviews were conducted with leaders of 17 agencies, representing a mix of sizes, services and locations. These in-depth discussions, along with observations provided by six private and public funders and representatives of 12 organizations that interface with the Sector, provided a rich sample of experience, knowledge and wide-ranging perspectives. Additionally, an agency focus group was instrumental in developing a vision for a strong health and human services sector, against which current situations could be compared.

To further determine how the trends identified from individual interviews applied to the Sector, an electronic survey was distributed to 457 agencies that receive and/or have applied for funding from the Sponsors, eliciting thoughtful responses from 185 organizations (a 40 percent response rate). While this sample is not assumed to be wholly representative of the entire Sector, the Survey results offer useful information from a wide array of agencies across the metropolitan Chicago area.

SECTOR CHALLENGES IN THE CURRENT ENVIRONMENT

In recent years, changes in community demographics, public policies and funding patterns have had significant effects on agency operations and will influence the Sector into the future. The following sections identify some of the key trends and their impact on agencies and implications for the Sector.

Community Trends: Growing and Changing Needs in Metropolitan Chicago

Census reports, needs assessments and other studies highlight that the Chicago area is experiencing major demographic shifts, which will shape the community and the health and human services sector for many years to come. These include: (1) growth in poverty and the working poor, (2) growing diversity of the population and increase in the Latino population, and (3) aging of the population.

Growth in Poverty and the Working Poor

As a result of lackluster growth in jobs and wage levels, the number of people living in poverty in the Chicago region increased by more than 121,000 from 2000 to 2005, or 14 percent. As part of this increase, the number of individuals living in poverty in the suburbs grew by more than 104,000, reflecting 86 percent of the total jump in the region. The poverty rate also continues to grow in the city, and 60 percent of the region's poor live in Chicago (www.census.gov and Mid-America Institute on Poverty, 2006).

In Illinois, the number of people on the welfare rolls was dramatically reduced by more than 80 percent following welfare reform and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (University Consortium on Welfare Reform, 2004). Yet in 2002, 23 percent of working families in Illinois were low income (200 percent of the federal poverty threshold), struggling to pay for their basic housing, food and health care expenses (Waldron, T. Roberts, B., & Reamer, A., 2004). The loss of manufacturing jobs (with many being replaced by lower paying service jobs), in addition to the lack of affordable housing and the high costs of healthcare, are key factors fueling the numbers of working poor. These trends are being felt by the Sector, with 84 percent of Survey respondents reporting that they have been affected (48 percent noted they were significantly affected) by the growth in the working poor population.

According to statistical profiles of the 1990 and 2000 Census, the number of working poor families in the suburbs increased by 84 percent (Chicago Urban League, Northern Illinois University & Roosevelt University, 2004), while the number of working poor families in the city grew by 46 percent. As a result, 45 percent of a total 275,000 (approx.) working poor households in the Chicago region resided in the suburbs by 2000 (Grundy County was included in the analysis). This proportional shift is assumed to have continued over the past six years, based on the significantly higher growth rates of poverty in the suburbs since 2000.

In response to the increased number of working poor families, 69 percent of Survey participants reported that the number of clients they serve has increased. However, comments from participants in the Study indicate that though they are serving more people, the Sector has not caught up to the exceptional growth in suburban

needs. Several participants observed, “There is no infrastructure for the poor in the suburbs.” One participant noted, “The poor are invisible in the suburbs; when we started a congregate meal program in Des Plaines, we found people living in the forest preserve.”

Despite agencies’ efforts to serve the growing working poor in the city and suburbs, there are several issues that must be addressed to facilitate a flexible and efficient Sector response:

- Suburban communities do not have the infrastructure to address new needs, and agencies lack the capital to develop it.
- While the increase in poverty qualifies some suburbs for a higher share of federal Community Development Block Grant funding, feedback from agencies indicates that they are not experiencing a flow of new funding into suburban areas at the same rate that needs are increasing.
- City agencies that have experience with the low income population and wish to expand their efforts in the suburbs lack the community relationships they need to be effective in a different environment, and their historical service models may be less effective for a more dispersed and mobile population.
- The city of Chicago poverty rate continues to grow and, at 21.3 percent, remains much higher than the state rate or that of the suburban counties, according to the Mid-America Institute on Poverty (2006).

Growing Diversity of the Population

In 2005, more than 1.5 million, or nearly one out of five, residents of Cook, DuPage, Kane, Lake and Will Counties was foreign-born, reflecting an increase of 76 percent from 1990 to 2005. The number of immigrants grew by 34 percent from 1990 to 2000 in the city of Chicago, before decreasing by six percent from 2000 to 2005. By comparison, the number of immigrants in the suburbs nearly doubled between 1990 and 2000, and has continued to grow so that by 2005 more than 60 percent of the immigrant population in the Chicago region resided in the suburbs (www.census.gov/acs/www).

The Latino population plays a major role in the growing diversity of the Chicago area. Approximately 48 percent of the Chicago region’s foreign-born residents in 2000 were from Latin America (Paral & Norkewicz, 2003). According to a report from the Institute for Latino Studies Metropolitan Chicago Initiative at the University of Notre Dame, the number of Latinos (immigrant and native born) nearly doubled between 1990 and 2004 to 1.6 million, representing 20 percent of the region’s total population. Two-thirds of the Latino population in the Chicago area are U.S. citizens. Similar to other proportional shifts toward the suburbs, the Institute’s report states that 54 percent of Latinos now live in the suburbs (Ready & Brown-Gort, 2005). In Chicago, housing trends have played a role in the Latino population shifting from historical communities of concentration to the northwest and southwest sides of the city.

Seventy-six percent of Survey respondents reported that the growth in the Latino population has affected their organizations; 33 percent indicated that this trend affected them significantly. Sixty percent of Survey respondents reported that growth in the immigrant population has affected their organizations; 25 percent indicated it affected them significantly. This response from a majority of the Survey participants contrasts with relatively few participants who reported that their agencies serve a majority of Latino or immigrant clients.

The experiences related by agency executives through the Study indicate that organizations are positioned in different ways to serve a more diverse population. There is not a one-size-fits-all solution to the Sector's challenges in meeting the community's diverse population needs.

Some of the Sector's barriers in serving a more diverse population across the Chicago region include:

- Lack of resources to move or expand services to growing areas of need, resulting in more travel time for clients and staff;
- Difficulty in acquiring or developing the necessary skills and building the trust and recognition of the racial/ethnic population;
- Limited supply of staff with language and cultural skills to serve the growing ethnically diverse populations;
- Service models that need to be revised to be appropriate and accessible for the culture of both the client population and community area; and
- Limited capacities of newly formed organizations to fill the gaps; despite their cultural competencies, they may not have the expertise or management infrastructure to accomplish all they are being asked to do.

Aging of the Population

Between 2000 and 2030, the over 65-year-old population in the region and nationally is projected to double, according to The Northern Illinois Planning Commission's 2040 Regional Framework Plan (2005). As they have for each stage of life, the Baby Boomers (those born between 1946 and 1964) are expected to redefine what it means to grow old. While in the short term the number of people over 65 may actually decline because of the smaller cohort that precedes the Baby Boomers, the significant implications for housing, health care, transportation and other needs of the upcoming generation requires that systems work begins now. At the same time, there are opportunities for agencies within the Sector to engage Baby Boomers who have more time and a desire to invest their experience and energy in community service during the second half of life.

CHALLENGES IN SERVING A DIVERSE POPULATION

A mid-sized agency with a long history of serving the Latino population in the city has considered expanding services to new geographic areas, as its original neighborhood has been gentrified. Fifty percent of the client population now drive—some from long distances—rather than walk to the main location. However, the agency's programs continue to be fully enrolled, reflecting the Latino community's recognition of the organization's ability to meet their needs. Lack of relationships make expansion to the suburbs a less feasible alternative compared to other growing areas within the city, but a lack of capital is identified as a barrier to expansion either way.

A large youth-serving organization in the northwest suburbs has intentionally developed its capacity to serve the growing Latino population since the early 1990s, filling vacant positions with bi-lingual and bi-cultural staff over time. However, even with nearly a quarter of the staff possessing bi-lingual skills, Latino clients value their relationships with the individual employees, yet do not appear to recognize the agency as serving them.

A small agency originally founded to serve an Asian population in the city has experienced a double demographic shift. Their traditional neighborhood-based population has dispersed across the suburban region. At the same time, the agency now serves a high percentage of Latino families within the local community. Financially anchored by a city-based contract, the agency struggles to efficiently deploy staff in the suburbs and wonders whether it should provide transportation for suburban clients to come to the city for some programs.

Within the Chicago region, the 2005 American Communities Survey estimates that suburban Cook County has experienced the most significant growth in the number of older adults, while the city experienced a decline from 2000 to 2005. As a result, there are now more older adults living in the Cook County suburbs than in Chicago (www/census.gov/acs/www). Similar to the growing diversity of the total population, growing racial/ethnic diversity is creating new challenges for service providers working with people over the age of 65.

Fifty-two percent of Survey respondents reported that they have been affected by the growing aging population, and 64 percent expected to be affected in the future. This compares to 30 percent of agencies that identified themselves as providing services for seniors. In part, this may reflect that aging is a family issue that extends beyond traditional senior services, as adult children assume caregiving responsibilities for their parents and seniors increasingly take on child-rearing responsibilities for their grand-children. Consistent with recent trends, agencies that provide services in the suburbs identified issues around the aging population at a higher rate than those in the city.

Several of the challenges facing the Sector in addressing the aging population were identified during Study discussions. An immigrant-serving agency that was asked to expand services to isolated seniors has developed creative service models tailored to serve this population. Yet the organization has faced a steep learning curve related to the senior service system and needs ongoing training in this area.

With the aging of the population, it is also expected that there will be overlapping growth in the number of people with disabilities. Organizations that serve seniors and those that serve the disabled community need to create more connections between these historically separate areas of service.

Studies confirm that as people age, they prefer to remain in their homes, or at least outside institutional settings. Rather than a building boom in nursing homes, some aging experts predict that the whole system of long-term care needs to evolve towards community-based models of service. This has significant implications for the roles of agencies in the Sector.

Other Demographic and Policy Changes

Other trends and policies are also affecting numerous agencies in the Sector, increasing demands in some areas and geographies and dramatically decreasing demands in others.

- The Mayoral Policy Caucus on Prisoner Re-entry (2006) estimated that the number of individuals released from Illinois state prisons and returned to Chicago annually had grown to 21,000 in 2005. In 2003, more than half of the formerly incarcerated individuals who settled in Chicago transitioned to only seven communities (Visher & Farrell, 2005). This population is in need of comprehensive services. With low education levels, uncertain housing and employment, and high levels of substance abuse nearly 52 percent of Illinois prisoners released since 2002 had returned to prison by 2005 (Mayoral Policy Caucus, 2006). More than half of Survey respondents providing services only in the city identified the growing wave of former prisoners re-entering the community as a trend which has affected their organizations.

- Through the Chicago Housing Authority's (CHA) Plan for Transformation, 25,000 units of public housing are being built or rehabilitated, creating new communities (including mixed income residents) by 2015 (Grossman, 2006). The relocation process has not only affected residents, but also the agencies that had provided services in proximity to former CHA buildings, those providing services in their new communities, as well as those which will provide services in the redeveloped areas. In each situation there are different implications for service models, locations and levels of service. Among agencies providing services only in the city, half of the Survey respondents reported that their organizations had been affected by CHA residents relocating out, while 37 percent of respondents had been affected by residents moving into their communities.
- Child welfare reform, most significantly, the Illinois Department of Children and Family Services' focus on permanent placement, has decreased the number of children in substitute care from 51,331 in 1997 to 16,593 in 2006 (www.state.il.us/dcf/index.shtml). As a result, the system's demand for foster care service capacity has shrunk, while funding for adoption and guardianship services has tripled over the past ten years on an inflation-adjusted basis, according to data provided by Voices for Illinois Children. These shifts are reflected in the responses of 44 percent of Survey participants who reported that their organizations have been affected by child welfare reform.

There are other pressing issues that have not been highlighted here, and other major changes will develop in the future. For instance, new statewide programs such as universal preschool and All Kids healthcare will influence the Sector's development and operations.

Implications of Community Trends

The trends identified above point to the changes in underlying needs to which agencies are attempting to adapt. The issues are widespread, crossing geographic boundaries and service areas. They raise fundamental questions about what the Sector must do and what it needs to respond effectively in addressing the changing needs. The implications include:

- A mismatch between accessible services and needs due to population movements;
- Requirements for new service models, service delivery systems and skills to effectively meet needs of changing populations;
- Solutions that cut across traditional boundaries of age, service lines and systems to address comprehensive issues; as well as solutions that are scalable to address the needs of larger numbers of individuals; and
- Dynamic funding that balances continued needs with emerging ones.

The best efforts of individual agencies to direct their work according to changing needs are dwarfed by the large scale impact of the trends for the Sector. Focusing at the Sector level can help to more effectively shape a service response to the changing population. As agencies determine how community trends affect their individual organizations, policymakers and funders need to consider the roles they play in facilitating Sector-level responses.

Funding Trends: Sector Response to Changing Needs Is Limited by Funding Challenges

As noted in the previous section, changing and growing health and human services needs present many challenges as well as opportunities for the Sector. These challenges are further exacerbated by funding trends that fail to align with the changing landscape and cause management to focus on financial concerns and long-term viability. These funding trends include:

- Flat and/or decreased funding resources;
- Changes in government funding procedures; and
- Changes in private funding allocation processes.

These trends have resulted in financial instability within the Sector, as available funding fails to cover agency service delivery costs. Revenue for agencies is less predictable. More Sector resources are being devoted to revenue development and management costs, as agencies operate in a more competitive funding environment and require more sophisticated technology to capture and report new information. With many agencies focused on trying to develop new revenue sources and the resulting financial struggles that occur when they fall short, the Sector is limited in its ability to meet changing community needs.

Sources of Funding

The Sector receives funding from a variety of funding sources in varying levels. Of the 174 agencies that reported their sources of revenue in the Survey:

- Fifty-one percent depend on public funding for the majority of their revenue, and 88 percent reported having some level of government funding.
- While 91 percent of Survey respondents had some level of foundation funding; only five percent reported that foundation grants represented a majority of their revenue. For nearly half of the agencies, foundation grants represent between one percent and 10 percent of their revenue.
- Similarly, 71 percent of the respondents receive United Way funding, though for the majority of these agencies, United Way represents one percent to 10 percent of their revenue.
- Sixty-seven percent of the agencies reporting revenue in the Survey identified that individual contributions represent one percent to 10 percent of their revenue. Only two agencies rely on individual contributions for the majority of their revenue.

As the Survey revealed, no other source of funding comes near to providing the same level of revenue as government funding, although private funding sources are critical to the extent that they bridge gaps and fund innovation. The majority of Survey respondents reported decreases in government and United Way funding. Intense competition for other private revenue sources was evident in the feedback that Study participants provided.

GOVERNMENT FUNDING: Public funding at local, state and federal levels is a significant driver for the Sector. While the majority of Survey respondents reported that more than half of their revenue comes from government

funding, nearly one in eight noted that more than three-quarters of their revenue is derived from government sources. Forty-four percent of organizations that provide services in the suburbs receive the majority of their funding from government sources, compared to 56 percent of agencies that provide services in the city only. Among Survey respondents, 63 percent of those which receive government funding indicated that public funding decreased or stayed the same over the past three years; 33 percent reported increases (the Survey responses do not indicate the level of increases compared to inflation).

The complexity of government funding, with multiple funding streams at various levels (federal, state and municipal), makes it very difficult to quantify general trends. However, an analysis sponsored by the Nonprofit Sector Research Fund of the Aspen Institute indicated that spending on social welfare programs, including social services, employment and training, and community development activities at the federal level has been flat on an inflation-adjusted basis since fiscal year 2002 (Abramson, A., Salamon, L., and Russell 2006). At the state level, total appropriations for the Illinois Department of Human Services (“IDHS”) decreased by \$199 million on an inflation-adjusted basis, or four percent from 2001 to 2006; General Revenue Funds appropriations to IDHS decreased by more than \$388 million, after adjusting for inflation, based on calculations from Voices for Illinois Children.

There are many factors that affect government funding and how it is distributed across the Sector, including public budget deficits and fiscal difficulties; policy changes; shifts from discretionary programs to entitlement programs; changes in appropriations from domestic programs to national defense and homeland security initiatives; adjustments in funding formulas that determine the geographic allocation of dollars; changes in funding processes from annual renewals to competitive bidding processes; and moves from grant-based funding to fee-for-service reimbursements.

Notwithstanding the high-level funding trends and the factors listed above, there are increases and decreases on an individual program basis. Some programs have experienced drastic cuts, while others have not seen an increase in ten years. When funding increases are implemented many do not keep up with inflation, let alone address growing areas of need. As a result, many agencies must supplement government funding and fill the financial gap with other revenue sources. Consequently, all Sector agencies, even those with low levels of government funding, are affected by increased competition for other sources of revenue.

CHANGES IN STATE FUNDING

To generate higher revenue for the state by capturing a higher level of Federal Medicaid Matching dollars, the Illinois Department of Human Services has been transitioning its contracts with agencies from a grant-based model to a fee-for-service billing model in the areas of developmental disabilities, substance abuse and mental health. This method of reimbursement requires stronger systems for agencies to generate information necessary to get paid and increases financial risks to agencies. This change has touched many agencies in the Sector, as 61 percent of Survey participants reported a change in how they are reimbursed for services provided.

PRIVATE FUNDRAISING: Though each represents a smaller proportion of Sector revenue than public funding, foundations, corporate giving and individuals play important roles in supporting health and human services. United Way, foundations and corporate giving provide grants for program support, general operations, capacity building, systems change and innovative models. Many Sector agencies that are experiencing flat or reduced public funding have attempted to maintain service capacity with private funding. Yet private philanthropy has

also changed. These private funding organizations are increasingly focused on outcomes measurement to demonstrate the greatest possible return on dollars invested in the community. Eighty-seven percent of Survey participants reported that their agencies have experienced new requirements for outcomes reporting. Within the Sector, there is increased competition and more uncertainty for agencies applying for private funding.

UNITED WAY OF METROPOLITAN CHICAGO: United Way is the largest non-government funder of the Sector. Since its regional consolidation in 2004, United Way has been able to hold campaign revenues constant, following previous declines. Funding to the community has actually increased by almost 20 percent, to approximately \$57 million, as a result of United Way's consolidation of the city and suburban operations and related cost reductions.

In 2003, United Way changed its allocation strategy. As part of a nationwide movement, United Way funding now focuses on the capacities of applicant agencies to produce positive client outcomes. Rather than the same organizations receiving funding according to a proportionate share of each year's campaign revenues, United Way funding is re-allocated annually, based on proposals received from agencies. Although United Way has increased its emphasis on outcomes, it does not restrict how dollars are used by agencies to fill funding gaps.

Seventy-one percent of Survey participants indicated that they receive United Way funding. For the majority of these agencies, this source of revenue represents 10 percent or less of total revenue. Sixty-eight percent reported that their United Way funding had decreased or stayed the same during the past three years; 26 percent reported increases.

FOUNDATION AND CORPORATE GIVING: In recent years, foundation and corporate giving funding in Illinois decreased, and the proportion for human services in particular also decreased.

According to "Giving in Illinois" (Donors Forum, 2005), from 2001 to 2003 foundation and corporate giving grants made by funders located in Illinois decreased by nine percent. Corporate foundation grants and giving in particular decreased by three percent, and represented 20 percent of total grants in 2003. The proportion of grants to human services organizations compared to awards provided to all nonprofit areas decreased from 27 percent to 24 percent, according to a sample of Donors Forum of Chicago members. More recently, a survey of Illinois foundations and corporate philanthropy in 2005 found that most grantmakers expected grant levels to remain flat (Donors Forum, 2005).

Experience has varied across the Chicago region, with grants made by DuPage County funders increasing by 31 percent from 2001 to 2003, while those made by Kane County funders decreased by 51 percent. However, representing 90 percent of the grants in the region, Cook County grantmakers reduced grants by 10 percent from 2001 to 2003.

Funders are strategically considering their areas of grantmaking to determine how to maximize the impact of their grants. Like United Way, some are focusing more on program outcomes from their grantees. Others are leveraging their dollars through coordinated or collaborative funding initiatives, the support of social entrepreneurship opportunities or systems-level work.

Change in foundation funding was split among Survey respondents that receive this type of funding: 48 percent reported it decreased or stayed the same over the past three years, the balance have experienced increases in grants. Survey respondents identified “change in funder strategy” most frequently among funding trends which have affected their organizations, as they must continuously seek new funding opportunities to match their own funding needs and strategies.

INDIVIDUAL FUNDING: According to “Giving USA 2006,” individual donors represent more than three-quarters of private revenue for all nonprofit organizations nationwide. However, for two-thirds of Survey respondents, individual donors represented 10 percent or less of revenue. In Illinois, contributions from individuals to all nonprofit areas increased by 7.5 percent, before adjustments for inflation, from 2001 to 2003 (Donors Forum, 2005). Half of the Survey respondents that receive individual contributions reported that donations increased during the past three years.

From internet-based giving to the projections of major intergenerational wealth transfers, individual contributions are a potential source of increased funding for the Sector. A nationwide survey conducted by Freelanthy.com found that health and human services was the top giving choice for individual donors among all types of charities (Freelanthy.com 2006 Charitable Giving Index). Recognizing these opportunities, 44 percent of Survey respondents identified individual giving as one of their top fundraising challenges.

REVENUE-PRODUCING SERVICES: As agencies in the Sector seek sources of flexible and sustainable funding, some have ventured into businesses as a potential strategy. However, to date, Survey participants have had minimal success in this area. Among Survey respondents, only 27 agencies (15 percent) reported alternative business income as a source of revenue. Of these organizations, four generated revenue of more than 10 percent of total revenue. Interestingly, 36 percent of agencies reported that they have pursued the strategy of developing revenue producing services, and 61 percent identified this as a strategy they would consider in the future. However, there was recognition of the need for financial resources, time and expertise to successfully execute this strategy.

Processes for Accessing and Managing Revenue Are Changing

A significant factor that the Sector faces is funders’ increased emphasis on outcomes and accountability. As mentioned above, United Way revised its allocation process to focus on the capacities of applicant agencies to produce positive client outcomes. Similarly, foundations and corporations are increasing their emphasis on outcomes, and some are evolving towards measures of organizational performance, in order to maximize the results of their funding. The state’s change in funding processes also makes agencies more accountable for the services they deliver.

Certainly these changes have helped many agencies quantify the impact of their work and opened the door for new agencies to receive private and public funds. Some agencies that have been able to demonstrate positive outcomes have experienced increased funding. However, agencies can no longer anticipate that long-standing funding streams will continue as they have in the past. Many agencies that historically relied on

renewed funding have had to adjust to reduced revenue, and others have had to adjust to increased competition to maintain funding.

“Besides the obvious need for financial resources, the amount of paperwork that is required of our organization to obtain and keep funding resources is astronomical. Our managers are spending time on paperwork that could be better used in managing our programs.”

Medium-sized agency providing multiple services on Chicago's South Side

These changes are also creating new demands on agencies. As one executive director interviewed commented, “This transformation requires agencies to develop all of the specialized business processes that are required of for-profit organizations. New organization designs need to be developed that will allow smaller, community-based agencies to continue to carry out their mission in this environment without losing their roots in the community and having to merge with larger organizations.”

Given the trends described above, agencies must increasingly seek and access multiple sources of funding. Each source of funding has its own system for application, payment and reporting requirements. As a result, agencies spend significant time and resources on funding-related paperwork.

The increased, and often more complex paperwork and reporting processes, as well as the timing of payments for services provided are creating administrative and financial difficulties within the Sector. While there is no way to generalize the full impact because of the multitude of funding streams, some agencies expressed major cash flow concerns resulting from government receivables, in particular, being unpaid for up to five months, which threaten their survival. In an effort to improve cash flow, one agency interviewed is creating an accounting position whose primary responsibility would be to monitor and encourage the payment of slow government receivables.

Agencies Must Fill Gap to Cover Full Cost of Service Delivery

Whether by policy or because of lack of revenue growth, funders often do not provide adequate dollars to cover an agency's full costs of service delivery, including the administrative costs that support direct services. Typically, both private and public grants restrict the percentage of funding that can be used for administrative costs. Some funders may also require another source of revenue to match their grant. Funding gaps also develop when contract or grant revenue remains constant from year to year, while salaries, employee benefits, insurance, utilities, and other costs of operating continue to increase. As a result, agencies must pull together a patchwork of other funding to fill the gap in order to deliver the expected services and maintain financial viability of their operations. The development of unrestricted revenue, including general operating grants, becomes the critical factor in sustaining service capacity and management supports.

With the push for increased accountability among funders, less than 25 percent of grant dollars awarded to human service agencies in Illinois allow for general operating support, and grants for this purpose are on average smaller than program grants (Donors Forum, 2005). Ninety-three percent of agencies responding to the Survey reported that grants for general operations have decreased over the past three years. The lack of general operating support was ranked the second most important challenge to fundraising.

One Survey participant described the Sector's need for investment in the full cost of service delivery as follows, "The Sector desperately needs operating support from truly unrestricted funds which support the organization as a whole. If the NPO [nonprofit organization] is really strong and showing good outcomes year after year, then INVEST in that organization, rather than forcing yet another new, creative, innovative one-year program that has no funding after the project ends." This respondent is presenting a concept more akin to the private sector, in which investors make decisions based on an organization's management, strategies, and overall return, while not splitting out parts of the organization for backing.

"The trend toward outcome and service quality is good, but there needs to be stable core funding to support the infrastructure needed to achieve the outcome-focused management approach that is desired by all."

Large agency in Chicago

"Lack of funding for operations and capacity building and restrictive use of funds limit ability to react quickly to changing needs or new opportunities. Programs can become more responsive to funding sources than actual need, and become beholden to foundation priorities rather than community priorities."

Small agency providing homeless services

Competition for Funds Increases Cost of Doing Business

From a Sector perspective, the increased competition for funding, while in some cases may cause agencies to sharpen their focus on outcomes and accountability, can also contribute to increased costs of doing business.

In response to funding challenges, agencies are seeking to differentiate themselves among potential donors and position themselves more competitively for funding. Seventy-eight percent of agencies reported that they have developed new funding strategies, although 73 percent admitted that accessing new funding sources was a major challenge. The most significant barrier to overcoming funding challenges was the lack of time and resources to implement the strategies.

Despite this, 61 percent of Survey respondents reported that they have increased the time and resources devoted to fundraising. Several agency executives reported that they have recently hired development directors at significantly higher salaries than those paid to people previously holding the position. Sixty-three percent of Survey respondents reported that they are more likely to increase marketing efforts than they have in the past. One agency executive expressed frustration in the resources needed to increase and manage funding, noting, "It really annoys me that instead of hiring a new clinical administrator to develop cutting edge programs, I am going to hire a marketing director. But that's what I have to do to survive."

Implications of Funding Trends

The combination of increased needs and flat or decreased funding has created financial stress for the health and human services sector. At the agency level, there is a focus on day-to-day survival. Agencies are spending more time raising funds, cutting corners at the expense of long term viability and ultimately reducing service capacity. The Donors Forum of Chicago and the Illinois Facilities Fund (2006) found that more than two-thirds of human service organizations surveyed had experienced a deficit between 2001 and 2003.

Because of their scale, large agencies participating in the Study appear to have more alternatives to making operational changes to offset funding challenges—up to a point. One executive of a large organization referred to a constant process of “pruning and growing” in which costs are reduced by consolidating facilities and exiting from selected programs, while expansion is undertaken selectively in areas that can be supported by incremental revenue. Small agencies with one location or just a few programs do not have the scale to make those kinds of changes and continue to operate.

The abilities of individual organizations to reduce costs or raise revenue to manage within financial constraints appear to be dependent on factors such as size, history, fundraising capacity and community resources. Historically strong service providers that are not strong fund raisers, are vulnerable in a highly competitive funding environment, which could compromise the quality and availability of their services. Unless available funding increases overall, the Sector is at risk of devoting more resources to accessing and managing revenue without an incremental gain in service capacity.

SECTOR WORKFORCE AND AGENCY LEADERSHIP CHALLENGES

Like any other service sector, the health and human services field depends heavily on the talents and skills of the people who deliver and administer the services. The environmental changes described above, both in underlying community needs and funding, create new requirements for the workforce and a need for increased management capacity. In order to operate successfully in a more complex environment and deliver quality services and outcomes, agencies in the Sector must be able to identify and recruit people with the right skills and develop the management tools to support them.

Direct Service Staffing Challenges

Frontline staff do the heavy lifting at health and human service agencies by teaching, training, counseling, providing health and personal care, advocating and linking clients to other services, often in difficult and even dangerous environments. They offer education, information, encouragement and hope at times when it is most needed. Through their caring and skillful interventions, individuals, families and communities are encouraged to take actions to improve their current situations.

While it is safe to assume that the primary motivation for most people who enter the health and human service field is not salary, the Sector's financial challenges make it difficult for agencies to attract, develop and retain staff with the skills necessary to operate effectively.

When asked to identify the most significant issue facing the health and human services sector, a Survey participant responded, "... an operating environment that makes it near impossible to retain staff or keep current with cost-of-living increases." Another noted, "Staff cannot earn a living wage performing noble work. Turnover leads to spending more money on recruitment and training. It is also a source of instability for the people we serve." A profile presented by the Chicago Urban League, Northern Illinois University and Roosevelt University (2005) found that nearly 11 percent of the working poor in the Chicago region are employed by health and human service organizations.

To manage within financial constraints, agencies are selecting from a host of strategies, several of which diminish their abilities to attract, develop, motivate and retain staff, including: foregoing or reducing salary increases, reducing benefits or increasing the employees' share of costs, eliminating staff positions and increasing the workload for remaining staff, reducing supervisory supports to staff and cutting staff development opportunities. These strategies may help organizations maintain service capacity in the short-term, but weaken their organizational capacity over time.

A 2006 study sponsored by The Human Services Workforce Initiative found that children whose families were served by child welfare agencies with lower salaries and higher staff turnover had higher rates of re-abuse (National Council on Crime and Delinquency, 2006). This research dramatically illustrates what Sector agencies inherently know: that staff quality, turnover rates and extended vacancies influence the outcomes of their work.

While appropriate funding is a critical component to addressing Sector workforce issues, the population trends mentioned previously in this report also require that the Sector attract and develop a workforce with new skills and knowledge to effectively serve a changing community.

BI-LINGUAL, BI-CULTURAL STAFF: The Sector and its agencies need to develop and deliver services that are effective for an increasingly diverse client base. Language, though important, is just one aspect of cultural competency that shapes how services are delivered. Agencies whose staff know and understand their clients' culture have an easier time building a relationship of trust and are able to develop effective services tailored for specific populations.

The normal challenges of hiring qualified staff are amplified because of the relatively low supply of bi-lingual, bi-cultural staff entering the Sector. One executive director described revising two job descriptions in order to hire one new bi-lingual employee at an \$8,000 premium, compared to staff without the language and cultural skills.

At the University of Chicago School of Social Service Administration, approximately 10 percent of 186 students in the most recent incoming master's degree program are Latino and just a few are Asian. Less than 15 percent of 150 students in Dominican University's master's degree in social work program are Latino. While St. Augustine University's undergraduate social work program is specifically focused on bi-lingual students, it is relatively small, with approximately 20 Latino students per class. Graduates from these programs have no problems finding jobs; however, bi-lingual, bi-cultural staff can find themselves facing other challenges.

Staff who are a minority within an agency's organizational culture may feel isolated and unrecognized for the skills and knowledge they offer. A field instructor at a local social work school noted that Latino workers can be overwhelmed when they are hired to be the one employee on a team designated to handle all the Latino clients, especially if the service model is not adapted to accommodate the nuances of culture. Client documentation, which is increasingly important in a fee-for-service and outcomes-driven environment, can be a bigger challenge for non-native English speakers. The executive director of a suburban agency expressed the challenge of attracting staff with bi-cultural skills to work in an organization and community where they would be in the minority. Even workers within minority-led organizations may find themselves in challenging situations, when client expectations and needs exceed the organization's expertise or management's capacity to deliver on those expectations.

SPECIALISTS ON AGING: As there are for early childhood education and youth services, there are particular knowledge and skills needed in working with older adults and their families. The National Association of Social Workers Center for Workforce Studies has identified a shortage of social workers who specialize in aging as a major concern (Whitaker, T., Weismiller, T., & Clark, E.J., 2006). Locally, the University of Chicago's School of Social Service Administration and Benedictine University are among the schools (supported by the Hartford Foundation) which are working to address this shortage by revising the curricula of their social work master's programs to focus more on aging.

In addition to the shortage of degreed gerontology social workers, the Sector faces challenges in staffing non-degreed direct service positions. For example, despite several rate increases since 1998 for state-funded services (Illinois Department on Aging, 2006), staff who provide homemaker services to older adults continue to face low salaries.

OTHER SPECIAL SKILLS: Funding changes in the health and human services field have also altered the responsibilities and related skills required of direct service staff. For instance, as agencies attempt to develop efficient methods to document client service information to meet funders' outcomes reporting and billing requirements, health and human services staff must develop the requisite technology skills.

While each agency seeks to develop best practices in human resources to improve their ability to attract, develop and retain qualified direct service staff, it is clear that the Sector faces systemic workforce issues that influence its ability to achieve optimum outcomes for clients.

Management and Leadership Challenges

Many today say that, "Nonprofits need to operate more like businesses." This usually refers to how agencies set strategies, manage budgets and make decisions; how they organize functions, capture data and hold staff accountable for their performance; and how they develop and market services and implement processes for maximum effectiveness and efficiency. Management of nonprofits are also feeling strong pressure to provide measurable proof that the services they provide have an impact on the communities and populations they serve.

INCREASED MANAGEMENT SKILLS REQUIRED: For many agencies in the health and human services sector, changes in the external environment necessitate increased management skills, to:

- Determine the most effective and efficient ways to serve a client population that may be growing or changing;
- Develop strategies and processes to access and manage new funding streams;
- Decide where and how to make budget cuts;
- Develop technology to capture information for reporting and billing;
- Manage cash flow challenges;
- Attract and manage a more diverse workforce; and
- Consider new partnerships, explore possible collaborations and even contemplate mergers or acquisitions.

Nonprofits, health and human service agencies included, need people with management skills for a range of administrative functions, including finance, information systems, marketing, and human resources; and the temperament to operate in an increasingly complex environment.

MANAGEMENT INFRASTRUCTURE: Many agencies rely on the executive director, volunteers or other staff to carry out management functions and leadership responsibilities, although this differs by organizational size.

Among Survey respondents with revenues of less than \$1 million, only eight percent of agencies had specialized staff or consultants to carry out human resources functions. Less than 40 percent of these small agencies have specialized staff or consultants to deal with accounting and other financial responsibilities. Among agencies with revenues of more than \$10 million that responded to the Survey, more than 90 percent have specialized staff or consultants to manage technology, human resources, development and accounting functions.

Despite the Sector's increased management demands and the widespread recognition of strong leadership as a factor for agency success, agencies of all sizes struggle to fund the investment in management positions, technology and other related expenses. The common reliance on administrative percentages among external watchdog groups and funders as a measure of agency efficiency encourages agencies to keep administrative costs low. In addition, the restrictions funders place on administrative costs, and the difficulty of raising general operating funds, limit such investments. As a result, many agencies are under-resourced when it comes to management infrastructure, and agencies find it a challenge to develop the necessary management systems, policies and practices to support high organizational performance.

While organizational independence and self-preservation are among the factors which discourage collaboration or mergers within the Sector, many agencies recognize the inefficiency of each organization attempting to build management infrastructure. Yet they do not have the time, expertise, or upfront resources to pursue partnership opportunities. As one agency leader noted, "We would love to investigate possibilities for joint ventures on service provision and the possibility of merging with another like-minded organization, but this is a huge expenditure of time at a very senior level and we don't have the resources to concentrate on that."

LEADERSHIP SHORTAGE: The changing environment demands more than increased management skills. Agency leadership must be able to raise fundamental questions related to strategy, mission, and the roles the agency plays within the community it serves and the broader human service sector. Nationally, studies identify a projected shortage of highly skilled nonprofit managers and leaders as a major concern. The Bridgespan Group has estimated that the country's nonprofit sector will need to attract 640,000 new senior managers over the next decade (Tierney, 2006). Nonprofits are challenged to vie for management talent with the corporate sector. Smaller health and human services agencies cannot compete with larger ones in the Sector.

According to a national study of nonprofit executive leadership by CompassPoint NonProfit Services and The Meyer Foundation, the expected departure of 75 percent of nonprofit executive directors from their current jobs (for a variety of reasons) over the next five years highlights the need for succession planning (Bell, J., Moyers, R., & Wolfred, T., 2006). This is a particular challenge for many agencies whose management is thin. The founder of a 35-year-old agency acknowledged his organization's abilities to navigate a changing environment thus far, but worries about its ongoing sustainability after he retires in a few years. Another agency manager who is anticipating retirement identified himself as the agency's sole institutional memory.

NEED FOR STRONG BOARDS OF DIRECTORS: The external trends facing the nonprofit human services sector underscore the need for responsive and effective board leadership in maintaining and improving the quality of performance by the individual agencies that constitute the Sector. It is appropriate that nonprofit boards take a leadership role in assisting agency management on critical issues such as mission definition

and strategic planning, legal compliance and the avoidance of conflicts of interest, oversight of agency financial management, resource development, opportunities for inter-agency collaboration, community relationships and availability of capacity-building management training.

Tools such as the Donors Forum of Chicago's Illinois Nonprofits Principles and Best Practices (2005) are especially important in prompting boards to assume responsibilities in tackling these issues.

Board engagement is a factor for many agencies within the Sector. Among larger agencies that responded to the Survey (with revenues of more than \$10 million) less than half reported that their boards were highly engaged around the organization's response to community and funding changes. Among small and medium-sized organizations, the percentage of Survey participants with highly engaged boards was even lower, averaging less than 25 percent. Fifty-eight percent of all Survey respondents identified board development as a significant challenge to fundraising; however, lack of board expertise and support were also cited by some agencies as barriers to pursuing a number of strategies in response to the changing environment, including closing programs, changing program focus, developing new revenue producing services, investing in management resources, or developing partnerships to share back-office expenses.

During interviews for the Study, the excitement of executive directors whose boards are pursuing strategic issues such as geographic focus and brand identity stood out in high relief against the frustration of those who felt their agencies are being held hostage by boards unwilling or unable to provide necessary leadership in a rapidly changing environment.

Whether there is a shortage of volunteer leaders with the necessary skills, or a need for agency managements to better cultivate and engage board members, these examples demonstrate that strong board governance is a critical component of an agency's abilities to successfully navigate challenges and pursue new opportunities in the changing environment.

The Executive Director of an immigrant-serving agency notes the challenge of implementing new requirements for operating in the current environment, such as outcomes measurement, with the backdrop of cultural expectations and processes, which play out through the board.

At a medium-sized substance abuse agency, the Executive Director shares that, "We're in trouble." The board is well-intentioned, but members are incapable of raising funds necessary to fill growing gaps in funding caused by flat government funding, and unwilling to relinquish local control by considering a merger.

Board complacency at a large multi-service organization placed the organization at significant risk, when underlying fiscal problems finally came to a head, and served as a wake-up call for board members to better understand and monitor the financial status of the agency.

The Executive Director at a small suburban agency wonders how he will replace an active board chair who has contributed significant leadership skills and resources, but is stepping down because of his perceived risk of liability as a board member.

STRENGTHENING THE SECTOR

The capacity of the Sector to fulfill its important role in the Chicago region has been eroded by challenges outlined in this report. A broader view needs to be taken in order to devise solutions for the Sector on a scale equal to that of the difficulties it faces. Leaders in all areas of health and human services can and should collectively shape a new course to strengthen the Sector's ability to fulfill its role.

There is a wide variation in the relative ability of individual agencies to cope with the Sector's challenges. Individual agencies may be able to maximize their resources and can implement strategies to attract and retain qualified staff. Individual agencies can take actions in response to a tight funding market that may result in more funding for specific programs and short-term needs. All these steps should be actively encouraged and pursued.

These steps, however, fail to address the barriers to Sector-wide effectiveness and efficiencies that even the best-run organizations cannot achieve individually, such as the clear need for more funding for health and human services throughout the region. If nothing is done, the Sector will continue to suffer from resource shortages and increasing instability, and the capacity of many agencies to achieve their missions and serve those in need will continue to erode.

A Sector-wide perspective creates the potential for greater community impact. By addressing issues at the Sector level, opportunities and strategies can be identified to tackle challenges which cannot be dealt with by agencies on their own, so that:

- Community issues can be addressed more comprehensively and on a large scale,
- Common agency challenges can be approached systemically,
- Efficiencies can be better achieved across the Sector, and
- Resources may be leveraged more fully, and allocated more strategically.

VISION OF A STRONG SECTOR

Defining the characteristics and vision of a strong Sector creates a reference point for considering the implications of various trends and the Sector's ability to effectively and efficiently address community issues.

An agency focus group and discussions with staff at United Way and the Trust identified similar visions of a strong Sector and the required inputs, which provide an aspirational framework outlined below.

Characteristics of an Effective Sector:

- Focuses on the best interest of the community and clients
- Responds to ongoing and emerging needs
- Has measurable impact on human lives and community issues
- Provides appropriate, easily accessible services
- Sustains efforts over time

Characteristics of Efficient Sector:

- Aligns locations of services with needs
- Maximizes resources invested in direct services
- Delivers the right amount of service in the least amount of time to achieve outcomes

A Strong Sector Must Have:

- An understanding of the culture, needs and assets of clients and the community
- Collaboration across providers, funders and other systems
- Defined best practices in service and management functions
- Opportunities for creativity and innovation
- Access to a skilled workforce
- Management capacity to support services, including accounting, human resources, technology and development functions
- A pool of strong management talent
- Strong models of governance and access to board members with the right skills and access to resources
- Sufficient and flexible funding

A Sector-wide approach directs focus towards the best interest of the community rather than the natural self-interests of organizational survival, by raising questions such as:

- How do we collectively address community issues?
- What are the needs and specific challenges of new disadvantaged populations and geographic areas?
- What are the implications of trends for the service delivery system?
- What models of service and skills are most effective and applicable in changing circumstances?
- What are the Sector's workforce needs and challenges at direct service and management levels?
- How can we create economies of scale and build infrastructure efficiently within the Sector?
- How can we increase available resources for the Sector?
- How do we broaden public awareness of social and human concerns?

Leaders who are concerned about the Sector should not only pose and discuss these questions, but also work towards finding sustainable solutions that provide desired outcomes and tangible benefit to the Chicago region and contribute to the healthy functioning of its health and human services sector.

OPPORTUNITIES FOR SECTOR IMPROVEMENT

There are four opportunities for all parts of the human service system—funders, agencies and community leaders—to work together in new ways to increase the Sector’s potential for greater positive impact on the community and its residents.

OPPORTUNITY 1: *Create large-scale and comprehensive response to community concerns through increased collaboration and coordination among agencies and funders.*

- **Strategy A:** Engage health and human services system leaders, with regional and cross-Sector perspectives, to identify key issues, develop joint strategies and leverage resources to address gaps in the service delivery system.
- **Strategy B:** Re-design service models and delivery systems to reflect the changing population.
- **Strategy C:** Develop services in key geographic areas that do not have sufficient health and human services.
- **Strategy D:** Facilitate the Sector’s ability to affect existing and emerging needs by coordinating and strategically deploying resources.
- **Strategy E:** Develop and advocate for government policies that address issues identified through the collaborative process.

At the Sector level, the goal for increased collaboration is to address significant Sector concerns through dialogue, planning and coordination to leverage revenue and services. Assuming that no one organization or type of organization has the answer to complex issues, this goal envisions the participation of agencies, private and public funders and other groups representing related systems across disciplines and geographies. The increased level of collaboration and coordination seeks to address service and funding fragmentation through opportunities for new and innovative problem-solving strategies.

“[The Sector needs] greater collaboration through multi-agency partnerships. This is effective in addressing larger community needs in a broader geographical area where each partner is able to focus on the community where it has the most knowledge, expertise and support.”

Medium-sized agency in West Cook County

“Public and private funding sources need to use each other’s resources—don’t duplicate efforts and don’t ignore information. Changes in services and funding must happen as communities change.”

Medium-sized agency in the Chicago

While this area refers to collaboration that facilitates systems change, it is hoped that agencies recognize and seek collaborative partners—natural and unconventional—to strengthen their efforts in effectively serving their clients.

The process of collaboration is not easy, especially given scarce capacity for planning, a highly competitive funding environment and the bringing together of organizations which have not had equal roles at the table or even been previously seated at the same table. One executive director referred to planning as an “unbillable” activity, and thus a luxury. Recently, however, several agency-driven collaborations, and even the joint

sponsorship of the Study, indicate that the time is ripe for new partnerships to form around questions which cannot be addressed in isolation from others in the field.

OPPORTUNITY II: *Increase the Sector's ability to deliver high quality outcomes by strengthening its workforce, management capacity and leadership.*

- **Strategy A:** Provide opportunities to assist creation of a workforce that possesses the skills required to meet existing and emerging community needs by addressing the Sector's challenges around recruiting, developing and retaining high quality staff.
- **Strategy B:** Encourage the development of strong boards, management and management systems.

In light of growing and changing community needs, and a tight financial climate, staffing frontline, management and top leadership positions is challenging for many Sector agencies. The Sector's ability to attract and develop talent has a very direct impact on service and operational outcomes. While agencies struggle to justify, hire and retain employees on a position by position basis, there are systems issues which contribute to the challenges the Sector faces. These include the availability of a pool of potential workers, adequate compensation and benefits within a resource-constrained environment, resources for training, a projected shortage of leadership and the factors which inhibit the development of management systems to support operations.

OPPORTUNITY III: *Improve utilization of Sector resources by developing and implementing best practices in efficiency and effectiveness.*

- **Strategy A:** Increase cost-efficiencies within the Sector by exploring opportunities to facilitate and implement strategic partnerships, ranging from administrative collaborations to mergers.
- **Strategy B:** Reduce Sector time and resources allocated towards paperwork by streamlining application and reporting processes, including the development of common outcomes, across funding sources wherever possible.
- **Strategy C:** Enhance Sector strength and viability by encouraging adequate third-party funding to cover essential administrative costs.

While current external pressures create a need for agencies to have stronger management capacity, Sector organizations also recognize that there is potential to develop infrastructure more efficiently through a range of strategic partnerships. Fifty-five percent of Survey respondents identified an interest in pursuing opportunities for shared back-office services. Twenty-two percent reported that they would consider a merger with another organization in the future, although ultimately, successful mergers are driven by strategic considerations as well as cost considerations.

Achieving cost savings, however, depends on transaction scale. Because so many smaller agencies, in particular, are under-resourced in administration, there may be cost-efficiency in pooling resources to create more effective management systems, regardless of actual savings. Further analysis is needed to quantify the areas with potential for hard savings within the Sector.

“Transition from small, poorly managed boutique agencies to well-managed public/private collaborative initiatives.”

Medium-sized health care provider in DuPage County

“Opportunities to do more together and share infrastructure such as facilities would be very bright on our part.”

Medium-sized Chicago agency

“Provide a fund (jointly funded) that would reward organizations for reducing costs and boosting outcomes through sharing infrastructure costs.”

Medium-sized Chicago agency

Agencies interested in seeking strategic partnerships of any form are unlikely to have the in-house expertise or resources to evaluate, structure, negotiate and implement a transaction. Strategies developed at a Sector level to overcome barriers like these may encourage the implementation of creative partnerships.

Funders can also increase Sector efficiency and/or effectiveness by collaborating to minimize the complexity of multiple application and reporting requirements, sizing grants and adjusting rates to pay for the full costs of service, and devoting more resources towards general operating grants. These activities need not contradict trends towards greater accountability, but do require that funders determine the most important indicators and shift thinking towards organizational performance and sustainability. Changes in funding processes and strategies cannot be undertaken by

agencies, yet funders can improve the entire Sector’s operations by allowing agencies to more flexibly manage resources and respond to community changes.

OPPORTUNITY IV: *Strengthen the Sector’s ability to address ongoing and emerging community needs by increasing Sector-wide funding.*

- **Strategy A:** Increase the priority placed on health and human services by raising the visibility of critical community issues through public education.
- **Strategy B:** Identify sustainable funding opportunities by exploring creative strategies to increase public funding.
- **Strategy C:** Leverage resources to promote private support of the Sector.

The three previous opportunities are unlikely to satisfy the Sector’s need for more revenue to address increasing costs and greater community needs. Although 78 percent of Survey respondents reported that they are working to develop new funding strategies, the “every agency for itself” mentality does not necessarily maximize Sector results, if total funding for health and human services does not increase.

Private funders can play a role beyond the dollars they distribute, through a range of potential activities to encourage increased available resources on behalf of the Sector. These include public education and government advocacy to build awareness of community needs and the importance of a

“Get the word out that the need is greater than most believe.”

Small agency in DuPage County

“Host dialogues among public and private decision makers around issues/trends; provide leadership in public/private ventures or coordinated resources. Help create an informed metropolitan area to increase local individual and corporate giving and maximize resources.”

Medium agency in Chicago

strong health and human services sector to address them. In addition, private philanthropy should consider ways in which it can leverage its own resources by supporting the Sector's efforts to increase other sources of revenue.

With regular increases in funding to maintain and improve current efforts, and new funding to invest in growing areas of need, the Sector can move towards the vision and expectations of greater effectiveness.

If the Sector's stakeholders move boldly to seize these opportunities, it is reasonable to expect that over the next five years the Sector will show signs of increased vitality, efficiency and effectiveness, such as:

- More initiatives involving collaboration among Sector participants—agencies, funders, policy makers and community leaders—in their efforts to meet Sector needs;
- Advocacy programs leading to a continuing and productive dialogue of Sector and community leaders with government funders and policy makers;
- Highly qualified people entering and remaining in the Sector to offset shortages in management and direct service workforce;
- Improved public understanding of the community's health and human services needs and the quality and quantity of services being provided to deal with those needs;
- A more flexible provision of services to vulnerable populations in response to demographic, policy and funding changes; and
- Increased funding for health and human services to match increased needs.

CONCLUSION: WHERE WE GO FROM HERE

At a time when the needs for health and human services are more critical than ever, agencies face the daunting tasks of managing their increasingly complex operations within significant financial constraints while maintaining their concentration on the changing needs of the community. By focusing on strengthening the Sector and taking action at the Sector level, funders, agencies and other leaders can improve the outcomes for communities and their residents, which in turn suggests the need for new ways of thinking about how all Sector stakeholders can work together.

Sponsoring this study is a modest first step towards finding new approaches to strengthen the Sector. The Chicago Community Trust and United Way of Metropolitan Chicago are interested in pursuing and supporting strategies related to the four Sector level opportunities identified in this report and stand ready to work with agencies, other private funders, government funders, community leaders, the corporate sector and others in the nonprofit field to realize a community that is better able to meet the needs, and build on the strengths, of all of its residents.

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APPENDIX

Definitions

CHICAGO REGION, CITY, AND SUBURBS: Except as noted, the “Chicago region” refers to Cook, DuPage, Kane, Lake, McHenry, and Will Counties. The “city” refers specifically to Chicago, and “suburbs” refers to the Chicago region excluding the city.

IMMIGRANT: For purposes of citing Census data and other statistics, the terms “immigrant” and “foreign born” are used interchangeably, referring to anyone who is not a U.S. citizen at birth.

HEALTH AND HUMAN SERVICES: Based on the United Way of Metropolitan Chicago working definition, “health and human services programs provide assistance to individuals and families to address their fundamental, comprehensive needs. These needs must be met in order for children, youth, and adults to lead healthy, independent, and enriching lives in the context of cohesive, caring communities.” (Needs Assessment, 2004). The wide array of services which fall under this definition can be found within the following subsets of the broad Health and Human Services categories defined by the National Taxonomy of Exempt Entities (NTEE): Health Care; Mental Health & Crisis Intervention; Crime & Legal-related; Employment; Food, Agriculture & Nutrition; Housing & Shelter; Youth Development; and Human Services.

HEALTH AND HUMAN SERVICES SECTOR, OR THE SECTOR: The conglomeration of agencies which provide health and human services in the Chicago region is referred to in this report as the Sector. Data from the January 2006 Internal Revenue Service Business Master Files from the National Center of Charitable Statistics was used to define the dimensions of the Sector. Recognizing that it is nearly impossible to capture the comprehensive nature of services provided by agencies with a single NTEE code, the project team used its best judgment regarding particular codes and entities in order to define the Sector. This study focuses on nonprofit organizations which primarily provide direct health and human services to people who can not afford to pay market rates.

HEALTH AND HUMAN SERVICES SYSTEM, OR THE SYSTEM: The System includes the Sector, funders, government, communities, and residents which influence health and human services issues and needs.

Health services include preventive, primary, behavioral, and public health services, and access to these services provided by local nonprofit clinics and human service organizations to promote the emotional and physical requirements of healthy, self-sufficient living. Health services provided by hospitals are not included as part of the Study.

POVERTY: Poverty status is based on the official federal thresholds used by the U.S. Census to calculate population statistics. The federal poverty thresholds incorporate income, family size and composition. If a family’s total income is less than the family’s related threshold, then that family, and every individual in it, is considered to be “in poverty.”

WORKING POOR: There is no generally accepted definition of “working poor” in terms of income or hours of employment. Some studies quantify the number of working poor people or households based upon the federal poverty thresholds. Others use income at 150% or 200% of poverty thresholds as a guideline. Similar debates exist around hours of employment. Given the lack of clarity in the field, the Survey did not require that agencies apply a precise definition when they provided feedback about the working poor, but assumed a concept of a household with at least one employed adult, whose income is insufficient to support the overall housing, transportation, health care, child care, and food needs of the household. Other research cited in this report apply the following definitions:

- Waldron, Roberts & Reamer (2004) quantify families with incomes below 200 percent of the federal poverty threshold and a combined work effort of at least 39 weeks in the previous twelve months among household members 15 years old or older, or combined effort of 26-39 weeks among household members 15 years old or more and one parent who has looked for work in the last four weeks.
- Urban Institute, Northern Illinois University, & Roosevelt University (2004) quantify families with incomes below 150% of the poverty threshold and whose working members together worked at least 26 weeks or more in 1999.

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