

COVID-19
BRIEFING NOTE

MARCH 23, 2020

The current proposal to limit federal assistance to groups that (i) have less than 500 employees; and (ii) do not receive Medicaid reimbursement may have unintended consequences. Intuitively, it might seem that larger nonprofit organizations excluded by these conditions would be financially stronger, have better access to credit, and need less financial assistance. This is probably true with respect to for-profits, but for nonprofits—at least excluding hospitals and higher education—the reverse is likely to be true:

- Larger nonprofits (\$25 million+ annual operating budgets and roughly 500+ employees) are generally less financially strong than smaller ones. Their operating margins are smaller. They are more reliant on “cost-minus” government funding. They also experience the greatest cash flow burdens since the government funding is generally paid in arrears.
- Larger nonprofits are more reliant on government funding (85% versus 50%). They are, in effect, extensions of government in terms of the provision of the social safety net.
- Larger nonprofits, while representing less than 20% of the organizations, employ more than 80% of the people who work in the sector, many of whom are from the communities served, and provide about 80% of all services.
- Many Systemically Important Nonprofit Institutions (“SINIs”)—institutions that should be deemed “too big to fail”—delivering human services in the community would be excluded under the proposed rules. These organizations—generally \$50 million or more—are 95% government-funded. While they represent less than 5% of the nonprofits in the nation, they do 50% of the work. The failure of any SINI organization could have a cascading negative impact in its local community and social safety net.

If the federal government wants to limit support to the nonprofits that really need it, the 500 employee / Medicaid test is likely to be counter-productive.

SeaChange Capital Partners is the champion of nonprofits facing complex challenges and the partner of choice for funders seeking to help. SeaChange has been active over many years in the financial analysis of the nonprofit sector. This briefing note is based on these reports which include:

- The Financial Health of the US Nonprofit Sector
- Risk Management For Nonprofits
- Philadelphia Risk Report
- Overhead for Trustees
- New York City Contract Delays
- Closing the Gap: A True Cost Analysis

NEW YORK
+1 212 336 1500

PHILADELPHIA
+1 267 716 2727

SeaChange
CAPITAL PARTNERS

WWW.SEACHANGECAP.ORG