

# **The Power of Coalition: Leveraging Fiscal Sponsorship and Shared Services as a Platform for Partnerships**

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## **Introduction**

Over the years, nonprofits have adapted to a changing world of funding and service provision in creative and collaborative ways. One lesser known but powerful tool for organizations is fiscal sponsorship. Fiscal sponsorship "generally entails a nonprofit organization (the "fiscal sponsor") agreeing to provide administrative services and oversight to, and assume some or all of the legal and financial responsibility for, the activities of groups or individuals engaged in work that relates to the fiscal sponsor's mission." On a practical level, a fiscal sponsor functions as an umbrella organization for programs and provides services such as accounting, human resources, insurance and more. There are hundreds of organizations practicing fiscal sponsorship programs across the nation.

The Urban Affairs Coalition (UAC) is one of the Philadelphia region's premier fiscal sponsors and has helped to develop the field of fiscal sponsorship through its work in the Greater Philadelphia region and as a founding member of the National Network of Fiscal Sponsors. UAC's Fiscal Sponsorship approach offers organizations the benefits of a scaled back office, flexible business infrastructure and expertise in nonprofit management. In addition to these business competencies, it leverages its history and relationships in the community, cultural competency in low-income neighborhoods and communities of color, and program development expertise to support innovative programs and projects. Together, these business and relational competencies form an important platform for nonprofit sustainability, community change, and strategic partnerships between government, philanthropy, the business community, nonprofits and community leaders.

This article aims to provide an understanding of the Coalition, describe some approaches and practices in fiscal sponsorship and discuss the benefits and challenges that this model of partnership offers. As the nonprofit world moves to an increasingly collaborative model, fiscal sponsorship may provide organizations with the professional tools and services they need to thrive.

## **UAC History/Background**

For over 46 years, UAC has united government, business,

neighborhoods and individual initiatives to improve the quality of life in the region and solve emerging issues. In 1969, a historic partnership between business and community leaders was formed, creating The Philadelphia Urban Coalition. Nicknamed 'The Urb,' its purpose was "to eliminate poverty, discrimination and civic unrest, and to secure human and civil rights." Through the 1980s, alliances grew with the founding of The Urban Affairs Partnership, an organization created to improve the quality of life in Greater Philadelphia. In 1991, The Urban Affairs Partnership and the Philadelphia Urban Coalition merged to create the Greater Philadelphia Urban Affairs Coalition. In early 2010, the Greater Philadelphia Urban Affairs Coalition shed "Greater Philadelphia" from its name to acknowledge the opportunities for growth and services in the full five-county region and beyond.

Since its formation, UAC has carved out a niche as a "Home for Nonprofits." In this capacity, UAC supports over 60 programs and 15 projects, including a host of nationally recognized initiatives. UAC provides nonprofits with core services that help them remain high impact and cost-efficient. By adopting UAC's model of fiscal sponsorship and shared services, nonprofits are equipped with the essential toolkit needed to thrive.

Nonprofits under UAC's umbrella have been able to reduce overhead, increase program funding, raise donor confidence, and become more efficient. This has had a direct and immediate benefit for the people that these

nonprofits serve.

## **The Benefits of Partnership**

It takes a combination of great altruism and entrepreneurial drive to start or run a nonprofit as a means of solving a community problem. Yet, the business side of running a nonprofit is quite complex. It works on rules that differ from the for-profit world with respect to financial, legal and administrative frameworks. That leaves leaders looking to take action quickly with barriers to action that are not overcome easily.

Fiscal sponsorship, as a model of partnership, is an important way to speed up the process of starting or operating a charitable project; however, the benefits of partnering with a fiscal sponsor extend beyond getting access to 501(c)(3) status quickly. Organizations providing a professional fiscal sponsorship program offer talent, expertise, and social capital; speed to market; and goodwill and credibility.

## **Talent, Expertise and Social Capital**

Professional fiscal sponsors tend to be larger organizations capable of hiring talented, seasoned nonprofit executives, like a Chief Financial Officer or Chief Operating Officer with decades of experience, who are connected with members of the sector. These executives bring tremendous value to the sponsor and programs

under sponsorship. While this talent often comes at a price tag that smaller organizations often cannot afford, organizations working with a fiscal sponsor have access to these executives and their skills. Fiscal sponsors frequently have specialized staff with financial, human resources, information technology, and procurement experience or the ability to coordinate vendors that are shared with their programs. These scalable, turn-key, back office features make it easier for organizations looking to maintain compliance and manage risk at a far more affordable rate, while some independent organizations risk operating without the necessary business support due to their limited resources.

By assuming legal and financial liability for a host of programs, fiscal sponsors recognize the complexity and risk to their 501(c)(3) status on a daily basis. They view the investment in talent and expertise as a critical business need. By retaining strong leadership and staff, fiscal sponsors are able to offer expertise in risk and crisis management, which means that events that might disrupt or close a small independent organization can be managed to a positive resolution instead.

An important example of where fiscal sponsors' systems can prevent major issues is in the area of HR. Many small and medium sized nonprofits do not have in-house HR staff or consultants on retainer. Staff with little to no formal HR training may manage the process of hiring or terminating employment, which is an area where one

wrong decision can put the entire organization and Board at risk of legal action. The cost of a single lawsuit could bankrupt an organization with insufficient cash reserves.

Typically, professional fiscal sponsors have a full HR team comprised of experienced professionals. A sponsor should have a set of procedures for hiring, which has been reviewed with legal counsel, includes a proper job description and a salary package that is in line with the field. During the interview process, a fiscal sponsor may offer to have a member of their HR team present. An equally professional system should be in place for terminations.

Fiscal sponsors spend considerable time cultivating a specialized network tied to their mission and the primary area of practice in which their programs operate. This means relationships with funders, government officials, key business leaders, other nonprofit leaders, academics and others. Fiscal sponsors often make social connections that programs may not otherwise be able to make and are able to provide critical business intelligence to their program partners about new funding opportunities, funder staff changes, and emerging trends in philanthropy or government.

## **Speed to Market**

Consider the time, money and effort it takes to start an organization. The work to build up an administrative

infrastructure, filing an application for 501(c)(3) status, hiring staff or contracting with firms to manage accounting, human resources, information technology needs is not insignificant and slows down a startup organization's speed to market.

Professional fiscal sponsors, like UAC, provide a single unified package of these services. This can save nonprofit leaders and social entrepreneurs time and energy that could be spent on their mission-related programming instead. It points to a little recognized dilemma: when an organization is considering the best use of its time and donated funds, the burden of administering a nonprofit's operational needs can actually get in the way of delivering services to the people that need it. Organizations that fulfill these needs through a fiscal sponsor gain the advantage of scale and it gives program staff the freedom to focus on the organization's mission.

## **Goodwill**

One of the greatest assets that a fiscal sponsor provides is its brand and credibility. In the for-profit corporate world, this is known as goodwill, a valuable intangible asset that confers legitimacy, brand awareness, and trust. In bringing on a new program, the existing goodwill that a fiscal sponsor has developed over decades is immediately associated with the startup.

When thinking about this, it is important to note that each fiscal sponsor is a little different; each has its own reputation, brand and networks. For example, a fiscal sponsor that is known in the arts for supporting film projects may struggle for legitimacy when sponsoring a human services program, which is outside their core network.

UAC's view of goodwill is that program partners are free to use UAC's brand identity or not. In this way, UAC's model treats goodwill as a "take or leave it" feature of merging operations. Often, smaller organizations and startup groups choose to use UAC's branding on their websites and materials, as it builds their credibility and gives them a bone fide with potential funders. Larger organizations, with established brand identities and networks, often take a more calculated approach to leveraging UAC's goodwill.

## **The Tension of Partnership**

Partnership is not always easy. It requires compromise and flexibility, traits that are not evenly distributed among the types of mission-driven individuals who become nonprofit leaders. These leaders are under constant pressure to perform at their best even when their funding is cut and the demand for services increases. Leaders under pressure still have to make decisions; however, not every decision they make will be the right one.

Sometimes their decision-making may unwittingly or deliberately veer out of ethical or legal bounds with or

without the knowledge of their board of directors.

Fiscal sponsors often operate with a higher standard of governance and oversight for these reasons. Operating under a single legal entity creates the possibility that a misstep from one program leader can adversely affect the entire organization. Therefore, organizations, like UAC, develop a formal set of administrative procedures to ensure compliance with and strict adherence to the rules set by the IRS and funders. This heightens the inherent natural tension between passionate delivery of direct services and the complex administrative processes necessary to ensure compliance with often stringent funder requirements.

A broader issue that fiscally sponsored groups face is one of awareness about fiscal sponsorship. It is not uncommon for funders, colleagues, staff and others to have very different ideas about what fiscal sponsorship is as a practice and limited understanding of any particular fiscal sponsor's role or model. For example, funders often state that they will issue funding once per year per entity.

For a fiscal sponsor with numerous entities sharing a single Tax ID number, this can create a competitive rift between leaders under the same fiscal sponsor. As the philanthropic world moves increasingly toward online grant application, the rules can become rigid and automated. A fiscal sponsor with strong funder relationships can help bridge such challenges by explaining how fiscal sponsorship works and how it

benefits both the funder and the program receiving funds.

## **Organizations that leave and why**

Participation in fiscal sponsorship is voluntary. Under UAC's model, organizations retain their brand, identity, program model and intellectual property (except in cases where joint ownership applies). When programs look to leave, they are free to do so.

When a program leaves a fiscal sponsorship program of any type, careful planning is essential. This is a time-consuming and overwhelming process for most organizations. There are a host of anticipatable tasks and costs to leaving fiscal sponsorship, as well as costs and complications that can be surprising.

UAC helps organizations plan for how they will replace the infrastructure formerly provided by the fiscal sponsor.

The Coalition works with groups to identify what new capabilities, paperwork requirements, business practices and processes that they will need as they transition to independent operation. These new structures, staff responsibilities, and processes require time, money and effort to develop and need to meet all of the legal, administrative, financial, and regulatory requirements of the organization. In addition, the advantages of a fiscal sponsor's economies of scale for shared services and procurement cannot be underestimated.

It is not uncommon for organizations to underestimate the amount of work, additional staff and learning curve associated with all of these changes. Organizations with government funds need to pay specific attention to cash management associated with their government contracts as these funds, in particular municipal contracts, can be slow on processing and payments. Frequently, organizations find that they need lines of credit or cash on hand at levels that they did not expect. All of these challenges take time for the executive director and key staff to address.

With careful planning, a number of UAC programs have successfully transitioned out. Some programs have transitioned to another fiscal sponsor or become a program of government. This tends to have the best result because the organization is moving from one shared service model to another, never having to spend the time, money and effort of building up the support service infrastructure that fiscal sponsorship provided.

Other organizations, particularly those with limited or no government funds, have been able to make the move to operating independently.

On the other hand, some programs that leave struggle a great deal due to a range of issues. For organizations with government funding, managing cash flow seems to be the greatest challenge. For others the safeguards that were once in place to ensure responsible decision-making based on the laws, rules, and expert professional

judgement are not always followed. Here, the results can be devastating with organizations failing to meet compliance requirements or worse. For example, when an organization does not document expense properly when seeking reimbursement from a government agency that can disallow the expenses, which can be costly or possibly destabilizing to the organization depending on how much money is at risk.

## **Why organizations stay for the long haul**

Many fiscal sponsors are combatting the myth that fiscal sponsorship is for new or startup organizations. Rather, it can be a source of sustainability and longevity for programs.

At UAC, a third of the Coalition's 60 programs have been in the fiscal sponsorship program for 20 years or longer. Nine of these programs have been at UAC for over 30 years. In fact, some of UAC's largest programs have been at the Coalition the longest amount of time, taking advantage of UAC's financial stability, cash flow management, operational support, and funder relations. Long-standing programs know that funding ebbs and flows, changing their budgets and staffing. With UAC's scalable back office, the flexibility to change with the times is built-in.

For programs in existence for ten years or more,

succession planning becomes crucial. It is natural for leaders to mature and wish to move on or retire. At the same time, there is a risk with a leader leaving that the organization may lose knowledge, relationships and stability. UAC, as a long-term partner, provides consistent and stable support to reassure the staff, clients and funders that the program will not suffer during this transition. Often, the Coalition will provide support for leadership transition, which is particularly important with founder-led organization.

For decades, UAC has been a home to a number of programs which are smaller by design. These are volunteer-led projects with a focused mission. Typically, they express no desire to grow outside of their immediate zone of influence but may have great turnover of volunteers over time. Choosing fiscal sponsorship helps to sustain the mission without losing sight of their administrative requirements.

## **Strategies for Success: Connecting Institutions and Communities**

Large institutions with influence and resources, like government and philanthropic organizations, can occasionally find it difficult to get the traction they need when trying to address a local or neighborhood level problem. These organizations know that there are incredible advantages in working with grassroots groups or smaller community-based organizations, which already

have credibility, community knowledge and trust on the ground need to make things happen.

However, these two very different set of actors operate on very different frameworks that often prevent them from seeing "eye to eye." The differences of organizational culture, cultural competency, and differing approaches to problem solving can create "translational" issues and unnecessary roadblocks to developing a common estimate of the problem and a shared sense of action.

Also, institutions often have power and connections of which community groups and leaders are leery, fearing ulterior motives or undisclosed agendas.

UAC has deep roots in the community and a history of translating between institutions and communities. With that expertise, the Coalition is a trusted partner for dialogue and is able to navigate and translate to help build consensus. With attention to communication and building upon long-standing relationships, it is easier to cultivate good will and avoid unnecessary misunderstanding. This bridging support also helps to allay fears and create common language for partnerships.

While the advantages of connecting grassroots organizations to tackle entrenched problems are clear, there are some disadvantages when working with smaller organizations. These groups may not be formal in nature, incorporated by law or established as 501(c)3 able to take charitable contributions. Beyond the receipt of funds,

there may be a limited ability to manage and account for money with appropriate record-keeping. Some smaller groups lack experience with reporting on their financial and programmatic activities as well as the ability to maintain compliance with requirements of government funding.

This is where UAC has played an important role, providing consolidated management of programs and funding. This makes it easier to get money on the ground quickly where it is needed while making sure the compliance needs are met.

## **Strategic Partnerships**

UAC offers this type of strategic partnership support to funders. UAC might act as the receipt of a grant and distribute funding to multiple programs to achieve a specific goal. For example, in 2010, UAC was the prime recipient of a Federal Stimulus grant under the 2009 American Recovery and Reinvestment Act (ARRA). UAC was awarded \$11.8 M grant from the US Department of Commerce's National Telecommunication and Information Administration's Broadband Technology Opportunity Program; the City of Philadelphia's Office of Innovation and Technology also received a \$6.4 M award.

Together, UAC, the City of Philadelphia, Drexel University and nearly 50 other organizations formed a comprehensive effort to tackle digital literacy by driving

internet adoption in Philadelphia's low-income communities. In this partnership, UAC provided project management support and coordinated the activity of nine key sub-recipients to fulfill grant deliverables, provide consolidated reporting and ensure compliance with federal financial requirements. UAC streamlined funder relationships, invoicing, and reporting as a single entity.

## **Strategic Consulting**

UAC also has the ability to help funders when an important program is struggling to meet its administrative, financial or legal obligations. The Coalition has a great deal of experience in providing "turn-around" consulting services to help programs in trouble stabilize their operations and reorganize their management and operations.

One such example is the Center for HOPE (CFH).

Founded in 2009 under the name of Somerset Community Services (SCS), CFH serves the community by providing temporary housing resources and life skills training to homeless men, helping them achieve self-sufficiency as they return to the broader community.

Within three years of opening its doors, SCS was spending at an unsustainable rate, in particular, in the area of personnel costs, which caused concerns about the organization's administration and financial management practices.

The City of Philadelphia's Office of Supportive Housing, the organization's major funder, encouraged the SCS Board of Directors to engage the Urban Affairs Coalition (UAC) in dialogue about how it could address these challenges. UAC was able to analyze the organization's operations and finances, finding a range of issues from overspending, reporting errors, poorly maintained facilities, and customer service issues.

To address these challenges, UAC embedded an executive with turnaround experience to lead SCS, reporting to leadership of both organizations as well as funders. SCS was placed under UAC's administrative and financial management oversight and this allowed for a reorganization of staff, reinforced existing policies to improve the culture of the organization, ultimately improving and increasing educational opportunities presented to residents. In addition, UAC found savings that were reinvested in the building including repainting the building, improving heating and air conditioning systems, and cleaning up the grounds. At the end of this reorganization, SCS was relaunched as The Center for HOPE and repositioned as a more efficient and effective organization.

## **Conclusion**

As a growing and evolving practice, fiscal sponsorship has matured as an important but powerful tool for organizational sustainability and support. In a time of

shrinking resources, collaborating around administrative services and oversight makes more sense than ever before. Beyond financial and legal reasons, there are many benefits of developing and leveraging platforms for joint action. The UAC model is but one example of how fiscal sponsorship can be a flexible model for partnership and strength in the nonprofit sector.