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Moving Forward: Dealing with Reduced Funding

By Denis Geary, Richard Knoll, Karen R. Brown and Sarah Lange

The recent recession has presented many challenges for nonprofits across the state. Over the past two years, state-funded nonprofits that provide services on behalf of the state have seen an increase in service demand coupled with large deficits in the state's budget and the resulting gubernatorial rescissions, deficit mitigation plans and program cuts. Meanwhile, nonprofits that do not receive state funding have also felt the pinch as individual and philanthropic giving decreased with the recession and in some cases was redirected to fill in the holes left by reduced state funding.

Always known for being efficient, cost-effective providers who go above and beyond to meet the needs of their consumers, nonprofits have continued to be leaders in their communities despite the economic downturn. Many have come up with creative ways to deal with reduced funding while staying true to their mission. The state's upcoming biennial budget that will need to fill a \$7-\$8 billion budget gap over two years will certainly continue to present challenges to nonprofits across the state. The following are articles written by nonprofit and foundation executives, as well as a nonprofit consultant with examples and tips on how to deal with reduced funding. Find out what steps your colleagues are taking to cope with funding reductions.

IS THAT A LIGHT AT THE END OF THE TUNNEL OR ANOTHER TRAIN APPROACHING?

by Denis Geary

A few years ago the news began reporting on a problem in the housing market; something about a subprime mortgage crisis. When that news broke, who foresaw the trickle-down impact this would eventually have on us both personally and in our organizations? What appeared only to be a snowball rolling down a mountain soon become an avalanche. Little did I know that my organization was related to someone named Freddie Mac and Fannie Mae!

Quickly, the dominoes began falling and before long we were in the middle of a full-blown recession. Already tight funding streams were about to become cauterized. Today the news on the economy is mixed. If by nature you are an optimist, the glass is half-full and the recovery train is on the track heading in the right direction. Others believe that train is stuck in the station and going nowhere fast. And finally, the gloom and doom CEO sees a train approaching from the opposite direction.

I am guessing there are few trained economists among the body of nonprofit leaders. By nature, we are most likely "up from the ranks", self-taught idealists,

endeavoring to leave the world a better place. Along our way we go, bringing our missions to life, dependent on government and private grants, fundraising and other donor-driven efforts, and a nose-to-the-grindstone mentality that is in our blood. After all, nonprofits are survivors, right?

So what is in your survival kit?

There are few options on the revenue side. Program expansion can be risky even if it comes with new revenue. Why take on more liability if you are already struggling to manage the programs in place? Increased fundraising? Maybe those efforts will pay off if you have a dedicated donor base and the resources in place to carry out more ambitious activities. But what about the small agency with little or no development apparatus? Foundation grants? Many foundations have stepped up to the plate to assist nonprofits during these troubled times but what if you never had support from a foundation? It is almost impossible to establish that relationship now. Should you be fortunate enough to have investment income from endowment funds, those earnings are certainly from three years ago. That leaves our public funding and we all know where that stands. In fact, what is going to happen in Connecticut's next biennial budget when our elected leaders begin

Continued on next page ►

wrestling with the \$4 billion dollar budget deficit in each year?

With regard to expenses, my guess is most of us have already enacted cost-cutting measures around salaries, employee benefits, position freezes, fewer full-time employees and more part-time employees, program curtailment, layoffs and more. At what point is quality impacted?

Since all nonprofits are different our survival strategies will be varied as well. If we are to get through this historic economic downturn and live to fight another day, saving the world may have to take a back seat and holding down the fort our new – and hopefully temporary – battle cry.

COPING WITH LESS AND DOING MORE

by Richard Knoll

TEAM, also known as Training, Education and Manpower Inc., is a community action agency in the lower Naugatuck Valley serving a ten town region that stretches from Milford to Oxford. Like all nonprofits it has had to consider how to maintain service levels while inflation and budget reductions chipped away at resources. The agency's goal has been to avoid cutting back on services to children,

seniors and the poor. Our strategies since 2007 include reducing expenses, identifying new sources of support and fundraising, and collaborating with new partners.

Cost reduction planning focused primarily on two areas: benefits and staffing. Since medical plan increases were the most costly, it became the starting point. To avoid 20% premium increases between 2007 and 2009, the agency raised its hospitalization deductible eventually to \$3,000; self-insured the increase and saved upwards of \$120,000 in premiums over the period. Collective bargaining was successful in gaining the agreement of employees to underwrite a larger share of the health premium, from 15% to 20% over several years.

On the staffing side, we looked over options for accomplishing various support tasks and decided to outsource IT, mental health services and grant writing to save another \$110,000.

Raising new sources of support proved equally successful, primarily because the lower Naugatuck Valley region is home to several local foundations with a rich heritage of supporting community-based organizations. The Community Foundation of Greater New Haven, the

Katharine Matthies Foundation, the Hewitt Foundation, the Valley Community Foundation, and the Valley United Way all agreed to partner with TEAM and provide program support. Ultimately, the foundations and United Way proved key to maintaining service levels, injecting \$95,000 into operations.

In 2007, we addressed the need to improve fundraising efforts and planned a signature annual event for 2008. "Men Who Cook" became an instant hit and has netted \$104,000 in its first three years. Building on community relationships, Vice President Diane Stroman recruited the expertise of David Grant Caterers, JJ Sullivan Restaurant and fifty community leaders (men) who enjoy cooking; and the rest, as they say, is history.

New collaborations have proved to be especially important. As a result of such partnerships, we were able to gain support and implement a regional dental clinic in 2008, create a Volunteer Income Tax Assistance Program as well as a Family Resource Center, and be part of a new Homelessness Prevention/Rapid Rehousing coalition led by Columbus House of New Haven in 2009.

Despite our success, it is not hard to envision a 'tipping point' on the horizon,

where the increasing demand for services and the ongoing erosion of resources by inflation will ultimately degrade the quality of programs. The stress of doing more with less and less than adequate staff compensation has increased turnover – particularly to state jobs paying 30-40% more for the same level of responsibility – causing a constant drain on energy and ultimately impacting program quality. During its forty-five years, TEAM has coped with many economic cycles, and the upcoming years look to be as challenging as any we have seen.

STRATEGIES FOR SURVIVAL

by Karen R. Brown

Surviving the recession will not be about luck. It will be about strategy. That one word will define the difference between nonprofits which survive this continued downturn intact and those that see their programs and services erode, or close their doors for good.

Your organization's survival depends on focusing on mission-critical programs; cutting non-core, resource-intensive services; engaging your Board; re-igniting the community around your mission; and building operating reserves to deal with

the lean times ahead.

A return to the core – and to profitability

The recession presents an opportunity for nonprofits to right-size their organization so revenue and expenses are better balanced.

Knowing the true cost of each of your programs via a program profitability analysis is important information for nonprofits making hard decisions about cuts. The Bridgespan Group – www.bridgespan.org – offers a Nonprofit Cost Analysis Toolkit online which helps your organization determine the true cost of your programs and services.

Programs which are ultimately identified to be loss leaders – those losing money and not strongly aligned with mission – should be the first programs to be eliminated in a recession, and constantly reviewed in good times.

Is your Board on board?

One of the most underutilized assets of nonprofits is the collective knowledge of its Board of Directors.

Quite often these members are lions in

their field of expertise, but their skills are rarely called upon or fully taken advantage of by nonprofits.

Organizations must work to fully engage their Boards, identify and call on the skill sets of current members to strengthen operations and plan for the future, and recruit new members with needed experience and knowledge.

Those Board members who have simply been along for the ride need to be candidly asked if they are prepared to step up to the plate; and if not, gracefully shown the door.

The sky is falling – but does anyone know?

For nearly two years, your organization has been watching revenues drop while need has risen steadily. Your calls for help from past contributors, committed donors and others may have helped bring in a small surge of cash at the beginning of the recession, but now donations may be slowing.

While you have been intensely focused on this situation every day, most of your potential supporters simply do not know that you need their help.



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The community will rise to the occasion if they are aware of your needs. A year-and-a-half ago they knew times were tough for your organization and they responded, but they may not have heard another word from you since.

Now is the time to re-invigorate the community by letting them know what is at stake. Flood the local media with press releases featuring your most threatened clients and the urgency of their need. In emails, newsletters and other donor correspondences, make the case for your cause and ask for their support. Convince key donors to offer large, matching gifts which are very motivating for other donors, and then drive a strong campaign.

Save a little for yourself

It's a tough decision to make. Your clients are in great need and every dollar you send out the door makes a measured impact in keeping that many more from falling through the cracks.

But even though the need outstrips your ability to serve, building an operating reserve – yes, even now – is crucial to your organization's survival.

Build your reserve little-by-little. Make a policy that X% of every unrestricted gift will be placed in the fund, manage costs and make non-core cuts, then direct those savings towards your future.

In this economy, a smart, strong and successful organization has an operating reserve equivalent to at least six months of its total operating budget.

It may seem to go against conventional wisdom, but when donors see organizations with a moderate amount of cash lying around, their first thought is not: "Well, why do they need my help if they already have the money in an operating reserve?"

Donors feel more secure in the knowledge that the nonprofit they support today will be there to continue its important work tomorrow.

VISION-POWERED NONPROFITS

by Sarah Lange

Surviving in today's nonprofit marketplace entails being mission-driven in an entirely new way. While it is important that nonprofits maintain a high level of efficiency and effectiveness, creating an Axis of Synergy will propel an organization to new heights. An Axis of

Convince key donors to offer large, matching gifts which are very motivating for other donors, and then drive a strong campaign.

Synergy is created when an agency aligns each and every aspect of its operations with its mission, vision and culture. Organizations with high levels of synergy are far more successful in attracting and retaining loyal donors, a diverse array of funders, and the high-quality Board and staff members needed to get the job done.

Many of us presume that our organizational structures, practices, and culture are in alignment with our mission. However, I have yet to conduct a systems analysis that does not unearth a few significant and surprising results. The problem is that the gaps that exist between the organization's vision, mission and culture and the ways in which it operates create what I like to call "organizational vampires". These fissures can drain the agency of its lifeblood in subtle or significant ways and are nearly always at the root of personnel and/or Board problems.

Take, for example, the agency that hired community organizers to train and empower local residents to take charge of their neighborhood, yet employed personnel policies and procedures that were both infantilizing and restrictive. The contrast between asking their staff to do a job that requires a tremendous level of personal dedication and flexibility while employing strict practices lead to a high level of turn-over and poor staff morale. This in turn undermined the agency's credibility – not only among the staff, but among some of the local residents with whom they worked, Board members, donors, and funders. Ultimately, the way this agency treated its staff interfered in a very direct and significant way with its ability to achieve its mission and realize its vision.

Not every fissure is as noticeable as the example cited above, but most agencies are host to more than one organizational

vampire. In order to identify where these "vampires" might be hiding, it is important to review every aspect of operations with a fine-tooth comb – every policy, procedure and practice needs close examination to ensure that it directly supports and reflects the vision, mission, culture and values of the organization. For example – How are Board and staff recruited, trained and treated? How are clients or constituents included in the life of the agency? What is the agency's relationship to and with the community it serves? Its funders? Its donors? In sum, where do the walk and talk of the organization fail to match up? By answering these kinds of questions candidly, nonprofits can identify the "vampires" that are undermining their potential.

Since this exercise requires vigorous candor in order to be most useful, it is best conducted by a neutral third party – ideally, a nonprofit consultant with experience and expertise in this type of evaluation – who works in concert with a committee of staff, Board and other stakeholders to evaluate each aspect of agency operations. Surveys, focus groups and interviews can be employed to give the agency invaluable feedback, provided

that confidentiality is promised and maintained. The data that is gathered can then be collated and analyzed to identify potential "vampires". The committee can then make recommendations to the executive director and Board of Directors about ways the organization might address or eliminate these issues. Further consultation – for example, with a nonprofit or human resources attorney – may be necessary.

Creating and maintaining an Axis of Synergy in a nonprofit organization helps bolster its power in the marketplace. By aligning the vision, mission, values and culture of the organization with the policies, procedures and practices that support them, a nonprofit is far more likely to attract and retain the resources it needs to fulfill its mission. And after all, isn't that why we're here? ■

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that provides financial assistance and supportive services to over 3,500 families residing in the towns of Ansonia, Derby, Seymour, Shelton, Oxford, Beacon Falls, Milford, Orange, Bethany and Woodbridge each year. For more information visit www.teaminc.org.

Karen R. Brown, MPA, is the Vice President of Programs at the Fairfield County Community Foundation. She currently serves as a board member for the Support Center for Nonprofit Management, as a member of the Programs Committee for the Connecticut Council for Philanthropy, and as a Steering Committee Member for the Fairfield County Collaborative Fund for Affordable Housing.

Sarah Lange is the Principal & Founder of New Era for Non-profits, a consulting firm focused on helping non-profits integrate best practices into their daily operations. Sarah has spent more than two decades in the field of nonprofit management and is well known and respected for her depth and breadth of expertise in all aspects of fund development, organizational change, leadership and board development, strategic planning, needs assessments and evaluation. She can be reached at sarah@newera4nonprofits.com.




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