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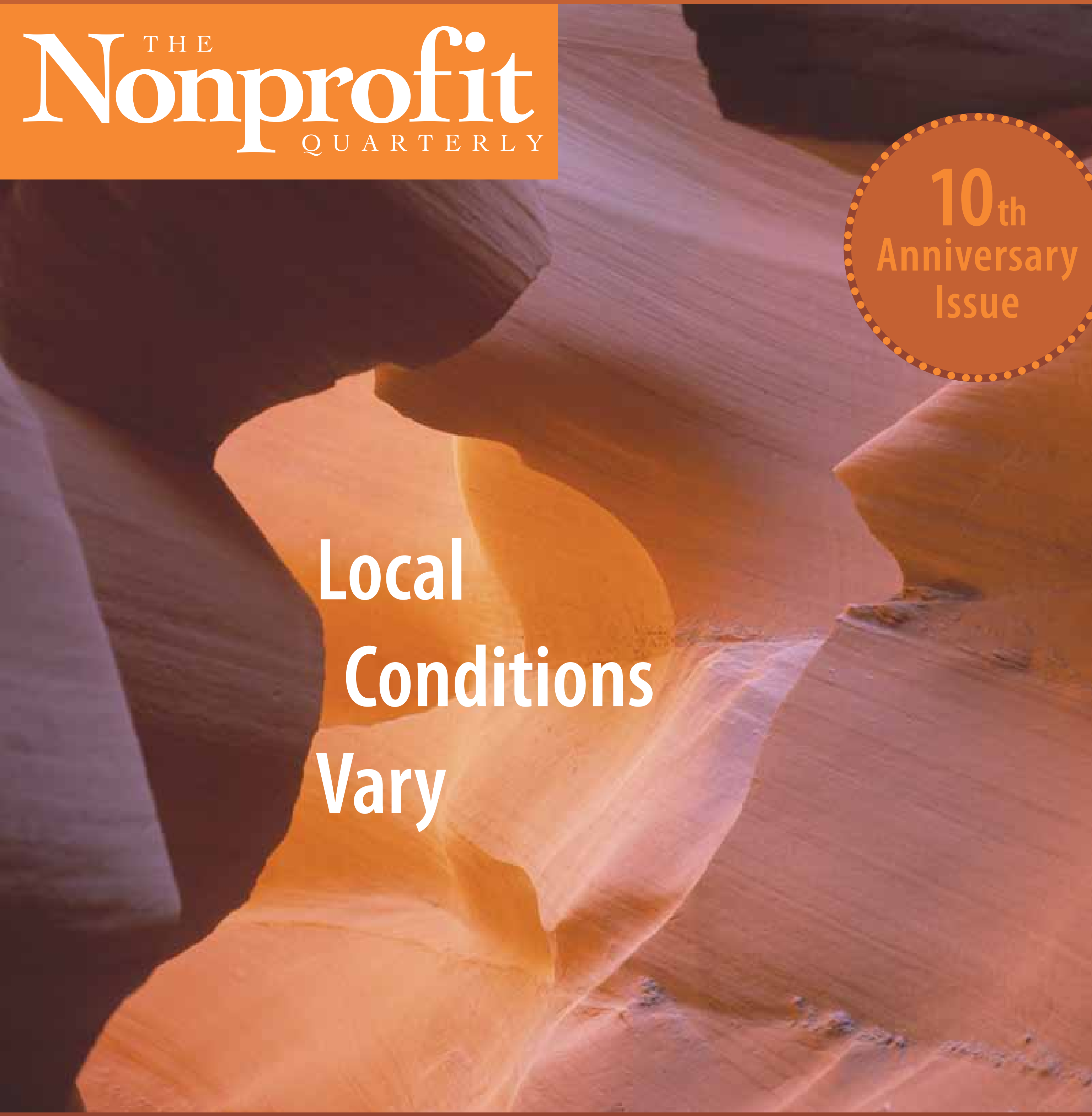
The Nonprofit Quarterly

10th Anniversary Issue



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Volume 16, Issue 4

Winter 2009

The Nonprofit Quarterly

Features

Nonprofits in the Age of Obama, Part Four

Page 4

Page 6

Page 8

COVER DESIGN BY KATE CANFIELD

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Page 31

Departments

Finance

Page 34

Leadership

Page 64

Satire

The *Nonprofit Quarterly*'s overarching editorial goal is to strengthen the role of nonprofit organizations to activate democracy.

NPQ believes that open societies require venues for individuals to undertake public projects together that are larger than friends and family but smaller than the state and that range from community arts to environmental advocacy. Nonprofits naturally fill this role, particularly when their efforts engage the ideas, energy, and speech of members of their community. *NPQ* believes that in a democratic society the essential role of nonprofit organizations is rooted in the First Amendment and the Universal Declaration of Human Rights, not in the tax code or the market economy.

We live in a world that needs more of what nonprofits can achieve. We know that our communities hold untapped courage, compassion, and support and that nonprofits are uniquely positioned to build relationships and understanding. *NPQ* is committed to provide a forum for the critical thinking and exploration needed to help nonprofits stay true to this democratic calling—and to achieve their potential as effective organizations alongside their constituencies.

THE Nonprofit QUARTERLY

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Welcome

Welcome to the *Nonprofit Quarterly*'s Winter 2009 issue.

With this issue of the *Nonprofit Quarterly*, we mark a full year of coverage of our Nonprofits in the Age of Obama series—and what a year it has been. The anxiety and heartbreak that have resulted from the economic downturn have reached epic proportions. And nonprofits of many kinds—in the fields of health care, mental-health services, housing, and domestic violence—have been slammed with levels of stark human need that they have struggled to meet. As various streams of money decline, dry up completely, or need to be applied for at great length—all at a faster rate than ever—many of these organizations have been playing whack-a-mole. Many have experienced major asset erosions that have left them teetering and wondering what's next.

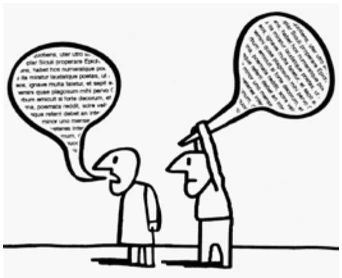
Since late 2008, *NPQ* has conducted rolling case studies of several nonprofits of different types and sizes across the country. Early into year one of the downturn, an executive director with whom I spoke remarked, "My ability to predict has been shattered." That statement has stuck with me and motivated all of us at *NPQ* to work hard to keep our readers up to date on their environments.

NPQ has completely changed the way *it* does its work in profound ways, but in case you have missed our evolution over the past few months, we now—because of the pace and complexity of change in the nonprofit environment—publish daily news updates and trend alerts online as well as Web-only columns and articles that address time-sensitive concerns. We get up early and go to bed late to ensure that we document the changing world in as close to real time as possible and in a way that does justice to your hard work.

But of course, as in many nonprofit organizations, *NPQ* has done this additional work with fewer resources, so we have had to depend even more on our readers to keep us up to date on the reality of work in the trenches. You have done so admirably by telling us your stories, successes, and worries; by alerting us to trends that have affected you; by suggesting articles; and sometimes by correcting or redirecting us. This is the soul of collaborative journalism.

All in all, it's been enormously enriching on several levels to work more closely with you on a more regular basis (aided by the wonders of modern technology). What is in store for us next year? Again, we cannot predict, but we can commit to working with all of you, our treasured readers, to make a new order of the chaos in a way that reintroduces us all to our deeply shared responsibility for the future of the country.

We could not feel more ably accompanied.



Dr. Conflict

by Mark Light

Dear Dr. Conflict,

I have just had the most upsetting experience, and I am unsure how to resolve it.

Over the years, my organization (partner A) has collaborated with other organizations, and we always try to support and promote our partners. This past summer, I discussed with another agency (partner B) an emerging community problem that we both identified independently. I also recently had a conversation with a foundation officer who had expressed concern about the same issue. I suggested to partner A that we develop a joint proposal, and I called a local funder to ask for a meeting

Meanwhile my friend (partner B) thought another agency (partner C) could add value to the project, so we decided to approach the funder together. The principal in partner C is on partner B's board and had a unique capacity to produce a critical element of the project. I was key in drafting the proposal and spent precious dollars making a special trip to another city to defend it with the two partner agencies. My agency is, by the way, the least well heeled of the organizations involved.

Long story short: the funder decided to fund the other two and completely cut my organization out of the picture. There may be a back story, as suggested to me by partner B, involving someone at the funder not "liking" us. Partner B and partner C made one phone call apiece to check in with me but never approached me otherwise to discuss how to keep the original plan alive or even to tell me that our agency was a useless cog in the plan (though I do not for a minute believe that is the case).

I recently ran into another grant officer who funds all three of us, and he told me about this same project and described it as an interesting collaborative effort that these two organizations had told him about.

I am seeing so much red and feeling so blue, I cannot tell you. I feel like I played by good citizenship rules and got slapped silly anyway. I am having difficulty talking with either of these longtime partners. What should I do? What kind of effed-up behavior is this?

Feeling Blue and Seeing Red

Dear Feeling Blue and Seeing Red,

What is wrong with the world? What happened to campfires and marshmallows? Does no one eat S'mores and sing "Kumbaya" anymore? This is the nonprofit sector for heaven's sake, not Wall Street!

Let's review what happened here. You—partner A—had an idea about a project that was also interesting to your funder. You teamed up with your friend partner B, who then brought in partner C, who was one of B's board members and added unique capacity to the project. You wrote the grant, went on the out-of-town pitch, but the funder gave the deal to your partners, who are now talking it up to others.

What you brought to the table was sweat equity in recognizing and cultivating the idea with the funder, advancing the collaboration, and writing and selling the project. On the downside, you were the weak link in terms of funding, and there may have been some bad blood with the funder.

You have two conflicts here. The first is with the funder, which cut you out of the picture and may have a prejudice against you. The second is with your two partners, who at best appear to have left things hanging concerning your involvement on the project. At the *worst, they may—repeat may—have been co-conspiring backstabbers who exiled you unceremoniously.*

As Dr. Conflict always says, the first step in any conflict is to decide whether to engage or avoid. Even though many consider avoidance a poor choice, it can be very useful, especially when one's safety is at stake. If talking to the funder about why you were cut out of the partnership could damage future funding, you may want to let the matter slide. If going to your partners about this will quash any future collaborations, you may want to chill instead.

If rule one about whether to avoid or engage is about safety, rule two is about stakes in the relationship. For example, you're going to work a lot harder at resolving conflict with your ex-spouse if there are kids involved and you have been married a long time.[1] *That's why avoiding your partners seems like a losing proposition; you obviously have stakes in these long-term relationships.*

Let's assume that in both cases—with the funder and the partners—that the stakes in the relationship are high and worries about safety are low. Then the only reason to avoid the conflict is because you don't much care about the issue and you don't much care about your partners or funder. Since the tone of your letter suggests otherwise, you need to engage.

Deciding what tack to take—step two—begins with determining whether you have conflicting or common interests with the folks across the table. If you have common interests, you'll want to consider a collaborating or accommodating stance. In the former, you should look for ways to work together, including taking the necessary time—often lots and lots of it—to work through common issues and concerns, the whole shebang including your anger.

In terms of accommodation, you should choose this approach when you don't have much power to make things happen. Since you are less well heeled, as you so eloquently put it, and aren't on equal footing with your partners and funder, you would engage with the hope of getting something for your trouble after the fact. The water is over the dam, so the question now is how to work together from this point forward. You're giving in graciously, but not giving up.

To be sure, some out there—those hopelessly addicted to Law & Order *reruns and* Judge Judy*—will say that you should lawyer up or at least get on your muscle and make some threats about what you'll do if you don't get what you want. But remember that you don't have a whole lot of muscle right now. You're owed some consideration, but you simply don't have the power to follow through on your threats. Now, if you had told Dr. Conflict that you had no common interests with your partners and funder, that you actually had competing interests, that you didn't much care what happened to them one way or the other, and that you had mucho power, Dr. Conflict might have advised that you get competitive with your partners and crush them like ants.*[2]

Unfortunately, the surest way to obliterate the opportunity for future partnerships is to do some ant crushing. You may be feeling blue and seeing red, but you have to remember that there are two sides to every conflict. No, your partners didn't call you and they certainly owed you that consideration, but they might just ask why you didn't call them. Was your phone broken, e-mail down, car in the shop? And the funder may have a good reason for cutting you out of the loop. The good thing about your letter—and anger—is that you wrote Dr. Conflict instead of having your attorney write your partners and funder. Dr. Conflict often writes letters that he tears up the next day, but he also remembers ruefully past letters sent impulsively and the nuked relationships that resulted.

To summarize: Step one is to decide whether to engage or to avoid the conflict by considering your safety and stake in the relationships. Your stake in the relationships is high and safety considerations are low. Assuming you want to engage, step two is to choose your approach by examining whether you have common or conflicting interests (yours are common), how much power you have (you don't have much comparatively), and whether you care more about yourself than you do the other parties (you care a lot about the others).

Dr. Conflict's best advice is that you take a more accommodating approach to resolving these conflicts. By doing so, you may be pleasantly surprised to see the conversation shift from you doing all the accommodating to one where everyone collaborates and relationships are fundamentally strengthened. And that includes the one with your funder, which may lead to greater support in the future.

Endnotes

1. When it comes to Dr. Conflict's spouse, she warns that his safety is always at risk. Period; case closed.
2. Dr. Conflict is guilty of hyperbole and, in reality, would never suggest such a course of action.

Dr. Conflict is the pen name of Mark Light. In addition to his work with First Light Group (www.firstlightgroup.com), Light teaches at the Mandel Center for Nonprofit Organizations at Case Western Reserve University. Along with his stimulating home life, he gets regular doses of conflict at the Dayton Mediation Center, where he is a mediator.

To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 160401.

The Nonprofit Ethicist

By Woods Bowman

Dear Nonprofit Ethicist,
I am the executive director of a nonprofit that was established in 1991. But until my hiring in 2007, we had no paid employees and were completely board run, with 99 percent of the work being done by our founder. Although our founder is very supportive, we continue to work through issues of founder overinvolvement in operations and founder's syndrome carryover. I inherited two husband-and-wife teams on the board; one was the founder and her spouse. Our founder believes that as long as we disclose these conflicts on our 990, we're fine and on the up and up. I have an issue with even listing these board members on the 990. All parties involved are lovely people and contribute substantially through donations and volunteer support. I just don't want to be behind the curve on what's acceptable. As the first executive director, I want to set a model that my successor would want to inherit should I leave.

Just Wondering

Dear Just Wondering,
The Ethicist feels for you. This is not a good situation, because you are not likely to get diverse points of view and a critical analysis of strategic decisions. But small organizations have difficulty recruiting board members. So where to go from here? To be safe, check your state laws on board membership. The last time I checked, only New Hampshire has a law about related individuals serving on the same board. By all means, disclose on IRS Form 990 (refer to part VI, number 2). If everything else is in order, no one will think ill of your organization. And expand the board with unrelated individuals to get the diversity you need. Seize the opportunity to achieve some racial and ethnic diversity.

Dear Nonprofit Ethicist,
Our organization often offers premiums and gifts for donations. The organization's programs and mission serve small farmers in Central America and encourage sustainable farming and marketing practices, so we strive to offer gifts that are Fair Trade–certified and organic. A staffer just purchased tote bags for our end-of-year premium. The tote bags, he was told, are "all natural" and eco-friendly. But in fact, the bags were made in China, with no attention to fair labor sourcing and do not come close to representing our values of environmental, social, and economic sustainability. Many of the organization's supporters are informed consumers. Our development staff members suggested that we remove the "Made in China" tag from the bags. It is not illegal, because we don't resell these totes but give them as gifts in return for donations to our organization. But senior staff thought this was unethical. Our organization is committed to transparency and honesty. Removing the tags, we thought, was dishonest and we decided to keep them and face the consequences. We hope that supporters who are disappointed by the tag will understand. Did we do the right thing?

Second Thoughts

Dear Second Thoughts,
No question: you were right. Your staffer deserves to be reprimanded but, unless you had written vetting protocols in place at the time of the tote purchase, don't write up the staff member, because the entire organization shares the blame. And if you do not have vetting protocols, develop them posthaste, put them in writing, and have the board adopt them as official policy. You may even turn this snafu to your advantage by sending a letter to your supporters trumpeting your new protocols.

Woods Bowman is a professor of public service management at DePaul University.

To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 160402.

Nonprofits *in the* Age of Obama

PART FOUR

The worst economic downturn in the postprivatization era, coupled with a new administration with a different but largely untested approach to the nonprofit sector, means there are likely to be major shifts in the relationship between nonprofits and government, philanthropy, and business. The **Nonprofits in the Age of Obama** series is a project of the *Nonprofit Quarterly* that does the following:

- tracks philanthropic and public funding trends;
- tracks trends in public policy at the federal, state, and local levels;
- provides insights into how various types of nonprofits are uniquely affected by and managing in the current environment;
- provides advice and commentary by experts and fellow practitioners; and
- highlights emerging practices and approaches.

For daily updates and timely trend alerts, also see our Web site **www.nonprofitquarterly.org**, and sign up!

The State We're In:
How Bad Is It Out There?

by Rick Cohen and Ruth McCambridge

Editors' note: *In this first article in a series on how the economic downturn has affected nonprofits differently from state to state, we look at 14 states: Arizona, Connecticut, Illinois, New York, North Carolina, North Dakota, Maine, Mississippi, Pennsylvania, Florida, Michigan, Louisiana, California, and South Carolina. We greatly appreciate the contributions of our authors from these states. Check our Web site for more current information at www.nonprofitquarterly.org.*

The daily news reports of state government budget impasses, deficits, and cuts hit nonprofits right where it hurts: that is, in their ability to deliver on the programs and services relied on by their constituents and communities across the nation.

As the *Nonprofit Quarterly* has watched the impact of the downturn on nonprofits, we have noted several determining factors that make the economic environment more dangerous for some nonprofits than for others. One of these factors is, quite simply, geography, or more specifically, the key economic drivers in the state in which a nonprofit is located. Two of these drivers are a state's budget deficit and its level of unemployment. This year, however, the stimulus money—which was

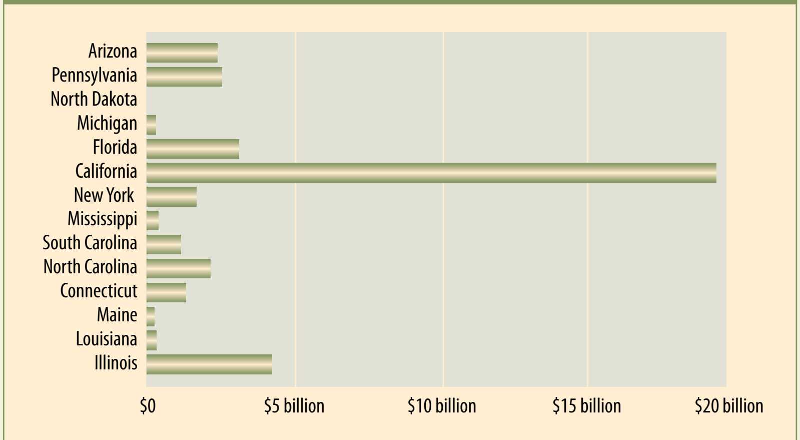
Rick Cohen is the *Nonprofit Quarterly*'s national correspondent. **Ruth McCambridge** is *NPQ*'s editor in chief.

ILLUSTRATION © EMILY WICK

The Fifty United States and their Mottos

Emily Wick 2008

Figure 1: **FY 2009 State Budget Deficits**



distributed unevenly to the states—is also part of the states' financial equation and has temporarily relieved some pain. In some cases, American Reinvestment and Recovery Act (ARRA) funds have replaced state money and thus may have unwelcome longer term-effects in states where deficits extend well past the expenditure of that money.

In any case, what follows is a discussion of the multiplier effects of the major variables that measure nonprofit health in these states. These charts track the differences among 14 states and highlight some of the serious problems that nonprofits will face given the fiscal and financial problems of state government budgets.

In October 2009, the nation's unemployment rate hit 10.2 percent.

The reports from the Center on Budget and Policy Priorities (see page 20) and the National Conference of State Legislatures tell us that almost every state faces distressing budget deficit levels. But some are significantly more distressed than others. Budget deficits not only drive cuts to nonprofit service providers but also affect the availability of government-delivered services, which can in turn create—over time or immediately—more acute levels of need among those whom nonprofits serve. A serious state budget deficit also places pressure on cities and towns and their budgets, which creates cuts at that level as well. Additionally a serious budget deficit forces state and local government to look for additional revenue, and it may be tempting to levy additional fees and taxes on nonprofits. Finally, extraordinarily stressed state budgets may cause untenable problems—short of organizations actually losing the money—in terms of nonprofit contracts. Late state payment of contracts, or delays in signing contracts for work that is ongoing in prompt-pay states, creates additional administrative burdens for nonprofits already stretched thin and forces nonprofits to act as unwilling lines of credit for the state.

The unemployment rate has a similar multiplier effect. It drives up the level of need but also increases the amount of work for nonprofits because many new service users need guidance as they make their way through the unfamiliar territory of seeking help from service providers and doing what is required to receive it. High unemployment levels also affect United Way campaigns as well as individual giving by those who are unemployed and by cautious givers in what appears to be an unstable environment. Unemployment also brings the loss of health insurance, which has lengthened the waiting lists at nonprofit providers of health services. And these unemployment-related impacts have state budget impacts, with expanding needs straining state programs at the same time that unemployment results in reduced tax revenue.

These are not, of course, the only variables in the survivability of any particular nonprofit. But for many, they are major scene setters.

So, in *NPQ*'s typical throw-caution-to-the-wind fashion, we offer the following shorthand for measuring your state's weather report. If your state shows up relatively high in the first three dimensions of fiscal and economic distress that follow, expect stormy weather; pull out the rain slicker and umbrella; and mobilize with your nonprofit peers to protect, strengthen, and rescue the budget elements important to the nonprofit sector and, more important, to the communities that nonprofits represent and serve. The fourth factor—the stimulus fund—may ameliorate or delay the full force of the tempest. In what follows, we explore the major indicators of fiscal and economic distress at the state level that have multiple and momentous implications for nonprofits.

High unemployment rate. It's not hard to

Figure 2: **Unemployment Rates, November 2009**

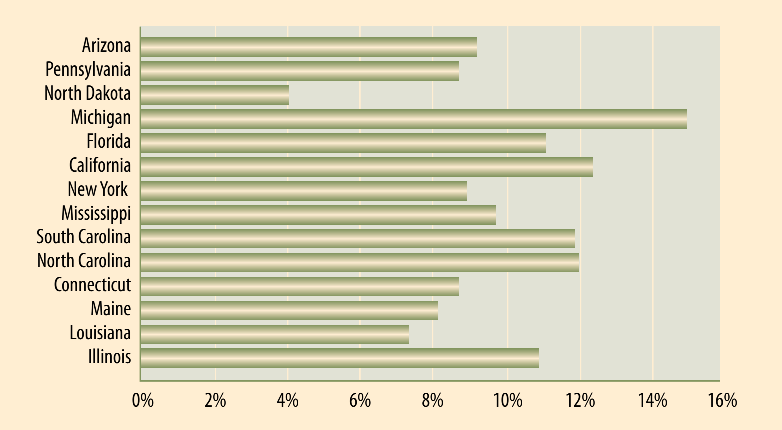


Table 1: **State Budget Deficits per Capita**

Top 10 States in Budget Deficits per Capita	Per Capita	Bottom 10 States in Budget Deficits per Capita	Per Capita
Connecticut*	$1,717	Alaska	$0
New York	$918	Montana	$0
California	$922	North Dakota	$0
New Jersey	$806	Wyoming	$0
Massachusetts	$769	Arkansas	$51
Delaware	$638	Nebraska	$85
Minnesota	$613	South Dakota	$40
Wisconsin	$569	West Virginia	$110
Illinois	$543	Indiana	$114
Hawaii	$529	Alabama	$116

*The Connecticut number highlights a crisis of leadership, not just of revenue and expenditures, and is similar to the situation in Hartford, Sacramento, Albany, and Harrisburg.

understand that with skyrocketing unemployment, taxpaying individuals and corporations generate less of the taxable income that states need. You could complicate this indicator by adding underemployment (those who have stopped looking for jobs, those working part time because they can't find full-time employment, etc.), and the numbers are stunning. In October 2009, the nation's unemployment rate hit 10.2 percent, breaking the dreaded double-digit barrier. If you add "discouraged workers," "other marginally attached workers," and those employed part time for reasons not of their own choosing, the composite proportion of the civilian workforce that is un- and underemployed reaches 17.5 percent.[1]

But even unemployment rates on their own are a significant distress indicator to us. In September 2009, the nation's official seasonally adjusted unemployment rate hit 9.8 percent. It was matched or exceeded by New Jersey (9.8 percent), Ohio (10.1 percent), Georgia (10.1 percent), Illinois (10.5 percent), Tennessee (10.5 percent), Alabama (10.7 percent), North Carolina (10.8 percent), Kentucky (10.9 percent), Florida (11.0 percent), Oregon (11.5 percent), South Carolina (11.6 percent), California (12.2 percent), Rhode Island (13.0 percent), Nevada (13.3 percent), and Michigan (15.3 percent).[2] Throughout the United States, unemployment levels are intolerably high, but for the states exceeding the nation's average, the fiscal outlook is quite grim.

Current year's budget deficit. Many states start off with an initial built-in budget deficit that simply expands as anticipated revenue falls short. Among the states we've examined below, just consider California, where the FY 2010 deficit will be more than 50 percent of the state's general fund. The state faces an unfathomable budgetary nightmare. With legislators unwilling to raise taxes and a populace inclined toward tax caps, some of California's likely budget cuts will target the critical social programs typically used and delivered by nonprofits. It's one thing to have to cut billions from a state budget, but the amounts vary based on the state's particular budget and program priorities. But how much of the deficit burden is carried by each state's resident may indicate something more. If your state has a high per-capita deficit, regardless of the proportion of the general fund that may have to be axed, you can imagine the potential reluctance of voters to save the programs we all need. As of this past June, using data from the Center on Budget and Policy Priorities, the Many Eyes group in IBM's Collaborative User Experience calculated per-capita deficit numbers by states, with the top and bottom quintiles starkly evident (see table 1).

For the states exceeding the national unemployment average, the fiscal outlook is grim.

Stimulus monies per capita. According to the Center on Budget and Policy Priorities, funding from the American Recovery and Reinvestment Act has been incredibly important. Fiscal assistance has helped states reduce their budget deficits in this

Figure 3: **Per-Capita FY 2010 Budget Deficits**

Table 2: **State Stimulus Funds per Capita**

Top 10 States in Stimulus Monies per Capita	Per Capita	Bottom 10 States in Stimulus Monies per Capita	Per Capita
Alaska	$1,808	Florida	$370
North Dakota	$1,089	Nevada	$380
Montana	$907	Pennsylvania	$364
Washington	$828	Wisconsin	$429
South Dakota	$874	Virginia	$443
South Carolina	$851	Texas	$439
Idaho	$803	Georgia	$433
Vermont	$758	Ohio	$440
Wyoming	$894	Arizona	$437
New Mexico	$814	New Jersey	$445

fiscal year by a cumulative 30 percent to 40 percent. In FY 2010, ARRA assistance allowed states to reduce their total deficit by $68 billion, though leaving a "paltry" $122 billion in deficit remaining.[3] Just imagine the impact of *no* stimulus dollars on nonprofits and their constituents. If your state is in the bottom rung of stimulus dollars per capita, you might guess that your state is lacking the access to the stimulus funds it needs to fill its budget holes.

According to the October 30, 2009, Track the Money database at Recovery.gov, the average per-capita stimulus take of the states was $595 (not counting ARRA flows to the District of Columbia, Puerto Rico, Guam, and the Virgin Islands). Obviously, how the states applied for and deployed stimulus money is important, but the per-capita averages are thrown off by the $1,089 per capita that went to North Dakota and the amazing $1,808 that went to Alaska (see table 2).

When the American Recovery and Reinvestment Act money runs out, many states will face budget cliffs.

These imbalances may reflect political reasons rather than true need. Before she resigned from the governorship earlier this year, was Sarah Palin all that persuasive on behalf of Alaska? Was Kent Conrad's role in saving the president's health-care reform package one of the linchpins of North Dakota's ARRA number? Does it matter that Max Baucus of Montana chairs the Senate Finance Committee? How could South Carolina's number be so high and Texas's be so low when both states' governors considered rejecting parts of the stimulus program? The reasons for the numbers may be political or simply serendipitous, but they mean something to state economies and budgets. It's also worth noting that ARRA-funded solutions to state fiscal problems are temporary. When the ARRA money runs out, the states will face budget cliffs in FY 2011 and FY 2012.

Several organizations have tried to boil down various economic indicators into formulas for ranking and forecasting state fiscal and economic problems. The Associated Press recently released the AP Economic Stress Index to measure the economy's impact on counties by a formula that simply adds unemployment, foreclosure, and bankruptcy percentages (Imperial County, California, with an unemployment rate of more than 30 percent, tops the AP list, even surpassing Wayne County, Michigan, where Detroit suffers).[4] The Pew Center on the States generated a top 10 list of states in fiscal peril. In rank order, starting with the worst, they are California; Rhode Island; Michigan; Arizona, Nevada, and Oregon in a three-way tie; Florida; New Jersey; and Wisconsin and Illinois in a two-way tie. This list is based on six factors: high foreclosure rates; increasing joblessness; loss of state revenue; the relative size of budget gaps; legal obstacles to balanced budgets—specifically, a supermajority requirement for some or all tax increases or budget bills—and poor money-management practices.[5]

In the W.C. Fields movie *The Fatal Glass of Beer*, Fields plays a man stuck in a blizzard in a tiny cabin. Every time he opens the door, another blast of snow and wind enters. He laments, "Ain't a fit night out for man nor beast." Some nonprofits may feel similarly impossibly buffeted by the blasts from the environment. But some groups are more protected from the unpredictable and sometimes-cruel elements because their state has been less affected by the downturn or because their field has received a reprieve, possibly through stimulus dollars.

In this issue of *NPQ*, we have explored the weather conditions of nonprofits in several states as a result of a combination of state budget deficits and unemployment. To flesh out the picture further, nine-state nonprofit association members of the National Council of Nonprofits have described the budget conditions in their states, and we have included a few stories from the front lines that highlight the state of their state environments. In our estimation, the various indicators compiled in the charts and graphs interspersed throughout this special section, plus the stories from the state associations, paint a difficult picture of what most nonprofits face in their state capitols. Together, they signal the need for increased nonprofit advocacy so that social–safety net programs, K–12 education, and other program areas don't become budget-balancing fatalities.

Endnotes

1. According to the Bureau of Labor Statistics (BLS), "Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job market–related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule." BLS makes available a four-quarter rolling average of this "labor underutilization" measure. As of the third quarter of 2009, the four-quarter average for the United States was 15.2 percent, which was exceeded by the following states: Idaho (15.7 percent), Illinois (15.7 percent), Alabama (15.8 percent), Georgia (16.0 percent), Ohio (16.1 percent), Kentucky (16.4 percent), North Carolina (16.5 percent), Indiana (16.6 percent), Arizona (17.2 percent), Florida (17.2 percent), Tennessee (17.4 percent), Nevada (17.5 percent), Rhode Island (18.3 percent), South Carolina (18.4 percent), California (19.6 percent), Oregon (20.1 percent), and Michigan (20.9 percent).
2. Puerto Rico (with 16.2 percent unemployment) and the District of Columbia (with 11.4 percent unemployment) also fit this category.
3. Iris J. Lav, Nicholas Johnson, and Elizabeth McNichol, *Additional Federal Fiscal Relief Needed to Help States Address Recession's Impact*, the Center on Budget and Policy Priorities, November 19, 2009, 5.
4. AP Economic Stress Index, November 2, 2009 (http://hosted.ap.org/specials/interactives/_national/stress_index/index.html).
5. *Beyond California: States in Fiscal Peril*, the Pew Center on the States, November 2009.

Figure 4: **ARRA Dollars per Capita**

ARIZONA
Fiscal Health Checkup

ARRA per Capita $437
Unemployment rate, Nov. '09 . . . 9.3%
Budget Deficit per Capita $462

Arizona

An Unwelcome Alternate Universe

by Patrick McWhortor

Imagine if nearly half your state services vanished—poof! Over the course of three years, you witness the disappearance of the basics: fewer highway patrol cars responding to emergencies; no more rest areas for weary drivers; parks with locks on the gates; children without day care; families with no access to health care; even new businesses unable to file for incorporation.

Arizona

Envisioning an alternate universe is not a fanciful exercise. As a result of the worst budget crisis in our history, this is a very possible emerging reality in the state of Arizona.

Many of the services funded by state agencies are contracted out to providers, many of which are nonprofit organizations. And for many of these nonprofits, state funds are core to the survival of their missions. The fates of state-funded nonprofits, therefore, are intertwined with the travails of state-budget policy making.

The organizations most in peril are those providing health and human services.

Last month, Governor Jan Brewer required all state agencies to submit plans to trim another 15 percent of their budgets for the remainder of the 2010 fiscal year, which ends on June 30, 2010. That's a 15 percent cut of the total budget, and we're only two-thirds into the year. That's an effective 23 percent cut for the remainder of the year. Worse, this reduction comes on top of reductions already made in the winter of 2009 as the economic crisis unfolded. According to Protecting Arizona's Family Coalition, more than 300,000 people in Arizona have suffered losses or reductions in services because of cuts that have already been made.

The Department of Economic Security, which is the primary state agency funding nonprofits in human services, already experienced a 31 percent decrease in general funds. The additional proposed reductions will decrease the department's state funding by 42 percent, slashing it to 2004 levels. In two years, that's a decline from $808 million to $471 million. Keep in mind that this is in a state that, until the economic engine stopped running last year, was the fastest growing in the nation. High growth also means high demand for services. And with the onset of recession, Arizona leads the nation in percentage of jobs lost. Yes, its joblessness rate is even higher than that in Michigan; need is skyrocketing.

Health services have been particularly hard hit. If the proposed cuts are enacted, 47,000 children will lose their KidsCare health coverage. Hospitals have already reported budget problems from cuts made last year. This latest round of reductions will have devastating consequences on their bottom lines. And we will all feel the effect of the associated costs, with higher hospitalization charges and higher insurance premiums.

This says nothing about the future, when federal stimulus funds will not be able to plug part of the giant hole in our state budget. In 2011 and 2012, another 20 percent of state funding will have to be cut to fill the void. In the next round, some experts predict that public schools—still protected from severe cuts this year—will see reductions to core support, and teachers will be laid off en masse.

Out of Balance

So far, there has been no political will to raise taxes to close the gap created by the budget shortfall. Governor Brewer's plan called for a three-year 1 cent temporary sales tax hike to mitigate cuts to basic services. Our legislators are not even willing to send this proposal to voters. Key lawmakers have crushed every attempt to ask voters to raise the funds to support basic services provided by state government.

Politicians have been willing to let state agencies raise fees. So the Arizona Department of Health Services has proposed outrageous increases to licensing fees for child-care centers. They could go up as much as 8,800 percent. That is not a typo; that is a comma, not a decimal point. These would become the highest child-care licensing fees in the nation.

Struggling nonprofit child-care centers cannot afford to absorb these fees. And they certainly cannot consider passing them along to the parents they serve. If these fees are approved, we expect to see the closure of many child-care providers and more jobs lost. And, as reported by Children's Action Alliance, "Without safe childcare, parents who are lucky enough to have a job today may have to reduce their work hours or quit" their jobs to stay home with children if these parents have no affordable alternative care outside the home.

This is the state of affairs in Arizona today. It is extremely challenging. But even as I witness these alarming events, I have hope.

At the Alliance of Arizona Nonprofits, we are inspired by the resilience and spirit of our nonprofit leaders. I have spoken to many executives and board members who remain committed to finding creative ways to endure this financial firestorm. They have collaborated and explored new ways of doing business to sustain their missions. Also, the need for advocacy could not be more clearly defined than it is in 2009. Hundreds of families rallied at the state capitol last month to oppose the child-care fee hike, and nonprofits organized that protest.

The Arizona state budget crisis is not over. But if we as nonprofits have a strong voice and use that voice for the people we serve, we can prevail.

Patrick McWhorter is the president and CEO of the Alliance of Arizona Nonprofits.

Connecticut

Nonprofit Employers the Linchpin of Connecticut's Economic Recovery

by Liza Andrews

It's been a year unlike any in recent memory. Connecticut's budget impasse effectively lasted nearly nine months. The debate kicked off in January 2009, with the state facing an $8 billion deficit over two years (FY 2010–FY 2011)—this with an annual budget of approximately $18 billion—and would not ultimately be settled until October 2009. Nonprofit executives and activists cannot recall the last time Connecticut had such a large deficit or the last time they encountered such difficulty agreeing on how to fix it. It was an excruciatingly long session filled with uncertainty and frustration.

In Connecticut, at least $2 billion is spent annually on health and human services provided by nonprofits on behalf of the state. During the course of the budget battle, nonprofits were subject to budget rescissions and deficit mitigation reductions for FY 2009. When the start of FY 2010 came and went on July 1 without a budget in place, nonprofits were then subject to the governor's executive orders and reduced monthly budget allotments. Nonprofits' payments decreased from 99 percent of their monthly contract amount to 40 percent and, in some cases, to 0 percent. And now that the budget has finally passed, our governor has already begun making budget rescissions to deal with a projected FY 2010 deficit between $388 million and $624 million.

Time and time again, nonprofit providers in Connecticut are asked to do more with less. Throughout the process, nonprofits that contract with the state have stood no chance of receiving a cost-of-living adjustment on their contracts for FY 2010 or FY 2011, even though the state did not give them one in 2009 either. As a result, nonprofits have been asked to provide services with the same amount of money they received the year prior even though inflation has increased the cost of providing these services significantly. And along with so many other states, as the economy fell deeper and deeper into recession, service demand shot up.

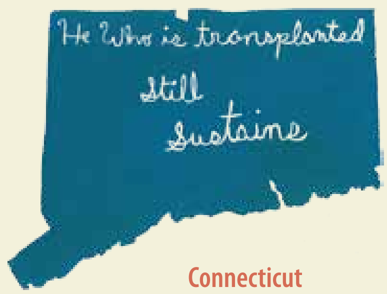
Unfortunately, increased demand with less funding has not been the only challenge for nonprofits in Connecticut. The sinking economy caused a whole new group of consumers—the middle class—to appear. Families with advanced degrees living in the suburbs began seeking nonprofit services ranging from heating assistance to food stamps to mental health and addiction services. Nonprofit providers were not prepared for this level of demand.

But, as with any situation, challenges are what you make of them. Over the past year, nonprofits in Connecticut have shown their true strength and resilience. It was not easy; along the way, nonprofit directors had to make difficult decisions, from laying off staff to closing down programs. But through it all, they demonstrated true leadership. They worked with one another, forming new partnerships and collaborations that will result in better opportunities for those they serve. Nonprofits in Connecticut showed its residents what it means to be true to a mission, holding the safety and well-being of communities above all else.

Nonprofits in Connecticut offer high-quality, efficient, and cost-effective services to residents at a great savings to taxpayers. Over the next year, as more difficult budget decisions

CONNECTICUT
Fiscal Health Checkup

ARRA per Capita	$485
Unemployment rate, Nov. '09	8.8%
Budget Deficit per Capita	$1171



Connecticut

are made, it will be critical for nonprofits to be more vocal about cost-effectiveness. We need to be a leading voice in advocating smart spending, showing that $1 spent on nonprofit services can save $2 down the line.

Nonprofits employ approximately 11 percent of Connecticut's workforce, and we need to highlight our role as an employer for many residents. Nonprofits are not only a partner with the state in providing for the health and well-being of its citizens but also a vital contributor to Connecticut's economy. We deserve to be recognized and treated as a significant economic force. Nonprofits are a part of the solution to Connecticut's continued budget woes, and Connecticut Association of Nonprofits stands ready to ensure that the public and elected officials recognize the value of the nonprofit sector.

Liza Andrews is the public policy director of Connecticut Association of Nonprofits.

ILLINOIS
Fiscal Health Checkup

ARRA per Capita	$498
Unemployment rate, Nov. '09	11%
Budget Deficit per Capita	$543

Illinois

Nonprofit Dependence on State Revenue Exacerbates Downturn

by Valerie S. Lies

Illinois

Like many other states, Illinois faces a budget crisis that has had devastating effects on nonprofit organizations, especially those with which the state contracts to provide human services.

Exacerbated by a recession-led decline in revenue, the state has a $12 billion deficit. Some of the contributing factors precede the recession. Of the nine states with flat tax rates, for example, Illinois has the lowest—at 3 percent—ranking as the sixth most regressive system in the nation. Sales tax has also declined, as manufacturing—the majority of the state's sales tax base—has contracted. Even after budget cuts of $3.9 billion, an infusion of $1.4 billion in federal dollars, and an issuance of $3.4 billion in pension bonds, Illinois will face a $3.3 billion deficit. That deficit consists of a backlog of delayed Medicaid, state retirement, nonprofit service-provider payments, and a "carryover" deficit from 2009.

While some nonprofit programs that rely on federal funding—early intervention and child-care assistance, for example—have been spared cuts and received increased funding, most nonprofits that rely on state funding have experienced declines. The state's FY 2010 budget includes cuts ranging from 2 percent for elementary and secondary education to 5 percent for children and family services and 19 percent for public aid, including health care and family support. As compared with the previous fiscal year, health and human-service programs for addiction prevention, homeless youth services, and delinquency were cut 22 percent, while prenatal case management and Teen REACH after-school programs were cut 15 percent.

These declines are especially devastating for nonprofits that deliver services via state contracts. From 1993 to 2002, the state of Illinois—to meet court mandates and legislative requirements—dramatically increased its contracts with nonprofits to provide human services. When a budget crisis slows these payments from the state or stops them altogether, the very existence of these nonprofit service providers is threatened.

The revenue shortfalls are made worse by the reality that nonprofit providers are not entitled to the same protections under the Illinois Procurement Code as are for-profit vendors. Instead, nonprofits seeking late payments must pursue a claim under the Prompt Payment Act, which has never been enforced. So while nonprofits serve as vendors to the state in providing critical services, they lack the power that for-profits have to collect sorely needed late-payment penalties to help replenish reserves and offset debt service expenses.

Moreover, the cuts, slow payments, and absence of payments follow years of level funding because of state structural deficits. And these reductions come despite the new costs that nonprofits have had to bear because of mandates for data collection and software requirements as well as increases in the cost of doing business. Even before the national economic downturn, for example, human-service organizations had begun to freeze salaries, eliminate benefits, and

Program Success amid Economic Struggle

By Ruth McCambridge and Chris Finney

Chicago, Illinois–based CJE SeniorLife, which last appeared in the *Nonprofit Quarterly*'s Nonprofits in the Age of Obama series in the Spring 2009 issue, has a budget of $54 million and some 600 full-time and 150 part-time employees. The organization provides a range of services to the elderly throughout Chicago, including residential care, in-home support, and cultural activities. CJE's budget is made up of a veritable tangle of approximately 100 sources, including state and federal money, fees for service, foundation grants, and individual contributions. Its operating environment encountered several problems that preceded the downturn in terms of how the state does business with nonprofits. Illinois, for instance, is 49th out of 50 states in terms of nursing-home reimbursement rates, and it is notorious for making late payments on contracts.

Thus, even in "normal" times, CJE must run a tight administrative ship. With so many revenue sources in play, however, CJE has had to work at breakneck speed. "What occurred over the last number of months has been complicated," says CJE President and CEO Mark Weiner. "First, the state of Illinois' inability to pass its budget brought serious threats of funding decimation in social and human services. Two of our programs were significantly at risk, but because we lobbied heavily, we were able to get that funding restored." When the state budget was passed—two weeks after the fiscal year had begun—Illinois relied heavily on borrowing. And the borrowing may be from unwilling banks, such as state contractors. According to a November 2009 article in the University of Illinois' *Illinois Issues*, "Illinois has fallen as far as $1.3 billion behind in paying providers of Medicaid, the state-federal program for the poor, disabled, elderly and youth. But the program also has become a lending source. Illinois lawmakers repeatedly have delayed payments to Medicaid providers to free up cash for other expenses."[1]

CJE is, of course, one such contractor, but it has been spared some of the impact of these delays because it gets Medicaid dollars from stimulus dollars, and there is a prompt-payment rider on that money. Penalties for violating that rider, which requires payment within 30 days, would cost the state $2 million a day. But according to the *Illinois Issues* article, for those organizations not receiving American Recovery and Reinvestment Act money, "The wait is expected to climb again this fall and winter as the state's cash flow slows from declined tax revenues, as well as increased demand for public aid during the aftermath of the national recession."

Meanwhile, CJE's innovative Managed Community Care Program, which is run on an annual budget of more than $5 million, is threatened with complete elimination. CJE's Managed Community Care Program supports more than 600 elderly who live in Chicago and the surrounding communities by providing community-based personal care and homemaker assistance, which is the kind of service often provided in an assisted-living residence. CJE considers the program core to its mission and emblematic of its approach (CJE supplements the state's $4 million–plus contribution to the program with more than $1 million it raises elsewhere). It is also widely viewed as highly successful in its outcomes. CJE saves the state of Illinois millions of dollars by assisting older adults to remain in their own homes.

Weiner describes a standard site visit. "The state program auditors came in yesterday, did a review, said to us that we have a Cadillac program: it's absolutely superb, it should be a national model. But because they cannot replicate it throughout the state, they're going to stop funding. I can't see how this makes any sense. These are frail, older adults who otherwise would have to be in nursing homes if we were not providing their services." When asked about future plans, Weiner rejects the possibility of closing the treasured program and says the plan is to fight the decision with more advocacy.

So too, CJE has experienced a significant decline in foundation grants, and the decrease has prompted the organization to consider eliminating programs that are more peripheral to its mission and less able to cover their own costs. "Programs that are really dependent upon grants in particular are going to be threatened," Weiner predicts. "There are a lot of foundations that historically have been good sources of dollars for us now saying, 'We're not doing anything this year, or if we do something, it's going to be very minimal.' So we have begun the process of looking at our special programs that we might define under areas of lifelong learning and creative arts and Jewish life and seeing how we can protect them the best we can but also recognizing that we're probably going to have to make some cuts."

Weiner is unruffled by the angst involved in CJE's juggling act. "I'd rather talk to you about what we're doing in terms of Parkinson's disease right now, which I believe is going to have national implications, and I can talk about our five adult-day service programs forever. So we have lots of very exciting stuff going on—lots of moving parts—and we will—somehow, some way—figure out how to minimize the damage."

Ruth McCambridge is *NPQ*'s editor in chief. **Chris Finney** is a writer for *NPQ*.

Endnotes

1. Bethany Jaeger, "Pay Delay," *Illinois Issues*, October 2009 (http://illinoisissues.uis.edu/archives/2009/10/paydelay.html).

cut programs funded by unrestricted dollars.

By all measures, the state's finances are likely to get worse before they get better. In the first quarter of the fiscal year, revenue has already run $387 million below forecasts. If this trend continues, sometime in fiscal year 2010 the administration and legislature will be forced to reduce payments, cut programs, borrow money, and/ or delay payments even longer. Some forecasts predict that Illinois will need more than $10 billion in new revenue just to maintain current funding levels.

While generous and an important driver of innovation and community vitality, Illinois philanthropy cannot make up the gap. In Illinois, philanthropies contributed $280 million for human services in 2007, compared with the state's $6 billion. Unless the state raises or borrows the revenue it needs, nonprofits will confront mounting debt, depleted or nonexistent reserves, and diminished options for cutting costs.

For too long, too many political leaders have failed to acknowledge the fundamental role of nonprofit service providers in helping the state meet its obligations to those in need. Donors Forum remains hopeful and determined that its Public/Nonprofit Partnership Initiative will correct this long-standing problem by redefining the relationship between nonprofits and their government funders so that community needs can be met—even in times of crisis.

Valerie S. Lies is the president and CEO of Donors Forum in Illinois.

NEW YORK
Fiscal Health Checkup

ARRA per Capita	$544
Unemployment rate, Nov. '09	9%
Budget Deficit per Capita	$918

New York

New York

Nonprofits Brace for Further Cuts

by Doug Sauer

Like other states, New York's nonprofit sector has been battered by the recession. New York's budget is particularly vulnerable because 20 percent of its tax revenue is dependent on Wall Street, including bonuses. Lately, the popular metaphor "When Wall Street sneezes, New York State gets the flu" has been changed to "When Wall Street gets the flu, New York State gets the swine flu."

The state has projected a $3.2 billion deficit midway into the current fiscal year and will literally be out of cash by January 2010. This immediate problem will be addressed through budget cuts and gimmicks, such as the "spinning up" of $391 million of federal stimulus money earmarked for next year's education programs to the current year, leaving next year's budget in similar, if not worse, condition.

New York has more than 5,000 contracts with more than 2,000 nonprofits, and these contracts are valued at $3.2 billion. In considering the potential impact of the budget crisis on the nonprofit sector, one need only remember this past fiscal year, when a similar crisis occurred.

At midyear, most nonprofit contracts with the state were slashed 7 percent to 10 percent—and often with no corresponding adjustment in nonprofits' expected performance outcomes or deliverables. To conserve cash, the governor also called for all payments to be "thoroughly examined." The intention of this move worked. It extended already unacceptable and chronic delays in approving payments and contracts and made a shambles of the state's prompt-payment law. With the availability of credit for working capital disappearing, cash-strapped but high-performing nonprofits face financial instability as they try to do business with the state in good faith.

Then there is the Medicaid system. The state significantly ramped up efforts to "root out fraud, waste, and abuse" within the system through auditing and recovery. Interestingly, there is a predetermined mandate for how much money must be recovered: $322 million in 2009, $429 million in 2010, and $644 million in 2011. As a result, auditors descend on nonprofits to identify petty everyday billing errors—where the i's haven't been dotted and the t's crossed—as a justification for recoupment of dollars for services already rendered. Of course, if auditors find that these errors result in money being owed to nonprofits, that is ignored. The mandate addresses recouped dollars only.

And let's not forget taxes. For the first time, the state levied a midyear tax on all health insurance premium payments; an unbudgeted item for those nonprofits that offer employer contributions.

The future looks to include more of the same, but with deeper program cuts. Nonprofits—particularly Medicaid providers—have braced themselves for midyear across-the-board cuts.

Next year, as the budget takes shape and the cushion of federal stimulus money evaporates, several funding streams will undoubtedly be on the chopping block. The nonprofit sector will divide into subsector protectionist lobbying efforts. And again, let's not forget taxes. Some legislators and hard-pressed municipalities have pushed for taxing exempt properties. The state senate has established a select committee to consider an overhaul of the law.

The story line for nonprofits is no longer new. We need to transcend the hunkering-down mentality and subsector divisions to create a unified voice that supports what has historically been a healthy and strong state-nonprofit sector partnership.

Doug Sauer is the CEO of the New York Council of Nonprofits.

North Carolina

Immediate Cuts and Long-Term Solutions

by David Heinen and Jane Kendall

Many North Carolinians began 2009 by celebrating the inauguration of the state's first female governor. But the excitement soon gave way to the sobering reality of North Carolina's largest budget gap in history and no easy solutions in sight.

In February 2009, Governor Beverly Perdue spoke to 400 nonprofit leaders at the North Carolina Center for Nonprofits' Public Policy Forum. During a lively question-and-answer session, Perdue warned that people from all walks of life would "feel the pain" of the difficult budget decisions that she and the state legislature would have to make.

Just to achieve the balanced budget required by the state constitution, Governor Perdue had to cut $1.7 billion from a $21.4 billion budget before the fiscal year ended in June. She eliminated 7 percent in already-appropriated funds and tapped $445 million in trust funds previously set aside for other purposes. The Clean Water Trust Fund, for example, lost $100 million of committed funding and had to put on hold 190 contracts to conserve land in threatened watersheds that nonprofit land trusts had spent years negotiating.

North Carolina

Ultimately, the North Carolina General Assembly had to close a $4.6 billion budget gap for 2009–2010. Appropriations committees challenged nonprofits to justify the state's investment in their work—from health and human services to education and public safety. Although they told powerful stories of their impact on people's lives, the message from legislators reflected the governor's dire warning: nonprofits should expect across-the-board cuts in state funding.

After months of public hearings and deliberations, the legislature passed a budget, and the governor signed it. Its gap closers included $1.7 billion in broad spending cuts, $1 billion in new revenue from temporary tax changes, and $1.4 billion in onetime federal "stimulus" assistance through the American Recovery and Reinvestment Act (ARRA).

The cuts have already affected nonprofits with a wide variety of missions in terms of direct state grants and contracts for services. The 13 percent cut in health and human services, for example, has particularly hurt those served by nonprofit mental–health service providers. Many of the estimated 4,000 mental–health service workers losing their jobs come from the nonprofit sector. These cuts make it even harder for those with mental illness—among the most vulnerable people in our communities—to get adequate treatment from the nonprofits that understand their needs and that can provide the best-quality assistance.

Already, nearly $16 million has been cut from a $205 million budget for Smart Start, an early-childhood education program. These cuts ensure that fewer children will begin school healthy and be prepared to succeed. This nationally recognized program is operated by the nonprofit North

NORTH CAROLINA
Fiscal Health Checkup

ARRA per Capita	$464
Unemployment rate, Nov. '09	12.1%
Budget Deficit per Capita	$499

Growing Needs, Reduced Funds

By Jon Shure

The longest, deepest economic downturn since the Great Depression brings a cruel irony. Just as people's needs increase dramatically, the money states have to pay to meet these needs plummets. Nearly every state has been affected—48 states faced shortfalls this year—and so has every organization that provides or receives important services. These deficits, of course, include the nonprofit community.

The growing needs of struggling families include health care, nutrition assistance, job training, and other services for vulnerable people. Traditionally, many of these needs are met through state funding of nonprofits that today have been forced to cut payroll and seek new sources of income and that, in some cases, have failed to survive.

Unfortunately, the states' fiscal situation won't improve anytime soon. More than half the states that started their budget year on July 1 have already seen their budgets slip out of balance. As revenue continues to fall below even pessimistic forecasts, more deficits are sure to follow. Organizations that track state revenue trends say they have never seen a collapse in tax receipts of this proportion. The why isn't hard to figure. Much of states' revenue comes from income and sales taxes. When people lose their jobs, see their pay cut, or have their capital gains evaporate, they pay less income tax. When people have less money on hand or their confidence is shaken, they buy less and pay less sales tax.

Unlike the federal government, states can't print money or run deficits. Their options are not pleasant. In this crisis, states have drawn on—and, in some cases, depleted—reserves, used the unprecedented federal stimulus money, cut spending, and raised revenue. Cuts in spending have been especially deep. Proposals to reduce spending on everything from K–12 education to public safety to health coverage for low-income families and seniors have been on the table. The most vulnerable residents—often those who depend most on the services nonprofits provide—have been the hardest hit. Many have lost access to health care and assistance for the elderly and disabled.

Relying too heavily on spending cuts does more than hurt people who need services today. It also damages the economy and poorly positions a state for the moment when prosperity returns. Most state spending goes to salaries, purchases, contracts—often distributed to nonprofits and the like. That's money that goes into the economy quickly and close to home—in a word: *stimulus*. Taking too much of it away can undermine a recovery.

That's why a balanced approach that includes state revenue is so important. More than 30 states increased taxes this year, recognizing that this is too big a problem to solve with any one approach. Across the nation, coalitions have formed to ensure that revenues are part of the budget-balancing debate. The situation is too dire to think that any organization fighting for its piece of the state budget is the answer. There is so little money to go around that success with this approach means only that some other worthy cause loses its funding.

Instead of fighting among themselves for the crumbs of a shrinking pie, those who care about maintaining services and providing a decent quality of life have united to make the pie bigger. In this effort, nonprofits have a key role to play. They know the hardships that declining state budget cuts have caused for vulnerable families in their state and are credible advocates for a balanced approach. Two places to look for this kind of comprehensive thinking are the Center on Budget and Policy Priorities (www.cbpp.org) and the network of 38 state organizations in the State Fiscal Analysis Initiative (www.statefiscal.org) that can provide research, analysis, and strategic advice on how to meet this difficult challenge.

Jon Shure is the deputy director of the State Fiscal Project at the Center on Budget and Policy Priorities, an organization that works at the federal and state level on fiscal policy and public programs that affect low- and moderate-income families and individuals.

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Carolina Partnership for Children and its 77 local nonprofit affiliates. Similarly, elimination of direct state funding for Boys and Girls Clubs means that more young people face a bleaker future.

North Carolina's revenues are not expected to return to pre-recession levels for several years. This could mean even deeper cuts in 2011. To compound the problem, most of the 2009 tax changes—including a temporary sales tax increase and a surcharge on high-income individuals and corporations—will expire in 2011. And, as mentioned, the ARRA funding is a onetime disbursement. And as redistricting and the 2012 election loom, it may be politically difficult to extend these tax increases.

But nonprofit leaders have collaborated to try to help lead the state toward a viable solution for fiscal sustainability. As legislators chipped away at the state's investments in education, health and human services, transportation, the environment, justice, and public safety, more than 90 nonprofits united in 2009 to form the Together NC coalition.

Together NC advocates have worked to modernize the state's tax system, which was created for the economy of the 1930s, by developing revenue solutions that are stable, fair, and adequate.

Lawmakers are interested. In November, members of the finance committees in the North Carolina House and Senate held their first-ever joint meeting to consider long-term solutions for more sustainable revenue. Under discussion are sales taxes on many services that did not exist when current tax laws were written; closing corporate tax loopholes, particularly for multi-state businesses; and developing a more progressive income tax system.

Despite major cuts in state funding, our nonprofits continue to make a daily difference in the lives of all North Carolinians. It won't be easy, but by working together we may also help lead our state to a more sustainable future.

David Heinen is the director of public policy and advocacy at North Carolina Center for Nonprofits. **Jane Kendall** is the organization's president and founder.

North Dakota

Despite Budget Surplus, North Dakota Faces Revenue Crunch

by Dana Schaar

Unlike most states experiencing severe budget deficits, North Dakota ended its 2007–2009 biennium with a $1.1 billion budget surplus. This resulted primarily from increased tax revenue because of high energy (primarily oil) and agricultural prices. The state has also largely avoided the housing crisis affecting other areas of the country. The state's oil production continues to grow, and the oil industry is expected to contribute significant revenue to the state's funds in the future.

The 2009 North Dakota Legislative Assembly opted to place most of North Dakota's surplus general funds into onetime projects instead of into long-term or new programs and a rainy-day trust fund. Although the state has experienced strong growth in recent years, state officials estimate future growth may not be as strong as in years past.

While the state's budget has benefited from oil development in western North Dakota, the state faces increasing challenges that typically accompany an oil boom, such as housing shortages, domestic violence, addiction, child-care issues and impact on infrastructure, such as roads and water. A nonprofit shelter in an "oil boom" community, for example, previously rented rooms from a local hotel at a significantly discounted rate to house overflow. Now, with an increased demand for housing and hotel rooms, the hotel can no longer accommodate the overflow from the shelter, which has no alternatives. While government and the public often look to nonprofits to help solve problems such as those associated with oil booms, significant additional government funding to deal with these problems has not been forthcoming. Further, as has been the case in the past, significant revenue leaves North Dakota with out-of-state companies working the oil fields. With few community ties, these companies may not be inclined to support local nonprofits.

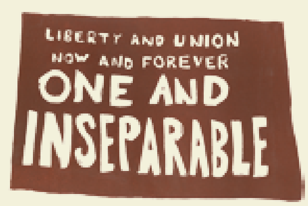
Partly because of its dependence on extraction industries such as oil and coal, North Dakota continues in terms of in-state foundation assets to rank last among the 50 states and the District of Columbia. Few out-of-state companies establish in-state foundations to reinvest wealth back into North Dakota. Combined with the decreased foundation assets found everywhere in the country, these facts mean that North Dakota nonprofits now receive fewer and smaller grants.

Even with North Dakota's state budget surplus, the state has not been immune from the effects of the national recession. In communities throughout the state, corporate layoffs and closings have taken place, which has increased the demand on nonprofits providing services to the newly unemployed.

Finally, in 2009, North Dakota was hard hit

NORTH DAKOTA
Fiscal Health Checkup

ARRA per Capita	$1,089
Unemployment rate, Nov. '09	4.1%
Budget Deficit per Capita	$0



North Dakota

by natural disasters. An almost historic snowfall and statewide flooding has had significant impact on local government and nonprofit budgets. For example, child-care providers and other revenue-generating nonprofits lost significant revenue when they were forced to close because of spring flooding, along with the added expense of clean-up and recovery. Nonprofits providing emergency services during the disasters faced widespread increases in demand. A tornado in southwest North Dakota has strained the capacity of nonprofits that are already dealing with oil-boom and flood-related challenges. In an average year, these disasters would have had a major impact on nonprofits. But given the recession and slow recovery, decreasing or level individual and corporate giving, and increasing demands for services, nonprofits in communities affected by disaster have faced tough choices about how to balance their budgets and fulfill their missions.

Based on current state budget projections, North Dakota anticipates a surplus at the end of the 2009–2011 biennium. But it's not clear how our surplus will affect our nonprofits. Many agencies across the state have sought ways to cut costs and meet community needs. Still, North Dakotans recognize that our state's growth means that our circumstances are better than many others across the country, and nonprofits will continue to look for opportunities to partner with government to meet challenges and effect positive change.

Dana Schaar is the executive director of the North Dakota Association of Nonprofit Organizations.

MAINE
Fiscal Health Checkup

ARRA per Capita	$573
Unemployment rate, Nov. '09	8.2%
Budget Deficit per Capita	$134

Maine

Maine

Growing Needs for the Disabled

by Brenda Peluso and Scott Schnapp

In the first quarter of 2009 in Maine, personal income decreased a whopping 17 percent, and one of the state's leading economists predicts that it will be several years before signs of recovery emerge in this large, rural state. With this dire economic backdrop, the commissioner of the Maine Department of Health and Human Services (DHHS), Brenda Harvey, has been charged with finding another $64 million in savings to help balance the state's budget after having cut the state-funded portion of its budget every year since 2002. "We are doing business with 300 less employees and are serving 120,000 to 130,000 more people," Harvey notes. In 2008, Harvey's department was responsible for 47 percent of the state's $6.4 billion budget.

"If there was any fat to cut, it was already cut long ago," reports Mary Beth Sullivan, an executive at the Bridgton, Maine–based Landmark Human Resources, which serves adults with disabilities. "Now the system of care we've built over the last 30 years is unraveling," Sullivan notes that the waiting list for services has grown and that many young people have "aged out" of youth services and have nowhere to go. For these young adults with disabilities, the loss of support services can have dire consequences.

To date, Maine has pursued a strategy that maximizes federal matching funds, allowing for decent public services in a state with below-average income and an above-average cost of living. As most human services in Maine are provided through contracts with nonprofit community-service providers, significant funding from the state is matched in some cases at a rate of 5 to 1 with federal dollars to provide those services. So $64 million in new cuts in state DHHS funding will result in a $300 million–plus reduction toward funding services for those most in need.

Nonprofits throughout the state have struggled to address the continuing reality of diminishing government resources, and an increasing number of organizations have begun to look outside government for creative ways to fund their services, as fewer now hold onto the notion that increased revenue will be identified to support the current system.

Some larger social-service providers that were once funded exclusively through contracts with the state or through direct Medicaid reimbursement have intentionally reduced their reliance on government funds. People's Regional Opportunity Program (or PROP), the state's largest anti-poverty agency—which is responsible for implementing Temporary Assistance for Needy Families, Women, Infants, and Children, fuel assistance, and other government-funded programs—has dedicated resources to creating new methods of attracting private donations to substantially supplement its government funding. Skills Inc., which provides programs and services for individuals with disabilities, has systematically increased its nongovernmental resources through a social enterprise–funded model. Currently, Skills Inc. has several for-profit businesses under its nonprofit umbrella, such as a sawmill, a dog kennel, and a cardboard and e-waste recycling businesses, which employ the disabled and produce revenue to replace diminishing governmental funding.

In addition, many organizations have examined ways to meet their social missions more efficiently in an environment of decreasing financial resources. Many have sought cost savings by combining back-office systems, and while that has proven easier said than done—though it could make the current system more affordable—these cost-cutting measures do little to address concerns that the current system is simply unsustainable. According to Jim Pierce, the director of external affairs for Independence Association, a provider of services for the disabled, "We built our current system to de-institutionalize people. What should we be building our future system to do?"

Several advocates and service providers for adults with disabilities are in the process of meeting with the state's Office of Adults with Cognitive and Physical Disability to develop recommendations for the legislature to consider when it convenes in January. While this may provide a blueprint for other health and human-service subsectors, developing recommendations is also extremely difficult in a highly polarized political environment. Maine's term-limited citizen legislature exacerbates the problem. Legislators are forced to make policy decisions based on information provided to them by lobbyists on both sides of the issue, and truly understanding the complexities of the system takes much longer than their terms in office provide.

Because the economic downturn has put additional pressure on a system that was already in crisis, this legislative season in Maine looks to be a particularly contentious and difficult one. If necessity is the mother of invention, the entire mix should provide an opportunity to be very creative.

Brenda Peluso is the director of public policy at the Maine Association of Nonprofits. **Scott Schnapp** is the organization's executive director.

Mississippi

It's All about Relationships

by Mark R. McCrary

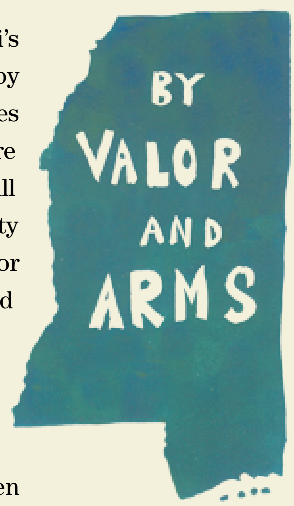
One might think that it's the first time in Mississippi's history that both political parties are on the same page regarding the budget. Republican Governor Haley Barbour and Democratic Speaker of the House Billy McCoy agree that there will be no tax increases this year to offset a dreary economic situation. Both have said that fee increases are likely, though which fees are yet to be determined.

During the first four months of Mississippi's fiscal year, tax revenue has already decreased by more than $100 million. Colleges and universities already received substantial cuts this year and are expected to sustain further decreases, which will force restructuring of programs at the university level. The University of Southern Mississippi, for example, has axed its economics program and has warned Campus Compact—an on-campus organization that encourages volunteerism among college students statewide—that if outside funds cannot be located, the program will be eliminated. State agencies have been required to present 2011 budgets with a 20 percent decrease compared with 2010.

Some state budget problems are mitigated by the flow of stimulus funds into the state. The American Recovery and Reinvestment Act funds have been a boon to organizations that have existing relationships and proven success with state agencies to access such support. For

MISSISSIPPI
Fiscal Health Checkup

ARRA per Capita	$579
Unemployment rate, Nov. '09	9.8%
Budget Deficit per Capita	$163



Mississippi

example, drug-and-alcohol awareness groups have seen steady support in government contracts and grants.

Note that the size of the budget of the nonprofit sector as a whole is about the same as that of state government. In 2008, for example, the total revenue of nonprofit organizations was $6 billion—about the same as the state of Mississippi's budget. Over the past six years, this relationship has held steady.

But the dynamic of charitable, corporate, and foundation resources for the nonprofit sector is a major challenge.

Corporate giving has decreased in Mississippi, as it has around the country. The irony is that Mississippi's corporate and economic base is fairly dismal to begin with, so we're used to going without. The economic impact of Nissan's and Toyota's shrinking presence is, however, less than it would have been had these companies been more established employers. Over the past two years, Nissan has significantly reduced its production, and Toyota has delayed building its plant in Tupelo. Given such a limited corporate presence, Nissan's and Toyota's cutbacks guarantee that the state's economic recovery will lag well behind the rest of the nation's once a recovery begins. The impact will be felt in the economy, in state government revenue, and in corporate giving to nonprofits.

Foundations in Mississippi have not been immune to the struggling economy. Mississippi's foundation community ranks 46th in the country by size of assets. But true to Mississippi's reputation for generosity, foundations in Mississippi typically give twice the national average.

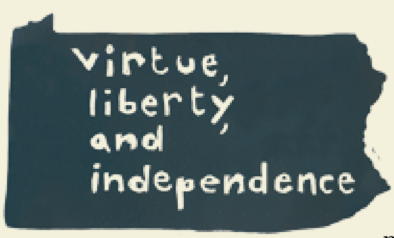
Mississippi has a reputation for being the most generous state in individual giving too. Typically, this giving is faith based; we are in the Bible Belt, after all. Though individual giving has decreased in 2009, most nonprofits have sustained donor giving, albeit at lower levels.

The economy's impact on nonprofits has been extensive. While Mississippi continues to face serious social and economic needs, the nonprofit sector has felt the hit of the economic downturn. When the dust settles, nonprofits that have partnered with government agencies and have a deep individual donor base are those likely to prevail. In Mississippi we usually ask a new friend two things: "Who's your mama?" and "Where y'all from?" Even in this economic climate, it's all about relationships.

Mark R. McCrary is the executive director of the Mississippi Center for Nonprofits.

PENNSYLVANIA
Fiscal Health Checkup

ARRA per Capita	$364
Unemployment rate, Nov. '09	8.8%
Budget Deficit per Capita	$386



Pennsylvania

Pennsylvania

The Great Budget Impasse of 2009

by David A. Ross, J.D.

On October 9, 2009, Pennsylvania passed its $27.8 billion annual state budget, 101 days after its constitutional deadline. During the worst recession since the Great Depression, Pennsylvania became the last state in the country to pass its budget.

For three and a half months, the state legislature could not agree on a tax-and-spending plan. As unemployment continued to grow and as Republicans and Democrats vainly clung to their partisan agendas, the state had to fill a $3 billion hole in its budget. The solution? Use nonprofits as leverage to force capitulation by the other side. On that day, the Great Budget Impasse was born, but its impact will be felt for years.

By July 1, 2009, Pennsylvania found itself with no budget and no way to pay its human-service providers, grantees, or contractors. An interim budget was eventually passed, but only to pay the state's 71,000 government workers. Nonprofits were not included.

By August, most of the state's 67 counties could no longer afford to fund their nonprofit agencies without state money. Suddenly, thousands of organizations that relied on billions of dollars in state funding to serve their communities were forced to make the impossible choice of cutting services to the needy, laying off staff, or closing their doors altogether. The nonprofit sector was devastated.

Alternative revenue sources were unavailable. Public contributions were down, foundation money was scarce, and government grants and contracts had already been scaled back earlier in the year. So nonprofits sought private loans to continue operating. But in this economy, those with reserves had already spent them. Organizations with any remaining credit had reached their limits. Nonprofits were running out of options. So they approached Pennsylvania Association of Nonprofit Organizations (PANO).

At the request of its members, PANO rallied the nonprofit sector to call for an end to the budget impasse. With the help of key leaders from PANO's board, committees, and membership, the various coalitions of nonprofit service providers pulled together, unified their message, and for the first time moved forward in unison.

Nonprofits gathered their stories to demonstrate the impact, developed a single agenda, engaged state and national media, and lobbied the Pennsylvania General Assembly from all directions.

With PANO's momentum and unique neutrality, nonprofits held rallies at the courthouse, the capital, and every corner of the commonwealth. After 101 days, Pennsylvania's budget impasse finally ended.

As the dust settles, the sheer magnitude of the FY 2009–2010 budget cuts underscores the challenges that lie ahead. This year's budget was cut by $524 million, compared with last year's budget, 142 line items were completely eliminated and hundreds more were slashed from nearly every department.

For nonprofits, it was not only about the size of line items but about the increased costs of operations during the impasse. Loans must be paid back with interest, furloughed workers may never return, and late fees add up. This experience demonstrates that nonprofits operate too close to their margins and without adequate reserves. If nonprofits continue contracting with the state, there must be some reasonable expectation that the contract terms will protect them too. Nonprofits, especially smaller ones, cannot absorb the cost of late government payments.

PANO and leaders of the coalitions are dedicated to working together to limit the impact of the budget impasse on the organizations and agencies that improve the quality of life in our communities. Moving forward, PANO and various coalitions are working with a group of bipartisan lawmakers of the Pennsylvania Charitable Nonprofit Caucus. The caucus legislators, charities, and foundations are dedicated to advancing budget reform legislation to ensure that nonprofits are never again caught in the middle or dismissed as collateral damage.

David A. Ross, J.D., is the public policy officer at Pennsylvania Association of Nonprofit Organizations.

Florida

A Race to the Bottom?

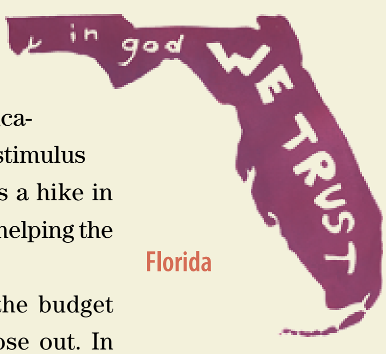
by the editors

According to the Pew Center on the States, Florida ranks among the 10 states in the worst financial condition based on a combination of distress indicators, including budget deficit, unemployment, and foreclosure rates. In other words, Florida faces California-like "fiscal peril."

FLORIDA
Fiscal Health Checkup

ARRA per Capita	$370
Unemployment rate, Nov. '09	11.2%
Budget Deficit per Capita	$316

Like many states, the Florida legislature has not excelled in its handling of the budget, underscored by the disclosure that the former speaker of the Florida House of Representatives took a six-figure job at a small state college on the same day he was sworn in as speaker and after the school had scored $35 million in accelerated state funding. Nonetheless, at least for the present, the legislature and the governor managed to erase an FY 2010 budget deficit with the judicious application of budget cuts, the insertion of stimulus funds, and revenue boosters, such as a hike in the cigarette tax (dedicated largely to helping the state meet its Medicaid bill).



Florida

But temporary use of funds for the budget means other potential supplicants lose out. In Florida, municipalities have complained that the state's control and use of American Reinvestment and Recovery Act funds to plug state budget holes simply deprived local governments of stimulus funding for local public-works projects and that budget cuts such as the $224 million slash in the Department of Corrections means that localities will have to pick up the burden of ex-offender needs. The state legislature took half the money ostensibly dedicated to the State Housing Initiatives Partnership (funded by real estate transaction fees) to fill various other program gaps in the budget, which deprived localities and nonprofits of crucial subsidy dollars they might have used to help stabilize the housing market, which in terms of foreclosure rates is as bad as anywhere in the nation.

For FY 2010, the legislature had to make cuts regardless of the stimulus dollars, and many of the cuts will reverberate through nonprofits and their ability to provide resources. In 2009, Florida made cuts in the five program categories that the Center on Budget and Policy Priorities tracks as critical services affected by recession-era state budget deficits. Florida is one of 28 states that have cut public-health programs, one of 24 that have cut services to the elderly and disabled, one of 26 that have cut funds for K–12 and early-education programs, one of 35 that have cut programs or sharply raised tuition for higher education, and one of 42 states that have cut state employees. The impact of these cuts on nonprofits is palpable.

Even if the FY 2010 balancing act survives without additional infusions of revenue or cost reductions, Florida faces a projected FY 2011 deficit in the billions, and the state's economic nosedive has prompted the state's first population outflow in several decades. Its burgeoning unemployment, which would have been higher but for population outflows and labor force declines, stands in contrast to the legislature's rejection of $444 million in supplemental unemployment compensation funding. In Florida, as in almost all the states, unemployment is connected to budget deficits, and vice versa.

MICHIGAN
Fiscal Health Checkup

ARRA per Capita	$521
Unemployment rate, Nov. '09	15.1%
Budget Deficit per Capita	$160

Michigan

MICHIGAN

Is the Bleeding Over?

by the editors

The tailspin of the Michigan economy affects the state budget in various ways for which every *Nonprofit Quarterly* reader can fill in the blank. Despite Troubled Asset Relief Program (or TARP) funds and cash-for-clunker incentives, the state's joblessness rate given the collapse of the auto industry has reverberated in communities throughout the state. The troubles are not confined to the southeastern Michigan region that surrounds Detroit.

If this spiraling economy cascades into persistent and deepening state budget cuts, what can legislators and nonprofits do? The options are limited, which is why so many state legislatures hack away at human services to plug budget holes. According to the head of Michigan's House Fiscal Agency, "If you were to completely eliminate the state legislature, the governor's office, the auditor general's office, the attorney general's office, the secretary of state's office, the department of management and budget, the treasurer and civil service—except for debt service—you wouldn't make a dent. If you want to cut the budget, you've got to cut health care. You've got to cut education."

Cuts have impact up and down the state. To make the FY 2010 budget work, legislators and Governor Jennifer Granholm slashed Medicaid, closed prisons and prison camps, and reduced revenue sharing for local government. The budget pain will filter through communities and nonprofits. One of the more emotional items on the chopping block is the future of the Michigan Promise Scholarship program ($4,000 grants given to all Michigan high-school students who pass the Michigan Merit Exam and enroll in post–high school programs), which the legislature eliminated but Governor Granholm has fought to restore.

Plenty of other nonprofit program mainstays have also been hit by the legislature's budget cuts. The Great Start Readiness Program, for example, which focuses on four-year-olds, suffered sufficient cuts that resulted in the termination of programs such as the 20-year-old preschool program at the Jackson Child Care Center. Thinking ahead, the governor has asked state agencies to prepare across-the-board cuts of 20 percent for their FY 2011 budgets, hitting social–safety net programs as much as anything else.

And it will not stop. A recent gathering of economists who looked at Michigan's future concluded that the worst of the job losses are over. They estimate that only 85,000 jobs will be lost in 2010 and 36,000 more in 2011, compared with 300,000 this year. But that might be because most of the jobs that the state could lose are gone. A Wayne State University professor attending the gathering remarked, "Michigan's automotive, manufacturing-based economy is history—at least as a mass employer of millions. The old days are never coming back, and the state will continue to lose jobs for years to come." The result is long-term pain. The professors said that the state might be lucky to approximate national unemployment numbers in 30 years. Others note that the state's recent history of budget deficits is only a precursor to long-term fiscal problems, with state budget deficits likely to reach $10 billion by 2010.

Good fiscal news in Michigan comes with the subtext of "It could always be worse." The Detroit public-school system, for example, celebrated an audit result that showed its budget deficit had shrunk from $306 million to $219 million: numbers that one would think are the size of an entire state's deficit, not a municipal school system's. For government agencies and nonprofits, it is hard to see much good news in the economic and fiscal conditions of this very hurting state.

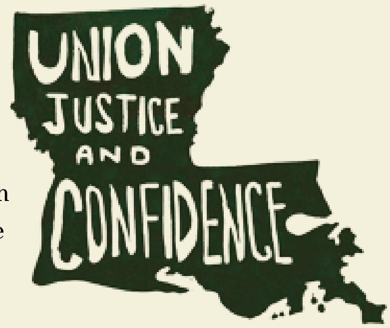
Louisiana

Illusory Fiscal Stability

by the editors

Superficially and compared with other states, Louisiana's fiscal and economic situation doesn't look too bad. Given that the state was ravaged just four years ago, how could this be?

This rosy economic picture is partly because of the slow but steady impact of federal Hurricane Katrina relief dollars, funds that could hardly be called generous but that have nevertheless helped many families and communities whose lives were undone by the hurricanes in 2005. The state's relatively low unemployment rate underscores how many people might have found jobs in Louisiana, at least on a temporary basis, as the state continues its recovery effort.



Louisiana

But Louisiana's relative fiscal strength may turn out to be an illusion. People are beginning to return to the state, which means that the period of reduced demand for public services may soon come to an end. Public-school enrollments this fall, for example, exceeded projections by 10,000 students, leaving the state $52 million short of meeting its constitutional obligation to pay for public education. The midyear budget deficit in health and hospital programs comes to more than $300 million, indicating greater demand for services in these arenas as well.

While these shortfalls constitute only a small portion of a state budget that totals $29 billion, they come on top of cuts that were made at the outset of FY 2010 to balance the budget. Continued deficits and budget cuts will place more stress on nonprofit service providers and their constituents. In the plus column is the fact that the state is represented in the U.S. Senate by Mary Landrieu, a critically important moderate who was able to negotiate an infusion of $100 million in federal Medicaid funds for Louisiana in return for her vote to allow Senate debate on national healthcare reform legislation. But political favors here and there don't undo the structural issues that the state faces as a result of increasing demand and declining revenue.

Numbers are important. According to the policy director for the Louisiana Association of Nonprofit Organizations, the budget deficit is actually $2 billion, or almost 10 percent of the general fund. Balancing the budget will almost certainly require new revenue, which means some combination of new or different taxes or fees. But the preferred remedy of Republican Governor Bobby Jindal is to search for $802 million in cost savings by the end of the year. The state plans to lay off government employees (the treasurer wants to ax 15,000 from a workforce numbering a little more than 100,000), to "streamline the bureaucracy" in public universities, and then

LOUISIANA
Fiscal Health Checkup

ARRA per Capita	$512
Unemployment rate, Nov. '09	7.4%
Budget Deficit per Capita	$453

California Screamin'

By Ruth McCambridge and Chris Finney

With California's unemployment rate at 12.5 percent, its highest joblessness level in 70 years, there is little mystery in the fact that organizations dependent primarily on disposable income—whether directly or indirectly—have encountered problems. Over the past few years, California's economy in general has been something of a riches-to-rags story, and the effects have been felt in even the most unlikely of enclaves.

Between 2006 and 2008 in Orange County, for instance, the United Way campaign take has descended from $29 million to $23 million. In such an environment, excellent programming, strong board engagement, and good financial governance are no guarantee, especially for organizations that entered the recession in a weakened financial condition and with high fixed assets and declining revenue. In the spring of 2009, the *Nonprofit Quarterly* profiled the financial performance of the San Jose Repertory Theatre (the Rep), which between 2005 and 2006 had reduced its annual operating deficit by $1.3 million while maintaining strong ticket sales for its unique programs. But when we spoke to Christa Stiner, the Rep's director of finance, in November 2009, the organization was coming to terms with the ramifications of unfortunate financial decisions on the part of staff and board no longer at the organization.

"This is not a story about a lack of focus or about slow responses to change," Stiner explains. "We have increased the number of tickets we sold; more people came to see us. It was great. We've done more interesting things with collaborations, with Afghan artists and South African artists, things that really expand the themes of our plays and really engage people on different levels. We did a West Coast premiere of a South African play, and it just closed a couple weeks ago, and we had the American Leadership Forum doing a special talkback on apartheid and race relations. We had a local African drumming group come in and do a pre-show concert. There have been all kinds of really wonderful collaborations that we didn't do in the past. So, on a mission basis, we've really redoubled our efforts."

Similarly, the Rep's trouble cannot be traced to poor governance or a disengaged board. "On a governance basis, the board has been fabulous," Stiner reports. "They've called special meetings, they're paying attention, they're engaged, they're not just whistling in the dark." And the San Jose Rep continues to push itself for strong community outreach. "We're engaging people constantly. Our development department is having evenings with donors and long-term subscribers to see what they say, to talk to them and engage them. So we're not pulling back into our shell." Not incidentally, this outreach takes place in the heart of Silicon Valley, one of the wealthiest areas in the country.

Finally, the Rep doesn't overspend. "In fact, we cut and cut and cut to try to shore things up." Strikingly, Stiner has even suggested her own position be cut. "I should be the first one to have to leave, and I told the managing director, 'As soon as the 990 is complete, you can't afford to keep me.'" Pressed to explain how an organization in obvious financial turmoil can afford to lay off its director of finance, she says, "Really, I'm not an actor. People don't pay money to come see me. This is how tight it is."

CALIFORNIA
Fiscal Health Checkup

ARRA per Capita	$504
Unemployment rate, Nov. '09	12.5%
Budget Deficit per Capita	$922

somehow discover hitherto unknown savings from privatization.

But given the state's deteriorating fiscal condition—in which gambling revenue, while stable, won't be sufficient to make up for plunging sales as well as declining personal and corporate tax receipts—the governor's cost-cutting plan appears unlikely to erase the deficit on its own. That means either tax hikes or budget cuts or both are probably in Louisiana's future. Nonprofits have already prepared to defend their services against the budget cutters in Baton Rouge. As the state treasurer put it in a recent speech, "[The 2009] legislative session was pretty much a cakewalk compared with what is coming."

California

A Poster Child for Crisis

by the editors

California has become the nation's poster child for state budget crises, and every Golden State nonprofit knows how to read the dismal fiscal news: lower revenue means more budget cuts. In November Mark Zandi, the chief economist at Moody's Economy.com, announced at a briefing sponsored by the Center on Budget and Policy Priorities that the two states with the biggest revenue declines in the five quarters ending with the second quarter of

But the Rep entered the recession in an already weakened financial state, and that kind of "preexisting condition makes this time much more risky. It's kind of like having asthma in flu season. There is nothing damning about having asthma per se, but it just makes you more vulnerable." As we described previously, the Rep has too many fixed costs in a declining revenue environment.

"If I had one change to make, I would try to change the fact that it costs us about $1.8 million a year to run this building, and that's not mission specific," Stiner says. "The more I look around, the more I see people who have their own buildings really struggling because that's not their core competency. Building maintenance is not why we all got into theater in the first place." The long-term costs of building maintenance have had a major impact on the Rep's finances. "If we didn't have to maintain this building—the HVAC, the elevator, the emergency lighting system—and if we still had to pay theater rent when we performed and shop rent—which we pay anyway to build sets and costumes and props—if we had never had to pay for the depreciation of the lights and dimmers and seats and the carpet we just fundraised to replace . . . if the city were doing that for us . . . and we went back 12 years—which is the length of time that we've been in the building—12 years' worth of balance sheets, we would have been in the black."

The San Jose Rep has also experienced fundraising setbacks, which have compounded the financial trouble that predates the recession. Stiner explains that despite its best efforts, the board has had trouble with fundraising. The board launched a "fundraising campaign to reduce the debt and to build fundraising capacity, and it took off like a house on fire; it just really launched beautifully in August and then, boy, doors are shutting left, right and center. Everybody says, 'Yeah, this is a great idea, you're doing the right thing, but I'm sorry, I can't help you.'" The campaign is falling short of the organization's needs. "They had a goal to bring in between $200,000 and $300,000 by October 15 but were able to raise just under $100,000." But the campaign is succeeding in bringing in more gifts at a time of traditionally low cash flow."

The net result of these challenges will be reflected in an upcoming audit that will question the Rep's ability to function as a "going concern." This is not necessarily a huge problem, though most organizations would rather not be faced with such a finding. Stiner, a CFO who is proud of her skills as a financial analyst through what has been a very tough run, is resigned to it, believing that the Rep's long-term relationships with funders will offer it a good deal of protection. "I don't think it's really going to do anything to us," Stiner predicts. "Anybody who knows us—the foundations and other major donors have known soup to nuts about our situation because we have been very forthcoming—and this just says, 'Oh, there's a nose on their face.' It just states the obvious."

Through all this, Stiner has absolute faith that the Rep will survive because there are so many people and other institutions who value it, and she and her colleagues remain justifiably proud of the artistic work they have produced through the past year amid California's outlandish economic straits.

Ruth McCambridge is *NPQ*'s editor in chief. **Chris Finney** is a writer for *NPQ*.

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2009 were California and New York.

On a per-capita basis, California spends more than any other state in every budget category except two: highways and, notably for nonprofits, public welfare. But the state's deepening structural deficit has repeatedly devastated the budget with every downturn in the state's famous boom-and-bust economy. As of November, a state budget analyst concluded that California had a current deficit of $20 billion. That's a deficit larger than the entire budget for many states. The analyst went on to warn that the state would face the same baseline budget deficit every year through 2015 unless permanent changes were made to the overall revenue and expenditure structure, as opposed to the collection of onetime budget Band-Aids that were used to balance the front end of the FY 2010 budget this past July. (That $24 billion deficit was "fixed" by cutting health and welfare programs and the state college system, closing state parks, and putting state workers on furlough.)

According to the *Economist*, California's sorry finances threaten the entire nation's economic recovery. In September the *Sacramento Bee* termed the state's budget "a mess." And in November, the Pew Center on the States ranked California's fiscal peril as the nation's worst, based on a formula that combined its gigantic budget deficit with the state's rampant unemployment and astounding rate of home mortgage foreclosures.

The good news is that, according to the November

California

2009 budget update from the National Conference of State Legislatures, California's revenue appears to be improving as the national economy straightens out. But of course, the depth of California's fiscal morass means that an uptick in revenue doesn't mean the end of pain for nonprofit contractors.

The current round of budget cuts has the word *nonprofit* written all over it. In December the state barred new enrollments for free screenings for breast and cervical cancer for poor, uninsured women. Also in December, word emerged that another round of fee hikes at public universities and community colleges was in the cards. Over the summer, the legislature authorized moving adult education funding back into schools' general funds to pay for general education expenses. Lawsuits by community-service advocates successfully fended off the legislature's plan to cut Medicaid reimbursement rates and limit adult daycare services to three days a week, but in-home services for the disabled were ultimately cut back. Even California's bottle-and-can recycling programs have been hobbled by budget cuts.

Perhaps the best gauge of the predicament of California Governor Arnold Schwarzenegger comes from a fellow governer, David Paterson of New York. When the *New York Amsterdam News* asked Paterson about the Empire State's budget situation, he answered, "It's tough, but at least it's not California."

SOUTH CAROLINA
Fiscal Health Checkup

ARRA per Capita	$851
Unemployment rate, Nov. '09	12%
Budget Deficit per Capita	$162

South Carolina

Unsustainable and Unfunded

by the editors

Most of what the public reads about South Carolina concerns the governor's unannounced trip to Argentina to visit his paramour. This past summer—after it was revealed that the trip was not work related and the governor had taken three other trips to Buenos Aires on the South Carolinian taxpayers' tab—he reimbursed the state for the trip. The corruption represented yet another state budget situation that threatens nonprofits and the communities they serve.

South Carolina

Not the largest of states or state budgets, South Carolina has a current deficit, which the South Carolina Budget and Control Board recommended remedying with a 4 percent across-the-board cut. In December the board will consider a 2 percent revenue reduction. These cuts follow others as large as 15 percent in recent months. With cut after cut, the state's support of programs and services for South Carolinians has moved backward. The state budget is now some $1.5 billion lower than it was in 2007. To generate new revenue, South Carolina has considered imitating its North Carolina neighbors with an Internet sales tax.

As a result of budget cuts, several small and large programs have taken a hit. In November, for example, the legislature announced plans to cut spending on colleges and universities, which must be added to cuts in 2008 and 2009 that reduced state funding for higher education to 1995 levels. Local school districts have made budget cuts because of a 4 percent cut by the Department of Education in K–12 education spending; the Commission on Indigent Defense will no longer be able to appoint lawyers as guardians ad litem for children; the state's cultural tourism program through the South Carolina Arts Commission has been suspended; mental-health centers around the state have been compelled to cut back on their services; child-care centers have closed; and the state's program allowing parents to purchase prepaid college tuition (pre-paying for college tuition in the future at today's rates) contracts is short of the money it needs to pay current demands.

Higher education is one thing, but state-funded safety-net services are something else. When asked whether South Carolina's safety-net programs are sustainable, the state's comptroller general responded, "That's not even a question" because "so much of that spending is financed by the stimulus act now that once it goes away, we're sunk." It's hard to imagine that the state faces an immediate improvement in its fiscal conditions, if only because its unemployment rate is among the nation's top 10.

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The State *of the* Fields

by the editors

As we cover the state of the nation in the Nonprofits in the Age of Obama series, we have identified and observed the major variables that affect nonprofit viability and effectiveness. And one such factor is the field of practice in which a nonprofit works.

Below we report on the status of two fields of nonprofit activity that figure prominently in the implementation of national public policy: community development corporations and community health centers. Both fields are broadly distributed and made up of community-based organizations, and both have strong independent intermediaries at the national level. Both have received infusions of American Recovery and Reinvestment Act (ARRA) money, and both work on a high-profile issue that is prominent in the daily news.

This is the first in a series of reports by the *Nonprofit Quarterly* on how fields of practice have fared in the economic downturn. To bring the story about community health centers to the street level, we have also included the latest installment in our coverage of Christ Community Health Services in Memphis, Tennessee.[1] It is one of many "stories from the stimulus." You will find an update on CJE Community Health, a community development organization, on the *Nonprofit Quarterly's* Web site.

Community Health Centers

There are 1,200 federally qualified community health centers throughout the United States, delivering primary health care to 20 million people a year.

Most of their patients are low income or otherwise marginalized by language or geography. All exist on a mix of income streams, including federal grants, insurance, and private payments, and in 36

states these sources are augmented by state funds.

These community health centers' environments are complex; they may be able to position themselves even more centrally as providers of primary care within the context of health-care reform. But to do so—and, indeed, even to keep pace with increased service needs caused by unemployment—many will have to upgrade facilities and record keeping and increase their patient load capacities.

As the recession hit, it became clear that more uninsured people would seek out community health centers for treatment, so a special allocation of $2 billion was made through ARRA to allow these pivotal players in primary health-care delivery to expand their services and facilities to serve additional people. This was a good call, because between June 2008 and June 2009, total patient visits at community centers increased 14 percent. Uninsured patient visits over the same period increased 21 percent.

Unfortunately, some states—specifically Colorado and North Carolina—used the very existence of this money to justify state budget cuts in this area. The replacement of state monies with federal funds is obviously problematic in several ways.

First, the ARRA funds were meant to expand the capacity of the system during a period when need was expected to increase. Second, the ARRA funds are time limited, and it will be difficult to get health-care funds returned to state budgets when the stimulus money has flowed through. Thus, in the end, the

stimulus money may end up gutting the funding available to primary health care just at the moment when this infrastructure will be most critically needed.

According to the National Association of Community Health Centers, 27 states have slashed funding for health programs. Recently, the lack of expanded capacity is reported to have manifested in the form of increasingly lengthy waiting lists (see the case study on Maine on page 22).

Housing and Community Development

Over the past year, what has happened to the housing and community development sector? The short answer is the foreclosure crisis. Subprime mortgage foreclosures are still burgeoning, but the recession and 10 percent joblessness has led to foreclosures in conventional mortgages. The nation isn't keeping up with the demand: According to *BusinessWeek*, an Obama administration initiative has restructured troubled mortgages among 235,000 homeowners total.[2] But just in the first half of 2009, there were an additional 1.8 million mortgage foreclosures. According to Elizabeth Warren, the chair of the congressional oversight panel examining the condition of the financial markets, "We're bailing it out, but the boat's taking on water faster than we can bail." In some communities, the foreclosure crisis and the financial crisis as a whole have undone decades of community development progress.

For community developers, the challenges of the past year include the following:

- the burgeoning demand of families that have been displaced from their homes because of foreclosures, short sales, and scams;
- financial sector unwillingness to provide mortgages to lower-income home buyers or to provide construction and permanent financing to nonprofit developers;
- many stalled housing projects and unsold inventories of for-sale housing;
- eliminated corporate profit margins and the disappearance of Fannie Mae and Freddie Mac as the largest purchasers of low-income housing tax credits;
- a severe reduction in tax credit–financed deals and, consequently, reductions in developer fees that many nonprofit developers count on for general operating support;
- state government budgets for affordable housing and special-needs housing in disarray; and
- an inventory of troubled foreclosed properties that are in disrepair but are difficult to pry from the clutches of banks and servicers.

With corporate profits on the upswing, the tax-credit markets might improve for nonprofit developers in 2010. Perhaps the Obama administration will begin to lean on the record profit-making Troubled Asset Relief Program–subsidized banks to loosen their construction and mortgage-financing spigots.

But in the near term, the nonprofit community development sector will find its most important sources of support coming from federal programs authorized by the stimulus and added to the FY 2010 federal budget: the Neighborhood Stabilization Program for the acquisition and redevelopment of vacant, foreclosed residential properties; expanded financing from Community Development Financial Institutions under the CDFI program at the Department of Treasury; increased Community Development Block Grant and HOME funds from the U.S. Department of Housing and Urban Development (HUD); plus new programs, such as the Choice Neighborhoods initiative and the Partnership for Sustainable Communities involving HUD, the Department of Transportation, and the Environmental Protection Agency to promote "equitable development."

Some foundations have aggressively supported community development, but more have to get into the fray with grants and program-related investments, particularly national foundations paying attention to states and regions without significant indigenous philanthropic resources.

Endnotes

1. Ruth McCambridge, "High Anxiety," the *Nonprofit Quarterly*, vol. 16, no. 1, winter 2008.

2. Elise Craig, "Mortgage Modifications Can't Catch Foreclosures," *BusinessWeek*, August 4, 2009 (http://www.businessweek.com/bwdaily/dnflash/content/aug2009/db2009084_229370.htm).

Stories from the Stimulus

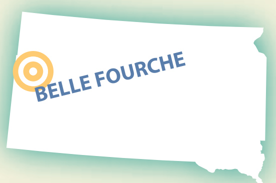
Part One

by Ruth McCambridge and Chris Finney

Editors' note: *These two stories are the first of a series about how stimulus funds have affected nonprofits of different types. We have drawn these stories from the evolving case studies of the nonprofit groups we are following in the* Nonprofit Quarterly's *Nonprofits in the Age of Obama series (see www.nonprofitquarterly.org/ageofobama).*

Badlands Head Start and Early Head Start

Belle Fourche, South Dakota



This year, Badlands Head Start and Early Head Start has hired new staff, sent employees to college, awarded a cost-of-living wage increase, bought five new vehicles and fixed a parking lot, brought two buildings into compliance with the Americans with Disabilities Act, and hired a Sioux facilitator to help bridge cultural gaps between white and Native American employees.

> "We're a community; we're not just a bunch of individuals."
>
> —Doug Jacobson, executive director, Badlands Head Start

And that's just what the organization did with its stimulus funds, which totaled about $240,000. Badlands serves the residents of five counties in western South Dakota, three of which are among the poorest 25 in the United States. In one of those counties, Shannon, annual per-capita income is just $6,286: about what an average resident of Connecticut earns in five weeks. "I think it's fairly stable here," says Doug Jacobson, the executive director of the South Dakota-based Badlands Head Start and Early Head Start program.

> I was looking at that this morning. Part of who we serve is ranching world communities, and they tend to be more conservative and have more conservative-based businesses in the industries. Also, there's an ethic that when times are tough, we pull together, and we're a community; we're not just a bunch of individuals. There's that personal connection and caring. So even for the nonprofits, if the funding has gone down, the volunteers have gone up, and I think its part of that ethic of "We're in this together, let's pull together." So I don't know that we're suffering in that sense. Certainly, there's got to be other nonprofits that are suffering more economically than we are.

Ruth McCambridge is the *Nonprofit Quarterly*'s editor in chief. **Chris Finney** is a writer for *NPQ*.

PHOTO © DAN SHEEHAN/SCIENCE FACTION/CORBIS

But for Badlands, even the status quo has been pretty rough. Jacobson recently told the *Nonprofit Quarterly* that the organization has tried to pay more attention to its cultural makeup, which is divided between a largely white rancher environment and a reservation-based environment, and to the day-to-day trauma of some of the agency's staff. As financial pressures have eased given the influx of American Reinvestment and Recovery Act federal money, Jacobson has focused on human resource issues and what he faces is no worse than usual, perhaps, but all the sadder for this reason.

> I just completed a conversation with our Area Services manager in Shannon and Bennett counties, and we were discussing the number of recent deaths directly involving staff or enrolled families. We have 10 staff there, and within the past two weeks, that staff has experienced:
>
> - the suicide of the best friend of a staff member's 14-year old granddaughter, whom she was raising;
> - [the discovery] of the murdered body of a staff member's father who disappeared three years prior;
> - [the murder] of a staff member's children's grandfather;
> - [the suicide] of a staff members nephew;
> - [the murder] of a staff member's brother;
> - [the suicide while in jail] of the nephew of an enrolled family; and
> - [the death of] a staff member's niece in an automobile accident involving alcohol.
>
> Our Shannon and Bennett staff and our enrolled families are strong, contributing members of their communities. Yet they cannot resolve one loss before the next occurs. Trauma builds upon trauma, and we have to find a way to adequately address it.

"Partly due to the additional money, I was able to pay a better salary and benefits [so] I had 100 percent returning staff."

—Doug Jacobson, executive director, Badlands Head Start

The entire Head Start network recently emerged from an eight-year funding freeze that some believe was intended to kill the program outright.

And with the stimulus dollars came more permanent money. Programs had to mobilize quickly to complete the multiple applications required to access the various types of funding, and this was particularly hard on smaller agencies. In one city, an anti-poverty agency freed up a grant writer to help smaller Head Starts with their requests.

With the help of the federal money, Jacobson increased salaries and benefits, completed long-overdue repairs of facilities, and invested in staff development. He also hired a couple of additional staff people to work on specific issues, such as recruitment, enrollment, and providing transportation to medical appointments. "By hiring those two people, we are in better shape performance-wise than we have probably been in a decade or more," Jacobson reports. "It has been critical to have those people. Plus, because, I think partly due to the additional money, I was able to pay a better salary and benefits [so] I had 100 percent returning staff in Shannon and Bennett County, and that's a first ever. It would not be uncommon for us to have had 100 percent turnover in one year." Among the benefits the organization has added: "Increasing our funeral leave from two days to five days. Just little things like that all start to add up, I believe."

Badlands has received everything it has asked for, but it was not notified of its early Head Start expansion grant. Jacobson explains that that the organization will have to exist in this holding pattern for a bit:

> It appears that they—at least in the first round of funding—had chosen to fund those programs that requested big: to serve new areas and large amounts of money. We simply requested to expand our current numbers by only 10. So we were only requesting a small amount of funds. I think the group reviewing those expansion grants is out of Washington, D.C., by the way. Everything else is approved at the regional level. There is some thought that we won't even get notified if we didn't get anything. We can go to what's called Early Childhood Knowledge

> Learning Center, and it's on there that they have a list of those that did receive grants in each state, but they didn't list those that didn't, and they say they are still looking at requests. Looks like those that requested the big funds got it, and the rest of us are still sitting here waiting.

Ultimately, though, Badlands has encountered more personal challenge than economic hardship. As the organization moves into 2010, its goal is to build on its gains rather than take one step forward and two steps back.

Christ Community Health Services

Memphis, Tennessee

In March 2009, Christ Community Health Services (CCHS) of Memphis, Tennessee, was awarded $548,000 under the federal stimulus package to continue providing health care to the uninsured and make capital improvements. For one of the 10 poorest states in the nation—a state that also ranks among the 10 worst for smoking rates, childhood, and adult obesity, heart disease, adult diabetes—these are important dollars.

But in a recent interview with the *Nonprofit Quarterly*, CCHS's executive director, Burt Waller, raised serious concerns about the federal stimulus money CCHS had received. The money was aimed at helping this federally qualified health center provide services to what was expected to be a growing number of unemployed and, therefore, uninsured people. But Waller underestimated the depth of need these recipients would face. "When we wrote our justification to receive the funds, we said that over the 24-month period that we expected to see 1,250 newly uninsured users of our services," Waller says. "So that was what we projected we'd do in 24 months. At the end of the first six months, we had already seen 1,736." For every new uninsured patient Waller expected to treat, the deepening recession has produced about five. "So, of the $548,000 awarded, we've already drawn down and expended $450,000."

On the other hand, CCHS also received $1.4 million in stimulus dollars for capital purposes, and the organization plans to use the money to renovate a couple of older buildings: converting and equipping them as dental clinics. But these projects have a much longer "incubation" period. "I understand when I read in the media about stimulus monies that are going for road projects and construction projects and how there's been very little impact of those funds at this point," Waller remarks.

> I can appreciate that because of my own experience. First of all, we've had a lot more hurdles to cross with the federal government relative to all the documents and assurances that they require for capital projects, and then capital projects also require a great deal of detailed, time-consuming planning before you can initiate them; so we received a capital grant last July, and this is an example of stimulus funding that has no immediate impact because we haven't drawn down the first dollar yet.

Given the background of leadership at CCHS, this delay is hardly surprising. When faced with insufficient dollars to meet increased need, CCHS leadership embarked on a careful market analysis and the rapid scale-up of an initiative that can act as a profit center.

Christ Community Health Services has had to reconsider its ability to take on programs that serve its mission but carry substantial financial risk.

> We operate in a businesslike fashion, and we tend to think of our work here —we are a faith-based ministry, but we also have a culture that says we are going to operate in a businesslike way. And so because we have that orientation, we're always seeking ways to provide either new services or serve a different population that will be profitable for us to offset the losses we incur when things like the upsurge in uninsured patients happens. So one of the things that we've done that we're hoping will offset—we are greatly expanding our dental service, and that may sound very disconnected from all these uninsured users of our medical services—but there are certain segments of the dental marketplace that we've carved ourselves a position where we can deliver services that are profitable

to us; so we've recently entered into an agreement with the local Head Start providers.

Waller explains that the federal regulations that govern Head Start require that each child receive preventive dental services, and local Head Start programs had encountered difficulty finding anyone that was interested in serving the dental needs of Head Start children. So they developed a program to deliver the services on site. "So we have quickly become a major provider of preventive dental care."

The financial environment also has forced CCHS to reconsider its ability to take on programs that serve its mission but carry substantial financial risk.

"We've rebalanced our mission-versus-business equation," Waller notes.

We still work to be true to our mission, but prior to last year, we would often make decisions that didn't make a lot of fiscal sense. Prior to last year, I think we would allow the mission issues of who needed care and how we could serve them to greatly outweigh the fiscal issues. And here in the last few months, the guidance we've gotten from the board, I've heard a lot more about not taking on new things that won't work for us financially. We've been through a process where another organization came to us and told us they were going to discontinue some services. They asked if we would take them over, and in the end we didn't. From a mission standpoint, we certainly could have justified doing it, but it just would have carried with it a fair degree of fiscal risk. Our board's view was if we were in another time, we might be willing to take that on, but this is not the time and economic environment to do it.

"We've rebalanced our mission-versus-business equation."

—Burt Waller, executive director, CCHS

Waller is cautious about the immediate future, though. "This current year, we'll be OK financially, because we've had this stimulus funding and we've begun this new service that's got a positive margin to help offset the cost associated with the huge upsurge in demand from people who have lost insurance," he predicts. "I'm more concerned about what happens in our next fiscal year because our next fiscal year is July 2010 through June 2011, and by then all of the stimulus funds will have been fully expended. We will have spent in the first year all of the two-year allocation of stimulus funds, and we will have probably served more than twice the number of people in one year that we said we thought we would serve in two years."

And even with a positive outcome, the longer-term future of national health-care policy looms large. "It is going to be a tumultuous time," Waller says. Providing health coverage will bring people into the health-care system who would have had little choice but to live with their health problems.

"That's going to release a lot of pent-up demand," Waller predicts. "So we're going to go through a period that the health-care delivery system is especially stressed by an upsurge in demand." And those new patients will need new doctors and nurses. "I don't see large numbers of physicians or health systems rushing to open new points of access and new offices in low-income inner-city neighborhoods." This is exactly the role CCHS and organizations like it seek to fill, but recruitment is a challenge. "We're always seeking to identify, recruit, and employ family physicians and pediatricians and general internists . . . and we've already experienced a real challenge with recruiting young physicians."

But Waller's got an eye toward the future. "Sometimes we call it vision casting. . . . I think we will expand. This is a city in which there are still many neighborhoods without any access to care, where people are relying on the hospital emergency rooms as their only realistic access point into care. So I think our goal is to identify three communities of continuing high need and establish them as our priorities for expansion. Now, that's probably not going to happen unless health reform becomes a reality, but our view is that we need to be poised to respond."

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Too Close for Comfort?

Big Philanthropy and the White House

by Richard Tagle and Rachel Gwaltney

In providing quality supports for young people during school and nonschool hours, public partnerships are essential for effective programs to be sustainable and brought to scale. Higher Achievement, a rigorous, year-round academic enrichment program for middle-school students, for example, relies largely on corporate and private foundation grants for general operating support and on public-school systems for students, data, and facilities. It offers a good balance of private investment, helping public institutions to achieve an ultimately collective goal: high student achievement. For the most part, this public-private partnership is a key ingredient for nonprofit organizations to be well-resourced, effective, efficient, and accountable. In short, it enables nonprofits to focus on what they do best and have the greatest possible impact.

For these partnerships to work, however, the public and the private side need to be willing and ready to cooperate: two key ingredients that are not always present. Ideally, however, both parties recognize that they can have maximum leverage when the partnership is open, transparent, and inclusive.

But what if this partnership takes place at the highest level of the political hierarchy? Does it maximize the national impact of the civic sector or restrain it? And do the partnership's benefits trickle down to grassroots work? When the Bill & Melinda Gates Foundation, for example, partners with the Obama administration to set the agenda for education reform, does it create an effective, efficient, and accountable machinery? Or does the partnership cross the line of influencing federal policy and thereby affect community-based work in a way that was never intended?

Much has been written about the convening of 15 states by the Gates Foundation to support these states in their Race to the Top applications to the U.S. Department of Education. States' education officials who were uninvited to this meeting cried foul and claimed that the foundation had used its resources to provide some states with an unfair advantage. The Gates Foundation later revised its invitation to include all states whose strategies match with the foundation's priorities—a smart move, indeed. But will such intense philanthropic support effectively determine policy direction by primarily funding—and favoring—the "Gates states?" Will more states change their strategies to take advantage of this philanthropic support and boost their chances to win Race to the Top funding

Do public-private partnerships like the Gates Foundation maximize the national impact of the civic sector or restrain it?

Richard Tagle is the CEO and **Rachel Gwaltney** is the chief of programs at Higher Achievement.

rather than focus on what works best for their communities? Is the Gates agenda the best way to address these communities' education issues?

The Gates Foundation has done a tremendous job of addressing some of the most pressing global social problems. It has approached these problems not only with major financial backing but also with a bold, grand vision of eradicating disease, finding cures, and elevating the quality of human life. We need bold, grand visions in the private philanthropic sector. Together with the government's ability to take solutions to scale, these creative solutions make a perfect pair.

This approach, however, is a double-edged sword. Nonprofit organizations are accustomed to implementing their core mission as the main agenda. And large private foundations partnering with federal government can impose a heavy agenda. But, one may ask, "If the agenda is good, so what?" The response is, "Good for whom, and according to whom?"

The accountability and transparency that are so present in community-based nonprofit work can easily be absent in partnerships formed at this highest political level. The Gates Foundation was not formed by public vote; nor was its agenda created by an electorate. It was created by the generous hearts and minds of private citizens. In this regard, the White House can promote and espouse transparency and inclusiveness in the process. It is an important symbolic act for the Obama administration to show that it sets itself apart from past administrations in promoting a national agenda—especially when private money is involved. The administration can also outline the role that big philanthropy and grassroots nonprofits together play in solving a national problem.

Public-private partnerships formed at the highest political level often lack the accountability and transparency of community-based nonprofits.

By promoting a more transparent and inclusive partnership, the Obama administration and the Gates Foundation could engage diverse expertise at the federal, state, and local levels. State and local entities could partner with corporate and local private philanthropy to generate the public will needed to align resources with the best strategies available, where the goal would have been to generate *proven* strategies—not merely innovations—that have been implemented through collective efforts. These strategies work because, from the get-go, they are fueled by those who want to bring about change in their communities. No one is forced into the game, and the game's rules have been collectively established, embraced, and followed.

In 2007, for example, Higher Achievement faced serious problems in the Ward 7 section of Washington, D.C. Several student volunteers were mugged on their way from Higher Achievement to a subway stop. Distraught, the volunteers contacted the organization, reported the incident to the police, and chose to stop volunteering at the site. Because the organization relied heavily on volunteers, Higher Achievement needed to address the situation with urgency. Staff contacted every public and community official in Ward 7: city council representatives, advisory neighborhood commissions, the police, church and civic leaders, student councils, and active residents. The community was unanimous in its stance: for the neighborhood to benefit from volunteer support, the safety issue needed to be *collectively* addressed. The police conducted safety patrols, church leaders offered free van shuttles to and from the subway stop, council representatives ordered broken street light posts fixed, shrubs that blocked street views were trimmed, and residents watched for foot traffic when volunteers and students were scheduled to arrive at and depart from the program. The result was not only an increased volunteer pool for the Higher Achievement site but a community that came together. Public entities and private citizens joined to solve a local problem.

Community-based work offers several lessons learned. The solutions are not only about resources—although resources help. When a partnership is truly inclusive and explores the problem from different perspectives, a comprehensive solution surfaces, muscles get flexed in every part, and, ultimately, those muscles lift up everyone involved.

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TREND ALERT

Nonprofit Fees and Taxes: *A Death by a Thousand Cuts*

by the editors

AMID THE BLEAKEST ECONOMIC OUTLOOK IN A GENERATION, local and state governments have looked for new and creative ways to scare up revenue to cover gaping budget deficits and have found the potential for raising additional dollars in levying fees and taxes against nonprofit organizations. These proposals have taken a variety of forms and have been proposed at a variety of levels of government. In many cases, government is trying to eliminate nonprofit exemptions for certain types of fees and taxes. In terms of straight dollar amounts, some of the proposals are small potatoes (such as the story below about food permits), but some have pretty significant price tags (such as the assaults on nonprofit property tax exemption and the Arizona story on child-care licensing fees). And as one nonprofit advocate comments below, when these proposals show up at a moment when nonprofits have experienced a reduction of resources from multiple streams and an increase in demand, it can feel like "death by a thousand cuts." Below we detail some of the proposals we have been tracking as identified through the *Nonprofit Quarterly's* Nonprofit Newswire Service. We reprint these stories here to encourage our readers to read our daily Newswire, where we will track trends in real time.

www.nonprofitquarterly.org Click on **Nonprofit** **Newswire**

In Allegheny County, Pennsylvania, Fees on Nonprofits Vetoed

November 7, 2009; *Pittsburgh Post-Gazette* | We've been following a trend the *Minneapolis Post* called a "death by a thousand cuts." See our Newswires from Minneapolis and Washington State here. More cities and towns across the country have decided to levy fees on nonprofits despite their 501(c)(3) status. Here we finally have some good news. Allegheny County, Pennsylvania Executive Dan Onorato vetoed a bill recently to impose county fees on nonprofit organizations. Citing violations of the county home rule charter, state law, and the Pennsylvania Constitution, Onorato vetoed the measure which, in part, would collect as much as $13 million in fees from as many as 25,000 properties of tax-exempt organizations, excluding churches, schools, and government buildings, starting in January.

—*Aaron Lester*

Nonprofits Will Pay for Food Permits

October 28, 2009; *Yakima Herald-Republic* Recently, we covered a story about the exorbitant licensing fee increases to be newly levied on child-care centers in Arizona. Now from Yakima, Washington, comes this little story about a nonprofit fee exemption for food-service booths at public gatherings being eliminated. While the $54 fee may seem like small potatoes to many, Barbara Harrar, a member of the health district board implementing the changes, anticipates that "all heck will break loose" about the decision among very small community groups that might make a few hundred dollars on such booths. To her credit, she seems to understand the impact on these small but important groups (for some, these booths can be a critical fundraising strategy), but an eroding tax base makes things tight and charging the fee will bring in an estimated $10,000. As we watch the current nonprofit economy change, it is important to recognize all the budget impacts on local nonprofits. —*Ruth McCambridge*

Death by a Thousand Cuts

October 29, 2009; *MinnPost* | New fees are creeping up in Minnesota too. Next year the city of Minneapolis hopes to generate about $155,000 next year from 1,600 nonprofits. It plans to raise the money by charging an average $96 assessment for each "nongovernmental tax-exempt parcel." The nonprofits—which are not required to pay property taxes on their land and buildings—say that they are "increasingly being hit with fees and assessments to pay for elevator inspections, waste water, fire inspections and other local government functions." Oh, and government buildings are not assessed these fees. I suppose this is the thanks you get for providing services, free of charge, that the government would otherwise be saddled with all these years.

—*Aaron Lester*

State Proposes Hike for Child-Care Centers' Fees

October 8, 2009; the *Arizona Republic* | Every which way you turn! In the Summer 2009 issue of the *Nonprofit Quarterly*, we covered the squeeze faced by many child-care facilities that face already declining enrollment from families unable to pay fees on reduced income. In some states, this situation is worsened by cutbacks, but now, in Arizona, a new twist: child-care centers possibly face an enormous (as much as 8,800 percent) increase in annual licensing payments that would likely force them to increase enrollment fees still more. The measure is proposed to make up for other state budget cuts.

—*Ruth McCambridge*

Fees on Nonprofits Resurface in Mayor Ravenstahl's Proposed Budget

September 23, 2009; *Pittsburgh Tribune-Review* | This article hints at the danger to the entire nonprofit sector posed by nonprofit hospitals with suspicious nonprofit credentials. The young mayor of Pittsburgh, Luke Ravenstahl, has taken aim at nonprofit hospitals and universities, among others, for payments in lieu of taxes (PILOTs) to help the city reduce a crushing municipal budget problem. Large hospitals are at the center of the controversy. When Mercy Hospital completed a mammoth merger to become the University of Pittsburgh Medical Center, UPMC offered to pledge $100 million toward a scholarship program for Pittsburgh public-school students and cited its estimate of $500 million in charity care and community benefits programs.

It's not clear that the city is as happy with a scholarship program as opposed to a payment in lieu of taxes that would go into the municipal treasury. Between 2005 and 2007, an umbrella group of nonprofits—the Pittsburgh Public Service Fund, made up of roughly 100 nonprofits—"donated" $14 million to the city budget and has offered $5.5 million for 2008 through 2010, an offer the city's finance people have not yet accepted. UPMC calls itself a major participant in the Service Fund, which is debating the city's revenue plan. The part of the city's plan that actually affects nonprofits is a $15 million fundraiser that includes various unspecified fees on all-day parkers, college students, hospital patients, and increased water fees on large nonprofit water users (clearly hospitals and universities). The challenge for nonprofits is how much the majority of nonprofits—which are tiny (93 percent have less than $1 million in total revenue)—are affected by changes in government treatment of the largest, wealthy nonprofits such as hospitals and universities, and if state and local governments change the terms on the property tax or fee treatment of large nonprofits such as hospitals and universities, when (and for how long) should all nonprofits go to the mat for the biggest ones? —*Rick Cohen*

OPINION

The Charitable Property Tax-Exemption Debate

The financial crisis has affected public-sector and nonprofit relations in one city, which has taken an age-old debate nationwide.

by Kevin Kearns, Jonathan Livingston, and Christine Waller

For local governments across the country, real estate property taxes are an important source of revenue. Charitable organizations that do not pay property taxes create special budgetary challenges for municipalities with large land-owning nonprofits, such as universities and hospitals. Recently, Pittsburgh, Pennsylvania, has become the epicenter of heated debate on how local government should face this challenge amid serious fiscal distress.

Southwestern Pennsylvania's large nonprofit sector is concentrated especially within the boundaries of the city of Pittsburgh. Estimates suggest that 35 percent to 40 percent of Pittsburgh's property is not taxable. Although the land is owned mostly by federal, state, and local governments, nonprofits also own a significant portion of this nontaxable property. Thus, as local taxing jurisdictions have challenged charitable property tax exemptions on legal grounds, imposed municipal service fees, or asked nonprofit institutions to voluntarily contribute to public coffers through payments in lieu of taxes (PILOTs), tensions have mounted.

During the summer and fall of 2009, the debate gained significant momentum, as city and county officials floated—and now have tabled—various increasingly harsh proposals, including levying additional taxes on nonprofit payrolls, fees on hospital patients, service fees on dormitory rooms, a service fee on nonprofit property calculated by square footage, and, finally, a "fair share" tax on students.

Conflict over property tax exemptions is nothing new in Pennsylvania. Prior to 1997, the property tax exemption for Pennsylvania nonprofits was governed by a Pennsylvania Supreme Court case interpreting the state constitution's exemption from property taxes for "organizations of purely public charity." *Hospital Utilization Project v. Commonwealth* established a five-part definition of a purely public charity that was so stringent that many nonprofits worried

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that if required to do so in court, they could not meet the test. Emboldened by the case law, local governments in Pittsburgh and Philadelphia extracted significant concessions from large nonprofit institutions, especially hospitals and universities, often via contentious negotiations and thinly veiled threats.

Act 55 of 1997 softened the definition of a purely public charity and explicitly exempted nonprofit hospitals and universities. With the passage of Act 55, local taxing jurisdictions in Pennsylvania were forced to be less confrontational. In Pittsburgh, this took the form of a roundtable of nonprofit and government leaders, which negotiated a lump-sum payment from the nonprofits to the city of Pittsburgh. But contributions from the roundtable of nonprofits never met the expectations of city officials, resulting in a series of claims and counter-claims about broken promises. But since the economic collapse of 2008, as all parties began to feel the effects of the crisis, rancor increased. Nonprofits claimed that they could no longer afford the level of voluntary payments they had made in the past, while the city claimed that it needed even more contributions to meet its obligations.

In 2007 the major health-care system in the region broke ranks with the roundtable and established its own corporate social-responsibility initiative: a fund to provide partial college scholarships to any student who graduated from the troubled Pittsburgh public-school district. Meanwhile, the same health-care system incurred public criticism for appearing to operate as an aggressively competitive business rather than a charitable organization and for closing a hospital that serves a poor community.

An Arcane Revenue Structure

Amid the increasingly dysfunctional discourse, the Johnson Institute for Responsible Leadership, a program of the Graduate School of Public and International Affairs at the University of Pittsburgh, convened a forum of local and national experts on November 6, 2009.

The panel experts forged a balanced dialogue on a divisive issue, exploring the historical context that frames the current debate in Pittsburgh and around the country. Along with issues of accountability and ethics for nonprofit institutions and municipal governments, legal precedents were discussed. Those at the forum agreed that a structured and civil dialogue would align different sectors in creating a solution that must be reached at the state level.

Panel expert Woods Bowman identified one of the major difficulties in addressing the issue: we are "trying to solve twentieth-century problems with a nineteenth-century revenue structure," Bowman noted.

Echoing Bowman's sentiment, Sabina Deitrick stressed that the "bell towers of the universities have replaced the smoke stacks of the cities as the driving forces in Pittsburgh's economy." She emphasized that outmoded municipal tax structures simply do not work today.

Offering possible solutions, James Turner referenced the state of Connecticut as a potential model. In 2008, Connecticut reimbursed local governments with $120 million to account for tax-exempt value not paid by nonprofits. But getting Pennsylvania to consider such measures will require considerable reformation of existing state procedures.

When local groups come together and put pressure on the state, the state government will respond.

Historically, diverse groups of institutions have worked toward structured solutions to these kinds of problems. When local groups come together and put pressure on the state, the state government will respond, Turner noted.

Community Implications

Despite an unambiguous Pennsylvania law about the rights and privileges of nonprofit property owners, local taxing jurisdictions continue to press for concessions and threaten to circumvent existing law. Minnesota went through a similar battle in 2008, ultimately requiring the legislature to adopt a new definition of "organizations of purely public charity," with the final support of nonprofits, local assessors, and the state's Department of Revenue. While still unfolding, the Pittsburgh example offers important lessons for other communities that have struggled to reconcile

Charity Begins at Home

By Woods Bowman

Should nonprofit organizations pay their fair share to support local government services and school districts? This is a loaded question, but this is precisely how local public officials seeking to extract money from nonprofits by special taxes or "voluntary" payment frame the property tax-exemption issue.

Lost in the debate are a few key facts. Most exempt property is government owned. Oops, let's revise that statement: most nonprofit exempt property is owned by churches. Oops, again: these churches are seemingly untouchable. Beyond these institutions, universities, hospitals, and cultural institutions own the most property, but the most recent adverse court ruling on the tax exemption issue was against a Minnesota day-care center. It is entirely conceivable that property taxes would eat up more of a day-care center's budget than they would the budgets of big institutions.

In most states, tax law invokes the concept of charity as the basis for deserving exemption, and courts have created convoluted and inconsistent multipart tests to define it. Whether intentional or not, these jerry-rigged definitions punt the problem back to tax administrators.

Both sides accept an implicit—and false—assumption of the debate: that the problem is fundamentally economic. The underlying assumption is that governments and school districts lose revenue or taxpayers are disadvantaged. But neither is exactly true, and revenue loss is not a foregone conclusion. The misperception that tax-exempt property creates revenue loss is based on erroneous reasoning by analogy. People are familiar with sales taxes and income taxes and they have seen exemptions to these taxes reduce revenue, so they assume property taxes work the same way. But the property tax is different from every other tax. It is designed to collect whatever is needed to balance government budgets, which means that the rate is reset every year. The problem is a political one: that is, how high should the tax rate be?

When property is removed from the tax rolls and put to charitable use, taxpayers get hit with a double whammy. First: they pay more in property taxes. Governments might keep rates constant by cutting spending, but we know that won't happen. Second, the market value of their property falls. When a person buys a home, he acquires a permanent tax liability, so he must take property taxes into account deciding on a location. Higher taxes mean less demand, which means lower home values.

Undeniably, there is a real problem, but it is a political, not an economic, one. Local public officials do not want to raise taxes, and taxpayers would welcome any rate relief they might get from taxing a few nonprofits. Facts about the economic contributions of nonprofits to the community are irrelevant. Worse, in the hands of a skillful opponent, such facts can be inaccurately portrayed. Consider this proposal based on economic contribution: "If your nonprofit generates so much economic activity, you can afford to pay taxes." Or this: "Business generates more economic activity than do nonprofits; should that entitle them to exemption too?"

Nonprofits must think politically but not in a partisan way. They must become more self-aware. If their communities do not see nonprofits as relevant to them, if they do not value the nonprofits in their backyard, then nonprofits can expect repeated assaults on their tax privileges. Public service is the essence of "nonprofitness," and nonprofits should explicitly include the public in their communities among the larger public they serve. Why expect neighbors to be impressed by good work toward others if they do not see good work directed at them? As the saying goes, charity begins at home.

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the historic rationale for nonprofit property tax exemptions with today's fiscal realities. It is clear that all parties have a responsibility to engage in problem-focused discussions of the issue.

To resolve this issue, nonprofits need to assume broader leadership and accountability. The onus of this leadership falls largely on the leaders of acute-care hospital facilities and educational institutions, as they are often the target of public-sector hostilities. These entities need to understand that it is not useful to base their arguments solely on the fact that they significantly contribute to local economies through employment and derivative investments. In Pittsburgh, nonprofits contribute a staggering $17 billion annually to the regional economy and, in the wake of the industrial decline, have arguably been the economic salvation of the city. Regardless, for-profit firms also contribute significantly to local economies, and they are taxed. Nonprofits must base their claim for tax exemption on their charitable outcomes, not on their economic impact.

Nonprofit institutions must also refrain from financial doublespeak, which they have done, for example, in claiming to be charitable institutions while simultaneously operating like any for-profit business. Amid the increasingly contentious public debate over tax exemptions, the large university-affiliated health system in Pittsburgh announced plans to close a financially distressed hospital in one of the poorest communities in the region. As public officials claimed that the decision violated the charitable purpose of the health system, tempers flared further. Nonprofits have a fiduciary obligation to make the best use of their limited assets, and sometimes they must make the difficult decision to close facilities.

Nonprofits should also be cognizant that efforts to define the terms of the negotiations may backfire. The initiative of the large health system in Pittsburgh to fund college scholarships for public-school graduates was implicitly cited as a substitute for making a tax payment. In fact, just before the scholarship initiative was launched, the health system asked that any donations to the program be deducted from future tax obligations in the event that its tax-exempt status changed. This last-minute request resulted in significant public criticism of the health system. The scholarship program itself did nothing to assuage the concerns of Pittsburgh officials and, indeed, may have incensed officials further.

Nonprofits must not shoulder the burden of paying for financial mismanagement or legacy obligations. It is no secret that the city of Pittsburgh has tried to minimize its unfunded pension liability by placing the burden on college students, who had no role in creating the problem. Service fees based on square footage of property are nothing but a property tax masked as a fee; service fees based on a percentage of tuition are arbitrary and capricious. Attention must be focused on the nonprofit institutions, not on those who use their services.

Local taxing jurisdictions must also avoid ploys that raise the stakes or shift the discourse from the negotiating table to the tabloids. The ploy of the city of Pittsburgh to place a tuition tax on students is questionable on legal grounds but plays well in a working-class community with entrenched town-and-gown tensions. Such obvious ploys do little to advance the public interest with civility and instead foster a climate of hostility and rancor.

Local governments have directed their attention toward nonprofit organizations that generate a substantial amount of earned income. "Government sees PILOT programs as a way to tax income instead of properties," Evelyn Brody asserted at the forum convened by the Johnson Institute. "That's why the hospitals and universities are attractive and not churches. . . . This is really an extralegal self-help policy."

Local governments and nonprofits hope that state government will take responsibility for relieving the local government's fiscal squeeze. Because states grant taxing authority to their localities and also exemptions to nonprofits, they must be part of the solution. This can be done by compensating local governments for lost revenue or by authorizing new sources of revenue for local jurisdictions. As the forum noted, antiquated state revenue structures need to be revised for the new economic environment. Like many other cities that are home to large nonprofit institutions, the city of Pittsburgh offers many benefits to the surrounding region. Yet it must fund these assets largely on its own with an antiquated property tax. Commuters from surrounding suburban towns who work in Pittsburgh, for example, pay only $52 per year to work in the city. A small portion of the region's sales tax supports some of the city's nonprofit assets. But more regional support must be given to nonprofit assets that have a regional impact.

Nonprofits must base their claim for tax exemption on their charitable outcomes, not on their economic impact.

Nonprofits, local taxing jurisdictions, and the state government all have a responsibility to resolve this issue, and the resolution hinges on a structured and civil dialogue involving key leaders from all sides.

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Local Conditions Vary: Assessing Your Nonprofit's Financial Position

by Kate Barr

Assessment of Recession Risk and Preparedness for Nonprofit Organizations

This tool offers a quick assessment of risk in four essential areas for nonprofit organizations. The rating and guidance provided will help to start discussions, set priorities, and focus attention as nonprofits develop plans to weather the recession. This assessment is a starting point developed to indicate the level of urgency and priority. It cannot take the place of a comprehensive organizational review or in-depth analysis of financial trends and forecasts.

In the blizzard of headlines, financial news, forecasts, and surveys, individual nonprofits can easily get swept up by the most recent reports of impending crisis or hopeful recovery. But the conditions of another nonprofit, or even 100 other nonprofits, aren't an accurate predictor for your organization. In all forecasts, "local conditions vary," and the most relevant information is the situation at an individual nonprofit organization. Only by clearly understanding its own financial position, strengths, and risks can a nonprofit develop strategies to respond to the economy and plan for the future.

In our contact with hundreds of nonprofits in Minnesota this year, the Nonprofits Assistance Fund has worked with organizations in every degree of financial health or distress, from rock solid to previously solid to solidly in crisis. In every case, heightened uncertainty about revenue and client demand adds to the complexity of decisions. As nonprofits have had to quickly make decisions about program and staff cuts, budget reductions, and cash reserves, we've seen too many examples of organizations taking action without fully considering their "local conditions."

We have found that the information or assessment gap falls into four categories:

1. overestimating or underestimating the current financial condition of an organization;
2. relying on inadequate, inaccurate, or untimely financial information;
3. overlooking important internal and external environmental factors; and
4. leadership gaps and delays among the management team, the board of directors, or both.

To help nonprofits quickly analyze their local conditions, we developed the Assessment of Recession Risk and Preparedness for Nonprofit Organizations tool to provide a starting point for nonprofits in identifying risk factors and immediate priorities. The tool's 20 questions cover financial condition, financial information, organizational change factors, and leadership. For nonprofits in fragile financial condition, the assessment helps to identify how urgently they need to act and where to start. For healthy organizations, the assessment has been valuable for leadership team and board discussion about strengths, risks, priorities, and opportunities. Whatever your starting point, we hope you find this tool useful.

Kate Barr is the executive director of Nonprofits Assistance Fund.

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	Financial Health	1 point	2 points	3 points	Score
1	Number of the most recent three fiscal years that ended with a surplus in unrestricted funds (positive change in unrestricted net assets)	3 years	2 years	0 or 1 years	
2	Percentage of contributed income included in the budget that is committed or highly reliable	75% or more	50%–75%	Less than 50%	
3	Percentage of contracts and earned income included in the budget that is committed or highly reliable	75% or more	50%–75%	Less than 50%	
4	Percentage of variance between budget and actual results for total income for the most recent year	Less than 10%	10%–18%	More than 18%	
5	Number of months in the past year in which cash flow challenges required out-of-the-ordinary steps such as delayed payments or use of reserves	None	1 or 2 months	3 or more months	
6	Number of months of operating expenses available in unrestricted cash (whether designated as reserve or not)	More than 3 months	1 to 3 months	1 month or less	
7	Percentage of annual budget supported by income paid from an endowment	Less than 5%	5%–15%	More than 15%	
	Financial health risk total 9 or less: lower risk; 10–12: moderate risk; 13 or more: high risk				

	Financial Information	1 point	2 points	3 points	Score
8	Budgets and actual financial performance, including full program costs, are understood and monitored for each significant program	Yes	Somewhat	No	
9	Financial reports prepared by staff or outside contractors are accurate and available every month within 30 days of month end	Always	Usually	Sometimes	
10	Accurate cash flow projections are prepared and used for management decisions	Montly	Quarterly	Irregular or never	
11	Financial information identifies and tracks use of grant funds received for restricted purposes	Always	Sometimes	No	
12	Annual audit is completed in a reasonable time after the fiscal year	Within 4 months	4–7 months	More than 7 months	
13	Required reports and data submissions for funders are prepared and submitted on schedule	Always	Almost always	Inconsistent	
	Financial information risk total 8 or less: lower risk; 9–10: moderate risk; 11 or more: high risk				

	Organizational Change	1 point	2 points	3 points	Score
14	Length of time the executive director or CEO has been in the position	More than 3 years	1 to 3 years	Less than 1 year	
15	Significant changes in program or strategic direction have been implemented in the past two years	No	Some change	Major change	
16	Level of increase (or decrease) in quantity or level of program services provided in past 12 months that were driven by external changes	Typical	Above average	Significant	
17	A capital campaign or building project is currently under way	No	Small project	Large project	
	Organizational change risk total 5 or less: lower risk; 6–7: moderate risk; 8 or more: high risk				

	Leadership Engagement	1 point	2 points	3 points	Score
18	All staff leaders understand the organization's financial condition and risks and their role in addressing the current situation	Yes	Somewhat	No	
19	The majority of board members understand the organization's financial condition and risks and their role in addressing the current situation.	Yes	Somewhat	No	
20	Tangible action has already been taken to prepare for and respond to the downturn and prepare for a tougher economic environment	Yes	Minimal	No	
	Leadership engagement risk total 4 or less: lower risk; 5: moderate risk; 6 or more: high risk				

Using the Risk Assessment Scores

Financial Health Risk Level

High: The financial weaknesses allow little breathing room and require urgent and decisive action and short-term planning.

Moderate: Scenario planning is important using conservative assumptions for highest-risk items. Test all assumptions.

Lower: Strong financial health allows for longer-term planning and affords opportunities for innovation and strategic partnerships.

Financial Information Risk Level

High: Smart, timely decisions can't be made without reliable information. The first priorities are tracking cash flow and budgets.

Moderate: Focus on improving areas of weakness, especially understanding true program costs, restricted grants, and cash flow.

Lower: If budgets are reduced, try to maintain the infrastructure for reliable financial information to support management.

Organizational Change Risk Level

High: Multiple, simultaneous changes require diligent oversight, a focus on strategic goals, and a willingness to say no.

Moderate: Big changes put pressure on everything and require balanced decisions based on level of risk in other areas.

Lower: Because major change is not yet a factor, stay focused on managing uncertainty in other areas.

Leadership Engagement Risk Level

High: The organization urgently needs a leader to step forward to call attention to the challenges, even if it causes discomfort.

Moderate: Champions within the organization need to work together to bring others up to speed and focus them on taking action.

Lower: Leaders who have taken steps to plan and manage challenges can help develop others in the organization.

What Makes a Difference in Leadership Development? A View from the Field

By Mohan Sikka, Carolyn Sauvage-Mar, and Jean Lobell

It is well known that the quality and the depth of organizational leadership affects many things in an organization—not just outcomes, but also reputation, integrity, innovative capacity, flexibility, and revenue. Today, when nonprofit leaders and emerging leaders are already stretched past their capacity, the idea of pulling them out of their work to engage in leadership workshops may seem like an indulgence. And yet there are critical "learnable moments" in the work of nonprofit leaders, many of whom have extended into new territory to keep their organizations not just alive but powerful in an unpredictable environment. How can we make the most of this opportunity?

Over the past five years, Community Resource Exchange (CRE) in New York City has run a leadership development program anchored in the real workplace-related problems people are trying to solve. The program focuses on helping leaders hone their reflective capacities, make use of peers as consultants, and practice the implementation of real change in their own organizations. The basic model includes the following components:

- issue-based sessions on leadership topics;[1]
- facilitated small team problem solving (or action learning);
- support from a 360-degree feedback opportunity (and individualized coaching when resources are available); and
- a one-day extended case, or management simulation.[2]

What We've Learned

Caucus participants have been able to survey their leadership style, organizational needs, and field standards to perfect their leadership capabilities. One participant notes:

> The CRE Leadership Caucus has [enabled] me to do more than . . . look at the needs of my agency, the demands of my constituents, and the standards set by the field. It has encouraged and challenged me to examine myself as a leader and to determine what kind of leader I am and will aspire to become. The 360-[degree] evaluation, our small groups, the simulation, and several training sessions helped me. . . . I realized how difficult it is for me to have difficult conversations with employees and how I set myself up for burnout by not holding others accountable for their responsibilities or the same level of excellence. I learned that I can be aggressive and demanding of myself and no one else and that this is counterproductive in many respects.

In 2009 we launched a formal evaluation study[3] to answer questions that have driven the development of the Leadership Caucus: "Can a leadership development experience create positive change in leadership practices and even organizational effectiveness? What about the experience makes the difference?" The study involved the first five cohorts of 88 leaders who completed a caucus between 2004 and 2008.[4] (To date, 150 nonprofit leaders in seven cohorts have completed a caucus. The evaluation study focused on the first five cohorts.) Since the completion of the study, the findings continue to be corroborated with participant feedback from the sixth and seventh caucuses.

There are several key takeaways about what works and why. Some of the lessons learned affirm our initial hypotheses; but other findings were unexpected.

1. **A caucus is greater than the sum of its parts.** More than simply providing variety and accommodating different learning styles, the multiple learning methods are critical to the caucus's high impact for several reasons:

- multiple learning methods reinforce one another in unexpected ways;
- one mode provides the opportunity to implement something learned in another (for example, action learning provides the space to "try" something learned in an issue session or a simulation);
- together, the four methods create a "reflective, learning space" and a rich learning environment; and
- no single aspect of the caucus could have had the impact of the many parts taken together.[5]

2. **The duration and frequency of sessions are critical, but not for the reasons expected.** A peer group forms quite readily, but the duration allowed relationships of a certain depth and quality to be made. Groups continue to meet informally and formally after the conclusion of the caucus.

Length gave participants the opportunity not only to make personal leadership changes but also to make changes at the organizational level with peer support. Participants felt supported to take risks. Eighty percent implemented some organizational-level change, most successfully. This was especially gratifying, because changes in organizational performance are the highest-level changes envisioned in the study and something we were not sure could be achieved.

Duration gave participants the opportunity to be debriefed and receive feedback in real time so that they had more than one chance to practice new behavior.

Participants reported that they learned by doing, tried new behaviors, and received reinforcement and feedback from peers within the caucus. Peer networks emerged naturally because of shared experience in a safe, facilitated setting. Participants cited connection with others as an antidote to feelings of isolation in their leadership roles. They also noted that practical problem-solving exchanges with peers were essential in risk taking within their organizations following the caucus.

3. **Program design matters.** While the Leadership Caucus's methods are not uncommon in the field of leadership development, the *mix and structure* is an important factor in participants' reported success. The opportunity to try and practice new behaviors is as important a design ingredient as providing best practices information. Key takeaways were the following:

- design assumptions correctly anticipated that adults learn better by sharing and doing;
- learning from other participants was sometimes more powerful than learning from facilitators;
- issue-based sessions, most like a "workshop" format, work best when they are (1) highly interactive and (2) designed as a staging point for other caucus components. This prompted us to add more time for small-group exchange within issue sessions and a short action learning session at the end of each issue session;
- As mentioned previously, the program design reinforced methods in unplanned ways. One caucus component provided the opportunity to explore something that was triggered in another component.

4. **Prior relationships and familiarity with organizations are vital for developing the caucus.** These relationships are invaluable in attracting participants eager for the growth opportunity and for whom the leadership issues are relevant. Hands-on and early involvement with outreach and vetting of candidates was critical in recruiting busy, sometimes-skeptical leaders to participate and grouping these leaders into appropriate cohorts.

5. **Workshop-like sessions triggered change.** Of the four methodologies, the issue-based session is closest to the classic workshop format, which the literature reports as not having produced the greatest impact. Yet the issue-based sessions in the Leadership Caucus triggered greater change than anticipated. We believe this is because of the relevance of the topics, which focus directly on participant experience and the day-to-day realities of leading a nonprofit. Further, the session topics serve as the "staging point" and work well with other caucus components.

6. **Readiness is a key factor for successful participation.** "Low impact" participants—those for whom the caucus program did not significantly change behavior—cited the following reasons for their inability to sustain gains from the caucus: their preferred learning style (individual versus large group setting), some design and facilitation aspects not aligned with their learning style, and their inability to make the time commitment needed for the caucus.

The evaluation data reinforced our experience that the Leadership Caucus works well. One key finding was that a high percentage of respondents—88 percent—report reaching three out of four outcome levels: heightened awareness and insight into their leadership challenges; increased confidence and desire to address leadership challenges; and changes in their own leadership practices. One participant was humbled and empowered by her self-discoveries: "The caucus has given me reason to . . . honestly [look at] what I'm doing, why, and how. The 'aha' was . . . in accepting the need to just stop sometimes. In a position where I'm constantly assessing the work product and management style of subordinates, I don't do enough self-assessment. [The process] validated some of my greatest strengths while pointing out weaknesses that I'd too frequently dismiss."

CRE's High-Impact Success Stories

Alice* is the executive director of a grassroots advocacy organization in New York. The organization came into being after September 11, when a group of concerned immigrants decided to take a stand against discrimination and hate. Early roles in the organization were defined flexibly. Everyone pitched in, even the executive director and board members.

In 2006, at a turning point in the organization's growth, Alice attended Community Resource Exchange's Leadership Caucus. The organization had just moved from an organizing board to a governing board and handed over day-to-day program responsibility to Alice as the executive director. At this time of transition, Alice shared her concerns with peers about fully taking on the mantle of staff leader. Alice reports "feeling like a sponge for learning" during the caucus and being especially drawn to the content on managing change. She found the action learning sessions structured in small groups helpful. She left with specific guidance on her unique problems and the awareness that others had faced similar situations in their development as leaders.

As a result, Alice was able to counsel her board to give her the authority to do her job, which meant giving her a role in setting strategic direction, not merely being an executor of decisions. Alice attributes her ability to have the courageous conversation with her board to the coaching she received as part of her 360-degree evaluation and to the support of her peers. Alice has kept in touch with caucus colleagues and has even developed joint programming with one of them. The agency recently opened a second office on the West Coast and, over the next year, plans to establish a national advocacy presence, which is remarkable growth for a group that had only a local identity five years ago.

Joseph* is the founder of a group that provides urban youth with the skills and support to matriculate at selective colleges and competitive law schools. Although Joseph had been "in the business" for 20 years, when he took part in the caucus, he still saw himself as an emerging leader. He had never taken part in a formal leadership development program and didn't know what to expect.

Joseph found the issue-based sessions particularly useful, especially when peers shared their experience of working with a board or their challenges in delegating to a senior team. Joseph used the caucus experience to implement two critical changes he had considered for some time: implementing a robust program evaluation as a key part of leading an organization to higher performance; and coaching his management team to take on greater responsibility. "Our management team now functions well because I delegate more and hold them accountable more," Joseph notes. "We lost a few staff who were barriers to the team's effective functioning. But this has actually helped. I now feel very confident in the team's ability to take over should something happen to me." About the organization's evaluation system, he says, "We've made both minor and major modifications to our programs based on what we've learned from our data. The evaluation system was nonexistent before the caucus. The need for it was sparked by what I picked up during that experience."

* The names in this article have been changed.

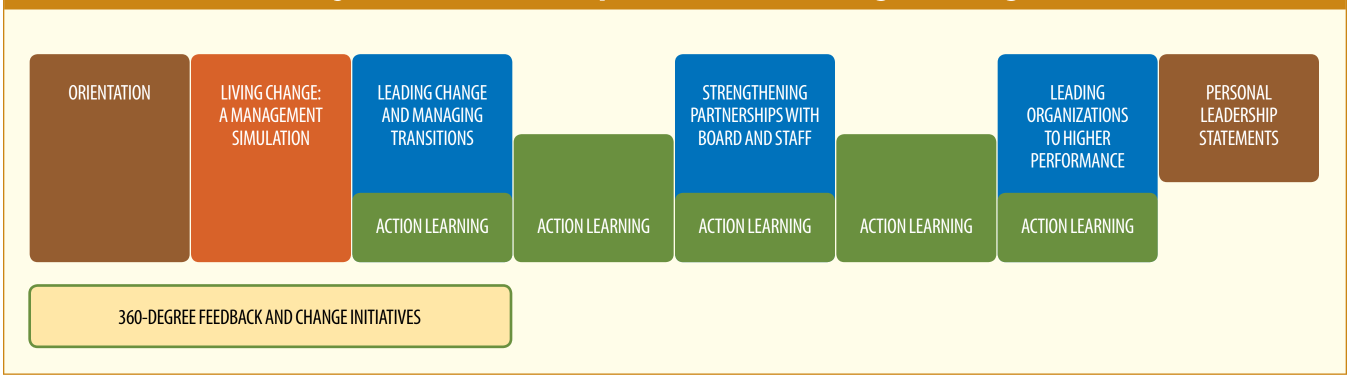
Another key finding was that 80 percent of participants have begun to make effective changes in their organization, which includes self-identified "small" and "large" changes. This is important. Implementing organizational change is the most difficult outcome to accomplish and measure. The result is, therefore, a meaningful indicator that the caucus has helped participants make organizational improvements. In the words of one participant: "Fueled by the ideas presented, [my board chair] and I . . . initiated a board retreat to discuss and develop a long-term vision and an outline of future strategy. . . . Everyone on the board very much welcomed this opportunity to stabilize and focus on our upcoming tasks and challenges." Another participant reports that his organization's policy advocacy efforts were enhanced by strategies discussed at the caucus. "I followed through on these recommendations, and it has led to positive outcomes. Staff members are now much clearer on our strategic direction. . . . [They] are thriving, and one staff member who was resistant about this strategic direction . . . has begun to take the initiative to speak at public hearings and meet with other advocates."

Because the results are promising, the Leadership Caucus retains all the basic elements of the original design: issue-based sessions on leadership topics, action learning, a 360-degree feedback opportunity, individualized coaching when resources are available, and a one-day management simulation. The eight-month format remains highly interactive, grounded in the latest leadership development theory, and anchored in the realities of community-based organizations.

Figure 1 shows the design of the Leadership Caucus for the first five caucuses; figure 2 features the current design. Although the original design worked well, we tweaked the caucus for quality improvements, including making sessions more participatory and further enhancing real-time problem solving and peer exchange. As part of continuous improvement, we moved the simulation earlier in the caucus, consolidated issue sessions, and added time for action learning at the end of full-day issue sessions.

Figure 1. **CRE Leadership Caucus: Original Program Design**

Figure 2. **CRE Leadership Caucus: Current Program Design**



Program Enhancements

Inevitably, we considered other changes that could improve caucus impact. The following ideas are based on feedback from participants as well as on our own experience of what works:

- **Coaching, coaching, coaching**. During the caucus, the 360-degree feedback session was followed by coaching for a few cohorts where funding was available. Our findings indicate that such coaching is transformational. One caucus participant learned from his 360-degree report that he hadn't adequately shared his vision for his organization's future with his large and dispersed staff, which had affected morale and motivation at a time of rapid change. Through coaching, this executive worked with a CRE consultant to identify practical ways to transmit his vision to the rest of the organization and test reactions. They devised mechanisms to convey vision, such as a regular newsletter column and a "big picture" moment at the beginning of key meetings.

  Increasingly, we have received requests for leadership and management coaching as part of the caucus or as a standalone engagement, which suggests that executives find this mode of personal development effective.
- **Follow-up**. Organized follow-up after completion of the program may be key to sustaining the gains. Participants have consistently suggested affordable and relatively simple follow-up events. One participant corroborated this feeling: "I'll miss sitting among my peers in a setting where collaboration and shared learning are the common goals. I'll miss having the time and the space to separate myself from the frantic pace of my typical day to reflect on what I'm doing right and how I can do it better."
- **"I wish my board chair were here."** During the caucus, we often hear about the need to bridge the board–executive director partnership and to address the leadership challenges of boards. Effective board leadership is critical to the health of organizations but—when it comes to practical capacity-building opportunities—relatively neglected.[6]

Implications for Nonprofit Leadership Development

The challenge for the nonprofit sector is to act on knowledge about what works. This article describes a unique leadership development program that is ready for replication. The results cited here make clear that a leadership program with the key elements we describe[7] can affect leadership practice and organizational effectiveness. Since the impact of traditional, one-off workshops and seminars is known to be limited, more must be done to establish robust learning environments as the norm for leadership development for nonprofit organizations. We would like to see comprehensive leadership development initiatives move beyond the status of nice-to-have to become a supported, pivotal part of the nonprofit sector's commitment to organizational growth and development.

As critical as leaders are in moving organizational agendas forward, they cannot do so alone. They need their boards and teams to develop strategies and mobilize action toward goals. If boards and teams share a common leadership perspective, we could shore up their efforts. To this end, in November 2009, CRE launched a board leadership caucus. But the sector still needs to bring this leadership development experience deeper into organizations' management ranks.

Sustainability is the other big question mark. How well can participants sustain their gains without further support? Participants have suggested post-caucus follow-up events consistently. When a follow-up was made available to the cohort of deputy directors, the impact was noticeable. Some have become executive directors or have taken on greater management responsibilities. What can the sector do to provide high-quality, effective post-program follow-ups at relatively low cost?

CRE is ready and willing to play a role in the growth and dissemination of such high-impact learning models, including partnering with other providers to implement a leadership caucus or related offering. In a world of hard times and unpredictability, nonprofit leaders are—now more than ever—one of our sector's most important resources. They deserve our creativity and support.

Endnotes

1. All caucuses included a similar palette of half-day issue-based sessions on topics such as moving beyond managing to leading, managing transition, building a talent bench, and using data as a management tool. Funder-specific caucuses included topics such as facing the challenges of race, gender, and class differences; fundraising and fiscal management; and strategic planning and management. Half-day sessions have been consolidated into interconnected morning and afternoon sessions spread over three full discussion days (see figure 2). A first day is devoted to leading change, a second day to building stakeholder relationships, and a third day to the multiple dimensions of organizational performance.

2. The management simulation realistically replicates the challenges in nonprofit management, requiring participants to make difficult decisions under pressure, lead and manage change, and work as a team. It enables them to try new behavior in a low-risk environment.

3. Launched in August 2009, the evaluation study was funded by the New York Community Trust, one of the primary funders of Community Resource Exchange's Leadership Caucus.

4. The study employed a three-part analysis: (1) it assessed the overall impact of the Leadership Caucus on individual leadership effectiveness and organizational performance; (2) it isolated the relative impact of the various components of the caucus; (3) it identified common themes, attributes, and differences among "low impact" and "high impact" caucus participants. High-impact participants demonstrated significant positive change as a result of caucus attendance. Low-impact participants are those for whom the caucus made little demonstrable positive change. Table 1 describes two high-impact cases.

The study used four outcome levels and three sources of data. The desired outcomes were categorized in order of difficulty to achieve:

Level one: Awareness and insights gained

Level two: Desire for/confidence to change

Level three: Changes in leadership practices

Level four: Changes in organizational performance

The three data sources were (1) personal leadership statements completed by participants at the end of the caucus; (2) post-caucus surveys, which CRE administered between one to four years after participants completed the program; and (3) in-depth Interviews, which CRE conducted with high- and low-impact participants one to four years after completion of the program.

5. These observations are consistent with the literature, which posits that the totality of a learning experience makes a difference in outcomes.

6. The caucus includes an issue session for executive directors on partnering with a board. Participants reported on the session favorably. They now have greater awareness, desire, and ability to improve their own practices regarding their boards. On the other hand, they also say that they believe they can make only limited change in board governance. The broader issue is how the sector can bring best leadership practices to the board "theater." To this end, CRE launched a board chair leadership caucus in November 2009.

7. These elements include a program of appropriate length and frequency, multiple learning methodologies working in synergy, feedback mechanisms, a focus on change initiatives, and a strong peer group of participants.

Mohan Sikka is a senior project director at Community Resource Exchange; **Carolyn Sauvage-Mar** is a senior fellow, and **Jean Lobell** is a managing director at CRE.

Beware Your Leadership Blind Spots

By Kirk Kramer and Gail Perreault

All organizations have relative strengths and weaknesses; nonprofits are no exception. And when a nonprofit's environment becomes strained, it makes sense to enhance organizational strengths and address glaring weaknesses. The problem is, it's difficult to address something you cannot see.

What's in Your Blind Spot?

We all have them, of course. We think we are masters of dry wit even when others think we are unbearably tiresome. We think that our casseroles are world class, while others politely choke them down. But this inability to, in the words of the poet Robert Burns, "see ourselves as others see us," can jam up the works in organizational life.

Even under the best of circumstances, giving feedback on an organization's effectiveness to those in higher positions can be difficult. Yet nonprofit leaders need to make sure they're getting this feedback; without it, executives can overestimate their organizations' capacity and neglect areas that need improvement. Data from the Bridgespan Group supports this and indicates that leaders' blind spots about their organizations emerge in some areas more than in others.

Bridgespan identified some of these blind spots during the course of administering an organizational diagnostic survey to clients over the past four years. Bridgespan's survey was adapted from a Bain & Company client survey in which management teams rate their organizations in five categories essential for organizational effectiveness: leadership, decision making and structure, people, work processes, and systems and culture. The survey sample was made up of organizations' executive directors and emerging leaders (e.g., a program head or division head).

Bridgespan also compared the survey responses of executive directors with those of their management teams in a group of 91 nonprofit organizations participating in the Bank of America Charitable Foundation's Neighborhood Excellence Leadership Program (NELP). Part of the company's Neighborhood Excellence Initiative, which awards outstanding nonprofits selected by community stakeholders with flexible funding and leadership development, NELP is full of strong performers; the average score on organizational effectiveness is higher than the average in Bridgespan's database of 60 nonprofits. (In conducting the survey, we also observed that nonprofits and for-profits tend to rate their overall level of organizational effectiveness quite similarly.)

The results? Generally speaking, executive directors had a more favorable view of their organization's capacities than did their up-and-coming counterparts.

There were areas of surprising alignment, including the following:

- the degree to which an organization's vision is compelling;
- clarity about the organization's impact; and
- the extent to which an organization's culture inspires staff and contributes to strong performance.

But on other questions, executive directors' scores were considerably higher than their emerging leaders', signaling potential blind spots in a few areas:

- the extent to which an organization clearly communicates its priorities;
- the degree to which decision roles and processes are well understood; and
- the degree to which an organization can implement change.

Ways to Improve Your Leadership Eyesight

Fortunately, there are ways to improve "leadership eyesight."

First, invest in formal and informal feedback systems to keep a finger squarely on the pulse of your organization. Surveyed NELP leaders do so in the Bank of America Charitable Foundation's program. Through a 360-degree review, they get systematic feedback and assess organizational effectiveness.

Second, test whether your leadership team and staff are clearly aligned on the right priorities. One way to check is to have each leader write down the organization's priorities for the next 12 to 18 months and compare lists. Chances are you'll have to do some work to ensure that everyone is on the same page. If everyone is in agreement, repeat the exercise one level down. Continue until all members of an organization are aligned on priorities.

Finally, examine other areas where "disconnects" commonly occur. Decision making is one such area. To clarify decision-making roles and processes, consider a tool such as RAPID.[1]

If you run a small organization, it may not be necessary to map out decision-making processes, but it helps to have a common decision-making lexicon. Before raising an agenda item, for example, explain whether you want input from everyone. And once a decision has been made, confirm it with the group; there is nothing more discombobulating than a discussion after which some team members consider a matter decided and others believe it remains unresolved.

If you run a larger organization with multiple programs or sites, you may need more formality; if so, consider mapping out decision-making processes and roles for key organizational decisions. As organizational complexity increases, the need for clarity increases to prevent decisions from becoming more complicated than they need to be.

Blind Spots Equal Opportunity

Understanding blind spots and making adjustments accordingly represents a powerful opportunity for leaders to make their organizations more effective. Executive directors need to seek feedback about their organizations. Our data suggests that it is easy to fall out of touch in several areas and, therefore, all the more important to seek input on these areas from others.

Endnote

1. John Huggett and Caitrin Moran, "Who Decides? Mapping Power and Decision Making in Nonprofits," the *Nonprofit Quarterly*, vo. 15, no. 3, fall 2008.

Kirk Kramer is a partner in the Boston office of the Bridgespan Group and leads the firm's work on building organizations. **Gail Perreault**, a Bridgespan manager, directs research projects on organizations.

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Nonprofit Intermediaries: An Untenable Situation?

by Rick Cohen

Even if we assume the best intentions in the Clinton administration's "reinventing government" initiative, George W. Bush's eight years in office left an utter mess of understaffed and demoralized agencies. This situation has virtually necessitated the use of nonprofit intermediaries to address certain critical social problems. Indeed, in some cases, these organizations have stepped in where government has failed. But whatever role nonprofits are to play in redressing social problems, they cannot simply supplant government responsibility. Here we examine the increasing trend of financing nonprofits to address communities' ills—and explore the implications of this approach.

We already know that nonprofits have a long-standing role in delivering government programs; that's not news. But now the federal government has moved toward increased levels of nonprofit design and delivery of major, high-profile social interventions.

Boiled down, there are two basic models in play, and both precede the administration of President Barack Obama:

- an increasing governmental reliance on nonprofit intermediaries to deliver big, government-scale programs through networks of local and regional nonprofits; and
- an increasing government interest in providing public funds to model, replicate, and "scale" the programs of a small set of nonprofits, which are often described as "social entrepreneurs" and frequently involving education and youth development.

Both approaches typically combine government, philanthropic, and corporate financial support.

Each approach involves problems, and at least two problems afflict both approaches.

The first involves the excessive offloading of essential government functions onto nonprofit organizations partially supported by philanthropic dollars. The second involves the degree to which government—through funding and partnerships with philanthropy—has driven the sector's agenda and thus limited the development of more locally tailored approaches to a problem.

Turning to the Intermediaries

The early days of the financial downturn vividly illustrated the federal government's use of nonprofit intermediaries to mobilize quickly in place of relying on government agencies.

As the subprime mortgage crisis galloped into the nation's consciousness in 2007, Congress created the National Foreclosure Mitigation Counseling Program, which was signed into law by President George W. Bush on December 26. The $180 million emergency effort was designed to stem the tide of mortgage delinquencies and foreclosures. Congress designated NeighborWorks America (which Congress chartered in 1978 as the Neighborhood Reinvestment Corporation and has typical annual appropriations of more than $100 million) to lead the design and implementation of the program, including the distribution of $130 million to local and state housing counseling groups.

Almost immediately, this strained NeighborWorks' capacities. Congress told NeighborWorks to make at least $50 million available to housing counseling agencies on a competitive basis within 60 days. On January 25, 2008, NeighborWorks issued a request for proposal to award $50 million by the end of February and all $130 million by the end of the calendar year. With applications from 148 organizations requesting $348 million, NeighborWorks awarded the full $130 million in February and gave the program another $180 million in 2008 and $50 million more in 2009. For those watching the events unfold, it looked like a fireman's ball, with NeighborWorks staff scrambling to design and implement a national program on an insane timetable.

Still, NeighborWorks achieved its goals. As of May 2009, the program has provided assistance to 400,000 homeowners.

Together, the emergency nature of the subprime crisis and the impossible timetable brought NeighborWorks rather than a government entity to the fore. As the organization's chief executive, Kenneth Wade, told the *Nonprofit Quarterly*, it wasn't a total surprise that Congress and the administration had selected NeighborWorks as the vehicle for the nation's first response to the subprime crisis. "One of the neat things about us . . . is that we have a long history of receiving direct appropriations from Congress." Programmatically, NeighborWorks already had a track record of delivering successful pre- and post-purchase homeownership, so this task of foreclosure counseling was not an ill-fitting congressional mandate. Given that these events unfolded at the tail end of the failing Bush administration, Congress was highly unlikely to assign responsibility for this task to the Department of Housing and Urban Development (HUD), which was mired in a free fall of shoddy ethics and serial incompetence under HUD Secretary Alphonso Jackson, who resigned in April 2008.

"With the rules that HUD has to operate under, HUD would not have be able to get the funds out in a timely manner," Wade added. Working through a national nonprofit, Congress bypassed the attenuated process of publishing and circulating draft regulations in the Federal Register, soliciting public comments, and giving program implementation responsibilities to federal staff. The NeighborWorks foreclosure counseling initiative is an example of a national nonprofit authorized for the soup-to-nuts design and implementation of a federal program—in this case, during a crisis that undermined the stability of the entire economy.

While the above example predates the Obama administration, the following are notable examples of Obama's use of intermediaries.

Launched in 1994 under the Clinton administration, the Community Development Financial Institutions (CDFI) program in the Department of the Treasury became an appropriations magnet in the American Recovery and Reinvestment Act (the stimulus program), which made $98 million available to 69 CDFIs, and in the fiscal year 2010 budget proposal of the administration (slated by President Obama to increase from $107 million in 2009 to $243.6 million in 2010). The Treasury Department has certified 771 CDFIs located in every state and the District of Columbia. CDFIs are notable for the comparatively better performance of their loan portfolios, typically invested in very low-income neighborhoods, compared with the tanking Troubled Asset Relief Program–subsidized banks.

Established in 1991 as a national funders collaborative with initial funding from eight foundation and corporate partners, the National Community Development Initiative (NCDI) operated through two large national intermediaries—Local Initiatives Support Corporation (LISC) and the Enterprise Community Partners—to support community developers in roughly two dozen cities. In 1994, HUD began investing federal monies into NCDI, later renamed Living Cities, which expanded to become an annual appropriation during much of the Bush administration (from 2001 through 2008, HUD split more than $216 million between LISC and Enterprise Community Partners). Beginning in 2001, additional NCDI monies went through Habitat for Humanity (which received nearly $31 million in HUD NCDI funds between 2001 and 2008) and, for a time, YouthBuild ($13 million between 2001 and 2006). President Obama's FY 2010 budget proposes $50 million for NCDI activities through LISC, Enterprise, and Habitat.

The Strengthening Communities Fund (SCF) was funded under the stimulus bill to replace the initial inclination of the House of Representatives to re-up $100 million for the faith-based Compassion Capital Fund. Ultimately, SCF got $50 million for the Department of Health and Human Services to build nonprofits' capacity to address economic recovery issues. The Nonprofit Capacity Building Program slice of the fund received $34 million, slated to be distributed in 34 grants at a maximum size of $1 million, through a lead organization and nonprofit partners. Much like CCF, this program will run through intermediaries to build local nonprofit capacities for economic recovery in distressed communities. Similarly, the much-touted Social Innovation Fund will search for replicable and scalable nonprofit innovations primarily through the use of regrantmaking intermediaries. Given the program's matching-grant requirements, these intermediaries are increasingly likely to be foundations.

Examples of the use of the replication model include the following:

Under Secretary Arne Duncan, the Department of Education's 2010 budget contains several new initiatives. Notably the Promise Neighborhoods program aims to replicate the Harlem Children's Zone (HCZ) program in various communities. Although initially slated for only $10 million in one-year planning grants, Promise Neighborhoods capitalizes on the national profile of HCZ founder Geoffrey Canada and the success of HCZ as a model for making early-childhood education central to both social advancement and neighborhood development. HCZ began as an anti-truancy program but evolved to respond to additional community needs in the 97-block area of Harlem and provide opportunities, such as charter schools, given massive support from Wall Street. Although it's not clear where future funding will come from, Promise Neighborhoods has states, cities, school districts, and nonprofits lining up as potential replicators.

Matching the Department of Education's efforts to replicate HCZ's focus on reducing educational disparities, the Department of Housing and Urban Development has promoted the Choice Neighborhoods program. Capitalizing on the successes of the HOPE VI program that demolishes and replaces very low-income public-housing projects with more economically diverse and integrated developments, HUD requested $250 million for Choice Neighborhoods, which links public housing–oriented neighborhood transformation efforts with school reform and early-childhood education (similar to HCZ and Promise Neighborhoods). The glitch may be the recommendation of the Senate Appropriations Committee that the bulk of Choice Neighborhoods' dollars goes to public-housing authorities as opposed to alternative—read: nonprofit—entities.

And then, a hybrid model. One of the more notable and, by all accounts, successful recent federal interventions is YouthBuild, which combines job training in the construction trades with assistance to young people in earning a high-school diploma or GED certification. With origins in East Harlem during the late 1970s and early 1980s, YouthBuild has grown from 14 cities to some 225 local YouthBuild programs. YouthBuild's federal connection began in 1994 under a HUD program that funded 31 local YouthBuild affiliates. Shifted from HUD to the Department of Labor in 2006, YouthBuild became a centerpiece of the stimulus legislation ($50 million) and President Obama's 2009 ($90 million) and 2010 ($100 million) budgets. The YouthBuild intermediary model, therefore, is something of a "hybrid": the Department of Labor (DOL) directly funds various local nonprofits, some affiliated with YouthBuild, others independent, and YouthBuild partners with DOL as a support network, not as a designated intermediary operator of the program on behalf of DOL.

Points of Contention

The Obama administration may have nudged the plates to put more money behind the creativity of the nonprofit sector for nationally significant social interventions, but there will be bumps in the road. In the pushback that has greeted some of these initiatives, a few flashpoints are obvious.

Emergency stand-ins. The extraordinary performance of NeighborWorks in the subprime foreclosure response highlights the hazards of this changing government-nonprofit dynamic. Given the myriad failures of the Bush administration's governmental apparatus—including the pathetic FEMA response to Hurricane Katrina set against the stellar performance of many nonprofits—there is the possibility of putting nonprofit deliverers into impossible situations when a federal agency can't do the job. But having a nonprofit do the impossible shouldn't become the default option for governmental incapacity.

Intermediate through whom? Garnering the most strident criticism, the Social Innovation Fund's apparent reliance on private foundations to identify local innovations leaves observers puzzled. Describing the White House advisers as naive, Pablo Eisenberg wrote in the *Chronicle of Philanthropy*, "Foundations and their boards in general are the most elitist institutions in the country, often unfamiliar with their communities and frequently insensitive to the needs of the majority of citizens and immigrants." Foundations are thus dubious intermediaries in finding and supporting innovation. Some nonprofits perceive intermediaries as yet another layer of government to pierce that has deprived them of direct connections to federal policy makers. To some extent, this insulates government from the pressures of applicants and recipients, funneling attention to and through intermediaries that do not necessarily have to respond to political pressures that affect public agencies administering these programs.

Replicability. A hallmark of the emerging Obama reliance on nonprofits such as Harlem Children's Zone and Teach for America (which was explicitly recommended by the White House for a $15 million earmark in the 2010 federal budget proposals) is the notion that these models are scalable and replicable. Having benefited from huge foundation grants over the years—including several million dollars apiece from the Starr Foundation, Lehman Brothers (now defunct), the Atlantic Philanthropies, and the Edna McConnell Clark Foundation—is Harlem Children's Zone replicable in places without this kind of philanthropic capital investment? It may be a question not only of access to Wall Street dollars but also the presence of a visionary like Geoffrey Canada at the helm. The tectonic plate that motivates the Obama administration involves an assumption that innovation can be replicated and scaled up, whereas the success of many nonprofits may be rooted in specific community conditions.

Results. The Obama administration has emphasized its intended reliance on evidence-based planning and funding. There is clearly an appetite for demonstrable outcomes and results, thus the budget lines in programs such as the Social Innovation Fund, the Strengthening Communities Fund, and YouthBuild for R&D and evaluation. But will the Obama administration accept results that suggest its high-profile social interventions may have not worked and, in some cases, have been predicated on faulty or geography-limited program assumptions? And will the nonprofits involved spend precious time and resources on federally mandated data collection rather than on delivering needed services?

So is the Obama tectonic plate shift different?

Certainly, many of the current players did quite well under Bush and have adapted to Obama. Throughout the Bush years, for example, mixed earmarks and other federal grants flowed to the same high-profile nonprofit organizations currently operating with Obama administration support. Examples of these organizations are Teach for America (the recipient of $56.9 million in federal grants between 2001 and 2008), America's Promise (which received $63.9 million between 2001 and 2007), and City Year (the recipient of $25.5 million between 2001 and 2008).

But with programs such as the Social Innovation Fund, Promise Neighborhoods, and the Strengthening Communities Fund, the Obama strategy appears to put more of the onus for major social interventions onto a system of nonprofit intermediaries to design and deliver.

Intermediaries and the networks of nonprofits they represent have the potential to serve as powerful and important partners for the federal government. But nonprofit partners are not government agency replacements. If nonprofits are to play an important role under the Obama administration, partnerships had better be accompanied by money so that nonprofits do not starve while designing and implementing social interventions.

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The Take-Away

by the editors

Dr. Conflict
by Mark Light
Dr. Conflict gives advice to someone left out of the loop in a partnership. The downturn has increased competition, which can create injured egos. But the way forward isn't always to use confrontation. Dr. Conflict offers a nuanced response to a complex—and common—problem.

The Nonprofit Ethicist
by Woods Bowman
What to do when you have not one, but two, husband-and-wife teams on your board; and two questions on "green" ethics.

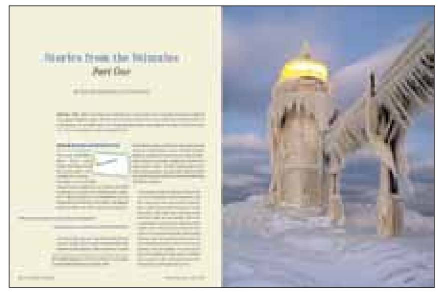

The State We're In:
How Bad Is It Out There?

The State We're In: How Bad Is It Out There?
by the editors and state association leaders
The states have become the major battleground on which the struggle for nonprofit viability will be fought. As unemployment has risen and state budget deficits have grown over the past year, deficits have driven demand up and multiple resource streams down. In this installment of the Nonprofits in the Age of Obama series, we profile 14 states from California to Florida that are in relatively–poor–to–somewhat–stable shape.

Growing Needs, Reduced Funds
by Jon Shure
State budgets cannot be balanced through budget cuts alone. The author makes the case for nonprofits to get involved in movements concerning revenue development. Yes, folks . . . taxes!

The State of the Fields
by the editors
Community health centers and community development corporations have the distinction of being front and center in national policy. They have also received a good deal of stimulus money. How well are they positioned for the future?


The State of the Fields


Stories from the Stimulus
Part One

Stories from the Stimulus, Part One
by Ruth McCambridge and Chris Finney
This first of a series explores how a small Head Start program and a community health center have spent stimulus funds and the issues that have emerged for these organizations.

Too Close for Comfort? Big Philanthropy and the White House
by Richard Tagle and Rachel Gwaltney
Two practitioners in a community-based organization for middle-school youth challenge the notion that the Obama administration's alignment with large philanthropy generates unequivocally good outcomes at the community level.

Nonprofit Fees and Taxes: A Death by a Thousand Cuts
by the editors
From Pennsylvania to Arizona, proposals have been floated to eradicate property

tax exemptions and levy or raise fees on nonprofits. But the reality is that these new fees would have disastrous effects.

The Charitable Property Tax-Exemption Debate
by Kevin Kearns, Jonathan Livingston, and Christine Waller
In Pittsburgh, local politicians have looked for ways to raise taxes from local nonprofits. The dialogue reveals some deeply flawed but politically viable thought patterns.

Local Conditions Vary: Assessing Your Nonprofit's Financial Position
by Kate Barr
The Assessment of Recession Risk and Preparedness for Nonprofit Organizations tool from the Nonprofits Assistance Fund is designed to help nonprofits navigate the economic downturn and identify next steps.

What Makes a Difference in Leadership Development? A View from the Field
by Mohan Sikka, Carolyn Sauvage-Mar, and Jean Lobel
This article discusses how to mix leadership development supports to promote on-the-job development.

Beware Your Leadership Blind Spots
by Kirk Kramer and Gail Perreault
Research by the Bridgespan Group suggests that even in high-performing nonprofits, staff and leaders see organizational capacity differently. Leaders must address these blind spots.

Nonprofit Intermediaries: An Untenable Situation
by Rick Cohen
For some time, government has operated through intermediaries in various fields. But at what point does this trend put too many layers between the work and the funder or policy maker?

Unreachable Stars: The End Game for Audacious Goals
by Phil Anthrop
Is the secret to well-funded nonperformance setting 10-year goals and aping euphemistic phrases, such as the "solution business"? Yikes!

Phil Anthrop, *continued from page 64*

Georgia, or government agency, church, or charity that doesn't have a stake in making this happen. Each metric will lead us to what happens next."

Yet it turns out that setting the goal is the easy part, and regret its bitter fruit.

Indeed, on the other side of the 10-year goal, things can look different, as the 1985 Mennonite Church General Assembly found out. The Mennonites developed Vision '95, where 1995 was the target year for the 10-year goals that were designed, in the words of the *Gospel Herald* reporter that covered the Assembly, "to jerk the Mennonite Church out of its sluggish-growth doldrums." Despite the high hopes, for Vision '95, church membership growth remained the same, less than 1 percent a year. Like other disappointments throughout history, the participants tend to move on and don't say much about what didn't happen. "It was a good goal," remarked Juanita Martinez, the co-pastor of Iglesia Cristiana Ebenezer and a member of the general assembly executive committee. "I'm sorry we didn't reach it, but we really don't think about that anymore."

Heroic members of the try-try-try-again camp include the members of the U.S. Metric Association, founded in 1916 to end the confusing muddle of U.S. weights and measures. In its 55th year as an advocacy group for U.S. conversion to the metric system, USMA issued its 1971 manifesto: *A Metric America: A Decision Whose Time Has Come*. Finally on December 23, 1975, USMA succeeded in getting President Gerald R. Ford to sign the Metric Conversion Act of 1975, which finally gave official federal sanction for the United States to convert to using the metric system.

But sadly, while the 10-year deadline for conversion was included in the original bill for the U.S. Congress to vote on, it was somehow dropped from the bill's final version. So no deadline was set for making the U.S. transition to metric system usage. Nevertheless, the next year, President Ford sent USMA a ceremonial pen to commemorate the signing of this metric law. Maybe it was the lack of a clear deadline that explains why the motto "Get Set for Metric" never took off in the United States, making it and the outlaw regime of Burma the only countries not to adopt the metric system.

Yet hard lessons breed caution, and the reaction to the Elmore Foundation's audacious goals was not all positive. The altruistic intentions made community leaders in Georgia reluctant to question the campaign, despite their worries about the ultimately discouraging results of unrealistic goals.

> *"What happens when all these 10-year goals fail?"*
> **—Joan Armstrong, Georgia Network for Kids**

"The foundation's objectives are worthwhile and can be useful to rally the community, and I guess they play well in conferences, task forces, and press releases. But what happens when all these 10-year goals fail?" asked Joan Armstrong of the Georgia Network for Kids. "The complete end to hunger, illiteracy, and dispassion? What kind of message will that send to the children?"

"It is just too convenient that this 10-year time frame is two to four years longer than the average term of a governor, foundation president, board member, or religious leader, so that they'll be out of the picture before proving up," noted Armstrong. "Who will be around to give the final report? Each of the speakers at that damn press conference should have to put up a performance bond, with damages if they don't show up."

The National Center for 10-Year Goals (NC10YG) at Mammon University now tracks the trend of setting decade-long targets. NC10YG has identified 456 separate 10-year philanthropic goals established since the year 2000, with the first set now coming due.

Mammon Professor Marijo Wunderlich observed, "It is one thing when a goal is a physical action, like building a bridge, immunizing children, or even going to the moon. Now we are seeing flights of fancy and dreams of human perfectibility. I blame the publicists," Wunderlich asserted.

Community groups in Georgia have been even more critical. "A positive ideal can be constructive, I'll give you that, but overselling and overpromising is ultimately sabotage," Armstrong said. "The Elmore Foundation's self-promotion is just following in the misguided footsteps of Michael Jackson's 'We are the World' music video and the EST Hunger Project Campaign to End World Hunger just by positive thinking. Spoiling the public spirit by selling false hopes and dashing young people's dreams is as immoral as toxic assets and Ponzi schemes."

Elmore Foundation CEO Peabody said he had no problem with the criticism from some of the Atlanta-area nonprofits. "Clearly they don't need our money," he said. "Besides, as we say all the time, we're in the solution business, not the problem business."

Given the backlash, some observers foresee a retreat from big goal setting. Professor Wunderlich agreed. "Yeah, I'd give it 10 years," she predicted.

Phil Anthrop is a consultant to foundations in the G8 countries.

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Unreachable Stars: The End Game for Audacious Goals

By Phil Anthrop

I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to the earth.

—John F. Kennedy
May 25, 1962

We choose to go to the moon in this decade, and do the other things, not because they are easy, but because they are hard.

—John F. Kennedy
September 12, 1962

To dream the impossible dream
To fight the unbeatable foe
To bear with unbearable sorrow
To run where the brave dare not go
To right the unrightable wrong
To love pure and chaste from afar
To try when your arms are too weary
To reach the unreachable star

—"The Impossible Dream"
Man of La Mancha, 1972

The webcast by the Elmore Foundation's new direction was meant to impress, and it did. Not only did its new leaders announce a 90-degree turn in the organization's vision, they set big, hair-raising 10-year goals.

"We stand at the edge of the future," declared President and CEO Brent Peabody at a well-attended press conference, "but only if we are willing to grasp it with both hands. The Elmore Foundation's new direction will employ the best metrics and the most compelling partnerships to end hunger, illiteracy, and dispassion in Georgia by the year 2020."

> "To take on the world's biggest challenges requires big goals."
> —An Ellmore Foundation executive

Elmore Foundation Chair of the Board of Trustees Karla Duster added that "surely what was possible in space is possible here on earth," alluding to President Kennedy's 10-year goal to send a man to the moon. "To take on the world's biggest challenges requires big goals," an Elmore Foundation executive asserted. "We are in the solution business. Time and again, we have seen that a clarion call can inspire and mobilize a community, a generation, and even a species to accomplish that which they themselves had believed impossible."

The Atlanta, Georgia–based Elmore Foundation had built on a growing practice of setting not just ambitious goals but astounding targets that eradicate, not merely ameliorate, problems. Reverend Lucious Walker commended the approach. "The current situation is unacceptable," the Reverend said. "To set a goal of reducing homelessness, illiteracy, or hunger by 40 percent—to merely reduce the unacceptable—is essentially to say it is acceptable. That we should never do."

When asked how the Elmore Foundation would measure its progress, Peabody responded, "That is an essential element. By measuring and reporting each year, we will get this whole state involved. There is not a single business in

Continued on page 63

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