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Worst-Case Scenarios

Charities that prepared contingency plans are faring better as the recession rages, say experts

By Ben Gose

As the recession deepened last November, executives at the Women's Lunch Place, a charity in Boston, took a look at its \$2.1-million budget and saw nothing but red ink.

In just the first five months of their fiscal year, a combination of declining donations and deferred grants had left the charity nearly \$400,000 behind plan.

The charity's leaders didn't panic. They made some modest cuts, froze hiring, and perhaps most important, put in place a contingency plan — a specific course of action they would take if the situation stayed the same or worsened.

Nearly every charity has been blindsided by the severity of this recession, but experts say those who have drawn up contingency plans for coping with the downturn are probably faring better than charities that are winging it.

A study released this week by the Bridgespan Group, a nonprofit consulting organization in Boston, found a sharp increase in the number of charities creating contingency plans. When Bridgespan first surveyed roughly 100 nonprofit leaders, in November, 48 percent said they had created contingency plans. During its second survey, in May, 62 percent said they had drawn up such plans. "Contingency planning is a way of thinking about things that's particularly applicable in turbulent times, and those are the times that we're in," says William Foster, a partner at Bridgespan and one of the authors of the new report.

Focus on the Critical

The Women's Lunch Place didn't immediately need to put its plan into action; fund raising in December was better than expected. But in January, the charity wildly missed its projections, and the executives turned again to the contingency plan they had created in the fall.

The plan called for preserving the charity's main program — providing breakfast and lunch for poor and homeless women — and another division that insures that hungry people can eat in a safe environment.

That left the charity's advocacy program — which helps clients sign up for government benefits, seek legal assistance, and develop a financial plan — on the chopping block. The charity cut two

and a half positions in advocacy, hanging on to just one full-time employee so that it can perhaps rebuild the program when the economy improves.

"We looked at what was critical to our mission," says Sue Morong, the charity's chief operating officer. "We couldn't cut from the meals program, and we couldn't cut from guest assistance. The only choice was to cut advocacy."

The expense of hiring a consultant to help craft a contingency plan can deter some charities, but Mr. Foster says charities might be able to seek out a board member to moderate discussions among top executives and trustees as they try to identify what cuts the charity would make in different scenarios.

'A Safe Place'

Foundations are also increasingly a source of support for devising such plans.

Hilda Polanco, managing director of Fiscal Management Associates, a consulting firm in New York that focuses on charities, says half its work on contingency plans comes from foundations that hire it to work with their grantees.

In Western North Carolina, four foundations came together in 2006 to create WNC Nonprofit Pathways, a consultancy focused on helping charities in an 18-county area become more effective. Late last year, the collaborative switched gears to concentrate primarily on contingency plans, offering both workshops and more intensive one-on-one work to charities providing essential services. All sessions are free and are led by two local experts — an organizational-development consultant and a certified public accountant.

The main message is that you've got to have alternate budget scenarios, so that when and if the bad news comes, you can make the best choices," says Kim McGuire, the consultancy's director.

The four foundations that started the consultancy — the Cherokee Preservation Foundation, the Community Foundation of Western North Carolina, Mission Healthcare Foundation, and United Way of Asheville and Buncombe County — do not know which charities Nonprofit Pathways is helping with contingency plans.

"When things are really bad, you don't always want to admit it," says Susan Jenkins, executive director of the Cherokee Preservation Foundation, which is financed from gaming revenues earned by the Eastern Band of Cherokee Indians. "We wanted this to be a safe place where charities could get the contingency planning and not have it reported to us."

Another way that foundations can help charities is by giving grantees more flexibility to use funds that were initially scheduled for specific projects. The Bridgespan survey in May found that 48 percent of charities had negotiated with donors to use their money for essential operations, up from 34 percent in the November survey.

Cathi Coridan, executive director of Girls Incorporated of Worcester, in Massachusetts, says affiliates of Girls Inc. in other parts of the country are receiving that flexibility, but it isn't happening much in her area.

Part of the art of drawing up a contingency plan, she says, is creatively juggling revenue to sustain an organization during a rough patch, but such efforts are impeded by grants that are narrowly tailored to support certain projects or goals.

"We need to have more discretion about how we use the funds that we get as grants," Ms. Coridan says. "When a grant is for right-handed girls who are 10 to 15 pounds overweight who want to learn to swim, that's hard to do."

Cutting Back on Hours

For groups that have already made cuts, the hardest part of contingency planning is imagining things getting significantly worse. And some don't have a plan for that.

Homeward Bound, a charity in Asheville, N.C., that worked with WNC Nonprofit Pathways on contingency planning, suffered a loss of \$80,000 during the first six months of its fiscal year but now expects to break even for the six months ending on June 30.

The charity, which operates a shelter and provides other support to homeless people, has saved money by cutting back the hours of a program that allows people to receive food and other services. The consultants also helped Homeward Bound determine an amount it would not breach as it tapped its reserve to pay for operations.

Gordon Walton, president of the charity's board, says he has a hard time imagining what Homeward Bound would do if steep losses were to resume. "We tend to serve the people who have worn out their welcome in all the other places in town," he says. "If we have to cut back hours or services, there is nothing left below them to catch them."

Worse in 2010

But experts say charities should plan for an even worse environment — fund raising is likely to weaken before it gets better, as state and local governments grapple with deficits, and foundations hit hard by endowment losses cut their giving.

"We are suggesting to charities that they plan for a worse year in 2010 than they've seen in 2009," says Ms. Polanco, of Fiscal Management Associates.

Ms. McGuire of Nonprofit Pathways recommends that charities consider scenarios that range from moderate to worst case — including the possibility of restructuring or merging into another group.

Fewer Playgrounds

That said, not every charity needs to envision an outright collapse, says Bridgespan's Mr. Foster. For some charities, the worst case might mean a total loss, but for others, it might realistically mean a budget cut of no more than 10 percent. "Having a sense of the range of outcomes you face ought to be knowable, even if the specific outcome that will occur is not," Mr. Foster says.

For Out2Play, a four-year-old organization that builds playgrounds at public elementary schools in New York City, the worst-case scenario involves trimming the number of projects, rather than cutting employees. That's because the charity has only two full-time employees. The charity needs \$20,000 to \$25,000 in private money to pay for development costs, including architectural fees, for each playground, says Andrea Wenner, the charity's founder and chief executive. The construction costs are generally paid for with government money.

To achieve its goal of building 41 playgrounds in 2010 — roughly the same number it will build this year — the charity needs to secure about \$1-million in private donations. So far, Out2Play is hitting its fund-raising goals. If it begins to fall short, the charity will try to save money by bidding out its architectural work. (To date, it has worked with a single firm that it likes because of the firm's expertise in designing public-school playgrounds.)

If the charity still doesn't have enough private funds to pay for the design work, it will simply build fewer playgrounds in 2010. "Our model is very easy to scale back," Ms. Wenner says. "It's not as though we operate a tutoring program, and all of a sudden kids won't have a place to go."

Compelling Story

During contingency planning, a charity may find that a program it considered cutting is in fact worth saving — and that finding can make a compelling story for donors.

When drawing up its contingency plan last fall, the Women's Lunch Place considered eliminating its Saturday meal service — but it then discovered that 40 percent of its nonfood donations come in on Saturday. Many people who start out donating goods eventually give cash, too, says Ms. Morong, the chief operating officer.

"We've taken the information we gathered, and used it to go after new funding," she says.

Three new donors have since stepped forward to keep the Saturday meals program alive.