Revenue Strategies for Tough Times

Financing Children and Family Services in a Recession While Preparing for Better Days

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What's Inside

WEATHERING THE STORM: REVENUE STRATEGIES FOR TODAY'S RECESSION

Facts About Common Funding Sources 1
Managing During a Recession 5
Short-Term Revenue Options 7

PREPARING FOR BETTER DAYS: STRATEGIES TO CAPITALIZE ON AN ECONOMIC RECOVERY

Positioning for a Recovery 12
Criteria for Choosing Strategies 13
Longer-Term Revenue Options 14

The current recession is clearly impacting most sources of funding historically used for early childhood development and family support services, making it hard for many organizations to get the funding to maintain existing service levels in the face of escalating demands for services. However, the recession will not last forever; new revenue generation opportunities will be available once an economic recovery is underway to those organizations that are prepared to capitalize on the opportunities. This brief examines both sides of the coin: revenue generation strategies to help "weather the storm" during the recession and strategies to use in an economic recovery to expand, diversify and sustain additional funding sources.

WEATHERING THE STORM: REVENUE STRATEGIES FOR TODAY'S RECESSION

Facts About Common Funding Sources

Creating a fundraising plan requires good information about what's really happening now and is likely to happen in the next two to three years with the main funding sources used for children and family services. Planning should be based on solid evidence, not fear and conjecture. This section outlines current information about various funding sources and how those sources have historically behaved during a recession.

Federal Entitlement and Grant Programs

Federal programs clearly offer the best news for availability of funding in the next one to two years. The American Recovery and Reinvestment Act of 2009 (ARRA), often simply referred to as the federal stimulus package, has a multitude of funding options to support children and family services. A separate SEI research brief explores those options in depth.

The President's fiscal year 2010 budget proposal includes the following items that, together with ARRA, offer new or expanded funding for children and family services[1]:

- Through ARRA and the 2010 budget, double the number of children served by Early Head Start and sustain Head Start and child care expansions
- Fund a new Nurse-Home Visitation program for first time mothers
- Create an Innovation Fund to invest in school systems and non-profit organizations with strategies proven to improve academic achievement
- Expand funding for health prevention and wellness programs
- Create a new Social Innovation fund to test promising new approaches to major social challenges and scale up research-proven programs

[1] See www.whitehouse.gov/omb/budget/ for more complete information about the President's 2010 budget proposal

- Continue AmeriCorps expansion from the current 75,000 slots to reach 250,000 funded slots
- Expand teen pregnancy prevention programs

No reductions in federal funding for programs supporting local children and family services are expected for the next two years at least, based on the research conducted for this brief.

The full 2010 budget proposal with target funding levels by program had not been released as of April 29, 2009 but is expected to be released soon. When available, it should be scrutinized closely for implications for local children and family service programs.

State Funding

California state funding for children's services is the flip side of the federal picture, with little good news on the horizon. The California Budget Project notes that the state has not provided funding to cover counties' rising operating expenses for most human service programs since 2000-01, producing a net loss of $1.1 billion in service capacity statewide due to inflation. In response, counties have cut spending on basic operating costs by $100 million and reduced contracts with community-based organizations by $37 million from 2004-05 to 2007-08 across a 14-county survey group.[2]

The Governor's proposed budget for 2009-10 contains further reductions in health and human services, such as[3]:

- Suspend once again the cost-of-living adjustment for county administration of human service programs
- Require monthly Medi-Cal eligibility determination for undocumented immigrants
- Reduce Medi-Cal eligibility for families on CalWORKS
- Cut funding for the Department of Developmental Services Regional Centers by $334 million.

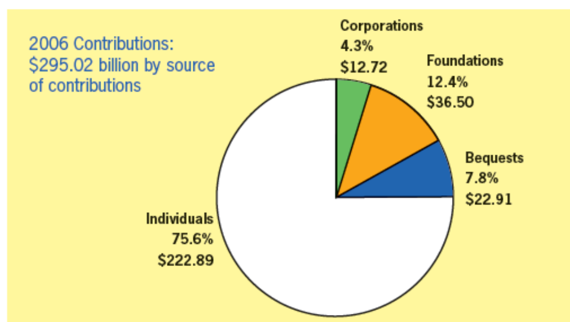
Increases in the proposed 2009-10 budget related to early childhood development to note:

- $1.085 billion more for Medi-Cal to support a larger caseload and rate adjustments
- $38.7 million increase for Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) services

The May revise of the Governor's budget will contain further changes and should be monitored closely for impacts on local services.

Private Donations

It is vital to understand current conditions and trends in donations by individuals, since this is by far the largest source of contributions. Three-quarters of all contributions in 2006 came from individuals, of which an estimated 55-60% are from households with incomes *under* $100,000.[4]



Here, the facts are not nearly as bleak as news reports might suggest. A 40-year study (1967-2007) of charitable giving patterns conducted by Indiana University's Center on Philanthropy found that in years with eight or more months

[2] California Budget Project. *Stretched Thin 2008: State Budget Cuts Undermine California's Human Services Programs* (August 2008). Available online at www.cbp.org.

[3] Details about current and proposed California budgets, including all updates, can be found at www.ebudget.ca.gov.

[4] Based on a study by Giving USA, as reported by Paul Legasse, "How the Economy Affects Giving: The Shifting Bottom Line", Advancing Philanthropy (January/February 2008). Available online at www.afpnet.org.

of recession, individual giving declined an average of only 3.9%.[5] Further research looking at past recessions by Boston College's Center on Wealth and Philanthropy found that individual wealth and individual philanthropy declined proportionately less than the stock market. They estimate that if the current recession continues through 2009 with stock market values 30% below values at the beginning of 2008, individual giving will decline by 3% to 4% in 2008 and another 3% to 4% in 2009.[6]

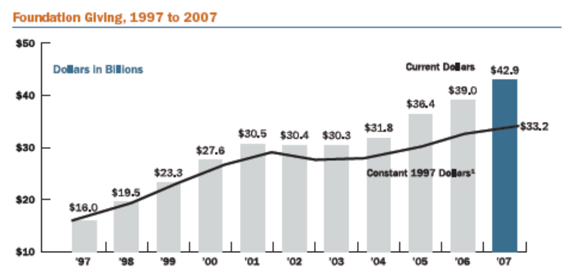
Separate studies in late 2008 and early 2009 on giving patterns in the current recession by the Silicon Valley Council of Nonprofits, the United Way and the Salvation Army all had the same basic conclusion – the number of donors has actually increased over 2007 levels but donors are giving smaller amounts on the average. The net effect has not been catastrophic for most organizations, and in fact some agencies report better overall success in attracting donations during this recession. In California's Silicon Valley region, 51% of nonprofits reported in January 2009 that individual giving is stable or has slightly increased over last year because more individuals are giving. Conversely, 23% of nonprofits reported that individual giving has dropped more than 20% over the prior year.[7]

Giving in 2009 and 2010 may get a slight boost from the tax cuts for individuals and businesses that were included in the federal stimulus package. California estimates that 12.4 million individuals will get tax cuts of up to $800.

The bottom line conclusion from SEI's analysis of the latest research on giving patterns is that it is entirely possible to maintain or even increase income from private donations during this recession. What is hard is to raise money *quickly*. Organizations should expect that they need to reach more people in order to hit their fundraising targets.

Foundation Grants

Analysis by the Foundation Center found that during each of the four recessionary periods since 1975, U.S. foundation giving in inflation-adjusted dollars did not decline and, in fact, increased slightly. Just after the most recent recession, foundation giving did decline from $30.5 billion in 2001 to $30.4 billion in 2002 to $30.3 billion in 2003—the first consecutive years of decreased foundation giving tracked by the Center. Yet this marginal 0.6% reduction (4.4% after inflation) was quite modest compared to the inflation-adjusted 16% drop in foundation assets recorded between 2000 and 2002.[8]



Source: The Foundation Center, *Foundation Yearbook*, 2008. Figures estimated for 2007.
¹Constant 1997 dollars based on annual average Consumer Price Index, all urban consumers, as reported by the U.S. Department of Labor, Bureau of Labor Statistics, as of April 2008.

A number of factors helped to moderate the impact of reduced assets on overall foundation giving during the last economic downturn and will likely play a similar role during the current crisis. First, donors continue to contribute new resources, both through establishing new foundations and directing new substantial gifts and bequests into the endowments of existing foundations. Second, foundations often set their annual grant budgets each year based on a rolling average of their asset values over the prior two-to-five years, helping to ensure more

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5 The Center on Philanthropy at Indiana University, *Briefing on the Economy and Charitable Giving* (December 2008). Available online at www.philanthropy.iupui.edu.

6 Forbes Magazine, "Giving In Bear Times" (February 16, 2009). Available online at www.forbes.com.

7 The Silicon Valley Council of Nonprofits, *Snapshot on the Economic Issues Facing Nonprofits: Fundraising Outlook for Fiscal Year 2009* (March 2009). Available online at www.svcn.org.

8 Foundation Center, *Past Economic Downturns and the Outlook for Foundation Giving* (October 2008). Available online at www.foundationcenter.org.

stable levels of giving. Finally, many foundations are deciding to increase their payout rates – the percentage of their total assets paid out in grants – during the current recession in order to avoid or minimize reductions in grantmaking.

Helping to soften the blow of the current recession is the fact that foundation assets grew faster than inflation between 2003 and 2007, enabling grantmakers to replenish their endowments after the downturn of the early 2000s.

Foundation Assets, 1997 to 2007

Source: The Foundation Center, *Foundation Growth and Giving Estimates*, 2008. All figures based on unadjusted dollars. Figure estimated for 2007.

An April 2009 report by the Foundation Center states that "this year and next will be a particularly challenging time for both organizations seeking new sources of support and for recently established entities—43% of surveyed foundations expect to reduce the overall number of grantees they fund in 2009 and 46% anticipate decreasing the number of new grantees they will fund."[9] Overall, foundations have indicated that in the short term they will focus on continuing to support programs they are already funding but will have little capacity to consider grants for new programs or organizations.

Other items of note from the latest Foundation Center research are:

- Capital support may be especially hard to find, as 37% of foundations plan to reduce the amount of capital support they provide.
- A substantial share (44%) expects to reduce the number of multi-year grants.
- Fully two-thirds of surveyed funders said they are seeking to engage in more collaborations and partnerships, while 36% expect to initiate more convenings. Other non-grantmaking strategies cited by at least one out of five respondents included engaging in more foundation staff-led activities, providing more technical assistance, offering more bridge or emergency financing, and engaging in more advocacy.

One source of possible optimism for grantees in both the near and long term is that the vast majority of foundations (80%) responding to the Foundation Center's latest survey expect to maintain their current number of program areas, and 3% anticipate increasing the number of areas they support. Likewise, all but 6% of respondents expect to maintain or increase the geographic areas they target. Consistent with findings on foundation activities during the 2001 recession, this suggests that most foundations will not abandon their grantmaking priorities despite the severity of current economic conditions.

The California Endowment has recently said they will strive to keep 2009 grantmaking at the same level as 2007 and 2008, and will increase their payout rate and implement administrative cost-cutting measures within their foundation as necessary to make that happen. The David and Lucile Packard Foundation estimates grant awards to be 18% lower in 2009.[10]

The conclusion is that it may be hard to increase revenue from grants during this recession, but by maintaining close relations with foundations that are already providing grants it should be possible to avoid major cuts from this funding source.

[9] Foundation Center, *Foundations Address the Impact of the Economic Crisis* (April 2009). Available online at www.foundationcenter.org.

[10] 2009 grantmaking plans for many foundations is available at http://foundationcenter.org/focus/economy/forecast.html

Corporate Giving

The 40-year study of charitable giving patterns, noted previously under Individual Giving, found that corporate giving only fell by an average of 1.6% in years with eight or more months of recession.

The key here is that corporate giving patterns are tied directly to the types of businesses within a given local area and the extent to which those businesses have been affected by the recession. For example, the January 2009 survey by the Silicon Valley Council of Nonprofits noted that corporate giving was drastically down in 2008 compared to 2007 and is expected to continue downward well into 2009 due to the downsizing of many local corporations. This has a large impact on corporate sponsorship of events and programs.

Managing During a Recession

Insights from numerous experts in fundraising for public and nonprofit organizations were reviewed for this brief, all of which were written in 2008 or 2009 in direct response to the current recession. Included were recommendations from the Association of Fundraising Professionals[11], Nonprofit Finance Fund[12], The Bridgespan Group[13], Chronicle of Philanthropy[14], BoardSource[15] and several individual fundraising experts[16].

These experts agreed on many points regarding strategies that are most effective during a recession. The key management strategies that were recommended by multiple sources are outlined below.

1. **Focus on the core**. Focus resources on your top strategic results and don't stray from your mission in order to chase available funds. Be crystal clear about what you are good (or best) at.

2. **Be positive yet realistic**. Communications with staff, volunteers, community partners and other stakeholders are critical. Stay positive while being candid and realistic about conditions, financial and otherwise. Put another way, convey urgency but without undue anxiety. Agency leaders need to give the clear impression to stakeholders that their leadership can steer the ship to calmer waters.

3. **Stay connected to donors and funders**. Be in regular contact with current donors, past donors, grantmakers and other funders through letters, calls, emails, newsletters and other forms of communication. Funder retention is critical – make sure those who are funding you now understand what you have accomplished as a result of their funding, tell them how you are handling the recession and explain why the case for giving is still compelling. Don't forget small donors; look to cultivate gifts of any size and show appreciation for small donors (who may, over time, become larger or more regular donors). Similarly, don't ignore past donors that have stopped giving. They are much more likely to resume giving to organizations with which they have had ongoing contact.

4. **Strengthen your case for support**. According to the Giving Institute, "The most

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[11] Association of Fundraising Professionals, *Thoughts and Guidance on Addressing the Current Economic Environment: Fundraising in a Difficult Economy* (2009). Available online at www.afpnet.org.

[12] Recommendations from the Nonprofit Finance Fund are available online at www.nonprofitfinancefund.org.

[13] Recommendations from The Bridgespan Group are available online at www.bridgespan.org. Links to many other resources for navigating through the recession are also included on this site.

[14] Holly Hall, *Fund-Raising Strategies for Troubled Times*, The Chronicle of Philanthropy (February 7, 2008). Available online at http://philanthropy.com.

[15] *Surviving the Financial Crisis: A BoardSource Toolkit*, BoardSource (2009).

[16] For example, see Mal Warwick, *Fundraising in Tough Times: How to Survive in a Challenging Economy*, Stanford Social Innovation Review (Spring 2009). Available online at www.ssireview.org.

important step a charitable organization can take to raise funds during a recession or downturn is to ask people for contributions in a clear and focused manner." It is vital to clearly articulate why the need for your services is especially great now, why you are especially effective in meeting those needs (your ability to show tangible results) and why you are a highly efficient steward of resources that gets the most value possible out of those resources.

To underscore the importance of a strong case statement, the following results of a recent Colorado Nonprofit Association survey show why people select the organizations they contribute to.[17]

5. **Avoid crisis-driven appeals**. Avoid using a "sky is falling" crisis-oriented message with potential funders. Philanthropists and foundations alike usually decline to invest in organizations that they think might not be around tomorrow. As stated by Mal Warwick in the Spring 2009 edition of the Stanford Social Innovation Review, "be careful not to make a big deal about how your organization's fundraising efforts are suffering. Take it from me: Your donors don't care. They care about how your clients or beneficiaries are faring."

6. **Maintain fundraising investments**. Don't cut investments in fundraising unless you plan to eliminate the programs supported by those fundraising efforts. It simply does not pay to reduce donor prospecting and communications or cut staff needed to pursue grants, partnerships and other forms of funding. Further, once an economic recovery is underway, organizations that have pared down their fund development capacity will be at a significant disadvantage in capitalizing on new opportunities compared to organizations that maintained strong fundraising capabilities.

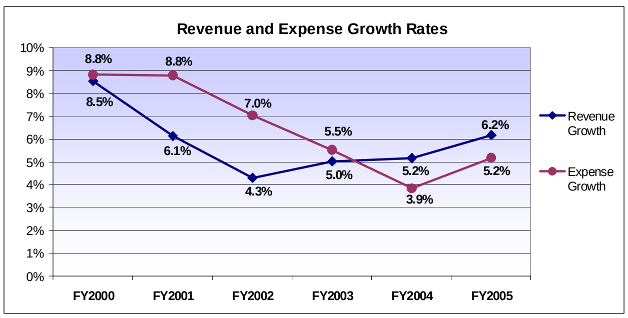
7. **Don't stop asking**. The normal response to a crisis is to pull back and withdraw. That is exactly the wrong strategy. The Association of Fundraising Professionals summed up the views of almost all of the experts reviewed for this brief: "After Sept. 11, 2001, many organizations decided to postpone or stop their fundraising activities, and in almost all cases, this tactic was a mistake. Be sensitive to your donors, but realize that the economy has affected people in different ways. Many are still willing to give in hard times. Sometimes they will give more."

8. **Segment and target your appeals**. Spend the time to identify your key targets and audiences for giving, and then tailor your messages and delivery approach for each audience. Personalize your appeals, but do so in a cost-efficient manner by focusing more time and resources on personalizing appeals for individuals most likely to give.

9. **Collaborate**. Collaborative fundraising with other public and nonprofit organizations can help increase revenues, share costs and create greater exposure to larger audiences. Collaboration can extend to mailings, events and other fundraising methods. Foundations can also be good partners even if they are not providing monetary grants; as noted earlier, two-thirds of foundations surveyed in 2009 by the Foundation Center said they wanted to engage in more collaborations.

[17] Renny Fagan, *Economic Recovery and Nonprofits*, Presentation at the 4/3/09 Recovery Act Forum, Colorado Nonprofit Association (2009). Available online at www.coloradononprofits.org.

10. **Cut non-fundraising expenses to match revenues**. Although the focus of this brief is on revenues, many experts also emphasize the critical nature of cost control at the same time you are looking for more funds. The Nonprofit Finance Fund bluntly states that nonprofits heading into a recession need to avoid sustained spending if revenues are declining. Their study of nonprofit finances during and after the 2001 recession showed that many organizations kept expenses at a higher rate than revenues in order to serve more people, as shown in the graph below.



Source: Nonprofit Finance Fund

The net result was sustained deficits that lasted until 2005 or later, making these organizations weaker and less able to deliver services or take advantage of funding opportunities during the economic recovery.

11. **Defend your people**. One of the seven steps to managing in tough times from The Bridgespan Group is to identify the people who matter most and keep that group strong. Talent makes the difference in tough times. Similarly, many experts point out the need for nonprofits to maintain a strong and active board during a recession, and to deeply engage the board in fund development planning and execution.

12. **Be clear about your strategy for using volunteers**. Time Magazine recently reported "the good news is that volunteers are stepping forward as never before. For instance, applications through the AmeriCorps online system for volunteer service in February were up 208% compared with the same month last year."[18] The January 2009 survey by the Silicon Valley Council of Nonprofits noted the same trend in California's Bay Area. Organizations need to anticipate this and either be ready to make good use of volunteers or be ready to explain why they are not using volunteers. As noted in Time Magazine, "nonprofits unprepared for what appears to be a historic influx of volunteers risk sending those folks home underappreciated and losing them forever – not just as volunteers but also as cash donors when the economy revives, says John Power, executive director of the Volunteer Center in San Francisco."

Short-Term Revenue Options

There are a number of ways to generate revenue for early childhood development and family support services that are viable even during the current recession. The methods that have the most potential, based on the research done for this brief, are outlined starting on the next page. Strategies are not listed in a particular order, since their appropriateness will vary depending on the unique circumstances of each organization. Unless otherwise noted, all strategies have been shown to be effective for both nonprofit and governmental entities.

It must be emphasized again that almost every one of the short-term revenue options can be enhanced through effective partnerships involving multiple organizations dedicated to the same goals, or at least compatible goals. Solid partnerships can greatly increase credibility in the eyes of potential funders, leading to a higher probability of success in obtaining funds.

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[18] *Nonprofit Squeeze: Donations Down, Volunteers Up*, Time Magazine (March 19, 2009). Available online at www.time.com.

Revenue Strategies for All Types of Services

1. **Private contributions**. The research presented earlier clearly indicates that it is very feasible to secure private donations for organizations that have a strong case for support and effective donor communications. Public entities are equally capable of obtaining private contributions as are nonprofits. For proof, consider that California schools raised about $1 billion in 2006-07 from voluntary contributions and gifts.[19] Court Appointed Special Advocates (CASA) programs housed in public agencies around the country do extensive fundraising, often by setting up a separate nonprofit entity specifically to accept donations and manage fundraising. The same end result can often be accomplished with less effort by working with a local community foundation to set up a fund for the cause and solicit local donations to that fund, which can then be distributed by the community foundation to public and nonprofit organizations alike.

2. **Targeted corporate support**. The key during a recession is to understand what kinds of companies are still doing well, and target those companies for support. After the recession that followed the 2001 terrorist attacks, while the overall stock market and mutual fund indexes were down, a significant percentage — 35% to 40% — of companies still made money. Similarly, there are many opportunities for business growth even in the current recession. Think “green” businesses, discount retailers, the health care industry, energy/energy-efficiency companies, companies that are benefitting from funds made available by the federal stimulus plan and others that are bucking the economic downturn. Look to form strategic partnerships with these businesses while the companies that have historically made contributions are forced to cut back on their philanthropy. Remember, however, to maintain contact with the “historical donors” so that when those local businesses rebound, you will still have a strong relationship. Companies that are not in a position to make cash contributions may consider in-kind donations. A related win-win proposition is to explore companies that may have excess inventories of supplies, equipment or other goods that you can use. Donations of such goods can provide a full tax write-off for the business and help meet your needs in the process.

3. **Local support groups**. Community members that believe in a program or service are often willing to lead ongoing campaigns to raise funds, provide volunteer resources and provide other support needed to sustain the program or service. Common examples are Friends of the Library, school booster clubs, and hospital auxiliary foundations. The same concept has been applied in some communities to engage local residents in supporting after school programs, school-based resource centers and other types of family services. A recessionary period like the current one when more people are looking to volunteer can actually be an ideal time to launch a local support group.

4. **Donor advised funds**. Many community foundations are willing to work with local nonprofit organizations to market donor advised funds, where potential donors are given information about specific programs to consider supporting. Such campaigns create a win/win partnership, marketing the community foundation’s services as well as generating income for community-based organizations. As evidence of their increasing popularity, donor-advised fund assets nationally jumped from $2.4 billion in 1995 to $12.3 billion in 2001, according to the Chronicle of Philanthropy, and then doubled again from 2001 to 2007. Assets in donor-advised funds climbed 24% to $21.6 billion in 2006, making this type of fund the fastest-growing charitable vehicle per the National Philanthropic Trust. The San Francisco Foundation reported a significant increase in their donor advised funds in 2008 despite the onset of the recession. Another important point is that donors may have set up their funds in past years, <u>before</u> the recession, and can access those funds to make contributions now without having to put out any more cash.

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[19] California Budget Project, *School Finance Facts* (February 2009). Available online at www.cbp.org. The figure for private contributions is based on the California Budget Project analysis that schools received about $4.4 billion from “other local revenue” sources, of which 22.4% statewide came from voluntary contributions and gifts.

Revenue Strategies for All Types of Services (continued)

To underscore the point, a recent article in Reuters reported that "donor-advised funds can help sustain charitable giving during economic downturns. … [G]rant distribution rates by national donor-advised funds, including Schwab Charitable, Fidelity Charitable Gift Fund, and Vanguard Charitable Endowment Program, run counter-cyclically to stock market movements and remain strong during economic downturns – providing a continuing base of support for a wide range of charities when other funding sources may lag."[20]

5. **Foundation and United Way grants**. The research presented earlier shows that there are still opportunities to get grants. Collaborative grant proposals that demonstrate significant local investments will be made across multiple agencies to effectively leverage foundation grant funds are more likely to be successful with many foundations in the current economy. As always, the fit between the grant proposal and the foundation's stated areas of interest and funding priorities is paramount.

6. **Public/private partnerships**. As an example of what can occur through public/private partnerships, the Homework, Enrichment, Acceleration, Recreation and Teamwork (HEART) Literacy Enrichment After School program in Tulare County, CA, raised $400,000 in new revenue in two years through a collaborative effort involving the local newspaper, a hospital, the county health department, businesses and local family foundations. They have been able to build upon and sustain their early successes for over ten years now, as evidenced by securing over $200,000 in funding commitments from local community supporters in 2007. These types of partnership can be even more viable in a recession; potential partners can resonate with a message that "none of us can do it alone during these tough times but if we join forces and each put in what we can, together we can make a difference for the community."

7. **Reimbursements through community service programs**. The significant expansions of community service programs like AmeriCorps and the Community Service Employment for Older Americans program through federal funding may offer opportunities to replace staff positions lost through attrition or funding cuts with positions that are substantially subsidized by federal community service programs. The immediate expansion of the AmeriCorps program created through the 2009 federal stimulus package is limited to current AmeriCorps grantees but the next expansion proposed in the President's 2010 budget includes thousands of new AmeriCorps positions that should be open to new grantees.

8. **Service fees**. Considering charging for a previously free service, or raising fees, is difficult at best during a recession. However, doing so may be preferable to losing the program or service altogether. The least intrusive approach is to request a voluntary donation from service recipients with no pressure to pay. The most common approach is to impose a sliding fee scale whereby fees are based on the client's ability to pay. A different approach is to link service fees to some aspect of the level of service. For example, some publicly-funded home visiting programs in Oregon are free to parents for their first-born child and then available on a sliding fee scale basis for additional children. Another variation is to provide free services for a defined time period and then charge fees on an ability to pay basis for longer service periods.

9. **Revenues from administrative capacity**. If some local agencies are facing cutbacks in their administrative functions like finance/accounting, human resources or information technology, organizations that still have relatively strong capabilities in their administrative areas can sell those "back room" services to others. Leasing unused office space or equipment is another form of this strategy.

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[20] Reuters, *Schwab Charitable Reports Increased Granting Despite Credit Crisis* (October 21, 2008). Available online at http://www.reuters.com/article/pressRelease/idUS155891+21-Oct-2008+BW20081021.

Other Strategies by Types of Service or Entity

The following additional revenue strategies are appropriate only for certain types of services or organizations, as explained further for each strategy. The emphasis is on suggesting potential sources of income that you may not already be fully utilizing, so the list does not include the various "standard" federal, state and local funding sources that organizations are already using and are certain to continue tapping.

1. **Federal stimulus funds**. Although a one-time only situation, the American Recovery and Reinvestment Act of 2009 (ARRA) offers a plethora of funding opportunities for both public and nonprofit organizations, most of which apply only to specific types of entities for specific services. These opportunities are described in the SEI research brief, *The American Recovery and Reinvestment Act: Opportunities for Children and Family Services*.

2. **Fiscal leveraging through federal entitlement programs**. Almost every county in California that has done a comprehensive analysis of its children and family service programs – public and nonprofit alike – has been able to generate tens of thousands to millions of dollars annually from additional reimbursements under federal entitlement programs. Systematically matching existing services to the list of reimbursable activities under various federal entitlement programs can identify those opportunities, after which partnerships can be explored with the appropriate county or local education agency (LEA) to coordinate service delivery, reimbursement billing and other activities needed to take advantage of leveraging opportunities. The greatest successes throughout California have occurred by leveraging through the following federal programs:

   - **Medicaid Targeted Case Management (TCM).** TCM is designed to assist specified Medi-Cal recipients – which includes children at risk of abuse or neglect and unfavorable developmental, behavioral, psychological and social outcomes – with access to necessary medical, social, educational and other services. TCM can cover creating individualized service plans, provide linkage and referral services, assist with transportation, arrange translation services, assist with crises, and monitor progress. Eligible services can receive 50% Federal reimbursement, with the other 50% covered locally. MAA claims must be processed by Local Governmental Agencies or Local Educational Consortia.

   - **Medi-Cal Administrative Activities (MAA).** MAA offers a way to obtain federal reimbursement for the cost of certain administrative activities necessary for the proper and efficient administration of the Medi-Cal program, including outreach, enrollment assistance and non-emergency / non-medical transportation to Medi-Cal services. Eligible activities can receive 50% Federal reimbursement, with the other 50% covered locally. MAA claims must be processed by Local Governmental Agencies or Local Educational Consortia. Costs to coordinate CHDP/EPSDT screenings, assure access to Medi-Cal, follow up on CHDP/EPSDT service provision and other activities can be reimbursable under MAA.

   - **LEA Medicaid Billing.** In California, the Local Education Authority (LEA) Medi-Cal billing program allows local education agencies to receive reimbursement for direct health and mental health assessment and treatment procedures, along with case management services provided to children age 0-21 enrolled in Medi-Cal. Reimbursable services include psychosocial status assessments, developmental assessments, health education, and child/family counseling. Service delivery can be contracted out if a similar service is provided within the LEA. Close coordination with the school district and rigid procedures are required to ensure that reimbursement claims are properly prepared only for eligible services, but it is a resource not being fully utilized in many communities.

   - **Medicaid Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT).** County-level analysis can explore whether all possible billings are occurring for child health assessment and referral services that are reimbursable under EPSDT (the Child Health and Disability Prevention [CHDP] program in California).

- **Title IV-E Foster Care and Adoption Assistance.** Federal reimbursement can be obtained for 50% of administrative costs related to services to help prevent placement of young children in foster care where the children are "reasonable candidates" for removal from their homes. Several California counties have successfully used this source to help pay for early mental health programs and services for children with special needs. Reimbursable services include referral to services (but not arranging for or providing services), assisting with child placement, development of a case plan, case management and supervision, data collection and reporting, and recruitment and licensing of foster care homes and institutions.

3. **Direct federal grants**. This category involves competitive grants that go directly to the public or nonprofit organizations to which they are awarded, rather than being passed through another entity or allocated to jurisdictions based on a formula. Not only are numerous types of federal grants already available, the President's proposed 2010 federal budget includes a number of new grant opportunities (a few of which were summarized at the beginning of this brief) that could be of interest to children and family service providers. Diligent monitoring of federal grant announcements can help local agencies capitalize on these opportunities when they arise. Use the federal government's main electronic storefront for grants, www.grants.gov, to search for grant options and submit applications. As just one example, Early Reading First grants support local efforts to enhance the early language, literacy, and pre-reading development of preschool-age children, particularly those from low-income families. Five California counties, including rural counties like Butte County, received grants ranging between $2 million and $3 million in the last funding cycle for this program.

4. **Local distribution of federal block grants**. Some cities and counties have been creative in using federal Community Development Block Grant (CDBG) and Community Service Block Grant (CSBG) funds, together with other local funds, to fund a broad range of human services. An example from Nevada is a consortium of Washoe County and the Cities of Reno and Sparks that pools CDBG, CSBG and a portion of hotel room tax dollars to issue annual grants to local organizations for health and human services. Many California jurisdictions similarly award local grants from CDBG or CSBG funds to support children and family services. Since the CDBG and CSBG programs both received funding increases in the federal stimulus package, this source offers even more potential than usual in 2009.

5. **Private insurance reimbursements**. A recent study by the UCLA School Mental Health Project on financing mental health for children noted that some families have private health insurance, often at least partially employer-paid, that covers diagnostic and treatment services for children with mental health issues or special needs. Seeking reimbursement from private insurance sources and/or guiding families to use private resources when they are available can stretch public funds.

6. **Partnerships with after school programs**. The After School Education and Safety (ASES) program established by Proposition 49 in 2002 funds after school education and enrichment programs throughout California. Aimed at providing academic assistance and safe, constructive activities for students in kindergarten through grade nine, these programs are created through partnerships between schools and community-based organizations. Although ASES funds cannot be used to serve pre-kindergarten age children, early childhood development programs and family support programs can coordinate with ASES programs to share resources, potentially helping the ASES program meet their requirements for local cash and in-kind matching resources while leveraging after-school programs as a means of reaching families. Of significance is the fact that this is one of the few programs that was not cut in the last round of state budget reductions.

Preparing for Better Days: Strategies to Capitalize on an Economic Recovery

Positioning for a Recovery

A phrase used since ancient times is "this too shall pass." Certainly this is true of the current recession. Eventually, whether in one year or three, economic conditions will turn around sufficiently to trigger a full scale recovery. Organizations that get prepared now, despite being in the midst of a recession, are much more likely to capitalize on the recovery when it arrives than organizations that wait for clear positive economic signals before mobilizing.

The following recommendations were gleaned from the Association of Fundraising Professionals[21] (AFP) and other fundraising experts on steps that organizations can take now to better position themselves to benefit from the inevitable economic recovery.

- **Continue awareness activities**. The AFP's advice is, "don't cut marketing and advertising. Keep it steady and consider increasing it. Media outlets are feeling economic pressures as well and will most likely offer very good deals. In addition, if other organizations are cutting back (as undoubtedly many are), your message will stand out even more. Those nonprofits that continue to market and advertise will be in the best position to raise even more funds when the economy improves."

- **Protect your reputation**. Your image – how your organization is perceived – is critical to long term success. Protecting your reputation is done through a hundred small acts that add up to a stellar image: by maintaining the highest ethics, by continuing to provide high quality and well-presented information to donors and other stakeholders without cutting corners, and by openly and directly addressing any adverse publicity or stakeholder concerns that affect the organization.

- **Take a long-term perspective on fundraising efforts during the recession**. The AFP notes that "in tough times, for-profit companies accept short-term reduced growth, focus on their strengths and plan for longer-term overall growth. In a similar fashion, charities should take the long-term approach. Continue to market and conduct bequest and legacy programs, even if it's likely you won't get much benefit this year. Also important is stewarding previous donors who are not able to give now, but may be able to give in the future when the economy improves."

- **Increase your online presence**. The 2008 presidential election was a compelling demonstration of the power of the Internet as a fundraising mechanism. Many experts believe that the Internet is also the future of philanthropy. Nonprofit technology vendor Blackbaud just reported that online giving transactions grew 68% for first quarter 2009 compared with first quarter 2008. Online revenue was up 57% over the same time period last year. This growth is especially strong given the deterioration in economic conditions during the past year. How do you prepare? Make your website engaging and easy to navigate. Provide a clear, direct and easy to understand case for support on your website. Include a "Donate Now" button with the ability to accept online donations. Use tools like FaceBook, MySpace, Twitter, YouTube and LinkedIn to disseminate information about your organization and to develop relationships with people interested in your cause.

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[21] Association of Fundraising Professionals, *Thoughts and Guidance on Addressing the Current Economic Environment: Fundraising in a Difficult Economy* (2009). Available online at www.afpnet.org.

- **Keep up the core activities that are getting you through the recession**. Many of the top strategies for managing during a recession that were presented earlier in this brief are also top strategies for success during an economic recovery. In particular: stay connected to donors and funders, keep strengthening your case for support, and collaborate.

- **Resist the temptation to start expanding quickly once the recovery has started**. Based on the Nonprofit Finance Fund's study of the aftermath of the 2001 recession, it is important to keep overall expenses in line with revenues when the recovery is underway. Use the early stages of the recovery to recover from any recent deficits before expanding operations.

Criteria for Choosing Strategies

Diversification of revenue sources is vital for long term sustainability, avoiding dependence on any single source of funding. Now is the time, even during a recession, to consider your longer-term options for cultivating new sources of funding and get prepared to pursue those sources when economic conditions suggest that it would be productive.

It is important to be strategic about choosing from among the many different options for generating revenue. Here are seven criteria to use in evaluating longer-term revenue generation strategies and deciding which ones to pursue.

1. **Alignment**. Focus on strategies that fit the mission and values of the organization, rather than changing the mission to fit the revenue generating strategies.

2. **Sustainability**. Objectively evaluate whether there is sufficient potential to support the strategy over the long term, i.e., whether the strategy can continue to produce income in future years. Avoid getting caught up in a series of "big bang" opportunities that fizzle out, thereby forcing the organization to come up with new strategies each year in order to maintain a steady revenue base. The caveat here is that short-term strategies can be effective if it is understood upfront that the strategy will only be pursued for a limited time period and for specific reasons.

3. **Cost/benefit**. The level of investment required to implement each strategy should be considered. The key is to maximize potential net income after taking into account all applicable costs, including staff time to carry out the strategy, monitor results and meet any externally-imposed requirements (e.g. regulatory compliance, reporting). Nonprofit organizations must also consider tax implications, since some income earned by nonprofit organizations may be subject to unrelated business income tax (UBIT) and taxed at corporate rates.

4. **Risk**. "Downside" risks such as potential loss of money and damage to reputation of the organization must be weighed against the potential rewards. Strategies with a high level of perceived risk should not necessarily be avoided, but they should carry a correspondingly high level of potential gain in the way of profits and other benefits.

5. **Access to necessary expertise**. Consideration should be given to whether the organization has or can acquire the level of skills (including any specialized expertise) to succeed with a strategy.

6. **Politics and partnership**. It is also worth reflecting on the extent to which each strategy helps the organization gain allies and partners. A very important related point is that pursuing different financing strategies may mean fostering effective

partnerships that can help the agency or conversely produce ill will that can haunt the organization for a long time. Look for financing strategies that help build a supportive political environment, rather than one that is hampered by turf issues and conflict.

7. **Degree of control**. When other factors are relatively even, consider giving priority to approaches where the organization has a higher level of direct control or influence over the success of the strategy, as opposed to approaches that depend on the decision-making or actions of outside parties that the organization is not able to significantly influence.

A special caution is needed here. If a strategy has strong income potential and is a good fit from a mission perspective, but falls short in terms of having the necessary expertise or fitting with the current political or partnership environment, don't automatically discard the option. Consider whether you can build the internal capacity or external relationships needed for the strategy to succeed, and if so, focus in the short run on building that capacity so that you can capitalize on the strategy when market conditions indicate it is ripe to pursue.

Longer-Term Revenue Options

All of the short-term revenue generating strategies listed earlier in the brief, except for federal stimulus funds, are expected to be viable long-term strategies as well. The key is to build a diversified portfolio of revenue sources for the long term. Following are additional strategies that, combined with the ones presented earlier, offer a wide range of proven ways to generate sustainable income.

Longer Term Revenue Strategies

1. **Planned giving**. A 1999 study by the Boston College Social Welfare Research Institute forecasted that at least $41 TRILLION in wealth transfer would occur from the baby boomer generation by 2052, of which at least $6 trillion – and potentially as much as $25 trillion – would be transferred to charities through various forms of philanthropy. A 2003 update to the study, taking into account the effects of the 2001-02 recession and related loss of wealth through stock market declines, came to the same conclusion, stating that "we still believe that regardless of debt, downturns and other factors, there is a huge amount of giving in the future, whether in bequests or over a lifetime."[22] Organizations with a well organized and consistent planned giving program are expected to benefit far more from these transfers of wealth than other organizations. "Planned giving" refers to a number of different mechanisms for a person to transfer assets to a charitable organization upon their death. These mechanisms include bequests in a will, charitable gift annuities, charitable remainder trusts and other approaches. A good planned giving program requires some time and cost to set up, and must be actively marketed, but has been shown by many studies to be one of the most effective strategies for creating a long-term stream of income that is potentially quite large.

2. **Special events**. Special events can be a powerful way to simultaneously raise awareness about a program while raising money. Events can take several years to build up to the point of producing significant income but, once established, can be valuable annual sources of additional unrestricted income. Numerous examples exist of public and nonprofit entities generating $50,000 or more – after deducting event costs and staff time expenses – from annual events.

[22] Original study by John J. Havens and Paul G. Schervish, *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*, Boston College Social Welfare Research Institute (1999). The original study and 2003 update are available online at www.bc.edu/research/cwp/features/wealth.html.

Longer Term Revenue Strategies (continued)

3. **Community foundation partnerships**. Community foundations have been the fastest growing type of foundation, with the largest annual increases in grantmaking in recent years. For example, giving by community foundations grew by 10.3% in 2005 compared to 2004, grew 13.2% more in 2006 and another 13.9% in 2007 according to a study by the Foundation Center.[23] "Since the start of the 1990s," the study said, "the rate of growth in community foundation giving has surpassed that of U.S. foundations overall in all but two years." Local public and nonprofit organizations can create win/win relationships with their community foundations by partnering to attract more donors to set up funds or make contributions with the community foundation that are earmarked for children and family services. Within California, the San Francisco Foundation, Humboldt Area Foundation, Santa Barbara Foundation and many others have attracted substantial investments in local children and family services as a result of such partnerships.

4. **Partnerships with for-profit businesses**. The middle stages of an economic recovery, after for-profit businesses gain greater confidence that the recovery is going to last, can be a particular good time to engage businesses in exploring potential partnerships. There are numerous types of partnerships that can be considered. Three of the more common approaches are:

   - Cause-related marketing activities, such as where a corporation makes a contribution every time a purchase is made related to the marketing campaign. On an international level, the product (RED) campaign raises money to fight AIDS in Africa whenever purchases of related products are made. On a local level, campaigns to have a store or restaurant donate a percentage of their proceeds during a given day, week or month (in exchange for efforts by the nonprofit to create awareness of the campaign, which drives more business to the for-profit entity) are another example of this approach.

   - Web-linking and revenue sharing partnerships where the for-profit and nonprofit organizations each put visible links on their website to promote awareness of the other organization, often with the nonprofit getting a percentage of revenues from sales initiated from the nonprofit's website. An example of this can be found with the California Association of Nonprofits' Resources page at www.canonprofits.org/resources/, where CAN receives a portion of sales made by Amazon.com from people who were directed to Amazon through the CAN website.

   - Partnerships to meet local needs of the business(es) that fit the mission of the public or nonprofit entity, such as partnering to open a child care center partially funded by the business that guarantees a certain number of slots to employees of the business.

5. **Affinity programs**. Affinity programs pay royalties to nonprofits in exchange for use of their names, logos and mailing lists. By far the most ubiquitous are credit card affinity programs that send a percentage of credit card purchases back to the nonprofit listed on the credit card, but similar arrangements exist for many other types of consumer services.

6. **Earned income ventures**. There are hundreds of thousands of examples of where nonprofit organizations, or even public agencies operating through a nonprofit arm (like a hospital auxiliary raising money for a public hospital) have successfully generated their own income by selling goods or services like a for-profit business. The most successful examples have been where a nonprofit can build a viable business that is highly synergistic with its nonprofit mission and operations.

   Three models that have worked most frequently are:

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[23] The Foundation Center, *Foundation Growth and Giving Estimates: Current Outlook, 2008 Edition* (2008). Available online at http://foundationcenter.org/gainknowledge/research/pdf/fgge08.pdf.

Longer Term Revenue Strategies (continued)

- Direct service social enterprise – taking the same services delivered to nonprofit clients (or adapted forms of these services) and marketing them on a fee-basis to different audiences. Examples: nonprofit substance abuse treatment and counseling programs that re-package their services as Employee Assistance Programs to market to businesses, nonprofit senior service agencies providing in-home support services that contract with for-profit home health care agencies to provide fee-based services.

- Affirmative social enterprise – creating a business that trains, employs and otherwise assists the nonprofit's clientele while also generating earned income for the nonprofit. Examples: Udac Mailing trains and employs persons with physical and developmental disabilities to provide direct mailing services and document shredding services to other nonprofits plus for-profit businesses, or the multitudes of businesses (cafés, landscaping, temporary staffing, computer services, building maintenance, retail operations, etc.) that train and employ homeless, low-income or disabled individuals.

- Leveraging core competencies – applying a strong internal capability of the organization in new ways to create a competitive for-profit business. Example: Redwood Community Action Agency in Eureka, CA had a strong business capability in low-cost, highly efficient building repair and weatherization gained from assisting low-income families with their housing needs and turned this into a successful for-profit building remodeling business.

7. **Community Reinvestment Act**. The Community Reinvestment Act (CRA) is a federal law designed to encourage banks and thrifts to meet the financial credit and service needs of low- and moderate-income neighborhoods. Financial institutions provide grants and/or loans to community-based organizations that enable the institution to meet their federal CRA requirements. This strategy only works well when the banking industry is strong, which is certainly not the case now but is a potential area of future opportunity after an economic recovery takes hold. The Child Care Development Project in Maine has used this approach to finance various early care and education activities. The Cascadia Revolving Fund in Washington and Oregon secured a $150,000 grant and over $500,000 in loans from a large bank to support technical assistance to child care providers. Banks in many areas have supported development and operation of local health centers. Chicago-area banks gave grants to provide financial training and services to families to promote family economic success. Understanding of the CRA requirements can be an important way for children and family service providers to collaborate and get support from local financial institutions. A guide to this strategy called "Using the Community Reinvestment Act to Help Finance Initiatives for Children, Families and Communities" is available online from The Finance Project at www.financeproject.org.

8. **Local children's fund**. When times are better and voters both remember recent hardships but are more open to tax-based proposals, this strategy allow sustainable annual revenues to be generated for local children's services. For example, Proposition J in San Francisco provides a fixed set-aside of local property tax dollars to go to children's services, with 25% of these funds specifically earmarked for child care services that include infrastructure development such as health insurance for child care teachers and program capacity building. Measure K in Oakland created a similar fund from city funds. The City of Aspen, Colorado passed a 0.45% add-on to their sales tax and dedicated these funds to child care and affordable housing. 20% of these funds collected each year are being deposited into a Child Care Trust Fund to provide sustainable revenue after the tax expires in 2010. A portion of the funds are earmarked specifically for ECE infrastructure, with the rest going to child care subsidies for low-income families. The City of Ames, Iowa (pop: 48,000) generates over $450,000 a year for human services including child care from a similar tax. A free publication called "Creating Dedicated Local Revenue Sources for Early Care and Education" from The Finance Project has excellent practical information on these and similar options; it is available for download at http://www.financeproject.org/Publications/Local_revenue_early_care.pdf.

Longer Term Revenue Strategies (continued)

9. **Developer fees**. The City of West Sacramento has adopted a local ordinance specifying that a portion of developer's fees are deposited into a fund to use for child care services and infrastructure development. The County of Santa Cruz has a similar ordinance but uses funds from developer's fees to provide loans to child care centers and family child care homes. The cities of San Francisco and Concord also have developer fee programs to support child care.

In conclusion, it is worth noting that a 2009 survey of nonprofits in Oregon and Washington reinforced the importance of focusing on the elements shown by research to lead to long-term sustainability – elements like broad-based public support, a strategic financing orientation and adaptability to changing conditions. The survey found that "those nonprofits with diverse revenue streams, good management, and what could be labeled 'learning cultures' appear to be coping markedly better [with the current recession] than others." Further, the organizations that are faring better appear to be putting more focus on development activities, especially individual donor relations including major donor development.[24]

By diligently applying the strategies presented in this brief for "weathering the storm" posed by the current recession, while also keeping an eye to the future, it can be possible to come out of the recession stronger than ever and ready to fully capitalize on the next economic recovery.

This brief was developed by Social Entrepreneurs, Inc. (SEI). The mission of SEI is to improve the lives of people by helping organizations realize their potential. To learn more SEI and our many services, please contact us at:

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[24] Kevin Johnson, *Nonprofit Fundraising Trends 2009*, published online at www.retrieverdevelopment.com.