

## KEYNOTE PRESENTATION: A NEW REALITY FOR THE NON PROFIT SECTOR?

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1. Thank you, Shelley, for that nice introduction. I also want to recognize the Orange County Funders Roundtable and congratulate you for putting together what promises to be an excellent and important conference.
2. I should begin by warning you that I have been giving different versions of this speech for the last couple months, and some people have called it my “doom and gloom presentation.” Based on a very quick read of the most recent survey of nonprofit organizations in Orange County, conducted by the Funders Roundtable, I am afraid my projections for the next few years may be more pessimistic than many people in this room. But whoever may be right, the important point is that it’s very important for funders and nonprofit organizations to be very honest with one another, and realistically identify and confront the challenges we face. I have spent over 35 years of my life working in the nonprofit sector, working as a nonprofit executive and now as a funder, and I have never seen it quite this bad.

I want to begin my presentation by addressing why I believe the next few years will continue to be very challenging, from a fund raising perspective, and then briefly explain what the Weingart Foundation is doing to assist nonprofit organizations during this difficult period. I will then conclude, on hopefully a more optimistic note, by discussing some strategies that nonprofit organizations and funders might want to consider to address the challenges we face.

3. A number of people have suggested that we have entered a ‘new normal’ phase in the economic history of our country – and for that matter, the world. The phrase “new normal” is often times attributed to the investment professional, Bill Gross, of PIMCO, who described it as a time where growth is slower, profit margins are narrower, and asset returns are smaller than in decades. A number of months ago, in what can now only be described as an understatement, Gross said that this “economic growth slowdown will substantially inhibit the gorging of goods and services that we grew used to in decades past.”

4. Clearly, the difficulties that led to disaster in the financial markets, ongoing economic weakness, and the financial crisis impacting the public sector, are having serious impact on nonprofit organizations. Let me just mention a few indicators:
  - A. Among foundations, we saw a 22% average drop in foundation assets in 2008;
  - B. In 2009, foundation giving is projected to drop by as much as 13%;
  - C. Foundation giving will likely decline further in 2010; foundations generally set their grant budget based on the average of their assets over the past 3 to 5 years, and unfortunately, the extreme losses of 2008 will not be easily balanced by the increases in 2009. Last week the Chronicle of Philanthropy reported that nearly 62% of endowments and foundations surveyed indicate that they will focus on rebuilding their assets over the next few years. In other words, spending will be limited as they attempt to recover from the average asset drop of over 25% in 2008.
  - D. Rising unemployment and the past recession have dramatically suppressed individual giving. In California, our unemployment rate now exceeds 12%, and we have lost all of the non-farm jobs gained during the past economic expansions. And for those of you who focus on individual gift solicitation, you know that a jobless recovery (which appears to be occurring in California) means hard times ahead, especially for programs dependent on a high volume of relatively small donations, like direct mail;
  - E. And in case you think I am being overly pessimistic in regard to private fund raising, The Center on Philanthropy at Indiana State University recently released a study that indicates that individual giving will not reach pre-recession levels for another 3 years, and foundation funding will take longer to recover;
  - F. Turning to government funding, in the face of an ongoing and now unprecedented budget crisis in California, we are seeing significant public funding cuts that are disproportionately targeting programs for low income and vulnerable people.

Jean Ross, Executive Director of the California Budget Project, recently said: "If the governor's proposed budget cuts go through, it will shed the safety-net in California." The Governor's budget cuts painfully into services for children and the elderly, transportation and healthcare, social services and criminal justice.

The State's chief budget analyst recently said that despite an economy showing some early signs of improvement, California's budget woes will drag deep into the next decade. Revenue is not expected to fully bounce back until the 2014-15 budgets.

Last week, the State Treasurer indicated that unless something is done right away to cure the current \$19.9 billion budget gap, the State will once again be out of money in the spring and payments will once again have to be delayed.

G. Finally, we all know what happens to service demands in the nonprofit sector when the economy goes in the tank. We see significantly increased – and in some cases unprecedented demand for health and human services. This is certainly the case today.

5. A little over a year ago, after looking at what was beginning to happen to the nonprofit sector, and despite our own painful losses in the financial markets, our Board agreed to not only maintain our grant budget, but to realign our funding priorities to focus on core, or general operating support grants.

We also made the assumption that economic conditions would likely lead to diminished organizational capacity among nonprofits – in the short term, because nonprofits always cut infrastructure ahead of programming, and over the long-term, because organizations will lose their reserves and the working capital necessary to invest in the future. To illustrate this point, in a fall 2009 survey by the NPPF, they found 62% of charities have less than three months worth of cash on hand to cover costs, and just 16% of organizations surveyed expect to be able to pay their expenses this year and next. As a result, we have also begun a multi-faceted study to determine how the Foundation can best meet the capacity building needs of the nonprofit organizations we support.

6. The response to our focus on core - or operating supporting grants has been overwhelming. On a daily basis we receive numerous letters of inquiry from organizations seeking funding. I thought it might be interesting to provide you with a snapshot of what we are seeing through the lens of the hundreds of Letters of Inquiry we have received over the last 12 months.

A. All organizations are reporting significantly increased demand for services; and

B. Deep drops in private and public support;

C. Added to this are reports of delayed fee for service payments and government reimbursements;

D. In most cases this has resulted in required reductions in staffing, benefits, and general organizational infrastructure;

- E. And now, more frequently, we read of agencies having to make painful core program eliminations in the face of great service demand.

In most cases we are seeing nonprofit organizations acting very responsibly – almost heroically – doing everything they can to maintain core program and staffing and respond as best they can to rising demand for services.

In some cases, however, we have watched organizations failing to take immediate action, thinking that somehow this crisis was not going to be as deep or as long lasting as many are now predicting – and now these organization are finding themselves in serious if not insurmountable trouble.

- 7. So what can nonprofit organization do to remain sustainable?

To end my presentation I have compiled some suggestions based on numerous conversations I have had with nonprofit leaders over the past few months, observing what seems to be working, and not working in the field, and carefully reviewing the management support literature. As I mentioned earlier, I have been incredibly impressed with the thoughtful and difficult decision making that has occurred in the nonprofit sector since the onset of the financial crisis. Having said that, however, I also observe many nonprofit leaders that are still being too complacent and not engaging in the kind of thinking that is necessary to address the new economic reality we face – a slow growth economy which may become a new normal for our sector.

So here are some thoughts and strategies to consider:

- A. Sustainable organizations need to be well led, with the CEO, Senior Staff, and a fully engaged Board, in agreement on the mission and vision of the agency – and able to communicate this in a way that motivates donors to support the organization at the highest possible level.
- B. Nonprofit leaders who want to maintain a sustainable organization will need to decide what's core (to their mission and competencies) and think seriously about getting rid of the rest;
- C. Once the decision is made on what programs and services are most critical, organizations need to determine what a realistic and sustainable level of operations is - and manage to that.
- D. Sustainable nonprofit organizations will need to have timely, reliable, and accurate financial data upon which to base strategic decisions, and if they don't have this data, they need to invest in new systems to get it. For example, it's essential to know the

true costs of your core programs and services – and which ones generate a surplus or a deficit (**Note:** I am very pleased to see the NPF represented at today’s conference. They have many good recommendations for improving the financial management of nonprofit organizations);

- E. Fund raising professionals need to focus **initially** on long term and reliable sources of funding rather than attempting to create new and diversified funding sources. I know this must sound like heresy to some people in this audience, given the fact that funders love to tell grantees that they need to diversify their funding sources. But the reality is that attempting to create new sources of revenue - for example, by beginning a planned giving program or going into direct marketing - can be costly and very slow to show profitable returns. **I’m not saying don’t diversify, but only suggesting that I might not start there first if I am looking for immediate impact.**
  - F. I think nonprofit leaders need to take every opportunity to convey to donors the need for unrestricted general operating support funding, and explain to donors why it’s important for them to support the true, full cost of your programs. (NOTE how foundations have helped to create this problem).
  - G. When necessary, I think it also time to suspend the egos and look for new ways to work with other organizations in order to maintain programs;
  - H. And finally, sustainable organizations will maintain essential infrastructure, even if it means cutting or reducing important program services. This includes finding ways to keep their best people – people who are central to the long-term health of the organization.
8. In fairness, I also need to mention some things that I think funders need to do to build sustainable organizations. It’s a two way street:
- A. First, funders need to recognize that what nonprofits needs most, today, and maybe always, is unrestricted sources of operating support;
  - B. Second, funders need to be willing to provide support for the full costs of programs. Restrictions on providing support for administrative costs have led to many of the capacity problems we see today in the sector;
  - C. Third, funders need to be flexible, and be willing to relax or change grant restrictions when economic challenges have made the conditions of the original grants untenable;

D. Fourth, funders need to reduce unnecessary costs associated with the grant process: why do some funders use the same application procedure for a small and large grant; why not remove reporting requirements - unless the reports are truly being read and used for some important purpose – in other words, only ask for what you need. And finally, increase transparency around the grantmaking process – making grant guidelines and timelines as clear as a possible.

E. Finally, funders need to recognize that the capacity of nonprofit sector has probably been weakened over the past two years, as organizations have responded to financial stress by reducing administrative and infrastructure spending in order to maintain service levels. New investments will be needed to support renew the organizational capacity of nonprofit organizations.

9. I am generally a positive person, so I want to end with something hopeful. I recently came across a quote from Bob Ottenhoff, the President of Guidestar, commenting on the concept of a new normal for the nonprofit sector. This quote certainly captures my thinking about the opportunity inherent in the challenges we face:

*Having less money – or living with a slower rate of growth – may in fact be an opportunity, forcing us to rethink what we do and how we do it. Is it time to focus more of our energies on our core mission and outsource more of the activities that others can do better? Does the new normal mean more collaboration rather than trying to do everything on our own? Could this be the beginning of a new period of ingenuity and creativity? It would be tragically wasted opportunity if the new normal slowly drifts back into the normal we have always known.*

Let me stop here and take some questions. I am particularly interested in hearing your thoughts on areas of my presentation where you might not agree with me.