

Scaling What Works: Lessons from the Field

Presented by

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Agenda

Scaling What Works

Operating in a Flawed System

- “Best practices” that inhibit nonprofit health

Lessons from the Field

- The Ford Family Foundation, Roseburg, OR

Wrap Up

Scaling What Works

A LEARNING INITIATIVE OF



***Scaling What Works* is an independent initiative to expand the number of grantmakers and public sector funders that are prepared to partner with each other and promising nonprofits as they grow their impact.**

Through *Scaling What Works*, GEO will advance the goals of the Social Innovation Fund by developing the grantmaking infrastructure necessary to support the work of social innovation in communities across the country.

Scaling What Works

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Assessing Nonprofit Financial Health Workshops:

- **Colorado Association of Foundations (Denver)**
- **Conference on Southwestern Foundations (Tulsa and Austin)**
- **Iowa Council of Foundations (Cedar Rapids)**
- **Nonprofit Connect & REACH Healthcare Foundation (Kansas City)**
- **Ohio Grantmakers Forum (Cincinnati)**
- **Philanthropy Northwest (Seattle and Montana)**
- **South Carolina Grantmakers Network (Columbia)**

Nonprofit Finance Fund: Where Money Meets Mission



Served thousands of nonprofits and funders since 1980

- \$300 million in loans; \$150 million in New Market Tax Credit deals; over \$1 billion in capital leveraged
- Over 1,000 consultancies/workshops over past 5 years
- Multiple strategic partnerships to place capital
- Low/moderate income emphasis and orientation
- Nationwide network of experts in nonprofit finance
- Capital Access: Debt, PRI management, New Market Tax Credits, "Philanthropic Equity," Catalyst Funds
- Financial advisors and educators
- Collaboration/Merger specialists
- All sub-sectors served: \$2-\$50MM

"[NFF is]... arguably the most influential voice in the ongoing effort to reshape thinking and practice about nonprofit capitalization."

-The Nonprofit Times

Scaling What Works Requires:



Programmatic excellence

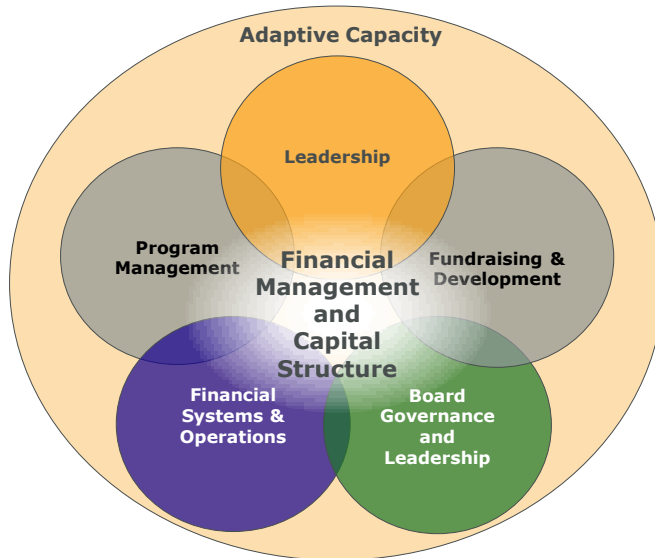
Strong management and governance

Financial health and stability

Thoughtful business planning

Enough of the right kinds of money

Why Focus on Finance?



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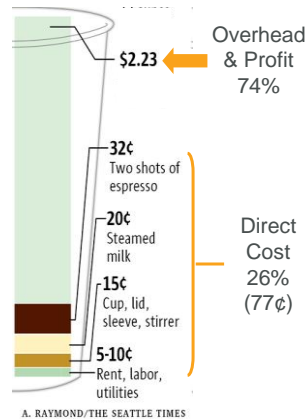
"Rules" of FOR-PROFIT Finance



In the **for-profit** world,

- ▶ Customer buys the product.
- ▶ Price includes the full cost of doing business.
- ▶ Overhead and profits are seen as **necessary and regular** part of the business

12-ounce latte = \$3.00



A. RAYMOND/THE SEATTLE TIMES

Source: Matt Milletto, Vice President of the American Barista & Coffee School

"Rules" of NONPROFIT Finance



- Nonprofits exist for a reason:
 - Rarely an obvious commercial return
 - Quality considerations make economies of scale elusive
- Client often does not pay or pays partially for the product (e.g., homeless do not pay per night for shelter)
- Nonprofits rely on third parties (donors and funders) to subsidize the cost → **required "dependency"**
- Donors and funders want most of their contribution to go directly to the people served
- Overhead and profits are often seen as unnecessary and unrelated to achieving the mission

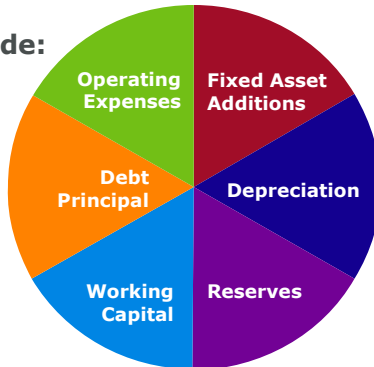
Surplus Size Matters: Breaking Even is Never Enough



Like any organization, nonprofits need to cover the 'full cost' of delivering programs

- Tax Status vs. Business Model
- Full Costs > Operating Expenses

Full costs include:



Mission Support (Subsidy) Business



Since nonprofits can rarely charge prices sufficient to cover the full cost of their core mission programs, they require support businesses (a.k.a the "subsidy" business)

Common subsidy businesses include:

- Sweat equity (underpay, overwork, low benefits, use of volunteers)
- Fundraising
- In-kind contributions
- Investment income
- Real estate (rental income)
- Earned income ventures

When program growth or change occur, one of two things happens:

- more subsidy; OR
- financial chaos

Restricted Funding



In the for-profit world, we place no restrictions on the money we give to corporations either as buyers or investors

However, in the nonprofit sector, restrictions are the norm:

- Restricted contributions implicitly...and often times explicitly... forbid organizations from using funds to pay for "indirect" costs
- Nonprofit leaders have become desensitized and trained to 'accept what they can get' rather than ask for what they need

Takeaway: The "Right" Revenue



The "right" money is recurring, reliable, and flexible

It covers full costs and meets full enterprise needs

Nonprofit leaders have a responsibility to:

- Accept that not all revenue opportunities are worthy of pursuit
- Manage costs in the context of revenue reality
- Articulate case for capital and revenue, based on full range of business needs

Funders have a responsibility to understand these needs and define what role their money will play

Scaling Requires Different Money



**There are two main flavors of \$\$ inflows:
Capital (Build) and Revenue (Buy)**

They play different roles in an enterprise

- Capital is for **C**hange (adaptation, growth)
- Revenue funds **R**egular operations (routine)



Both are necessary for mission success

Buyers Provide Revenue



**Pay for what an organization is
already delivering**

- Tuition, Ticket Sales, Memberships and Fees
- Foundation, Corporate and Annual Grants/Gifts
- Government Contracts and Vouchers
- Interest and Investment income
- Corporate sponsorships, events
- Enterprise earnings (parking garages, rental properties, restaurants, bookstores, bakeries, etc.)

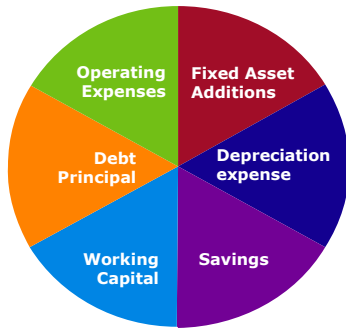


**Goals: Reliable, repeatable, exceeds
expenses**

Aim for Revenue to Cover FULL Costs



Sustainability means covering the full cost of business through a combination of **earned** and **contributed** revenue



Tax Status vs. Business Model

Full Costs > Operating Expenses

- Covered by:
- Earned income
 - Project support
 - General Operating

Builders Provide Periodic Capital



Pay for change in the organization

- From all sources, often buyers (retained earnings, individuals, foundations, government, corporations)
- Funding around a multi-year plan: can be expansion, contraction, quality improvements and more

Goals: Pays for temporary deficits, attracts reliable revenue

The NFF Triangle



Mission and Program

What you do, and how you do it.



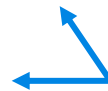
Capacity

The people, space, and processes that allow you to do what you do.



Capital

What resources and assets you have to work with.



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Changing Grantmaking Practices



"Prior to attending your workshop, our Grants & Programs Committee had a track record of prioritizing grant awards as follows:

- Capital projects
- Programs
- Never operations

After the Nonprofit Finance Fund session we participated in, we decided we needed a "change" in our grant making philosophy. We realized we must begin awarding grants to nonprofit organizations needing "capacity" to continue operations. The priority shift became the following:

- Capacity building and operations
- Programs
- Capital projects

We are happy with our new strategy."

John G. White
President
The Skagit Community Foundation

Ford Family Foundation



Legacy of Kenneth And Hallie Ford – Roseburg, Oregon

Ford Family Foundation



Mission	"Successful Citizens vital rural communities"
Who we serve	Oregon and Siskiyou County, CA – mostly <u>rural</u>
Assets	2012 estimated payout: \$35.2MM
Governance Structure	Private, 8 Board members, 2 offices, 23 staff
Historically, What We are Known For...	Support of rural communities, supporting education, large scale capital

Ford Family Foundation



Portfolio of Programs

Admin	Initiatives	Proactive Grants	Responsive Grants
Capital	Scholarship Program	Visual Arts	Child Abuse Prevention and Intervention
Administrative	Ford Institute for Community Building	Foundations for a Better Oregon (Chalkboard Project)	Positive Youth Development
		Early Childhood Development	Public Convening Spaces
		Post-Secondary Education Awareness and Enrollment	Access to Health and Dental Services for Children
			Capacity Building for Community Change (4 Action grants managed by the FCF)
			Board Delegated Grants (Including Critical Needs)



Low level of "control"

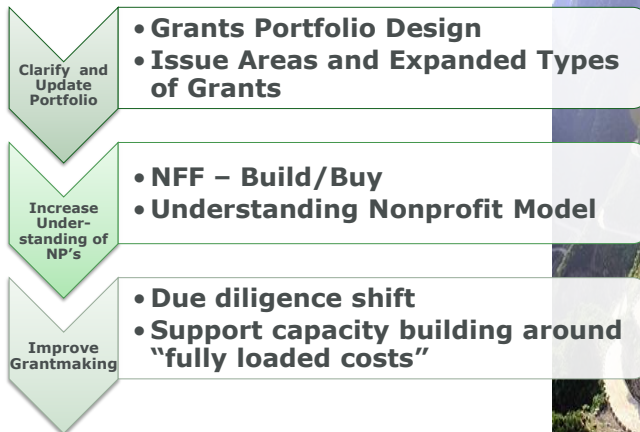
High level of "control"

FICB: Leadership capacity building community level

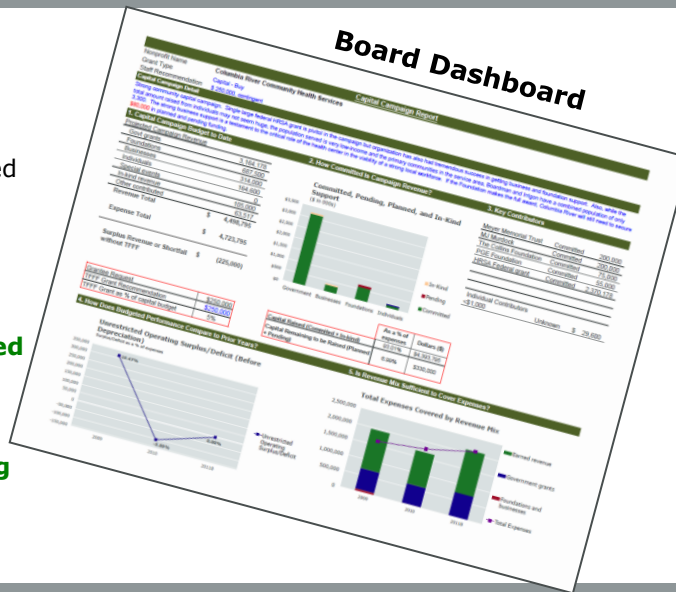
Scholarship Programs

Responsive and Proactive Grants

GRANTS: Our windy and continuous path...

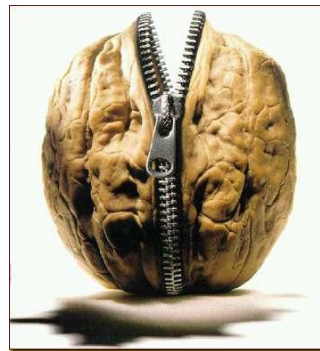


- Presents **nuanced** picture of nonprofit health
- Worksheets that feed into dashboard facilitate **better due diligence**
- Tool for staff to explain more **targeted recommendations**
- Potential to focus on **capacity building** around financial management



What we have learned....in a nutshell

- Nonprofits exist because of a **market failure**, cannot think of them in “business terms.”
- If you are not willing to fund the **fully loaded costs** of doing business, you put investment at risk.
- There is a time to **“build”** and a time to **“buy”**; by gaining comfort within issue areas, our Board has become more comfortable with doing both.
- We have a **lot to learn** around understanding financials – every org. is different.
- There is a huge **range of capacity** in terms of financial management. And a need for TA.





Feel free to contact me....

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Wrap-Up: A Framework for Investing in Scale



Step #1: Assess organization's financial health and readiness to support scale

- Requires an understanding of the organization's financial story: Does the current business model work?
 - Operating results are consistently **positive**
 - Balance sheet is **strong** and appropriate for the business
 - Liquidity is sufficient to **withstand risk** and pursue new opportunities

Step #2: Establish Comfort with Growth Strategy

Step #3: Align Money to Plan

Transformative change requires a well-conceived strategy and enough of the right kinds of money

Different Kinds of Capital Address Different Needs



	Capital Types	Function of each:	Addresses:
	Working	Allows the organization to bridge revenue timing gaps	Liquidity
	Risk & Opportunity	Absorbs unforeseen funding losses or unexpected, extraordinary expenses	Adaptability
	Change	Funds investments in infrastructure and capacity associated with changes in business model, may cover deficits until programs and operations can support themselves	Adaptability, Durability
	Recovery	Allows an organization to address a historical mistake or chronically undercapitalized operations	Durability
	Facilities & Equipment	Supports acquisitions or upgrades, or can be used to accumulate reserves to meet future facility and equipment needs	Durability
	Endowment	Provides ongoing operating funds through investment income	Durability

Wrap-Up: Key Takeaways



- **Know what to look for:** Having access to reliable, accurate and timely financial data over a multi-year period is a first step to understanding your grantee's financial story.
- **Understand what it means:** Even with good data, it is important to know what to look for. Your grantee can help you understand the story behind the numbers.
- **Consider the implications for the future:** Your investment should be made in the context of the grantee's financial wherewithal to meet its obligations and goals, current and future.
- **Match your money to the plan:** Organizations need 'buyers' who support program delivery year in and year out. If you choose to be a 'builder,' remember scale requires a sizeable infusion of flexible capital.

NFF Funder Services: Informed by Our Philosophy on Nonprofit Finance



Philosophy and Guiding Principles

- Embrace whole enterprise perspective
- Provide access to all kinds of capital
- Integrate financial / economic context into grantmaking strategy
- Build knowledge of social capital markets

Capital Access Services

- Program- and Mission-related Investment Services
- Syndication and Participation Loans
- Philanthropic Equity Services
 - NFF Build/Buy Funding MethodSM
 - NFF Capital Partners: Customized Support
- Catalyst Funds
- Building for the FutureSM

Innovative Practice Groups

- Full or Half-Day Workshops
- Two-day Hands-on Financial Clinics

Research & Fact Finding

- Portfolio Scans and Cohort Analyses of selected nonprofit subgroups, based on geographies, subsectors, budgets, etc.
- Research and Thought Leadership

Thank You!



To learn more about NFF:

- **Visit our website:** nonprofitfinancefund.org
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To learn more about The Ford Family Foundation

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