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**Nonprofit Boards and Governance Review - Article**

**Navigating the Recession: Options and Opportunities**

*Wednesday, April 23, 2008*

by Barbara Krasne and Judith Plows

There has been a lot of press lately about the coming economic downturn. Amidst all the talk, remember that trustees have an important role to play. Nonprofits have options – and even opportunities – they can pursue to address the economic challenges and serve their clients well. Planning by boards now, starting with what we can learn from recent recessions, is a good idea.

**What to Expect**

**Recessions and Funding.** Prior recessions tell us that funding for nonprofits will decline and client needs will rise. In the United States, city and state budgets are already being cut to match lower revenue projections. Nonprofits may receive reduced funding and some contracts may be cut entirely. This will only add to the pressures nonprofits face as government agencies shift to performance-based contracting with its less predictable revenue stream and even slower cash flow.

Foundation giving will be affected, although it will lag government funding cutbacks. Foundation grant-making is based on a three-year moving average of their endowment's market value, so this year's budget is based on prior years' performance. Some foundations have said they will maintain their current funding level this year, while others have said just the opposite. Whether funders already committed to sustaining last year's grant making will continue that level of funding over the next few years depends on how the markets fare and their funding philosophy.

**The Sector is Weaker Today.** A recent Nonprofit Finance Fund study of over 6,500 small and mid-sized nonprofits in the United States found that many organizations emerged from the last recession weaker than when the downturn began in 2001. Nonprofits' expenses grew faster than revenue from 2001 to 2003. As late as 2005, the percentage of nonprofits reporting deficits was higher than in 2001. Whether agencies deliberately provided more services because of their communities' greater needs, or were not able to cut expenses quickly to match their reduced revenue is

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uncertain. But in either case, organizations were undermining their fiscal health.

## What You Can Do

**Recognize Reality.** One reality is the presence of performance-based contracting and the increased emphasis on outcomes and accountability. Government agencies and foundations want to make sure their money is well spent, as taxpayers and donors want. Satisfying contract requirements can be burdensome and challenging, but those agencies that can meet or exceed them generally maintain and even increase their funding.

We have learned that the most successful nonprofits are those who recognize and adapt quickly to changing circumstances. While it is hard to predict a recession's course, an organization can make contingency plans so it can adjust to changing economic circumstances. Those that deny the realities wait to act, have fewer options, and may suddenly be faced with limited cash and the need to merge or close.

Nonprofit executives and their boards can "stress test" their agency by developing different budget scenarios where their revenue drops five, ten, or twenty percent. At what point are they in serious trouble? What actions can they take to bring their expenses into line? What new building, programs, recruitment or other initiatives can be postponed? What steps can be taken now to raise additional funds in an increasingly competitive environment for limited dollars?

**Focus on Your Mission.** In a recession, it is important for nonprofits leaders and their boards to keep their missions and the needs of their communities front and center. This is a good time to focus on what a nonprofit does best, and make sure it can document results and accomplishments.

This is also an opportune time to address "mission creep." Service delivery can improve, clients may benefit, and internal resources may be "unlocked" if you transfer a program that is only satisfactory to an agency that excels in that area. We have seen more than one agency with good programs merge with another when it realized it could not raise sufficient funds long term to maintain programs' quality.

Keeping your mission in mind can lead to more options, not fewer:

- Consider how to do things differently and still deliver quality programs. An agency may be able to consolidate offices, programs, or functions. Outsourcing might be a viable possibility.
- Explore alliances or mergers to provide a more integrated program, expand a program's breadth of services, and/or save infrastructure expenses.
- Band together with others to advocate for maintaining or increasing funding for communities with significant needs.
- Talk with other nonprofit leaders. Find out how they perform certain activities, reduce their costs, etc., and apply their best practices.

**Make Sure You Have Enough Cash.** A nonprofit may have cash in the bank, but it's unusable for general operating expenses. Money may have strings attached, available for only a particular program expense or at some future date. Some cash may even be part of an endowment's principal, therefore untouchable.

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Many nonprofits encounter seasonal swings to their cash coming in and going out. They may have to wait for reimbursements from government contractors to cover expenses paid months earlier. An annual fund-raiser may supply needed funds for the rest of the year.

It's important for trustees to have a picture of the cash coming in, going out, and the amount left over each month for the last year or two to give you a way to plan for the future. An agency's fiscal department can compile the data, so you can consider questions like:

- How will you cover your cash obligations in months when they exceed the cash you receive?
- If you have a "rainy day" reserve, how long will it last?
- What will happen to your available cash if government agencies delay payments another 30, 60, or even 90 days?

**Know the "Nut" You Have To Cover.** Nonprofits must pay certain expenses every month: personnel, rent, and utilities and communications. They may have monthly loan payments and an annual credit line repayment obligation. These fixed expenses comprise the "nut" a nonprofit has to cover, regardless of how many programs it delivers.

Executive directors and boards need to have a clear understanding of this figure and how they will meet their obligations over the coming few years. There are ways to reduce the amount to a more manageable level, but they will require advance planning:

- Avoid taking on new programs whose total costs are not covered completely. Any new program requires more staff, computers, and often space, adding to the nut obligation.
- Move to less costly space or rent your excess space to another organization. This is not the time to take on a new building.
- Delay hiring or defer filling open positions when possible. Consider using interns, students, and retirees for some activities. Reconfigure responsibilities and eliminate positions, although you may incur severance costs and retain the same occupancy expenses.
- Automate and streamline operations wherever possible. You will be able to submit more accurate and timely contract vouchers faster and get reimbursed more quickly. You may also save some expenses, and perhaps staff.

Recessions always present particular challenges for nonprofits: The demand for their services increases while funding drops. Still, by staying focused on the mission, identifying options and taking thoughtful action quickly, nonprofit leadership can ensure that their communities will continue to get quality services.

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Ms. Garthson is joined by a body of contributors who are well-respected leaders, observers, and pundits in the field.

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