Cutting Costs, Keeping Quality:

Financing Strategies for Youth-Serving Organizations in a Difficult Economy

March 2010

The FINANCE PROJECT

Cutting Costs, Keeping Quality:

Financing Strategies for Youth-Serving Organizations in a Difficult Economy

Eric Keller

March 2010

The FINANCE PROJECT

Overview

Youth-serving organizations are likely to face many challenges in 2010. Notwithstanding signs the economy is improving, continued cuts in state budgets and foundation giving will translate to less funding for many youth programs, most of which already experienced reductions in 2008 and 2009. The strain of the recession also means the vulnerable populations that many youth programs support will need services now more than ever. To maintain high-quality services with limited resources, youth-serving organizations need to embrace a strategic and proactive approach to their financial management.

This research brief highlights three effective financing strategies that successful youth-serving organizations are using to maintain quality services despite difficult economic times (see Summary of Key Financing Strategies). The brief provides examples of how organizations have implemented these strategies and offers tips to help leaders consider how best to adapt these strategies to their unique context.

The brief begins by summarizing the effects of the recession on youth-serving organizations thus far. The first strategy, aggressively managing costs, highlights how organizations can focus on what they do best and cut costs in ways least likely to damage the quality of their services. The second strategy, creatively generating new revenues, examines how organizations can look beyond their traditional sources of support to generate new funding despite the troubled economy. The third strategy, forming partnerships, discusses how organizations can create partnerships and support networks to help mitigate the effects of funding cuts.

A key finding of this research is that many organizations began implementing these strategies well before times got tough. Aggressively managing costs, creatively generating revenues, and forming partnerships were integral aspects of their daily operations, rather than reactions to a weak economy. Leaders report that once the recession began, these strategies significantly improved their program's ability to continue delivering high-quality services to youth. In this sense, these strategies not only can help youth-serving organizations weather the storm, but also help ensure they are better prepared to manage any financial shocks in the future.

This research was informed by interviews with leaders of 17 youth programs and organizations from across the country that experts identify as using effective financial management strategies. These programs and organizations vary in their size and scope; some have budgets of less than $200,000 and serve youth in well-defined communities, while others serve youth nationwide and have budgets as large as $30 million. The programs and organizations serve both urban and rural areas. They also vary in their primary areas of service, including afterschool, mentoring, dropout prevention, gang prevention, and juvenile delinquency services, though most of them provide services in multiple areas. Finally, some of the organizations provide direct services to youth while others are intermediaries (i.e., they support the work of other youth programs). A list of the programs and organizations participating in the research interviews can be found in the appendix.

Summary of Key Financing Strategies

Leaders interviewed for this research recommend these key financing strategies to maintain services for youth in a difficult economy.

Aggressively Manage Costs	**Protect core services (p. 8)** ☑ Close or scale back programs not integral to the organization's mission. ☑ Understand how cost-cutting measures will affect all aspects of the organization. **Develop a contingency plan (p. 8)** ☑ Develop an outline of steps the organization will take to deal with financial difficulties. **Examine overhead costs (p. 10)** ☑ Renegotiate debt. ☑ Renegotiate contracts with vendors. ☑ Secure sufficient overhead rates.
Creatively Generate New Revenues and Support	**Engage the board or other leaders in generating revenue (p. 13)** ☑ Create a fundraising and development committee. ☑ Provide fundraising training. **Use data to communicate the organization's impact (p. 14)** ☑ Conduct parent surveys. ☑ Conduct program quality self-assessments. ☑ Engage external evaluators. ☑ Invest in data collection software. **Implement program fees and social enterprise activities (p. 16)** ☑ Develop sliding-scale fees. ☑ Engage in business-like activities that generate income to support the organization's mission.
Form Partnerships	**Access volunteers and in-kind support (p. 18)** ☑ Engage volunteers through connections with parents, universities, and national and local volunteer organizations. ☑ Create partnerships with community-based organizations and local businesses. **Share the costs of providing services (p. 20)** ☑ Establish referral systems to reduce duplication of services. ☑ Use support networks to jointly administer programs. **Share administrative costs (p. 21)** ☑ Outsource back-office services. ☑ Pool resources through a collaborative.

Effects of the Recession on Youth Programs

Like most nonprofit organizations, many youth-serving organizations have experienced budget reductions in recent years. These cuts are partially a result of severe budget challenges in state and local governments. Many states and localities have substantially reduced funding for youth programs to address revenue shortfalls. Consider these examples of how state-level budget cuts are directly affecting the funding received by youth programs.

- Connecticut, to manage a $386 million budget gap in fiscal year 2010, cut the budget for the department of children and families by $8.5 million. [1]
- Kentucky, faced with a 2010 budget shortfall of $161 million, eliminated a nationally recognized juvenile crime prevention program. [2]
- New Jersey, to close a fiscal year 2010 budget gap of $500 million, cut funding for afterschool programs. [3]
- New York, confronting a $3.2 billion budget shortfall for fiscal year 2009, cut spending midyear on most of its programs that serve youth.[4]

Youth programs also face continued reductions in private funding. Many of the private foundations on which youth-serving organizations rely have reduced their grant making because of large losses in their endowments. A Foundation Center survey estimates that foundation giving decreased by more than 10 percent in 2009, and foundation giving is expected to decline further in 2010. [5] Private fundraising and donations also have decreased. A study by Giving USA found that donations to charities in 2008 declined by 5.7 percent after inflation, the steepest decline since the organization began estimating donations in 1956. [6]

Naturally, reductions in nearly all sources of funding for youth-serving organizations have drastically affected their financial conditions. A November 2009 survey by The Bridgespan Group found that 80 percent of nonprofit organizations had experienced funding cuts, up from 52 percent in November 2008.[7] For many organizations, these funding cuts have been significant. Nearly half of the organizations surveyed had experienced cuts of between 10 percent and 20 percent of their total budget, and almost a quarter had funding cuts of more than 20 percent. Although the Bridgespan study

[1] National Association of Child Care Resource & Referral Agencies, "State Budget Cuts: America's Kids Pay the Price" (Arlington, Va.: National Association of Child Care Resource & Referral Agencies, January 2010).

[2] John Kelly, Benjamin Penn, and Matt Wagner, "Youth Services in States of Pain: A Survey of How Budget Cuts Threaten Youth Programs," *Youth Today* (March 1, 2009).

[3] National Association of Child Care Resource & Referral Agencies.

[4] Community Resource Exchange, *Budget Alert* (New York, N.Y.: Community Resource Exchange, November 2009).

[5] Steven Lawrence, *Foundations' Year-End Outlook for Giving and the Sector* (New York, N.Y.: The Foundation Center, November 2009).

[6] Giving USA Foundation, *Giving USA 2009: The Annual Report on Philanthropy for the Year 2008* (Glenview, Ill: Giving USA Foundation, 2009).

[7] Allen Tuck, Ann Goggins Gregory, and Sarah Sable, *A Year of Managing in Tough Times: November 2009 Survey Update of Nonprofit Leaders* (Boston, Mass.: The Bridgespan Group, November 2009).

focused on nonprofit organizations in general, these findings are consistent with the responses of youth program leaders interviewed for this brief. All interviewees reported some funding cuts from public or private sources, with many reporting cuts of between 10 percent and 20 percent of their total budget.

Nonprofit leaders have quickly implemented strategies to cope with these financial challenges. Typically, they have taken steps to develop contingency budgets, collaborate with other organizations to provide services, reduce staff, freeze salaries, engage more closely with their board, and use reserve funds (see Common Strategies That Nonprofits Are Using to Cope with the Recession).

Common Strategies That Nonprofits Are Using to Cope with the Recession

- Develop contingency budgets (65% of respondents)
- Engage more closely with board (59% of respondents)
- Freeze all hires and current salaries (48% of respondents)
- Use reserve funds (43% of respondents)
- Collaborate with another nonprofit organization to provide programs (42% of respondents)
- Reduce staff or salaries (41% of respondents)
- Reduce or eliminate programs (39% of respondents)
- Reduce or refinance occupancy costs (18% of respondents)

Source: Nonprofit Finance Fund, *Summary Report: Nonprofit Survey Results* (New York, N.Y.: Nonprofit Finance Fund, March 2009).

Many nonprofit organizations are especially vulnerable to funding cuts because they lack sufficient operating reserves. A recent survey by the Nonprofit Finance Fund found that 31 percent of nonprofit organizations did not have operating reserves sufficient to cover one month of expenses.[8] The survey found that 62 percent did not have enough reserves to cover three months of expenses, which is the standard benchmark for sufficient reserves. These statistics are especially troubling, because the same survey found that only 16 percent of nonprofit leaders expected to be able to cover their operating expenses in both 2009 and 2010. Many leaders interviewed for this research cite their organization's operating reserves as critical to their ability to manage the effects of the recession.

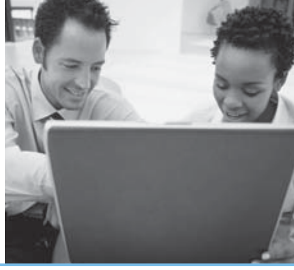
Budget cuts have been coupled with an increased demand for many of the services that youth programs provide. One survey found that 54 percent of social services organizations reported increased demand for their services in 2008.[9] Similarly, youth program leaders interviewed for this research report increased demand for their services. For example, many programs that traditionally provide support services to youth, such as mentoring or job training, are finding that the youth they serve also need help with meeting basic needs, such as food, shelter, and security.

This dynamic of budget cuts coupled with increased demand highlights an important tension that youth-serving organizations currently face. Responsible financial management may require reducing services to adjust to new budgetary constraints, but service reductions can have a real impact on the lives of youth. The serious consequences may explain why many youth-serving organizations hesitate to cut costs by reducing services. However, failure to adjust to economic realities may result in programs becoming financially unstable and, in some cases, having to cease operations.

The strategies presented in this brief can help youth-serving organizations continue to provide critical services to their communities. The first section presents strategies that leaders can use to carefully manage and reduce their costs, including focusing on core services, using contingency planning, and reducing overhead costs. The second section focuses on strategies to creatively generate new revenue and support, such as engaging the board and other leaders in generating revenue, using data to communicate the organization's impact to donors and funders, and implementing program fees and social enterprise activities. The third section discusses how youth-serving organizations can form partnerships to access volunteers and other in-kind support and share the costs of providing services.

[8] Nonprofit Finance Fund, *Summary Report: Nonprofit Survey Results* (New York, N.Y.: Nonprofit Finance Fund, March 2009).

[9] Giving USA Foundation.



Strategy 1: Aggressively Manage Costs

As the economy began to worsen, most youth-serving organizations quickly employed basic belt-tightening strategies and reduced nonessential spending. However, as budget cuts have continued, many organizations have been forced to make tough decisions and find ways to significantly reduce their costs.

The challenge for most organizations is to reduce costs in a way that has the least effect on the quality and sustainability of their services. Many of the leaders interviewed raise the concern that cutting back in certain areas could lead to a loss in productivity that would outweigh any savings, thus weakening their organization. For example, cutting back on fundraising expenditures could further reduce the organization's revenue and create a vicious cycle of reduced funding.

Leaders identify several strategies for reducing costs while maintaining program quality, including protecting core services (i.e., the services most important to the organization and its constituency), developing contingency plans, and carefully examining overhead costs. Underlying each strategy is the principle that organizations should first clearly understand and protect what they do best. Rather than quickly making across-the-board budget cuts, leaders can cut specific costs that are less likely to negatively impact the organization. Identifying these costs requires thinking carefully about how cuts may affect an organization over time (see Considering the Effects of Cost-Cutting Measures).

Considering the Effects of Cost-Cutting Measures: Big Brothers Big Sisters of North Texas

Leaders at Big Brothers Big Sisters (BBBS) of North Texas knew they would have to reduce expenses by 11 percent because of cuts in government funding and private donations. Leaders determined that to achieve these reductions they could lower personnel costs by reducing the total number of staff or slightly reducing staff salaries. Reducing staff would have forced the organization to serve fewer children. This approach would have negatively affected revenues, because much of BBBS's government funding is based on reimbursements associated with the number of children it serves. Instead, leaders chose small salary reductions of between 3 percent and 5 percent for most staff members. While this scenario may not apply for every organization, the key is that BBBS leaders considered how cost-saving measures would affect other aspects of the organization and used that information to make an informed decision.

Protecting Core Services

Many leaders interviewed for this research have cut costs while intentionally protecting their core services. For some organizations, this has meant closing or scaling back a program not integral to their mission. For example, PACE Center for Girls, which provides delinquency prevention services for girls ages 12 to 18 throughout Florida, had previously developed early intervention outreach to younger girls in partnership with elementary schools. Facing severe budget cuts, the center chose to suspend these outreach programs to focus on core services that would have the greatest impact in helping girls improve their lives.

When closing or scaling back services, many leaders have strengthened partnerships with others in the community that provide similar services. For example, one organization that temporarily suspended substance abuse counseling because of budget cuts partnered with the local department of human services to ensure its youth could still receive counseling. This partnership included transporting the youth to counseling sites.

Using Contingency Planning

Contingency planning can help youth-serving organizations develop a clear plan for cutting costs in ways that are less likely to affect the quality of their services. A contingency plan is an outline of the steps an organization will take to deal with financial difficulties if they arise. For example, an afterschool program could decide that a budget reduction of 10 percent in a single year triggers a freeze of staff salaries and postponement of two field trips. A budget reduction of 20 percent could trigger additional actions, such as reducing some staff to part-time status.

In addition to budget cuts, contingency plans monitor other key trip wires. For example, organizations could take action if their cash reserves are depleted by X percent or they see a Y percent decrease in youth enrolled in their programs. Having a clear plan in place before budget cuts occur prevents reactionary, crisis planning and helps determine exactly what programs and services are most critical to the organization and the youth it serves.

Many of the leaders interviewed report that contingency planning helps them agree on their core values and recalibrate their long-term strategic plan in response to current economic conditions (see Responsibly Managing Growth in a Recession). While a recent survey found that 62 percent of nonprofit organizations had developed at least a basic contingency plan, only 38 percent had a well-defined contingency plan that identified the key trip wires that would trigger actions, clarified which programs were critical to the organization's mission, and detailed spending cuts should a large budget reduction occur. [10]

Responsibly Managing Growth in a Recession: City Year DC

Although contingency planning is often used to prepare for budget cuts, the process can also help leaders plan for growth in a difficult economy. City Year DC is one branch of a national service corps that engages youth in community service activities such as tutoring and mentoring in public schools. Leaders at City Year DC report they have a plan to expand their corps from approximately 100 volunteers to 350 volunteers during the next five years. This growth is being fueled by a desire to expand services to more schools and a growing number of youth interested in serving as volunteers. Recognizing that achieving this growth would not be easy in the current economy, leaders have specified milestones related to fundraising and program quality they need to achieve to continue with their growth plan.

Fundraising milestones require the organization to reach targets for the total number of donors, total fundraising revenue, total number of corporate sponsors, etc. Other milestones focus on program quality; for example, volunteers' ability to increase the test scores of the students they mentor. If City Year DC cannot meet these milestones, it plans to grow the service corps at a less aggressive rate.

[10] William Foster, Gail Perreault, and Sarah Sable, *Managing in Tough Times: May 2009 Nonprofit Leaders Survey Update* (Boston, Mass.: The Bridgespan Group, May 2009).

Examining Overhead Costs

Regardless of the economy, managing overhead costs poses a significant challenge for many youth-serving organizations. While organizations receive funding to provide direct services to youth, they also need funds dedicated to covering overhead costs, such as rent, equipment, and office supplies. Youth-serving organizations face pressure from various sources—most importantly, funders—to keep overhead spending as low as possible, but this type of spending is often essential to maintaining a healthy organization.

In response to the weak economy, many youth-serving organizations are seeking to reduce overhead costs by renegotiating the terms of rent or debt payments, renegotiating contracts with vendors, and reducing administrative staff (see Renegotiating Debt). However, recognizing that basic levels of overhead spending are essential to their organization's health, some are trying to increase the amount of funding available for overhead costs. These organizations are working with public and private funders to request funds with more flexibility, particularly funds that can be used to meet overhead needs. Program leaders interviewed stress the importance of carefully examining the overhead rate a program charges its funders and ensuring the rate is sufficient to cover overhead costs.

As public and private budget cuts continue into 2010, many youth-serving organizations will need to find new and creative ways to reduce their costs. Although this process may be painful and will require making difficult decisions, some organizations will grow stronger as they find new ways to create maximum impact with limited resources.

Renegotiating Debt: Communities In Schools

Communities In Schools (CIS) is a national dropout prevention organization that helps schools connect with community resources and services, such as local businesses and social service providers. Leaders at CIS reduced overhead costs by renegotiating loans they had used to finance some of their operations. They recommend these strategies for youth programs seeking to renegotiate debt.

- **Act quickly.** Once the program defaults on even one monthly payment, the bank may treat the loan differently and refinancing options may be limited.
- **Be prepared to show financial statements including current and future budgets.**
- **Consider asking for an extension of the terms on the loan.** Extending the loan can reduce the monthly payment.
- **Consider whether a "friendly funder" can help.** For CIS, a board member was willing to buy the program's debt from the bank and accept repayment at a more favorable interest rate.

Strategy 2: Creatively Generate New Revenues and Support

A tough fiscal outlook makes generating new sources of revenue hard. However, leaders interviewed reveal several creative strategies to generate new revenues despite the weak economy. Difficult times call for new tactics, and some youth-serving organizations have successfully generated new revenues by thinking beyond their traditional funding sources and fundraising strategies to engage their governing board in fundraising, use data to communicate the organization's impact, and implement parent fees and social enterprise activities.

Many of these organizations had begun to implement new funding strategies well before they felt the effects of the recession. These strategies often take time to pursue and may require initial investments of resources before they pay dividends, making them harder to implement when an organization is already losing funding. By taking a forward-looking approach, these organizations were better prepared for the recession.

Developing a Quality Funding Base

Many leaders report they approach revenue-generating activities with the goal of constantly improving the quality of their funding base. Several leaders indicate past efforts to develop a strong funding base were critical in helping absorb the shocks of the economic downturn. A quality funding base often means different things for different organizations, but leaders identify several key characteristics of a strong and reliable funding base.

- **Diversity**. Many program leaders cite accessing a diverse array of funding sources as being essential to their ability to maintain services during the recession (See the Risk of Over-Diversification).

- **Stability**. Youth-serving organizations that have secured some stable, multiyear funding commitments have relied on that revenue as other sources of funding have been reduced. For example, leaders at Big Brother Big Sisters of North Texas estimate that much of their operating capital in 2010 will come from prior multiyear commitments.

- **Flexibility**. Program leaders are increasingly seeking funds with fewer restrictions that can be used to fill budget gaps or cover overhead costs.

The Risk of Over-Diversification

Youth-serving organizations that access multiple funding sources are much more likely to maintain their services in a difficult economy. A study of nonprofit organizations recovering from the 2001 recession found that those relying on one government funding source were considerably more likely to experience deficits than those receiving even 10 percent of their funding from another source.* However, program leaders should be wary of over-diversification—developing new funding sources or lines of business that are unrelated to the organization's mission and goals. Organizations drifting into new territory may find the costs of providing unfamiliar services outweigh the amount of funding they receive and distract them from what they do best.

Note: *Nonprofit Finance Fund, *Nonprofit Trends: The 2001 Economic Slowdown and its Aftermath* (New York, N.Y.: Nonprofit Finance Fund, February 13, 2008).

Engaging the Board or Other Leaders in Generating Revenue

Many youth-serving organizations are turning to members of their governing board, or other influential community leaders who support their programs, for help in generating revenue. For example, leaders can create a committee on their board specifically dedicated to fundraising and development. Recognizing that some board members might be inexperienced in fundraising and unsure about how to help, program leaders can also consider offering fundraising training to board members (see Engaging the Board in Fundraising). This strategy can quickly generate some unrestricted income. For example, leaders at the Latin American Youth Center, a comprehensive youth development organization in Washington, D.C., note that after receiving fundraising training, one board member quickly generated $1,000 in donations simply by sending an e-mail encouraging friends, family, and other contacts to donate.

Engaging the Board in Fundraising: PACE Center for Girls

Partially in response to the challenging economy, the PACE Center for Girls, which provides delinquency prevention services for girls throughout Florida, carefully considered how best to engage board members to support the organization's goals. With 17 locations statewide, all overseen by local governing boards, PACE provided fundraising trainings to engage local board members in revenue-generating efforts. The trainings focused on how board members could engage the community in the core aspects of PACE's mission. They also helped board members understand the difference between developing "transactions" (i.e., one-time donations) and long-term investments. Program leaders report that support generated through board fundraising efforts has been critical to filling gaps caused by state budget cuts.

Using Data to Communicate the Organization's Impact to Donors and Funders

With competition for funding becoming increasingly fierce, youth-serving organizations need to use data to communicate the impact of their services to potential donors and funders (see Using Data to Communicate Impact). Donors and funders are increasingly supporting programs that can demonstrate they improve the lives of the children and families they serve. In addition to being critical for revenue-generating efforts, good data is essential to internally evaluate an organization's strengths and weaknesses and improve its services.

Using Data to Communicate Impact: Latin American Youth Center

The Latin American Youth Center (LAYC) is a comprehensive youth development organization in Washington, D.C. According to LAYC leaders, "Funders are deliberately choosing to fund organizations that have tangible results." In 2005, LAYC created an in-house learning and evaluation division to collect data and conduct evaluations of its programs. LAYC uses Efforts to Outcomes, an online data collection system, and it has trained its program staff to input data directly into the system. Although leaders at LAYC acknowledge that developing this system was costly and time intensive, they believe being able to articulate the results of their evaluations has been critical to their ability to use data to inform staff about the value of their work, make programmatic decisions, and generate funding in a difficult economy.

Youth-serving organizations can collect different kinds of data to examine their effectiveness. Program attendance and retention rates, client satisfaction rates, and academic performance data for the youth they serve are just a few examples. Programs should collect data on outcomes closely related to their mission; for example, a program focused on job readiness could collect data on the number of clients who find and retain employment.

Youth programs can collect outcome data in different ways, including administering parent and youth surveys, conducting program quality self-assessments, and engaging external evaluators (see Resources for Collecting Data on Youth Programs). Although leaders interviewed acknowledge that collecting outcome data can be expensive, many believe these efforts more than pay for themselves by improving the organization's capacity to attract funding.

Resources for Collecting Data on Youth Programs

Collecting data on program outcomes can be expensive and complex, but several resources are available that can support youth-serving organizations in these efforts.

Several assessment tools provide guidance on how to collect outcome data for youth programs. These tools provide ideas for structuring formal program assessments and conducting informal self-assessments. The Forum for Youth Investment has developed a guide that highlights 10 assessment tools for youth programs available at: http://forumfyi.org/content/measuring-youth-program-quality-guide-assessment-tools-2nd-edition.

Efforts to Outcomes is an online software that social and human services organizations can use to track and analyze data. Developed by Social Solutions, the software helps organizations collect and analyze data, track outcomes, and develop reports that can be used to improve program quality. For more information, visit http://www.socialsolutions.com.

Implementing Program Fees and Social Enterprise Activities

Difficult fiscal conditions are leading many youth-serving organizations to charge program fees or undertake social enterprise activities to generate new revenues and fill budget gaps.

Many youth-serving organizations are charging program fees to engage parents in covering service costs (see Generating Support Through Program Fees). Implementing program fees can be difficult, because many families also are struggling financially. In addition, some funding sources prohibit charging program fees for activities supported by that source, or stipulate that program fees cannot prevent any family or youth from participating in a program for financial reasons. Most organizations using this approach develop sliding-scale fees that generate some payments from families based on what they can contribute.

Program leaders also report that sliding-scale fees have nonmonetary benefits, such as improving program attendance rates. Charging a small fee can positively change the behavior of parents and youth supported by a program. For example, some leaders note that parents who contribute even a small fee often become more committed to the program and ensure their children attend regularly. Charging a small transportation fee can also encourage families to find alternate forms of transportation if they are available.

Generating Support Through Program Fees: Connecticut After School Network

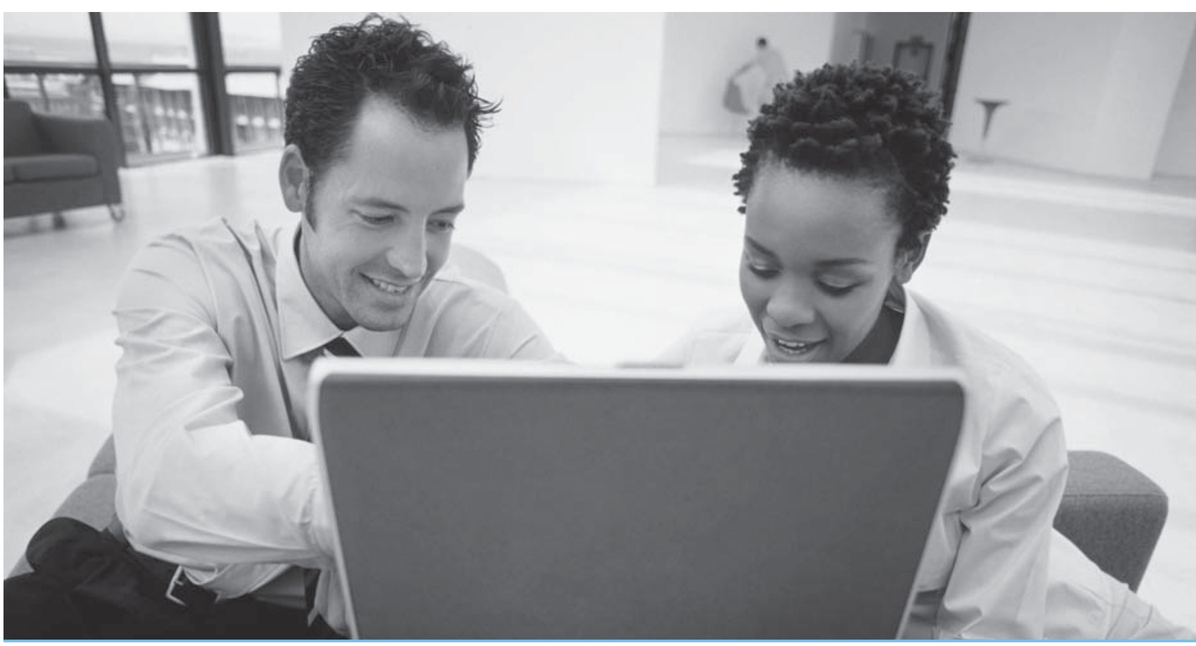
The Connecticut After School Network is a statewide advocacy and support organization that provides training, resources, and technical assistance to afterschool programs. Increasingly, leaders at the network are using fee-for-service activities to offset funding cuts. They report that charging even small fees, such as fees for lunches provided at trainings, has offset costs and helped decrease the number of no-shows at these events.

Moreover, afterschool programs within the network have effectively used program fees to control their costs and generate new revenues. Program leaders give the example of one rural afterschool program that was struggling to meet high transportation costs. Implementing a small sliding-scale transportation fee enabled the program to collect additional revenue, but it also encouraged some parents to carpool. This reduced the number of children the program had to transport.

Youth-serving organizations are also undertaking social enterprise activities to supplement their revenues. Social enterprise activities are business-like endeavors that generate income, which is then targeted for reinvestment to support an organization's core social mission.

For example, the United Teen Equality Center (UTEC), a comprehensive youth outreach and development program in Lowell, Massachusetts, generates significant revenues through social enterprise activities connected with its programming. The first floor of its building is a café where youth work as part of UTEC's workforce training initiative. The second floor of its building is an arts center that UTEC rents out when not in use by the program. UTEC also operates several youth-run businesses, such as a catering company and a small farm, that generate revenues to support programming. The primary goal of UTEC's social enterprise activities is to provide opportunities for youth, not to make money. Leaders at UTEC estimate that sales cover between 30 percent and 40 percent of the costs of the social enterprise activities, with the remainder supported through grants and fundraising. However, leaders note that these funds have helped diversify their revenue sources and mitigate the effects of budget cuts.

Program leaders interviewed for this research took a strategic and creative approach to cultivating varied sources of funding well before times got tough. This approach has not saved them from funding cuts. Many programs are seeing reductions in all sources of funding, no matter how broad their funding base. However, this strategy has enabled programs to lessen the impact of funding cuts and continue to provide their most critical services when youth need them most.



Strategy 3: Forming Partnerships

Forming partnerships is one of the most powerful strategies that leaders of youth-serving organizations can use to control their costs and generate new revenue. Strategic partnerships can result in access to volunteers and in-kind resources, increase eligibility for funding sources, reduce administrative costs, and promote more coordinated services for youth. Youth-serving organizations can form partnerships with many organizations, including schools, hospitals, businesses (see Creating Partnerships with Local Businesses), museums, institutions of higher education, and faith-based organizations.

Forming and maintaining partnerships is not without its challenges. Developing strong partnerships takes time. In addition, it often requires compromise, because organizations with different missions must agree on certain goals and values. However, successful partnerships can be very effective in helping organizations achieve goals they could not have accomplished alone.

Creating Partnerships with Local Businesses: Self Enhancement, Inc.

Effective partnerships bring benefits to all parties involved. Self Enhancement, Inc. (SEI), a comprehensive youth development organization in Portland, Oregon, has formed partnerships with local businesses wanting to increase the diversity of their workforce. SEI partners with local organizations such as Nike, US Bank, Key Bank, the Portland Trail Blazers, and Legacy Emanuel Hospital to support a new internship program. Each organization provides $50,000 to support the program and designates internship opportunities for SEI youth. Leaders at SEI comment that organizations have been anxious to join this partnership. Most of SEI's youth are African American, so employers see this partnership as an effective way to engage qualified African American youth and increase the diversity of their current and future workforces.

Accessing Volunteers and Other In-kind Support

Many youth-serving organizations are cultivating partnerships that produce in-kind resources, such as volunteers and donated space or materials, to offset funding cuts (see Engaging Youth Volunteers). In a difficult economy, requesting local businesses or other partners to donate office supplies or commit volunteers may be more successful than asking for monetary contributions.

Federal programs, such as AmeriCorps, can provide a great source of volunteers for youth programs. For example, leaders at the Youth Empowerment Project, a comprehensive youth development program in New Orleans, Louisiana, partnered with a local AmeriCorps grantee and established itself as one of the grantee's volunteering sites. Leaders report that their access to volunteers has been critical to the program's success, but engaging volunteers does involve costs. Program leaders should consider the investment required to train and supervise new volunteers, as well as the reporting requirements for programs such as AmeriCorps, and weigh those costs against the benefits of engaging volunteers.

Engaging Youth Volunteers: Pentecost Baptist Church Educational and Outreach Program

The Educational and Outreach Program of the Pentecost Baptist Church runs afterschool and summer programs for youth in New Orleans, Louisiana. The program engages volunteers from several sources.

- A partnership with Dillard University engages college students who tutor youth and support the program's daily operations.
- The Mayor's Summer Youth Employment Program contributes volunteers.
- All parents of students in the program serve as volunteers at some point.
- Partnerships with national volunteer organizations, such as City Year and Volunteer Match, provide an additional source of volunteers.

Program leaders report that engaging volunteers has been essential to controlling personnel costs.

Leaders interviewed for this research have these tips for youth-serving organizations seeking to engage volunteers:

- make volunteering easy;
- ensure volunteers clearly understand the impact of their time and effort;
- provide opportunities for people who are unemployed to maintain their job skills and network with others;
- offer different volunteer opportunities and flexible schedules;
- survey parents of youth in the program and use that information to engage them as volunteers; and
- think carefully about what the program will use volunteers for; many activities that involve close interaction with youth may be handled better with permanent staff.

Sharing the Costs of Providing Services

Many youth-serving organizations are collaborating in service provision to reduce their costs and improve the coordination of services for youth in their communities. This collaboration often involves establishing systems of referral. For example, when budget cuts forced one organization to suspend substance abuse counseling services, leaders connected youth to other public agencies that provided these services. In addition to reducing program costs, the strategy can also help reduce the duplication of services in a community.

In a difficult economy, youth serving-organizations have turned to more complex forms of collaboration, including jointly administered programs and services. A small afterschool program, for example, may not have the resources to operate a full-day program during the summer, but it can pool staff and resources with other afterschool programs to do so. Youth programs have increasingly turned to intermediary and support organizations to help foster these collaborations (see Collaborating Through Support Networks).

Collaborating Through Support Networks

The Hampshire Education Collaborative is a nonprofit education service agency in Massachusetts dedicated to fostering educational excellence, opportunity, and growth for all learners. Leaders report a recent increase in collaboration among many of the youth programs and school districts the collaborative supports. For example, many of the small school districts supported by the collaborative lack the resources to apply for and manage federal grants. By pooling their resources through the collaborative, these school districts are able to jointly apply for and manage the reporting and professional development requirements of federal grants.

The Providence After School Alliance is an intermediary organization that supports afterschool programs in Providence, Rhode Island. Leaders say collaborative strategies have been integral to growing a system of support for afterschool providers that have faced a difficult funding environment for years. The alliance helps programs pool their resources and jointly provide services, such as full-day summer programs, that no one program could provide on its own. The alliance also helps programs collaborate on seeking grants and is able to jointly leverage additional resources, such as access to school district buses.

Sharing Administrative Costs

Another common purpose of partnerships for youth-serving organizations is to achieve economies of scale in carrying out back-office services and managing grant applications. Many youth-serving organizations lack the resources to pay a full-time chief financial officer or to apply for and manage a federal grant. However, through partnerships or consortiums, they can pool their resources and share the costs of these activities. Leaders at Family & Children's Service, which provides mental health and other community services to families in greater Minneapolis, Minnesota, identify partnerships in which they merged their back-office services with those of several other nonprofit organizations as integral to their organization's continued success (see Sharing Back-Office Costs).

Sharing Back-Office Costs: Family & Children's Service

In 2007, Family & Children's Service merged its administrative staff, including finance, human resources, and information technology staff, with staff from four other area human services organizations to form MACC CommonWealth. Since then, MACC CommonWealth has been providing back-office services to a growing number of area nonprofit organizations at a reduced cost. For example, MACC CommonWealth's joint purchasing power helped member organizations negotiate a common set of ancillary benefits that represented a 30 percent savings over what would have been achieved separately.*

Leaders at Family & Children's Service cite several other benefits of participating in MACC CommonWealth, including increased flexibility. The administrative services they receive—and, therefore, the price they pay—can easily grow or shrink according to the organization's needs. For example, program leaders note that with recent budget cuts they would not have been able to pay a full-time chief financial officer, as they had before the recession. MACC CommonWealth affords them access to a chief financial officer and other administrative staff on a part-time basis.

Note: *Nichole Wallace, "Joining Forces in the 'Back Office,'" *Chronicle of Philanthropy* (March 26, 2009).

Conclusion: Looking Back, Looking Forward

Although many project that the U.S. economy will continue to recover in 2010, if history is a guide, it will take several years for youth-serving organizations to completely recover from the effects of the downturn. Nonprofit organizations recovering from the 2001 recession continued to experience deficits well after the recession ended.[11] It was not until three years later, in 2004, that the percentage of nonprofit organizations experiencing deficits fell back to prerecession levels.

The strategies presented in this brief can help leaders of youth-serving organizations consider how best to finance and sustain their services in these difficult times. Organizations can proactively control their costs by identifying and protecting their core services and planning for contingencies. They can improve their capacity to generate revenues by engaging board members, using data to communicate the impact of their work, and considering program fees and social enterprise activities. Finally, forming and strengthening partnerships can help youth-serving organizations reduce their costs and access both monetary and in-kind resources critical for getting through tough periods.

The organizations highlighted in this brief addressed the challenges of a weak economy by acting proactively and strategically. Organizations acted proactively by planning or implementing new funding strategies and cost-cutting measures well before they felt the effects of funding cuts. They acted strategically by implementing measures that were aligned with their organization's goals and helped them maintain the quality of their services.

As youth-serving organizations continue to face new challenges, they may discover new strategies and opportunities. As this research shows, the necessity of responding to an economic downturn has spurred some youth-serving organizations to implement new strategies that will improve their ability to effectively deliver services to youth as the economy recovers.

[11] Nonprofit Finance Fund, *Nonprofit Trends: The 2001 Economic Slowdown and its Aftermath* (New York, N.Y.: Nonprofit Finance Fund, February 13, 2008).

Appendix: Research Interview Participants

Audrey E. Warren, Executive Director, Jefferson Youth Foundation, Inc.

Cynthia Blue Davis, Director of Education and Youth Programming, Pentecost Baptist Church

Debbie Moellendorf, 4-H Youth Development Educator/Department Head, University of Wisconsin-Extension

Gregg Croteau, Executive Director, United Teen Equality Center

Gregory Rideout, Deputy Program Officer for Youth and Workforce Development, Henry Street Settlement

Hillary Salmons, Executive Director, Providence After School Alliance

Janice Bigelow, Chief Financial and Administrative Officer, Communities In Schools

Jason Ray, Vice President of Operations and Strategic Initiatives, Big Brothers Big Sisters of North Texas

Jeff Franco, Executive Director, City Year DC

Joan E. Schuman, Executive Director, Hampshire Educational Collaborative

Lori Kaplan, Executive Director, Latin American Youth Center

Mary Marx, Interim President and Chief Executive Officer, PACE Center for Girls, Inc.

Michelle Doucette Cunningham, Executive Director, Connecticut After School Network

Melissa Sawyer, Executive Director, Youth Empowerment Project

Molly Greenman, President and Chief Executive Officer, Family & Children's Service

Sue Meehan, National Director of Finance and Operations, Year Up

Tony Hopson, President and Chief Executive Officer, Self Enhancement, Inc.

Resources from The Finance Project

Deich, Sharon, and Cheryl D. Hayes. *Thinking Broadly: Financing Strategies for Youth Programs*. Washington, D.C.: The Finance Project, January 2007.
Available at: http://www.financeproject.org/publications/Thinkingbroadly_PM.pdf.

Dobbins-Harper, Dionne, and Soumya Bhat. *Finding Funding: A Guide to Federal Sources for Youth Programs*. Washington, D.C.: The Finance Project, January 2007.
Available at: http://www.financeproject.org/publications/Finding_Funding_PM.pdf.

Gray, Aracelis, and Cheryl D. Hayes. *Understanding the State of Knowledge of Youth Engagement Financing and Sustainability*. Washington, D.C.: The Finance Project, 2008.
Available at: http://www.financeproject.org/publications/YouthEngagementReport.pdf.

Grossman, Jean, et al. *The Cost of Quality Out-Of-School Time Programs*. Washington, D.C.: Public/Private Ventures and The Finance Project, 2009.
Available at: http://www.financeproject.org/publications/CostofQualityOSTPrograms.pdf.

Resources from The Finance Project (Continued)

Hayes, Cheryl, et al., *Investments in Building Citywide Out-of-School-Time Systems: A Six-City Study*. Washington, D.C.: The Finance Project and Public/Private Ventures, 2009.
Available at: http://www.financeproject.org/publications/InvestmentsInBuildingOSTSystems.pdf.

Relave, Nanette, and Sharon Deich. *A Guide to Successful Public and Private Partnerships for Youth Programs*. Washington, D.C.: The Finance Project, January 2007.
Available at: http://www.financeproject.org/publications/PublicPrivate_PM.pdf.

Sandel, Kate. *Snapshots of Sustainability: Profiles of Successful Strategies for Financing Out-of-School Time Programs*. Washington, D.C.: The Finance Project, September 2007.
Available at: http://www.financeproject.org/Publications/SustainabilityProfilesOST.pdf.

Sherman, Rachel H., Sharon Deich, and Barbara Hanson Langford. *Creating Dedicated Local and State Revenue Sources for Youth Programs*. Washington, D.C.: The Finance Project, January 2007.
Available at: http://www.financeproject.org/publications/DLR_PM.pdf.

Torrico, Roxana. *Using CDBG to Support Community-Based Youth Programs*. Washington, D.C.: The Finance Project, January 2008.
Available at: http://www.financeproject.org/publications/CDBG_PM.pdf.

Other Resources

Foster, William, Gail Perreault, and Sarah Sable. *Managing in Tough Times: May 2009 Nonprofit Leaders Survey Update*. Boston, Mass.: The Bridgespan Group, May 2009.

Giving USA Foundation. *Giving USA 2009: The Annual Report on Philanthropy for the Year 2008*. Glenview, Ill: Giving USA Foundation, 2009.

Kelly, John, Benjamin Penn, and Matt Wagner. "Youth Services in States of Pain: A Survey of How Budget Cuts Threaten Youth Programs." *Youth Today* (March 1, 2009).

Lawrence, Steven. *Foundations' Year-End Outlook for Giving and the Sector*. New York, N.Y.: The Foundation Center, November 2009. Available at: http://foundationcenter.org/gainknowledge/research/pdf/researchadvisory_economy_200911.pdf.

National Association of Child Care Resource & Referral Agencies. "State Budget Cuts: America's Kids Pay the Price." Arlington, Va.: National Association of Child Care Resource & Referral Agencies, January 2010. Available at: http://www.naccrra.org/policy/economic-stimulus-briefing-room/docs/January6FinalNACECMVOI.pdf.

Nonprofit Finance Fund. *Nonprofit Trends: The 2001 Economic Slowdown and its Aftermath*. New York, N.Y.: Nonprofit Finance Fund, February 13, 2008. Available at: http://www.nonprofitfinancefund.org/docs/2008/nff%20downturn%20dataFINAL%2002%2008.pdf.

Nonprofit Finance Fund. *Summary Report: Nonprofit Survey Results*. New York, N.Y.: Nonprofit Finance Fund, March 2009. Available at: http://www.nonprofitfinancefund.org/content.php?autoID=166.

Tuck, Allen, Ann Goggins Gregory, and Sarah Sable. *A Year of Managing in Tough Times: November 2009 Survey Update of Nonprofit Leaders*. Boston, Mass.: The Bridgespan Group, November 2009.
Available at: http://www.bridgespan.org/managing-in-tough-times-survey-update-november-2009.aspx.

Wallace, Nichole. "Joining Forces in the 'Back Office.'" *Chronicle of Philanthropy* (March 26, 2009).

Acknowledgements

Eric Keller, program associate at The Finance Project, wrote this publication. The author extends his sincere thanks to the youth program leaders interviewed for this research; their knowledge and insights made this publication possible. The author also thanks Lori Connors-Tadros, Torey Silloway, and Cema Siegel of The Finance Project who participated in this research and provided valuable feedback on earlier drafts. The Finance Project appreciates the support of the Underage Tobacco Prevention Program: Philip Morris, USA, an Altria Company, for its generous support enabling the development and publication of this work. The contents of this document do not necessarily reflect the views of the company.

About The Finance Project

Helping leaders finance and sustain initiatives that lead to better futures for children, families, and communities.

The Finance Project is an independent nonprofit research, training, consulting, and technical assistance firm for public- and private-sector leaders nationwide. It specializes in helping leaders plan and implement financing and sustainability strategies for initiatives that benefit children, families, and communities. Through a broad array of tools, products, and services, The Finance Project helps leaders make smart investment decisions, develop sound financing strategies, and build solid partnerships. To learn more, visit http://www.financeproject.org.

The FINANCE PROJECT

1401 New York Avenue, NW
Suite 800
Washington, D.C. 20005
T: 202.587.1000
F: 202.628.4205
www.financeproject.org