

# Survival Strategies for Recessionary Times

**Presented by Nonprofit Finance Fund (NFF)**

**Presenter: Dione Alexander, V.P. Midwest Region, NFF**



# NFF Vantage Point

- Largest, oldest financial institution for the social sector
- Provides financing, advice and innovation
- Clients include nonprofits, social enterprises, donors and investors
- National, with offices in DC, MI, CA, MA, PA, NJ, NY
- Assets \$75 million; total investment nearly \$1 Billion; direct loans, \$170 million
- Federally-certified 501(c)(3) Community Development Financial Institution (CDFI)



## Wide Range of Clients— “Demand” Side

- Traditional: Y’s, Community Centers, Child Care Centers, Boys and Girls Clubs; health clinics , food banks (facilities, working capital, equipment, BFF<sup>sm</sup> --\$100K-500K)
- Social Entrepreneurs, Media and E-commerce: Greyston Bakery, CompuMentor, Guidestar, Detroit Entrepreneurship Institute (facilities, working capital --\$1 – 2 million)
- Cultural/Media: Earshot Jazz; Mark Morris Dance, Bay Area Video Coalition; Second Stage; KUSP-FM, WBGO, Link TV (facilities, equipment, working capital, BFF<sup>sm</sup>--\$100K--\$1 million)
- Education: Schools (including numerous Charters), College Summit, BELL, Mosaic Youth Theater, (capital, expansion, “bridge” bond issues -- \$100K-\$1 million)
- 75% Low-moderate income; 35% “hot zones”



## Wide Range of Partners— “Supply” Side

- Foundations: The Charles Hayden Foundation (Boys & Girls Clubs BFF Program); The Ford Foundation (New Directions, New Donors), Doris Duke Foundation (JazzNet); Kresge Foundation “Green” Buildings Initiative; Goldman Sachs Foundation (Educational Ventures Fund); W. K. Kellogg Foundation (grantees)
- Government: City of Philadelphia (Child Care Initiative with Penn & Pew Foundations); New Jersey and Delaware State Arts Councils; U.S. Department of the Treasury.
- Financial Institutions/Corporations: Citibank, JP Morgan Chase, Bank of America, Metropolitan Life, 30 other commercial investors
- Highly diverse motivations and programs



# Definition of a Recession...

**What's the difference between recession and depression??**



## Answer...

- A recession is when your neighbor loses his job.
- A depression is when you lose your job!!!

NOW SERIOUSLY...



# The Economics of a Recession...

- A recession is a decline in the Gross Domestic Product (GDP) for two or more consecutive quarters.
- GDP is a way to measure the size of the economy. It is defined as the total value of all the goods and services a country produces in one year. The nonprofit sector accounts for **5.2%** of GDP.
- A depression is a economic downturn where GDP declines by more than 10%.
- Michigan has endured seven consecutive years of job losses (lack of production of goods) ---the longest stretch since the Great Depression.



## The State of the State...

- Less production and employment means less government revenues (taxes, bonds) and more government budget cuts.
- The sub-prime mortgage crisis and rising oil and health care costs create “the perfect” storm.
- At least 25 states face severe budget shortfalls in FY 2009
- \$172 million in spending for Depts. of Corrections and Community Health were cut from MI’s 2009 budget



## Impact on Nonprofits...

- NFF study examined how 6,500 charities fare in 2001 recession:
  - # of agencies reporting deficits grew by 20% from 2000-2001
  - in 2005 many agencies were in worse financial condition than in 2001
  - in the group that relied on government aid, the # of agencies reporting deficits grew from 39% in 1999 to 55% in 2003, at 51% in 2005



## Need v. Demand: A case for more funding...

Economic downturns result in more client need,  
(America's Second Harvest reports request for food assistance up 30%)

**BUT**

Cost of meeting needs increasing,  
(Food recovery groups paying \$4 per gallon for diesel, \$680 to fill one truck)

**BUT**

Philanthropy and government (demand side) funding cuts  
(fewer donations, losses in investment funds )



## The “Chekov Theory” ...

**“Any idiot can handle a crisis, it’s the day to day living that wears you out.” ~Anton Chekov, author**

**Useless but meaningful trivia:**

- **Chekov’s father filed bankruptcy in 1876 after overextending his credit to build a new house, fled the city to avoid debtors prison**
- **Chekov held various jobs (tutoring, catching finches, writing plays) in order to save \$\$ to pay off the family debt and finance his medical training**
- **Chekov never made money as a doctor because he treated the poor for free**



## Application of the “Theory” ...

1. Don't panic - - recognize that the crisis can likely be handled
2. Understand that the crisis is often a symptom and not the problem in its entirety. Recurring difficulties in day-to-day operations are magnified in the crisis environment
3. Get out of denial, can't “flee” to escape economic realities. Speak openly and often to stakeholders
4. Avoid large investments in fixed assets/infrastructure (don't “overextend credit to finance the house”)
5. Get a handle on your revenues. Analyze all sources. May not be necessary to go broad (Chekov had multiple jobs!) but deep
6. Develop a strategy for building reserves and growth capital (savings and surplus=survival)
7. Evaluate the profitability of each program - - what if anything you are doing for “free” and how it fits with the mission.



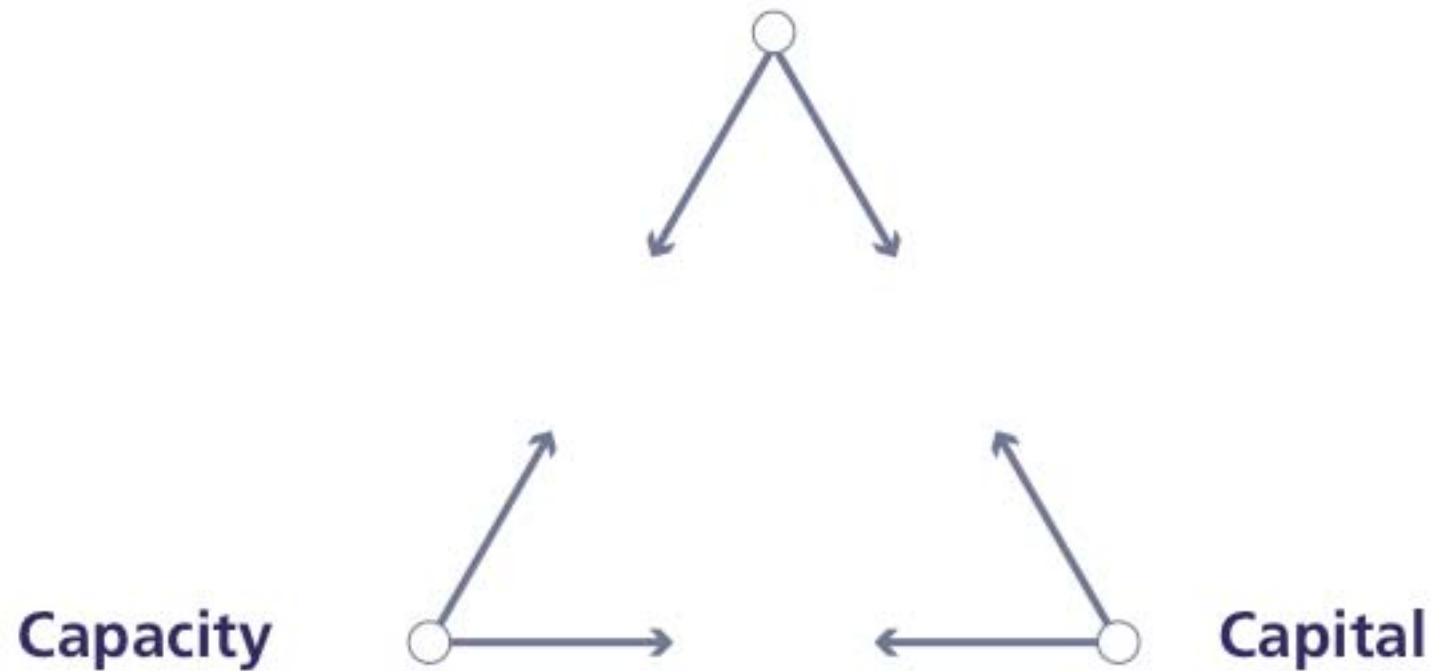
## Let's explore more...

- ✓ Cut non-essential costs and all waste. Recycle paper, turn off lights, lower thermostats, limit travel, reduce unfunded staff. YES, these activities are reactive but every dollars saved helps
- ✓ Mine & mind your donor databases. Try to find ways to engage donors at various giving levels.
- ✓ Accelerate fundraising activities cycle. If the need is “now “, why wait for the end-of-the-year appeal?
- ✓ **ADVOCATE, ADVOCATE, ADVOCATE.** Educate and inform government and other funders about the flaws in the nonprofit funding mechanism.



# Negotiate the balancing act...

## Mission and Program



## Contact us...

Dione Alexander  
Site Director-Detroit  
Nonprofit Finance Fund  
645 Griswold, Suite 2202  
Detroit, MI 48226

(313) 965-9145

(313) 965-9148 (fax)

Dione.alexander@nffusa.org

Visit us on the web at [www.nonprofitfinancefund.org](http://www.nonprofitfinancefund.org)

