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CATHY CHENEY | THE BUSINESS JOURNAL

Pietro Ferrari, executive director of Hacienda, is using funds from Bank of America to shore up internal operations.

## Overhead issues

Nonprofits scramble to pay the bills as donors give to causes

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It's one of the most difficult challenges facing the sector: Nonprofits struggle to raise money for core costs like rent, heat and information technology, but funders want their dollars to go to more compelling causes.

With heating bills, insurance and other costs of doing business on the rise, nonprofits are increasingly challenged to pay the bills and to keep existing programs running. A recent study completed by about 500 of the state's nonprofits revealed that 30 percent would reduce services to meet operational costs. Nonprofit leaders highlighted the cost of insurance and greater regulatory demands as key areas of concern in the study, which was sponsored by The Collins Group and the Technical Assistance for Community Services and released in December.

"People want to pay for the next program that will help kids get a job. They just don't get excited about buying us new accounting software or other basic tools," said Andrew Mason, executive director of Open Meadows Alternative Schools, which serves

### FAST FACTS

**DONORS FRE-**  
**QUENTLY** want to see their money go to exciting programs, leaving nonprofits short of funds to pay for basics, such as utility bills and insurance. But nonprofit advocates argue the basics are just as necessary as the next new program.

youth from sixth grade to 24 years old.

The problem of drumming up overhead dollars is not new, but has garnered increased attention of late. The Independent Sector—a nonprofit coalition of more than 500 charities, foundations and corporate giving programs—in 2004 called on foundations and other funders to provide general overhead support for nonprofits, or to at least attach some dollars to program awards.

In response to pleas from the nonprofit sector, some funders are reconsidering their program-centric focus. In other cases, nonprofits are taking innovative steps to fill funding gaps, partnering with corporations, or launching social enterprises to bring in revenue.

Bank of America's new Neighborhood Builder's program, for example, addresses

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Andrew Mason of Open Meadows said it's tough to get donors excited about new computer programs.

## NONPROFITS: Bank of America pitches in to address the problem

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the shortfall of unrestricted funds for nonprofits. In 2004, the bank gave out its first grants to Portland organizations: Open Meadow Alternative Schools and Hacienda Community Development Corp. Each agency gets \$100,000 per year for two years in unrestricted funds. Two others got the grants in late 2005. The bank is launching similar programs in major markets around the country.

During the research prior to making the grants, the "overhead problem" kept arising in conversations with nonprofit leaders, said Rich Brown, senior vice president of market development for Bank of America in Portland.

"By making these funds unrestricted, we allow the organizations to best determine what they need to continue their excellent work," Brown said.

Open Meadows is using the money to invest in a new software-based accounting system, which will allow it to better track its revenue and expenses, and for staff development. Hacienda — which aims to furnish affordable housing, educational and economic opportunities for Latinos and low-income individuals — will use the cash to revamp internal operations in order to diversify and sustain funding, for staff development, and to expand housing-development capacity, said Executive Director Pietro Ferrari.

The Ronald McDonald House Charities of Oregon and Southwest Washington, which relies on donations for more than 90 percent of its \$1.7 million operating budget, has forged a partnership with Hillsboro-based Parr Lumber to help raise overhead funds. The nonprofit provides housing and meals for the families of sick kids while they are being treated at hospitals.

Building materials purveyor Parr has raised \$110,000 for the Ronald McDonald House Charities since 1997, nearly half through a holiday program in which Parr employees sell branded ski caps, and some from a charity golf tournament hosted by Parr.

"The money goes to pay for salaries, facility repairs and the lights," said Executive Director Tom Soma, who noted the charity is poised for expansion.

Other nonprofits have launched small businesses, or social enterprises, to bring in unrestricted dollars.

Unrestricted funds — which generally come from a base of donors — can be used to evaluate the effectiveness of programs, to invest in new software to collect and report data, or to take other steps to become more efficient, nonprofit leaders say. The

federal and foundation funds upon which many nonprofits rely typically come with strings attached.

"General operating funds allow you to be nimble, to respond to clients' needs more quickly," said Ken Cowdery, executive director for New Avenues for Youth, a nonprofit that served about 2,000 homeless youth in 2005. For example, New Avenues was short on cold-weather clothing donations this year, and had to buy coats, hats and other gear using unrestricted dollars.

A nonprofit's overhead as a percentage of the budget is scrutinized by donors, but Di-

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Bank of America

anne Alves, vice president for development at mental health services provider Morrison Child and Family Services, says the overhead benchmark can be a blunt tool to measure efficiency.

Internal evaluation departments like the one at Morrison can drive up overhead costs by a few points, but also ensure that programs are performing. Health care nonprofits that are tightly integrated have higher overhead, but are also better equipped to track patient care.

However, funders often see their role as furnishing the capital to fund innovative ideas.

"If they only supported the operating costs of nonprofits, it would eliminate funding going to research and development. Philanthropists have the flexibility to invest in new ideas," said Joyce White, executive director for Grantmakers of Oregon & Southwest Washington, a membership association for funders.

Funders are often wary of breeding ongoing dependence for administrative support, but will pay for overhead in some cases, such as when "nonprofits are at a point in their development when they need an infusion of cash to take them to the next level," White said.