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Once-Robust Charity Sector Hit With Mergers, Closings

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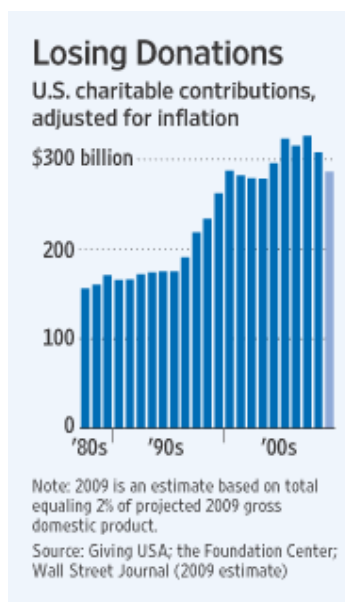
Hearth, a Boston-based nonprofit, has a mission of helping people like Yvonne Rock find housing and medical care.

Ms. Rock, a 59-year-old former mental-health counselor, has been diagnosed with terminal lung cancer and can no longer work. After nearly a year on Hearth's waiting list for an apartment, she still has nowhere to live.

But Hearth is badly in need of charity itself. The group lost \$325,000 in government contracts last year, laid off five employees and cut managers' pay. Its plans to add housing units are stalled because it hasn't been able to raise the final \$600,000 from private donors to qualify for matching government funds. Yet Hearth is receiving more applications for housing than it can process.

"We've had funding cut after funding cut, and we never know when the next shoe is going to drop," says May Shields, Hearth's chief operating officer.

The story is the same across the country. The once-booming nonprofit sector is in the midst of a shakeout, leaving many Americans without services and culling weak groups from the strong. Hit by a drop in donations and government funding in the wake of a deep recession, nonprofits—from arts councils to food banks—are undergoing a painful restructuring, including mergers, acquisitions, collaborations, cutbacks and closings.



"Like in the animal kingdom, at some point, the weaker organizations will not be able to survive," says Diana Aviv, chief executive of Independent Sector, a coalition of 600 nonprofits.

In November, the Hoop Dreams Scholarship Fund in Washington, D.C., which has helped more than 1,000 low-income high-school students go to college, folded.

The Amherst H. Wilder Foundation, Minnesota's 100-year-old health and human services organization, in October announced plans to cut 263 jobs and eliminate programs that serve the elderly and troubled children. The Greater Boston Guild for the Blind, an adult health-care center for the blind, closed in April.

Many groups have no choice but to cut back. After private donations to charities more than doubled between 1987 and 2007, private giving fell by 6% in 2008, the largest drop since Giving USA began tracking the data more than 50 years ago.

In addition, state and local government funding—which can comprise as much as two-thirds of some groups' budgets—are also falling. States allocated 5% less in 2009 and 4% less in 2010 to pay for education, health care and human services, according to the Center on Budget and Policy Priorities. State governments owe nonprofits more than \$15 billion in backlogged payments, Independent Sector says.

It isn't clear how lasting this trend will be. Disasters such as this month's earthquake in Haiti can result in a surge of donations, for instance. Through Friday, the Red Cross had raised \$198 million for relief efforts in Haiti. Catholic Relief Services raised \$31.8 million and the U.S. Fund for Unicef took in \$33.8 million for recovery efforts. About 300 businesses have contributed more than \$122 million to Haiti through the Business Civic Leadership Center, the nonprofit arm of the U.S. Chamber of Commerce.

But longer term, say many nonprofits, the decline in donations to charities appears likely to continue. The sector's difficulties are re-awakening a touchy debate among some leaders in the nonprofit world over whether the economic prosperity of the past few decades has spawned an excess of nonprofits.

With the bar to getting tax-exempt status low, the number of nonprofits registered with the Internal Revenue Service doubled to 1.5 million organizations, employing about 12 million people, or 10% of America's work force, over the past 15 years. Organizations range in size and substance, from the 1,300 local United Way charities to the Grand Canyon Sisters of Perpetual Indulgence Inc., whose members dress in drag to raise funds for HIV/AIDS.

"There were too many poorly performing nonprofits," says Paul C. Light, a professor at New York University's Wagner School of Public Service. "There were very many niche nonprofits devoted to small slices of a problem and they needed to be merged."

With growing demand for a declining supply of donation dollars, some donors are arguing that there are too many organizations providing similar services. Merging or collaborating may allow them to more effectively solve the problems they aim to address.

But it's one thing to agree that winnowing is necessary, and it's another to decide which organizations need to go. Nonprofit leaders fear that essential services they provide—such as food, shelter and job support—will evaporate just when the nation's most vulnerable keenly need them.

"When a Starbucks closes, customers may just have to walk further for coffee. But when a nonprofit fails, there might not be another homeless shelter or enough food at the next soup kitchen to serve those in need," says Tim Delaney, chief executive of the National Council of Nonprofits.

The nonprofit sector includes everything from universities to hospitals, arts councils to homeless shelters. While all categories are suffering, human service organizations—which account for nearly one-third of public charities—may be hurting the most. Private donations to these groups fell 12.7% in 2008, while demand for such services was booming.

"It's a triple whammy," says Elizabeth Boris, director of the Urban Institute's Center on Nonprofits and Philanthropy. "Donations are down. Government funding is down. Need is up."

A \$35,000 emergency housing fund administered by FSW Inc., a social-services nonprofit in Connecticut, to help people pay rents or mortgages, was depleted within five months. Now people are being turned away.

In 2009, Catholic Charities of Youngstown, Ohio, saw a 35% increase in requests for help from people who have lost their jobs and homes. At the same time, the charity suffered a 30% cut in funding from its \$2 million budget. The group laid off eight employees and cut its long-term-care counseling.

"The mass number of people who come to us now is so vast, at times, it's daunting," says Terry Vicars, a caseworker in Youngstown who speaks with up to 30 clients a day.

Some nights, Mr. Vicars must send homeless people to surrounding cities such as Akron or to Pennsylvania due to overcrowding in nearby shelters. Other times, he says he's forced to turn people away outright. "It's tough. The healthy thing to do I guess is to concentrate on the people we are able to help," he says.

To qualify for additional funding, many donors are providing incentives to collaborate or merge with other groups. The Lodestar Foundation, started by Arizona entrepreneur Jerry Hirsch, launched a \$250,000 annual collaboration prize in 2008 to encourage nonprofits to increase efficiency and eliminate duplication by joining together. In April, world leaders and philanthropists will meet at Oxford University for former eBay President Jeff Skoll's annual forum on social entrepreneurship. This year's title: "Catalysing Collaboration for Large-Scale Change."

"This is a wave of the future, not just a result of these times," says Lodestar's president, Lois Savage. "The sector is realizing that running a nonprofit isn't a God-given right, it's a privilege. Leaders need to look beyond their organization and focus on the mission they're trying to accomplish."

Girl Scouts of America is touting the efficiencies it gained after five Indiana councils merged in 2007. After the merger, the councils had enough money to hire a fund-raising department—something they couldn't afford individually. As a result, donations increased 25% by 2008. Participation in the scouts' technology workshop, hosted by Purdue University in West Lafayette, Ind., expanded to 44,000 girls, up from the 4,000 who were eligible for the original program.

By combining administrative functions, property management and audits, the organization is saving about \$1 million a year. "Five councils need five executive directors and five fax machines, meaning that money is not going to programs," says Ms. Aviv of Independent Sector.

But not all mergers go so smoothly.

The Alliance for Children & Families, a national umbrella organization based in Milwaukee, has weathered several mergers over the past decade. Each time, "you're bringing together two cultures and two forms of governance," says Peter Goldberg, the organization's president and CEO.

Mr. Goldberg's alliance was formed by the 1998 merger of Family Service America and the National Association of Homes and Services for Children. It's still intact, but "the first two, three years were very, very tough," he says. "At many points in time, it could have exploded on us."

The alliance had to work through sticky issues such as how many board members to pull from each of the organizations, Mr. Goldberg said. It also had to reconcile differences in salary and benefits. Each organization also had different membership fees and dues schedules. Because of such differences, newly merged nonprofits often don't realize savings for several years, Mr. Goldberg said.

Because many nonprofits were founded by people who believe passionately in their causes, they often find it difficult to make the compromises necessitated by a merger.

After Women Empowered Against Violence, based in Washington, D.C., lost half of its \$2 million budget due to government-funding cuts last fall, it was teetering on the edge of insolvency. The group, called Weave, tried at least six times to merge with Washington-area nonprofits but could never find the right partner.

The mission of the organization, founded in 1996 by a group of women law students at American University, is to provide legal and emotional counseling for victims of domestic violence. All the potential partners wanted the group to provide either one service or the other, says Anne McFadden, Weave's board chairwoman.

After the funding cut last fall, Katherine Morrison, the previous interim executive director, told tearful employees not to count on jobs after Oct. 1. At the 11th hour, the founders launched an appeal to donors and raised \$140,000. The group has moved to a cheaper building, laid off four employees, and transferred half its programs and six accompanying staff members to another organization.

"I don't think it will ever be back to normal," Ms. McFadden says. "The economic climate has changed too significantly. We just can't rely on government the way we used to."

One result of recent consolidations is that many of the strong are getting stronger.

Four years ago, Big Brothers Big Sisters of Metropolitan Chicago was dependent on government and United Way support for two-thirds of its budget. Because of the volatile nature of the funding, it was constantly lurching from one financial crisis to another. "In order to grow, we needed to run the organization in a smarter way," says Art Mollenhauer, the organization's chief executive.

The Chicago chapter merged four affiliates into one and now receives 95% of its revenue from private funding. It took over a faltering chapter in Gary, Ind., and a smaller chapter in the western suburbs of Chicago, formed partnerships with 10 companies and is running mentoring programs within eight Chicago-area Boys & Girls Clubs.

The changes are not only making Big Brothers Big Sisters more efficient, but also attracting new donors, board members and participants. In the past three years, the organization has been able to double the number of children served in Chicago to 1,300 a year. In 2009, it expanded the board by six people and won a \$346,000 grant from Atlantic Philanthropies to run mentoring programs for more than 300 new children. By running programs at other nonprofits or companies they partner with, the organization has generated \$750,000 in new revenue.

The culture of nonprofits often poses a dilemma for backers seeking more businesslike attitudes. Under pressure from donors, the executive director of New York Asian Women's Center, Larry Lee, in early December began enlisting volunteers for translation services, a task that used to be performed by paid staff. The center runs two shelters, counseling services and a hotline for battered and abused women.

"We have these goals where funders want to see outcomes," Mr. Lee says. "How many people got jobs? How many people did we help?"

This is changing the culture of the center, Mr. Lee says.

In the past, for example, the nonprofit might advise women and wait for cues from them before broaching subjects such as getting a job or an apartment.

"Now, maybe we have to be more assertive and say, 'Maybe you need to think about getting a job,' " says Mr. Lee, choosing his words carefully. "Foundations have to show donors they are getting the most bang for their buck."

—Robert A. Guth contributed to this article.

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