

ASK THE EXPERTS: LATINO NONPROFIT LEADERS RESPOND TO ECONOMIC CHALLENGES

INTRODUCTION

In many neighborhoods and communities throughout the nation, Latino-serving* nonprofit organizations are the primary providers of services such as health care, early childhood education, after-school programs, and job training. However, the economic downturn and recession over the past two years have strained the budgets of such organizations, affecting the services that American families need. As more families fall into economic hardship, nonprofit organizations are being called on to do more with less, and the leadership of Hispanic-serving nonprofit organizations continues to wrestle with difficult decisions about how to advance services to needy families during these challenging times.

In July 2009, the National Council of La Raza (NCLR) convened a roundtable of distinguished Latino nonprofit leaders to explore strategies for successfully managing an organization through tough times. In

preparation for the roundtable, a diverse group of NCLR Affiliates were interviewed and their experiences were distilled into fictional case studies. The case studies also build on NCLR's work on policies that contribute to nonprofits organizations' funding challenges and recommendations for improving their access to federal funding and credit.†

In this discussion, Latino nonprofit experts from a variety of organizations analyzed case studies illustrating the dilemmas confronted by executive directors in an economic downturn. In the case study titled "Share the Burden or Cut the Rope?" an executive director faces a problem shared by many: funds for several of his organization's services are in jeopardy and he is unsure about which strategy to pursue. Should he make cuts across the organization or limit them to the affected program areas?

* The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to refer to persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

† For more information, see *Economic Snapshot: How the State Fiscal Crises and Recovery Efforts May Widen Racial/Ethnic Income Disparity* (Washington, DC: NCLR, 2009); and Memorandum, "Latino Priorities in a Job Creation Agenda" November 17, 2009, NCLR, Washington, DC. .

CASE STUDY: SHARE THE BURDEN OR CUT THE ROPE?

Felipe Sanchez is Executive Director of Latino Services, a community-based organization located in a large metropolitan area in the southeast United States. Founded in the early 1990s, Latino Services is a medium-sized organization that operates out of two locations and employs 50 staff. Its programs include legal assistance, after-school programs, a food pantry, citizenship and English-as-a-second-language (ESL) classes, and employment services. Felipe, a relatively inexperienced program director from another organization, was hired as Latino Services' new executive director two years ago.

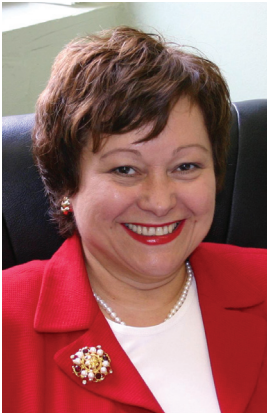
Felipe is struggling with how to guide Latino Services through a difficult economic environment. Overall, the organization has fewer resources and is experiencing a higher demand for services. The slowdown in the construction industry led to an increase in unemployment among many local Hispanics and, as a result, more families are seeking help from Latino Services' food pantry and employment services. These are now the areas with highest demand, almost tripling since this time one year ago.

At the same time, Latino Services must prepare for funding cuts. The organization's after-school programs and citizenship and ESL classes are funded entirely by state government grants. Felipe received notice from the state that the upcoming

deadlines for all grants will be pushed back by at least one quarter. Felipe has also heard that the state legislature is considering funding cuts for these particular programs in the upcoming budget. Moreover, a local foundation that supports their work told Felipe to expect a reduction in the award they will receive in the next grant cycle. Felipe estimates that Latino Services could be facing a shortfall of 20% of the organization's total budget.

In response, Felipe called a meeting with his senior staff to develop a plan for how Latino Services will manage with fewer resources. The organization's chief operating officer, Valerie, thinks that they should focus on cost-saving throughout the organization. She suggested that Latino Services could save money by cutting administrative costs and reducing benefits for all employees. The chief financial officer, Laura, suggests that the organization should identify and stop operating specific program areas that are likely to lose funding. Felipe knows that Laura's approach could lead to staff layoffs in some program areas, but it would also shield other staff from job and benefit cuts.

What approach should Felipe pursue? Should he try to find ways to spread the burden throughout the organization or should he make deep cuts in specific areas, even if it means laying off some staff and ending some programs?



Elba Montalvo, The Committee for Hispanic Children and Families

Elba Montalvo is Executive Director and Founder of The Committee for Hispanic Children and Families (CHCF), a nonprofit organization in New York. Since 1982, CHCF has been dedicated to improving the quality of life for Latino children and their families. CHCF builds upon the strengths of Latino families and fosters self-sufficiency by providing a number of programs and services in youth development, child care services, and family health education. Grounded in its direct services, CHCF is active in the local, state, and national policy arenas on issues of child welfare and the well-being of Latino children.

It sounds like Felipe hasn't planned for tough times and is having a hard time making this decision. Unless you're prepared and you have contingency plans and you do strategic planning to know where you're going, you will make hasty decisions. All you will have is the information that's right in front of you. One of the things I've learned is that these are difficult situations, but you need to be "strictly business" when making some decisions. Felipe needs to ask himself, Is this organization going to be here beyond my tenure or is it going to die because I felt sorry for this program or this person? Yes, if you cut a specific program you might cut some staff, but you might be able to redirect that staff to other areas.

If they have other assets to fall back on, they might be able to get through this difficult time without cutting specific programs or staff. As executive director of a smaller organization, he probably won't be able to raise money quickly and keep everything the same. It sounds like if he doesn't do something quick, the whole organization is going to go under. I think Felipe needs to find out if these programs are going to

be funded in the next year and then look at how the organization can live through this period. I would suggest he start by asking how much can be cut administratively. He should evaluate the administrative needs of the organization. Can some of the staff do the administrative work if needed? Can the organization get by with fewer administrative personnel? But if the forecast is that the following year you're not going to have money in this area, then you cut those specific programs. Also, if Felipe has to cut some staff, then he should try to think of who are his top staff members that he can continue to employ without cutting salaries.

During crisis it's important to remind organizations that they can't do away with strategic planning. It's also important for executive directors of organizations to go over the budget and possible options for finding savings with their board way before a crisis happens. If you keep your board informed when you come to them with a difficult decision like the one in this case study, they will be there to support you.



Ernest "Gene" Ortega, Rural Housing Inc.

Gene Ortega is President of Rural Housing Inc. (RHI), a New Mexico nonprofit developer of affordable housing. Mr. Ortega has led RHI in developing over 700 affordable rental units and more than 100 units for first-time homebuyers. Until his retirement in 2003, Mr. Ortega was Executive Director of Home Education Livelihood Program (HELP), Inc., an Albuquerque-based, statewide, socioeconomic development nonprofit corporation providing housing, day care, skills training, senior citizen outreach, and rural economic development assistance. Mr. Ortega has been affiliated with HELP and Rural Housing, Inc. for 24 years.

I think in any crisis situation like this one the executive director should always ask themselves, What was the original intent of the agency, and what are the core priorities for this agency? I would tell Felipe that whatever else you do, you have to keep the programs that carry out the intent and core priorities of the agency. If Felipe's budget shortfall is 20%, he should ask himself, Do I have 20% in other savings by cutting costs in supplies, equipment, travel, and fringe benefits? I think he needs to look at how much can be saved in some of those areas first, and whether it would make up that 20% in the budget or not. If he needs immediate relief, they could always go to their banker. If he knows that the money is coming in late and he doesn't want to let staff go, he should ask the bank to give the organization a line of credit. Of course, this depends on the size of the program, but I think it would be good for all executive directors to develop a good working relationship with their banker because they can help quickly.

The bottom line is that Felipe is going to have to cut staff if he doesn't have money coming in.

Now, Felipe might be wondering, which staff do I keep? I recommend keeping staff who are flexible and diverse enough in their skills that they can assume other responsibilities to continue meeting the agency's mission. In the process of reviewing the core priorities and intent of the agency, an executive director should evaluate which of their staff are flexible enough to assume other responsibilities to meet the core priorities.

Thinking more long-term, I would tell Felipe one of the things I always tell my staff. Even though you have political changes in government, maintain close relationships with the bureaucrats, regardless of the administration. The bureaucrats who are there long-term are the ones who can tell you the trends and where the money's going to go. And they can tell you what you're going to have to do to tap into some of those new resources. There's going to be a huge turnover in all these bureaucracies. A lot of new people are coming into federal and state government agencies. Organization leaders and staff will need to develop relationships with them to survive and grow.



Dr. Juan Sánchez, Southwest Key Programs

Dr. Juan Sánchez is CEO of Southwest Key Programs, a national nonprofit organization providing transformative education, innovative safe shelters, and alternatives to incarceration to more than 6,000 youth each day while creating opportunities for their families to become self-sufficient. Founded in 1987, Southwest Key Programs employs a creative and diverse workforce of over 1,000 dedicated staff in six states and was ranked #4 among the “Top 25 Hispanic Nonprofits in America” by *Hispanic Business* magazine in May 2009. Southwest Key Programs’ national headquarters is located in Austin, Texas.

It sounds like this executive director needs some immediate relief. I think he needs to ask himself, What’s the quickest way I’m going to get money? I think the first thing Felipe needs to do is get more aggressive in fundraising. Hold a fundraiser and hire a grant writer to bring in more revenue to protect specific programs and jobs. That’s what we’ve done at my organization. We’ve stepped up the staff, such as grant writers and development personnel, who will allow us to raise more money. I would also suggest going to partners that have relationships with the organization to find out what to expect in the next year and to ask for more support. Also, reach out to new folks who don’t have relationships with the organization yet and ask for help. We’ve gone to foundations that we have relationships with and we’ve said, We want to make sure you’re stable and we need to know if you’re going to make some cuts. We’ve also told partners, new and old, that we need some additional help to get through this crisis.

Felipe should be doing everything he can to keep staff. That is what the senior staff and I are doing at my organization. We are looking at all other possible costs that can be cut. We’re doing everything we possibly can to save staff because we want to be prepared for the rebound. The

money is going to come back at some point and we’re going to need good staff. If Felipe has competent, highly skilled staff, I would advise him to find other ways to make cuts. Good employees are valuable and sometimes difficult to replace for a community-based organization. At my organization, our staff have been willing during this crunch to say we’ll make a sacrifice by paring back benefits to save jobs. For example, we may have to make cuts to our health care plans or ask staff to increase their health care benefits contributions. We’re going to look at every option because if we do, we’re going to save jobs.

My philosophy is you get more aggressive and find ways to be more cost efficient. You find more money and you raise more money. There’s incredible opportunity for Latino-serving organizations because we provide culturally competent, bilingual services at a lower cost. For example, my organization works with youth and what we do is cheaper than keeping a kid in prison. It’s costing \$99,000 a year to keep a kid in prison. I don’t want to get into what we do and how we do it, but I do want to emphasize that there are opportunities for organizations like ours because we help people and we save money in the long-term.

Ask the Experts: Latino Nonprofit Leaders Respond to Economic Challenges



Renata Soto, Conexión Américas

Renata Soto is Co-Founder and Executive Director of Conexión Américas, a nonprofit organization promoting the social, economic, and civic advancement of Latinos in middle Tennessee. Founded in 2002, Conexión Américas helps low- and moderate-income Latino families realize their aspirations for a better quality of life by providing comprehensive services. Conexión Américas also helps the host community understand the presence, contributions, and challenges of Latino families in Tennessee through its Latino Cultural Competency Trainings™, technical assistance, and advocacy. Conexión Américas serves over 2,500 families per year and is recognized as a leading Hispanic force.

I can understand where Felipe is coming from because this year our organization faced a similar challenge of knowing it was going to be harder to raise money, and we were going to have to make some difficult decisions. This was the first year at our organization that it was uncertain that the usual fundraisers were going to make up the difference between incoming grant money and our budget. Local foundations have come to us and said they are cutting amounts. We have been surprised to see that they are even cutting funding to agencies we never thought they would cut. One of the most important things Felipe could do in this scenario is evaluate all his programs and find ways to cut operational costs.

Ideally, Felipe would have done this before he received a letter in the mail from a foundation stating that they will be reducing grant amounts in six months. I also think that a full evaluation will clarify whether the cost should be spread across programs or concentrated in one program or job function.

I think Felipe should try an approach we used at my organization to help focus on priorities for fundraising and making cuts. We needed to move program staff and wanted a guide to help me and my senior managers make decisions. I created a matrix composed of eight basic questions and we rated each program based on how well it matched up with our core. The matrix is a road map for where we should put our resources in the coming months. The questions we included in the matrix were: What is the impact of this program? What are the funding prospects for this program? Is this a program that is considered core to our mission and are we recognized for this program in the

community? The last question is a gut question. Felipe should ask himself, If we were starting this organization from scratch, would this program or activity be one of our priorities?

This exercise helped me and three of our senior program staff identify areas of improvement and also reminded us why we were cutting a particular program. We made cuts because the funds are not there or it is no longer a priority that matches our mission. It sounds like Felipe needs a tool to guide his decision-making. I think the matrix I used can help him with this decision and future dilemmas. For example, what should we do when there is increased demand for a particular program or demand for a service we don't currently provide? I would also recommend that Felipe use this process because he will be able to involve his senior staff and have honest conversations about the organization's struggles and priorities. From my perspective, it is very important to have open communication so that any cuts to jobs, programs, or other costs are not a surprise. In our organization, we talked at staff meetings about how we would reduce operational costs and I think it created a feeling that we were all in this together. The frequent communication also gave me a chance to hear how my staff were doing and their ideas for saving money.

Luckily, we went through a process of evaluating programs and cutting operational costs before we had funding reductions. I recommend that all organizations prepare for how it would handle fewer funding sources. It will be more difficult for an executive director to make decisions about how to make cuts if they haven't thought about it before it is needed.

Ask the Experts: Latino Nonprofit Leaders Respond to Economic Challenges



Lupe Martinez, UMOS

Lupe Martinez is President and CEO of UMOS, a nonprofit organization established in 1965 to advocate for and provide services to Hispanic migrant and seasonal farmworkers in Wisconsin. Mr. Martinez has been with UMOS for 38 years, 33 as President and CEO. Programs and services provided by UMOS are divided into four major categories: workforce development, child development, education, and social services, which include housing, health promotions, and domestic violence supportive services. Operating in five states, UMOS is one of the largest Hispanic-run nonprofit agencies in the nation.

Generally speaking, when something like this happens, even a seasoned CEO is sometimes surprised. They saw it coming, right? Not always. So how can a new CEO, as well as a seasoned CEO, limit or prevent funding surprises?

One way to prevent surprises is through forecasting. CEOs should do a lot of forecasting. And forecasting should extend several years out. In this instance, good forecasting would have allowed the agency to plan for the funding shortfall and limit the negative impacts.

We try to watch the economic and political trends at the local, state, and national levels. For example, when you see a new administration come in at the national level or at the state level, as we will soon see in Wisconsin, you anticipate the possibility that there's going to be a redesign of certain major programs, and some of the staff in those agencies are probably going to change. Determine how this might impact your agency and plan accordingly.

Reducing staff salaries or giving everyone furlough days could help an organization keep jobs and programs, but it depends on the size of the organization. For example, Juan will tell you that his payroll every two weeks is probably 100 times Renata's budget. If Juan were in Felipe's situation, he might—and I might also—have to make dramatic changes. Dramatic changes could be the need to lay off a lot of staff or cut several programs. I consider these two options as dramatic changes. And, unfortunately, oftentimes the larger the organization, the more dramatic the changes.

Also, staffing and program cuts are handled differently by each organization, large or small. In our case, some of UMOS's grants and contracts that we administer directly allow us to subcontract with other nonprofits and organizations. In Milwaukee alone, we have approximately 30 subcontracts. So without good forecasting in our case, funding shortfalls make it difficult for us and our subcontracting partner agencies.

Big cuts to personnel or cutting everybody 10% should not necessarily be step one. Maybe this executive director, like many others, thinks that cutting staff is a good first option because you can see immediate impacts to your bottom line. But short-term results shouldn't always come at the expense of long-term goals. In the long run, your best staff are the ones who can best help turn things around. However, if you have examined all other options and there still isn't enough funding in one program area, another option to consider is to cut one or two people from that program rather than make everyone share the pain by cutting everybody 10%.

Lastly, Felipe's response depends on the number of funding sources he has and how the agency is structured. For example, if you're an agency dependent on a single grant, say Head Start, and Head Start funding is being cut by 10%, you're going to be talking about how you are going to deal with this agency-wide. On the other hand, if you're multifunded and one grant is being affected—again let's use Head Start—and all the other program grants are healthy, then you probably don't want to start guiding the entire agency because of one grant.

SUMMARY

Tighten the Belt First

- Organizations should try to find savings across the board in administrative or operational areas before targeting specific programs or staff positions.
- Staff can be an invaluable resource and it may be worth asking everyone to make a sacrifice to save jobs. In the long run, organizations will need skilled staff.

Know Your Business

- Keep the organization's mission, purpose, and intent at the forefront of all financial decisions.
- Organization size and structure can also guide decisions about where and how to make cuts. Smaller organizations might not have as much leeway, but a thorough assessment is a wise first step.

Plan, Anticipate Trends, and Respond

- Executive directors can prepare for difficult decisions by watching the trends and forecasting what may happen, developing strategic and contingency plans, and maintaining strong relationships with all potential funders (e.g., government agencies, foundations, and banks).
- It is never too late to fundraise and reach out to partners and supporters for help.