

Nonprofits *in the* Age of Obama

PART FIVE

This fifth installment of the *Nonprofit Quarterly's* **Nonprofits in the Age of Obama** series focuses on the coverage of nonprofits in the media and analyzes more than a year's worth of coverage of the nonprofit sector broken down into several areas:

- media coverage of nonprofits

- charitable giving in the downturn

- philanthropic contraction

- government funding (at the federal, state, and local level)

- nonprofit networks

- the mortgage and credit crises

- fraud and scandal

- IRS regulation

- nonprofit journalism

TREND ALERT

Trends: A Review of **NPQ's Nonprofit Newswire**

by the editors

IN JUNE 2009, NPQ BEGAN PUBLISHING THE Nonprofit Newswire, an online daily roundup of news on nonprofits and the context in which they make decisions. We knew that the combination of a new administration and the recession would cause critical elements of the nonprofit environment to change quickly and at many different levels. We also knew that these factors would further complicate the work of nonprofit leaders. We wanted to keep you abreast of relevant events and trends as they emerge.

The Nonprofit Newswire gathers news from around the country, sifts through it for its bearing on our readers' work, and relays it—along with commentary on its implications and application to nonprofit practice. NPQ hopes this analysis enables you to make informed decisions about your strategies and to learn from innovation in other fields of work and other areas of the country.

I. MEDIA COVERAGE OF NONPROFITS

While NPQ has not done a formal study of the state of mainstream reporting on nonprofits, it has followed the news in the context of the Nonprofit Newswire. Five staff and volunteers scour the news with not only general keywords such as nonprofits, charity, and philanthropy but also words associated with fields of practice, such as child care, mental health, education and—even more specifically—charter schools. We then choose a mix of stories we believe is interesting and instructive (including some that are simply amusing) and add analysis.

In aggregating the news for the Nonprofit Newswire, we learned a few things quickly: (1) in some states and regions, nonprofit-related news is well covered by the press, whereas in others nonprofit-related news seems to be in a virtual blackout, and (2) by concentrating attention on local news



outlets, we can identify trends more quickly than can other news sources. Many months before the *New York Times* noted it, for example, we identified the imposition of new fees and taxes on nonprofits, because it occurred in localities and municipalities more than at a state level.

A daily scan of local news organs also reinforces something we already knew: the mainstream media often does not know how to interpret the news about nonprofits, and the majority of stories on nonprofits alternate between campaign announcements, CEO salaries, and uncovered-fraud reports.

The Center for Responsible Lending predicts that between 2009 and 2012, 9 million people will go into foreclosure.

Still, it's important to note that today's events seem to have focused local media more on the diminishing safety net and the reduced funding to organizations on which many regions depend even more following the recession. In some cases, the resulting coverage remained local, and in a few instances, a reporter successfully linked a local story to a national trend.



Foreclosure Response Phase Two: Reducing Principal

July 12, 2010; MinnPost | In June the MinnPost outlined a new approach to a second wave of foreclosures. A first wave of foreclosures that flowed directly from predatory lending has been followed by a second that flows from reductions in income and that requires a different response.

When they were written, these now-questionable loans were reasonable, but now they have become risky considering reductions in housing values and joblessness. The nonprofit Center for Responsible Lending predicts that between 2009 and 2012, 9 million people will go into foreclosure. One of the advocated responses is to have the current federal loan modification program encourage bank servicers to write down the principal on loans.

The Home Affordable Modification Program (HAMP) is the administration's year-old loan modification program. It currently modifies the loans of only 300,000, whereas approximately 4 million households are eligible. Even when households have been deemed eligible, modifications

have generally involved extending the term of the loan and reducing interest, but not the principal. This leaves many homeowners underwater and in a negative-equity situation.

HAMP is now making changes. "HAMP will now incorporate principal reduction into the refinancing process," MinnPost reports. "Servicers will be required to consider the advantages of reducing principal to match the current value of the home. As an incentive, banks that reduce principal on loans will also get a fee based on how much debt was forgiven, and how deeply underwater the modified loan was beforehand." While this effort is expectedly controversial, the farm crisis of the 1980s established the precedent of reducing loan principal.

The implementation of this, however, depends on too many factors to assume that much principal will be reduced. What's the alternative? Boston-based nonprofit Boston Community Capital (BCC) has bought properties from struggling owners and sold them back at a lower price. The stipulation is that the owner must share with BCC any profits derived from the eventual selling of the home. In its first year of operating the program, BCC has bought 70 such properties (for more on BCC's program, see page 25).

But even in local stories there are lessons to be learned.



School Asked to Return \$900,000 Gift from Convicted Swindler

July 7, 2010; *Philadelphia Inquirer* | In July the *Philadelphia Inquirer* reported on a curious case of fraud. When someone steals something and then gives it to you, the rule is that you can't keep it because it wasn't the other person's to give away. On the other hand, when you are the victim of the scam and suffer damages, shouldn't you be entitled to compensation?

At the heart of a dispute is Malvern Preparatory School, an independent Catholic school outside Philadelphia for boys in grades 6 through 12, which received \$900,000 from a former trustee. The trustee, Joseph F. Forte, is now serving a 15-year prison term for swindling investors out of millions of dollars. According to the *Philadelphia Inquirer*, the receiver—seeking to recover some of the \$35 million stolen in a Ponzi scheme—wants Malvern Preparatory School to return the money it received from Forte. But because the school says it was a victim of the scam, it filed a counterclaim for \$630,000. That's how much Malvern Prep says it is owed because of debt incurred to build a new strength-and-conditioning center that Forte said he would contribute \$1 million to help construct.

The receiver's argument that the money should be returned is based on a legal theory: that is, when stolen money is given to provide the donor status and access to power and nothing of value is given in return, the gift must be returned.

What complicates this case is that the school believed that Forte was good for the full amount he pledged and thus spent his gift and took out a loan for the rest. In the end, the school found itself on the hook for the full amount it borrowed and with no additional money from Forte. A case like this might be beyond the wisdom of Solomon.

II. GIVING IN THE RECESSION

Giving USA and You: Cognitive Dissonance, Anyone?

by Ruth McCambridge

Over the past 20 months, one of the more well-covered stories in the news on nonprofits has been the impact of the recession on charitable gifts and nonprofit revenue. In short: the recession has left many nonprofits without funding for operational sustainability, let alone money for growth.

Even though the "story" has veered between the fairly dire and confusing, we followed all the revenue streams and permutations in the income of various kinds of nonprofits around the country. So we begin with our analysis of the 2010 Giving USA findings for an overview of the state of giving and then turn to substories in this category.

In early June, I participated in a panel at the Giving USA 2010 conference, where the 2009 charitable-giving numbers were explained by Indiana University Center on Philanthropy's Patrick Rooney. He did an admirable job of explaining not only the numbers themselves—which indicated only a 3.6 percent drop in overall charitable giving—but also Giving USA's excellent track record in producing giving estimates that are within a few percentage points of being right on the money.

He may have seen this extra step as necessary, because the day before the panel the *Chronicle of Philanthropy* ran an article challenging the

accuracy of Giving USA's numbers and, in fact, the numbers just felt wrong to many who had experienced and saw peers experience a much

Philanthropic dollars are hardly equitably distributed among fields or throughout the country.

more precipitous drop in philanthropic support.

Adding to the sense of other-worldliness at the conference, the Urban Institute's Tom Pollak gave a presentation, the gist of which was that, according to the organization's surveys, the rest of the money flowing into the sector did not see much of a decline either.

Alrighty.

An Injection of Reality

The thing is, I don't think that either of these gentlemen was far off in his assessment, but I do know that practitioners are accurate in their experience. So what happened?

To understand, we have to look more closely at the numbers. First, some of the philanthropic dollars given in 2009 were given to foundations, but the money is unavailable for immediate distribution. Panelist Wendy McGrady, who represented Giving USA, also noted that \$1.6 billion was donated by five major donors and most of it went directly to a few foundations. If you do not count that \$1.6 billion, the amount of total giving would have declined another 1 percent.

Also, many were surprised to see that corporate giving had gone up. No one much believed that, but the number includes in-kind donations in two sectors: pharmaceuticals and information technology.

Additionally, philanthropic dollars are hardly equitably distributed among fields or throughout the country. Over the past three years, while giving to "public society-benefit organizations" (including the United Way and the various commercial gift funds such as Fidelity and Vanguard) declined only 2.6 percent, giving to human services decreased 13.5 percent, and to arts and education 11.9 percent.

Focusing for a moment on the human-service field, we also know that many human-service

organizations were slammed with higher levels of need so that the revenue-against-need equation was even more radically changed than the revenue decline alone would suggest.

But philanthropic dollars are not geographically equitable either. Traditionally, some areas have been underserved by foundation philanthropy, and when combined with areas in economic distress, it created a cascade of revenue problems for nonprofits. For instance, some areas of the country with struggling economies saw their tax bases erode. This decline combined with a serious loss of corporate-giving capacity and double-digit unemployment. This in turn caused declines in United Way campaign results, individual giving, and people's ability to pay fees out of pocket. In some areas of the country, the combination of all these factors has been disastrous.

Not discussed much is clients' inability to pay fees, which in some areas of the country has hit some subsectors hard. A good example of a subsector that has been hard hit in some geographic areas is child care. Many child-care facilities function on a combination of direct-pay fees and subsidies. In locations where joblessness was high, enrollment in child care declined and the budgets of those facilities were eviscerated, creating many closings. Over the course of 2009, 600 child-care facilities in Georgia alone closed.

The reason this particular story is so disturbing is that child care is obviously necessary infrastructure for communities to recover.

For me the thing that characterizes the past year is the way money was distributed in fits and starts. The budget impasse in Philadelphia, which extended 90 days, resulted in several closures of child-care centers. The money was subsequently freed up, but the damage had been done.

Stimulus money flowed into the sector in volume and in waves and ways that were sometimes a mismatch for the comprehensive work of a community organization. Just consider Community Health Centers, a network of community-health centers in California, where the money came in a few waves and was directed at expanded immediate services and capital improvements, including new facilities, development, and electronic records systems. But in several ways, this

was an awkward fit.

First, the money for expanded services did not necessarily equal increased need, because the requests were made before it was clear how long the recession would last or how high the numbers of uninsured would soar.

Second, just at the moment when need grew the highest, capital projects needed to start, which required community-health centers to scramble to respond to health-care reform.

Third, the money was distributed in odd ways geographically: one wave missed the entire middle of the country, while another invested heavily in states like Massachusetts, arguably one of the better medically served areas in the country.

Fourth, in some states the investment of stimulus money resulted in the withdrawal of state money—a kind of shell game that left organizations reeling.

Other head fakes abounded. One youth organization told us that its cornerstone grant in a capital campaign to expand was withdrawn, prompting other investors to pull back and requiring the organization to informally redraft what had been a costly business plan. A senior-services organization was in the middle of building an assisted-living center when the real estate market plummeted, which exploded the organization's business model. What to do with a half-built facility? In the context of the constant patter about the need to promote entrepreneurialism in the sector, these kinds of stories are ironic.

From Bad to Worse?

Cognitive dissonance can make us angry or guilty or hopeless. In an effort to avoid such a sectoral state of mind, I would like to assure readers that you are not crazy or incompetent (which I am sure you already know). Long story short: if you feel like 2009 was a very bad year for giving, it was—and not just for you but for hundreds of thousands of your peer nonprofits, some of which were in critical support roles in the most financially troubled areas of the country.

But now let's talk about this year and next, which promise to be as—or more—difficult for many state budgets. Things could get very, very bad, for instance, if the Senate does not pass an

extension of increased Medicaid. Many states have already written an expectation of this money into their budgets, and its loss would remove another \$89 billion from 30 state budgets. In Kentucky this would amount to a \$480 million loss. I think we can assume that some of those dollars will come out of absolutely critical services to communities provided by nonprofits. It is worth mentioning that Kentucky is ranked 49 in per-capita foundation giving, thus firmly falling in the realm of the philanthropically underserved.

Finally, while foundations are a small part of the giving pie, most agree that, strategically, foundations are very important. The Council on Foundations should take a much stronger leadership position in ensuring that areas that are underserved philanthropically get an infusion of money and the attention of this nation's foundations. Additionally, I agree with Pablo Eisenberg—a fellow at Georgetown University's Center for Public Policy & Nonprofit Leadership—who has frequently noted that the payout rate for foundations should be increased over the next few years to 6 percent. Eisenberg estimates that this would add an additional \$10 billion to the money available to nonprofits working in one of the most difficult environments we have ever seen.

A version of this article originally appeared online (see http://www.nonprofitquarterly.org/index.php?option=com_content&view=article&id=2966:the-giving-usa-numbers-cognitive-dissonance-anyone&catid=153:web-articles).

III. PHILANTHROPIC CONTRACTION

When a donor threatens to rescind a gift, what is an organization that planned on this gift—or, worse, spent the gift already—to do? Below we highlight some examples from our year in review of noteworthy and disastrous donor incidents.

Donor Take-Backs and Other Disasters

In the current economic environment, it's not surprising that NPQ has identified numerous news reports on donors who refuse to honor their

pledges or want to take back money that has been given to an institution.

Some incidents have involved universities and multimillion-dollar gifts. In and of themselves, these stories are interesting human profiles. The *Yale Daily News* reported that a donation of \$1.7 million made to Yale by John Mazzuto (class of 1970), was not his to give. Industrial Enterprises of America,

Numerous donors have refused to honor their pledges or want to take back donated money.

the company he headed at the time of the donation, is now in bankruptcy. The checks Mazzuto wrote to Yale were among \$83.7 million he wrote from company funds and of which the current CEO is trying to recover as much as possible.

Over the past six months, Yale has had a bad run. In a similar case in March, another bankrupt company, Bearing Point, pledged \$30 million to the university but made payments of only \$8.1 million and now wants its money back. The position of the company is that the naming rights that came with the gift did not generate material benefit to it. The irony is that Bearing Point, which is \$2.2 billion in debt, was in the business of management consulting and the money it wants back was to endow a management professorship.



The ACLU Suffers Precipitous Losses

December 8, 2009; *New York Times* | In December 2009, the *New York Times* reported that a longtime anonymous donor to the American Civil Liberties Union (ACLU) had withdrawn his annual gift of more than \$20 million. The announcement came at an executive committee meeting without revealing the donor's name, but the *Times* reported that an ACLU board member revealed under conditions of anonymity that the donor is David Gelbaum, a hedge-fund manager and notable investor in clean technology.

Gelbaum cited "market conditions" for his decision to temporarily halt giving. Luckily, other donors have made pledges to fill the gap. But because that money is to be shared with affiliates—whereas Gelbaum's gift reportedly wasn't—the national organization will still take a multimillion-dollar hit. This reduction comes on top of cuts last year. Gelbaum released a statement reaffirming his support for

the organization but confirming that starting in 2010 and continuing indefinitely, he would not make donations of the size of his previous gifts. In his statement, he wrote, "The shift in my financial circumstances is the cause of the reduction in giving, and not any disapproval or dissatisfaction with the programs." Other nonprofits significantly affected by Gelbaum's announcement are the Sierra Club Foundation, an environmental group, and the Iraq Afghanistan Deployment Impact Fund, a charity that provides services for American military personnel and their families.

In Boston, Carl Shapiro, a well-known philanthropist who has parked his name on many local buildings, pocketed a sweet \$1 billion through Bernard Madoff and may have to return the money. If so, it may jeopardize his pledges to charity, and grantees may have little recourse.

What recourse might there be when pledges are not yet paid? The legal principle of *promissory estoppel*, or detrimental reliance. (*Promissory estoppel* holds that if a party

Activity in Detroit aims to keep the city from sinking further into disrepair.

changes his position substantially by acting on a gratuitous promise, the party can enforce the promise even absent a contract.)



Delayed Donor Pledges

May 9, 2010; *Palm Beach Post* | In May, in a move that is at least questionable in terms of long-term payback, a foundation in Palm Beach sued its donors for unpaid pledges. The Paragon Foundation, which is supposed to raise \$5 million to attract minority businesses to the area, has opted to sue some of the companies that committed a total of \$3 million to the foundation, according to the *Palm Beach Post*. The foundation has managed to collect only \$1.7 million of the total.

The donor businesses, many of which are real estate firms, have felt the effects of the precipitous downturn in that market. But one of the principals suggests that it has withheld payment not because of business downturns but because it already got what it wanted from the deal—so why pay? On the other hand, some believe that the foundation has engaged in strong-arm tactics.

We do not know whether this trend has worsened during the downturn, but our sense is that many unpaid or delayed pledges out there today have resulted from the recession.

More Philanthropic Money Flowing to Public Services

In our fall 2010 issue, we will address this topic in greater depth, but one of the disturbing trends that NPQ has identified is the increasing use of charitable dollars to make public systems whole. Some donations to public systems are made at the individual level as well.



Donor Gives to Local Sheriff's Department to Maintain Services

April 11, 2010; *Mansfield News Journal* | "In Mansfield, Ohio, an anonymous donor, purportedly a local businessman, gave \$20,000 to the Mansfield, Ohio, sheriff's department, the budget for which was literally cut in half from \$3.2 million in 2009 to \$1.6 million in 2010. The donation is meant to give the sheriff a few months to reorganize." More familiar, of course, are the gifts that parents give and the fundraising that they do for the public schools in which their children are enrolled.

Some of this giving has occurred at a local institutional level. In March local reports indicate that the New England Laborers' Cranston Public Schools Construction Career Academy charter school in Cranston, Rhode Island, donated \$88,000 to two local public schools to ensure that they had some semblance of a sports program.

Philanthropy Addresses Urban Blight

And then there is organized philanthropy. In April, we shared a story on four foundations that pledged \$65 million to the Washington, D.C., public schools, contingent on the chancellor's maintaining her position.

In July we followed activity in Detroit that aims to keep the city from sinking further into disrepair.

We asked our readers about their impressions of this trend, and here is a reader response:

I think you (and others) are raising some very important questions about the blurring of the "three sectors" and the imbalances and inequities that seem to be the result. I work for a public university, and I raise private dollars to support the university, its students, and its programs. Increasingly, the state of Illinois—and the same can be said about other states—has reduced general tax support to the public universities to the point where state or public tax

dollars support only a small proportion of the operating costs and, in turn, force universities to raise tuition and seek funding from other sources, including private contributors.

Continually rising tuition puts public higher education out of reach for many capable and deserving citizens at a time when future economic well-being—for individuals and the country at large—is dependent on a highly educated citizenry. Viewing public education as a private good—whether at the pre-K or postgraduate level—is indicative of a shift in public policy that we, the public, have come to accept as an alternative to raising taxes and/or demanding more responsible expenditure of public monies. This shift in public policy contributes to increasing inequities, contradicting what I believe is really the role of government: to provide for the common good and to provide access for all to public resources such as excellence in education.

Our willingness to embrace “market forces”—even after the corporate irresponsibility that led to the Great Recession—as a “good thing” in the nonprofit sector contributes not only to a blurring of the three sectors but, more important, to the inequities mentioned above. Market forces work where there is a market—meaning where capital is available. A consequence is that no goods or services are provided to those without capital—or at least sufficient capital. Left to market forces alone, the rich get richer and the poor become poorer.

This trend is especially disturbing because it sets up the expectation that government can stand back from providing even the most essential services and that charitable dollars can possibly fill the gap. This is, of course, not always the case and in itself a dangerous proposition.

A Sign of the Times: The Wall Street Bonus Flap

In a cynical move that stands as an icon of the times, Goldman Sachs, the company that planned to increase top executives’ bonuses at the end of 2009, briefly considered requiring these executives to give some of their ill-gotten gains to charity. Apparently, the marketing wizard who

thought up this strategy underestimated the intelligence of the American people, some of whom planned a protest outside the company’s hallowed halls. Goldman Sachs suddenly put \$500 million into its charitable arm and reduced compensation from what it had been the year prior, which was well under the increased amount that had been planned.



Goldman Sachs’s Blankfein Doing “God’s Work”?

March 25, 2010; Bloomberg.com | Goldman

Sachs CEO Lloyd Blankfein is not talking about it publicly, but from his foundation’s tax filings, a picture has emerged of his personal charitable giving. These findings are curious given that Blankfein once described investment banking as “doing God’s work.”

It’s a dangerous proposition that government can stand back from providing even the most essential services.

The Bloomberg news service reports that between 2000 and 2009, the Lloyd & Laura Blankfein Foundation—which the banking executive runs with his wife, Laura Jacobs—averaged gifts totaling \$1.3 million a year. During the same period, including when the investment firm was publicly pilloried for what some described as reckless trading that contributed to the economic meltdown, Blankfein received \$240 million in salary, bonus, and stock awards.

Tax records show Blankfein’s giving only through his foundation, which over the past decade adds up to \$11.3 million, or about 5 percent of his compensation. Bloomberg said it was unable to determine whether Blankfein gave more and that the CEO had declined multiple requests for an interview.

Foundation recipients include the Robin Hood Foundation, the UJA Federation of New York, and several other schools, medical organizations, and cultural groups.

Regarding Blankfein’s previous comment on “doing God’s work,” it is ironic that the details about his giving appeared the same week as a *Forbes* story about a British entrepreneur who plans to donate more than half his \$1.1 billion fortune to make good on a 50-year-old pact with God. At the start of his career, the entrepreneur told God if he’d help him become a business success, he’d give away at least half his fortune.

Corporate Branding

Over the past six months, news outlets frequently reported on the relationships between corporate sponsors and nonprofits. While most of these skirmishes and corporate-nonprofit divorces involved the incursions of fast-food and soda companies into children's programs and anti-obesity campaigns, perhaps the most heartrending involved BP's sponsorship of a sea otter exhibit in a Florida Aquarium. This story emerged in May, a month into the oil spill. At that time, the aquarium had not distanced itself from BP.

In some realms, Bill Gates's foundation investment outstrips government investment.

Philanthropic Prizes

We have also seen several *American Idol*-type philanthropic efforts, such as the Pepsi Refresh Project. Some have suggested that these kinds of initiatives indicate a "democratization" of philanthropy; others believe they are a diversion and a far cry from a leveling of the philanthropic playing field.



Pepsi Opts out of Super Bowl Ads in Favor of Charity... and, Uh, Marketing

February 2, 2010; Netimperative | Instead of spending the \$33 million it spent last year on Super Bowl ads, this year Pepsi launched a social-media campaign that gives \$20 million to nonprofits. Each month, the Pepsi Refresh project accepts 1,000 nominations and allows entrants to nominate their ideas and to vote on which groups get the money. Winners were announced March 1, and by February, the process had already reached its 1,000-nomination limit.

As with any social-media campaign worth its weight, the Pepsi Refresh Project also has a heavy presence on Facebook; an application allows people to submit ideas and share ideas via their Facebook accounts. "We're living in a new age with consumers," Pepsi's VP of marketing says. "They are looking for more of a two-way dialogue, storytelling, and word of mouth. Mediums like the digital space are more conducive to that."

Some may counter, "How dare Pepsi? Super Bowl ads are sacred on Madison Avenue." Is this the final blow to beleaguered traditional media? Maybe. But perhaps nonprofits can learn from the big guys. Lesson: take the money you

would have used to purchase the 30-second spot during the first half of Sunday's game and invest it in social-media marketing instead. The only problem is, without the commercials, there's no reason to watch the game.

Billionaire Philanthropy

For some time, the Nonprofit Newswire has covered the high-profile philanthropy of the Bill & Melinda Gates Foundation, Warren Buffet, and other billionaire philanthropists. While the Gates Foundation and Atlantic Philanthropies model good practices, several questions have been raised over the years about the relatively small number of final decision makers at the Gates Foundation, its overwhelming presence, and, therefore, its potential influence in some spheres of policy.

In some realms, Gates's investment outstrips government investments. Some estimate that the foundation's investment in the World Health Organization, for example, overshadows that of the United States.

Additionally, Gates and Buffet have made it their business to encourage other billionaires to get in the game. While NPQ would not turn up its nose at a six-figure investment, we worry that this, combined with reduced tax coffers, could spark a trend toward overdependence on the wallets and decisions of the very rich.

Big New Initiatives: Foundations

Some readers might scoff at the idea of a new trend in major programmatic initiatives in the foundation sector. Isn't that what big national foundations do for a living? Big initiatives often seem to be the foundation-generated scripts for social change within which local nonprofits merely audition for roles.

Still, over the past few months the trend is, in some ways, bigger and bolder, and it indicates hope about engaging other philanthropic partners or links to government programs and concepts.

One example is the Kellogg Foundation's \$75 million anti-racism commitment. In May the Kellogg Foundation announced its five-year plan to reduce societal disparities that affect children of color. The Kellogg initiative attacks a long-entrenched societal problem with an array of interventions.

Announced a few years ago, Kellogg's new strategic direction is child focused. The language of the foundation doesn't concern change on the margins of the issue. A Kellogg VP told National Public Radio that the program focuses on structural racism and on changing people's beliefs and biases. It obviously wants to make change sustainable, and to that end, it has posted descriptions of the programs of the 118 grant winners and the 807 groups that weren't funded in hopes that other foundations will sign up to support the anti-racism projects in Kellogg's America Healing program.

Getting Closer to Government

When five national foundations pledged \$45 million to the Social Innovation Fund for additional program activity, the message was clear: foundations are increasingly attracted to big initiatives that put them closer to government (for more on the Social Innovation Fund, see "In Search of Breakthrough [or Incremental?] Social Innovation" on page 32). In this vein, *NPQ* has covered various government plans for foundations to function as re-grantmaking intermediaries and supplemental funding sources—as with the Social Innovation Fund—or as necessary sources of matching dollars, as with the Promise Neighborhoods' replication of Harlem Children's Zone.

But when compared with the \$506 million pledge by a dozen national foundations to match the Department of Education's \$650 million commitment to its Investing in Innovation (i3) program, they are small potatoes. Department of Education Secretary Arne Duncan hopes that the federal and foundation dollars will help public-school systems scale up innovation and reform: a top priority of the Obama administration.

In March, the Nonprofit Newswire noted that foundations have underwritten the "reinvention" of the city of Detroit by subsidizing planning for the city's radical downsizing (Detroit was built for a population of more than twice the level of current residents). The Eli Broad Foundation in Los Angeles has paid the majority of the salary of Robert Bobb, brought in from Washington, D.C., as the emergency financial planner to resurrect the city's public schools.

The Kresge and Skillman foundations have paid for a new city-planning team, headed by Toni Griffin of Newark, New Jersey, to implement Data Driven Detroit, a program to right-size and replan the sprawling, half-abandoned city. The Kresge Foundation has pledged \$35 million in seed money for a 3.5-mile trolley line connecting downtown Detroit with an Amtrak station. Foundations have long been the lifeblood of many of Detroit's services and support. Now, these foundations, along with the Kellogg Foundation and several others, will rethink the future of a city that many have written off as beyond salvation.

The message is clear: foundations are increasingly attracted to big initiatives that put them closer to government.

Unlike the old Ford-Rockefeller-Carnegie model—as exemplified by Ford's Gray Areas program, which evolved into the War on Poverty and Model Cities programs—these foundation initiatives aren't intended as prototypes for future government replication. While they may involve and leverage government dollars, they are foundation initiatives that stand—or fall—on their own merits, tackling social problems of a scale and intractability that have stymied past public-sector interventions.

Finally, some philanthropic initiatives involve funders that have struck out in new directions and generated programs that neither the funder nor the grantee could have imagined only a couple of years prior.

At Schwab Charitable, the commercial-gift-fund affiliate of the mutual fund behemoth, the monies that sit in donor-advised fund accounts until they are used for grants will help guarantee microfinance loans in the developing world. They remain invested and continue to earn money in donors' accounts, but they do double duty as guarantees for the loans of the Grameen Foundation, which helps 100,000 borrowers in Egypt, Indonesia, and the Philippines. The Double Give Program allows Schwab donors to see their dollars used in multiple ways to advance the charitable objectives that prompted them to invest in Schwab in the first place.

IV. GOVERNMENT FUNDING

IV. (a) Federal Funding

Despite all the talk—and perhaps hype—about tiny programs, such as the \$50 million Social Innovation Fund and the \$10 million in planning funds for the Promise Neighborhoods program, the real story in recent federal funding for nonprofits is the American Recovery and Reinvestment Act (ARRA) of 2009.

A large portion of the \$787 billion stimulus legislation flows to and through nonprofits. Maybe the community-health centers, community-action agencies, and community-development corporations that play crucial roles in the stimulus simply don't tout themselves with the alacrity of the self-styled social entrepreneurs and social innovators, but they have important stories to tell about the role of the nonprofit sector in making the stimulus work and overcoming impediments built into stimulus programs.

Stimulus Funds: ARRA

In the first half of 2010, the stimulus stories have been distinguished by the nonprofit sector's demonstration of the innovative behavior built into its DNA.

At the time of this writing, the bulk of the stimulus funds has not been spent.

At the time of this writing, the bulk of the stimulus funds has not been spent: As of June 30, 2010, only \$122 billion of \$275 billion slated to go out in federal grants, contracts, and loans (as opposed to the \$288 billion in tax relief and the \$224 billion in entitlements) had been paid out. Our spotting of past trends may ultimately be predictions of future directions in stimulus funding; these trends highlight the challenges that the nonprofit sector will have to confront and overcome.

Critics Out in Force

Stimulus funding has, of course, received its share of criticism, a healthy portion of which has been directed at nonprofits. Republican senators John McCain and Tom Coburn issued a report deriding

much of the stimulus as no more than politically motivated pork, and Coburn's pet target has been spending for nonprofit cultural activities, such as theater programs. His notion is that funding for the arts doesn't generate as many jobs as, say, funding for shovel-ready highway projects.

The senators also took aim at youth-employment programs by selectively identifying individual grants and contracts that did not seem to meet their targets or purposes. In one of the oddest critiques we might have imagined, they were joined by the new governor of New Jersey, whose staff came out against youth-employment programs run by nonprofits, suggesting that the benefit to young people working as recreation counselors, for example, was demonstrably inferior to summer employment in the private sector, such as working as stock clerks in drugstore chains. We didn't say any of this made demonstrable sense.

Reservoirs of Distrust

The bulk of the weatherization funding in the stimulus was intended to go to and through community-action agencies because they have delivered weatherization services (i.e., services to promote home energy efficiency) throughout the nation for years. But many states that have received weatherization funds have been slow to distribute funds to nonprofits.

In North Carolina, weatherization crews were supposed to start working in July 2009 but didn't hit the streets until November. Explanations for the laggard expenditures include Davis-Bacon Wage Determinations for weatherization contractors and multiple layers of certification mandated to ensure accountability. State officials in North Carolina took the extraordinary step of warning the 30 nonprofits designated for weatherization money "not to use the funds to finance regular operations . . . [and] not to use the money to pay employee bonuses."

In this state, as in others—such as Texas and Georgia, where the funding flows seemed glacial—the program sparked state distrust of nonprofits (in this case, community-action agencies), but in this area of stimulus funding, responsibility for delays should be shared at every level.



The Approaching Funding Cliff

Several articles in the Nonprofit Newswire highlighted the dangers inherent in expanding programs with time-limited funding, such as the one- and two-year stimulus grants. For cities and counties that anticipated a post-recession flow of local tax revenue after the expiration of stimulus funds, some have scrambled to pay the salaries of stimulus-hired policemen and teachers, prompting Congress to contemplate new funding to help cities and counties preserve jobs.

There are dangers inherent in expanding programs with time-limited funding.

It's more difficult to find salary money for nonprofit jobs that don't fall into the police-fireman-teacher bucket of government jobs. In western North Carolina, nonprofit jobs that will be at risk when the stimulus funding ends include staff at Head Start and Early Head Start programs, expanded medical teams at a community-health center, and three positions at a Boys & Girls Clubs of America. As difficult as it is to make the case for Congress to preserve government jobs, it is harder to see the path for a major extension or infusion of stimulus capital for nonprofits that face a stimulus funding cliff.



Stimulus Strategy Assessed

December 27, 2009; *Telegram & Gazette* | Here are the two faces of the stimulus package. On the one hand, there is a problem in putting onetime stimulus funding into organizational operations, according to the December 2009 *Telegram & Gazette*. As Roberta Schaefer of the Research Bureau asks, "What are you going to do when you don't have stimulus money? If [the stimulus] is just going to prop up existing institutions without making any changes in how they operate, it can't be sustained. That's a really big problem." On the Worcester public schools, Schaefer says, "The school department got stimulus money that stemmed the tide for them, [but] [n]ext year, because there will be no stimulus money, they're facing a \$26 million deficit without any way of funding it. The stimulus money, in effect, just delayed the inevitable."

And on the other hand, stimulus funds have gone to longer-term uses, such as the two grants given to the Great Brook Valley Health Center. They'll use one for hiring new

doctors and support staff, who eventually will generate enough revenue from patient visits to sustain the salary costs. The other grant will fund facility improvements to create space for new providers and more patient visits. Similarly, at the Worcester Housing Authority, stimulus money went to roof repairs and other physical rehabilitation costs, which will stave off future costs.

This tale of two stimulus stories highlights the contrast between grant funds that lead to an abrupt funding cliff and stimulus funds that stimulate long-term growth. Of course, problems persist. The Community Builders, a nonprofit housing developer and manager, added 23 new positions as a result of its two stimulus funds but counted 46 *jobs created*: that is, 23 jobs created twice. Stimulus is good, but for many organizations, the looming funding precipice will create a serious problem in the all-too-near future.

Nonprofit Bulwarks for the Stimulus

Criticism of stimulus priorities was to be expected. But criticism of the role of nonprofits in the stimulus makes little sense. Notwithstanding occasional problems, nonprofits have been wildly successful in stimulus implementation. The \$1.85 billion in stimulus funds that has been invested in health centers translates into \$3.2 billion in new economic activity in communities via new services and jobs.

In the area of broadband initiatives, nonprofits have taken major roles in developing programs to accelerate broadband deployment in un- and underserved rural areas, such as Connect Minnesota's collaboration with that state's Department of Commerce. Though delayed, even the weatherization program will finally be implemented.

To make the stimulus work, nonprofits have become problem solvers and, yes, even social innovators making inadequately formed programs that are implemented by overwhelmed government agencies work nonetheless. Despite the frou frou of the social innovation hyperbole, the discernible trend in the stimulus stories of the first half of 2010 is the tried-and-true nonprofit sector demonstrating its innovativeness in solving problems.

IV. (b) State and Local Budgets in Crisis

Nonprofit Quarterly readers do not need to be reminded that they have faced cascading budget crises at state, county, and municipal levels of government. *NPQ* tracked the issue, and the news discussed the somewhat predictable range of cutting at multiple levels and what might be irretrievably lost in that mêlée.

As states face the budget crunch, some have devised new and desperate measures to ease the pain of deficit. Stateline.org noted an increasing number of nonprofits that have challenged cutbacks in the courts, notably the odd power of “unallotment,” as adopted by Minnesota Governor Tim Pawlenty. Even after the budget had been passed by the state legislature, unallotment enabled the governor to unilaterally cut items from that budget. In March, Stateline.org detailed how nonprofits fought back against arbitrary cuts that penalize human services and K–12 education. In the face of these cuts, nonprofits aren’t lying down, but a cut-by-cut strategy doesn’t get to the underlying issues of how governments raise revenue and determine spending priorities.

The Nonprofit Newswire also followed the less-obvious but more-widespread story of contracting and payments in this resource-scarce environment. *NPQ* has long observed that many states treat nonprofit vendors irresponsibly by paying less-than-full cost for contracted services, delaying payments for many months, or when they are disallowed that practice by state law, delaying contracts on ongoing services.

In New York City, for example, years of nonprofit advocacy have finally led to a beginning effort by Michael Bloomberg’s administration to streamline the city’s system of contracting and payments. If the city succeeds in dismantling and overhauling its currently inefficient return-to-go system, nonprofits and public agencies will spend less time spinning their wheels and more on what they should be doing: delivering programs and services to needy New Yorkers.

We characterized the system of contracting in New York City, which was outlined in the *New York Times* in April, as Kafkaesque. At the state level, New York’s comptroller called for improvements

that would reduce or eliminate delays in contracting and reimbursements, suggesting not only centralized contract monitoring but also the elimination of redundant programs with conflict-

States have devised desperate measures to ease budget deficits.

ing, useless rules and regulations. In a March *Utica Observer-Dispatch* article, the comptroller explained that state agencies that can’t issue contracts and make payments in a timely manner worsen the problems of nonprofit-service delivery. This conclusion was not a sudden lightning bolt of awareness by local officials, of course. The state associations and management-service organizations grabbed ahold of the issue and refused to unlock their jaws.

Elsewhere, the nonprofit stance had to be what nonprofits typically do: organize, lobby, and sue.



Mississippi Mental-Health Providers Face Off with State

June 14, 2010; *Sun Herald* | A story from the *Sun*

Herald in June was familiar but had an interesting twist. Nonprofits have long found themselves in untenable negotiating positions with government and are often unpaid for the full cost of contracted services. Further, this situation is unlikely to be imposed on a profit-making contractor.

In 2001 in Mississippi, for example, the state decided that it would offload a portion of the cost of the match to federal Medicaid funds flowing to mental-health centers by requiring them to pay it.

But this year, the six strongest of the 15 mental-health centers in Mississippi played hardball with the state and have refused to pay their portion. Their intention is to make the state resume its matching responsibility. Edwin LeGrand, the director of the Mississippi Department of Mental Health, dug in, saying, “They’ll no longer be considered state providers if the share isn’t paid by July 1. If that happens, the program is set up in such a way that funding for all 15 community-mental-health centers could be jeopardized.” The executive director of Region III Mental Health Center, Robert Smith responded, “We cannot continue to operate paying back 25 cents on every dollar that we earn. We’re all just struggling trying to figure out the best way to resolve [the issue].”

Some reports make clear that we're not out of the woods yet, including a May 2010 *Wall Street Journal* article on state revenue that has failed to match predicted upturns and a March 2010 story from the *Omaha-World Herald* on school teachers preparing for unprecedented budget-induced layoffs in Omaha, Nebraska, and rolling state and local government program cuts (or fee increases) to community-health centers in Arizona.

The end of access to federal dollars could create a post-stimulus hangover.

Where are these events headed? Various local governments have tried to tax otherwise tax-exempt nonprofits through payments in lieu of taxes, fees on students at universities, taxes on hospital beds, and other creative, desperate government strategies to eke out a few nickels from nonprofits to plug budget holes.

Will it get worse? As we watch the end of access to federal stimulus dollars, it could create a post-stimulus "hangover" in which community-action agencies, youth programs, environmental groups, and health clinics try to manage programs with stimulus funds that will run out after 2010.

V. NONPROFIT NETWORKS IN THE NEWS

During these hard times, nonprofits have proved nimble and adaptable. In considering the networks that have mobilized around national crises, nonprofit robustness becomes particularly evident. The networks discussed here are distinctive because their members are explicitly community based but knit together by intermediaries that know what they are doing. Below we provide a snapshot of some networks' resourcefulness even in the wake of fewer resources.

Health Reform: Community-Health and Mental-Health Centers and Hospitals

The nation's 1,200 community-health centers working out of 8,000 sites have their roots in the civil-rights movement and Lyndon Johnson's War on Poverty. During the 1960s, their inception and the enactment of Medicaid and Medicare occurred within a year of one another and attempted to address inequities in health care. Community-health

centers are located in low-income areas and, because of regulation, are still largely community based in terms of governance. But they are also networked through intermediaries, and the federally qualified are connected through a common funding source. Because they work in areas with large numbers of uninsured, they are a natural network for the implementation of health-care reform.

Although Obama's historic Patient Protection and Affordable Care Act was not signed into law until March, the federal government tried much earlier to expand and strengthen the network of community-health centers around the country, apparently to prepare them for an expanded role in primary care through the use of stimulus money. Stimulus money was released for at least three goals: the expansion of patient load during an anticipated period of increased unemployment, the expansion and improvement of facilities, and a conversion to electronic records. Again, this money was not distributed evenly. One competitive wave of it missed much of middle America, and in other locations, the stimulus money suffered state cutbacks in a kind of shell game.



New Community-Health Center Money Misses Seven Midwest States

December 9, 2009; *Reuters* | In December 2009, President Barack Obama announced that \$600 million would be awarded to community-health centers to address facilities and other capital requirements of that overloaded primary-care system.

Some, however, are unhappy with the odd geographic distribution of the money, which was reportedly distributed through a competitive process. A full \$80 million went to eight centers in Massachusetts, and together Massachusetts and California took home a whopping \$145 million—or 29 percent of the funds—while every clinic from seven Midwestern states was turned down. This is the second round of stimulus funding for health centers, and it includes \$88 million for IT improvements.

To get a sense of the role community-health centers hope to have in primary care under health reform and to view the president's speech on these awards, visit the Web site of the National Association of Community Health Centers.

Because the Patient Protection and Affordable Care Act was such a political minefield, it was in the centers'

best interest to appear funding-ready. Luckily, this sector has been fairly well supported by research. So, in February, the George Washington University Department of Health Policy, along with the RCHN Community Health Foundation and the United Health Foundation, published the study *The Economic Stimulus: Gauging the Early Effects of ARRA Funding on Health Centers and Medically Underserved Populations and Communities*. The report outlines the various effects of stimulus funds on community-health centers and their patients and the economic vitality of the communities they serve. Here is an excerpt from the report:

More than 1,100 health centers throughout the United States have received ARRA funding to date. These centers are projected to serve 21 million persons in 2011, including nearly three million new patients as a direct result of ARRA funding. By targeting health centers, ARRA effectively provides needed health resources to populations at higher risk of poor health.

Community-health centers receiving ARRA funding tend to be located in areas with higher rates of unemployment and recent job losses. The average unemployment rate among counties with health center ARRA grantees was 9.6 percent compared to an average rate of 9.0 percent in all other counties; the average unemployment rate grew by 4.4 percent in counties with health centers compared to 4.0 percent in all other counties.

The \$1.85 billion invested to date in health centers under ARRA translates into \$3.2 billion in new economic activity in these communities, suggesting that health centers are able to rapidly transform an infusion of funding into new services and expanded jobs.

These findings indicate that ARRA has achieved its goal of directing resources into those communities that tend to bear the heaviest burden of an economic downturn, and have low community incomes, a disproportionate percentage of low-wage workers, inadequate primary care access, and elevated health risks. However, the challenge lies in sustaining this expansion and assuring that the ability of health centers to respond to community needs is maintained even as overall economic circumstances begin to improve.

This kind of sector research should be funded more frequently at the network level. It offers timely and meaningful data that can have major impact.

The health-care reform bill calls for \$11 billion to be distributed over the next five years for community-health centers, which are viewed as central future providers of primary care. Representative Bernie Sanders of Vermont can be thanked for shepherding through the centrality of health centers in the reform act as well as the funding, despite accusations that the health centers would bypass laws preventing the federal funding of abortion.

While community-health centers received investments, nonprofit hospitals and free health clinics did not. Even as this debate raged, free clinics reported being overstretched, and nonprofit hospitals were judged a poor credit risk. All the while, some predatory activity by larger hospitals targeted community hospitals that struggled.

Free Health Clinics

Outside recent funding streams—and reflecting how much health-care reform and current appropriations fail to meet the needs of poor people—are the networks of free health clinics. In June the Nonprofit Newswire reported on the results of a survey of 1,007 free clinics (with a response rate of three-quarters), indicating that free clinics serve an average of 1.8 million people who make 3.5 million medical and dental visits in the United States every year. Each free clinic served an average of 747 new patients each year and 1,796 unduplicated patients. Their budgets are small, averaging \$287,810, and more than half receive no government funding.

During the debate on health care, nonprofit hospitals were judged a poor credit risk.

Many of these clinics are associated with the National Association of Free Clinics, which represents 1,200 free clinics in the United States. In March, the Nonprofit Newswire noted free-health-clinic events in Atlanta, Georgia, Roanoke, Virginia, and Belmar, New Jersey, with the Roanoke and Belmar clinics heavily focused on dental care. More free-clinic days were planned for Houston,

New Orleans, and Little Rock. In each clinic, hundreds waited in line and thousands were served.

Still, our suspicion is that health-care reform will leave many without coverage, such as undocumented immigrants specifically excluded from coverage by the legislation, others unable to qualify for Medicaid or Medicare, and those unable to afford repeated co-pays. Because health-insurance reform will be phased in over several years, these nonprofit or volunteer-organized free clinics will have a continuing function for many years to come, with a crucial role for the networks that support them.

Nonprofit Hospitals

But not all nonprofit hospitals have struggled, and the Senate Finance Committee continues to raise questions about how to justify the “nonprofitness” of hospitals. During this period, the states have provided much of the regulatory oomph, particularly where attorneys general have decided to question the nonprofit credentials of tax-exempt entities that don’t behave much like nonprofits.

The Senate Finance Committee continues to raise questions about how to justify the “nonprofitness” of hospitals.

The headline example was the case of Provena Covenant Medical Center in Illinois. The state attorney general, Lisa Madigan, suggested that Provena’s activities didn’t distinguish it from a for-profit hospital, contending that the hospital “concealed the availability of charity care,” had debt collectors chase poor patients for uncompensated health-care services, and gave the poor little information on how to apply for charity care. As you might guess, Provena disagreed.

In what is expected to be a precedent-setting case, the courts ruled against Provena, and the state supreme court approved the attorney general’s decision to yank the Catholic hospital’s tax exemption because of insufficient charity care. The appellate courts found that Provena devoted less than 1 percent of its revenue to charity care, an amount that simply doesn’t qualify as a nonprofit level of service to the community.

With a relatively quiet IRS, there has been more activity among attorneys general—especially since

attorney generals often run for higher office—and more focus on fraud and self-dealing as well as on the nonprofit status of large tax-exempt entities such as hospitals.

Meanwhile, the Mental Health Parity and Addiction Equity Act went into effect on January 1, 2010, but without any investment to build out existing systems of care. Last year, in the report *Grading the States*, the National Alliance on Mental Illness evaluated these systems of care state by state, and the nation as a whole received a D.

Theoretically, the parity act frees up money from insurance companies that are now required to cover mental illness at parity with physical illness, but implementation of this requirement will take many steps and iterations that may include legal challenges to insurance companies looking for a way out. Advocates also worry that many chronically mentally ill people are uninsured.

When the Patient Protection and Affordable Care Act was signed, however, the parity requirement was extended to the uninsured, but the systems of care are still inadequate and in many areas provide a poor foundation on which to build. In fact, on the eve of Mental Health Month (in May), several states were busy eviscerating their existing programs. Some of the conversation suggests that advocates may not even try to rebuild a standalone system for mental-health programs but instead, through cross-training, build out the capacity of physical health facilities to address mental illness.

Meanwhile the United States has historically high numbers of chronically mentally ill people in prisons and jails and more lost on our streets. The report *More Mentally Ill Are in Jails and Prisons Than in Hospitals* by the Treatment Advocacy Center and the National Sheriff’s Association revealed “America’s shameful 50-year trend of exiling severely mentally ill persons out of hospitals and into the oblivion of the criminal justice system.”

VI. THE MORTGAGE AND CREDIT CRISES AND NONPROFIT INTERVENTION

The historic spate of mortgage foreclosures throughout the nation may be the primary culprit behind the economy’s dissolution into

the Great Recession. But the involvement of nonprofit community-development organizations and the national and regional networks that support them may be the pivotal element in reversing the foreclosure tsunami. The work of these organizations in digging the nation out of the housing crisis hole demonstrates a model of nonprofit networking and resourcefulness from which other organizations can take cues.

This past year, the Department of Housing and Urban Development (HUD) made available new funding for its Neighborhood Stabilization Program (NSP) to fund states, municipalities, and nonprofits to acquire, rehabilitate, and return foreclosed properties to the market. The scope of the problem is enormous, taxing the financial and organizational capacities of even the largest community-development corporations (CDCs). But community-development networks have come to the table to rebuild swaths of foreclosed properties—often the dregs that private purchasers have passed on.

The tellingly successful response in these nonprofit approaches to foreclosures has been facilitated by the existing organization of CDCs and others into consortia or networks. As covered in the Nonprofit Newswire, the Neighborhood Stabilization Program (NSP2) grants announced early this year rely heavily on nonprofit consortia, for example, \$137.6 million to Habitat for Humanity International for work in five states and \$137 million to Chicanos por la Causa for work in eight states. One third of NSP2 grants went to nonprofits that are members of the NeighborWorks network (the Neighborhood Reinvestment Corporation). In addition, three cities' applications have placed local offices of the national Local Initiatives Support Corporation in key roles.

Locally crafted consortia evolved in Milwaukee, which received \$25 million in NSP2 funds to be used in collaboration with the Milwaukee Foreclosure Partnership Initiative (MFPI), with steering committee members from the Local Initiatives Support Corporation, the Greater Milwaukee Foundation, and others for targeted neighborhood marketing and a code enforcement "strike force." The city of Newark put in an application as the

lead for a \$20.8 million NSP2 grant covering much of Essex County in partnership with nonprofit developers such as Brand New Day, Episcopal Community Development Corporation, and others.

Other local networks tackled the foreclo-

Boston Community Capital's program helps local nonprofits purchase foreclosed homes and then rent homes back to occupants.

sure problem as well. They include the various community-development loan funds and community-development financial institutions that link various groups to restore vacant foreclosed properties and return original residents to their homes.

In March the *New York Times* described Boston Community Capital's "brainchild" program, which works with local nonprofits to purchase homes that have been foreclosed—before residents have been evicted—and then rent homes back to occupants. The process works well for banks and residents, occupants don't lose their homes, and banks can offload properties with plummeting market value.

Perhaps the most significant of these networks is the effort of funders such as the Ford Foundation and the John D. and Catherine T. MacArthur Foundation to create a \$1 billion real estate owned (or REO) capital fund under the aegis of the National Community Stabilization Trust to acquire foreclosed properties in bulk on behalf of nonprofits and municipalities.

The challenge of negotiating for large groups of foreclosed properties from recalcitrant lenders and servicers requires the creativity and experience of the nation's top community-development financial intermediaries: the Local Initiatives Support Corporation, Enterprise Community Partners, the Housing Partnership Network, NeighborWorks America, the National Urban League, and the National Council of La Raza. But without Ford's \$50 million in program-related investment to the trust, plus MacArthur's working capital loan of \$3 million, the trust couldn't play anything but a marginal role in acquiring discounted properties from banks and servicers, according to the *Wall Street Journal*.

Nonetheless, the existence and effectiveness of these networks and consortia in addressing the

foreclosure problem appear to help put grassroots groups onto municipal and state government radar screens—and on the Department of Housing and Urban Development's as well.

But large parts of the nation might not be linked into national housing and community development. That puts the onus on HUD to ensure that

Nonprofit CDFIs rose to the challenge and maintained capital inflows in low-income neighborhoods.

local and state governments join with grassroots groups to ensure that the strategies for redeveloping foreclosed properties benefit the communities and families that the stimulus was designed to assist. It also puts an onus on national networks to identify the gaps where foreclosure is an issue, but un-networked nonprofits find themselves unable to secure the capital and technical assistance to function effectively.

The Credit Crisis and CDFIs



Community Finance Institutions Successful but Poor

April 21, 2010; *The Daily Record* | Across the nation, nonprofit community-development financial institutions (CDFIs) have done much better than Troubled Asset Relief Program (TARP)-subsidized commercial banks, particularly when you realize that CDFIs work in low-income neighborhoods and take on projects that conventional lenders typically wouldn't consider.

In Maryland, CDFIs have financed day-care centers, affordable apartments, senior-citizen complexes, and new businesses. Among the notable are the Enterprise Community Loan Fund in Silver Spring (which helped finance senior housing developed by a church-based community-development corporation in Northwest Baltimore) as well as Baltimore Community Lending, Maryland Capital Enterprises (in Salisbury, doing business microloans), and Baltimore's Neighborhood Housing Services.

CDFIs have a lot going for them—except capital. Between 2006 and 2009, the number of CDFIs in Maryland dropped from 22 to 16. Nationally, CDFIs report the inability to keep pace with loan demand because they simply don't have enough capital for lending. The Obama administration has increased federal support for the CDFI Fund at the Department of Treasury, which is the nation's

primary source of CDFI funding (through grants and tax credits). Between 2007 and 2008, the fund increased from \$54 million to \$94 million; between 2008 and 2009, it increased to \$107 million; and then, through the stimulus bill, it received another \$100 million.

The increased appropriations have been accompanied by greater competition among CDFI applicants. Maryland has developed programs to support CDFIs, including those in the Department of Business and Economic Development and the Department of Housing and Community Development.

But these programs can't provide nearly enough capital to meet the housing, facility, and business development demands in lower-income neighborhoods.

How unusual! This successful program is almost entirely dependent on nonprofits, yet there's not enough money available for these nonprofits to function, as the common parlance says, "at scale."

The Great Recession began and persisted largely because of the implosion of banks and mortgage companies that backed—or promoted—subprime loans and other risky adjustable-rate mortgages. In response to their self-inflicted damage, the banks turned off the credit spigot to lower-income communities, affordable-housing development, and inner-city economic ventures—just what the nation didn't need from the financial industry.

As they have always done, nonprofit community-development financial institutions—including community-loan funds, community-development credit unions, and community-development financial intermediaries—rose to the challenge to maintain capital flows in low-income urban and rural neighborhoods, often outperforming their larger and better-capitalized for-profit counterparts.

On several occasions, the Nonprofit Newswire has noted the stellar performance of CDFIs in providing loan capital to community-based housing and economic development projects.

Although CDFIs received a substantial appropriation through the stimulus program, they can hardly be characterized as well subsidized compared with the billions in TARP funds that commercial-bank counterparts received. But as we noted in April 2009, nonprofit CDFIs have done much better than TARP-subsidized commercial

banks, particularly when you consider that CDFIs work in low-income neighborhoods and on projects that conventional lenders won't consider.

According to Neil Barofsky, TARP's inspector general, the Wall Street bailout failed "in many ways," not the least of which because TARP-subsidized banks failed to restart their frozen lending pipelines. With only pennies of comparable loan resources, CDFIs lent as fast as possible, with loss rates that were proportionally tiny compared with those of banks.

Despite their successes, CDFIs reported that they were unable to keep pace with loan demand because they don't have enough capital for lending. This problem occurred despite the Obama administration's increased federal support for the CDFI Fund at the Department of Treasury.

We believe that TARP funds would have been better used if at least half had been set aside for nonprofit users such as CDFIs. These standout organizations have gotten increased attention, including a commitment by Treasury Secretary Timothy Geithner to invest repaid TARP funds in CDFIs at an initial dividend rate of 2 percent, as opposed to the 5 percent rate of Treasury's Capital Purchase Program (CPP).

After eight years, the dividend rate of these investments will be 9 percent, compared with five percent under CPP.

We suspect that other nonprofit fields merit attention and profile comparable to the recession-era performance of CDFIs. Nonprofit Newswires mention them regularly in part because of their connection to national networks that promote and publicize their work and advocate federal funding programs, including the creative use of repaid TARP funds. CDFIs are a model not just of nonprofits performing admirably but of a nonprofit field that has demonstrated how to organize and advance despite plenty of financial and competitive hurdles.

VII. SCAMS, SCHEMES AND THE SCURRILOUS IN NONPROFITLAND

With the nonprofit sector still reeling from the economic downturn, it hardly needed more to strike a blow. But over the past year, fraud and scandal have played a significant role in the fortunes of

the third sector. We provide a roundup of some of the standout offenses below.



Internet Scam Bears Watching by Charities

May 17, 2010; NorthJersey.com |

A recently uncovered online work-at-home scam has used the Habitat for Humanity name to involve people in raising funds that are forwarded to accounts that—you guessed it—have nothing to do with Habitat. Targeted individuals are offered a "job" to fundraise for the well-known charity and instructed that they are allowed to keep 10 percent of the take and must send the rest to a specified bank account.

An FBI representative says that these scammers are increasingly hard to track because of mobile technology and new accepted ways of conducting business. They "clear out bank accounts quickly or use wire transfers that are difficult to trace. And they move on to new scams rapidly, closing down e-mail accounts and opening new ones with different Internet providers." Habitat is doing all it can to keep up with the moving target of this con, but as the FBI rep says, "Each technological advance poses another impediment to catching them."

Scams: Chasing After Disaster

Earthquakes, oil spills, economic destitution . . . bad times bring scam artists out of the woodwork to prey on others' hope and despair. During this period of high unemployment, we have seen several variations of work-at-home scams for the unemployed. These kinds of scams are much harder to trace because of the increasing use of mobile-communication devices.

TARP funds would have been better used if at least half the funds had been set aside for nonprofits.

In June we noted that so many charity scams have popped up in the wake of disaster that the FBI created the National Center for Disaster Fraud after Hurricane Katrina. The BP oil spill has engendered yet another wave of such exploitation and, to counter it, the Oil Spill Fraud Task Force, which includes the aforementioned FBI unit and representatives from local law enforcement bodies. There are so many levels at which such scams are destructive, it is difficult to list them all.

Everyday Fraud: Fleecing Children, Nuns, and War Veterans

For the nonprofit sector, fraud stories are the equivalent of murder stories for the local news. If it bleeds, it leads, and over the past year the Nonprofit Newswire has followed some appalling cases, complete with sympathetic victims.

What characterizes many of these cases is the choice of the kind of charity targeted. Veterans, children, and others to whom we as a society rightfully believe we owe something have been the objects of such scams. Thankfully, state attorneys general have moved to punish evildoers, but each such scam makes donors more wary.

In March, *BusinessWeek* reported that the Federal Trade Commission levied a record-setting \$18.8 million fine against the New Jersey-based telemarketing firm Civic Development Group LLC, which raised funds for charities associated with service people: military veterans, firefighters, and police.

The charity claimed that 100 percent of donors' gifts would go to charity. In reality, however, the charities in question received only 10 percent to 15 percent. In this case, the firm's owners will be forced to relinquish at least a portion of their ill-gotten gains. As *BusinessWeek* reports, "Pasch will surrender a \$2 million home, paintings by Van Gogh and Picasso with a combined worth of \$1.4 million, an \$800,000 guitar collection, \$270,000 from the sale of his wine collection, \$117,000 in jewelry, three Mercedes and a Bentley. Keezer will lose his \$2 million home and vehicles."

Over the past year, the Nonprofit Newswire has followed some appalling fraud cases complete with sympathetic victims.

A few days later, in Worcester, Massachusetts, so-called professional fundraiser Michael Hilady was charged with bilking nuns of \$370,000 based on allegations that he lined up a fictitious donor named "Arthur" to contribute between \$3 million and \$14 million. School representatives had even accompanied Hilady to Florida a few times to dine with the donor, but these in-person meetings were always canceled at the last moment.

Based on Hilady's promises, the nuns began

their work and racked up \$3 million in construction costs before it became clear that there was no money and, evidently, no Arthur. Investigators located Hilady at a Comfort Inn in Rhode Island with a woman who is not his wife. Massachusetts Attorney General Martha Coakley said investigators concluded that Mr. Hilady spent some of the money paid him from Venerini Academy on adult entertainment, personal expenses, and travel.

The most offensive but also most confounding story over the past year is the strange saga of the U.S. Navy Veterans Association. This story came from the hardworking *St. Petersburg Times* in March 2009, and you have to read the series to believe the events. Long story short: the organization runs a national fundraising operation that brought in \$22 million in 2008, but attempts to track down organizational leadership, auditors, and documentation of spending have proven fruitless. The pursuit of these characters has extended to other localities.

Schemes: Politicians and Nonprofits

For a publication dedicated to covering trends in the sector, certain stories are all-too common, including the number of politicians, lawmakers, and policy makers that have been cited in news accounts for misdeeds—from stealing to misappropriating funds to actions that, if not illegal, are morally wrong.

Take the case of three California officials responsible for prescription-drug spending for low-income patients. These officials had no qualms accepting money from a nonprofit funded by pharmaceutical companies that do business with the state to pay for their travel to drug industry conventions and conferences. Should these three public employees have known better? Absolutely. As the *San Francisco Chronicle* reported, Medi-Cal prohibits employees from accepting gifts that exceed \$320 from any firm, subsidiary, or person that "has financial dealings with the department."

In some cases, politicians know better, but it doesn't stop them from behaving badly. For instance, in something that could only be considered sheer political grandstanding, Republicans in the U.S. House and Senate this past spring

pushed for a moratorium on all earmarks, including those to nonprofits and municipalities. As we noted at the time, the mere status difference does not ensure that federal dollars will be well or badly expended. Instead, as John Cranford noted in *CQ Politics*:

There seems to be an impression that nonprofits are by definition small, public service-oriented organizations, when they sometimes can hardly be distinguished from ordinary companies. Three of the largest defense contractors—Aerospace Corp., Battelle Memorial Institute, and Mitre Corp.—are organized as nonprofit enterprises. Battelle had almost \$3.5 billion in federal contracts in fiscal 2008, including shared responsibility for managing the Oak Ridge National Laboratory. Not coincidentally, Battelle also benefits from a few million dollars in earmarks in fiscal 2010 appropriations, according to Taxpayers for Common Sense.

Even when their acts of philanthropy suggest ulterior motive, politicians that seem to do good can come under a cloud of suspicion. After New York City Mayor Michael Bloomberg gave some \$200 million to arts and cultural groups from his personal wealth, the *New York Times* noted, “The gifts reflect the often blurred roles Mr. Bloomberg plays in the city as mayor, tycoon and philanthropist. And while the donations earned him praise from grateful recipients, who regard him as an enlightened billionaire, they also drew rebukes from elected leaders, who argued that he bought political acquiescence with his checkbook.”

Of course, some stories cause any reasonable person to wonder, “Will this ever stop?” The most egregious of such incidents was a suit filed by New York Attorney General Andrew Cuomo against state senate majority leader Pedro Espada charging the lawmaker with stealing \$14 million over five years from nonprofits he and his family operated. As Talking Points Memo reported at the time, the suit alleges that Espada used Soundview Health Center, the nonprofit clinic he founded, to pay for \$80,000 in restaurant bills and \$450,000 worth of credit-card charges. The suit also alleged that Soundview gave Espada a contract for a

\$9 million severance package and \$75,000 in credit for unused leave time, of which he had 14 weeks every year.

VIII. IRS: ENFORCEMENT

Over the past year, the IRS has been relatively quiet in its dealings with the nonprofit sector. As noted previously, that has made state attorneys general more assertive in their efforts to root out fraud and other nonprofit misdeeds. But even in a calm year, the IRS made its presence known in a few areas of nonprofit activity. Below we detail the highlights.

Over the past six months, the big news in IRS regulation of nonprofits is the push to determine who is alive and kicking and who has expired among the smaller nonprofits in the sector.

This past year, the IRS has not been a ball of fire in getting nonprofits on a straight-and-narrow path.

As background, the IRS and others have assumed that nonprofits have inflated sector head counts because they have never declared themselves dead. The IRS requested that nonprofits that hadn’t yet submitted a 990 complete a simple electronic form by May 16, 2010. As of April 2010, the total number of nonprofit organizations of all sizes registered with the IRS was 1.5 million, 196,000 of which had not responded by the deadline. The IRS stated its intent to pull the status of all nonresponders, but late requests should be open to mercy.

IRS Shuts Down Credit Counselors

Over the past few years, the Internal Revenue Service has not been a ball of fire on regulations meant to help (or push) nonprofits along a straight-and-narrow path. Maybe the IRS’s new 990 requirements occupied too much of the agency’s charity bandwidth.

But the IRS did show nonprofit regulatory gumption in the nonprofit-credit-counseling arena, and it should better review the behavior of nonprofit mortgage-down-payment groups. In 2006 the IRS stated that it could rescind the

501(c)(3) status of groups that provide buyers with mortgage-down-payment “gifts” that are in fact payments from developers to induce purchasers to buy homes with inflated prices. Soon after, HUD weighed in, saying that if the sources of gifts were questionable (i.e., seller provided), it wouldn’t approve down-payment gifts on Federal Housing Administration (FHA) loans.

You would think that that’s the end of the story. But the Nonprofit Newswire continued to encounter problems suggesting that nonprofits linked to private real estate developers had found ways of reinventing themselves to shimmy past IRS and HUD restrictions. In Sacramento, the biblically named Nehemiah Corporation of America, a pioneer of the gift-down-payment-assistance idea, now works through a for-profit affiliate to recycle its accumulated down payments into an affordable-housing investment fund. Its CEO (whose salary is \$480,000) said that the organization’s income contributed to down payments (\$55 million, according to a January 2010 *Sacramento Bee* article) to be used by Nehemiah’s for-profit arm for direct real estate investment on its own and for grants to nonprofit housing developers. To Nehemiah, this setup is true to its nonprofit mission by linking it with for-profit developers under the guise of “economic empowerment and transformative community development.”

Housing-related nonprofits have found ways to shimmy past IRS and HUD restrictions.

Rather than giving the gifts to purchasers of developers’ homes, Nehemiah will work with the developers as partners—and then presumably provide the down-payment gifts on homes that Nehemiah has (partly) developed. To us, the scheme sounds like circumvention.

The IRS has improved in clamping down on nonprofit credit-counseling agencies. These groups, which pledge to reduce tens of thousands of dollars of credit card debt and wipe out home-mortgage and car payments in a matter of months, are not just too good to be true. Many are on the highly dubious side of the nonprofit definition. We noted that in 2009 the IRS revoked the tax-exempt status of several groups, accounting for 41 percent

of the revenue of the “nonprofit” credit-counseling industry. It approved only new three out of 110 applications for tax-exempt status for credit-counseling groups.

IX. THE NEWS ON THE NEWS

In a paradigm shift within journalism, some news sources have turned to the nonprofit sector as a model. Below we catalog recent shifts in the media and their implications for a free and independent press.

The scramble to protect free journalism from market forces has continued, with many ducking for cover under nonprofit status. This is a historic shift, but not without precursors. As *NPQ*’s fall 2005 article “The Five Pillars: Nonprofits and Media” indicated, “Both nonprofits and the media are creatures of the First Amendment. They are also creatures of government subsidy because both a free press and people’s free and active association are considered to be necessary for a healthy and informed citizenry.” For some time, a portion of journalism has been seated in nonprofits, but for-profit news outlets dominated until recently, when their business plans began to fall apart. In an interview with Mark Jurkowitz in the fall 2009 issue of *NPQ*, we covered the changes in the for-profit landscape.

In April 2010, the J-Lab at American University estimated that since 2005, \$143 million in foundation grants went to news-media organizations, and half of that amount went to 12 investigative sites. Over the past six months, several startups of nonprofit centers for journalism have emerged in several forms. Many do investigative work in an effort to get picked up by mainstream news outlets; others specialize in topical areas.

Two issues that are front and center are (1) financial influence over editorial stance and (2) sustainability. When a major donor backs a journalistic effort, bias can become a problem.

Pete Peterson, the conservative hedge fund founder who would like to see Medicare and Social Security sharply reduced for the good of the country, for example, has backed the Fiscal Times Web site, which feeds editorial content to

the *Washington Post*. Other examples include venture capitalist John Thornton bankrolling the *Texas Tribune*, Warren Hellman providing \$5 million to the Bay Area News Project, and Herb and Marion Sandler providing the bulk of the money for ProPublica. While there is nothing new about a rich person having financial influence over the editorial stance of a news outlet, the reader has fair warning if he knows whether a paper tends toward the left or right. In this case, however, can a reader see the source of the money to interpret the publication's stance?

Another model is FairWarning, which is a journalism source established by former *L.A. Times* reporters to cover "consumer-driven issues of health, safety and corporate conduct." With financial backing from several foundations, it is not dependent on a single donor, but its plan to sell content as a major portion of its revenue stream is risky for the long term.

In addition to nonprofit news sites dedicated to investigative journalism, several outlets are fundamentally online alternatives to—or replacements for—waning mainstream print newspapers, such as the Twin Cities' MinnPost, the St. Louis Beacon, and Voice of San Diego. The challenge for investigative sites and sites dedicated to generic local coverage is long-term funding.

A few funders provided startup grants for these sites, but large six- and seven-figure annual grants from foundations have not been readily available to sustain these outlets. Some nonprofit news sites have tried to secure readers' memberships and other contributions to supplement revenue from advertising, but they often turn to large foundations to keep them going. As the recently folded Chi-Town Daily News discovered, it is time-consuming and frustrating to hit up foundations, typically out-of-state ones, for ongoing capital. Chi-Town shifted from nonprofit to for-profit status, while others have toyed with the concept of low-profit limited-liability corporations as a means of securing tranches of investment.

Long story short: the critically important field of investigative journalism and even daily news coverage has become increasingly "nonprofitized," but what it will look like and how it will sustain itself remain in doubt.



CONCLUSION: ON THE JOURNEY AND IN THE TRENCHES

The *Nonprofit Quarterly* is a nonprofit publisher, but we also cover the nonprofit sector. Thus we are embedded in the community we serve. In 2000, we began publishing the print publication with the intention of providing nonprofits with a source of well-vetted, relevant, and challenging information. In late 2008, as we recognized that a period of intense change was on the horizon, we committed to following and interpreting the news so we could keep pace with this important community. It has been a fascinating journey. We feel like we are in the trenches with you but have a bird's-eye view as well.

Like all of you, we have done more with less but also found improvements in that scarcity. And like many of you, we have found that we can count on our colleagues in the trenches for support and advice on the world and the battles to be fought from your perspective.

One of the lessons learned that we intend to build on is that many of our readers have insightful analysis to provide on what is happening in philanthropy, with government funding, and in their organizations. *NPQ* has always tried to tap this reader input, but it has been a more episodic process. As we move forward into a period of "sector reformation," our intention is to engage you more as correspondents.

In this way, we can more thoroughly and consistently engage the collective intelligence of this sector throughout every field and geography. We hope you are ready.

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