

## A NONPROFIT MERGER

# A Community Fights Back: *A Merger in Humboldt County*

by Rick Cohen

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**D**URING A TIME OF REDUCED RESOURCES, IT may be tempting to broadly call for mergers and consolidations, but these reorganizations often hold unanticipated consequences for marginalized communities. It seems likely that in national networks' rush to consolidate chapters and affiliates, rural America may get the short end of the stick.

In brief, a merger that blends a rural nonprofit site with a larger urban region may result in a rural community's losing resources. Exemplary of this is a recent flap in Eureka, Humboldt County, California, where one community fought Easter Seals to retain a local facility that had served disabled residents for more than six decades.

The facility is the only pool in the area to be heated to 92 degrees Fahrenheit, a requirement to serve those with certain types of disabilities. While the facility didn't serve a lot of people—124 all told—for those who did need it, the pool was a critical resource. And for the local community, serving these constituents was important. Though the local Easter Seals facility owned the pool, local Humboldt County philanthropy had helped to buy and support the facility.

So it did not go down easy when, in the spring of 2010, the regional Easter Seals Northern California, decided to close and sell the pool and adult day-care center with only 60 days' notice. Easter Seals claimed that the facility was a resource drain.

## Regional Foundations Swoop In

With Easter Seals primed to drop the facility, it was up to local organizations and philanthropy to save the facility from a permanent closing. For the Northern California chapter of Easter Seals, the pool was a financial drain that had to be eliminated for the regional operation's financial health.

Easter Seals reported that the Eureka facility represented \$158,000 of the region's projected \$166,000 loss in its most recent current fiscal year. How Northern California Easter Seals (formerly Easter Seals, the Redwood Region) concluded that the therapy pool accounted for such a large proportion of a projected loss by the Northern California chapter—and the accuracy of that accounting—was not immediately clear. For Humboldt residents, this catastrophic financial analysis came as a surprise following its announcement by the regional Easter Seals CEO, who had never visited the facility. The cost accounting wasn't up for debate.

**RICK COHEN** is *NPQ*'s national correspondent.







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In October 2010, the *Times-Standard* reported, “Motivated by upset pool users with no therapy options, Bill Ruff of Vector Rehabilitation, Peter Pennekamp of the Humboldt Area Foundation, and Leigh Pierre-Oetker of the Melvin F. & Grace McLean Foundation formed an alliance of nonprofits to purchase and renovate the property.”

But this effort ran into a roadblock. Easter Seals Northern California established an unreasonably rapid process and time line that was not designed to help the community retain the pool. Further, its efforts demonstrated an attitude that didn’t seem open to working with the community.

The Humboldt Area Foundation and the McLean Foundation tried to buy the facility and requested a state grant for some portion of the acquisition and upgrading costs, but Easter Seals initially spurned local efforts to maintain the facility, citing costs and efficiencies as the reason for closing the service. The speed of the proposed process made getting the commitment and funding for acquisition and renovation of the pool all but impossible.

Facing the challenge of obtaining Community Development Block Grant funding to make the deal work with the deadlines set by Easter Seals, the McLean Foundation expressed frustration at Easter Seals’ intransigence. “It’s crazy,” the foundation’s Pierre-Oetker said. “If your mission is to serve this community and you are a nonprofit, why not allow us this time?” The foundations pledged to provide bridge financing for the facility’s acquisition and rehabilitation because, even if a block grant were awarded, the funds wouldn’t be available until the middle of 2011.

### Community Mobilization

This is exactly how small rural foundations, which are generally less capitalized than their urban counterparts, can leverage their resources even without offering a grant. Predevelopment financing, funds toward site acquisition, and loans to bridge the gap as recipients wait for government resources are all things that rural foundations can do even with limited capital. In Humboldt, the philanthropic community was ready to act.

But the Easter Seals regional director expressed a disdain for the local process. “They had 11 weeks,” he said frankly. “I run a nonprofit organization, and every day we put together proposals. If it took me this long to get my you-know-what together, we’d be out of business.”

How could the community gear up to meet the 60-day time frame from the regional Easter Seals office? And if it could, would Easter Seals treat an offer seriously? In the community, suspicion was rampant. When Vector Rehabilitation—a respected health provider in a position to acquire, manage, and operate the pool—made an offer for the property, a Vector spokesperson presciently noted, “If we get a counteroffer, there’s some good faith. [But] if they pooh-pooh it, then that will tell us something.”

At the same time, many of these battleground financial issues were of little concern to Humboldt residents, including whether the Easter Seals’ operating costs and losses were accurate, whether Vector or another provider could operate the pool, and whether local funders and public-sector subsidy sources were available. What mattered to Humboldt leaders and citizens was one thing: that this pool, heated to 92 degrees and outfitted with a wheelchair ramp, was a crucial safety-net resource for disabled people in a rural county for which there were no easy alternatives.

Humboldt County residents conducted informal pickets at the facility to protest the closure. But Easter Seals seemed impervious to the community’s anger. The local-foundation community expressed its concern about the Easter Seals juggernaut in the strongest possible terms; Pennekamp declared the Easter Seals decision “an outrage.”

How did the national federation fit in? The Easter Seals Northern California decision was consistent with the merger-and-consolidation efforts in other Easter Seals regions. And throughout the country, Easter Seals has long been on an acquisition-and-merger trajectory. Some of it involved consolidation with other organizations. In 2004, for example, Easter Seals in North Carolina merged with United Cerebral Palsy, a move that was followed by

acquisitions and mergers with other for-profits and nonprofits. In late 2009, Easter Seals Central Texas merged with United Cerebral Palsy of Texas, and Easter Seals North Texas merged with DFW Center for Autism.

Easter Seals is not a tiny organization. In New Hampshire, for example, a largely rural state, Easter Seals is among the largest of the state's 7,800 nonprofits. Its organizational financial calculus is hardly like most small rural groups. Easter Seals Tennessee closed a 13,000-square-foot children's center and put the property on the market for \$6.8 million. It then closed a 98-acre campsite and put the property up for sale for another \$6.5 million: sums that would have paid for the acquisition and renovation of the therapy pool several times over.

### Forgotten Constituencies

The Easter Seals action in Humboldt County touches on the low status and limited political power of rural constituencies and of the rural disabled. The needs of the disabled get short shrift in philanthropy. Even when foundations express their commitment to diversity and minorities, the disabled minority is often overlooked. With California's ongoing state budget challenges, budget cuts included reductions in recreational programs that target the disabled. Because state programs flow to nonprofits, which affects service providers like Easter Seals, Easter Seals chose to cut back on the programs in the hardest-to-reach areas: rural communities.

Why would Easter Seals do this? As one Humboldt observer suggests, "The populations they benefit aren't as politically active and often don't vote, so they represent less of a threat at the ballot box." Rural populations don't have much of a vote or influence in large national organizations or networks—philanthropic, nonprofit, or otherwise. Combining rural and disabled constituencies creates a double dose of the disempowered—and often disenfranchised—populations, in government and in philanthropy. The vigorous response and commitments of the Humboldt funders are distinctive and noteworthy exceptions to typical philanthropic behavior regarding the rural disabled.

According to the Northern California Easter Seals director, Humboldt County was "offered a choice: merge with the region or disaffiliate," he says. "When you make a choice, you need to accept the decision and move on." In other words, either Humboldt County should accept the closing of the therapy pool and use a facility several hours' driving distance away, or it should do without the support and imprimatur of the Easter Seals.

Humboldt Area Foundation's Pennekamp offers a radically different analysis: regardless of the cost, Easter Seals locally and nationally had an obligation to this rural community until the property could be sold to a local nonprofit and its foundation backers. "Whether you are Easter Seals, the heart association, the cancer society or Humboldt Area Foundation, you have a responsibility to those you serve," he says. "That is what [Easter Seals has] entirely abrogated. This community paid for that building." The fact that the Easter Seals director suggested that "no one has yet offered a financial solution to 'save the pool'" reflected a calculation that dismissed the community ownership and commitment that Pennekamp cited, including commitments from the community foundation, the Bertha Russ Lytel Foundation, the McLean Foundation, and potentially others that were prepared to step up to save the pool.

The Humboldt community's sense of ownership was more than the presence of some foundations willing to provide bridge financing or startup funds. Community residents staffed the pool, and if the facility were to close, stood to lose their jobs. Several employees said that were willing to continue to service the pool as volunteers, which Easter Seals spun for the press as the local community's commitment to the Easter Seals as an organization. But that message missed the point entirely. Their willingness to volunteer didn't express commitment to the organization but to *community ownership* of the pool, staffed for six decades by Humboldt County residents who provided a service to their disabled neighbors.

### The Trickle-Down Effect

In politically weak rural communities, the impact of regional or national federations' decision to

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shutter facilities and services is often disruptive.

Humboldt County is hardly alone in seeing rural-area services wane. This past May, for example, as funding disappeared, four Midwestern crisis help lines in rural areas were on the brink of collapse. The Harlan, Iowa-based Agri-Wellness Inc. operated seven hotlines in a few states to connect people “who have been successfully treading water until one event or incident results in a breakdown of their ability to continue” to resources—except in rural areas. But increasingly these hotlines faded, and local resources to help people, such as the Easter Seals pool users, disappeared under the guise of financial efficiency and consolidation.

One of the hotlines captured why Eureka residents are so adamant about maintaining these services. “In rural America, it is all about relationships: who you know and who you feel comfortable with and who you trust,” a hotline worker notes. “There is already such a big stigma around mental illness. So taking away the people that have forged these relationships can be really devastating. When the network or hotline goes away, so do the faces and voices that you trust.”

As with California’s funding for recreation for the disabled, Congress created the Farm and Ranch Stress Assistance Network to create crisis hotlines and behavioral health services to serve geographically rural areas. President Barack Obama recommended an initial \$5 million appropriation for the hotlines, but subsequently, the House and Senate both failed to approve funding. As with the Humboldt County pool, it’s not costly to run the rural hotlines. But in areas with limited philanthropic alternatives, the lack of federal money means a slow demise for some services. In Kansas and North Dakota, the hotlines are likely to go under. Typically, in philanthropically undercapitalized Kansas and North Dakota, there are few, if any, foundations that can step in and take the place of the federal program. To the extent that Humboldt County has a well-respected community foundation and activist family foundations, it was better able to confront the Easter Seals announcement and challenge its impact.

Easter Seals is not the only national nonprofit that has engaged in mergers and consolidations with potentially detrimental effects on rural areas. In Ohio, for example, rural Warren County faced the prospect of its United Way merging into a mega-United Way that would encompass Butler County and, more significant, the central cities and metropolitan areas of Dayton and Cincinnati. Corporate donors initiated the merger discussion. How might rural Warren County find its concerns lost in the merger? Although “districts” would make allocations for small agencies—which many rural nonprofits tend to be—a regional board would be created to approve all allocations and empowered to challenge local decisions “for cause.” Nonetheless, Warren County nonprofits saw the merger as trying to solve a problem of United Way inefficiencies in fundraising campaigns with an all-purpose solution to “bigness” that a Warren County United Way official deemed “not better.” A food bank official called out the United Way proposal, charging that “mergers and acquisitions benefit the CEOs, not the workers.”

### Don’t Believe the Merger Hype

The rural community of Eureka, California, organized and found the means to win its struggle with the national federation. In October 2010, as a result of support from the Humboldt Community Foundation for the down-payment costs and the McLean Foundation’s payment for the renovation of the pool facility, a \$600,000 Community Development Block Grant came in for the pool’s acquisition and repair. The combination of the financial commitment and the vocal advocacy of these local foundations bought the time necessary to save the pool.

In the process, Easter Seals won no friends in its dealings with the community. As a former chair of the board for the Humboldt County chapter of Easter Seals noted, the problem stemmed in part from the decision made years ago by the Easter Seals Humboldt County to merge under the Easter Seals Northern California banner—a decision, the former chair said, “most of us regret.”

Humboldt County won its battle with the Easter Seals partly because of local foundations’

dogged advocacy—and significant resource commitment—not to outsized ideas of micro-funders creating macro-social change, but rather to simply defending the local community. There is a message for the big national federations: under the guise of efficiency and cost-savings, these federations follow scaling-up agendas that often deprive small and rural communities—as well as communities without political and philanthropic power—of crucial resources. Humboldt County obviously had resources, and its leaders used them to great effect. But many others don't.

But for a moment, assume instead, that the Easter Seals argument about the Eureka pool was entirely accurate: the pool was a resource drain that couldn't be sustained. Also assume that Humboldt does not have a healthy community foundation and other local grantmaking charities. If the facility were a resource drain, is that a reason for a wealthy national federation to write it off? The FY 2009 Form 990 of Easter Seals nationally showed \$80 million in contributions in FY 2008 and an identical number in FY 2009.

The Easter Seals network is hardly bereft of resources, and that \$80 million in contributions does not include the revenue of the 168 independently incorporated organizations listed by GuideStar with “Easter Seals” in their name. An all-too-common problem of national federations or national nonprofits with local semi-autonomous chapters is to focus only on those chapters that generate money for the system, those that show evidence of being self-sustaining, and those that draw on national for little or nothing. Small-city and small-town rural sites without liquid capital to draw on often find themselves consolidated into larger networks where their voices and needs are difficult to hear, easy to ignore, and often cut out of resources and programs they need. Sometimes it is critical for national federations to spread the wealth and use the power of better-capitalized regions to help sustain operations in the less well-funded, often rural, parts of the network.

For Easter Seals, the Humboldt story should be particularly significant. Easter Seals has long

presented itself nationally as an advocate for the disabled in rural areas. Its 2006 publication *Transportation Services for People with Disabilities in Rural and Small Urban Communities* identifies many of the challenges that Humboldt County's disabled population would have faced had the Eureka pool closed and had it been required to seek alternative services, including the following:

- “limited funding for transportation in rural and small urban areas”;
- “restrictions on trip purposes and limited days and hours of operation”;
- “inequities in the distribution of monies used to support rural transportation”;
- “transportation in rural and small urban communities . . . often limited to medical or other ‘priority’ trip purposes”;
- “a lack of long-distance transportation to regional services”; and
- “transportation . . . often limited to agency clients or people who qualify for specific funding programs.”

Other foundations have noted that rural areas can easily create the conditions for neglected and disenfranchised constituencies. In its *Place Matters* report, which describes the rich “tapestry” of rural America, the Carsey Institute identifies remoteness and low density as the two main obstacles to rural-area success and calls for making “affordable and accessible health care facilities” a top priority. The heated pool in Humboldt County is a concrete example—a small but hugely important resource to the locality—of what a national nonprofit federation can do to help support rural areas.

Unless national federations such as Easter Seals are content with giving rural areas only lip service as evidence of concern and commitment, groups should not succumb to the mythology that scaling up through mergers and consolidations adequately protects clients and constituents in already neglected and underserved areas.

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