

# Strategies for Redefining Resource Allocation in the New Orleans Non-Profit Sector

A complex network diagram with numerous nodes of varying sizes and colors (white, blue, purple) connected by thin white lines. The nodes are distributed across the lower half of the page, with a larger central cluster.

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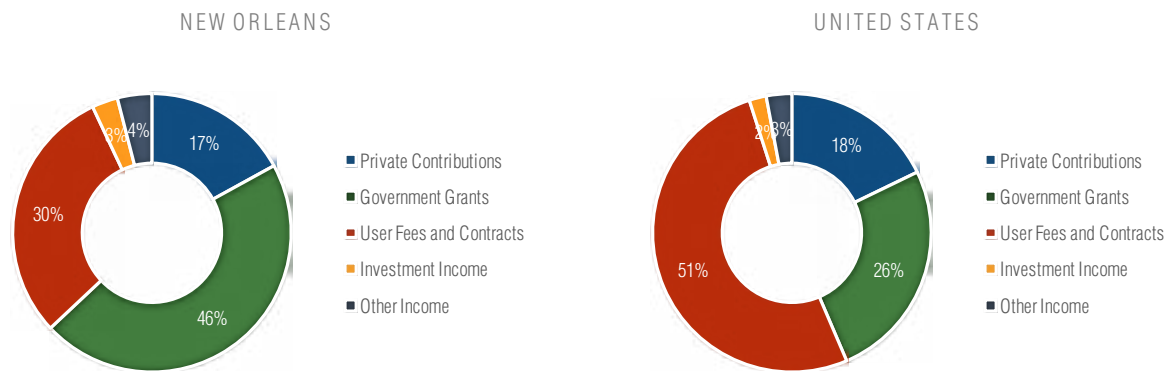
# Strategies for Redefining Resource Allocation in the New Orleans Non-Profit Sector

Over the past decade, New Orleans has experienced significant growth in the non-profit sector. Large-scale disasters and notable urban blight have created visibility to the need for remediation, which in turn has attracted substantial financial resources from supporters at the individual, municipal, state, and federal levels. As a result, the Greater New Orleans area saw many new non-profits created, as well as the expansion of existing mission-driven organizations. However, times of economic stability pose a threat to the financial sustainability of these organizations as the influx of capital into the sector slows due to a perceived reduced need for resources. The severity of this phenomenon is further compounded by the growth of the sector during periods of heightened need: the non-profit community in New Orleans often experiences periods of rapid growth and expansion during times of disaster and are expected to sustain this larger (and more expensive) operating structure as funding becomes less and less available. This creates friction in the relationship between available funds and the requests for these funds. In approaching a solution to this issue, we see an opportunity for mission-driven organizations to work together to maximize the allocation of available funds, enhance social efficacy, and ultimately reach a higher level of sustainability.

Funding in the New Orleans non-profit sector presents a unique challenge in that the greatest source of available funds flows to local organizations in the form of government and foundation funding. In 2010, 56% of New Orleans non-profits received some type of federal government funding, and government grants accounted for 46% of the total income for these organiza-

## EXHIBIT 1: Source of Income, New Orleans and United States Averages, as of 2010

Source: The Urban Institute, National Center for Charitable Statistics



tions (Exhibit 1)<sup>1</sup>. While grant income from the federal government has been a reliable source of income for local non-profits in the past, recent reductions in federal funding have begun to create difficulties for the organizations relying on these distributions. Since the financial crisis of 2007, federal funding for mission-driven organizations has been scarce: neither government contracts for services from non-profits nor funding for the operations of these organizations has yet approached pre-recession figures.<sup>2</sup> Foundation funding for non-profits in Louisiana, while a sizeable portion of operational revenue for these organizations, is also a relatively unreliable source of financial support. Foundation funding, in dollars per capita for the state, is in the bottom quartile for the United States as a whole. Further, the outlook of these figures is unfortunately a grim one, with over half of all surveyed non-profit executives in the city (53.1%) feeling that contribution from these resources will continue to decrease in the coming years.<sup>3</sup>

Such losses in resources can be particularly harmful to charitable organizations in New Orleans, given the fact they already tend to operate on incredibly lean budgets. In 2010, for example, the median figure for budget at a health and human services organization in the city was

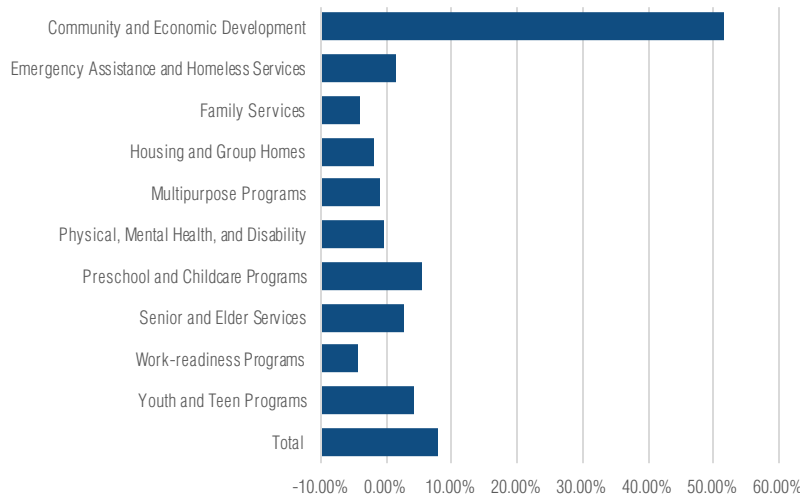
<sup>1</sup> Devita, Carol J., Amy S. Blackwood, and Katie L. Roeger. "A Profile of Nonprofit Organizations in the Greater New Orleans Metropolitan Area." *The Urban Institute Journal*, 2012, 1-68. Accessed February 1, 2014. <http://kresge.org/sites/default/files/Report-on-human-service-sector-in-New-Orleans.pdf>.

<sup>2</sup> Lowrey, Annie. "Government Giving Nonprofits Angst." *The New York Times*. November 7, 2013. Accessed March 15, 2015. [http://www.nytimes.com/2013/11/08/giving/government-giving-nonprofits-angst.html?\\_r=0](http://www.nytimes.com/2013/11/08/giving/government-giving-nonprofits-angst.html?_r=0)

<sup>3</sup> Devita

## EXHIBIT 2: Operating Margins of Health and Human Services Organizations, as of 2010

Source: The Urban Institute, National Center for Charitable Statistics



\$236,000 and the average operating margin for these organizations was 8% (Exhibit 2).<sup>4</sup> Given that overhead and operating costs of a non-profit tend to average around 26% of total costs<sup>5</sup>, and that programs and outreach tend to utilize an average of 70% of an organization’s budget,<sup>6</sup> the spend-to-impact ratio in this case would be relatively small.<sup>7</sup> Creating significant impact toward a mission can be difficult on such razor-thin margins and often brings into question the idea of sustainability. Fully 47% of New Orleans-based non-profits surveyed by the Urban Institute indicated that they were struggling to balance their budgets, with 12% indicating that they were in serious risk of closing.<sup>8</sup> The link between financial sustainability and program impact is one that is often under-considered,<sup>9</sup> yet it is difficult, if not impossible, to achieve mission-focused goals when resources are scarce.

While government and foundation funding has continued to shrink over the past decade,

<sup>4</sup> Devita. A closer study of these budgets reveals fairly modest outputs: while the average budget of a non-profit organization in New Orleans in 2012 was \$1.3 million, this figure includes disproportionately large organizations that tend to skew this number upward.

<sup>5</sup> Bedsworth, William, Ann Goggins Gregory, and Don Howard. “Nonprofit Overhead Costs: Breaking the Vicious Cycle of Misleading Reporting, Unrealistic Expectations, and Pressure to Conform.” Bridgespan Insights, 2008. Accessed February 4, 2015. Nonprofit Overhead Costs Breaking the Vicious Cycle of Misleading Reporting, Unrealistic Expectations, and Pressure to Conform.

<sup>6</sup> *ibid.*

<sup>7</sup> Arnold, John. “Charity Food Programs That Can End Hunger in America.” Second Harvest Journal, 2004. Accessed March 7, 2015. <http://www.endhungerinamerica.org/wp-content/uploads/2010/03/wnwnelca.pdf>.

<sup>8</sup> Devita

<sup>9</sup> Francis, Angela, and Jennifer Talansky. “Small Non-Profits Solving Big Problem.” CCER Institute Journal, 2012. Accessed March 16, 2015. [http://nonprofitfinancefund.org/files/ccer\\_final12-12.pdf](http://nonprofitfinancefund.org/files/ccer_final12-12.pdf).

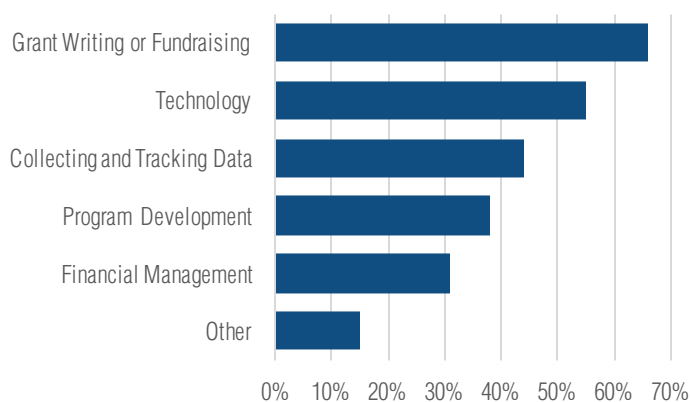
the non-profit community of New Orleans has experienced a period of rampant growth, often fueled by economic and natural disasters. This trend can be particularly striking in certain areas of the local non-profit sector and, in a recent study of health and human services organizations conducted by the Urban Institute, for example, one in seven of surveyed institutions indicated that they formed as a result of the effects of Hurricane Katrina<sup>10</sup> in 2005. When we compare this growth with the industry-wide contraction of federal funding, we see divergent set of trends that can result in a pool of funds that becomes stretched thinner and thinner as the disparity increases, thus resulting in less funding per organization.

As organizations grow, however, capital is not the only resource that becomes necessary. Non-financial resources, such as skills and personnel, also rank highly on the list of the most-needed in non-profits. Human capital in the form of operations management, program management and professional services, especially, are often desired by growing organizations, and grant writing and fundraising, technology, and data management skills are highly needed (Exhibit 3). Given that these roles must be filled by staff, full-time or contracted, the identification, recruitment, and retention of employees in these departments must be highly prioritized. Mission-based organizations, however, have continued to have difficulty in locating suitable talent to fulfill their mission and programming objectives and 24% of non-profits in the health and human services sector of

<sup>10</sup> *ibid.*

### EXHIBIT 3: Types of Technical Assistance Needed

Source: The Urban Institute



New Orleans have cited this as a critical issue adversely affecting their operations.<sup>11</sup> Given that a mission can only be carried out effectively by a capable organization, and that such an organization can only be built with access to necessary (if not capable) talent, it stands to reason that a resource strain in the form of human capital represents a significant detriment to organizations seeking to not only operate, but also to remain effective in the communities that they serve. This is particularly crucial given that about 37% of non-profits have not reached their pre-Katrina operating levels in terms of staffing and capacity, limiting programs and impact capabilities for many organizations.<sup>12</sup>

In response to limited funding, a number of non-profits have developed creative ways of partnering with other non-profits as a way of carrying out their objectives within their constrained budgets. In Texas, non-profits have explored mergers and other forms of strategic collaboration as a means of expanding services, enhancing effectiveness, and strengthening long term sustainability.<sup>13</sup> The models of collaboration can range from an outright merger to simply sharing of services. In one innovative solution, a non-profit organization studied by the Bridgespan Group had undergone a modified merger with another institution: under the stipulations of the merger, both organizations would continue to operate as independent 501(c)(3) entities, while the administrative functions and programmatic services were partially combined.<sup>14</sup> More common ways of non-profit collaboration include purchasing goods and services together, co-locating, combining marketing efforts, sharing development activities, sharing staff and contractors, and co-sponsoring programs. This may be done through a formal partnership where a number of organizations rely on one center for resources and support. In Baltimore, Fusion Partnerships brands itself this way, both offering fiscal sponsorships for mission-driven organizations and organizing collaborative action amongst social justice organizations.<sup>15</sup> The Lakeshore Nonprofit Alliance in Western Michigan offers similar services, helping nonprofits share space, talent, and knowledge through low-cost shared rental spaces, workforce development, and events to help non-profit leaders share ideas and

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<sup>11</sup> Devita; Here too finances seem to play a role as a bottleneck in non-profit organizations: while 24% is the reply rate to this survey, this figure further subdivides to provide insight that the size of responding organizations (as well as their budgets) is a determining factor in talent acquisition. 29% of small non-profits cited difficulty with recruiting and retention, versus 18% among larger non-profits.

<sup>12</sup> Devita, 25.

<sup>13</sup> "Non-Profit Mergers." Greenlights for Non-Profit Success.

<sup>14</sup> *ibid.*

<sup>15</sup> "Fusion Partnerships." About Fusion. Accessed April 28, 2015. <https://fusionpartnerships.wordpress.com/about/>.

experiences.<sup>16</sup> In New Orleans, Neighborhoods Partnership Network is building a similar structure for civic engagement organizations in the greater New Orleans area. These types of partnerships and alliances, as well as smaller scale one-off resource collaborations, are extremely valuable for non-profits with constrained resources.

Given the current environment of expanding institutions and contracting resources, we at EMH advocate for an active atmosphere of collaboration in the New Orleans non-profit sector. Partnerships are already prevalent in the city, with 87% of surveyed organizations indicating that they regularly engage in some form of resource sharing.<sup>17</sup> This “sharing”, however, tends to be relatively limited and often occurs in the form of partnering during specific programs or events, or in times of undue strain. Where we see real value, however, is in the sharing of under-utilized resources, especially in the form of materials (both under-used and seasonally-used), cross-staffing, and program management. Relationships of this nature require a careful process of identifying needs, surplus, and potential partners while also structuring, managing, and evaluating these relationships. At EMH, we pride ourselves on being able to bring value to the social sector and have driven significant impact to non-profit organizations such as the Emeril Lagasse Foundation (ELF) and the Louisiana Department of Education. Please contact us if you would like to learn more about structuring collaborative partnerships and maximizing your resources.

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<sup>16</sup> “Lakeshore Nonprofit Alliance.” Shared Resources. Accessed April 28, 2015. <http://lakeshorenonprofits.org/collaboration/shared-resources/>.

<sup>17</sup> *ibid.*

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