



Transcript

3.16.2020

Sustainability

Co-Hosts: Brittny Wilson (B) and Nia Wassink (N)

N: Hey listeners, it is Nia here. This is Saturday, March 14 that I am recording this. I wanted to add a little bit of an extra intro into today's episode, just given what's happening. What's going on in our world and in our country. It is definitely impacting me and Brittny. It's definitely impacting our nonprofits. I know a lot of you are currently experiencing that triple whammy of donors pulling back funds because of the markets decline, we know donors and their behavior is often very reactionary and emotional, so we've got donors that are pulling back. We've got large scale events getting canceled, you know whether it's a Gala or a training where you had some earned income. And all of that is happening at the same time that we are probably being asked to do more. Our nonprofits are wrapping around the most vulnerable in our community and ensuring that they have access to resources, in so many different ways. I have spent the last week working with clients nonstop, I feel like my brain is mush right now. But we felt like we still wanted to put out some content today because the discussion of sustainability and what it means is probably especially relevant right now. I want to applaud some of our local funders who have stepped up to either release special funding just for COVID-19 response or are setting up special fundraising efforts where the community can contribute and then that goes onto nonprofits who are doing this response. Because that's what we need to see, we need to see our funders stepping up. And also doing it in a way that is not overly burdensome. I've been seeing on fundraising Twitter, folks saying that there are some funders that have funding set up, but it's \$200-\$500 and it comes with a multi-page grant application and attachments and that is not helpful. We need funders who are stepping up and saying we are going to release funds because you're doing the hard work and our community needs you right now. So, to all of those of you out there actually listening today. We just, we're sending you so much love and also really hoping you take care of yourself. We all know the saying, you got to put your own facemask on before you can help somebody else and that is certainly true today. Brittny is up in the mountains right now with her family taking a little R&R, stepping away. I'm going to finish up this episode and then turn everything off for 24 hours so I can recharge before the week ahead. Because at this point it is definitely a marathon. Our communities will continue to grapple with the impacts of both the virus, but also the closures, closures of schools, businesses, employment, etc. for quite some time. So please take care of yourselves and know that we are thinking of you. And hopefully this episode provides at least a few minutes to step away and laugh about some of the absurdity of it all. We love you, bye.

B: I'm Brittny Wilson.

N: And I'm Nia Wassink.

Both: And this is, The Nonprofit Reframe

B: Together, Nia and I have over thirty years of nonprofit experience. We've worked the program side, the business side, and everything in between.

N: We are reframing the nonprofit experience by challenging the status quo because we know that nonprofits and their staff are undervalued, under-resourced and unrelenting.

B: Welcome Back!

N: How was your weekend Ms. Brittany?

B: Oh, it was fantastic. Fantastic. Had a long weekend, holiday weekend. Got to do a trip up to the mountains, to Steamboat. It was so nice, it was gorgeous.

N: That's great!

B: Yes.

N: At this point, when this is airing. Your gala will have been done. But at this point, when we are actually recording, have you bought your dress yet?

B: Yes!

Both: Yay!

B: It hasn't arrived, so I don't know if it fits.

N: But it is in advance of your date. It's in advance of your gala month even. I'm going to give you props for that.

B: Well you inspired me when you brought that up when we did our gala episode. And so not only did I buy my dress, I bought my shoes too.

N: I am so proud of you!

B: Thank you, thank you.

N: I'm not going to one up you and say I've got my dresses for the next two galas or anything, but.

B: That doesn't surprise me in the least. Not at all.

N: That's why this works.

B: Exactly. So yes, Check, Check. And I actually bought two dresses in two different sizes, so hopefully one of them works.

N: Great, I can't wait to see it!

B: I know, me too. They're really beautiful.

N: I'm sure.

B: So how was your weekend?

N: It was lovely. I was planning to work and then friends kept popping up with fun things to do.

B: Oh, that's the best!

N: I know. So I didn't work, like I had planned to which means that this week is going to be real rough. But, it was such a friend filled wonderful weekend. One of them brought their little one-year old and Oh my gosh, babies. Just so cute, especially when I can hand them back at the end of the hour.

B: Right. Exactly.

N: He's stinky, he's yours again

B: Haha, here you go! Oh that's lovely! Well so what are we talking about today?

N: Well, spurred on by you actually. We are going to be talking about sustainability. That ever elusive, nondescript thing that nonprofits want.

B: Love that word, love that word. I feel like sometimes you can do a drinking game with that word in board meetings.

N: How does this skill contribute to our sustainability?

B: Yeah exactly. Drink! Yes, board members love to use this word.

N: They just bandy it about

B: Yeah.

N: As if we have some general understanding of the definition, which we do not.

B: There is no straight definition for it. Or formula of how to achieve it.

N: But everybody has an idea of what that formula is, just none of them are the same.

B: It's like you know, maybe it's because I was in the mountains this weekend and we went snowshoeing. It's like the elusive Bigfoot or Sasquatch. That is how right now I am picturing sustainability.

N: You can only get it with a blurry camera, when you're by yourself.

B: People claim to know what it is and have experienced it...but seriously. Sustainability, very important topic in

nonprofit work around how to keep your doors open.

N: And it is a very important topic for funders based on the number of grant applications that ask, "What is the plan for sustainability?" "How sustainable are you?" They want answers to that question, and we usually can't give it to them.

B: Nope, Nope! At least all of our answers are coming from a completely different method of how we are quantifying it. So it's not an even comparison between applications.

N: Well, so I just started working with a client and I was reviewing some of their old grant applications and came to one that had this question, and they took it to mean environmental sustainability. Which I understand. I mean outside of nonprofits when you think of sustainability, that's what people are talking about, right?

B: Absolutely.

N: And so they went on to explain the recycling programs they have in the office and the composting they have.

B: We're a zero waste facility. That has nothing to do with our program delivery or what our program is. Nice! Yeah it's confusing, it's confusing.

N: Yeah.

B: And as a Development Director, I feel like we are often looked at to give advice on how to achieve it.

N: To your board?

B: Yeah, to our board or to our CEO or ED, you know. It's kind of like, okay so sustainable means we have enough money. So fundraiser, how do we get more money?

N: So when your CEO asks you, "How much do we need to be sustainable?" What would you answer?

B: Oh I love that. Love that you put me on the spot. So, let me pull out my soapbox.

N: I can't wait.

B: Yeah. Ummm, alright I'm on my soapbox. I always say that sustainability is really about diversification. And that each source of revenue has its own level of volatility.

N: Absolutely.

B: And those ebb and flow. So where one year you have a really strong grants year, it could take a hit the next year for any number of reasons and we've talked about that in the grants episode about how you know foundations change their funding focus or you know budgets get cut, maybe at a federal level even. So now all of a sudden your grant line item is taking a hit. Or maybe it's the other way around and it's your individual donors and maybe the stock market takes a hit and so people don't have as much money to be giving. So for me, sustainability is having enough revenue streams, so that when one is maybe not performing at the level that you expect it to, hopefully you have others to help buoy it up.

N: I think diversification of revenue is an absolute marker of sustainability for an organization. I also think that a lot of people when they ask that question are looking for either a dollar figure or like a percentage of your budget. Like you have 3-6 months in reserves and available.

B: Exactly. That's why I don't answer with that. Because I don't necessarily believe it. Not that I don't believe in reserves, 100% I believe in reserves. But yeah that's normally what people are looking at. So how sustainable is your organization? How much money do you have in reserves? Do you have an endowment? How much money is in your endowment? How much cash flow do you have? Or liquid cash so that you can be able to handle a crisis if that happens? And yes, everybody wants some sort of standard equation for how much money you should have in your reserves.

N: I think we often get caught up in the conversation around how much do we need in reserves. And we forget about what do we need today? Like what do our programs need?

B: Absolutely.

N: So I know that this happens a lot just in budgeting. Like how much are we going to invest in development and in growth and infrastructure versus how much are we going to stock away for a rainy day. Then this also happens in bigger ways. I was just in a meeting where they were talking about an endowment, which I think is often like the marker of sustainability, right once you have a substantial endowment. And the initial kind of soft reach outs around an endowment campaign have been very positive so they were looking at increasing the amount. And they start throwing around these big numbers and everybody is kind of doing it a little hyperbolically, but at the same time there was some truth in it. They have the potential to raise a significant endowment. The whole time I'm sitting there thinking, if you put those dollars into services right now, you wouldn't need to be here in 20 years.

B: Right!

N: Right, because that's what sustainability is about. Right?

B: Ahhhh! Lightbulb just goes off!

N: Yeah, if you're talking about how are we going to ensure that our programming is around in 10, 20, 30, 40 years. What if we shifted that to what do we need to do right now so that our services aren't needed in 20, 30, 40 years?

B: Yes.

N: And that conversation, I don't think is happening.

B: Maybe we should do a little, maybe we should back up or pause and explain what an endowment is.

N: Oy. Okay, I'm assuming you want me to do that?

B: I do.

N: So a true endowment is a series of funds that have been endowed by the donor and are set aside. And typically the nonprofit can't touch the corpus, or that original investment, only the interest or a percentage of that, that rolls off every year. So, obviously, the most common place we see this is in Universities, Higher Ed, where they have massive endowments that fund scholarships in perpetuity or whatever. So, you think, we'll just make it real simple. If I just raise \$100 for my endowment, I'm actually going to get \$5 a year from that. And every year I'm going to get that \$5 because it's going to continue to make money in the markets and I'm going to be able to continue to invest that. But that other \$95, I can't touch because that is locked up as a part of the corpus of the endowment. Now a lot of organizations have quasi-endowments which are often like board restricted. You know, maybe you have a big fundraising year or series of years and you end up with excess in reserves and you don't want it to just be accessible for any old thing. The board might put that into a quasi-endowment, which requires a board vote to access it, so a lot of organizations have that and call it an endowment, without it having the same level of restriction on usage.

B: Can't you use the corpus of it if you are legitimately going out of business or something happens?

N: Yeah, a lot of organizations, like community foundations where you might hold the funds, have specific requirements around that like you can ask for an additional distribution max of three years in a row. Something like that, or yeah, if things are really dire. Or you're going out of business, you can spend down that endowment, but again assuming you want this in perpetuity, you're stuck to that 3%-5% rule.

B: And then, what's the difference between the endowment and the reserves? Because they're, are they the same thing?

N: Oh god. Well that's such a hard question because everybody defines that a little bit differently.

B: Exactly.

N: So, I would say, if I were to look at a nonprofit's financial and I'm looking at their reserves. I'm looking at funds they actually have access to. Funds that they could potentially liquidate. And if they have a true endowment, they can't liquidate that.

B: Right, so reserves might still be invested?

N: They might still be invested, you might still have them at a Wells Fargo kind of organization that's managing them and you're making money off of them and you might even have a policy that says you can't touch them, but it's not the same as a true endowment.

B: Right, right. Well, so this came up for me, you mentioned at the beginning of the episode that I had spurred the interest, it was my interest in this topic that spurred the choice. And it's because I see this over and over again at the different places that I've worked. This conversation with the board around how much should we have in our reserves? And wanting to know that number, whether its 3 months, 4 months, 5 months, 6 months.

N: Mmmhmm

B: So as a nonprofit consultant I'm sure you get asked that question a lot.

N: All the time.

B: Well how do you answer that?

N: There is no one size fits all solution. Every nonprofit operates differently and every kind of area of the sector has different needs. So for an organization that is involved in let's say something like reproductive rights. Right now, given the political climate, they need to be highly agile. So an organization that is truly sustainable in this moment right now, probably has a full year of reserves.

B: Right.

N: Because they could have massive funding cuts over night, they might need to do major investment to ensure that legislation isn't passed that goes against their work. They are just going to need to be agile. Whereas an organization, maybe like a library, that has really you know measured funding from the city and they've got their foundation. There might not be the same kind of restraints on their funding, so I recommend that every organization really look at their diversification of revenue, how volatile each area is and come up with a number that feels comfortable for themselves. I would say most human services organizations I'm working with are striving for 6-12 months. Whether that's achievable, I think is another question and whether that is ethical right now, I think is another question as well. That's what I'm seeing, typically.

B: Well, and what I think is so interesting about it is that when we put it in terms of, ok, so they do a cash flow analysis, they find out, you know what their expenses are roughly, per month. And then they say we want four times that six times that, twelve times that in our reserves. But what that is taking into consideration is if you, is if the organization lost all revenue.

N: Right, right.

B: All revenue, like everything. And when you really start to unpack it and say okay let's look at the different scenarios, like doomsday scenarios that could play out, that could really affect our organization and what would be the typical kind of consequences of those. They would rarely, if not maybe never, result in that 100% of your funding was cut.

N: Right, right, right.

B: And typically what would happen is that you would start making programmatic changes..

N: Right.

B: At the very beginning. So if you started to have some sort of decrease in revenue and you didn't see that turning around anytime soon, then maybe you would look at your program delivering your services and say, okay instead of being open 7-days a week, we'll only be open 6-days a week and we'll cut here and cut there. In order to bridge that until you can find, to ramp up your revenue again. Right?

N: Right.

B: So at the end of the day, nobody is really going to be stuck with oh my gosh, we only have four-months of expenses in our reserves, we only have 4 months left and then we shut our doors.

N: Yeah.

B: And so I mean I understand that there needs to be some measure so that we have a way to talk about it. But I find sustainability to be less about a like something, like a destination, something you are trying to arrive at. And more of a conversation.

N: A process.

B: A complete process. And let's involve the board, and let's involve obviously you know senior management and let's look, and let's do a risk management, like assess our risk, you know. And let's see, do we have multiple buildings, do we have, and that's another thing, you know, you have insurance.

N: Yeah.

B: You know, god forbid there is a fire or something like that. There are other mechanisms at play that can maybe help you recoup some of those cost so it's not straight coming out of your reserves.

N: Well and I think, part of the sustainability conversation needs to be not just on that bottom line number. But on how we're investing our funds to ensure that our programs are successful. So I was on the board of a really small organization and we had one staff member and an intern. And I was the board chair when it became increasingly obvious that we were not sustainable. We were working in an area of human services that was not receiving funding, especially locally at that time. Although we have this huge need, we were working with these young people, even their parents wouldn't see the need. So we had all these forces working against us so we put a plan in place, some specific fundraising targets and said if we don't hit them by a specific date, we are going to start closing down. And that's exactly what happened.

B: Interesting.

N: But it wasn't because we were in the red every year, like we were in the black. but our Executive Director came to us and said, "I can't work like this anymore, we need additional staff and support, she needed to be paid more, like I think so many organizations sort of shoestring it for so long, then there becomes this tipping point where either you grow and you scale or you don't. And we ended up realizing that we couldn't scale. And we were genuinely not sustainable and we

had to close down.

B: Well you bring up such a great point, you know going back to that saving money for a rainy day. And/or investing some of that money now to help grow and expand. I mean, I have worked for a place, where once we did all of those things, once we assessed our risk and we did a cash flow analysis, we came up with a different business model that ultimately was going to create a more sustainable future, right? For the organization. But to get to that model, we had to invest money.

N: Right.

B: And there is always this kind of moment of panic, of like wait how much is that going to be? And what if that drops us below the four months of operating expenses, but the whole point is that one, being thankful that we even have that money available to us and two, now is the time to use it to create a more sustainable model, so that we are not having to dip into our reserves every year to cover some sort of deficit.

N: Oh absolutely. I was at an organization where we had three years of operating expenses in reserve, like we could have liquidated it tomorrow.

B: Woah.

N: Yeah. And we were upending our programs and doing a bunch of things and starting a new program and doing some infrastructure investment and I would say by and large the board was there. Like they were on board for it, they understood, they got it, but there's always the one.

B: Yes.

N: Who would come in and be like, we are going to have such a huge deficit this year, we're going to. And I kept saying, we have to reframe this, this is an investment year. Yeah, I know we are starting a new program and that's scary and we have no guarantee of success. And look at all the things that we've done to ensure that. Here's the fidelity we're using towards these models that have been tested and proven. And once that happens we will be able to go out and seek additional funding. This is not a long term, we're going to be funding this program from our reserves, but there is that initial investment and no funder out there. Ok, I shouldn't say no funder, very few funders out there are investing in programs, until you have results.

B: That's exactly right.

N: So we had to pull from our reserves in order to do that. And we had three fucking years' worth. What else were we going to do with it?

B: Well and isn't that also the paradox of, because when you're applying for a funder and you're showing that you have three years of operating revenue in your reserves, that you're not using, then they are like, why do you need my \$5,000?

N: Oh yeah, we had a list of funders who had said we could not apply to them because we had too much in reserve and if that ever changed to come back to them because they loved our program and loved what we were doing. And so it was such an interesting conversation with the board to talk about the realities of how revenue gets put into an organization, how funders make decisions about what organization needs money and which ones don't. And also how that reserve came to be, which was before my time there, but you know there's this interesting, I think, conversation about you all were pulling in significantly more money than you needed to operate, significantly more than you needed to operate and still feel comfortable with your reserves, when you should have been investing that. You should have been doing the good work with that money. You should have been serving more kids with that money and you didn't. And that's shitty.

B: Right, because I know which organization you're talking about and at that same time there was still a huge gap.

N: Oh Yeah.

B: In those who needed the services that you provided but you weren't serving all of them because you hadn't scaled to be able to do that yet.

N: Right, right. Yeah. I mean it's like the people who just want to sock away the money for the sake of having reserves, who lose sight of the mission. They can sink an organization.

B: Yeah.

N: I mean at that point, if we didn't make massive programmatic shifts, we would've had to close, not because we didn't have money, not because we didn't have financial reserves, but because our programming was so outdated that we were just going to walk out into the sunset.

B: Yeah, yeah. Well it's funny that you bring up the point that there's always one.

N: Right?

B: So every time. I don't care if your board is four people or twenty-five people. You start having a conversation about sustainability and about money, it all of a sudden people choose their camps right? And the risk adverse people come to the top and they are the first ones to say, whoa, whoa, whoa, whoa, whoa. We can't do that, and what does that mean and blah, blah, blah, blah, blah. So what ends up happening, is that organizations look for a third party. To come in and give their opinion.

N: Yup.

B: And you and I both serve as that third party for and organization that provides those third parties. I mean you do one. I don't know if that makes sense.

N: In an attempt to maintain anonymity for these organizations, you have just created such a confusing description of what we do. Hahaha

B: It's highly secretive (Laughter)

N: We are in the CIA for nonprofits.

B: That's awesome, yes. Well anyways, yes. So I value consultants, I value someone coming in who is an unbiased third party, however having been on the receiving end of that as a nonprofit it can be so frustrating when your board, and even sometimes your leadership is so apt to believe that person over any internal knowledge. When that person might be coming from a completely different industry, a different perspective and so that happened to us one time at an organization I was at and I kind of got into it with the consultant because I thought it was bullshit what he was saying. He came from a Higher Ed background and where we just talked about, they have these huge endowments. And he just couldn't see why we wouldn't try to get a years' worth of expenses in our reserves. And it wasn't apples to apples. And I think organizations need to be careful of that.

N: Yeah.

B: Especially when you have consultants coming in from the for-profit world, who think they know.

N: Oh gosh yeah.

B: And it's different just like you said, it's different. I mean we, the house is on fire now. We have to, that rainy day, it's like torrential downpour right now and that might be a different strategy for a for-profit company than it is for a nonprofit. When we have people that need our services, you know sometimes life and death? I think that that tips the scales when you're starting to look at what you're saving for the future versus what you invest in today.

N: Yeah. Well I think that is, that's how we end up with the nonprofit starvation cycle, tying into this conversation around sustainability, you know when we're so hand to foot...nope.

B: Hand to mouth.

N: Hand and foot disease? I'm spending too much time at the early childhood center, where everybody is sick with all of these things. No, when we're hand to mouth, and that's again, there's so many things that have caused that from like zero-based budgeting to funders and the way that they fund programs, only once they are established and they are working and da, da, da, da, da. And our inability to invest in infrastructure, we have ended up creating this starvation cycle for our nonprofits and so it's hard to even have a conversation about sustainability and what it's like and how you would achieve it, when you're still stuck in that place.

B: Absolutely.

N: And so for organizations who are beyond that, right? Who have started to move beyond you know how are we going to make payroll this month, and can actually think ok what does this look like, two, three years out? Maybe, they can start to come up with measures that feel right to them and like you're saying, balance that immediate need of programming today with ensuring that you have sustainability, whatever that fucking means. But you have, you know that you'll be able to provide these services at least for the next couple of years. Right, like I guess my call is to pull in the terms that we're talking about for sustainability. Let's not talk 10, 20, 30 years down the road, let's talk about next five years.

B: Right.

N: Let's talk about how we actually end some of these major issues that we're trying to solve. How do we actually shift the way that we're providing services by doing massive investments today?

B: Right.

N: And we know that it is not just the nonprofits. This is a call to philanthropy as well to totally shift the way we are funding things. But I think if nonprofits can start to really pull together what that looks like right now? And start to put that to their donors, to their funders then we can start to shift this conversation around sustainability, we can maybe actually change our service delivery so that we can chip away at these issues in a bigger way.

B: Yeah. I love that, I loved everything you just said.

N: Brittany is just like looking in awe over there.

B: I am! I'm just preach! I mean this is why we are doing this podcast. I get so excited! Because this is the stuff that just fires me up and we need to shift it.

N: Yeah. We have to shift it.

B: And we have to challenge the status quo so that is what we are doing.

N: We recently had a comment on one of our social medias about one of our episodes and saying that the thing that we forgot to tell them was how to share that content strategically with coworkers who they wanted to have hear it. I'm guessing that's going to happen with this topic.

B: Yeah.

N: So I'm just going to say, send it out. Send it to your board, send it to your funders. We need to start demystifying this concept and have definitions that work for your organization that you all agree to and not imposed externally and not imposed by funders.

B: So here, these are our takeaways, right?

N: Right.

B: And I would say another takeaway for those within the nonprofit is recognizing the knowledge that you already have in house.

N: Yeah.

B: And don't discount that.

N: Mmmhmm

B: So when you start having these conversations, you know, bringing all of your leadership to the table and really having conversations around what everyone foresee about being potential risks and what that would look like if those things happened. And that can help you get a better idea of what you're actually saving for potentially.

N: Mmmhmm

B: Versus this just scary future of, I don't know, everything burning to the ground.

N: Right

B: And it not existing anymore. So being more realistic about those conversations. What else, what other takeaways can you think of?

N: I think those are the big ones.

B: Yeah.

N: I think you caught them right there.

B: Alright. Well then I think that wraps up. We didn't have a hashtag for today, what's today's hashtag?

N: Ugh, there was something you said in the middle that I thought should have been a hashtag and I totally forgot.

B: Damn, well we'll relisten to it and we'll pull it out and put it in the show notes. But thank you so much for joining us.

N: Please, please, please, send us your emails with your ideas, your comments, your stories. We are trying to compile enough to do a listener episode with your stories which we will work to anonymize very carefully, much better than Brittany did today. Um, so please, please, please send that to us. We are at nonprofitreframe@gmail.com and as always follow us on Facebook, LinkedIn, Instagram, we've got lots of fun content going through on all of those socials.

B: Yes, please send us what your definition of sustainability is. I would love to hear that, or what you're using. And also, just remember to please support your local nonprofits and give generously.

N: We would like to thank our sponsors, Mission Launch is a Colorado-based nonprofit consulting firm focusing on fundraising and board governance, you can learn more at missionlaunchco.com and Jake Walker Music who provides our theme music. You can find him at jakewalkermusic.org. Thank you so much!

