

Silicon Valley Nonprofit Effectiveness Fund

Sponsored by The David and Lucile Packard Foundation

I. Current Conditions

Santa Clara County nonprofits are facing unprecedented declines in philanthropic support, state contracts, and individual donations at a time when service demand is rising. The sector is experiencing what many view as a need for restructuring and possible downsizing. The recession affects nonprofits in several ways:

- Immediate downward pressure on government, philanthropic and discretionary individual revenue sources
- Limited and/or more expensive access to credit
- Increasing demand for basic and critical human services
- “In early and out late” – the nonprofit sector may have begun to feel the recession early, and may come out of the recession late in the cycle.

A national survey conducted by the Nonprofit Finance Fund showed that few nonprofits expect to cover their operating expenses this year. A majority anticipates the recession will have a long-term or permanent negative effect on their organizations. Many organizations in the study said they are taking steps to adjust, including cutting programs, reducing salaries and delaying paying vendors.

The recent Silicon Valley Council of Nonprofits (SVCN) surveys on local nonprofit health and human service agencies on the economic issues facing nonprofits showed:

- Rising concern about massive cutbacks from traditional government funding sources and the reduced level of services to those living in poverty.
- Increased client needs over last year.
- Concern about layoffs and staff downsizing in the nonprofit sector.
- The overall number of individual donors has increased over last year, while overall giving is down.
- Corporate giving drastically down from last year and is expected to continue downward well into next year due to the downsizing of many local corporations.
- Foundation giving seems to have had the greatest impact on support for emergency assistance for food, clothing, and housing assistance agencies.

Nonprofits are facing their own economic downturn, and are under immense pressure to stay afloat in these challenging economic times: layoffs, furloughs, and staff reductions throughout the sector, increased need for training of nonprofit leaders to understand the legal requirements and ramifications for downsizing as well as how to create a positive work environment. Others need help to pursue restructure, merger or program collaborations to create new efficiencies, reduce redundancies and ensure continued service to the community.

II. Purpose of the Project

The purpose of this project is to provide support for educational sessions and grants to nonprofits who are considering transition activities such as mergers, acquisitions, consolidations through the establishment of the 2009-2011 Silicon Valley Nonprofit Effectiveness Fund. This broad timeline will ensure that funds and training will be available to both nonprofits who are currently considering transitions and those who require training and coaching before they will be ready to apply for funding.

The Fund will be available over a two-year period for transition training and funding to the nonprofit sector in Silicon Valley. The goal of the Fund is to help nonprofits reduce the costs and time spent on administrative work, as well as increase productivity and will support serious transition planning efforts, consultants, due diligence, and other expenses related to transition, restructuring or merger.

III. Description of Project

A. Educational Sessions/Workshops for Nonprofits

To help organizations learn more about gaining organizational efficiencies and nonprofit strategic re-structuring or mergers, United Way Silicon Valley (UWSV) will sponsor a series of workshops as part of the Fund. Topics to be covered in the workshops will range from the basics of nonprofit partnerships to assessing an organization's readiness for a merger. Two set of workshops will be delivered, one in Fall 2009 and again in Spring 2010.

UWSV will hire consultants with expertise in these topics to deliver the actual sessions. UWSV will be soliciting input from the nonprofit sector for ideas on how best to implement this component of the project: timing, length of sessions, format, etc.

B. Grant Funding to Individual Organizations

A total of \$400,000 of Packard Foundation support is available to provide individualized grants to nonprofit organizations for activities that would help organizations rethink and regroup in response to the downturn in the economy. The Applied Materials Foundation has contributed an additional \$50,000 to support this aspect of the Fund's work for a total of \$450,000 to be granted out over a two year period.

Applications for funding will be accepted on a rolling basis between mid-September 2009 and June 2011. It is recognized that transition activities, especially mergers and acquisitions, are usually a longer process that requires more time for planning and development. (as indicated above)

Goal of the Grant Funding

Grants will be provided to nonprofits to support serious transition planning efforts, consultants, due diligence, and other expenses related to the following activities:

- Merger/acquisition/consolidation
- Service delivery joint ventures
- Back office collaborations (including rent, equipment, group insurance, joint purchasing, and centralizing human resources, payroll, and benefits administration and financial and grants management)
- Dissolution (voluntary/involuntary)
- Bankruptcy/reorganization
- Post-merger integration or closure costs

Note: This fund is not available for normal capacity building or strategic planning

Who will be eligible to apply?

Nonprofit tax-exempt direct service health and human service agencies, visual or performing arts and environmental organizations serving the residents of Santa Clara County will be eligible to apply. (Affiliation with United Way Silicon Valley not required.)

How much funding will be available in the grants?

Grant sizes will range from \$10,000 to \$30,000 and will be used in the areas of exploration, negotiation, and integration planning. Nonprofit organizations can apply for a second round of funding should additional funds be required for the execution of their transition plan.

What will applicants be expected to provide?

To be considered for a grant, organizations will complete and submit a letter of inquiry form (LOI) which will be reviewed and selected by UWSV staff. Select organizations would then be invited to apply and submit a full application which details key considerations including but not limited to:

- Evidence of buy-in from staff, board, and constituencies
- Clear and realistic expectations of benefits/risks
- What niche/role organization(s) serves in local and regional needs
- Mission compatibility
- Relative competitive position
- Financial strengths
- Cultural fit, including board and staff compatibility
- Awareness of obstacles such as asset restrictions, endowment/bequest issues, current liabilities, deferred revenue, and other legal barriers

When and how will the application process begin?

Beginning in mid-September, interested nonprofit organization can contact UWSV staff to commence an initial intake process. During this call, UWSV staff will determine the readiness of the applicant. UWSV may recommend legal, technical and/or financial consultation before the submittal of a LOI. If selected, the applicant will be invited to submit a full application. Applicants will be encouraged, but not required, to use consultants from a list of firms recommended by UWSV staff because of their interest in supporting the Fund, and their experience in this community.

Additionally, UWSV will consult with an independent advisory board on individual applications. This group will include representatives from the corporate, nonprofit, and philanthropic sectors. Corporate sector representatives will bring expertise in mergers & acquisitions, law, and finance, and will provide skill-based expertise and consultation to UWSV on individual applications.

Once a grant decision is made, UWSV will contact the applicant organization regarding determination and a check will be processed within 14 days. The anticipated application approval process will take no more than 45 days. All decisions by UWSV will be final and there will be no appeal process.

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