

Helping charities live, die

Chicago Community Trust provides funding for groups looking to join forces

Chicago's largest donor to local charities also is helping some go out of business.

During the past five years, the Chicago Community Trust has helped more than 100 nonprofit groups with costs associated with a closing, merger or consolidation of back-office functions. What began as a one-off grant has grown into a \$500,000 annual program, for which the trust accepts applications three times a year from groups seeking financial help with an acquisition or partnership.

Examples include Seguin Services and the United Cerebral Palsy Association of Greater Chicago, which plan to finalize their merger July 1; Aunt Martha's Youth Service Center and the South East Alcohol and Drug Abuse Center, which merged in July; and the Center on Halsted and Howard Brown Health Center, which serve the gay community and are working to reduce duplication in their services. (They have no plans to merge.)

"We're still on the front

end of this," said Terry Mazany, CEO of the Community Trust. "Realistically, there are dozens of groups that are going to have to take a serious look at their sustainability."

The alternative is to follow Jane Addams' Hull House Association, which abruptly closed last year. The trust helped pay for the transfer of some of Hull House's programs to two nonprofits.

Many private foundations decide how much money to give away based on their financial performance over the last three years. That means the full brunt of the 2008 financial crisis, which shrank foundations' investment income, was not felt until 2011. For a while, stimulus dollars were pouring in.

"The business analogy is that when sales dry up for automobiles, Ford and GM immediately shut down production, and people are out on the streets on short notice, whereas in nonprofits, you have had this cushioning that has allowed for a more prolonged reduction," Mazany said.



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However, he blamed most local nonprofit failures on late payments from the state. The Illinois comptroller's office said it was holding \$6.7 billion in unpaid bills as of Thursday, meaning these payments have been approved, but the state is awaiting money to make them.

"The delay in state funding is the difference between survival and closing," Mazany said. "These groups could struggle forward and continue to operate, but the death blow is the delayed payment which causes them to no longer make payroll."

Mazany said the downward spiral is often drawn out. First, a nonprofit reduces staff; then it negotiates a new or larger line of credit; and it sells assets, such as land or buildings. Meanwhile, the board and top leadership tries to reduce the nonprofit's reliance on government

funding by hiring a more skilled fundraiser who can cultivate affluent donors and foundations.

Jim Lewis, a senior program officer at the Chicago Community Trust who oversees the merger-related grants, said negotiations must begin before the situation gets dire because a large debt load is "a show-stopper." Mazany said the ideal time is when a nonprofit's chief executive has left or is retiring.

"Mergers don't occur for two reasons," he said. "One is a lack of board leadership. The other is reluctance on the part of the executive director — because one of the two executive directors is going to merge himself out of a job."

Paul Dulle's desire to retire after 20 years atop Chicago's United Cerebral Palsy Association prompted its merger.

"I said to our board, rather than do a search committee to replace me, why don't we look for a partnership ... that would benefit those we serve," Dulle said. "I also didn't want to be in the position of a Hull House and need to find new resources. We did this when we're both very, very strong"



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Chicago Community Trust CEO Terry Mazany says late payments from the state have hurt many nonprofits.

United Cerebral Palsy and Seguin serve people with disabilities. United Cerebral Palsy has a better-known brand. But Seguin is much larger, with an annual budget of about \$27 million compared with UCP's \$9 million. The merger has taken three years, culminating in a series of agreements covering staff levels to board composition.

"There has to be a real assessment of what it's going to take to really stand up the merger," said Maria Wynne, CEO of the Girl Scouts of Greater Chicago and Northwest Indiana, the product of a 2008 merger strategy mandated nationwide by its headquarters. "A lot of people think mergers immediately equal savings, and that's not the

case. In fact, you have to invest (at first)."

Mazany said it would be improper for the Community Trust, which gave away more than \$170 million in 2012, to pressure a grant recipient into a merger or intervene in merger talks. He just wants groups to know that money is available.

"We would be out of line to even consider intervening," he said. "But I'm very pleased to see that the pace of mergers and acquisitions has picked up. It's a reflection of the realities of the sector, and it will make for a stronger sector."

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