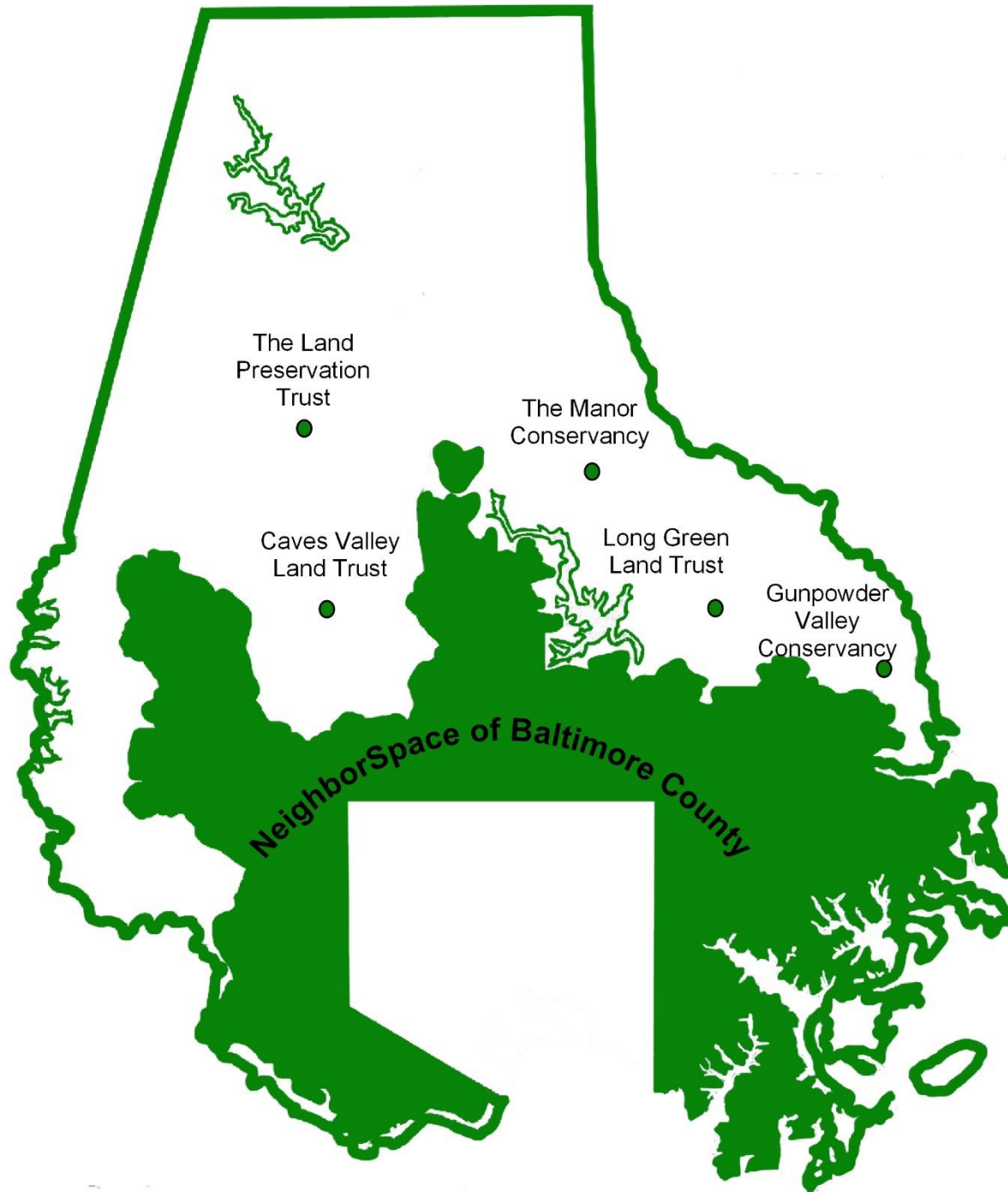


# **HOW THE OVERHEAD MYTH HURTS NONPROFITS AND WHAT CAN BE DONE ABOUT IT**

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Barbara L. Hopkins, Esq., ASLA, Executive Director  
NeighborSpace of Baltimore County, Inc.



The Land  
Preservation  
Trust

The Manor  
Conservancy

Caves Valley  
Land Trust

Long Green  
Land Trust

Gunpowder  
Valley  
Conservancy

**NeighborSpace of Baltimore County**

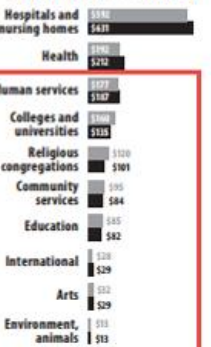


NPQ's Illustrated

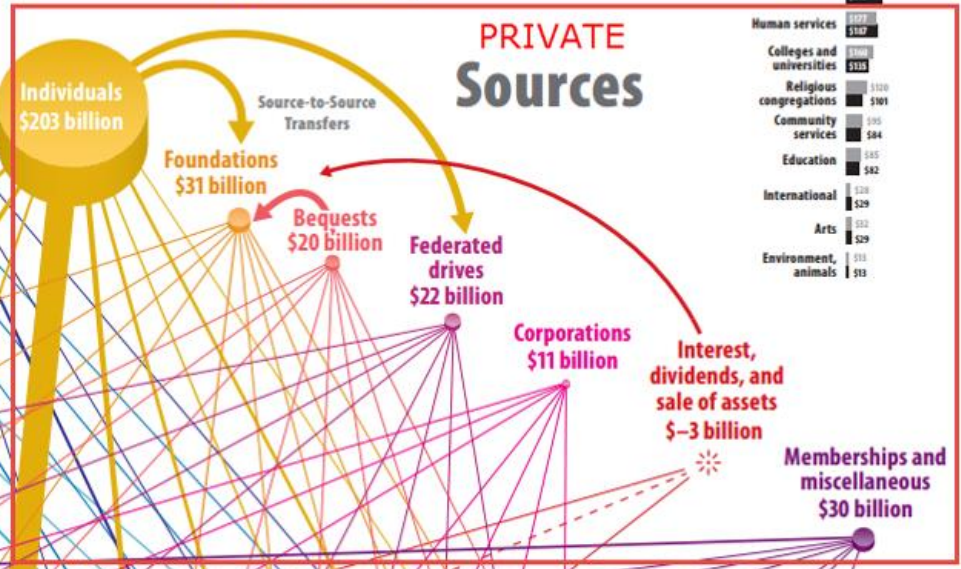
# Nonprofit Economy

2nd Edition

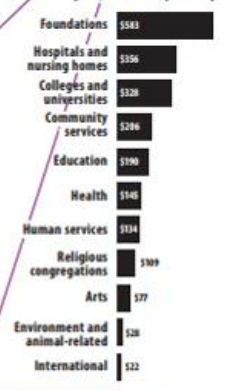
Revenue Growth  
(inflation adjusted  
in \$ billions; 2006, 2009)



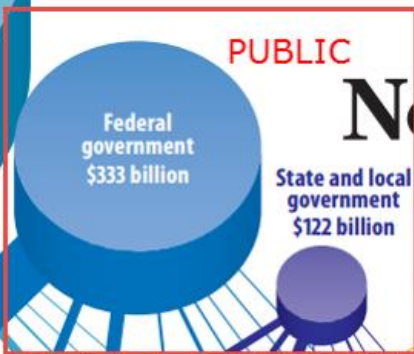
## PRIVATE Sources



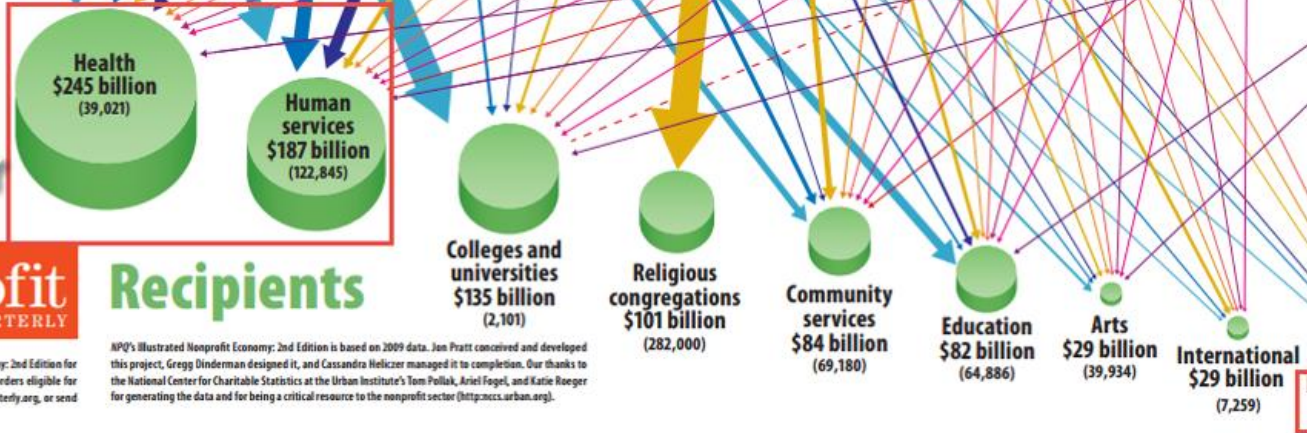
## Net Assets (in \$ billions, 2009)



Program fees from private sources  
\$734 billion



## Recipients



Hospitals and nursing homes  
\$598 billion  
(5,463 organizations)

THE Nonprofit QUARTERLY

NPQ's Illustrated Nonprofit Economy: 2nd Edition is based on 2009 data. Jon Pratt conceived and developed this project. Gregg Dinderman designed it, and Cassandra Heliczer managed it to completion. Our thanks to the National Center for Charitable Statistics at the Urban Institute's Tom Pollak, Ariel Fogel, and Katie Roeger for generating the data and for being a critical resource to the nonprofit sector (<http://nccs.urban.org>).

Get copies of NPQ's Illustrated Nonprofit Economy: 2nd Edition for your next event: 1 for \$5.00; 5 for \$10.00; bulk orders eligible for greater discounts. Order at [www.nonprofitquarterly.org](http://www.nonprofitquarterly.org), or send an e-mail to [feedback@npqmag.org](mailto:feedback@npqmag.org).

# CHOOSE TO IMPROVE

PRACTICAL STRATEGIES FOR GROWING A SMALL NONPROFIT



[www.choosetoimprove.org](http://www.choosetoimprove.org)



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MARCH 21, 2019

GOOGLE FOR NONPROFITS: WHY IT MAKES SENSE FOR A SMALL ORGANIZATION

FEBRUARY 14, 2019

HOW TO THANK NONPROFIT DONORS

JANUARY 13, 2019

A GIVING TUESDAY CAMPAIGN PRIMER FOR SMALL NONPROFITS

NOVEMBER 14, 2018

FROM APPS, TO BOOKS, TO DIAGRAMS, AND WEBSITES, GET MY LIST OF 20+ ESSENTIAL TOOLS FOR GROWING A SMALL NONPROFIT

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### FUNDRAISING



### MANAGEMENT & LEADERSHIP



### MARKETING



### PERSONAL GROWTH & PRODUCTIVITY



### RECOMMENDED RESOURCES

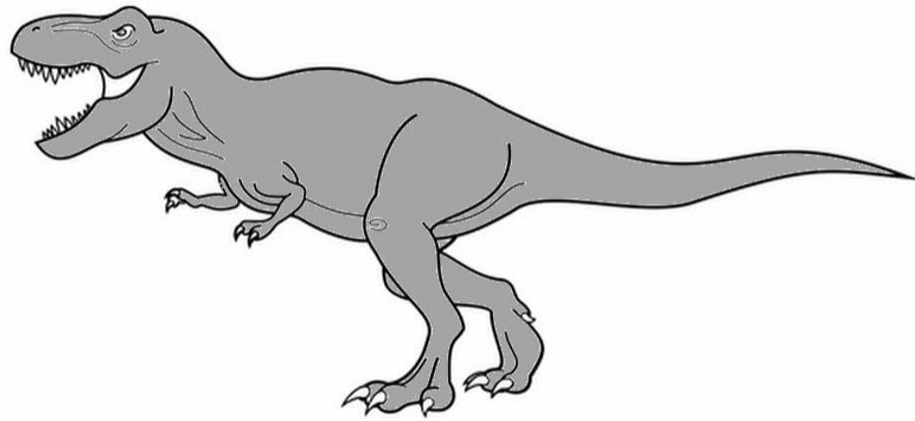


### SOFTWARE



### STRATEGIC PLANNING

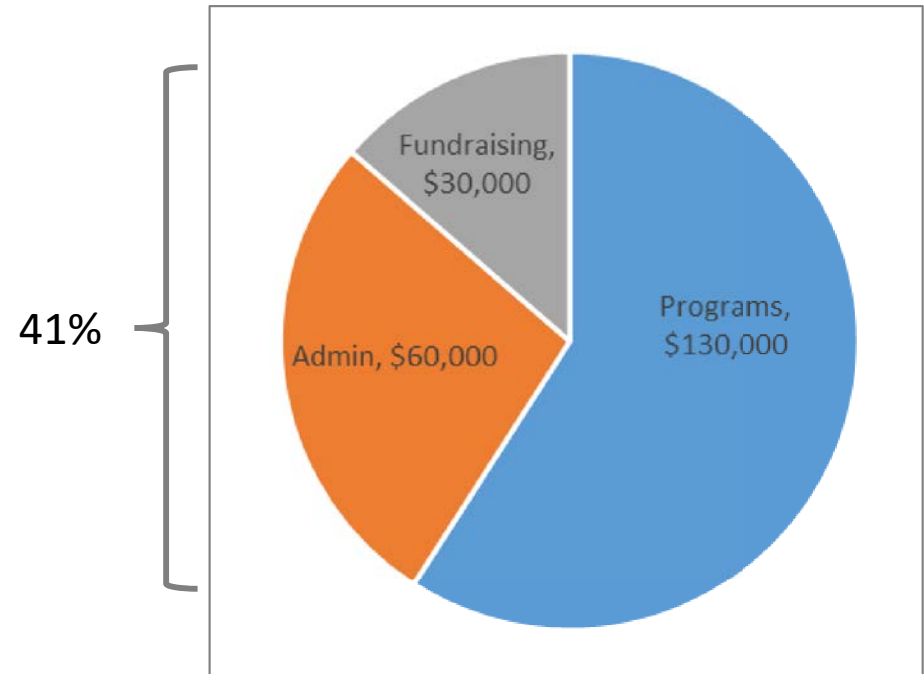
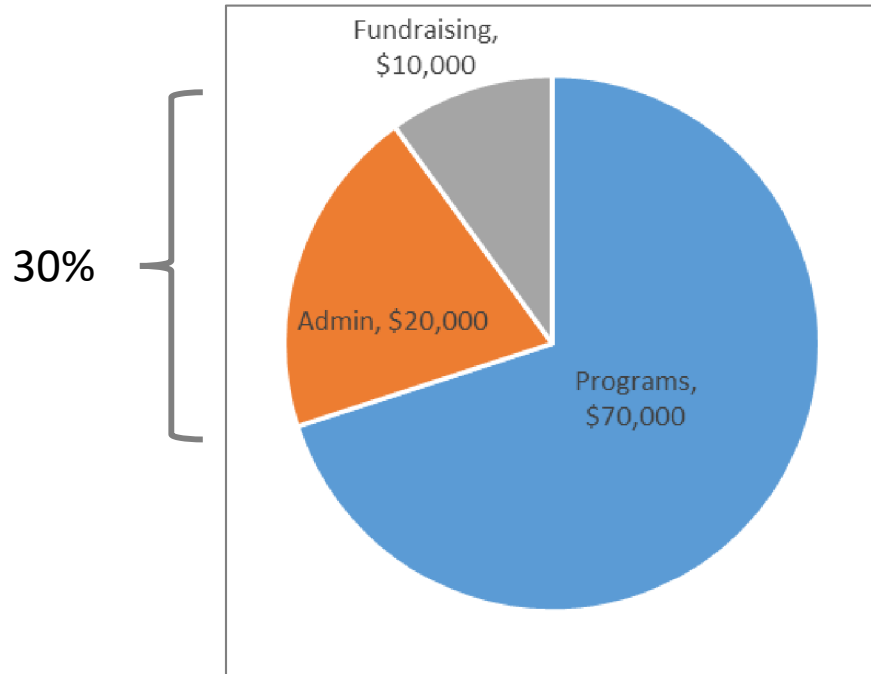


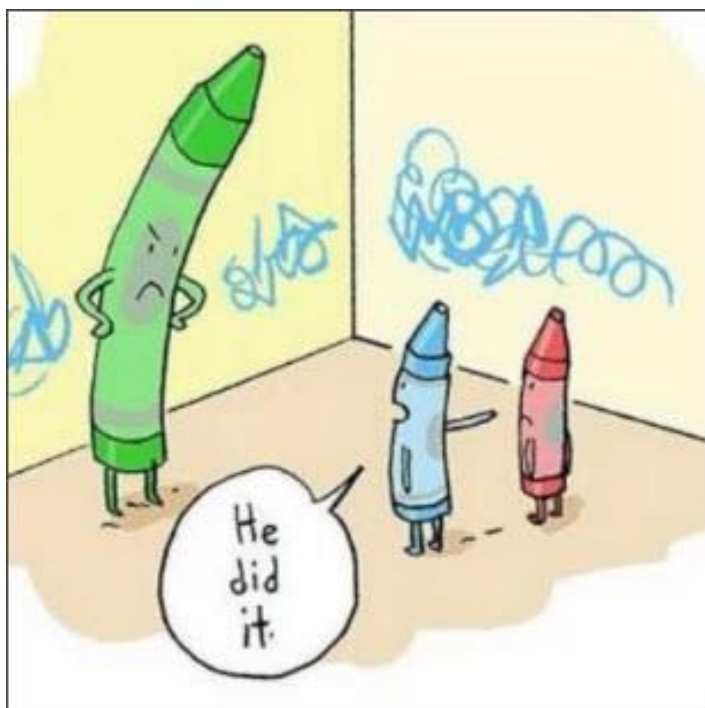


**It is not necessary to change.**



# THE MYTH





“To get the biggest bang for the buck, CharityWatch advises, consumers should donate to charities that use at least 75% of donations for direct aid. The Red Cross, at 91%, is well above that mark.” (CNN Money, 2013)

“The Better Business Bureau mandates that charities spend at least 65 percent of total expenses on program activities.” (NBC News, 2015)



(UNICEF WEBSITE, 2019)

**89% of every dollar spent goes directly to help children.**

THE MYTH

ITS ORIGINS

HARM DONE

DEBUNKING

CASE STUDY

# 62%

... of all Americans believe the typical charity spends more than it should on overhead (Giving Evidence, 2013).



*"Uncharitable is the most courageous and necessary of all of the recent books that have been written about philanthropy and the nonprofit sector."*

—Bill Shore, Founder & Executive Director, Share Our Strength

# UNCHARITABLE

HOW RESTRAINTS ON NONPROFITS UNDERMINE THEIR POTENTIAL



**DAN PALLOTTA**

THE MYTH

**ITS ORIGINS**

HARM DONE

DEBUNKING

CASE STUDY



*Pilgrims Going to Church* by George Henry Boughton

THE MYTH

**ITS ORIGINS**

HARM DONE

DEBUNKING

CASE STUDY





THE MYTH

ITS ORIGINS

HARM DONE

DEBUNKING

CASE STUDY



THE MYTH

**ITS ORIGINS**

HARM DONE

DEBUNKING

CASE STUDY

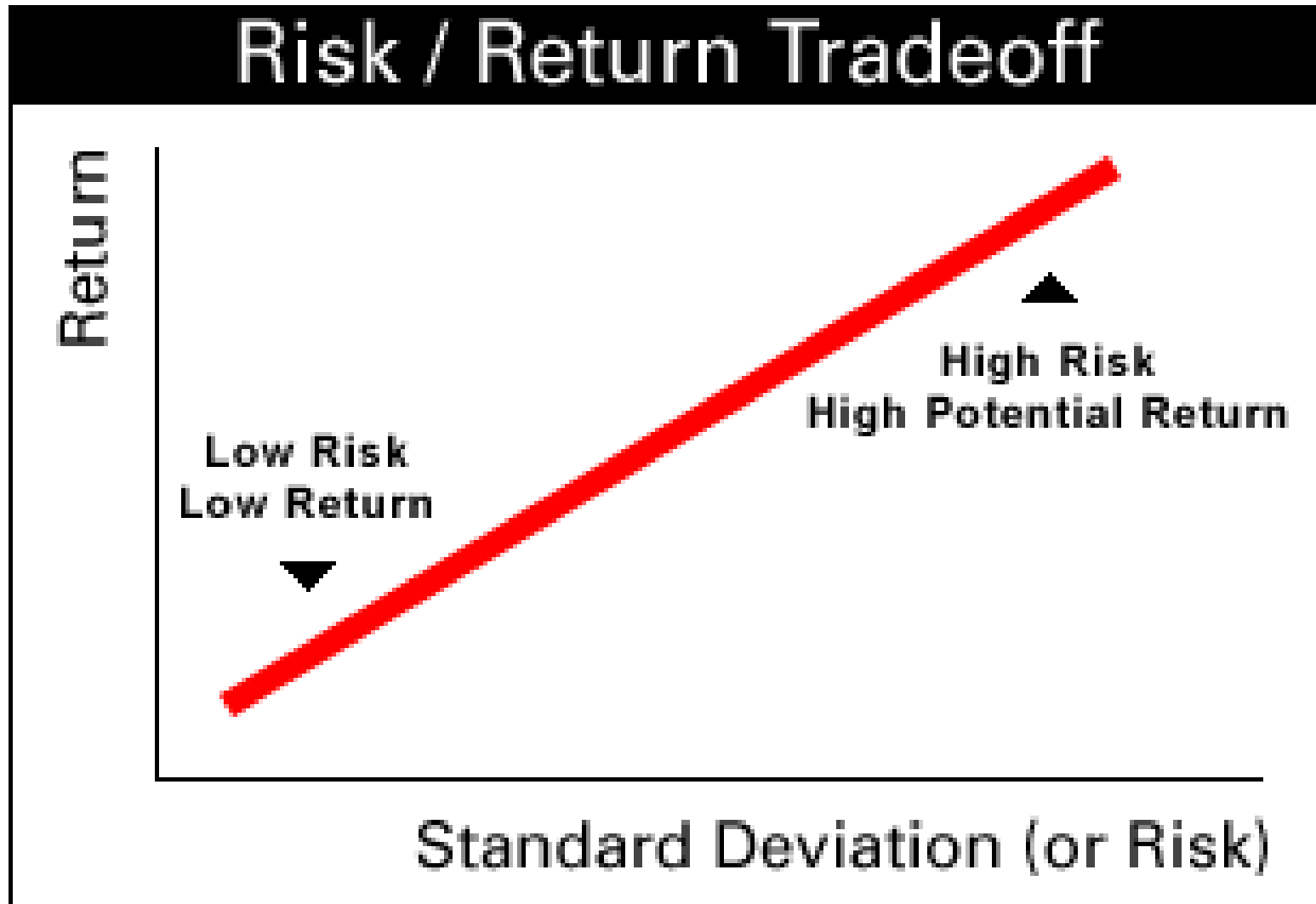


# TENETS BEHIND THE MYTH

1. **Compensation in the nonprofit sector should not be tied to value produced, as it is in the for-profit sector.** People who want to work in the nonprofit world should be more interested in the good they can do than the money they can make.



2. **Charities should not take risks or make mistakes**, even though we know that taking risks in pursuit of new ideas is often needed to generate new revenue, i.e. a return.



3. **No one should seek to earn a profit or hold any portion of donated dollars back to help with scaling projects up**, even though we know it can take years to bring projects to scale.



THE MYTH

ITS ORIGINS

HARM DONE

DEBUNKING

CASE STUDY

4. **Charities should not waste money on expensive advertising or marketing, even though that is what is needed to attract more donations for the cause.**





5. **Charities should maintain a low overhead percentage.** This is the only way to know that any good is being done.

**THEN**

**IF**

$$\frac{(\text{ADMIN} + \text{FUNDR COSTS})}{\text{TOTAL COSTS}} \leq 30\%$$



***“The nonprofit sector is being suffocated by a morality imposed from the outside and reinforced from within. It is based on methods instead of outcomes and it is killing people. I don’t believe there is any cause more important than the eradication of this thinking, because it stands in the way of eradicating many of the great problems confronting humanity.”*** D. Pallotta. *Uncharitable: How restraints on Nonprofits Undermine Their Potential*. (Tufts University Press: 2013).

# THE MYTH UNDERCUTS EFFECTIVENESS

1. Solving huge problems requires talented staff and the ability to rally others to the cause through investments in marketing and fundraising.

*“Social problems are massive in scale, our organizations are tiny up against them, and we have a belief system that keeps them tiny. We have two rulebooks. We have one for the nonprofit sector, and one for the rest of the economic world. It’s an apartheid, and it discriminates against the nonprofit sector.”*

*D. Pallotta. *Uncharitable: How restraints on Nonprofits Undermine Their Potential*. (Tufts University Press: 2013).*

# THE MYTH UNDERCUTS EFFECTIVENESS

2. It causes nonprofits to waste valuable time and resources accounting for functional expenditures.



THE MYTH

ITS ORIGINS

**HARM DONE**

DEBUNKING

CASE STUDY



# THE MYTH UNDERCUTS EFFECTIVENESS

3. Government funders are often the worst offenders.

*“Nonprofits with the weakest organizational infrastructures relied on the public sector for half or more of their revenue, and the public sector practice of providing little support for overhead costs was directly related to the existence of those weaknesses.”* National Council of Nonprofits (2013).



THE MYTH

ITS ORIGINS

**HARM DONE**

DEBUNKING

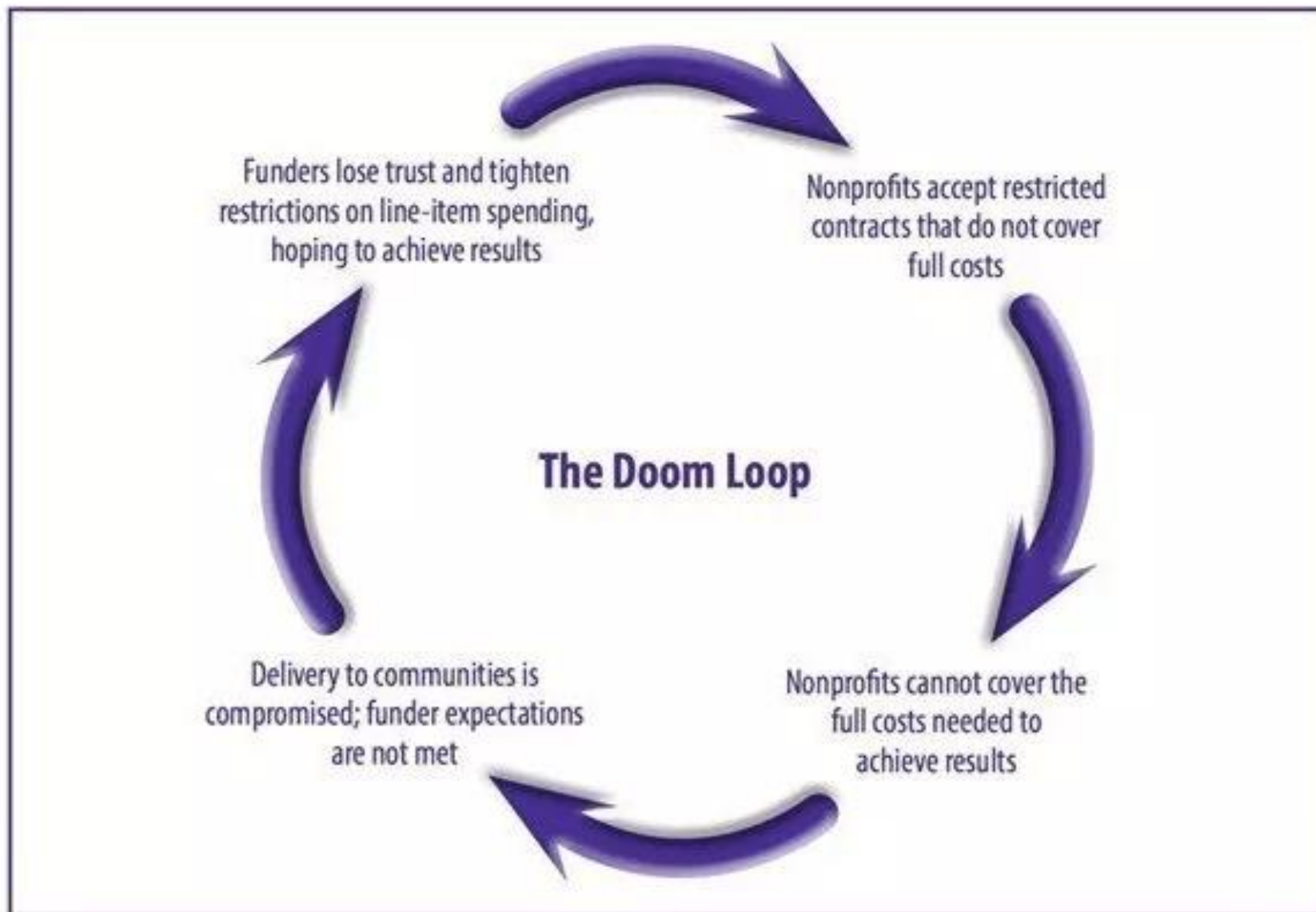
CASE STUDY

# THE MYTH UNDERCUTS EFFECTIVENESS

*The replacement costs to governments – that is, how much it would cost taxpayers for governments to try to replicate the work of nonprofits – would likely be exorbitant. GAO. “Treatment and Reimbursement of Indirect Costs.” (2010)*



# THE MYTH UNDERCUTS EFFECTIVENESS



*In the end, efficiency measures methodically institutionalize the challenges we seek to correct because they:*

- Prevent charities from investing adequately in infrastructure,*
- Discourage them from hiring the talent they need,*
- Penalize them for courage and reward them for timidity,*
- Prevent them from pursuing long-term vision,*
- Discourage them from investing in advertising to build demand, and, if given the chance,*
- Penalize them for paying a return on investment capital.*



# DEBUNKING THE MYTH

1. **Show donors your unique value.** Use your marketing channels to convey what makes you unique in terms of the services you provide, the location in which you provide them, and/or your track record. (See ChoosetoImprove.org for an article on developing your “unique selling proposition.”)



2. **Demonstrate Ethical Practice.** Show documents on your website & via other marketing channels that demonstrate transparency, such as your strategic plan, annual reports, program activities, governing board rosters, financial statements, and IRS 990.

## NS “Team & Financials” Webpage

### WE'RE AN OPEN BOOK

As a qualified, nonprofit land trust that is exempt from taxation under Section 501(c)(3) of the federal Internal Revenue Code, we want you to know that we think carefully about how to spend the resources at our disposal annually, information that you can find in our **Strategic Plan**. We account for those expenditures in our annual nonprofit tax return, known as the **IRS 990** and in our **Annual Report**. Finally, as a recipient of 20 percent of the fees collected under Section 32-6-108 of the County Adequate Public Facilities Ordinance, we have a responsibility to let you know how those funds were spent, information that you can find in our annual **Report to the Legislative Auditor**.



FY 2018 - FY 2019 Strategic Plan



FY 2017 IRS 990



FY 2018 Annual Report



FY 2018 Report to County Auditor

## MARSHA MCLAUGHLIN

*Board Vice President and Co-chair of the Stewardship Committee*

Marsha is a retired planner having served for many years as the Director of Planning for Howard County, MD. She lives in Lutherville.



## JOHN V. MURPHY

*Board Member*

John is an attorney who lives in Catonsville.



## KLAUS PHILIPSEN

*Board President*

Klaus is an architect and transportation planner who lives in Catonsville.



**3. Share Data about Your Performance.** Share data about goals, strategies and outcomes using metrics that best fit your organization.

<p><b>EFFORT</b></p>	<p><b>QUANTITY</b></p> <p><u>How Much?</u></p> <ul style="list-style-type: none"> <li>• Number or acres protected</li> <li>• Number of site visits per week</li> <li>• Carbon sequestered by protected forest</li> </ul>	<p><b>QUALITY</b></p> <p><u>How Well?</u></p> <ul style="list-style-type: none"> <li>• Percentage of properties with a management plan</li> <li>• Percentage of properties developed w/parks, trails, or other amenities</li> <li>• Percentage of total runoff retained on site</li> <li>• Percentage of prime &amp; productive soils acreage protected.</li> </ul>
<p><b>EFFECT</b></p>	<p><u>Better Off?</u></p> <ul style="list-style-type: none"> <li>• % change in assessed values of surrounding real estate 5 years after park development.</li> <li>• Bushels of food harvested</li> </ul>	

Friedman, M. *Trying Hard is not Good Enough*. (FPSI Publishing, 2005).

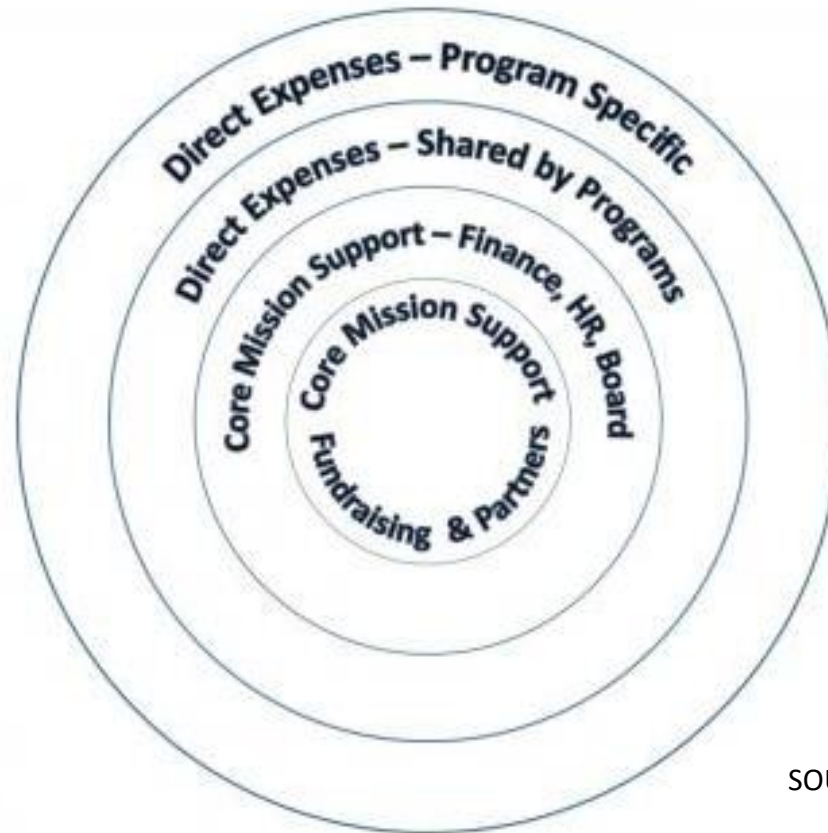
Landscape Architecture Foundation. *Landscape Performance: a Guidebook for Metrics & Methods Selection* (2018).

Land Trust Alliance. *Flexible Framework for Evaluating Community Conservation*. (2017).



**4. Manage Toward Results and Understand True Costs.** Monitor & report on results, paying particular attention to outcomes, i.e., “How Well” and “Better Off.”

Once you are able to accurately measure your results, analyze the direct and indirect costs of achieving them. Rather than thinking of investment in key infrastructure as diminishing programs, it should be seen as valuable CORE MISSION SUPPORT.

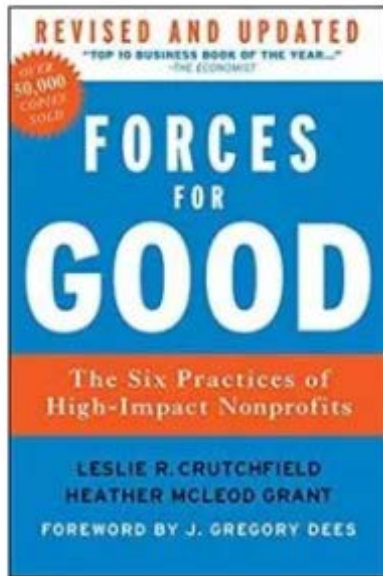


SOURCE: Propel Nonprofits, 2016

## 5. Show Your Board and Funders How spending on Overhead is Making a Difference.

- Outline expenditures that improve sustainability and better able you to serve your mission. (Good resource is [Nonprofit Starvation Cycle](#), which details how robust infrastructure supports organizational success).
- Talk about your staff and how what they do contributes to your mission, as appropriate, in marketing materials.

NeighborSpace Newsletter Article Excerpt, April 22, 2019

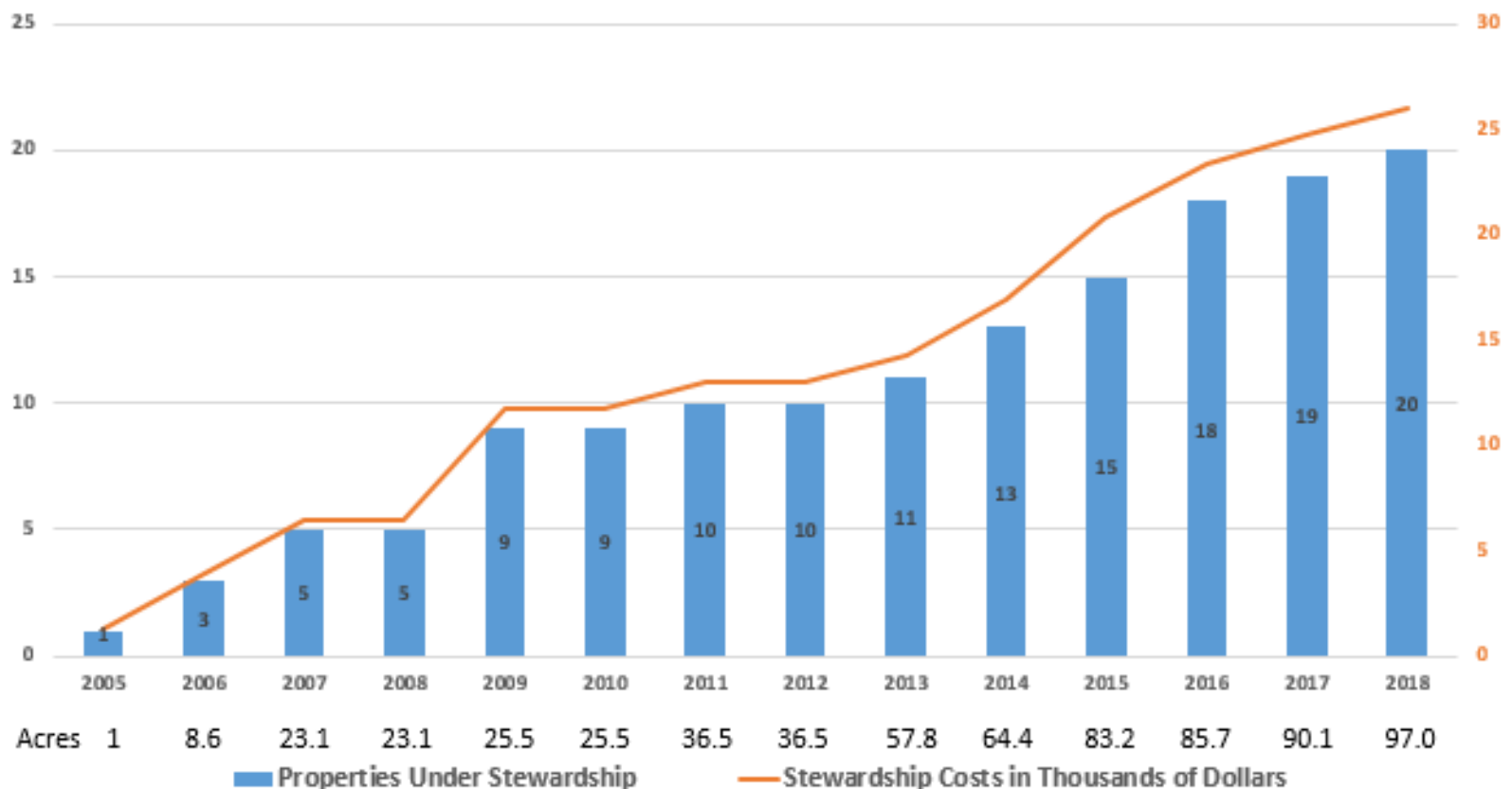


In the course of **blogging** about how to help small nonprofits like NeighborSpace grow and become more impactful, I came across a book entitled, *Forces for Good: The Six Practices of High-Impact Nonprofits*. In it, authors Leslie R. Crutchfield and Heather McLeod Grant show that perfect management, brand awareness, breakthrough ideas, textbook mission statements, overhead ratios and large budgets are not the best measures of what makes for a great nonprofit. The best measure, it turns out, is the extent to which a nonprofit can mobilize government, business, nonprofits and the public to be "forces for good."

With the addition of a new staff member in the person of Patrick Filbert, NeighborSpace has been able to begin to do the kinds of things that Crutchfield and Grant suggest are fundamental to nonprofit impact. Let me explain.

6. **Educate Funders about the Real Cost of Results**, including day-to-day operating expenses (both program and overhead expenses) plus a range of balance sheet costs for short-term and long-term needs. (Good resource is [Overhead Myth Outreach Toolkit](#))

### The Ever-increasing Cost of Protecting Public Open Space in Perpetuity



# CASE STUDY

Prior to December 2018, §32-6-108(f)(3) of the Baltimore County Code read as follows:

*“The director shall allocate 20 percent of any cash fee collected under this section to Neighborspace of Baltimore County, Inc. Neighborspace may use 30 percent of the allocated funds for operating costs, at the discretion of the Neighborspace board of directors. Neighborspace shall file an annual report with the county auditor detailing the use of the funds allocated to the corporation. “*



# UNIQUE VALUE

58% of residences inside the URDL have insufficient access to open space. 6.5% have no access at all. This is based on applying the 1,000 square feet of open space per dwelling unit standard to all existing residential area within Baltimore County's Urban Rural Demarcation Line.

This map is for informational purposes only.

Data Sources:

Maryland Department of Planning:

Maryland Property View: parcel points

Baltimore County Department of Information Technology:

URDL, Parcels, Road Centerlines

US Census: TIGER Water Area

Prepared: 01/17/2017

Analysis & Cartography by:

Thayer Young, Gray to Green Intern

Neighborspace of Baltimore County, Inc.

## Access To Open Space Within a 1/4 mile Radius of Each Dwelling Unit

Thousands of Square Feet Open Space per Dwelling Unit

- No Access
- Insufficient (< 1)
- Sufficient (1 to 4)
- Plentiful (> 4)

No residential parcels

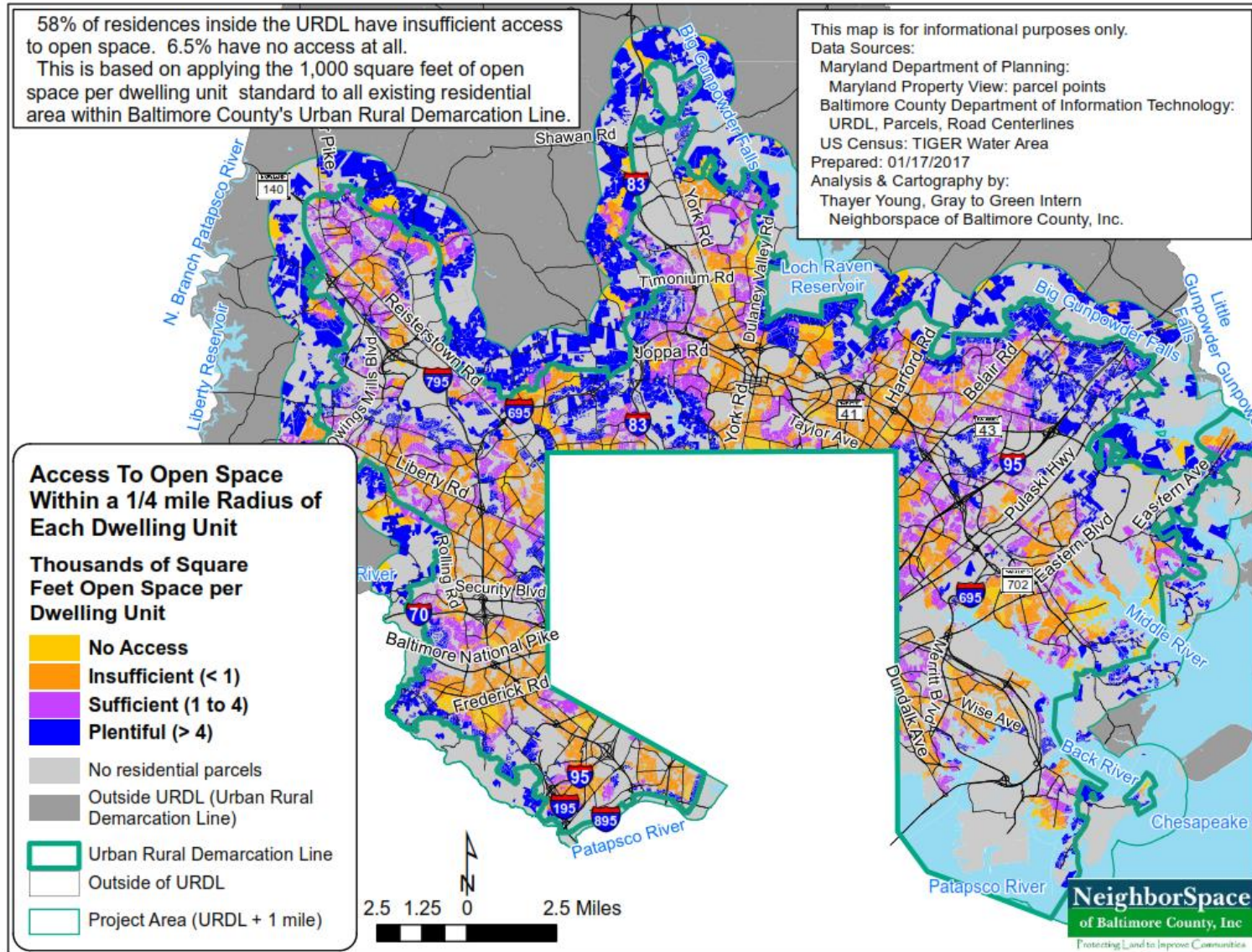
Outside URDL (Urban Rural Demarcation Line)

Urban Rural Demarcation Line

Outside of URDL

Project Area (URDL + 1 mile)

2.5 1.25 0 2.5 Miles



**NeighborSpace**

of Baltimore County, Inc.

Protecting Land to Improve Communities

THE MYTH

ITS ORIGINS

HARM DONE

DEBUNKING

CASE STUDY



# Performance



THE MYTH

ITS ORIGINS

HARM DONE

DEBUNKING

CASE STUDY





Pre-demolition (2012)



The Same View -  
1 Year Later



THE MYTH

ITS ORIGINS

HARM DONE

DEBUNKING

CASE STUDY

# SWEAT EQUITY

[swɛt 'ɛkwəti]

Party's contribution to a start-up in the form of human effort (vs. capital investment).



# Understanding True Costs

An estimate of the true annual cost of running NeighborSpace, with the strong organizational structure that is essential for its sustainability, is as follows:

Land acquisition/Improvement:	\$100,000
Two full-time staff with benefits:	152,950
1 part-time admin staff:	27,000
Operating expenses (including rent, stewardship, & other expenses):	<u>70,000</u>
<b>TOTAL:</b>	<b>\$349,950</b>

# The Businessman's Retort:

A traditional view about what makes a good nonprofit used to go something like this:

the best charitable nonprofits were those that spent the least on indirect costs – that is, costs for such things as accounting, information technology, human resources, training, governance, and management. The same thinking has rarely been applied to for-profit businesses, where such expenses are accepted as essential for creating more efficient and more effective organizations that produce better outcomes. Yet public policies and community attitudes have historically believed that if nonprofit organizations incurred any similar costs, then they were somehow inappropriately diverting resources from direct service delivery.

Now tell me, honestly, who doesn't think this is **CRAZY?**