

Chicago-area charities urged to merge as financial woes deepen

By: Brigid Sweeney - November 15, 2010

A one-two punch of shrinking government funding and lagging private donations is ratcheting up pressure on local charities to find merger partners.

In the remainder of fiscal 2011 and especially in fiscal 2012, "there will be even more substantial budget cuts that will cause (human services) agencies to either dramatically transform or go out of business," says Terry Mazany, president of the Chicago Community Trust. The organization set aside about \$275,000 this year to help spur consolidation among the charities it funds.

The touchy underlying question is whether the prosperity of the past two decades spawned too many charities. The non-profit sector enjoyed decades of unfettered growth as private donations in the U.S. more than doubled between 1987 and 2007. Non-profits registered with the IRS doubled to 1.5 million over the past 15 years. Locally, the number of non-profits in Cook County surged to 15,837 from 8,479 over the same period, the Washington, D.C.-based National Center for Charitable Statistics says.

But now charities ranging from arts councils to food banks are enduring the third year of a painful contraction triggered by the recession. Private donations to Illinois' largest non-profits declined nearly 11% in 2009, the worst drop in 20 years, according to a recent report from the Chronicle of Philanthropy in Washington, D.C.

Another blow came in the form of shrinking government funding, which makes up as much as two-thirds of some groups' budgets. States allocated 5% less in 2009 and 4% less in 2010 to pay for education, health care and human services, according to the Center on Budget and Policy Priorities, also in Washington. And states like Illinois are delaying those payments, inflicting more pain on social services agencies.

This bleak scene has brought increased calls for consolidation. In addition to the Community Trust, local non-profit consultancies like Ter Molen Watkins & Brandt LLC and Fiscal Management Associates LLC report increased interest in mergers from their clients. The United Way also is encouraging the organizations it funds to consider strategic mergers, says Laura Thrall, president and CEO of United Way of Metropolitan Chicago.

Given the sprawling and segmented nature of the local non-profit sector, it's unclear just how many organizations have joined forces recently.

One group that has is Bright Endeavors, a North Side social enterprise that uses a natural-candle company to provide job training for at-risk young women. Though co-founder Stephanie Wernet says her organization was on stable financial footing before the move, she was not able to expand beyond two staffers. A May merger with New Moms Inc., a North Side organization dedicated to helping teenage mothers, let Bright Endeavors retain its name while becoming the job-training arm of New Moms. Bright Endeavors' staff has subsequently grown to seven.

"Mergers make sense and go smoothly when the missions and visions really complement each other," Ms. Wernet says.

In 2006, Lakefront Supportive Housing, a Chicago affordable housing provider, joined with Mercy Housing, a national affordable housing developer. The merger helped Mercy enter the Chicago

market while boosting Lakefront's local housing development pipeline to 750 units from 250 and its development fees to \$1.5 million from \$460,000, says Cindy Holler, Mercy Housing Lakefront's president.

There also have been partial combinations, like the 2008 decision by nine of Chicago's largest charities, including the YMCA, YWCA and Hull House, to merge back-office functions. The move was expected to yield annual savings of up to \$20 million within five years.

RELUCTANT RESCUERS

Most watchers, however, say mergers are harder to pull off in times of crisis. Though the Chicago Community Trust is working on eight potential deals, it hasn't brokered a single merger this year or last. The tough reality is that struggling charities make unattractive partners.

When one organization has reached a crisis point, a potential ally battling fiscal woes of its own is often reluctant to come to the rescue, says Jim Lewis, the senior program officer at the Community Trust who oversees the merger push.

Many charities are "already cut to the bone," adds Trinita Logue, president and CEO of Chicago-based IFF, which provides financing and advice to non-profits. "There's nothing left to merge."

Ms. Logue points out that many human services agencies must meet specific ratios, set by the state, of employees to people served. If two agencies have cut staff to the breaking point, bringing the two together might require adding staff to meet requirements and handle the larger infrastructure.

"Most of us are already so efficient by now that we don't have a full-time HR person or other back-office support that could be streamlined," says John Pfeiffer, CEO of Inspiration Corporation, a local hunger-fighting organization that has merged twice in the past decade. He says combining funding sources is also a problem because donors who have funded two individual organizations do not generally give the same amount after the two merge.

Still, Mr. Lewis of the Community Trust says merging is the only hope for some.

"So far most everybody has scraped by on their own," he says. "But a lot of organizations can't hold out much longer."