

# Earned Income Strategies as a Path to Finance Growth and Innovation

By Spence Limbocker

Foundations that support community organizing often critique grassroots nonprofits for not developing long-term funding strategies or diversifying their funding bases. Most of these groups limit their fundraising to foundation grants, membership dues and government grants, supplemented by the occasional fundraiser and individual donor relationship. Most leaders of these organizations, like most nonprofits, don't have the time or resources to develop new and innovative funding streams. But as long as community groups are totally dependent on grants from foundations and other funders, they will be controlled by the whims of their major supporters and the ups and downs of the stock market. This is why it is important that community organizing groups develop a diversified funding base and that grantmakers support these efforts.

Earned income strategies take many forms in the nonprofit world, but in

general they involve setting up a business spin-off that complements an organization's work. Earning income can be as simple as charging for services now done for free or setting up a new revenue-generating enterprise. In 2008, nearly \$1 trillion was generated from the sale of goods and services by nonprofits. While these efforts have been chiefly limited to larger and more established nonprofits such as AARP, NRA, hospitals and others, community organizing groups are slowly joining in. For example, the Industrial Areas Foundation (IAF), the oldest national community organizing network in the U.S., has been at the forefront of exploring earned income activities such as affordable rental housing in New York, BUILD's East Baltimore Equity Fund, New Jersey Together/Jersey City Revitalization Fund from the Honeywell Chromium Cleanup Settlement, Com-

mon Ground's Health Care Cooperative, Milwaukee Rising Initiative, and UrbanMatters and the Community Purchasing Alliance Cooperative in Washington, D.C., Maryland and Virginia.

The work of one IAF organization provides a blueprint for how small community-based nonprofits can harness earned income strategies – as well as how foundations can best support these efforts. Organized by Washington Interfaith Network (WIN), a multiracial membership organization and Metro IAF affiliate, UrbanMatters Development Partners is a full-service real estate development company serving the Washington, D.C. metro area. UrbanMatters (UM) grew out of WIN's Neighborhoods First Investment Campaign, a 10-year effort to secure \$1 billion to rebuild poor neighborhoods in D.C. As a for-profit venture, UrbanMatters was started by WIN and two experienced real estate development professionals.

The vision of the leaders of WIN is that, over time, UrbanMatters will generate enough income to support the organizing work of WIN and Metro IAF. After nearly five years, UrbanMatters has been able to successfully develop two very successful housing developments, 63 low- and moderate-income homeownerships, and 82 low- and moderate-income rentals, and presently has a promising housing pipeline in D.C. and Maryland, all of which will generate income for its owners. UrbanMatters also provides consulting services to a number of WIN congregations and other churches in D.C. interested



*Housing plans from UrbanMatters. Photo courtesy of Spence Limbocker.*

in housing development. It has built strong strategic partnerships with several major housing development firms and has a reputation within the city government as a company that can deliver what it promises.

While it has had a few setbacks, as any start-up business does, UrbanMatters is presently positioned to grow significantly in the next two years. In fact, it is expected that UrbanMatters will be profitable in the very near future. This would not have been possible without the early support from three foundations: Charles Stewart Mott Foundation, F.B. Heron Foundation and Annie E. Casey Foundation. They provided much of the seed capital for the start-up but, more importantly, they have been patient and willing to provide funds to support UrbanMatters during some of the rough times. The success of UrbanMatters also has depended on its relationship to WIN, its parent organization. Not only has UrbanMatters begun to recruit WIN member organizations as potential housing sponsors, but it also drew from WIN's nearly 20 years of winning victories from the city government. WIN counts some of the city's most influential and powerful churches among its membership, giving UrbanMatters political clout and credibility.

### IMPORTANT LESSONS LEARNED

In studying WIN's roll-out of UrbanMatters and the program's early years, I discovered several important lessons for a nonprofit's earned income strategy to succeed:

**1. Leadership and Staff:** *Bring together a mix of leaders with skills, experience, vision and knowledge related to the specific business venture they are building. It is also critical to bring on staff members who are personally vested in the project and committed to putting in the time and effort to make it a success.*

In creating UrbanMatters, Martin Trimble, the organizing director of WIN, was the real visionary for the project, with the entrepreneurial skills and drive to implement a for-profit real estate development business. Also critical were the two very skilled and experienced leaders of WIN, John More, a lawyer with extensive housing experience and Hazel Broadnix, who brought strong financial management and development experience, as well as investment partner Ray Nix.

**2. Mission and Vision:** *Develop a shared sense of mission and goals among the leadership and staff.*

While the organizing director of WIN had the primary vision for developing UrbanMatters, he was able to instill his vision in WIN's leadership team. This helped the organization to get back on track when it faltered.

**3. Decision-Making Processes:** *Agree up-front about how decisions will be made and monitor these processes over time to ensure that the group's needs do not hinder the business venture's ability to act quickly.*

One issue that might have made it difficult for UM to succeed was the different decision-making structures represented by both organizations. WIN, as a community organizing group, has a collaborative and deliberative process for making decisions, while UrbanMatters, as a business venture, must make decisions more quickly and with fewer individuals being engaged. To its credit, WIN leadership understood the different needs and trusted UM leadership to make the right decisions. WIN, for the most part, did not get involved in the day-to-day activities of UM and only stepped in when major decisions had to be made.

**4. Capitalization:** *Be prepared to adjust your business plan when situations occur that are completely out of your control, such as a major financial collapse or an inability to raise capital in a timely manner. Further, be ready to invest funds into the business for a much longer period of time and in a greater amount than is often planned. If applicable, consider additional profit-generating activities such as consulting and fee-for-service activities.*

UM was undercapitalized from the beginning. While its organizers successfully raised the \$750,000 in capital needed to start the venture, this money should have been accompanied by \$5 million dollars in foundation program-related investments (PRIs), as well as a \$10 million equity fund raised from financial institutions, pension funds, foundations and religious denominations. However, UM's launch coincided with the Great Recession of the late 2000s, and the sources of potential investment funds dried up. Because of this, the business venture lacked the financial strength to undertake development projects on its own.

Not many community-based groups have the resources to step in and raise funds for a business venture when expected income streams fall through. However, UM was able to recover from this blow because of its connection with WIN and its relationships with key foundations and member institutions that supplemented UM funding several times over the start-up years.

**5. Political Issues:** *If the business depends on government-supplied funds and decisions, it is important to establish a long-term capacity to win policy battles and hold those in political power to these agreements. It is also important to understand and internally work through the dif-*

## New and Renewing Members

California Wellness Foundation  
Cleveland Foundation  
Communities Joined in Action  
Evelyn & Walter Haas, Jr. Fund  
Ford Foundation  
Foundation for the Mid South  
Greater New Orleans Foundation  
Humboldt Area Foundation  
Korean American Community  
Foundation  
League of Women Voters of the  
United States  
Lumina Foundation for Education  
Mertz Gilmore Foundation  
National LGBTQ Task Force  
Native American Rights Fund  
PICO National Network  
Rosenberg Foundation  
Safe Places for the Advancement of  
Community and Equity (SPACES)  
Tecovas Foundation  
Wise Philanthropy  
Woods Fund of Chicago



Community members hired to work on UrbanMatters development projects. Photo courtesy of Spence Limbocker.

*ferent types of relationships needed between a business venture and government, which is different from the relationship between a community group and government. Constantly analyze power relationships as new actors enter the political arena to effectively engage them and get keep a constant handle on how and when to use its influence.*

The concept of UrbanMatters grew out of the victories won by WIN from the Washington, D.C., government to revitalize neighborhoods and build affordable housing. These victories were largely due to WIN's political power and its ability to organize thousands of D.C. residents through its member congregations and organizations. WIN leadership managed to hold elected officials accountable for the agreements by meeting regularly with the mayor and City Council members to pressure them to keep committed funds in the budget and to make more timely decisions.

### **6. Business Plan:** *Create a realistic business plan and adjust when needed.*

The UM leadership team developed a detailed business plan early in its organizational development. It made some assumptions in the plan that later proved to be incorrect or too ambitious. Some of them, such as the timeline for developing the equity fund,

did not take into account the recession and downturn in the economy. It also underestimated the start-up capital needed and did not anticipate the need to do significant consulting and fee-for-service work to keep income flowing into the organization.

## CONCLUSIONS

UrbanMatters has made significant achievements in the past five years; in fact, it has been responsible for the development of more than 145 low- and moderate-income rental and homeownership units with a promising low- and moderate-income housing pipeline. It also has gained an excellent reputation with the city government in Washington, D.C., as a real estate development firm that can deliver successful housing projects.

Looking at UrbanMatters as a case study, it's apparent that setting up an earned income project for a community organization is very difficult and risky, often taking a long time to produce a flow of income. However, with proper planning, committed leaders and staff and supportive foundation partners, this approach can be both profitable and beneficial to the community the organization serves. ■

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