

Jewish Community Centers: Economic Dilemmas and the Responsibilities of Trustees*

IRVING BRODSKY

Vice-Chairman of Board and former Executive Vice-President

AND

LESTER POLLACK

President

Associated YM-YWHAs of Greater New York

The Jewish community centers face a situation in which support . . . from central communal sources has leveled off or is declining, governmental funding of services by voluntary agencies is being sharply curtailed . . . the new tax laws . . . are uncertain (in effect) and . . . can discourage contributions . . .

WHILE the initial title given this discussion by conference officials included reference to money and its management, to marketing, and to the related responsibilities of Center Trustees, an in-depth consideration of these matters requires broader examination of the economics of Center operations and influences upon them.

First, to examine the normal funding sources of Jewish community centers:

Most Jewish community centers derive a significant portion of their support from Jewish Federations and Welfare Funds but "Federation campaigns have leveled off since the Israeli-Arab conflict and are no longer keeping pace with inflation."¹ In 1980, total allocations to local agencies by 72 Federations increased by 4.9 percent in 1980 over those in 1979.

The Jewish Welfare Board report on budgetary trends in Jewish community centers² notes that "the percentage of support from Jewish Welfare Federations has generally remained stable over the past 20 years with Federation support growing at about the same pace as

Center budgets." Most Centers receive about 22 percent of their income from Federations while in the larger cities Centers received about 25 percent.

In New York City, over the past 5 years, the annual increase in Federation's grant lagged substantially behind the inflationary rise in costs. However, for the fiscal year beginning July 1, 1982, the New York Federation distributed an overall discretionary increase of 12 percent. This represented an effort to begin to correct the shortfall of Federation's grants of prior years.

About 10 percent of Center income is received from United Way but this proportion seems to be slowly declining as United Way priorities give greater emphasis to the social needs and poverty status of selected ethnic minorities. In general, the proportion of their income received by Centers from central communal funding sources has declined from 40 percent in 1960 to about 31 percent in 1980.^{2a}

Some of the larger city Centers have been the recipients of government grants, primarily in services to the aged and to Russian Jewish immigrants and, to a lesser degree, for child nutrition programs and CETA programs. President Reagan's budgets have now sub-

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stantially reduced such receipts. In the Associated Ys of New York, where governmental funding accounted for about three million dollars annually or about 15 percent of annual expenditures for community centers, over one-third of this sum is in present jeopardy, and this proportion may grow in the period 1982 to 1984.

It should be noted that the value of government grants is often diminished by delays in reimbursement and by matching fund requirements. A study by The Greater New York Fund/United Way³ concluded that, "Agencies have to use their own resources to balance the deficits created by non-recovered and unexpected costs which they incur while administering funded programs." The overall mean cost to 137 agencies surveyed was 17.7 percent of grants or allocations derived from purchase of service contracts.

Cash flow problems resulted from payment delays in two-thirds of the agencies surveyed so that agencies incurred interest costs on bank loans or else suffered a loss of income from drawing on their own financial reserves. In general, the mean cost to agencies was \$16.40 for every \$100 received in government funds.

Since community centers are a significant factor in the larger spectrum of voluntary philanthropy, it is instructive to look at the broader trends in philanthropic giving. These were recently summarized in a report by United Way of America.⁴

In 1980, individuals and institutions contributed an estimated \$47.74 billion for charitable purposes, a 10.2 percent increase over the estimated total for 1979. "During the same period (1980), inflation . . . went up 12.4 percent."*

*In 1981, it is estimated that charitable contributions rose by 12.3 percent to \$53.6 billion—outpacing inflation for the first time in three years. *New York Times*, April 9, 1982

About 85 percent of total giving came from individuals, 6 percent from bequests and about 5 percent from corporations and foundations.

Religious institutions are estimated to be the largest beneficiary (46.5 percent), followed by education (14 percent), health and hospitals (13.6 percent) and social welfare (10 percent). Despite an apparent growth in total contributions for 1979 and 1980, real growth fell because such growth was 5 percent below the increase in inflationary costs.

"In 1980, American corporations contributed an estimated total of \$255 million to philanthropy", an increase of only 4 percent over 1979. ". . . Less than a quarter of the nation's 2.242 million corporations make any kind of contributions at all, and only 7.5 percent give more than \$500 a year. . . . It would seem that philanthropy is not successfully tapping the potential of corporate giving. . . ."⁵

". . . There's no way private support can increase fast enough to compensate for cutbacks in federal spending. Corporate contributions were never intended to be a substitute for public taxpayer—supported social services, and that will be true in the future as it has been in the past".⁶

The share of total contributions to philanthropy that is earmarked for social welfare agencies has declined from 23 percent in 1955 to 10 percent in 1980. The expansion of voluntary services during the sixties and seventies was made possible chiefly by the infusion of government funds, and such government support is estimated to have been in a 20 to 40 percent range for agencies supported by United Way.⁷

A recent study, quoted in the United Way Report, estimates that "President Reagan's budget proposals will result in a revenue loss to non-profit organizations of \$27.3 billion during 1981–84. The impact will be substantial and pain-

ful.”⁸ As a consequence, while services are being reduced, the demand for service will escalate because of the social and economic consequences of the budget proposals on certain segments of the population.

Some experts believe that the Federal tax cut program will have a negative effect on philanthropic giving. The after-tax cost of individual giving has increased significantly. Moreover, changes in estate taxation have led some specialists to conclude “that giving through bequests will diminish by 50 to 75 percent”, according to Brian O’Connell, President of Independent Sector. While this hypothesis is severe, this is a prospect that causes concern.

Other areas of related concern include a tax law change that foundations can now limit their annual contributions to 5 percent of their total assets. Yet another concern is that Congressional advocates of a “flat” income tax would eliminate deductions for charitable purposes.

In summary, in many areas, Jewish community centers face a situation in which support, whether nominal or substantial, from central communal sources (Jewish Federation and United Way) has levelled off or is declining, governmental funding of services by voluntary agencies is being sharply curtailed, and the effect of the new tax laws on individual giving at best is uncertain and, at worst, can discourage contributions by individuals or through bequests. Added to these factors is the problem which confronts the whole economy, namely, a recession that has reduced production in many industries and has resulted in growing unemployment. One immediate consequence has been an increase in the volume of requests made to community centers for scholarship aid.

Thus, all voluntary agencies, including Jewish community centers, confront

financial uncertainties that have rarely been more threatening. It is therefore appropriate in this context to re-examine the role and responsibilities of agency trustees.

The Responsibilities of Trustees

The *Manual for Board Members*, published by JWB, states that the Center’s board of directors is responsible for “securing adequate financial support . . . and for overseeing the proper expenditure of Center funds. This responsibility includes providing for the custody and management of the Center’s capital funds and other properties, planning and adopting the annual budget, making contracts, and providing for an efficient system of accounting and auditing . . .”

Of course, “the detailed management of operating funds is delegated to the Center’s executive staff after budgetary policies have been established by the Board. . . .”⁹

Recently, the New York Federation established a Committee to help its agencies clarify the fiscal and legal responsibilities of agency trustees. This action was prompted by several incidents in which government agencies raised questions about possible individual liability of both management staff and trustees should agency business not be managed with due care. In two instances, agencies failed to transmit Federal withholding and social security taxes. (Parenthetically, of the total of three Federation agencies involved in irregularities, none was a community center.)

A questionnaire study disclosed that “while many agencies do an excellent job educating boards to the exercise of significant oversight of operations . . . some agencies are not doing enough . . . Many agency board members do not have a sufficient orientation to their re-

sponsibilities in management of the affairs of their agencies . . . ”¹⁰

The Federation report recommended procedures to provide for the indemnification of directors and officers should they be held liable “for actions taken (or failure to act) on behalf of the agency.”

The report urged “ongoing training of agency board members as to their legal responsibilities and potential liabilities”, as well as the implementation of procedures “to assure that Board responsibilities are met and individual Board members are protected . . .” Such procedures should include periodic reports by officers of the board and the Center executive.

Obviously, the exercise of such responsibilities suggests the recruitment and participation of some trustees who have specialized knowledge of accounting, insurance, audit and legal functions. But of course these specialists function as part of a larger team that includes trustees whose major contribution may stem from knowledge of the needs of Center members and communities.

Given the fiscal uncertainties that are now seen to confront the Jewish community center, what are the implications for the selective recruitment of trustees?

More so now than ever, the capability for generous personal giving by trustees to their agencies and to the Jewish Federation is essential. Some Centers have established standards for personal giving by trustees to help meet their annual operating budgets. Moreover, the individual's level of giving to the Jewish Federation and his leadership qualities may enable him to participate helpfully in influencing the fund distribution pattern of the Federation. The nature of such financial obligations should be made clear to a prospective trustee when his interest is initially invited. Ob-

viously, this consideration is only one part of the larger agency context that is presented at the time of recruitment.

The engagement of the individual with the agency should be a two-way process: What can the agency contribute to the person? To his learning and growth? To his responsible self-esteem? To his sense of discharging an important responsibility to the community?

Often, the critical dynamic is the quality of interaction between the professional executive or the agency president and the lay leader who is sought out. Mutual respect and caring are essential ingredients.

Perhaps we can learn from a sister field, namely, colleges and universities. In a report on long-range planning and budgeting, the Academy for Educational Development made the statement, . . . “It is necessary for colleges and universities to recognize that although the present facts are grim; the future may be grimmer.”¹¹ (This was written in 1973! A related quip is that “The future isn't what it used to be.”) “In December, 1970, the Carnegie Commission on Higher Education reported that two-thirds of the private colleges and universities were financially troubled or heading for trouble . . . half of the private colleges in the U.S. already had or were expecting deficits.”

The Academy's report recommended long-range planning, possibly involving projections five to ten years into the future, and subject of course to change when warranted. Such planning should include not only fiscal data but also data on the present functions of the institution, its constituency, staff, and trustees, its financial resources, its goals and directions and related programs, periodic self-evaluation, and the financial requirements to implement new plans.

The Academy's report concludes that “. . . planning is the only method by

which colleges and universities can reasonably expect to come to terms with the financial, social, and political crises of our times . . . The budget as a principal planning tool must be fused with a comprehensive method for overall planning. . . ."

Whether engaging in short or long-term planning, the following funding sources and fiscal operations need to be examined:

- Internal funding from operations and board member contributions;

- Communal funding;

- New ventures that can provide a surplus of income;

- Control of expenditures;

- The organization of self-help groups;

- Purchase by employers in private industry of community center services for employees.

Internal Funding

The JWB report on budgetary trends records the fact that, "as the ratio of communal funding to total income decreases, the proportion of total income (from internal sources) must necessarily increase."¹² With interest costs on borrowing high, the necessity for having sufficient "cash in hand" has become greater. In business terms, cash-in-hand constitutes working capital, and the availability of sufficient working capital should be a high priority.

The data provided in the JWB report appears to indicate that summer day-camp programs have tended to provide a surplus or come close to "breaking even" while nursery schools invariably operate with a deficit. Special program fees constitute the single largest source of internal income (31 percent) while membership fee income ranges from a reported 12 percent in Metropolitan New York Centers to a high of 27 per-

cent in cities with the smallest Jewish populations.

It would be valuable for JWB to undertake an in-depth analysis of the basis for fee-setting, whether they be membership dues or fees for special program activities. Stated national guidelines would be helpful to Centers. Moreover, how should fee setting be related to annual changes in operating costs, whether from inflationary or other causes, as well as to membership income levels? These considerations should be of concern to all Center budget committees in arriving at a rational basis for fee determination.

Board member-giving in 1980, according to the JWB report, typically ranged from 3 percent to 6 percent of internal operating income. Obviously, the amounts given are influenced by the responsibility of trustees to give priority in their contributions to the local Jewish Federation; in the absence of appropriate data, it is not possible to arrive at conclusions as to whether the current level of trustee giving to their Centers is adequate. Such giving should, of course, be related in part to unmet needs including, for example, scholarships for children of low-income families, or special services in behalf of the needy aged.

Since its founding in 1957, the Associated Ys has raised over 20 million dollars for the construction of new community centers and camps; in addition, about 500,000 is raised annually for operations from the central and branch boards. In retrospect, we ask ourselves whether it would not have been wiser to have conducted a major corollary program for an endowment fund, even with a temporary cessation of building expansion. The endowment fund is a form of "internal insurance" or a cushion against a decline in external funding. Such consideration should be an important part of long-range planning

in order to achieve a desirable balance in resource development.**

It has seemed to us for some time that the business and fiscal practices of Centers could productively be subject to analysis in collaboration with graduate schools of business administration. Such joint study could include such factors as cost analysis, pricing, marketing, and other economic considerations, as well as the standardization of relevant overhead cost categories for specific services.

The Associated Ys is currently involved in a small cooperative study program with the New York University Graduate School of Business Administration in which a graduate student under faculty supervision is studying the group travel programs of our member agencies. There are significant cost and profit variations because the programs are operated by the individual agency units, and we are looking at the question of whether a single overall coordinated system would have a better income yield. Exploratory discussions have been conducted with the School for a more extensive cooperation that will involve field work experience in the Associated Ys by second-year graduate students. Student projects under faculty supervision can include cost analysis, pricing, marketing, and the study of possibly unnecessary and costly duplication of bookkeeping practices between the local Centers and the Central Administration. Any proposed new service or operating ventures can also be the subject of study.

It is interesting that some graduate study programs now combine study of social work with business administration, leading to a joint degree in both

areas. A growing number of Centers are seeking to employ administrators who have an orientation to or expertise in effective fiscal management.

Communal Funding

Center trustees and executives should be aware of reports of the Council of Jewish Federations and Welfare Funds on national patterns and trends in fund-raising and fund-distribution. We believe that patterns of communal support from local Federations as well as from United Way can be influenced by the quality and character of participation by Center trustees in those organizations.

Special mechanisms by Federations and United Way Funds reflect selected priorities in the funding of given projects that these central agencies think most important. But these priorities can be influenced in the planning stage by lay and professional leaders of Centers.

A general average of 22 to 25 percent in Federation giving to Centers reflects a generally shared order of priorities for grants to different functional fields. Periodically, this distribution pattern ought to be opened to reexamination in context of changing communal needs and problems.

Foundations, of course, are also important sources of seed money for innovative programs. Two important caveats in turning to foundations are: the need to exercise accountability to the donor foundation, and the need to consider maintenance of the program when the foundation grant runs out.

New Ventures

We need to give more consideration to new ventures that can yield a surplus of income, ventures that reflect both innovation and effective marketing. An

**A contrary view is that the preservation of a large endowment fund has at times become a primary institutional preoccupation which limits expenditures and creativity in behalf of communal services. "The next generation should take care of its own needs."

illustrative example is the development by the Associated Ys of an affiliate called the Associated Camps, for which it raised about \$2.5 million to create the largest and, what could well be the most modern, residence camp for the aged in the United States.

While serving 1,500 elderly each summer in a country camp setting, the Associated Camps also developed a Winter Vacation Program that provides vacation services for over 2,500 elderly, including trips to Florida, California, Israel, and other places. The agency has developed substantial expertise in the utilization of air carrier services and hotel space. During the past three years, the Winter Vacation Program services have yielded a net income approximating \$500,000 and this sum is utilized to improve facilities and services in the summer camps.

Currently the Associated Camps, at the request of Associated Ys, also operates a camping program for children and teenagers, and the Associated Camps has expended over \$125,000 from its net income to improve the physical facilities of that camp which adjoins the site of the older adult camp.

As additional examples: for a period of three years, the Associated Ys operated a Food Service Program that prepared and delivered over 14,000 meals to summer day camps under a contract with the United States Department of Agriculture.

—In the summer of 1981, the contract of about \$900,000 yielded a net income of over \$90,000 to help meet overhead costs. Unhappily, the Federal Government has elected to discontinue the utilization of private philanthropic vendors in the delivery of summer food services for children in day camps, with funding likely to be provided only to selected public agencies such as local Boards of Education.

—One of our Centers has just created a "Corporate Fitness Program" to attract the employees of corporations in its service area. A variety of physical education, exercise, and athletic programs are being provided at a fee level that is expected to produce a surplus of income. The YMCA has widely developed such fitness programs in cooperation with local corporations.

—The New York 92nd Street YMWHA has been exploring cable television as an income producing venture for its outstanding cultural programs.

The Federation Employment & Guidance Service and the Jewish Board of Family and Children's Service have developed a variety of joint programs with local industries, including purchase of service contracts by employers for services to their employees.

—The Mosholu-Montefiore Community Center, which in 1959 was constructed on the grounds of Montefiore Hospital, has maintained a close cooperative program in many areas with the hospital. The hospital contributes a fixed dollar sum as a group membership fee for the Center to make available its recreational facilities to employees of the hospital.

—The Mosholu Center's nursery school has served many children of hospital staff. A current waiting list of 500 children is mostly made up of hospital staff offspring, and recently the hospital offered to provide the capital cost of constructing more nursery school space to accommodate additional numbers of children.

Obviously, services which are made available to corporate employees must be such as not to diffuse or abandon the essential Jewish communal purposes of Jewish agencies.

David W. Young, Associate Professor of Management at the Harvard University School of Public Health has written:

By definition profit refers to the difference between revenue and expenses. In for-profit organizations profit or surplus gives a return to the owners of the company and serves as a source of financing for capital acquisitions and working capital. Non-profit organizations, which are not allowed a surplus, don't suffer on the first count because they have no owners. But they do suffer on the second count because, if expected to grow, they need to finance asset replacement and growth. In these days when funds for long-term debt are becoming scarce, the need for regulators to allow 'non-profits' to keep a surplus is increasing.¹³

It is interesting to note that several foundations have supported the creation of a consulting firm named "New Ventures" which undertakes to assist nonprofit agencies to develop income producing business-related activities.

Self-Help Groups

We need to give more in-depth consideration to the organization of self-help activities in which the consumers of our services, in some fashion, whether by voluntary participation or other means, contribute to program development. For example, our Mid-Westchester YM-YWHA has a group of divorced and widowed men called "For Men Only." The group includes professional people: doctors, lawyers, and others. The indigenous leaders are trained by our staff to lead discussion groups and conduct their own activities.

In the Roy Reuther Houses Program that serves the elderly clientele of our Gustave Hartman YM-YWHA, the older adults who live in a somewhat isolated housing project operate a commissary in the project's facilities. Stores are not easily accessible so that this commissary is greatly needed. The commissary has a gross volume annually of \$250,000, and yields a net surplus of \$25,000 which supports the recreational program in the housing development.

Another type of useful self-help activity is exemplified in a program funded by the New York State Division of Vocational Rehabilitation in the Gustave Hartman Y. Youthful trainees are taught such skills as plumbing, carpentry, grounds-keeping, and other skills that are utilized to improve the facilities of the "Y" as well as those of other cooperating philanthropic agencies.

Control of Expenditures

Mechanisms for the efficient monitoring and control of expenditures are obviously essential. In our current practice, we have developed and are gradually expanding the computerization of our accounting facilities to provide a faster and more accurate yield of data required.

We believe that central purchasing and more satisfactory arrangements with selected vendors can yield greater economies, particularly where we can concentrate volume purchasing. For example, we are thinking of creating a central bus repair service since we operate a fleet of 40 buses to transport children and the elderly.

We have tried to rationalize the food service systems in the nine Senior Centers where we have a daily food service program through standardization of menus and careful selection of vendors.

A major area for rational management of expenditures is to establish a system of preventive maintenance for the care and upkeep of building facilities. Maintenance costs understandably take second place to human services, but deferred maintenance becomes increasingly costly over time and, therefore, in effect reduces the resources available for serving people.

In all of these activities, the involvement of trustees is essential to the agen-

cy's drawing upon their business and professional knowledge.

All the above considerations are important elements in considering the economics of Center operations. In our judgment, we have only begun to scratch the surface. The dilemmas that confront us also offer opportunities to seek new creative approaches.

Perhaps we need in our field a study comparable to the outstanding economic analysis of the performing arts that was conducted for the Twentieth Century Fund.

In his Foreword to that study report, August Heckscher wrote:

Its originality—and its ultimate importance—lies in the way it demonstrates that the gap between income and costs is bound to grow over the years ahead . . . The performing arts . . . will show deficits of increasing size . . .

A result of this study . . . may . . . be a raising of men's sights . . . To know the dimensions of a problem is the first step in dealing with it . . .¹⁴

Beyond careful analysis, we need the exercise of creative entrepreneurship for the development of new ventures that in a variety of ways will enhance our service programs and can help ensure the maintenance of our ongoing service programs. A creative partnership with trustees is essential to the development of such processes.

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