

Maryland Heritage Areas Program
Additional Information on Task 2 Report:
Operating Grants and Management Entity Administration

RFP Scope of Work

The recommendations discussed in this document address the requirement of the Strategic Plan Advisory Team (SPAT) as specified in the Maryland Heritage Area Program Strategic Plan Request for Proposals, Section 4.4, Scope of Work Task 2:

Issues to be addressed as part of Task 2 include but are not limited to:

Sustainability of local heritage area management entities including what level and period of operating assistance should be provided by the state, alternative funding options, and how to assist CHAs in becoming financially independent if ongoing state support were to end.

Summary

At the October 28 meeting of the Strategic Plan Advisory Committee, a series of recommendations was made related to the Heritage Area Program's operating grants and management entity administration. Recommendations were:

- 1) Operating grants of up to \$100,000 should continue to be made available to all Certified Heritage Areas for the **next five years**, contingent upon implementation of the following additional recommendations;
- 2) Limits are established for **maximum expenditures** in each budget category.
- 3) Changes are made in Heritage Area **planning, application** and **reporting** processes to create accountability and reporting that clearly documents accomplishments; and
- 4) Heritage Areas are required to **establish fundraising committees** and **attend fundraising and grant writing workshops** offered through the MHAP and to demonstrate a concerted effort to raise funds to support the organization

This document includes the following:

- 1) One change to the recommendations based on feedback from SPAT.
- 2) Additional information and clarification on the intent of the recommendations in response to questions from SPAT members.

Change in Recommendation #2

We are omitting recommendation #2 – maximum expenditures in each budget category. Upon further reflection, we realize that Heritage Areas have different needs. While some have office space or equipment donated, others need to pay for these budget items. Additionally, the need for directing funds to salaries differs as well depending on how the match is distributed.

Our intent with all recommendations is not to create hardship on the Heritage Area but rather to develop strategies that will facilitate the strongest possible management entities. With that in mind, we are removing this recommendation.

Additional Information and Clarification for Recommendations #1, 3 and 4

General Information: The consultant team realizes that these recommendations do not detail a process that will occur quickly. In translating recommendations into short, mid- and long-term action steps, these recommendations will take place over several years.

A number of questions were raised regarding these recommendations. Information is given in a Q&A format to provide more clarity to what it is hoped the recommendations will accomplish and the reasoning behind them.

1) Question: What is the goal or purpose of these recommendations?

The main question being addressed with these recommendations is the fiscal stability of the management entities. The “what if” questions must be answered – “what if” state funding is decreased or discontinued through legislative cuts or “what if” local governments make similar cuts. The current economic crisis certainly points to the reality of this possibility, but even in sounder economic times, it remains a possibility that Heritage Area Program budgets could be cut in favor of new programs or other programs that successfully lobby for funds. (The requirement to address this issue was in the RFP issued in April 2008 – before the current economic crisis.)

The question is not “Is \$100,000 in an operating grant – and a \$200,000 operating budget – enough?” The questions identified by the consultant team are:

- “What will happen if those funds are no longer available?”
- “How will Heritage Areas be able to make necessary budget increases as operating expenses increase in future years?”
- “If Heritage Areas don’t address the issue of fiscal stability for their management entities, who will?”

Over the years, costs will continue to rise for operation of the management entities – salary increases are needed, additional staff may need to be hired, and contract services, office equipment, rent and other expenses will undoubtedly increase. A stagnant budget does not address these inevitable increases. There is also no room for unexpected expenses without any kind of “rainy day” fund.

Another consideration is that Canal Place has joined the other Heritage Areas in requesting an annual \$100,000 operating grant. Within a few years, Garrett County is likely to join in this request. That means the total funds available for funding – operating, capital and noncapital grants – will be stretched further. Additional distribution of funds for operating grants mean less funds for projects.

When the consultant team interviewed Heritage Area executive directors and boards **only one** Heritage Area said they could probably find a way to keep going if the current funding system was discontinued or decreased.

Every other Heritage Area said they would have to dissolve the organization.

That is a huge concern! The consultant team feels that we would be irresponsible not to address this issue by looking for ways to ensure that all Heritage Areas are on a sound financial foundation.

- 2) *Question: Operating grants of \$100,000 should continue for the next five years, contingent upon implementation of the additional recommendations....*

The consultant team is not making a recommendation that state funding should go away. The five-year recommendation is made because it is impossible to predict what will happen to budgets too far in the future - who would have foreseen the current financial crisis? Five years seems a reasonable amount of time to continue the current system, then to review it again at the end of that time period.

- 3) *Question: With a large proportion of the research indicating that the directors, their boards and stakeholders feel this (fundraising) is not where we should be headed, why is it to be included (mandated?) in the plan?*

Instead of “fundraising,” a better term is “development.” The consultant team will begin using that term.

Development encompasses a broad range of activities – obtaining grants or sponsorships, soliciting corporate or foundation support, maintaining a membership program, hosting special events and other activities. Many of these activities are already being undertaken by Heritage Areas and perhaps have not been viewed as development.

As stated by the Alliance for Nonprofit Management:

No one will argue with the notion that the ultimate responsibility for organizational success resides with the board of directors. Further, success not only requires good programs but it also requires the necessary funding to implement those programs and services. Board and staff need to form a partnership to develop and implement a plan to secure the necessary funds required to go forward with the plan. The actual fundraising task is immeasurably strengthened when a true partnership between board and staff is in place. As with other management functions, staff manage the fundraising program, while board members get involved in those elements that are suited to their interests, skills and capabilities. A good fundraising plan is explicit about both board and staff responsibilities.

Further noted by ProfitQuest:

If a board does not tackle the main issue of funding its very own mission, then even the most worthy service to others will eventually falter. Do not rely on the President to handle fundraising alone. A board should not transfer its fundraising responsibilities on to an Executive Director, Fundraising Coordinator or Fundraising Development Committee.

And from a nonprofit consultant:

Fundraising is the most important responsibility of a board member, yet many board members are reluctant to engage in this activity. Board members are expected use their connections to spur interest in and support of the organization they serve. Board fundraising activities may include major donor solicitations, sponsorship solicitations, membership recruitment, and efforts to boost event registrations.

In addition to the reasons given in answer #1, for 501c3 organizations, the fiscal soundness of the organization is a clear responsibility of boards – not an activity to choose not to do. For Heritage Areas that are part of government and overseen by an Advisory Board, these responsibilities can also apply because these Heritage Areas are responsible for ensuring that local governments continue to provide the required match and these organizations are also able to apply for project grants which can include a percentage directed toward operations and administration.

The question of board members' skill sets is important to this process. Therefore, the partnership with MHAA in providing training and technical assistance is a critical part of this recommendation.

Development plans would be unique to each heritage area. Plans would address where the management entity wants to take the organization in the future. For some it might be expanding a successful event that raises operating revenue while meeting program goals. For others, it might be working with local governments to request increased

funding. Or it might focus on writing grants for projects and including an administrative line item to help fund operations.

The recommendation calls for the Heritage Area reports to MHAA to not only describe what development plans or activities were undertaken in a given year, but to detail the kind of assistance that will be needed from MHAA in the coming year to develop successful plans. Development planning experts provided through MHAA will be essential in helping chart the plans for each Heritage Area.

- 4) **Question:** *If the clock begins to tick in FY10, does the old rule about operating grants resume in 2015?*

The consultant team believes that if Heritage Areas create a development plan that shows that the requested operating funds have been matched – by any source, whether local private funds, Federal grants, funds raised through a special event, etc. – should be allowable as match. The exception would be if Maryland law prohibits matching state dollars with state dollars.

- 5) **Question:** *Can MHAA force a conventional nonprofit management model on Maryland's certified heritage areas as a whole, since they aren't all 501c3 organizations and since a fundamental tenet of the program has been to allow each heritage area to design an approach to management that best suits its particular situation?*

The recommendations are not intended to force a management model. Instead, they are intended to address the very real issue of fiscal stability – which in some cases may require changes in existing management structures.

When the state's 11 Heritage Areas were certified, each was allowed to establish the management structure that suited its particular situation. However, each Heritage Area also agreed to receive operating grants with the understanding that after a certain number of years, these grants would decrease and eventually be discontinued. This agreement in itself set the standard for Heritage Areas to develop fiscal policies and strategies to guide them into the future.

At present, this policy has been suspended until FY10, but the “what if” questions remain unanswered. It is hoped that through the process of each Heritage Area taking an in-depth look at its current fiscal structure, creating a development plan that addresses these questions – and making changes in management policies *if needed* – the result will be stronger Heritage Areas with the fiscal foundation to grow and thrive and to weather any unforeseen economic difficulties.

- 6) **Question:** *Is the suggestion that an annual action plan be provided in lieu of the “methodology” requested in the operating grant application? If so, is the action plan supposed to reflect the yearly management plan for the heritage area or all the projects expected to be carried out by heritage area partners?*

The intent of the five-year and annual action plans is to achieve three goals:

- 1) Require Heritage Areas to complete a thorough review of what is in their management plan.
- 2) Ensure that activities are oriented toward the goals set forth in the management plan and more clearly connect daily activities as well as grants to the management plan.
- 3) Avoid the lengthy and costly process of updating the management plan.

In developing action steps for the strategic plan, the consultant team will make recommendations for revising and simplifying the operating (management) grant application. The action plan should be designed to reflect the work that will be carried out by the *Heritage Area* in the coming year. This would include any activities that are spearheaded by the Heritage Area as well as those for which the Heritage Area is a partner agency but not the lead organization. The plan will include a specific description of the role of the Heritage Area in each activity. The goal will be to document the activities and achievements of the Heritage Area, providing a clear return on investment for the operating (management) funds.

- 7) **Question:** *What are the things that would be appropriate to include in year-end reports from the Heritage Area?*

Reports would focus on the activities undertaken and accomplished through the Heritage Area office. An addendum (such as an annual report) could be included to discuss what has occurred that has strengthened the Heritage Area – such as accomplishments by organizations within the Heritage Area that did not necessarily involve Heritage Area staff or board members.