

EXIT PROJECT

Nonprofit Partnerships with Regional Councils

A Case Study of Oregon Cascades West Council of
Governments

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Since the early 1980s, regional councils have partnered with nonprofit organizations in order to provide a range of services to member local governments with less capacity and resources. Although the partnership strategy can augment the services a regional council can provide, there is a lack of literature that speaks specifically to how these partnerships are structured. This study explores the structure of these partnerships through a case study of the nonprofit organizations that partner with Oregon Cascades West Council of Governments (OCWCOG). Findings from the case study indicate that these partnerships are primarily driven by council of government staff. Board member and staff roles, although outlined in service contracts, are generally implied and not clearly defined. Recommendations include increasing the frequency of board meetings, formalizing board and staff roles, and enhancing the recruitment and orientation process for new board members.

BACKGROUND

Regional councils are regional bodies of local governments. Regional councils can refer to councils of governments, regional planning commissions, and development districts. For the past 50 years, regional councils have played an important role to local governments across the United States as planning organizations and technical assistance providers. These councils provide multiple services to local governments by tapping federal, state and local programs to fill in the service gaps left by local governments with less administrative capacity. They are often accountable to member local governments to provide a regional vision, a pathway that helps communities reach their fiscal, social and environmental goals.¹

The role of regional councils has evolved over the years to address the changing dynamics in federal, state and local government relations. The perceived value of regional councils has increased with the nationwide trend towards regionalism. Local governments are realizing that economic, social and environmental challenges transcend the boundaries of any one community. In order to effectively resolve these challenges, local governments are looking beyond their jurisdictions and working together.²

This project focuses on regional councils in Oregon known as councils of governments (COGs). Formed under ORS Chapter 190, Oregon's COGs are multi-jurisdictional and multi-purpose organizations. They are voluntary associations of local governments cooperating on issues and problems which cross city, county and, in some cases, state boundaries.³ COGs often form partnerships with nonprofit organizations in order to leverage funding sources not otherwise available to intergovernmental entities to help execute their mission.

¹National Association of Regional Councils website: <http://narc.org/regional-councils-mpos/what-is-a-regional-council.html>

²Ibid.

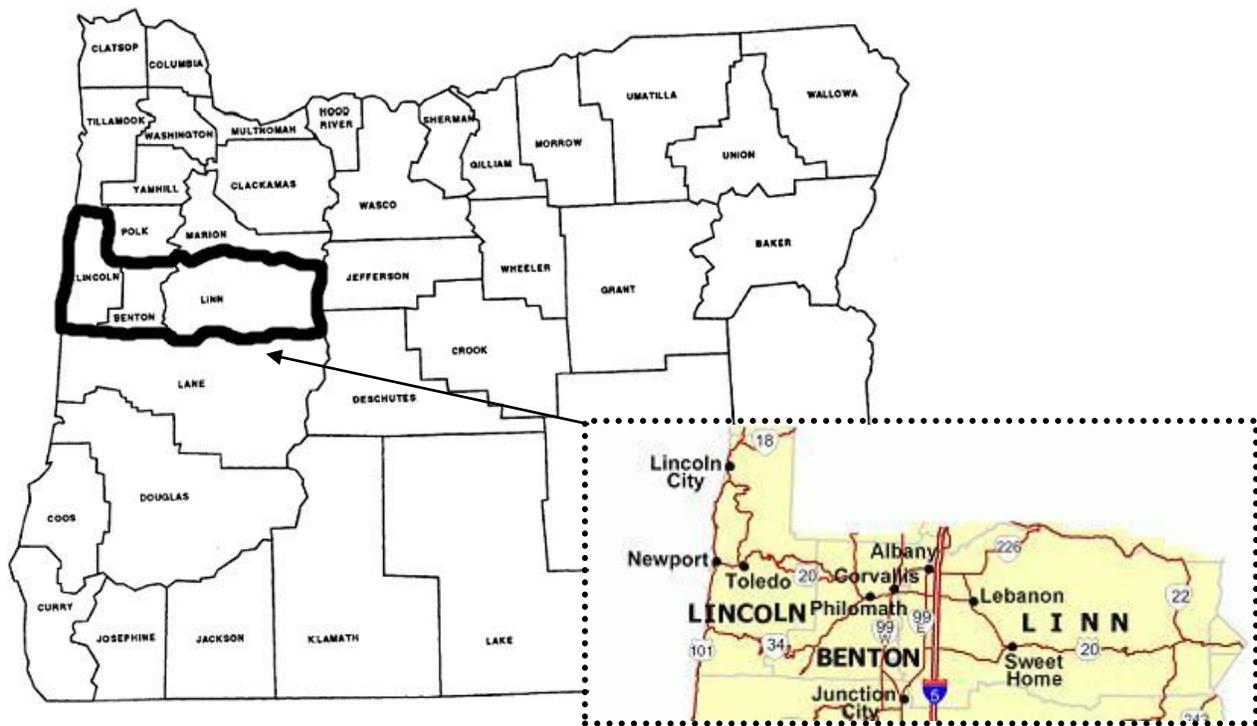
³Oregon Blue Book website: <http://bluebook.state.or.us/local/other/other01.htm>

This project used the Oregon Cascades West COG as a case study to explore the partnerships between COGs and nonprofit organizations.

INTRODUCTION

Oregon Cascades West Council of Governments (OCWCOG) is an organization with a membership of twenty-one cities, three counties, the Confederated Tribes of the Siletz Indians and two port districts. Its jurisdiction spans over 200 miles in the western-central part of the state, from the Cascade Range to the Pacific Ocean and includes all of Linn, Benton and Lincoln counties.⁴ OCWCOG's jurisdiction is described in the following diagram.

Diagram 1. Map of Linn, Benton and Lincoln Counties, Oregon



Oregon Health and Science University website: http://www.ohsu.edu/xd/health/services/casey-eye/clinical-services/general-eye-care/elks-childrens-eye/elks_screening_southcentral.cfm

Oregon State website. "Map of Oregon Counties."
<http://public.health.oregon.gov/BirthDeathCertificates/VitalStatistics/annualreports/05v2/Pages/cntymap.aspx>

OCWCOG has developed several subsidiary organizations using different organizational structures for purposes of obtaining funding not available to intergovernmental entities. OCWCOG, Lane Council of Governments (LCOG) and Mid Willamette Valley Council of Governments (MWCOG) formed Cascades West Financial Services, Inc. (CWFS) in 1983 for the 7 county area of Benton, Lane, Lincoln, Linn, Marion, Polk, and Yamhill. CWFS is a Small Business

⁴Oregon Cascades West Council of Governments website: <http://www.ocwcog.org/>

Administration (SBA) certified, private, nonprofit development company providing access to the SBA 504 and SBA 7A programs. Staff members from the OCWCOG provide services to the board of CWFS. The mission of CWFS is to facilitate the growth, expansion and diversification of the local economy by providing financial assistance to start-up and expanding businesses through offering a variety of U.S. Small Business Administration loans and programs. They currently provide service to all counties within the state of Oregon.⁵

OCWCOG created a Senior Services Foundation to leverage support for its wide variety of financial, medical and long term care programs. The Senior Services Foundation is a nonprofit public charity organization that formed 20 years ago to support OCWCOG's Senior Services and Disabilities Program. The foundation's primary objective is to access grants and conduct fundraising activities in order to fund programs that provide services to the older adults of Lincoln, Linn and Benton Counties. An additional consideration for developing a public charity foundation arm of OCWCOG is due to people's preference to give monetary contributions to a nonprofit versus giving to a governmental entity. The foundation is a mechanism for the COG to market under a different face.

OCWCOG realizes that both external and internal factors have caused its subsidiaries to evolve over the years since their creation. The COG is interested in researching whether the objectives of the subsidiaries mutually support the interests of OCWCOG. As the COG continues to research innovative ways to expand funding capabilities and improve its capacity to serve its member local governments, it looks for ways to develop partnerships that will help execute its mission. The purpose of this research is to answer the following questions:

- What is the relationship between COGs and the nonprofit organizations with which they partner?
- What opportunities exist for COGs to structure partnerships with nonprofit organizations that will mutually support their mission?

Subsequent sections examine the relationship OCWCOG has with its nonprofit partnerships, the results of which may inform the regional council on how to effectively structure future partnerships to help execute its mission.

Report Structure

This report is organized into the following sections:

- **Literature Review:** Explores literature on the relationship between the public sector and nonprofit organizations, what makes an effective public-nonprofit partnership, and examines how nonprofit board member and public sector staff roles factor into a partnership's effectiveness.

⁵Cascades West Financial Services, Inc. website: <http://www.cascadeswest.com/About.htm>

- **Methodology:** Provides a description of the methodological processes used for the study, including an overview of the data collection and an explanation of how the interviews were developed, conducted and recorded. Limitations to this study are also discussed in this section.
- **Case Study:** The organization overview and interview findings are discussed separately for both the Senior Services Foundation and Cascades West Financial Services, Inc. This section concludes with overall findings that were drawn from both nonprofit organizations.
- **Conclusions:** Ties findings from the literature review and case study to answer the study's research questions and provides recommendations for OCWCOG to consider with current and future partnerships.

LITERATURE REVIEW

Understanding the relationship between COGs and the nonprofit organizations with which they partner led my research to what is being said about the relationship between public agencies and nonprofit organizations. I took this generalized approach after realizing that there was no specific literature on nonprofit partnerships with COGs or regional councils. In exploring what opportunities exist for COGs to structure partnerships with nonprofit organizations that will mutually support their mission, I found that partnerships can take several forms, from contractual to informal networks, and outsourcing. Ultimately, literature on structuring partnerships led me to what is being said about establishing effective nonprofit board – public sector staff relationships. In addition to addressing my research questions, the literature review prepared me for my interviews with board members and staff from the Senior Services Foundation and Cascades West Financial Services, Inc. The following sections define nonprofits, explain the relationship between the public sector and nonprofit organizations, describes some of the challenges with these collaborations, ways to develop effective public – nonprofit partnerships, the importance of defining nonprofit board and public sector staff roles, and concludes with the overall findings from the literature.

Nonprofit organizations can share a variety of classifications due to their complexity and diversity. A common classification is the 501(c)(3) charitable tax-exempt status under the Internal Revenue Code.⁶ Some of the general features characterizing nonprofit organizations are exemption from income and property taxes. Surplus funds generated from nonprofit activity do not go to shareholders, but are instead put back into the organization to help it pursue its goals.

⁶Hall, Peter Dobkin. "Historical Perspectives on Nonprofit Organizations in the United States." 4.

There are over 20 classifications of nonprofits as designated by the Internal Revenue Service (IRS) Code. The IRS code attempts to sort these organizations into who the organization primarily serves and how they deliver their services.⁷

The nonprofits I examined in this study can be considered public serving organizations, in that they are focused on providing services to the broader public. Based on the literature, both the Senior Services Foundation and Cascades West Financial Services, Inc. can be classified as funding agencies that channel resources to regional councils.⁸ Both nonprofit organizations are classified under the 501(c)(3) status.

Relationship between Public Sector and Nonprofit Organization

Public agencies have not always partnered with nonprofits or nongovernmental organizations as a way to address the problems of a society. This was solely a job for the public sector. The literature points to a paradigm shift in the early 1980s where the public sector began to be viewed as less of a driver for the economy and unable to care for the welfare of society by itself. Solutions to society's ills needed multiple parties to get the job done. A period of "welfare pluralism" began to take shape that saw nonprofit organizations collaborating⁹ with public agencies on evolving social demands that once were primarily the public sector's domain.¹⁰

The authors of "Nonprofit Organizations: Challenges and Collaboration," argue that this shift towards public administration and nonprofit collaborations should not be considered the privatization of the State even though social services are not provided solely by the public sector as they once were. The public sector stands to benefit from this collaboration, or partnership, because nonprofit organizations often take on roles as a third sector entity that the public and private sectors are unable to perform.¹¹

We can break down how public administrations partner with nonprofits to administer social services by separating tasks into provision and production categories. Provision refers to what needs to take place in order for a service to be provided. Production refers to the organizational process to carry out the provision. In order to provide a service, public agencies leverage co-funding from individuals and businesses. Nonprofit organizations collaborate with public agencies to regulate, plan, control and evaluate the provision of service. Nonprofits are also integral to the production. Today it is very common to see the provision and production of

⁷Salamon, Lester M. *Partners in Public Service: Government-Nonprofit Relations in the Modern Welfare State*. 1995. 54.

⁸Salamon, Lester M. *Partners in Public Service: Government-Nonprofit Relations in the Modern Welfare State*. 1995. 54.

⁹Researcher's note: I generally consider and use collaboration and partnership synonymously in this paper, as an agreement between a public agency and nonprofit organization to carry out the provision and production of service.

¹⁰Vernis, Alfred et al. *Nonprofit Organizations: Challenges and Collaboration*. 2006. 46.

¹¹*Ibid.* 47.

a service to society involving the cross-collaboration of public agencies and nonprofit organizations.¹² Although not specifically indicated in the literature, this cross-collaboration, or partnership appears to be common with intergovernmental agencies like councils of governments.

The Benefits and Challenges of Collaborating

There are several benefits to collaboration that make it a viable endeavor for nonprofits and public agencies. Through collaborating, both public agencies and nonprofits have the opportunity to build an understanding of complex problems simply by sharing information with each other on a regular basis. This information sharing can foster a mutual trust that may lead to more proactive and sustainable decision-making.¹³ The trust gained from information sharing can also lead to partnerships being better equipped to be more flexible and adaptive to future situations that require decisions from the partnership.¹⁴ Managing uncertainty is especially important for nonprofit partnerships with COGs due to changes in funding and service needs.

Collaboration between nonprofits and public agencies can lead to several challenges due to a nonprofits' desire for organizational independence and a public agency's desire to control how public funds are spent. Another broad challenge has to do with how public agencies are expected to evenly reach out to everyone with services whereas nonprofits usually intend to serve specific populations.¹⁵ Current literature has further classified these problems into five categories: lack of flexibility, funding, human resources and accountability, and organizational missions not completely coinciding.

Lack of flexibility

Public agencies often standardize the relationship with a nonprofit that is providing services. A common method of standardization is through contracts between the public agency and the nonprofit for specific services. Standardizing this relationship makes it difficult for the partnering nonprofit to adjust to changes in the delivery of service. The needs for social services often change or evolve over time. The standardized relationship between public-nonprofit collaborations may lack the flexibility to adapt to new ideas to improve services. In other words, the agreements between both entities may obscure the original goals in which the collaboration was created. This issue brings up a potential problem with public contracts with nonprofit organizations. When public contracts outline the purpose and details of the relationship, the relationship may be based more on control rather than building of mutual trust. Public contracts may formalize the purpose of the public-private partnership, but may be

¹²Vernis, Alfred et al. *Nonprofit Organizations: Challenges and Collaboration*. 2006. 52.

¹³Wondolleck, Julia M. and Steven L. Yaffee. *Making Collaboration Work: Lessons from Innovation in Natural Resource Management*. 2000. 26.

¹⁴*Ibid.* 30.

¹⁵Vernis, Alfred et al. *Nonprofit Organizations: Challenges and Collaboration*. 2006. 55.

a hindrance to the services they were set up to provide.¹⁶ A common theme found in the literature is that traditional business-like contracts may not be the best application for public-private collaborations. Alternatives to business-like contracts are discussed later in this section.

Funding

The low cost of nonprofit services to public agencies can strain the relationship of a public – nonprofit partnership. Nonprofits may depend on the public funding, and may offer their services at below cost to be awarded a public contract. The message coming from the public administration is to “do more with less money.”¹⁷ The funding conflict can put stress on both the agency and the nonprofit and generate feelings of mistrust.

Human Resources

Public-private collaborations for social services sometimes mean that a public sector employee will be removed from direct contact with beneficiaries (users of the program/service) and replaced by a nonprofit service provider. A partnership that outsources its services to a nonprofit has the potential to threaten the motivation of public sector employees and risk the altruistic attitude of nonprofit service providers. Consequently, the nonprofit may feel overburdened by dealing with the work outsourced by the public sector. Either way, the human resource balance is at stake when these partnerships are formed.

Accountability

The quality of services provided by public-private collaborations is often not measured. A key challenge is how to introduce this measurement, as it has not been a traditional service provided by nonprofits who work with the public sector. Authors of “Nonprofit Organizations: Challenges and Collaboration” point out that the input of the beneficiaries are often ignored in these collaborations.

Organizational Missions Not Completely Coinciding

Although there may be agreement between a public agency and a nonprofit on the purpose of the partnership, the guiding missions of each entity may differ. Differing missions have the potential to cause conflicts of interest and lack of clarity of roles in the partnership.

Developing an effective public – nonprofit relationship

It is clear from the literature that both public administrations and nonprofit organizations need to collaborate in order to effectively serve today’s society. The overall finding from the literature review and board/staff interviews is that these partnerships need to be managed thoroughly in order to provide services more effectively. Collaboration management, in this sense, means the mutual understanding of both public agency and nonprofit organization roles in the partnership. Authors of “Nonprofit Organizations: Challenges and Collaboration” define

¹⁶Vernis, Alfred et al. Nonprofit Organizations: Challenges and Collaboration. 2006. 56.

¹⁷Vernis, Alfred et al. Nonprofit Organizations: Challenges and Collaboration. 2006. 57.

managed public-private collaborations as “...understanding each other’s role in the relationship and helping each other perform that role as effectively as possible to achieve a single goal – ensuring the best results for citizens.”¹⁸ Reflecting on this definition, the authors developed a public-private collaboration model to ensure that social services are provided effectively and efficiently. The model offers remedies to the challenges brought up in the previous section.

Public-private Collaboration Model

If a COG or a public agency were to consider partnering with a nonprofit organization tomorrow, they would stand to benefit from following a model that engenders a flexible relationship based on continuity and knowledge exchange, and that has a primary purpose of serving the society at large.

Public administrations may consider how to ensure continuity for services provided when partnering with a nonprofit organization. Relationships between public agencies and nonprofits take time to develop, and they will also change with staff and board turnover. Relationships differ from transactions because they incorporate a certain amount of flexibility knowing that the future will change the dynamic of the partnership.

The provision of social services through public-private partnerships may be considered an ongoing learning process. Knowledge development cannot occur if both parties in the partnership cannot exchange information to improve the purpose of their relationship. Operational control and service implementation, although most likely implied in board and staff roles, must be revisited often as a means to effectively achieve the partnership’s purpose. “Quality social service production must be viewed as the interest of society at large.”¹⁹ Public-private partnerships should consider the purpose of their relationship, which most likely, is to deliver a service not currently being delivered by another entity or would not otherwise be possible without the partnership. Although contracts between nonprofit organizations and public agencies are necessary, they should not be based on competition and survival, like a business contract; rather, they should be designed to ensure continuity and prioritize knowledge exchange to improve services by developing a more efficient system.²⁰

Understanding Board and Staff Roles are key in public – nonprofit partnerships

The previous section used the literature to discuss the relationship between the public sector and nonprofit organizations, the subsequent challenges that exist, and opportunities to improve. A major theme found in the literature is how nonprofit board and public agency staff roles are defined is integral to the success of the partnership. Understanding board and staff roles helped to determine what opportunities exist for COGs to structure partnerships with

¹⁸ Vernis, Alfred et al. *Nonprofit Organizations: Challenges and Collaboration*. 2006. 58.

¹⁹Ibid. 65.

²⁰Ibid. 66.

nonprofit organizations that will mutually support their mission The following section uses the literature to look at the roles of nonprofit boards and the public sector staff and closes with the major findings from the literature review.

Nonprofits are subject to the law, and potential board members are responsible for understanding the laws applicable to nonprofits including their individual liabilities. They are, in fact, vested with the duty to manage the affairs of the organization. Upon selection, board members of nonprofits are asked to abide by three major standards that should act as guidelines of their service:

- Business judgment standard: State statutes empower nonprofit organizations similar to powers given to individuals including the right to lease, hire, fire, lend and borrow.
- Reasonable care standard: This standard has to do with board member liability and the liability of the organization based on a board member's qualifications and time devoted to board service.
- Fiduciary relationship standards: This standard classifies the board member as a fiduciary of the organization.²¹

This is no different with board membership in the state of Oregon. The state's Attorney General produces a brief handbook entitled "A Guide to Nonprofit Board Service in Oregon" that covers board member responsibility based on these standards.

Author Sharon Carden Streett summarizes the guidelines necessary for board members of a nonprofit organization to follow in order to exercise their power and responsibility efficiently and avoid liability. The following guidelines are those relevant to my study:

- Board members need to understand the primary documents of the organization including the bylaws, charter, policies and financial reports. These documents should be reviewed during the initial orientation session followed by regular board training sessions.
- Boards should meet regularly and frequently. Inactive board members should be removed.
- It is the board members' responsibility to determine what information it needs from staff regarding how the organization is operating.²²

²¹The Nonprofit Board Book: Strategies for Organizational Success. "Board Powers, Responsibilities and Liabilities." 11.

²²Ibid. 20.

Recruitment and Orientation

What stands out from the literature is that board member roles derive from legal responsibility that should be made clear during the board recruitment and orientation process. Literature supports recruitment and orientation as being critical to constructing an effective board.²³ Successful recruitment depends on identifying a collection of individuals that can effectively carry out the various duties of the board. They need to share the purpose of the organization.²⁴ For nonprofit organizations that partner with public agencies, it is crucial for board members to understand the purpose of that partnership, provided one is in place.

The recruitment process can actually be the beginning of the prospective board member's orientation. Recruitment should acquaint the prospective board member with the organization's function and history. Literature suggests a half-day or long evening orientation session to go over the board's committee system, procedural standards and programs operated by the organization. A board manual should also be provided to the new board member and include the preceding information as well as the organization's current budget, organizing papers, bylaws and regulations.²⁵ As mentioned in the previous section, Oregon requires that each board member receive a guidebook that the state's Attorney General develops pertinent to board member responsibilities.

Also mentioned as a vital component to the orientation process is a service area training session usually conducted by the staff of the board. The purpose of this is threefold:

- 1) New board members receive training on the specific programs that the board supports but does not operate on a daily basis.
- 2) The programmatic information level between new and old board members is equalized.
- 3) New board members have the opportunity to engage and develop a working relationship with the organization's staff.²⁶

A thorough recruitment and orientation program for new board members can help structure the relationship between nonprofit and government. Although this section focuses on the front end emphasis of board member orientation and training, the literature infers that this process should continue throughout a board member's service to the organization.

²³The Nonprofit Board Book: Strategies for Organizational Success. "Board Recruitment and Orientation." 71.

²⁴Ibid. 76.

²⁵Ibid. 78.

²⁶Ibid. 80.

Staff Role: “The Motivator” behind a successful voluntary organization

The staff of a nonprofit organization can play many roles: planner, organizer, writer, supervisor, manager, etc. These are all functions that staff can provide a nonprofit board. Most importantly, staffs are responsible for driving the day to day activities of the nonprofit. In order to do this effectively, the purpose of the relationship between a nonprofit and a public agency needs to be understood by staff. The staff as “the motivator” provides the following opportunities for the board to realize their purpose:

- Providing a framework for board members to work with.
- Providing specific tasks to accomplish.
- Providing timelines/deadlines for the work to be accomplished.
- Staff can provide the board an opportunity to discuss what the staff presents in order to avoid “rubber stamping.”²⁷

In order for the staff/board relationship to be balanced, the literature indicates that there must be a trustful and respectful relationship between staff and board members in order to be successful. This does not mean that tension cannot exist between the roles of board and staff. In fact, the tension can be positive when it is balanced on trust and need. It is important for both the board chair and lead staff to be able to level with each other.²⁸ Worth noting is that some nonprofits do not have staff, but rather, rely on a working board that performs the duties that are otherwise completed by public agency staff.

Findings from the literature

Public agencies stand to benefit from partnering with nonprofits to be able provide services not otherwise possible without the partnership, but there are challenges in structuring a successful partnership. Although not specifically referenced in current literature, the benefits and challenges of public – nonprofit partnerships work well to explain why COGs have partnered with the nonprofit sector, or even created nonprofits in order to execute their mission of providing services to their member local governments.

Regional councils were developed in part because single communities faced difficulties in providing all of the social services need by a community due to lack of budget, capacity and because providing some social services in each community would be inefficient. Communities look to regional councils for additional support for services they are unable to provide. Regional councils such as COGs have been looking to nonprofit organizations to help support services that they would not otherwise have the capacity to provide. Nonprofit organizations

²⁷The Nonprofit Board Book: Strategies for Organizational Success. “Board and Staff Relations.” 89.

²⁸Ibid. 95.

and COGs create relationships as a strategy to channel resources through the nonprofit to the COG. Some of the challenges in structuring this relationship are lack of flexibility, funding, human resources, accountability and missions that do not completely coincide. In order to address these structural challenges, both parties need to develop and maintain a mutual understanding of each other's roles in the partnership.

A model relationship would include elements of continuity and knowledge exchange in order for the partnership to operate efficiently and achieve its purpose. It would also include clarification and revisiting of board and staff roles in the partnership. Board members are subject to specific standards in serving a nonprofit. These standards should be made clear in the recruitment and orientation process. Nonprofit service standards and organization purpose should be revisited often by all board members. Although staff play an important role in developing materials for the board to consider and providing the board with pertinent and timely information, the board has the responsibility to inform the staff what information it may need. In order for this relationship to be effective, board members and staff may benefit from more frequent meetings. The staff has the power to drive the work of the partnership by motivating board members with a detailed framework and opportunities for the board to provide input on staff provisions.

METHODOLOGY

With a major emphasis from the literature review being the establishment of nonprofit board and public agency staff roles, I focused my primary research on interviewing board members of the Senior Services Foundation and Cascades West Financial Services, Inc. In order to understand what they perceived their role to be in their partnership with OCWCOG. Through staff interviews, I was able to understand the structure of the relationship between COGs and the nonprofit organizations with which they partner. Board member interviews helped to inform what opportunities exist for COGs to structure partnerships with nonprofit organizations that will mutually support their mission.

This section provides a description of the methodological processes used for the study, including an overview of the data collection and an explanation of how the interviews were developed, conducted and recorded. I also consider the benefits and limitations of the approach used to address the study's primary research questions.

- What is the relationship between COGs and the nonprofit organizations with which they partner?
- What opportunities exist for COGs to structure partnerships with nonprofit organizations that will mutually support their mission?

Overview

Phone and in-person interviews with COG staff and nonprofit board members who partner with COGs can potentially help to identify best practices in developing strong relationships to

achieve COG missions. COGs can use the results of this research to develop new nonprofit partnerships that can affectively achieve its multi-purpose mission.

As this study was exploratory in nature, the primary method of gathering data was to conduct interviews with nonprofit board members. Fourteen phone and in-person interviews were conducted with current board members of the Cascades West Financial Services, Inc. and the Senior Services Foundation, as well as OCWCOG staff who are affiliated with the organizations.

Interview Development

Staff from OCWCOG provided direction in developing the interview script for the board members of the nonprofits. Several meetings with Executive Director Cynthia Solie and Economic Development Planner Pam Silbernagel were held to determine the interview objectives and assist with crafting the actual questions. Some of the questions were drafted from literature pertaining to nonprofit boards, specifically “Ten Questions for the Thinking Board Member” by Terry W. McAdam. The draft interview questions went through an internal vetting process with additional OCWCOG staff. Lead staff affiliated with the two nonprofit organizations were interviewed in-person to provide an overview and history. The staff also assisted the interview development process by providing contact information for current board members of the two nonprofits targeted for this report. Twelve potential interviewees associated with Cascades West Financial Services, Inc. and the Senior Services Foundation were identified with the assistance of OCWCOG staff. Subjects interviewed were nonprofit board members of the Senior Services Foundation and Cascades West Financial Services, Inc, both of which work in partnership with OCWCOG.

Contact procedure

Potential interview participants were included or excluded based on their status as a current or former board member of the Senior Services Foundation and Cascades West Financial Services, Inc. and/or their status as a nonprofit board member in partnership with another Oregon COG. Status as a current or former nonprofit board member of the aforementioned organizations was confirmed either verbally or by email.

An initial email was sent to board members of the Senior Services Foundation and Cascade West Financial Services, Inc. via Executive Director Cynthia Solie and Economic Development Planner Pam Silbernagel of OCWCOG. The email served as an introduction to my research project and clarified the population targeted in this study (nonprofit organizations partnering with COGs in Oregon). Consent to take part in this study was requested by email or by phone prior to interviews and prompted by the following statement: “You are not required to answer any of the questions and can stop the survey at any time. I will not associate personal information with your phone interview responses in the final report.”

Interview Design

The data required to address the primary research questions, namely what the perceived relationship is between COGs and nonprofit partnerships and what opportunities exist for COGs

to structure partnerships with nonprofit organizations that will mutually support their missions, informed the interview's line of questioning. The interview questions were intended to spark a dialogue with the interviewees; therefore, alternate phrasings of each question are listed under each question heading.

Question 1- Board Involvement

- Why did you decide to get involved with this organization?
- Have you been an officer on the board or a chair?
- Do you currently hold an officer or chair position?
- How long have you been involved?
- Have most of the current board members been active for the at least the past 3 years?

Question 2 - Beginnings

- Were you involved in the formation of this organization?
- What prompted this organization's beginning?
- What's your understanding of what prompted its creation?

Question 3 - Purpose

- What is the purpose of the organization?
- How does the organization work towards realizing its purpose?
- How do you evaluate the success of your purpose? What metrics do you use?
- Has this changed over time since you've been involved?

Question 4- How objectives are measured

- Does the organization have a plan or report that it creates on an annual basis?
- Does it have a strategic or action plan that the board members follow?
- Have the (plans) changed over time? If so, why?
- Do you feel the board members feel empowered to have an action plan? If not, why? Does your organization work okay without one?

Question 5 - Staff Relationship

- Can you talk about how your organization is staffed?

- What does the staff do for you? How is the staff used? Do you feel your organization is staff-driven or board-driven?
- Could you describe the relationship between the board members and the COG staff?
- How important do you think the relationship with the COG staff is?
- Are you happy with the relationship the board has with the COG staff? As a board member, do you feel adequately supported by COG staff?

Question 6 - Reflection

- Given your experience on this board, what would your advice be to a COG that is looking to form a nonprofit to help execute its mission?
- Do you have any comments or additional information you would like to add on this topic?

Recording data

During in-person interviews, interviewee responses were recorded using an audio-recording device. Additional notes were also recorded using a computer. The audio recordings were reviewed following each interview. I shared a document summary of the audio recordings and additional notes with each interviewee and asked them to verify that I captured their responses accurately. Interviewees were offered the opportunity to provide additional information to their responses. The document summary of individual interviews was organized by each question asked.

Data synthesis

Following completion of the phone and in-person interviews, the responses were summarized by each question with intent to retain all of the different perspectives brought up by each interviewee. To complete this task, all individual responses to each question were put into one document and color coded in order to discern individual responses. In order to synthesize the qualitative data, the summarized responses were first arranged thematically to answer the following questions:

- What perceptions do board members hold in regards to their partnership with the COG?
- What are the factors that contribute to these perceptions?
- What is the effectiveness of the structure of the relationship that currently exists?
- Are there ways in which this relationship can be improved?

The interview summaries were then organized to answer my research questions:

- What is the relationship between COGs and the nonprofit organizations with which they partner?
- What opportunities exist for COGs to structure partnerships with nonprofit organizations that will mutually support their mission?

The interview summaries were then vetted with OCWCOG Executive Director Cynthia Solie and Economic Development Planner Pam Silbernagel to review how the information was organized and determine if there were any areas for further research. The interview summaries of phone and in-person interviews from the board members can be found under the Senior Services Foundation and Cascades West Financial Services, Inc. sections respectively.

Limitations

Although audio recording and having board members review the interview summaries I put together from our conversations proved to be a useful tool to ensure accuracy, there are a couple of limitations that may have affected my results.

The level of engagement of board members lent varying perceptions of the relationship between board and staff. Some of the board members interviewed were new to the organization and had only been on the board for a few months.

CWFS board members may have been confused with the term “staff” in my line of questioning because the organization has loan officers from three COGs, and a separately contracted executive director and administrative assistant, all of which could be considered “staff.” The executive director and administrative assistant hired by CWFS are also employees of Mid Willamette Valley Council of Governments which may have added to the confusion among board members.

An immediate finding and potential limitation to this study is that both organizations interviewed were created by OCWCOG. Because of this arrangement, board and staff perspectives may be different from what they might be if the nonprofits were originally autonomous entities that a COG chose to partner with for service provision. This links the overall limitation to my study of researching and interviewing various nonprofit/COG partnerships outside of Cascades West Council of Governments.

The literature used to support and contrast the discussion on COG/nonprofit partnerships was primarily literature based on nonprofit relationships with public administration, agencies and larger governmental entities. Although some of the themes from the literature corresponded with my interview findings, it is important to note that I could not find any literature that focused on the particular relationship between COGs and nonprofit partnerships.

CASE STUDY

In order to answer my research questions, I looked to COG staff and nonprofit board members to understand the structure of the nonprofit partnerships, the perceived relationship between

board and staff, and what opportunities exist to structure partnerships in a way that will mutually support both the COG and a nonprofit’s mission. The following sections provide an organization overview, and staff and board perspectives of the Senior Services Foundation and Cascades West Financial Services, Inc. The organization overview information was gained from in-person interviews with staff from Cascades West Council of Governments. The same staff also provided their perspective on the relationship between the COG and the organizations. The board member perspectives represented in this section were derived from the major themes that came from the phone and in-person interviews with current board members from both nonprofit organizations. The section concludes with overall findings that were drawn from both organizations.

Senior Services Foundation Overview

The following provides an historical overview of the Senior Services Foundation and discusses how its objectives and structure have evolved since its creation.

Purpose

The Senior Services Foundation is a nonprofit public charity organization that formed about 20 years ago to support the COG’s Senior Services Program. The foundation’s primary objective is to access grants and conduct fundraising activities in order to fund programs that provide services to the older adults of Lincoln, Linn and Benton Counties. An additional consideration for developing a public charity foundation arm of the COG is due to people’s preference to give monetary contributions to a nonprofit versus giving to a governmental entity. The foundation is a mechanism for the COG to market under a different face.

Structure

The Senior Services Foundation has a board of directors with long tenure. There are currently 8 board members serving the organization. The board meets every three months. The primary purpose of the board is to guide the fundraising activities and designate funding allocations among the three programs that the foundation serves.

Diagram 2. Relationship Structure of the Senior Services Foundation and OCWCOG

COG Staff provides Board...	Board provides COG Staff...
<ul style="list-style-type: none"> • Administrative support • Accounting/financial reporting • Fundraising activity ideas • Fundraising activity planning and materials 	<ul style="list-style-type: none"> • Designates funding allocations to COG programs • Final decision on fundraising activities/strategies

<ul style="list-style-type: none"> • Recruitment • Board meeting agendas 	
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Changes to foundation structure

COG staff and foundation members are currently considering several changes to the Senior Services Foundation’s organizational structure in order to expand its accessibility to grant funding and establish a clearer relationship between the board members and staff. With these changes in place, COG staff will work with board members of the foundation to develop its identity in the communities it serves. An updated version of the bylaws has been created with the help of an attorney with nonprofit expertise. The updated bylaws will be recognized by both board and staff in the forthcoming quarterly meetings.

IRS Designation

When created, there was a question of how to position this foundation to have a targeted focus that would support certain programs of Senior Services and be staffed by COG Senior Services staff. Upon consultation with the IRS, the COG chose to designate the Senior Services Foundation as a nonprofit “Section 509(a)(3) Supporting Organizations.” The 509(a) subdivision of the 501(c)(3) section of the Tax Code is for public charities. Elements of this designation are as follows:

“Supporting organizations are charities that carry out their exempt purposes by supporting other exempt organizations, usually other public charities. The classification is important because it is one means by which a charity can avoid classification as a private foundation, a status that is subject to a much more restrictive regulatory regime. The key feature of a supporting organization is a strong relationship with an organization it supports. The strong relationship enables the supported organization to oversee the operations of the supporting organization. Therefore, the supporting organization is classified as a public charity, even though it may be funded by a small number of persons in a manner similar to a private foundation.”²⁹

The IRS sees the foundation as a 509(a)(3) because of the organization’s close relationship to the COG’s Senior Services program. COG staff are in the process of changing the foundation’s IRS status from 509(a)(3) to a 509(a)(1) in order to achieve some flexibility in the programs it supports through grants and fundraising efforts. The current 509(a)(3) designation and articles of incorporation limits the foundation to fundraising support for three activities: Senior Meals, In-Home Services/Oregon Project Independence Programs and Senior Companion Program. Under the 509(a)(1) designation, and a change to the articles of incorporation, the foundation would have the flexibility to apply for a broader range of grants, expanding services for more senior programs.

²⁹Internal Revenue Service Government website: <http://www.irs.gov/charities/article/0,,id=137609,00.html>

The Senior Services Foundation's limitations due to its current designation is evident with the COG's sponsorship of the Retired and Seniors Volunteer Program (RSVP) of Lincoln County. RSVP is a volunteer program that works with older adults to help administer community services such as distributing food to low-income family and helping in local hospitals.³⁰ RSVP cannot apply for grants from or through the Senior Services Foundation because of the limitations of the current IRS designation.

Contract/Understanding of roles

In the absence of a contract or declaration of duties, COG Staff would like to establish a more business-oriented relationship with the Senior Services Foundation. This could result in an agreement that identifies the relationship between staff and board. This agreement or contract would set forth the support services the staff provides to the foundation board. There are several mechanisms that could accompany such an agreement:

- COG staff time is donated back to the COG from foundation profits
- A binding contract
- A memorandum of understanding (MOU)

Forthcoming quarterly meetings will determine how the agreement between board members of the foundation and COG staff will be structured. COG staff are interested in developing an agreement that clarifies to the board what services the COG staff are already providing, what the roles of the board members are, and clarifying that the services the COG staff provide are in lieu of the foundation paying for a program coordinator.

Board Development

COG staff believe that with the preceding changes in place, the foundation can explore how to develop its board in order expand services.. With flexibility obtained from the IRS designation and a clearer understanding of staff and board roles, the Senior Services Foundation board members can begin to address the following questions relative to board recruitment:

- Who should be connected to this foundation work?
- What kind of board do we want to be?
- How do we bring the right people to the table that can leverage experiences to help the foundation?

Programs

The foundation was originally designed to support three specific programs:

³⁰Retired and Seniors Volunteer Program of Lincoln County. Oregon Pacific Chapter of the American Red Cross website: http://oregonpacific.redcross.org/index.php?pr=RSVP_of_Lincoln_County

- Senior Meals/Meals on Wheels program
- In-home Care Services program/ Oregon Project Independence
- Senior Companion Program³¹

Most of the Senior Services Foundation’s proceeds go to the three programs mentioned above, but a small percentage of the net profits from the foundation’s activities are now channeled to an endowment fund, a decision recently enacted by the foundation’s board members.

Several fundraising activities have brought the foundation support over the years. It is important to note that most activities were COG staff-driven and have been subject to discontinuation upon staff turnover.

Direct mail solicitations were started for the Senior Meals Program. These mailings go out to addresses in the three counties in two forms:

- 1) A mailing to people who have not supported the foundation in the past.
- 2) A mailing to patrons who have supported the foundation.

A New Years Eve Gala to raise money for the Senior Meals Program was put on by the foundation for a few years but was discontinued due to cost – benefit differential.

The current public signature activity for the Senior Services Foundation is the staff-organized sponsorship of the “Live Well Age Well Expo”, an annual event that garners participation from local, regional and state agencies, businesses and organizations. All of the proceeds from the event go to the foundation.³²

Staff Perception of Partnership

The COG staff are the primary drivers of both the planning and administrative duties necessary to fulfill the operations of the foundation but the board of directors reserves the right to make the final decisions on fundraising activities and funding delegation. The foundation has no money that is dedicated to staffing. COG staff in the Senior and Disability Services division are usually assigned to the foundation as part of their duties. In the past, this has created some problems when there is staff turnover. The foundation’s fundraising activity has ebbed and flowed based on staff involvement. Staffing has usually been limited to one lead person, a program coordinator or director of COG’s Senior and Disability Services and a support staff. In

³¹Researcher’s note: The foundation supports the Senior Companion Program (added later) which is under the local sponsorship of Samaritan Health Services. This relationship consists of a Samaritan representative attending foundation board meetings to apply for funding; however, this representative does not participate in foundation fundraising activities.

³² Oregon Cascades West Senior Services Foundation “Live Well, Age Well Health Expo” website:
<http://www.agingwellexpo.org/>

addition, the COG's Financial Services team does the accounting and reporting for the foundation accounts.

COG staff play a role in filling vacancies on the foundation board. In the past, they have done some recruitment, but this responsibility is currently shared by both staff and foundation board members. COG staff have recruited potential members based on their awareness and relationship with the COG, not necessarily based on their professional connections. Senior Service Foundation monies are managed by the COG Finance Department. At their quarterly meetings, board members hear a report from the COG Finance Director regarding how much money they have.

To sum up the relationship, the COG provides staffing, accounting, and generates and executes fundraising strategies, the last of which is subject to approval by the foundation's board. The COG staff provide further assistance in the following ways:

- Help to get new members
- Work with the chair
- Manage meetings
 - Set up agendas

Despite the implied roles of both board and staff, there has not been a memorandum of understanding or contract between the COG and the foundation for the board members to fully understand the COG staff's role with the foundation.

Board Interview Summary

The following section summarizes phone and in-person interviews with board members from the Senior Services Foundation (SSF). Each board member was asked to provide their perspective on how they became involved with the organization, what prompted its creation, what the purpose is, how objectives are measured and how the organization is staffed. Board members also reflected on their experience with SSF and provided opinions on what elements inform an effective partnership between a regional council and a nonprofit organization. The primary themes from the interviews were teased out and categorized under my study's research questions:

- What is the relationship between COGs and the nonprofit organizations with which they partner?
- What opportunities exist for COGs to structure partnerships with nonprofit organizations that will mutually support their mission?

The section concludes with findings that were drawn from the interviews.

What is the relationship between COGs and the nonprofit organizations with which they partner?

The relationship can be explained by foundation board member responses to how they were recruited to the board, what they perceive the organizations purpose to be, and how the foundation's objectives are measured.

Board Creation

Some board members joined the Senior Service Foundation board through recruitment from other board members or staff liaisons because of their membership in other volunteer organizations. Current board members were attracted to the foundation's mission and driven by their personal interest in helping senior citizens retain their independence in the communities served by the foundation. The board currently operates with 8 members, 3 of which have less than 3 years of experience. All board members interviewed indicated that the foundation was created to administer funding and support independence of senior citizens and programs administered by Cascade West COG's Senior and Disability Services Division and formed specifically to support the COG's Meals on Wheels program.

Purpose

Board members indicated that the purpose of the Senior Services Foundation is to raise funds for specific programs operated by the COG's Senior and Disability Services Division. The foundation currently raises money for specific programs including Meals on Wheels, Senior Companionship and OPI and acts as a vehicle to access grants and sustainably address needs for senior service programs.

Several board members said that although the purpose of the foundation has not changed, the foundation has extended beyond its original focus of funding the Meals on Wheels program. The foundation is undergoing a process of broadening its 501(c)(3) status so that they can expand their base of fundraising and grant eligibility to provide more services as new opportunities arise and new areas where services are needed are identified. Board members believe this could potentially mean more work for the board unless grant writing or seeking money from other foundations and sources is done by COG staff.

The foundation is updating its bylaws and establishing a finance committee in order to help monitor the foundation's activities. This will include establishing research opportunities and goal setting. The foundation has also created an endowment.

The board's responsibility is to appropriate the generated funding to COG programs. Representatives of COG programs apply for Senior Service Foundation funds to the board on an annual basis.

The board evaluates the success of the foundation's purpose by how much money is raised and granted to requesting organizations. The board has operated under a limited scope and function and has primarily raised money for three programs since its establishment.

COG staff plays an informational and administrative role for the foundation. Staff that support the foundation create and send out solicitation letters to potential supporters and past supporters in the counties of Lincoln, Linn and Benton. Board members indicated that COG staff also keeps the board informed of legislative happenings pertinent to senior services in the region.

Measurement and Evaluation

At this point, strategic planning has not been part of how the foundation measures its objectives. The foundation's direction is driven by staff reports at quarterly meetings. At the quarterly meetings, COG staff provide a financial report that includes the following information:

- Where the foundation is in terms of money and yearly allocation.
- What the programs that accessed foundation funds are doing with the money.

The board chair communicates with COG staff in between quarterly meetings. Board members place trust in the Chair to maintain consistent communication with COG staff and pass on any information relevant for the board members to consider.

Board members expressed that the board is forward thinking and feels empowered to work towards a strategic plan of which to measure objectives by. The level of sophistication that the foundation is working towards might require a strategic plan in the future. Several board members expressed a desire for the board to have an annual report to measure objectives and goals. A couple of interviews believe that an annual report requirement will be part of the updated bylaws.

What opportunities exist for COGs to structure partnerships with nonprofit organizations that will mutually support their mission?

A COG looking to partner with a nonprofit organization to provide services to its member local governments can benefit from the perspectives foundation board members shared in regards to their relationship with COG staff and their suggestions on what elements would help establish an effective partnership.

Board Relationship with COG Staff

As previously mentioned, the board looks to the staff for information and administrative assistance. The COG staff support the board in several ways. A COG staff liaison brings information to the board from the COG and also links the board members with people who have information on topics the board is interested in. COG staff take minutes at quarterly meetings, provide financial reporting and communicate with the foundation's accountant who is separate from the COG. Certain reports need to be complete outside of COG assistance. The foundation receives bids from accounting firms and the board votes on which firm to choose.

Historically, COG has covered these administrative expenses allowing the foundation to not have to retain funds for overhead.

Board members generally regard the relationship between the board members and COG staff as favorable, amidst COG staff liaison turnover in the past. An important reason for this good relationship has to do with the trust board members place in the board chair to act on behalf of the board. For example, if a grant opportunity arises and needs to be processed in a timely manner, this may forego involvement of the entire board. The board members empower the chair to sign on behalf of the foundation in order apply for the grant opportunity.

The board may benefit from a contractual relationship with the COG. Some board members felt the foundation has historically been a board driven organization. There has been some conflict over the authority of scheduling board meetings. Some board members feel that if COG staff cannot attend a scheduled board meeting, the board meeting should proceed anyway. As mentioned in a previous section, the foundation is updating its bylaws and developing a contract that clarifies the roles of the board and the roles of the staff in order to avoid conflicts of this nature.

Board members generally feel well supported by COG staff and feel the relationship is headed in the right direction. There has been some collaboration between board and staff on foundation projects. Board members have had opportunities in the past to provide input on what staff creates under the foundation's name. For example, staff showed board members a draft solicitation mailing before it was sent out to the communities. Board members offered some revisions, and the staff incorporated the revisions before sending it out.

In the past, the board had a different perspective of what the board was there to do. The staff would run the meetings and left it to the board to make the decisions. Some interviewees said that board members should have more of a role in the direction of the foundation and to do so, the board members need to meet more often than the standard quarterly meetings. One board member expressed that the foundation's desire to expand services and evolve to a different organizational status cannot happen without flexibility between the board and staff.

Building a Successful Partnership

Board members were asked to reflect on a scenario where they were asked to provide another COG in Oregon advice on forming partnerships with nonprofit organizations. The interviewees shared their opinions on how to structure a strong relationship between a COG and a partnering nonprofit.

Contractual relationship to avoid conflicts

- Frequent updates in meetings to understand the progress of the nonprofit. Roles of board and staff may change as the nonprofit progresses.
- Open communication and trust between board and staff.

- There needs to be clear boundaries established, business-like operating agreements that outline what the roles are, the divisions are, and what the COG's participation is supposed to be.
- If the COGs are going to provide staff, they need to be careful not to try to manage the board.
- The most important thing would be to have a really good set of bylaws to act as guidelines for roles between the board members and supporting staff.
- A new nonprofit may require a specialized attorney to aid organization with IRS scrutiny.

Board membership qualities

- Bring together people that already have a passion, and are already active in the communities the nonprofit will serve.
- Encourage or require a variety of experiences and backgrounds in board membership.
- Board members need to have connections, networking with other community organizations and information exchange.

Flexibility of board and staff roles

- A COG looking to start a new nonprofit needs to realize that the relationship structure between the COG and the nonprofit may need flexibility, and need to evolve in order to effectively address the communities the nonprofit serves.
- Goals, objectives and outcome measurements should be laid out in the beginning as much as possible.

Findings

The following are the major findings from board member and COG staff interviews with SSF.

- **The relationship between SSF and OCWCOG is implied.** There is currently no contract for services for the partnership. The foundation's board operates much like a committee for OCWCOG.
- **Board Chair shares mutual trust with COG staff and other board members.** The board Chair engages with COG staff much more often than the other board members and has the trust of the board members to play the role of intermediary for staff communication and directives.
- **Staff and board roles need clarification.** Interviews with board members and staff indicate that COG staff drive the administration and direction of the foundation, but

there has been some conflict of interest in regards to the scheduling of board meetings that may be reconciled through the documentation of staff and board roles.

- **The foundation is in transition.** COG staff and board members are updating bylaws, changing their IRS status and exploring opportunities to formalize their partnership. This process may alleviate some of the concerns brought up by board members particularly with clarifying roles.

Cascades West Financial Services, Inc.

The following section provides a historical overview of Cascades West Financial Services, Inc. (CWFS) and discusses how its objectives and structure have evolved since its creation.

Purpose

OCWCOG, Lane Council of Governments (LCOG) and Mid-Willamette Valley Council of Governments (MWCOG) formed CWFS in 1983 for the seven-county area of Benton, Lane, Lincoln, Linn, Marion, Polk, and Yamhill. This organization developed out of the desire from the three COGs to be able to offer Small Business Administration (SBA) federal loans not available to the COGs due to their status as an intergovernmental entity. CWFS is a SBA certified, private, nonprofit development company providing access to the SBA 504 and SBA 7A programs. Staff members from Cascades West, Mid-Willamette and Lane COGs provide services to the board of CWFS. The mission of CWFS is to facilitate the growth, expansion and diversification of the local economy by providing financial assistance to start-up and expanding businesses through offering a variety of U.S. Small Business Administration loans and programs.³³ They currently provide service to all counties within the state of Oregon.³⁴

Structure

This section reviews CWFS's board configuration and explores how COGs have provided staffing to the organization over the years.

CWFS requires member representation in the counties of Linn, Lincoln, Benton and Lane. There are currently 11 board members with equal representation of the four counties. The SBA requires that the board be made up of members with backgrounds in financial institutions, economic development, and public administration. The roles of the board are to review and approve loan applications generated by the loan officers, recruit new board members (as a self-perpetuated board) and develop relationships with financial institutions in the areas they live.

The board has an oversight committee consisting of 4 board members, 2 of which are banking professionals that act as a second check on how the loan underwriting is done. They are

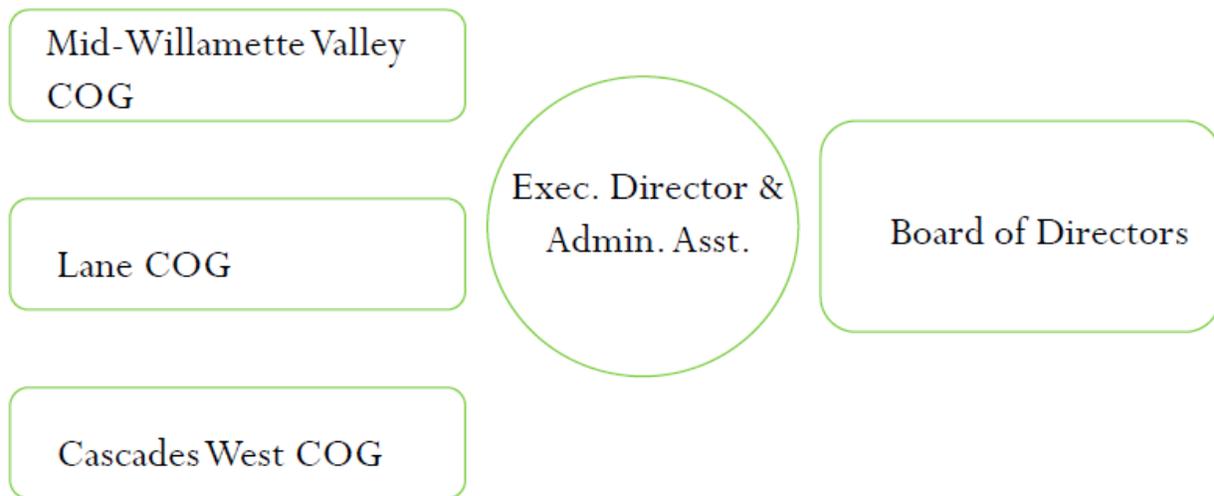
³³Cascades West Financial Services, Inc. website: <http://www.cascadeswest.com/About.htm>

³⁴Researcher's note: Certified development companies originally were geographically separated. There now can be more than one CDC competing in a given geographic region.

responsible for potential audits conducted by the SBA. CWFS's board president is the vice president of West Coast Bank and has served the board in this role for the past 10 years.

Diagram 3 shows the unique relationship CWFS has with 3 COGs in Oregon: Cascades West, Mid-Willamette Valley and Lane. The 3 COGs have 2 or 3 loan officers on staff that among other lending services, work with businesses and commercial banks to package the SBA loans offered by CWFS. CWFS also has an executive director and administrative assistant which is hired by the board. The loans generated by the COG loan officers are reviewed and funneled through the executive director to the board. The executive director is also responsible for board recruitment and marketing the nonprofit's programs to the region. A potentially confusing relationship is that the executive director is also a loan officer of Mid Willamette Valley COG.

Diagram 3. Relationship Structure of CWFS and the 3 COGs



Staffing History

The staffing relationship between the COGs and CWFS has fluctuated in the past based on staff turnover and perceived federal pressures. Originally, the COG provided its executive director and staff to process the SBA loans, which consisted of a full time executive director and part time administrative assistant. The three COGs responsible for the organization's creation each had a contract to provide administrative support to the organization. The COG is considered a partner of CWFS.

In the early 2000s, there were changes in how federal government saw the relationship of intergovernmental entities with nonprofits they partner with. The SBA scrutinized certified development companies' relationship with regional councils. The SBA also allowed organizations outside of the state to come into Oregon for SBA 504 loans. This meant that CWFS needed to compete with organizations in their geographic area, and they were potentially in competition with organizations in the larger Portland market.

In order to meet federal requirements and to be more competitive as an SBA loan organization, the COGs helped nationally recruit a separate employee to fulfill the duties that originally belonged to the COG executive director and administrative assistant. Currently, CWFS is back to contracting with Mid Willamette Valley COG for executive director and administrative support.

OCWCOG has a contract with CWFS that spells out the responsibilities staff has in relationship with this nonprofit partnership. There are five contracts with CWFS:

- Contract for the executive director and administrative assistant positions, both of which are staff of Mid Willamette Valley COG
- Contract with Lane COG for accounting services
- Contract with each of the three COGs for lending services

Programs

CWFS's loan programs are designed for small businesses that do not qualify for conventional commercial loans through lending institutions. Government guaranteed and direct loans are available, allowing credit worthy businesses to get finances, generally through a participatory relationship with a commercial bank.

The SBA 504 loans assist for-profit businesses in financing land and building acquisition, construction, or remodeling, and can also finance machinery and equipment. CWFS's Microloan Program provides working capital and equipment through a short-term financing program, which is designed for businesses that need small commercial loans.³⁵

If businesses are unable to meet loan criteria, the COG provides additional services apart from SBA loans. Ultimately, the loan officers from the 3 COGs operate as a one-stop lending house to help small businesses leverage 504 or other COG local loan programs. CWFS does not conflict or compete with commercial banking products. CWFS offers a unique opportunity for loan applicants to partner with banks inducing them to lend money to applicants that might not otherwise be eligible.³⁶

Staff Perception of Partnership

Although CWFS was created as an extension of the COG connecting it with SBA loans, CWFS's organizational status as a certified development company (CDC) allows it to retain assets. The 3 COGs provide staffing and other resources to CWFS but cannot access net revenues CWFS makes on lending services. Under the current relationship structure, the net proceeds of CWFS

³⁵Cascades West Financial Services, Inc. website: <http://www.cascadeswest.com/>

³⁶Refer to Appendix A for information on how a loan is originated and processed by CWFS.

are not controlled by the COGs that created the organization; therefore, it is some of the staff's perception that the COGs are generating assets that they cannot hold on to.

COG staff perceive the CWFS board, as well as businesses that they partner with, as unsupportive of investing their net revenues into the Microloan Program. There are several reasons why COG staff feel CWFS's net revenues should be reinvested into the organization's lending services:

- In order to run the Microloan Program, CWFS needed to leverage federal dollars with local dollars, which were fundraised by the COG.
- The Microloan Program is run by staff from the COG, and therefore responsible for net profits of the organization.
- The board is not qualified or approved by SBA to underwrite loans; however, the COG staff is approved to make these loans.
- Although COG staff go through the board to get approval for loans, they provide all servicing, underwriting, and training to apply for loans.

Currently, CWFS takes 25% of net revenues from lending services and the COG keeps 75%. The board reasons this withholding based on their interpretation of federal requirements of a CDC.³⁷

Board Interview Summary

The following summary presents the primary themes from phone and in-person interviews with seven board members from Cascades West Financial Services, Inc. (CWFS). Each board member was asked to provide their perspective on how they became involved with the organization, what prompted its creation, what the purpose is, how objectives are measured and how the organization is staffed. Board members also reflected on their experience with CWFS and provided opinions on which elements inform an effective partnership between a regional council and a nonprofit organization. The section concludes with findings that were drawn from the interviews.

What is the relationship between COGs and the nonprofit organizations with which they partner?

The relationship between the 3 COGs and CWFS can be explained by board member responses to how they were recruited to the board, what they perceive the organizations purpose to be, and how the foundation's objectives are measured.

³⁷Refer to Appendix B for SBA standard operating procedures language regarding contracted services.

Board Creation

Board members joined the board of CWFS for various reasons. In most cases, the executive director recruited the board member based on their professional experience. As a self-perpetuating board, some members were recruited by retiring members. According to the organization's bylaws, the executive director and current board members are responsible for recruiting and retaining particular geographical and professional representations on the board. Most board members expressed a common desire to serve the larger community and region by participating as a board member of CWFS.

Most board members have been involved with the organization for over three years. Three members recently joined the board in the past year and a half.

How CWFS began

All board members interviewed indicated that CWFS was started to create and retain jobs in the region it serves. Several board members said that the motivation for CWFS was a strategy by the Mid Willamette Valley Regional Council of Governments, the Oregon Cascades West Council of Governments and Lane Council of Governments to access federal Small Business Administration (SBA) loans. The two primary themes regarding what prompted CWFS's creation were opportunities for economic development and a way to access the SBA loan program. Also captured from this line of questioning was an insight to CWFS's evolution as an organization, and how SBA requirements have played a role in that evolution.

Opportunities for economic development

CWFS is an organization that was started to help drive the local and regional economy. Small communities generally cannot afford services from economic development organizations. Understanding the importance of expanding lending opportunities in Linn, Benton and Lincoln Counties, the COGs created a certified development company (CDC) to provide lending services to the smaller communities.

A way to access SBA loans

Several board members focused on the organization's creation to specifically access SBA loans. CWFS was an offshoot of an SBA mandate that required an organization be established to oversee the lending services pertinent to SBA 504 loans. The funding of these loans was based on job creation. CWFS was set up to channel funds through the three COGs that have loan officers and longstanding relationships with the local banks and financial institutions. The COGs banded together to create, support and strengthen the CDC and use it as a key element in its public policy lending programs. CWFS's tight affiliation with multiple COGs makes it a unique CDC.

From "pass through" to independent entity

According to board members, CWFS's status as a certified development company to administer SBA loans subjects it to guiding and governing rules that have evolved over the years. CDC boards are not to be affiliated with the government. The SBA requires CDCs to retain their own

staff, and one board member indicated that the SBA originally envisioned CDCs contracting out for staffing service; however, an exception under the SBA's Standard Operating Procedures (SOP) allows a CDC to use assistance from a regional council. The exception in the SOP exists because a lending institution, especially in rural areas with less lending service activity, might not generate enough income from loan services to pay for a single staff person.

Although board members pointed to the creation of CWFS as a "pass through" lending services organization that benefited the COGs that created it, this relationship has changed over the years due to SBA CDC requirements. The SBA began to scrutinize the relationship between CWFS and the COGs it partnered with specifically on the exceptions rule that allows a CDC to contract services to a regional council. This scrutiny has developed a more formal business relationship between CWFS and the COGs: the COGs are contractors for CWFS. CWFS is an independent entity that needs to satisfy all obligations required by the SBA as a CDC.

Purpose

Board members explained the organization's purpose as a way to administer SBA loans to businesses in order to promote job creation and job retention in Oregon. This mission is carried out by providing funding opportunities to businesses that want to grow and expand, and by contributing to a strong network of people engaged in business development. Board members responded to the question of how CWFS works to realize its purpose in different ways. Members shared their perspective of what the board's role is in achieving the organization's purpose (described in the "Board Relationship..." section). Some board members chose to describe the process of how CWFS administers SBA 504 loans.

CWFS is a loan packaging and service organization

The purpose of CWFS is to create business and job opportunities through lending services and provide guaranteed loan products to customers that may not otherwise qualify for traditional loan services. Packaging lending services with a COG, a commercial bank and the SBA allows customers to access loans to create or retain jobs.

Measurement and evaluation

Board members were asked to discuss how the objectives of the organization were measured. They indicated that the primary purpose of CWFS is to make loans, and that the annual budget and job creation are the measurements used gauge success of the objective, and are also requirements of SBA 504 loans. Members acknowledged the relationship between the board, the COG staff and the SBA, and how they work together to monitor loans. Numerous reports are prepared and discussed on monthly and quarterly bases, and there is frequent day-to-day communication between the executive director/ administrative assistant and the board via a secure intranet website. Although there is not a specific strategic plan that the board members follow, there are several reports, SBA requirements, and staff communications in place that help CWFS measure its objectives.

CWFS is subject to SBA requirements

First and foremost, CWFS must abide by SBA regulations and its Standard Operating Procedure (SOP), which requires them to produce an annual report and dictates certain aspects of their spending. The executive director creates the annual report, which the board reviews. In terms of their finances, 25% of the net revenue from loan services is retained by the nonprofit in accordance with SBA SOP requirements. This condition is spelled out in “contract limitations” relative to services for the SBA 504 program, which states that the maximum amount that can be paid out for professional services when using contract services is 75% of the CDC’s processing and servicing income.

The SBA is able to enforce their standards through the certification process. In 2005-2006, the SBA withheld the renewal of CWFS’s certification and its ALP lender status. Direct negotiations with their legal/compliance office suggested that if a full time executive director was hired, they would consider renewing the certificate and ALP status, provided also that the new Executive director and the board submitted modified lender contracts between CWFS and the three COGs.

Reports from executive director and COG staff

Financial data is reported and reviewed in a variety of ways and by multiple groups. One level of this is done by a third party that works with SBA reports on a quarterly basis, and examines how lending services are aligning with the government’s mission. Additionally, metrics are run based on SBA benchmark reporting and loan management reports. Another stage of evaluation comes from the COG staff, who produce an annual report with a different matrix of information (i.e. loans that have been approved, where loans are in the process, at what stage the company is using the loan, etc.). The executive director prepares a budget, which is reviewed by the board, as well as reports on loan statuses that are reviewed monthly by the oversight committee and quarterly by the board.

These assorted reports, along with quarterly financial statements and annual audited statements, all help with evaluation, as the organization’s objectives are measured in part by the financial performance of the company. The COG executive director creates the financial reports and informs the board of the organization’s standing.

Mixed feelings on necessity of a strategic plan

While some board members agree that a strategic plan would benefit the organization, they also recognize that the focus has historically been more programmatic in nature. Idle resources have driven strategic thinking, in that they have allowed the organization to be creative in their methods (such as borrowing from the SBA and putting out loans at higher rates). These additional funds are set aside to help the organization in lean years.

What opportunities exist for COGs to structure partnerships with nonprofit organizations that will mutually support their mission?

A COG looking to partner with a nonprofit organization to provide services to its member local governments can benefit from the perspectives CWFS board members shared in regards to their relationship with COG staff and their suggestions on what elements would help establish an effective partnership.

Board Relationship with executive director and COG Staff

Questions asking the board members about their relationship with staff revealed perspectives on who the primary drivers of the organization are, and what the primary roles of board and staff are with CWFS. When asked how CWFS was staffed, board members indicated that the executive director and administrative assistant reported directly to the board members, and that the loan officers at the three COGs were responsible for carrying out the loan application business in their respective geographic regions. Board members clarified that the loan officers do not report to the board. Ultimately, board members communicate with the executive director and the loan officers in their respective geographic area. Nearly all board members interviewed felt adequately supported by staff. One board member expressed that the support needs to be improved.

Staff are the primary driver of the organization

The interviewees indicated that the CWFS staff, comprised of the executive director, administrative assistant and loan officers of the three COGs, is the primary driver of the organization. These workers originate the loans and progress the loan application process through to the approval stage. It is the loan officer's responsibility to ensure that a loan qualifies. Loan applications are highly credible due to the fact that a commercial banking institution must underwrite 50% of the loan. The SBA then approves these loans, and to date CWFS has not had any applications turned down, due to the significant front-end work done by the joint partnership of loan officers, the board, and banks. The loan officers play a large role in this, as they have the expertise to help financial institutions with the details of specific loan institutions. Additionally, they actively build relationships with bankers and financial institutions, which in turn increase the amount of products that customers (borrowers) can access.

Staff set up quarterly board meetings that are regularly attended by both the executive director and the loan officers. Furthermore, the executive director and administrative assistant keep in frequent communication via the intranet system, through which they provide upcoming agenda items and loan updates.

Board members are the policy makers

The board's primary responsibility is to oversee the risk management of the organization. Board members are responsible for loan approval, oversight and marketing CWFS services in local communities, and are not involved in the day-to-day operations. The board's perspective

is to ensure that the loan makes sense, and they are required by the SBA's SOP to retain this authority. The board reviews the loan application prepared by loan officers from a COG and approves the loan before it goes to the SBA for final approval.

Drawing from diverse professional backgrounds and experiences, the board provides a balance to the loan application approval process. Some board members have backgrounds in economic development and are focused on job creation and retention; other members have financial institution backgrounds and are focused on loan services repayment and viability. Board members also have expertise in the geographical area they represent.

The board's oversight committee communicates with the executive director frequently. The oversight committee is made up of the chair, vice chair and two other board members, who meet with the executive director and administrative assistant at least once a month, attend the quarterly board meetings, and one annual meeting. The committee assists the executive director in providing leadership to achieve CWFS's mission and is responsible for final approval of loan applications submitted by loan officers from the COGs. The oversight committee approves CWFS's annual budget which is based on the goals set forth by the loan officers.

Board member/staff communication is critical and needs to be strengthened.

Board officers interact regularly with the executive director. The other board members are more likely to connect with staff in their geographical area than with all three COGs. COG program managers sometimes express concern of lack of board involvement outside of the oversight committee.

Building a Successful Partnership

Interviewees were asked to reflect on their board experience and provide their opinion on what elements are necessary in structuring a relationship between a nonprofit and a COG.

Communication

- Communication is important. There needs to be something in writing of what its true mission is, and what services it's supposed to provide (i.e., an article of incorporation or charter).
- The board should be in charge of ensuring that the nonprofit work is completing the mission.

Board Membership Qualities

- Hire the right people with the right qualifications, with the ability and time to deliver on that mission.
- Assemble a board that supports the mission of what needs to be accomplished.

Clarity of Board/Staff Roles

- Board members need to read and understand what the member responsibilities/roles are and what the time commitment is.
- Both organizations need to be more clear about the purpose and the roles of the board and the regional council
- Board and staff need to understand the guidelines that make each organization independent. This needs to be explicit and agreed upon often. Problems occur when roles are implicit. This is when the partnerships will see conflict.
- Relationship between executive director and staff and exec director and board is crucial.

Leadership

- The selection of the executive director is the most important aspect; therefore, board members need experience in the area that the board is responsible for.
- Executive director needs to possess strong leadership skills.

Findings

The following are the major findings from board member and COG staff interviews with CWFS.

- **The partnership is based on 5 contracts.** CWFS has a contract for an executive director and administrative assistant, a contract with Lane COG for accounting services, and 3 identical contracts with Lane COG, OCWCOG and Mid-Willamette Valley COG. It is unique for a certified development company to be connected with more than one COG. An advantage includes a broader geographical range of expertise, with loan officers from the 3 COGs covering 7 counties. A potential disadvantage to this contractual structure is that the 3 COGs may have economic development missions that do not completely coincide with the mission of the partnership. Also, it was evident from the board member interviews that board members usually only communicate with the loan officers in their county.
- **Strategic plan limited to processing SBA loans.** Interviews revealed very little activity beyond loan packaging and processing. Staff originate the loans, work with clients and banks to complete the application and present it to the executive director, and then submit it to the board for approval. Staff also provide quarterly and annual financial reports, including loan statuses, and budget. Beyond that, there are no longer term plans or reports in place to drive the direction of CWFS.
- **Revenue from loan processing is a point of contention.** Interviews with board members, the executive director, and COG staff reveal inconsistency in what is happening with the revenue from loan processing.

- **Lack of board involvement outside oversight committee.** A loan processing database accessed by intranet is the most consistent form of communication between loan officers, the executive director, and the board members. Quarterly board meetings and a large geographic region have made in-person communication inconsistent for the partnership.
- **SBA has not rejected a loan submitted by CWFS.** CWFS, as a loan packaging and processing agency, has a good track record. This speaks well of the loan officers to package the loans for the board's approval, and of the board to monitor and approve loans before submittal to the SBA.

Overall Findings

OCWCOG has a different structural relationship with the Senior Services Foundation and Cascades West Financial Services, Inc., but there are similar findings to be drawn from both partnerships.

- **Purpose of the partnership is understood.** Cascades West Financial Services, Inc. and the Senior Services Foundation are vehicles for the COG to expand economic development and fund services aimed towards older adult independence.
- **Definition of mission is important for COGs to consider.** When COGs consider partnering with a nonprofit or creating a spinoff organization, how narrow or broad they define the mission is important. Both nonprofits have evolved since they began.
- **Partnerships are subject to conflicts if board/staff roles are implicit.** When board members were asked what their advice would be to a COG that is looking to form a nonprofit to help execute its mission, many indicated the need for clearly established roles to eliminate conflict and misunderstandings.
- **Both nonprofits are operating without a strategic plan.** Board members from both organizations acknowledged that they did not have a plan in place that guided their work. Aside from the organizations' missions, bylaws and charter, there are no ways in which they institutionalize their knowledge. This could be a potential problem when COG staff or board members go through periods of turnover.
- **Board activity is imbalanced.** Both the Senior Services Foundation and Cascades West Financial Services, Inc. have members that are more involved than others. CWFS's oversight committee has much more interaction with the executive director and potentially have more of a role in the direction of the organization. This is not necessarily a negative finding. SSF board members entrust their chair to carry out the day to day correspondence with COG staff and report to the board.

- **Partnerships are staff driven.** Interviews with board members and staff from both partnerships revealed that COG staff drive daily operations and also have influence in the direction of the partnerships.
- **Partnerships mostly rely on personal connections.** The relationship of both partnerships has been affected by staff turnover and inactive board members. Interviews with board members indicated that they perceive the condition of their relationship with COG staff based on the quality and consistency of communication.

CONCLUSIONS

This study looks at how regional councils, specifically COGs, partner with nonprofit organizations in order to effectively provide services to their respective regions. Literature on nonprofit boards, public-private collaborations and board governance was applied to board and staff interviews with two organizations that Oregon Cascades West Council of Governments (OCWCOG) currently partners with in order to answer the following questions:

- What is the relationship between COGs and the nonprofit organizations they partner with?
- What opportunities exist for COGs to structure partnerships with nonprofit organizations that will mutually support its mission?

Recommendations

This section offers recommendations on what opportunities exist for COGs to structure partnerships with nonprofit organizations that will mutually support its mission. General recommendations for COGs are followed by specific recommendations for the two partnerships investigated in this study.

- **Establish a contractual relationship with the nonprofit and ensure that both staff and board members understand the expectations outlined in the contract.** Nonprofits have contractual relationships with COGs to deliver specific services that are outlined in the contracts. Outlined in these (sometimes multiple) contracts are how staff will support the board. Both CWFS and SSF are subject to federal requirements, abide by a set of bylaws, and are provided literature on board roles by the state of Oregon. Even with these documents in place, the roles and expectations between staff and board are still not explicit. A contract does not mean much if both board members and staff do not review it periodically. Both organizations stand to benefit from formalizing their relationships. Opportunities to review contracted services are at board meetings. Another way contractual expectations can be reinforced is through routine board member visits with COG staff.
- **Board Recruitment and orientation needs to be thorough and continuous.** Both board and staff of the SSF realize the organization is evolving to expand their funding services. They also agree that their purpose has not changed in spite of this evolution. They are

taking steps to formalize their relationships to ensure that board and staff are clear about their respective roles. Both parties realize that the foundation's expansion will require some flexibility on behalf of the board and the staff as they enter this new territory. A thorough recruitment and orientation program is recommended in order to get board members and staff on the same page and can help structure the relationship between nonprofit and government.

- **A strategic plan or vision should be considered by the partnership.** Findings from the literature point out that for nonprofit organizations that partner with public agencies, it is crucial for board members to understand the purpose of that partnership, provided one is in place. Board member interviews revealed that everyone understood the purpose of the nonprofit organization and why it was created, but both organizations do not have a vision or long term strategy that guides the work they do. Also included in the strategic plan or vision can be a roadmap for how the partnership institutionalizes its knowledge. This can make the partnership more resilient to changes in organization leadership, and board and staff turnover.
- **Board meetings should be more frequent.** The full boards of SSF and CWFS generally meet on a quarterly basis. Findings from the literature and board member interviews of both partnerships suggest that meeting more frequently will provide more opportunities to strengthen board/staff relationships and keep roles and expectations of board/staff at the "top of mind." More frequent meetings will help continue the growth of new board members and allow the board the opportunity to request information from the staff. Meeting more frequently may actually help the partnership operate more efficiently and achieve its purpose. Opportunities to clarify and revisit board and staff roles would be an additional benefit to more board meetings.

Recommendations for CWFS

- **Staff from the 3 COGs should evaluate their economic development missions to see if they coincide with the work they are doing with the CWFS.** CWFS is unique in that it contracts with 3 COGs to administer SBA loans to the 7 counties it serves. Understanding that the economic development missions of each of the 3 COGs may differ, CWFSI board members and the executive director should explore ways to engage the 3 COGs to create a common vision for what the partnership's direction should be.
- **Clarify use of existing resources.** Board member interviews reveal a lack of clarity on what CWFS does with the funds it derives from making loans. The executive director says it goes into operations. There is contention from the COG that funds are idle resources that have the potential to be reinvested but currently are not. Some board members talked about net proceeds going to create a reserve fund to maintain the organization should it lessen the amount of loans it makes due to the economy. The point is that this needs to be cleared up. Funds that CWFS retains outside of operational costs should be transparent between board members, executive director and supporting COG staff. COG staff and the executive director provide financial reports at

quarterly meetings. These meetings would be the time to discuss what to do with idle resources.

- **The executive director needs to meet everyone on the board, individually, beyond quarterly meetings.** At least one of the newer board members interviewed in this study had not met the executive director in person. Both the board member interviews and the literature support the idea that mutual trust in the executive director is integral to developing and maintaining a strong organization.
- **Staff should explore ways to motivate board to fulfill its purpose.** It is obvious from interviews of both boards that COG staff are the primary drivers of these partnerships. That being said, an opportunity may exist for the executive director and COG staff (loan officers) to motivate the board to explore economic development opportunities outside of loan approval.
- **CWFS can do more than package and process SBA loans.** According to an economic needs assessment conducted by Scott Turnoy, economic development professionals in Oregon point to the lack of access to capital as one of the major barriers facing them.³⁸ If CWFS is sitting on revenue beyond that allotted for operational expenses, the partnership may be missing an opportunity to fulfill its mission of driving the local and regional economy. On that note, CWFS has expanded its services by providing loans outside of the COGs geographic region to the entire state of Oregon and beyond. This evolution is partly based on competition from other certified development companies. This may conflict with the perceived mission to provide lending services to drive the local economy.

Recommendations for SSF

SSF is in the process of reworking its bylaws. The new bylaws will be discussed in forthcoming quarterly meetings. The interviews with COG staff and board members indicate that the partnership is on the same page with where they are at, and where they are going. It is apparent that COG staff will have the opportunity to clarify to foundation board members the services it provides the foundation. Because the foundation is in a period of transition that is backed by both the COG staff and foundation board members, recommendations will not be made at this time.

³⁸Turnoy, Scott. Oregon Economic Development Needs Assessment. 2010. 23.

APPENDIX A – CWFS LOAN PROCESS

Notes on how CWFS originates and processes a loan are listed below:

- Relationship as a board member stays within geographical “market.” Works with LCOG staff primarily, because they are working with deals in tandem with a client.
 - A client either contacts LCOG or a financial institution with a desire to access the SBA 504 program.
 - Financial institution works with LCOG to package the loan service.
 - LCOG then works with SBA to approve the loan, ensure the servicing, etc.
 - Benefit for client (business owner) is that they will have a lower down payment due to the SBA/COG/Financial Institution partnership.
 - Not every financial institution utilizes SBA loans.
 - Financial institutions are not in direct competition with COGs/CWFSI.
 - A different type of client can benefit from COG/CWFSI loan services...usually cash flow problems or other weaknesses will make the SBA 504 loan appropriate
 - Financial institutions minimize risk by partnering with SBA and COG to reduce exposure
 - 50% loan to value (collateral piece)
- Once the loan is approved, CWFSI buys the dollars through SBA. SBA funds it, and then CWFSI sends it on to the bank/financial institution that is being partnered with, and then onto the customer.
- The Board reviews the financial status of COG every quarter to see where monies have gone and where they came from.
- CWFSI has a reserve created for lean years. This is driven by the income that the loan officers generate for putting these loans through.
- Under the SBA’s umbrella, CWFSI can access a pool of programs with individuals who have expertise within that specific area. This has become a collaborative resource for financial institutions. Each financial institution does not have the expertise to cover all loan service expertise “in-house.” This has to do with lack of volume of applicants applying for specific loan services.

Banks are more willing to provide services in a way that are more beneficial to that customer.

- SBA 504: banks/financial institutions 50% , CWFSI 40%, borrower 10%
 - Commercial banks minimize their risk by only providing 50%, but also, that customer (borrower) only has to provide 10% down payment as opposed to traditional 30% down payment. This allows customers to keep more working capital in their businesses.

APPENDIX B – SBA STANDARD OPERATING PROCEDURES 50 10 5 (C)

U.S. Small Business Administration Office of Financial Assistance

Lender and Development Company Loan Programs

CDC Staff 13 CFR 120.824

a) A CDC must directly employ full-time professional management, including an Executive Director (or the equivalent) managing daily operations. A CDC may petition SBA to waive the requirement of the manager being employed directly if:

(1) Another non-profit with the same Area of Operations as the CDC and with economic development as one of its principal activities will contribute to the management of the CDC; or

(2) The petitioning CDC is rural and has insufficient loan volume to justify having management employed directly by the CDC.

b) A CDC must have qualified full-time professional staff to market, package, process, close and service loans.

c) When any of the functions referred to in 7.a) and b) above are not performed by an employee directly employed by the CDC, the CDC must use a written professional services contract.

d) Professional services contracts, with the exception of those for accounting and legal services, must be pre-approved by SBA. 13 CFR 120.824(b)-(f)

e) The professional services contract must:

(1) Demonstrate that the CDC is not a shell for another entity as a result of the contract;

(2) Not diminish the responsibility of the Board of Directors for the operations of the CDC;

(3) State that the CDC's Board of Directors specifically acknowledges and retains the ultimate responsibility for all loan approvals and loan servicing actions, 13 CFR 120.823, and that such responsibility must be carried out independently of any control by the Contractor;

(4) State that no contractor or associate of the contractor may be a voting or non-voting member of the CDC's Board of Director;

(5) Clearly state the:

(a) Contract is for services performed;

(b) Description of services that the contractor will perform;

(c) Payment is for services actually rendered