

SYRACUSE UNIVERSITY
MAXWELL SCHOOL OF CITIZENSHIP AND PUBLIC AFFAIRS

PPA 723

Managerial Economics for Public Administrators

Case #2

**PRICING AND FUNDRAISING AT THE
CHILDREN’S MENTAL HEALTH NETWORK**

The Children’s Mental Health Network, Inc. (CMHN), is a new nonprofit 501(c)(3) organization. It is dedicated to providing affordable mental health screenings to children in a three-state, highly-urbanized region. Its four founders and Directors began the organization after many years as social workers, during which time they saw that children with treatable emotional problems were left without any intervention, leading to much larger problems down the line.

Like all nonprofits, CMHN faces a complicated set of objectives. First, the organization was formed for the express purpose of screening as many kids as possible. Second, it has to stay afloat. Third, being brand new, it would be good to build up a small endowment for special projects and lean times. All this is an especially difficult balancing act because while you (their pro bono policy analyst) understand that NPOs can and do go out of business when costs chronically exceed revenues, the Directors don’t all understand that all private organizations face this constraint—even charities.

CMHN, like most nonprofits, has three major sources of income.

- *Earned income.* CMHN plans to charge some nominal fee for service—they know from past experience that when a charity gives its services away free, people tend to value the service at zero. Earned income depends on the demand for the services, of course. Similar services have faced the following demand:

P	\$10	\$9	\$8	\$7	\$6	\$5	\$4	\$3	\$2	\$1	\$0
Q	0	250	500	1000	2000	3500	5000	7000	11000	15000	20000

- *Private donations from foundations, individuals, and corporations.* Donation levels rise with fundraising expenditures, but at a decreasing rate. The expected relationship is contained in the table below.

Fundraising expenditures	\$0	\$2,000	\$4,000	\$6,000	\$8,000	Amounts of \$10,000 and above
Expected donations	\$0	\$10,000	\$17,000	\$21,500	\$23,500	\$24,000

- *Grants from the state.* The state funds private nonprofit mental health efforts. The grants are small and not competitive (if you jump through the hoops, you’ll get the money), but the application process is long and painful. A basic operating grant is worth \$7,500, but takes \$600 in personnel hours to prepare. A “jumbo” grant, worth \$11,000, takes about \$1,000 in personnel time to write. CMHN can get one grant or the other, but not both.

CMHN’s direct costs for performing services are straightforward. Overhead, which is fixed, is \$10,000. It costs about \$5 to screen each individual child, meaning that 250 children cost \$1,250, and so on. Notice that, like most social service charities, CMHN can’t make ends meet at any level of service just on earned income. They must rely on donations and/or grants. Obviously,

CMHN can raise neither donations nor grants unless it actually screens kids, so it will definitely have negative net earned income.

Another aspect to cost is less transparent. It is clear that government grants tend to displace, or “crowd out” private donations to social service agencies. Studies suggest that CMHN will face a loss of about 10 cents in private donations for each dollar gained in state grants. For example, assuming that CMHN raises both public and private funds, a \$7,500 basic state grant will crowd out \$750 in donations.

CMHN’s four Directors want you to advise them on their operating strategy. Unfortunately, they can’t decide on the organization’s objectives. The following descriptions sum up the four different points of view.

1. Esther is a worrier. Given the fact that the economy is alright at the moment, she advocates maximizing profits from all sources this year, and socking away the difference between total revenues and total costs in an endowment fund.
2. Carlos lives in the moment. He advocates maximizing the number of kids screened, even if that means there’s practically nothing left for endowment. He doesn’t care where the money comes from.
3. Sylvia is an anti-corporatist, and is uncomfortable accepting private sector donations. Her vote is to maximize the number of screenings, while not accepting private donations.
4. Joaquin is suspicious about the government dole—he thinks it makes organizations soft and too beholden to government. He would just as soon rely entirely on private contributions. While not adverse to saving a little, he too is mostly interested in maximizing the number of screenings.

All 4 Directors agree that the organization must not run a deficit.

Your job is to present four alternative strategies, each of which aligns most closely with the desires of each Director. Explain the strategies objectively. Write a 2-3 page (total) memo explaining each strategy, in English. In addition, explore ways in which the 4 strategies might be at least partially reconciled. Discuss any other issues you deem relevant to the case.

Include the following information:

1. The approximate number of kids screened.
2. The price charged to the clients.
3. Total costs and their breakdown.
4. Total revenues, and their breakdown.
5. Money left over to roll into endowment.

You may use a graph or two to explain your economic reasoning (and you must rely on economic reasoning), but the success of your memo depends most on your terse, logical, clear explanation of each option.

To keep things simple, only consider prices in integer dollar amounts. As in real life, costs and revenues under different strategies won’t match up to the penny. Sometimes you have a few dollars left over, even if you’re not expressly trying to save. That’s OK, think flexibly and present plans that are as close to each Director’s wishes as possible.