

\*Please note that the Compassion Capital Fund (CCF) program is through the Office of Community Services and is separate from the Healthy Marriage Program in the Office of Family Services (OFA). These documents are to be used as references only and not as guidance from OFA. Contact your program specialist if you have further questions related to fee-for-service activities and compliance with Federal and OFA laws and regulations.



# Exploring Fee-for-Service

## An Approach to Sustainability

---

### Introduction

The sustainability of faith-based and community organizations (FBCOs) is being threatened as the current economic climate continues to deteriorate. FBCOs are experiencing both a decrease in funding and an increase in demand for services. The challenge is intensified as competition among FBCOs expands for the same limited capital sources.

Evidence of this economic impact on FBCOs abounds. For example, according to a recent GuideStar\* survey, more than half (52 percent) of the surveyed organizations have experienced a decrease in contributions. The proportion of charitable nonprofits reporting decreased contributions grew from 34 percent for January through September 2008, to 52 percent for October 2008 through February 2009.(1) In addition, according to the same survey, “Almost 60 percent of organizations reported an increase in demand for their services.” (2) Given this economic environment, organizations are exploring a patchwork of alternatives to generate income at minimal cost.

One alternative is the introduction of mandatory, voluntary, or requested fees. These “fee-for-service” models allow community service organizations to generate revenue by charging or requesting fees for services and products.

Keep in mind that, just like in the private sector, a thorough business plan and market analysis or consideration of what you have to offer and who might be willing to pay for your services is a core element of exploring fee-for-service. To accompany this article, the NRC has developed analysis tools and planning guidance that will help you think through whether you will implement a fee-for-service element in your organization.

***In this article.*** This article has three sections. First, “Types of Fee-for-Service Programs” reviews mandatory, voluntary or requested fees; membership programs; and hybrid approaches. The second section, “Considerations for Implementation,” explores segmentation, pricing, legal and tax implications, and potential conflicts with current grants. Finally, the third section, “Making a Decision,” provides references to additional NRC tools to help you analyze the potential of using a fee-for-service model

\*GuideStar is a 501(c)(3) organization whose mission is to revolutionize philanthropy and nonprofit practice by providing information that advances transparency, enables users to make better decisions, and encourages charitable giving.

\*Please note that the Compassion Capital Fund (CCF) program is through the Office of Community Services and is separate from the Healthy Marriage Program in the Office of Family Services (OFA). These documents are to be used as references only and not as guidance from OFA. Contact your program specialist if you have further questions related to fee-for-service activities and compliance with Federal and OFA laws and regulations.

## I. Types of Fee-for-Service Programs

### 1. *Mandatory Fees*

In the mandatory fee model, the organization charges a predetermined price or fixed fee based on a specific set of criteria. The fee must be below the “market rate” in order to adhere to legal and IRS considerations (described in the “Legal and Tax Ramifications” section). Examples of nonprofit organizations that operate under this model are public universities, hospitals, nonprofit or public health clubs, and national and state parks. (3).

### Voluntary Donations & Requested Fees

If an organization has not traditionally charged fees, it may encounter some difficulties in beginning to charge for them. Voluntary donations and fees, through which the organization informs clients of their costs and requests their contribution but does not mandate fees, helps move an organization toward being in a position to charge fees while generating more income in the meantime. Implementing voluntary donations and fees is a less pervasive strategy than charging fees. Starting to implement this practice will 1) start your organization down the road of asking for money when providing products or services, and 2) provide *some* additional revenue.

### 2. *Voluntary Donations*

Fees for services can be made voluntary by providing the services at no cost but requesting **donations** to cover some of the costs incurred. This could be a good strategy to introduce the organization and its clients to the concept of paying, while greatly minimizing any notion of feeling coerced to donate or pay. While this is the least invasive strategy, it is also the least effective, as clients would tend to give only a very small amount. (4) Some ideas include:

- **Post signs or give out flyers requesting voluntary donations:** If you want to be more subtle than making an announcement, make sure you have signs and/or flyers prominent and available whenever there is a group of people who are excited to be receiving your services. Possible messages for signs and flyers include:
  - “We thank you for your donations”
  - “Your donations help ensure continued services”
  - “Due to decreases in private/public funding, we are asking for your assistance in supporting our programs”. (5)

\* Please note that the Compassion Capital Fund (CCF) program is through the Office of Community Services and is separate from the Healthy Marriage Program in the Office of Family Services (OFA). These documents are to be used as references only and not as guidance from OFA. Contact your program specialist if you have further questions related to fee-for-service activities and compliance with Federal and OFA laws and regulations.

- **Send a request for donations along with program evaluations.** When you send out an evaluation (online or via mail), include a statement that says, “If you rated this event [training, program, service, etc.] highly, please consider returning a contribution along with your evaluation. We count on contributions to keep our work going and ask that you contribute whatever is appropriate for your budget to support the services we provide.” Along a similar vein as asking for donations along with registration, this implies a direct connection with a service an individual sees as valuable and has them consider what it was worth.

### 3. “Requested” Fees

The strategy involves requesting donations with each service so that clients become more aware of the cost to the organization and the need for support. This slightly more direct approach involves publishing a menu of services and requesting, but not requiring, a fee to cover the cost of the service. This gives clients and stakeholders specific knowledge about the actual cost the organization incurs for each service rendered to its clients. When the client learns the exact cost for the services received, a voluntary contribution can be made to offset some of the expense that the agency incurs. It reinforces the belief of independence and the expectation of obtaining and demanding better services or products. (6)

<b>The Cost of Providing Services</b>	
One delivery of a meal (Meals on Wheels)	\$7.00
One trip to and from a medical appointment	\$5.00
Support group counselor (per person)	\$7.00
Private counseling (per hour)	\$40.00
Lunch at the community center	\$5.00
Field trips per person per day	\$10.00
Magazine subscriptions (average)	\$15.00
Books and DVDs for the library (average)	\$12.00
Internet access (per day)	\$5.00
New games for the game room (average)	\$15.00
Any amount you can pay toward these services is gratefully accepted and will be put right to work.	
Thank you.	

\*Please note that the Compassion Capital Fund (CCF) program is through the Office of Community Services and is separate from the Healthy Marriage Program in the Office of Family Services (OFA). These documents are to be used as references only and not as guidance from OFA. Contact your program specialist if you have further questions related to fee-for-service activities and compliance with Federal and OFA laws and regulations.

The sample above is an announcement of a requested fee table of services from a community service organization in Michigan (8).

- ***Charging Membership Fees***

This approach involves charging a lump sum membership after which all services and products are available to members for a free or reduced cost. Southeastern Southeastern Network of Youth and Family Services, for example, charge a membership fee. With this fee, members get access to discounted or additional services not offered to the general public. The fee is based on each organization's operating budget, so organizations with smaller budgets pay lower membership fees. Fees increase as an organization's operating budget grows.

Organizations can be creative in thinking about how to create an awareness of the cost and value of the fees and services. An example might be:

- **Request for voluntary donation along with online registration:** If participants pre-register online for any of your trainings or services, include a voluntary fee along with the registration. We recommend including a range of possible amounts to select, including an "other" where people can fill in the blank. Stress that not paying would not preclude people from registering. Possible language to accompany this request could be, "Though this service is free of charge, we do rely on those who can pay to contribute an amount that is appropriate and meaningful. Each training (or other service/product) costs between \$x and \$x."
- **Make non-coercive announcements after events/programs:** This example is placed here with some caution, as it requires a keen sense of judgment about the audience and how they may perceive the announcement. If your organization holds an event or program that is well-known to be of high value to participants, consider having a leader of the organization make a brief request for donations at the end of the evening. The message can be: "We would like you to know that the cost of putting on this and other events can range from \$x to \$x. We are proud that we can offer these services free of charge so that anyone can attend. However, we count on people who can afford to donate to help make it possible to keep these sessions free and open to the public. If you value the services that we offer, like the one you attended today, and you value that the services are available to the public, we ask that you consider donating. The recommended donation is between \$x and \$x to cover our expenses; however, please donate what is appropriate for your budget and means. If you cannot donate, please know that we value your participation and welcome your being here. To donate, please place a check in the envelope that is in your information pack and mail it to us, or donate online at [state your Web site]." (7)

\* Please note that the Compassion Capital Fund (CCF) program is through the Office of Community Services and is separate from the Healthy Marriage Program in the Office of Family Services (OFA). These documents are to be used as references only and not as guidance from OFA. Contact your program specialist if you have further questions related to fee-for-service activities and compliance with Federal and OFA laws and regulations.

It is very important that no tactics are used to cause coercion (e.g., asking for donations on the spot in front of other people, asking for a show of hands for who is going to donate, saying anything that would imply pressure or sense of “being wrong” for not donating). It is also important to use good judgment about the audiences you choose to solicit.

- **Publish an announcement of voluntary fees:** The organization can publish a list of the cost of services provided. This “menu” can be posted in prominent locations, be included in event programs and brochures, and serve as a basis for fundraising initiatives. It can be placed by a registration desk along with a sign that says, “Your voluntary fee is appreciated.”

## 5. Hybrid

Depending on the organization’s circumstances, moving all the way toward any of the models described above might not be exactly the right fit. A blend of approaches, along with free services, might be the most appropriate. As an example, a snapshot of Southeastern Network of Youth and Family Services’ member fees page is below this paragraph, and the Nonprofit Resource Center’s annual fees listing is shown on the following page; both offer free services, services a la carte, and discounted and exclusive services and products to its members. (9)

**Together We Can** Login

**Becoming a Member**

[Member Application](#)

Congratulations on your decision to join SENetwork. Please click on the Member Application link above to fill out an application, then mail application, along with payment, to:

SENetwork  
PO Box 1173  
Bonita Springs, FL 34133

**Member Fees**

Membership is from July 1st to June 30th. First year dues are prorated from the time you join.

**Organizational Member**  
Annual fee is based on the agency's total youth budget.

Your Youth Services Budget	Your Annual Fee	Quarterly Payment
Up to \$500,000	\$ 800	\$200
\$500,000 Up to \$1 Million	\$1,200	\$300
\$1 Million Up to \$2 Million	\$1,600	\$400
Over \$2 Million	\$2,400	\$600

**Partnering Member**  
Annual Fee - \$375

**Individual Member**  
Student - Annual Fee \$ 35  
Standard - Annual Fee \$ 90  
Specialized - Annual Fee \$150

If you have any questions, please contact our office at [polly@senetwork.org](mailto:polly@senetwork.org)

powered by memberclicks

\* Please note that the Compassion Capital Fund (CCF) program is through the Office of Community Services and is separate from the Healthy Marriage Program in the Office of Family Services (OFA). These documents are to be used as references only and not as guidance from OFA. Contact your program specialist if you have further questions related to fee-for-service activities and compliance with Federal and OFA laws and regulations.

## II. Considerations for Implementation

The right mix of alternatives will be different for every organization. Organizations may choose to implement fees for all services, or choose a hybrid approach of fees, voluntary fees, and free services. All models require careful consideration before and during implementation. In all cases, the key considerations are as follows: potential conflicts with current grants, segmentation, pricing, and legal and tax implications. It is imperative that the organization considers all ramifications involved with the incorporation of the practice (16).


### 1. Potential Conflicts with Concurrent Grants

As a Compassion Capital Fund grantee, you are required to comply by the Federal requirements of the grant. Please follow all Federal laws and CCF regulations, and consult with your program specialist.

### 2. Segmentation

Segmentation is the strategy of dividing the clientele into specific characteristics aimed at optimizing the use of a service or product. One of the best ways to segment the organization's market can be based on the clients' revenue. This sliding scale approach provides a deliberate and strategic method that fairly enables clients to contribute based on their financial ability. Those clients that are economically in a position of paying a higher price can offset some of the cost from those clients who can pay very little or cannot pay at all. The higher the revenue the organization has, the more the service or product will cost. (10)

This example from the Nonprofit Resource Center demonstrates how the organization groups clients by their revenue, and then optimizes services and fees for each group. This sliding scale approach provides a deliberate and strategic method that requires clients to contribute based on their financial ability and level of services needed.



Annual fee is based on your organization's operating budget.

Annual Operating Budget	Annual Fee
Under \$200,000	\$110
\$200,000 – 500,000	\$210
\$500,001 – 1,000,000	\$310
\$1,000,001 - 4,000,000	\$410
\$4,000,001 +	\$510

Membership is open to all nonprofit organizations, educational institutions, faith-based organizations, and city, county and state departments. A one year membership starts the month you join.

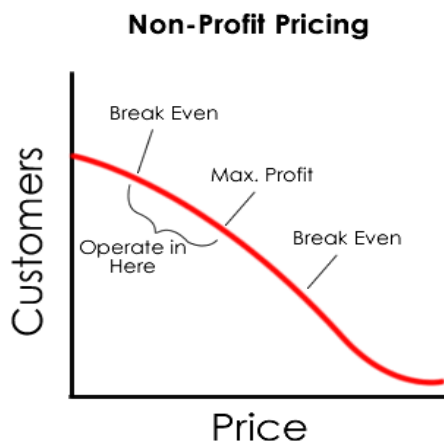
\*Please note that the Compassion Capital Fund (CCF) program is through the Office of Community Services and is separate from the Healthy Marriage Program in the Office of Family Services (OFA). These documents are to be used as references only and not as guidance from OFA. Contact your program specialist if you have further questions related to fee-for-service activities and compliance with Federal and OFA laws and regulations.

### 3. Pricing

Pricing can be defined as the cost at which a service or product is obtained. But how would an FBCO know price to charge for its products or services? If the organization has not already done so, the first step to establishing fees is to figure out the cost associated with the services or products that you offer. Nonprofit organizations can determine pricing based on a “break even point.” The break even point is the level at which offering a service or product results in neither a financial gain nor a loss. It represents your organization’s aim to successfully serve the right number of people at the lowest cost possible. (11)

In figuring out the break even point for your products or services, you must know the fixed and variable cost, the product or service’s units of sale, and the price you will be charging for each product or service. To determine the break even point, follow the following steps:

- Step 1: Determine the “units of sale” you will be offering (a single training? a series of trainings with one fee?).
- Step 2: Make a list of all the fixed costs associated with the service or product.
- Step 3: Make a list of all the variable costs associated with the service or product.
- Step 4: Add up these costs.
- Step 5: Determine what sources of revenue you have to cover the costs, and identify any additional revenue needed to cover the costs.
- Step 6: The additional revenue needed is the price per unit you will charge to be able to cover your costs. This is reaching your “break even point.”



\*Please note that the Compassion Capital Fund (CCF) program is through the Office of Community Services and is separate from the Healthy Marriage Program in the Office of Family Services (OFA). These documents are to be used as references only and not as guidance from OFA. Contact your program specialist if you have further questions related to fee-for-service activities and compliance with Federal and OFA laws and regulations.

The graph above illustrates the relationship of price with customers. The break even point will decrease due to an increase in revenue from a third party. This subsidy will allow the FBCO to charge a lower price for the product or service to fewer clients to break even. (12)

As a community service organization, the break even point is a milestone—not necessarily the goal to be aimed at. The aim that your organization might want to achieve is to successfully serve the most people while supporting your organization’s mission, vision, and values. (13)

You may also consider using a “break even calculator” to assist you in your calculations; please refer to additional resources contained in this toolkit. For other options, you can look up “break even calculator” on any online search engine.

#### ***4. Will Clients Pay the Price?***

An additional factor in pricing is comparing what you hope you will be able to charge with the going market rate. It’s important to do some research to determine what the going rate is for similar products or services provided by nonprofit organizations.

If your price is higher than that of other organizations, and there are similar products and services offered in your geographic area, you should first question whether your price is appropriate; then, if you think it is, you will need to think carefully about how you will market your products or services in a way that differentiates your product and justifies its cost. You may not be able to charge your desired price and may need to go back to the drawing board to determine how you can raise additional funds to supplement the cost.

#### ***5. Legal and Tax Ramifications***

When charging fees for rendered services or products, there are three important considerations that your organization must be aware of. First, your fee must be less than a for-profit business would charge for a similar service. (14) Second, if the product or service that generates the fee is not associated with your organization’s mission, it can be subject to Unrelated Business Income Tax, or UBIT. (15)

According to the IRS, Unrelated Business Income is the income from a trade or business that is regularly carried on by an exempt organization and the is not



\* Please note that the Compassion Capital Fund (CCF) program is through the Office of Community Services and is separate from the Healthy Marriage Program in the Office of Family Services (OFA). These documents are to be used as references only and not as guidance from OFA. Contact your program specialist if you have further questions related to fee-for-service activities and compliance with Federal and OFA laws and regulations.

substantially related to the performance by the organization of its exempt purpose or function, except that the organization uses the profits derived from this activity. If exempt community organizations engage in a great deal of unrelated business activities, its tax-exempt status could be jeopardized.(16) For more information regarding Unrelated Business Income or activities go to:  
<http://www.irs.gov/pub/irs-pdf/p598.pdf>.

The third consideration to keep in mind is that these fees are strictly voluntary, and individuals must not be coerced into paying fees. A coercive action would be one that makes the organization or person feel that the good or service was not really free and the donation not voluntary. (17) If a community service organization chooses this approach, it must make sure that its relevant policies and procedures are planned and implemented appropriately so that not even the impression of coercion is made.

### III. Making Decisions

As community service organizations experience an increased demand for their services and products and a diminished supply of revenue sources, the need for exploring alternative income generating options becomes more salient. A fee-for-service strategy could help the organization offset some of its expenses, and increase its revenue while minimizing its capital or human investments.

To further increase your knowledge base and to implement the fee for service model, consider using the tools, templates, and resources in this toolkit.

- **Fee-for-Service Models:** An at-a-glance reference guide.
- **Can Fee-for-Service work for your organization?** A table to guide you through an initial analysis of whether a fee-for-service model might work for your organization.
- **Fee-for-Service Plan–Ten Essential Elements:** Once you've determined whether fee-for-service is feasible for your organization, this planning guide will help you roll up your sleeves and move toward implementation.

\* Please note that the Compassion Capital Fund (CCF) program is through the Office of Community Services and is separate from the Healthy Marriage Program in the Office of Family Services (OFA). These documents are to be used as references only and not as guidance from OFA. Contact your program specialist if you have further questions related to fee-for-service activities and compliance with Federal and OFA laws and regulations.

## End Notes

(1) *The Effect of the Economy on the Nonprofit Sector*, October 2008 - February 2009, Guidestar, page 1  
[http://www.guidestar.org/march09\\_npo\\_economic\\_survey.pdf](http://www.guidestar.org/march09_npo_economic_survey.pdf)

(2) *Ibid.*, page 3

(3) Kim Klein, *Fund Raising for Social Change*, 2007 Jossey-Bass, page 211-212

(4) *Ibid.*, page 213

(5) *Ibid.* page 211

(6) *Ibid.* page 210

(7) *Ibid.* page 211

(8) *Ibid.* page 210

(9) page 211

(10) *How to Charge for Service and Not Lose Customers*, August 7, 2008.  
<http://nonprofitchas.com/2008/08/07/how-to-charge-for-service-and-not-lose-customers>

(11) *Ibid.*

(12) *Ibid.*

(13) *Ibid.*

(14) Fritz, Joanne. *Can a Nonprofit Charge Fees for Its Services?* About.com 2009. About.com, a part of The New York Times Company.  
<http://nonprofit.about.com/od/financialconcerns/f/feesforservices.htm>

(15) *Ibid.*

(16) *Tax on Unrelated Business Income of Exempt Introduction Organizations*, Publication 598, (March 2009), Department of the Treasury Internal Revenue Service, (page 3). <http://www.irs.gov/pub/irs-pdf/p598.pdf>

(17) Kim Klein, *Fund Raising for Social Change*, 2007 Jossey-Bass, page 213