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## **The Recession and Nonprofits: Impacts, Responses and Options**

Background Information for a Conversation of Leadership 18  
with Elizabeth T. Boris and Paul C. Light

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### **Introduction**

Economic crisis has dramatically affected most nonprofits according to several surveys and many press reports. However, there has not been a national study that documents the effects or the actions that nonprofits are taking to survive the recession. There have been numerous press reports and small studies that we've drawn on for this piece. Not all nonprofits have been affected to date, and nonprofits in some states, and certain types of nonprofits have been harder hit. The arts, for example, seem to be disproportionately affected.

### **Nonprofit Context**

The scope of the total nonprofit sector can be summarized in a few bullets from statistics reported in the *Nonprofit Almanac 2008*:<sup>1</sup>

- 1.9 million organizations
- 5% of GDP; \$666.1 billion in 2006
- 10 % of U.S. employment
- \$489.4 billion in wages in 2006
- \$3.4 trillion in assets reported in 2005
- 344,147 public charities that report to the IRS on Form 990 have over \$1 trillion in expenses
- 70% of public charity revenue is from fees for service; 12% contributions; if we exclude hospitals and higher education—fees equal 54% and contributions 23%
- \$306.4 billion in private contributions 2007
- 26.7 percent of population volunteered in 2006—61.2 million
- 12.9 billion hours volunteered in 2006; 7.6 million full time employees earning \$215.6 billion
- 45% of nonprofit public charities have less than \$100,000 in expenses
- 3.8 % have \$10 million or more in expenses
- Growth of charities in last decade—1997-2007: 45% growth

## **Financial Impact of the Recession**

The impact of the recession on all public charities has not been fully documented. There are a number of surveys, but none are random, or cover the sector or the country fully. We have some data on funding sources, but even those data are not comprehensive. With those caveats, we know that the major funding sources have fewer resources and that revenues of many nonprofits have declined.

### **Impact on Funding Sources**

#### State Finances:

- There are 47 state governments with budget gaps<sup>2</sup>—estimated at over \$100 billion in 2009-2010—resulting in budget cuts: Maryland arts budget was cut by 18%; Virginia's by 15%; and Catholic Charities reports that agencies experienced decreases of 50% in state and 43% in local funding
- The federal Stimulus Package will provide \$135 to \$140 billion to states.
- States are likely to face \$70-\$100<sup>3</sup>(or more) billion deficits after the stimulus plan runs out—leading to more cuts and higher taxes according to a study by the Rockefeller Institute

#### Federal Finances:

- Federal government budget \$410 billion—although \$787.2 billion stimulus funds promise short-term relief
- The federal debt has reached new heights and will be a factor for years to come

#### Foundation Finances and Giving:

- Foundation assets have dropped (28 % decline in assets); 48% of foundations in a Council on Foundations study foundations expect to reduce grantmaking by 10% or more in 2009; 38% expect to maintain or increase
- 51% of nonprofits in an Independent Sector survey experienced a decrease in foundation grants; 23% in a GuideStar survey; 74% in the Catholic Charity survey

#### Corporate Giving:

- Corporate giving has been stagnant for the past two years reflecting reduced corporate profits and is expected to decline in 2009<sup>4</sup>
- 25% of GuideStar respondents had corporate grants discontinued and 39% reported smaller grants; 52% of Catholic Charities agencies experienced decreases in corporate donations

#### Individual Giving:

- Individual giving has dropped for many nonprofits: 56% of nonprofits in an IS survey experienced a decline; 71% of nonprofits in GuideStar survey experienced fewer gifts and 71% received smaller gifts
- There was a 6.9 % drop in number of new donors in 2008 and decrease in size of average gift reported by Target Analytics

- On line donations are still increasing in number, but at a slower rate and numbers of million dollar gifts have declined<sup>5</sup>
- In-kind donations have also dropped, for example, the number of items donated to Goodwill in Kansas City dropped 5% in 2008, following 6 years of double digit increases each year—but thrift store sales have increased

#### Fees for Services:

- Contracts for services have decreased for some nonprofits, for example, Goodwill janitorial contracts in Roanoke, Virginia

### **Impact on Nonprofits**

Impacts of the recession on nonprofits fall into four major categories, reduced resources (discussed above), delayed payments, difficulty in obtaining credit, and increased demand.

**Delayed government payments.** In many states late payments to nonprofit contractors are leading to cash flow problems, increasing costs and affecting program delivery. Nonprofits must seek lines of credit and loans to provide cash flows to cover salaries and program expenses while waiting for payments and gifts to come in.

- State of New York reports that of the 10,970 new and renewable contracts, agencies failed to meet time frames for 7,660 (70%) contracts<sup>6</sup>
- A survey conducted for the Alliance for Children and Families and United Neighborhood Centers found that 19 states had delayed payments for existing grants and contracts in 2009

**Credit Squeeze.** Lines of credit have been difficult for many nonprofits to obtain get and are in flux. Some banks closed down credit lines, others reduced amounts, added fees, or required payments because the organization's assets had declined.<sup>7</sup> Lines of credit are increasingly costly.

- Some nonprofit bondholders experienced an increase in interest rates

**Increased demand.** Studies by a variety of agencies find that demand for many nonprofit services is up significantly, especially for basic necessities—food, shelter, and money. Nonprofits are also finding more middle class clients seeking these basic necessities.

Findings include the following:

- Nonprofit Finance Fund: 93% increase in demand for services
- Center for Nonprofits in New Jersey: 70% increase
- Michigan Nonprofit Association: 71% increase
- La Salle Survey of Philadelphia: 70% increase
- Independent Sector survey: 67 % increase; 53% experienced new types of demands

### **Nonprofit Responses**

Responses to financial distress are varied. Retrenchment comes in many forms and many organizations are pursuing multiple strategies:

- Nonprofits reduced budgets—35% of organizations in the GuideStar survey
- Nonprofits dipped into reserves—43% have or will use reserves according to the Nonprofit Finance Fund; many are living hand to mouth with no reserves in a study by the Urban Institute
- Many reduced travel 50%; reduced training 36%; reduced resource/research materials 36 %; are encouraging working remotely according to Independent Sector
- Nonprofits cut staff—41% Independent Sector; Shakespeare Theater in Washington, Survey of North Carolina nonprofits over 25% laid off staff; 26.1% intend to downsize in 2009 in the Nonprofit Employment Trends Survey; some have a hiring freeze—37% GuideStar
- Cut pay—Independent Sector survey 26%; GuideStar survey 20%; Atlanta Symphony 5% cut; Baltimore Symphony 8% cut; salaries of fundraisers dropped 2% in 2008
- Cut benefits—15 higher education programs in TIAA-CREF stopped paying into retirement plans
- Cut or reduce programs—39% Nonprofit Finance Fund; decreased number of performances; shut down programs; scaled back exhibitions, for example, Getty Museum and Metropolitan Museum of Art
- Collaboration and Partnerships—42% have or will collaborate to produce programs according to the Nonprofit Finance Fund
- Mergers—there are not data yet, but in a Bridgespan study 20 % of nonprofits said that mergers could play a role in their response to the recession
- Creased operations—examples include the Baltimore Opera, Milwaukee Shakespeare theater company, Las Vegas Art Museum; GuideStar survey found that 8 % of nonprofits are in danger of folding; La Salle study found that 6% of organizations predicted they would close

### **Nonprofit Options**

- Engage board members and staff in contingency planning
- Build social capital and promote innovation: engage staff, board, clients, and donors in feedback on how to achieve mission and improve services while cutting costs
- Invest in advocacy—communicate mission and values broadly. Of nonprofits in the Independent Sector survey, 53% identified assistance in communicating the value of the nonprofits and foundations to the government as their greatest need
- Use laid off people as volunteers, create special programs and opportunities for them—this is the one resource that is expanding, rather than contracting
- Employ cut-back management tools—stress management, workforce supports
- Ask cash-strapped corporations for pro bono professional services
- Invest in fundraising: Pay attention to retaining and strengthening bonds with existing donors. An Urban Institute study shows that 60 percent of donors attracted in one year do not give in the next year
- Develop low-cost, more personalized events
- Use web sites and social networking sites to get messages out, advocate, and connect to potential donors, clients and volunteers

- Use webinars for training and outreach, employ technology for virtual meetings, and use webcasts to magnify the reach of conferences and seminars
- Seek service and management options that might cost less in a recession—advertising may be less expensive in a recession, certain types of services may be less costly
- Develop cost-saving collaborations and partnerships, for example, possibilities include sharing services, space, and events with other nonprofits, businesses and government and bartering excess capacity for needed resources

### Public Policy Opportunities: Short Term—“A Crisis is a Terrible Thing to Waste”

The current policy environment requires the attention of all nonprofit leaders. There must be greater involvement in the policy decisions at the state, local and national levels because the stakes are high. Indicators of child and family economic well-being are projected to go back to levels not seen since 1975 according to the Foundation for Child Development. Nonprofits must be at the table as priorities are identified and decisions are made. There are simply not adequate resources available in most localities to deal adequately with the problems that nonprofits and their communities must address. The resources provided by the new administration will create intense competition.

- The American Recovery and Reinvestment Act—the Stimulus Package—will provide \$787.2 billion to revive the economy. It expires in 2011. Nonprofits must be engaged in developing priorities and accessing resources.
  - Advocacy and lobbying is the name of this game
  - Public private partnerships—engage governors and mayors in preparing and planning for use of the funds
  - Develop plans for evaluation and monitoring on use of and outcomes of funds—push down to states and localities
  - Promote “Shovel Ready” projects, which, according to the Listening Post Study revealed \$166 billion in nonprofit (excluding hospitals and higher education) infrastructure projects ready to go.

- The Serve America Act will expand service opportunities through AmeriCorps and other service programs of the Corporation for National and Community Service. Nonprofits will have to build their capacity to manage and use the influx of volunteers effectively. This will require resources.

*\$ 25M for capacity building w/ rural focus*

- *\$ 50M* { The White House Social Innovation Fund will help to support social innovation and will require measurement of outcomes and social benefits for the money granted. Details on the fund are not yet available. *Growth capital.*

- Nonprofit policy priorities mentioned in a survey conducted for the Johns Hopkins Listening Post Project were:
  - Restoration or growth in federal budget funds for their fields
  - Reinstatement and expansion of tax incentives for giving
  - Federal grant support for training and capacity building

- Full cost recovery of reimbursements under Medicare, Medicaid and other federal programs.
- Nonprofits could also promote changes in contracting and donor requirements to recognize the importance of providing reasonable overhead for organizations, and
- Promote changes in contracting and donor requirements to allow operating reserves and broader acceptance of the utility of operating reserves for nonprofit sustainability. An Urban Institute study shows that 28% of metro D.C. nonprofits had no operating reserves and 51 % had less than three months. Nonprofits that did not make it through the 2001 recession had less than a month's reserves.

### **Public Policy Options: Longer Term**

States are likely to be in financial distress for several years, the Stimulus money will run out, and the federal deficit will be very high. The country will be dealing for many years with issues of poverty, housing, employment, education, healthcare, an aging population, immigration, and deteriorating infrastructure.

- Federal budget deficits and the national debt will need to be addressed
- Medicare Trust Fund is projected to be exhausted by 2017
- Social Security Trust Fund is projected to be exhausted by 2037
- Global Warming is projected to accelerate in the coming decade with multiple impacts on the environment, water supplies, energy use, and much more.

### **Nonprofit Leadership**

Nonprofit Leadership is required—the sector must come into its own with a seat at the policy table and a stronger voice in the policy debates. Nonprofits must promote civic engagement in the big issues and not be afraid to press its own case on behalf of the public good.

Nonprofits must:

- Advocate from a position of strength—the sector's reactive mode is not serving the public or the sector. There must be skilled advocacy leadership and vibrant civic coalitions to promote beneficial public policies.
  - Nonprofits must weigh policy options and weigh in on them
  - Nonprofits must propose policy options—long term, and collaborative—and engage in dialogue about how best to address the country's needs
  - Nonprofits must work with state and local public and private leadership to develop community and state level data and planning
  - Nonprofits must develop the capacity to advocate more effectively at the state and local levels as well as at the national level
- Strengthen communications and messages about missions, values, achievements, and public policy options
- Improve accountability and transparency
  - Promote codes of ethics, governance standards, accreditation and monitoring of nonprofits
  - Develop social responsibility norms for nonprofits

- Improve staff training and pay reasonable wages, particularly to those who do service work
- Invest in research. Leaders must understand the strengths and weaknesses of proposed policies, the nonprofit sector and its subsectors
- Collect data on community needs and assets to enable priority setting and collaboration problem solving
  - Communities needs must be understood and addressed in a holistic manner
  - Isolated organizations are more likely to fail
- Develop common performance measures across the nonprofit sector and collect and disseminate results
- Identify what works and why across fields—this requires research and development, monitoring, performance measurement and scaling up resources. One idea is to create “tool kits” of programs to try with measurement tools build in to track the effects
- Encourage and promote innovation
  - The strengths of the nonprofit sector are to test new approaches on the ground, and to imagine what future needs and solutions might be
  - Innovation within organizations and for society must be explicitly valued and promoted
- Large scale collaborative projects that promote the efficiency and effectiveness of the nonprofit sector should be possible with the resources available to this sector. Building on the Common Fund and TIAA-CREF models, what if the sector developed large scale:
  - Data sharing and performance/outcome measurement portals?
  - Loan funds?
  - Capital funds?
  - Nonprofit fundraising cooperatives?
  - Health insurance pools or cooperatives?
  - Capacity-building pools or cooperatives?
  - Contracting and fee for service training?
  - Enterprise/innovation development pools?
  - Energy saving tools, conservation training?

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**Notes:**

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<sup>1</sup> Updated from *Nonprofit Almanac 2008*, Urban Institute.

<sup>2</sup> National economy continued to erode state tax collections during the first quarter of 2009, with collections falling 12.6 percent, according to a report from the Rockefeller Institute of Government. Data from 47 of the 50 states, noted that the 15.8 percent decline in the personal income tax component was the largest such decline since 2002. Rockefeller Institute of Government.

<sup>3</sup> There are 47 states in financial distress. Budget deficits are projected in 46 states for the upcoming fiscal year. Shortfalls may total \$133 billion and are likely to equal \$145 billion in 2010. Combined budget gaps for the remainder of 2009 and state fiscal years 2010 and 2011 are estimated to between \$350 billion to \$370 billion before gap-closing measures. Center on Budget and Policy Priorities.

<sup>4</sup> According to *Key Facts on Corporate Foundations*, 51 percent of corporate foundations responding to the Foundation Center's annual forecasting survey said they expect to reduce their giving in 2009, with three-quarters of these funders anticipating reductions of more than 10 percent.

<sup>5</sup> Gifts of \$1 million or more given to charities by individuals fell 33 percent in the last six months of 2008 compared to the same period in 2007, according to the Center on Philanthropy at Indiana University.

<sup>6</sup> State of New York. *Prompt Contracting Annual Report* (2007).

<sup>7</sup> Debra Blum, "Crunch Time," *Chronicle of Philanthropy*

