

Nonprofit Current Conditions Report

Analysis of a Minnesota Council of Nonprofits member survey

by Ruth Duran Deffley, membership and chapter coordinator and Jon Pratt, executive director

To better understand the impact of the economic condition on Minnesota's nonprofits, the Minnesota Council of Nonprofits conducted a survey of 1,950 member organizations during December 1-10, 2008. We collected information on how nonprofits were being impacted by the recession and how this will affect services to the people of Minnesota.

Annually, MCN produces the *Minnesota Nonprofit Economy Report* with data on employment and economic activity. This Current Conditions Survey was designed to provide a quick, real-time analysis of nonprofit challenges in December 2008. December is especially important for nonprofit organizations because a high proportion of individual charitable contributions occur in the 4th quarter of the year. 660 organizations completed the survey, representing a wide range of activity areas and budget sizes, similar to nonprofit organizations throughout our state.

Most nonprofits are quickly feeling the recession

The impact of the 2008 recession on Minnesota's nonprofits has been atypically quick and sharp. Unlike previous downturns, when nonprofits saw a lag in effect due to the timing of grants and contracts, the 2008 recession has already reduced nonprofit services at the same time that more people are in need of the services provided by nonprofits.

What challenges are organizations already experiencing in 2008? Over half of the organizations (54.5%) have experienced a decline in total revenue. Forty-seven percent are receiving reduced individual contributions. At the same time, 49.2% have to pay increased expenses.

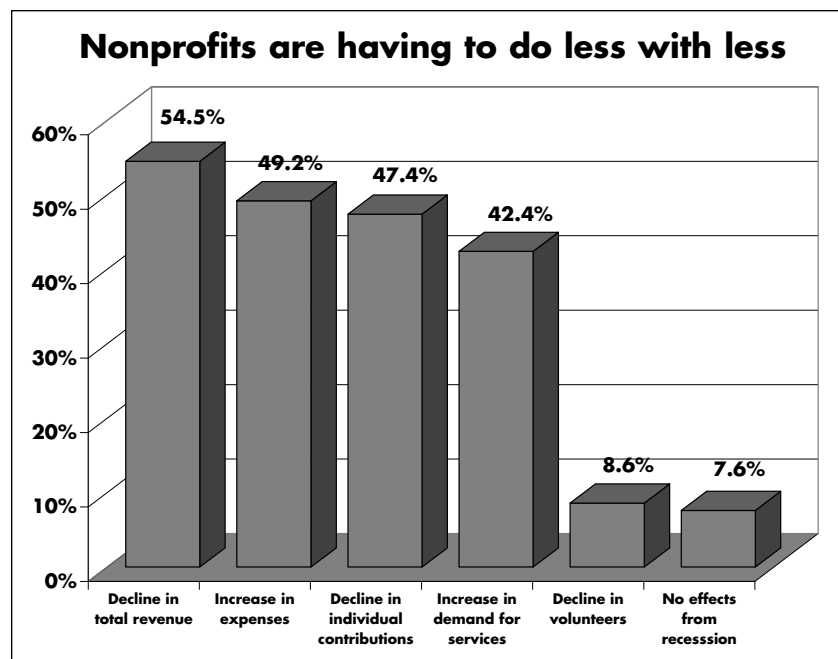
This decreased program service is coming at the same time that 42.4% of organizations report that more people are in need and coming to them for services – yet 49.1% of these have already reduced their staff. Minnesota communities have a strong

commitment to be there for one another, but the necessity of doing "less with less" is becoming a painful but inevitable choice.

A key question for the nonprofit sector is what decisions to make in response to the recession. The emerging picture is that management of these organizations is strong, paying

close attention to changing circumstances and making necessary decisions in a timely manner. By December 2008, many organizations have made changes in operations, including reducing their budgets (44.7%), putting expansion plans on hold (27.1%) and eliminating staff positions (25.6%). It is worth noting that staff costs represent the lion's share of most nonprofits' budgets, so that any meaningful budget reduction translates into reductions in staff that provide services and programs for the community.

Thus fully a quarter of nonprofits have already reduced staff



"It is important that nonprofits realize that we are ALL in the same sinking boat. That it is not mismanagement or poor leadership on our parts, but a "perfect storm" of housing, employment, and economic crisis along with government (city/state) shortfalls and poor endowment performances."

~ A neighborhood development organization

this year, with the highest proportion being in these activity areas: Employment/Job Related (45.5%), Legal/Civil Rights/Advocacy/Crime (33.3%) and Human Services/Youth Development (30.0%).

Looking forward to 2009, most organizations are reducing their budgets, especially Legal/Civil Rights/Advocacy/Crime (70.0%), Arts, Culture and Humanities (62.3%), and Human Services/Youth Development (61.8%).

The dilemma for many nonprofits is that they are being forced to cut back at the same time they are most needed. Organizations that have already seen the greatest increase in demand work in Food/Housing (82.6%), Employment/Job Related field (68.2%), and Human Services/Youth Development (54.1%).

Each year nonprofit organizations establish their yearly budget and set revenue goals for their major funding sources. While 37.9% of organizations report that they will not meet their

“If push comes to shove, we just will not service as many youth and young adults as we have in the past. Many nonprofits, in this time of need, may not be able to deliver the goods or services. We will have to say NO.”

~ An environmental organization

Organizations are seeing increased demand and decreased funding

	Increase in Demand	Decrease in Contributions	Reduced Budget	Reduced Staff
Arts, Culture and Humanities	11.6%	42.8%	62.3%	20.3%
Community Building, Volunteerism, Philanthropy	40%	43.3%	53.3%	13.3%
Education Related	25.4%	41.8%	52.2%	23.9%
Employment and/or Job Related	68.2%	59.1%	50%	45.5%
Environment and/or Animal Related	15.6%	34.4%	25%	18.8%
Food and/or Housing Related	82.6%	30.4%	50%	26.1%
Health and/or Disease Related	39.4%	54.5%	47%	22.7%
Human Services and/or Youth Development	54.1%	36.5%	61.8%	30%
Legal, Civil Rights, Advocacy and/or Crime	46.7%	43.3%	70%	33.3%
Mental Health and Crisis Intervention Related	40%	44%	52%	24%

2008 revenue goal, 37% will meet their goal, with 25.1% still unsure. Revenue success varied among organizations depending on their major revenue source. Organizations having the greatest difficulty meeting their 2008 targets were those whose largest source of revenue was individual contributions (43.3%), private foundation grants (39.8%) and government funding (36.5%).

Organizations that reported earned income as their largest source of revenue were somewhat less likely to have a shortfall in meeting their year-end revenue goal. However, a third of these nonprofits predict that they will not meet their

“We turned away 280 people last month. The economic crisis and foreclosures are dramatically increasing the number of people at risk or experiencing homelessness. Providers, trying to help people, are faced with potentially dramatic funding cuts at a time when more people in our community need our services.”

~ A transitional housing organization

year-end revenue goal (32.4%). Earned income for nonprofits comes from a variety of sources such as tuition, counseling fees, performance ticket sales, facility rental, legal fees, speaker fees, adoption charges, client payments, and interest. Earned revenue is a somewhat healthier source of

funding – 36.3% of organizations reported that their 2008 earned income had increased, 29.7% stayed the same, and 29% decreased. Over half (53.1%) projected meeting their earned income goal for 2008, 30.7% projected a shortfall in their earned income goal and 16.1% did not know or were unsure.

Individual contributions are down for many organizations

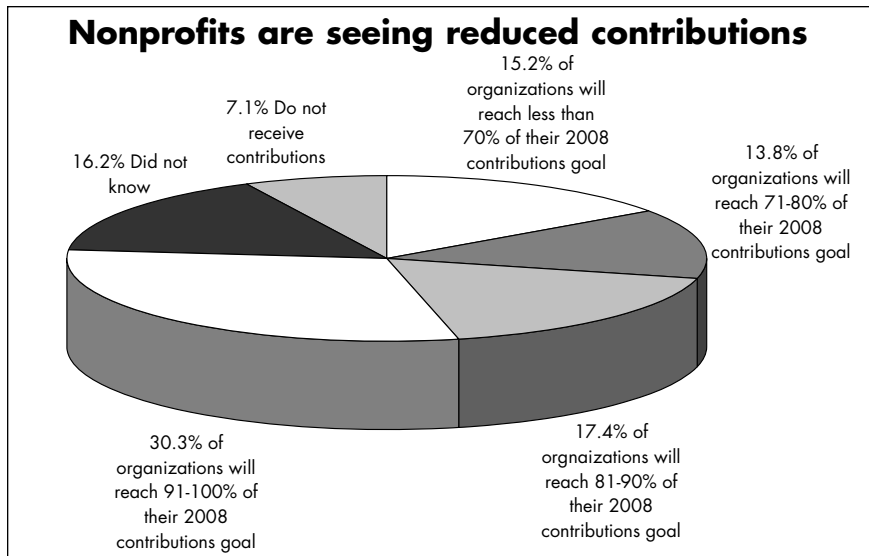
Just over half (51%) of organizations receive the majority of their individual contributions in the fourth quarter. Levels of individual contributions can decline in a recession, though this varies by donor income group. As of the first week of December, 40.3% of organizations reported that their individual contributions were below that of the previous year.

The organizations most likely to see these decreased individual contributions were in Employment/Job Related (59.1%), Health/Disease Related (54.5%), Mental Health/Crisis Intervention (44%) and Legal/Civil Rights/Advocacy/Crime (43.3%) and Community

Building/Voluntarism/Philanthropy (43.3%).

The extent of the shortfall in individual contributions varies. The organizations least likely to meet 91-100% of their individual contributions goals were Arts, Culture and Humanities (21.7%), Education Related (23.9%) and Employment/Job Related (27.3%).

Compared with the previous year, organizations predict that 2008 individual contributions will shrink both in the number of contributors (41.8% expect a decrease in contributors) and average amount contributed (46.5% expect lower amounts).



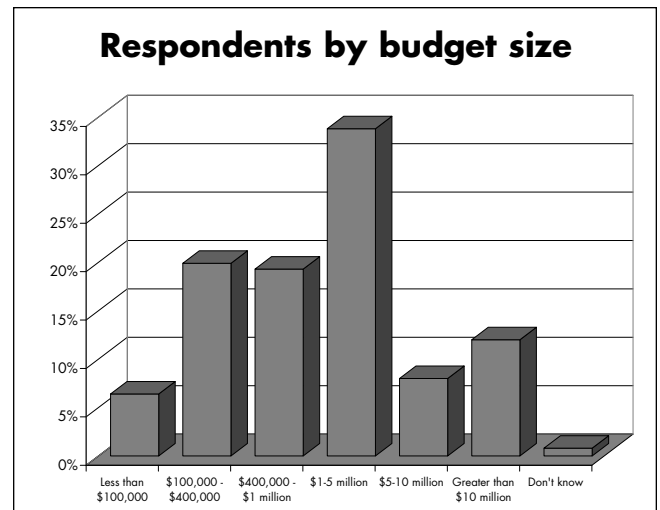
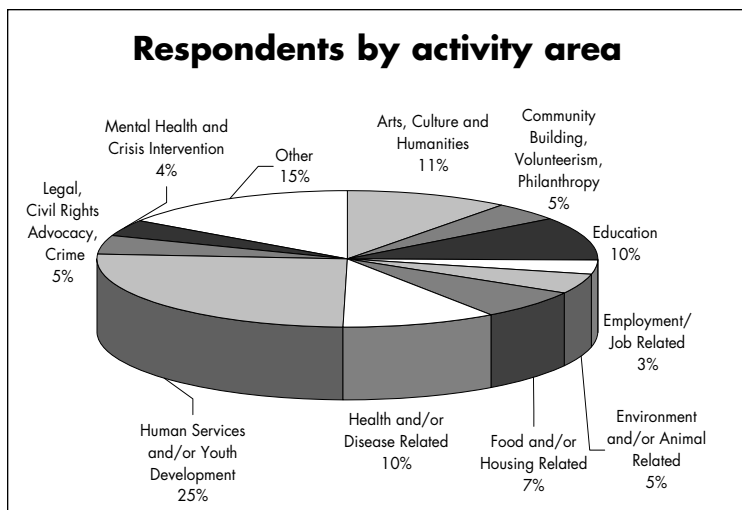
“We are in the family homelessness business, and we are simply swamped with demand. Our calls for shelter are six times what they were just two years ago. Please, keep on the public pressure to not balance the budget on the backs of the poor!”

~ A homeless shelter

Survey process and respondent distribution

660 organizations completed the survey, representing a wide range of activity areas and budget sizes; distribution of participants is similar to the distribution of nonprofit activity areas and sizes of organizations in the state.

74.4% of the respondents were from the Twin Cities and 25.6% from Greater Minnesota, which is a somewhat higher representation from the metro area than for Minnesota nonprofits as a whole (which are 62.8 % Twin Cities and 37.2% Greater Minnesota).



Conclusions and recommendations

Like all parts of the state's economy, the economic crisis is deeply affecting Minnesota's nonprofits. Despite being well-managed, organizations feel the consequences on both the revenue-side and the expense-side of operations. In previous economic downturns, individual donations, foundation grants, and government grants and contracts have not been affected simultaneously or with the same magnitude. In 2009, Minnesota's nonprofits are facing a new reality.

As front-line responders, these changes will influence nonprofit organizations' ability to answer Minnesotans' increased needs. And no doubt there will be increased needs. Growing unemployment, economic restructuring, and government reductions will create more demand for the support and services nonprofits provide. Nonprofit organizations will need to make strategic choices about their own operations, including reductions in staff, possible mergers or even dissolution. And they will seek to minimize negative impacts on the people they serve.

Yet, the strength of nonprofits comes from their ability to bring citizens together to do what cannot be done alone, and to tap the energy and creativity that exists in communities. Minnesota's nonprofits are a vital resource and essential to the state's economy. Although significant changes might well occur in organizational operation and form, Minnesota's nonprofits will continue to provide an avenue for citizens to come together to address the challenges confronting us all now.

This Current Conditions Report reveals a difficult economic environment, but these organizations still have options. The public, state legislators and partner organizations need to hear from nonprofits they support, and organizations will need to be nimble and open to alternatives. The following is a beginning list of strategies, which MCN will be supplementing in upcoming workshops, with new tools and at www.mncn.org.

Next steps and strategies

- Frame your case in the context of the work of the nonprofit sector. Nonprofits meet essential community needs, so articulating your case within this context will help the community at large understand the greater implications of what may occur if your nonprofit can no longer provide the services it currently does.
- Ask for what you need and make a compelling case for it. Do not hold back on important information about the real costs of the work that you do and the work people count on every day.
- Advocate for your program and the outcomes it delivers. Do not offer to sacrifice other programs.
- Plan your advocacy with state legislators so that you make a clear and compelling case for your funding. Prepare a plan for key stages of the legislative session.
- Convene board members and key supporters to share current revenue and expense projections, and be prepared to act quickly in response to changes.
- Use reserves strategically.
- Be open to ways to transform your organization's work, including alternative delivery methods, funding streams and combinations with other organizations.

"We are staying as positive as possible. Our board has been very active and committed to doing their part. Our staff are very dedicated, creative and resourceful. I believe our community values nonprofits and the work they do."
~ A youth development and community organization



2314 University Avenue West, Suite 20, Saint Paul, MN 55114
Tel: 651-642-1904 • 800-289-1904 • Fax: 651-642-1517 • www.mncn.org

About the Minnesota Council of Nonprofits

The Minnesota Council of Nonprofits (MCN) is the statewide association of more than 1,950 Minnesota nonprofit organizations. Through its Web site, publications, workshops and events, cost-saving programs and advocacy, MCN works to inform, promote, connect and strengthen individual nonprofits and the nonprofit sector.

Copyright © 2008 Minnesota Council of Nonprofits. All rights reserved. Short sections of text may be quoted without explicit permission, provided that full credit is given to the source. **Additional copies of this report can be downloaded from MCN's Web site at www.mncn.org.**