

Nonprofit Current Conditions Report

Analysis of a Minnesota Council of Nonprofits member survey

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The following report is based on the responses to a survey the Minnesota Council of Nonprofits conducted of its 2,000 member organizations during May 2009. In this survey, we asked nonprofit managers how the economy is affecting their operations and programs during the first three months of 2009. This report is a follow up to a similar study conducted in December 2008. MCN plans to replicate this study at key points during the current economic crisis to give nonprofits and donors up-to-date information about the sector.

Nonprofits bracing for extended impacts of recession

Minnesota's nonprofits continue to be seriously affected by the recession, with 57 percent of organizations experiencing reduced revenues at the same time the majority are facing increased need for their services. 2009 presents an immense financial challenge for the nonprofit sector, struggling to budget appropriately in the face of government reductions and economic instability.

Minnesota's overall unemployment rate (seasonally adjusted) in March 2009 was the highest in 26 years. At 8.2 percent, the unemployment rate reflected a loss of 57,200 jobs in the first quarter of 2009. Nonprofit employers accounted for 3,075 of these initial unemployment claims, up 67 percent from 1st quarter 2008 claims.

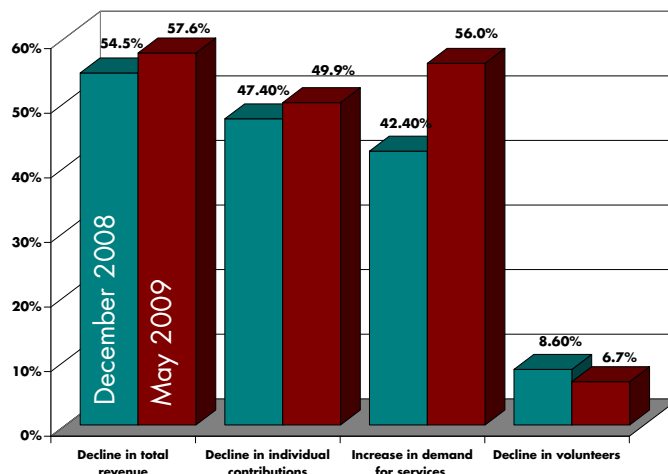
MCN conducted its first nonprofit recession survey in December 2008, issued as the Nonprofit Current Conditions Report (available at www.mncn.org/outlook.htm). This second Current Conditions Report is based on survey responses from 571 member organizations representing the full range of nonprofit activity areas, including human services, arts, culture and humanities, environment and health care, and budget sizes, similar to the distribution of nonprofit organizations throughout Minnesota. The survey was conducted from April 28 to May 8, 2009, with the aim of providing up-to-date information on how Minnesota nonprofits are faring in this economy.

This Current Conditions Report is designed to inform nonprofit leaders, public officials and charitable donors of nonprofit challenges, and is made possible with support from the Carl and Eloise Pohlada Family Foundation.

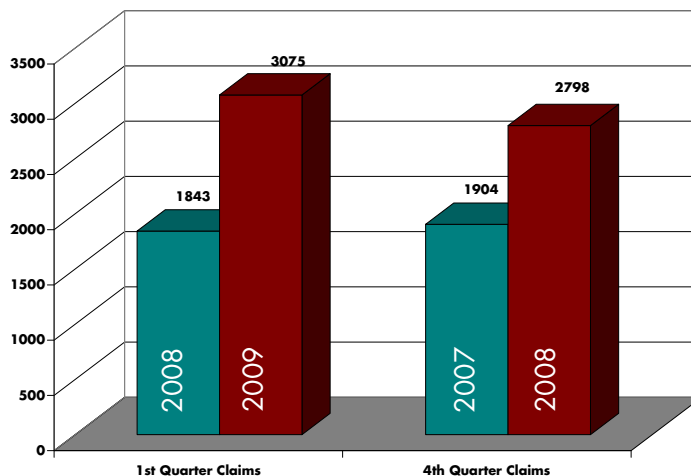
"To deal with recurring budget deficits, we cut expenses and pursued new revenue at this time last year. We managed to stabilize and pay off line of credit. But the organization has no cash reserve and does not yet know what government and foundation cuts are coming"

~ A housing organization for homeless youth

More nonprofits report increased demand and decreased resources



Increased nonprofit unemployment claims reflect additional cutbacks



Nonprofit recession compounded by uncertainty in government funding and potential unallotment

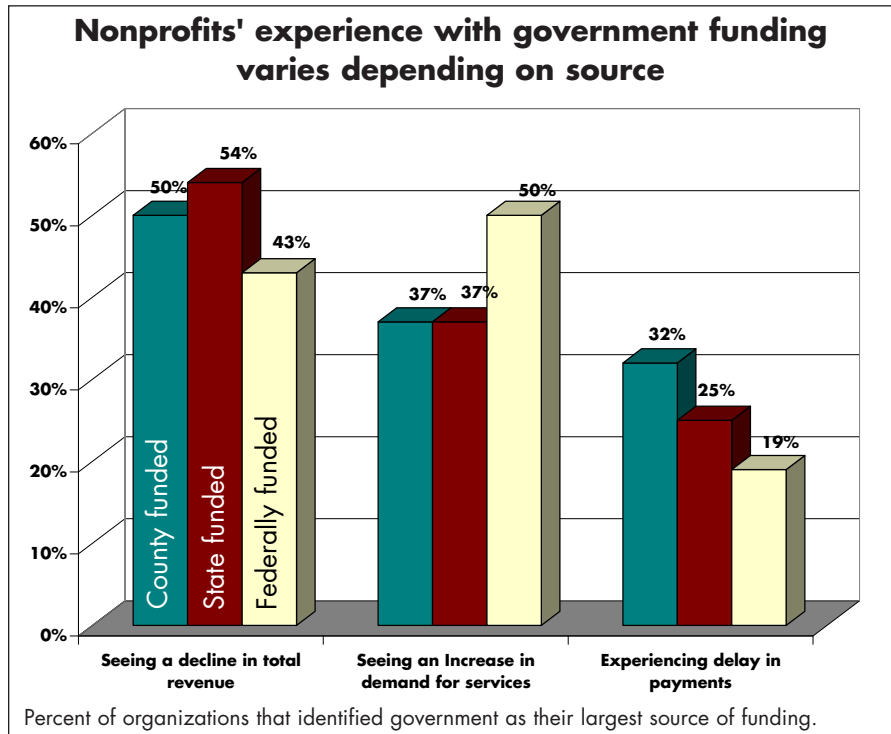
While most major revenue sources for nonprofits declined in the first quarter, a critical element had yet to be fully decided: Minnesota state and local funding for the state budget cycle that begins July 1, 2009. The state's February forecast projected a \$6.4 billion deficit for the upcoming two-year budget cycle.

Federal stimulus dollars and agreed-upon cuts addressed some of the shortfall, but not its entirety. Governor Pawlenty and legislature leaders failed to agree on how to resolve the remaining \$2.7 billion deficit. By the end of the legislative session, the Governor announced that he would use "unallotment" authority to make further cuts or delay to bring the state's budget back into balance for FY 2010-11. Governor Pawlenty indicated that his unallotment actions will delay K-12 education payments to schools and cut aids to local governments and health and human services programs—many of which are provided by nonprofits.

Combining the unknown length or depth of the economic downturn with uncertainty regarding state and local government funding presents an especially difficult situation for nonprofit boards and leaders as they make their own budget decisions. While the nature of this challenge varies based on the size and revenue profile of each organization, for the 31 percent of Minnesota nonprofits that rely on government funding as their largest single source of revenue, half now report a decline in total revenue. Government has tradition-

ally been a reliable partner in the delivery of services. This partnership is now under great stress.

Government funding is the largest source of revenue for 31 percent of nonprofits. There are three distinct sources of government funding: federal, state and county. The following graph represents all organizations that reported government funding as the largest single percentage of their revenue.



“We are relying more heavily on volunteers and asking staff to do “double duty” by having them perform overnight duty instead of normal daytime hours one night a week.”

~ A YWCA in Greater Minnesota

A critical concern for these organizations is managing cash flow. Cash-strapped state and local government agencies seem to be increasingly delaying payments on reimbursement contracts with nonprofits that provide services – forcing organizations to borrow to meet their commitments. This prompt-payment problem is being experienced by 32 percent of the organizations with county contracts; 25 percent with

state contracts; and 19 percent with federal funding. The national scope of delays in payments across the country has led to federal proposals mandating prompt payment of government contracts.

Employment and job-related organizations report receiving government funding as its largest source of revenue (54 percent) followed by human services and/or youth development organizations (49 percent) and legal services organizations (42 percent). Programs at these types of organizations are threatened by potential cuts through unallotment.

Demand for basic needs services has increased

Growing unemployment and narrowing eligibility for government programs has increased the demand for the support and services nonprofits provide, especially in food shelves and housing, employment assistance, and crisis counseling. As a result of lost jobs and reduced wages, increased needs were reported most by three types of organizations: jobs and training (77 percent), mental health and crisis intervention (75 percent), and food and housing (71 percent).

A majority, 56 percent of organizations report an increase in demand for their services – yet 29 percent of nonprofits reduced their full time staff and 20 percent reduced their part-time staff in the first quarter. Arts organizations experience the recession from the other side: 36 percent of them report decreased ticket sales.

Organizations in Greater Minnesota have seen the greatest increase in demand for services at 66 percent compared to 52 percent of nonprofits in the Twin Cities metro area. Organizations outside the metro area tend to have a greater reliance on government funding (lacking access to many Twin Cities institutional funding sources).

Although Minnesota nonprofits have a strong commitment to be a reliable resource for their communities, the necessity of doing “less with less” is becoming a painful but inevitable choice in response to cuts of funding sources.

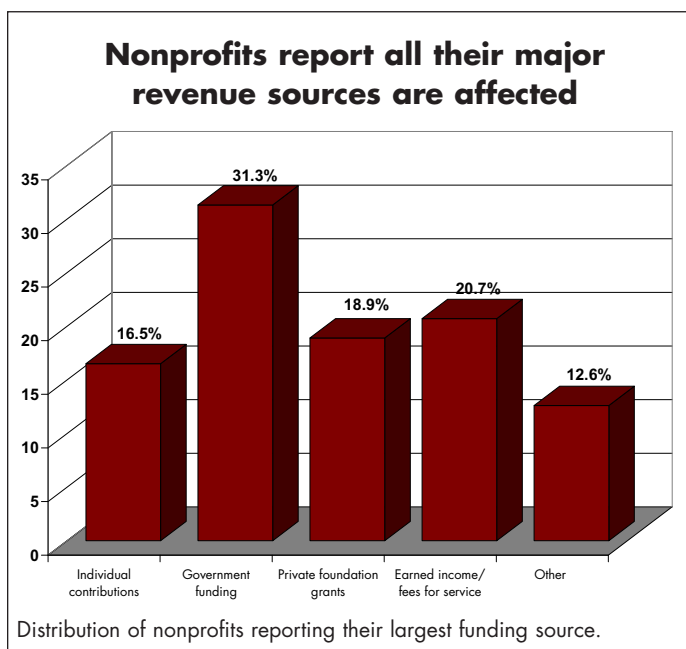
“We are cutting costs everywhere, and it is starting to show. We look less professional, we appear weaker. However, we have had some great people come forward and volunteer for our organization.”

~ An environmental organization

Revenue reductions vary by revenue source

In the first quarter of 2009, half of organizations that receive individual contributions reported a decline in contributions and 21 percent are projecting to meet less than 30 percent of their end of year goal in this area.

Fifty one percent of nonprofits that receive corporate and foundation grants have already experienced a decline in grants and future commitments. This percentage is even higher within the subset of nonprofits that rely most on private foundation grants. 66 percent of organizations that report foundations as their largest source of revenue have experienced a decline and less than 30 percent are projecting to be within 91 percent of their end of year goal in corporate and foundation philanthropy. This is expected to worsen in 2010, as foundation assets continue to be hit by declining markets and grantmakers are reducing payouts on a rolling three year average.



Special fundraising events were held by 124 organizations in the first quarter of 2009, and 40 percent of those suffered decreased revenue from these events, compared to the previous year (37 percent reported an increase and for 23 percent, revenue stayed the same).

Earned income is proving to be a more reliable stream of revenue 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. At this point,

the economic situation is better for nonprofits that have substantial earned income. Only 38 percent of nonprofits relying on earned income reported a decrease in revenue and 45 percent of organizations expect to be within 91 percent of their end of year goal in earned income.

Each year nonprofit organizations establish their annual

Strategic responses include budget cuts and staff reductions

budgets and set revenue goals for their major funding sources.

After the first quarter, 40 percent of nonprofits are expecting to reach at least 91 percent of their annual goal for their primary source of revenue. While 31 percent are expecting to fall 10 to 30 percent short of their goal and 13 percent are expecting to fall over 30 percent short of their goal.

A key question for the nonprofit sector is what decisions will need to be made in response to the recession. The emerging picture is that nonprofit managers are paying close attention to changing circumstances and making necessary decisions in a timely manner.

By April 2009, most respondents reduced operations in the following ways:

- **Reduced budget (54 percent)**
- **Eliminated staff positions (27 percent eliminated full time positions, and 18 percent eliminated part time positions)**
- **Reduced programs (34 percent)**
- **Put expansion plans on hold (23 percent)**

Personnel costs represent over 60 percent of most nonprof-

its' budgets, so substantial budget reduction translates into reductions in employees that provide services and programs for the community. Thus far a quarter of nonprofits have already reduced full-time staff in 2009, with the highest proportion in legal, civil rights, advocacy, and crime (40 percent), food and housing (37 percent) and mental health and crisis intervention (36 percent).

Cuts to personnel costs are being implemented in three progressively deeper stages. The first level was adopting a general hiring freeze and salary and wage freeze. The second level used was a mix of cost savings short of layoffs: reduction in salary levels (frequently progressively tiered among high-, middle- and lower-level positions), voluntary furloughs (a temporary layoff from work without pay, but continued benefits), mandatory furloughs, suspension of pension contributions, and reduction in hours of operation. And finally, a third deeper level of permanent reductions in force, sometimes combined with a reduction in health benefits to remaining staff.

The differences in resources and revenue sources among dif-

Nonprofits see inverse trend of reduced budgets and increased demand for services

	Reduction in their overall budget		Increase in demand for services	
	Dec. 2008	May 2009	Dec. 2008	May 2009
Legal, Civil Rights, Advocacy, Crime	70%	56%	47%	44%
Arts, Culture, Humanities	62%	59%	12%	17%
Human Services, Youth Development	62%	54%	54%	59%
Community Building, Volunteerism, Philanthropy	53%	56%	40%	33%
Education	52%	63%	25%	30%
Mental Health, Crisis Intervention	52%	54%	40%	67%
Employment, Jobs Related	50%	42%	68%	58%
Food, Housing Related	50%	55%	83%	33%
Health, Disease Related	47%	48%	39%	42%
Environment, Animal Related	25%	38%	16%	34%

“Running a deficit; operating 2 lines of credit, reinvigorated the Board Development Committee; reduced one key staff time to 50 percent; no raises and decrease expenses.”

A small, rural food organization

“Staff members were asked to take a minimum of 3 days off without pay in the next six months.”

~ A health and human services organization

The situation is toughest for small organizations

ferent organizational budget sizes helps determine what responses are available to organizations. This recession presents the greatest challenges for small- and medium-sized organizations, which already had the fewest resources going into the year. Of Minnesota's 7,500 nonprofits, almost three-quarters are small- or medium-sized and see face these challenges.

A quarter of organizations with budgets under \$3 million

have no reserves, 75 percent lack a line of credit, and the revenue sources they rely upon most (individual contributions and foundation grants) are suffering the greatest reductions. 40 percent of small organizations report that they will have a greater than 10 percent reduction in their 2009 budget, compared with 22 percent of medium sized organizations, 10 percent of large, and just 8 percent of very large organizations showing the same levels of declines.

"We are reducing expenses next year and instituting staff furloughs this summer."

~ An arts organization

Small organizations feel the pinch across the board

	Decline in total revenue	Decline in individual contributions	Anticipate a cash shortfall
Small organizations	61.7%	57.1%	26.9%
Medium organizations	58.8%	46.5%	24.3%
Large organizations	51.22%	44.9%	15.7%
Very large organizations	50.1%	50.1%	14.3%

Solutions may be hard to come by especially for small organizations

	Increased fundraising efforts	Have reserves available to use	Have a line of credit available to use
Small organizations	43.4%	72.6%	17.7%
Medium organizations	48.6%	77.8%	35%
Large organizations	30.3%	91%	51.7%
Very large organizations	28.6%	93.7%	54%

Small organizations: Budgets \$0-\$399,999
 Medium organizations: Budgets \$400,000-\$2,999,999

Large organizations: Budgets \$3,000,000-\$9,999,999
 Very large organizations: Budgets \$10 million and over

Mapping a changed community landscape

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 and the expense sides of operations. Unlike previous economic downturns, nonprofits saw simultaneous reductions in individual donations, foundation grants, and government grants and contracts. In 2009, Minnesota's nonprofits are facing a new reality.

Partly due to the recession, several long-running organizations have closed. In April, Centro Legal, Inc. closed its doors, ending 28 years of legal services to Minnesota's Spanish Speaking and immigrant community. And in May, the Minnesota Senior Federation voted to dissolve, after 36 years of advocacy and education for its members. While some of these organizations' work will be picked up by others, there will be a net loss of long-standing connections and community capacity, with the contraction likely to increase with unallotments and continued recession.

Minnesota's nonprofits are a vital resource and essential to the state's economy. Although significant changes will occur within organizations, Minnesota's nonprofits will continue to provide an avenue for citizens to come together to address the challenges confronting us all now. Of the 56 percent of organizations that have experienced an increase in demand for services, 40 percent have been unable to meet this

increase in need. If they did have the resources available, 87 percent would increase staff, 62 percent would purchase more equipment and 37 percent would increase their office space.

At the same time several institutions have stepped forward to allocate additional resources for basic need services provided by nonprofits, including the Carl and Eloise Pohlman Family Foundation, Otto Bremer Foundation and The McKnight Foundation. The Minnesota Council on Foundations has compiled a list of grantmaking resources on how grantmakers are responding to the current economic climate. For more information, go to www.mcf.org/MCF/resource/economy/forecast.htm.

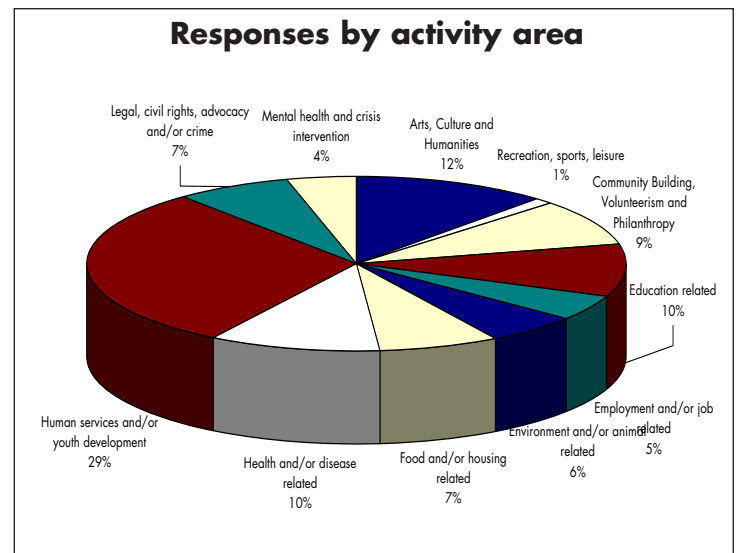
The cumulative impact of funding shifts and cuts will be felt throughout the nonprofit sector – from state and county cuts, reduced health care and child care eligibility, a falloff in ticket sales for arts performances, and changes in foundation and United Way priorities. By the fall of 2009, the broader implications will be clearer – a changed landscape, with new structural holes and depressions, and also some new activities and options

Understanding this changed landscape requires a new mapping of a wide variety of changes of position, which will be included in a separate report MCN will compile this fall.

Respondent distribution

571 MCN member organizations completed the First Quarter 2009 survey, representing a wide range of activity areas and budget sizes; similar to the distribution of nonprofit activity areas and sizes of organizations in the state.

72 percent of the respondents were from the Twin Cities Metro Area and 28 percent from Greater Minnesota (a somewhat higher representation from the metro area than for Minnesota nonprofits as a whole). The Twin Cities Metro Area holds 63 percent of all nonprofits while 37 percent are located in Greater Minnesota.





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About the Minnesota Council of Nonprofits

The Minnesota Council of Nonprofits (MCN) is the statewide association of more than 2,000 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.

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