



**A Respectful Warning Call to Our Partners in Government:
The Economic Crisis Is Unraveling the Social Safety Net Faster Than Most Realize**

Community members should warn each other about threats to their well-being. For instance, neighbors dutifully warn each other if a tornado is headed their way. Such an obligation exists between nonprofits and governments: when the constituents and communities we jointly serve are threatened, a call must go out. This Special Report is that warning call.

This Special Report highlights recent survey findings and fiscal health reports quantifying the severity of the nation's economic crisis on nonprofits. The National Council of Nonprofits recognizes that government officials, with all of their other demands, may not be aware of the data provided by the resources cited in this Special Report. We also recognize that the American people are weary of grim economic news. But as public servants, government officials and nonprofit leaders cannot ignore the unequivocal data from across the country revealing that, due to declining revenues and escalating operating costs, an ever-growing number of nonprofits are being forced to lay off staff and cut back programs, thereby reducing vital services:

- Most of the surveys reviewed in this Special Report that ask questions on these topics reveal that, since late last year *more than half* of the responding nonprofits experienced:
 - Increasing demands for more of their services;
 - Escalating operating costs; and
 - Decreasing revenues to meet the higher demands and costs; and
- *More than a third* of nonprofits have had to cut their operations.

Nonprofit leaders realize that government officials face their own budget shortfalls, so this is not a plea for a handout. Rather, this Special Report highlights the need for public servants – those in government and the nonprofit sector who serve the same constituents and same communities – to purposefully work together during these trying times so we can, together, reinforce both the community fabric woven by our nation's arts, cultural, education, and faith-based groups, and the social safety net held by health care, human services, and many other nonprofits.

Through this Special Report the National Council strives to raise awareness about how serious the economic challenges are by providing objective information to government officials and nonprofit leaders. Government officials need to be aware that many nonprofits are unable to deliver the same level of services, let alone more. Nonprofit leaders need to prepare individual nonprofits for a protracted financial shortfall coming at a time when individuals and communities seek more services. Our related Special Report (Number 9) focuses on actions nonprofit sector leaders have been taking in making prudent decisions about the allocation of scarce resources.

Nonprofits will continue to meet our missions of serving our local communities as well as we can and for as long as we can. But we feel duty-bound, both to our partners in governments, and on behalf of the individuals and communities we serve, to send up this warning flare: As the economic strains continue, portions of the social safety net rip and unravel, meaning that vital programs for needy individuals get dropped.

Recent Studies Document the Declining Economy Is Limiting the Ability of Many Nonprofits to Deliver Services

Several recent national and state-specific surveys make it abundantly clear that nonprofits have been experiencing an increasing demand for services, escalating operating costs, and declining revenues.

Before turning to these reports, it is important to recognize yet another recent study focusing on contributions to charitable nonprofits: in 2008, despite the generous gifts of many donors who recognized how much their philanthropy was needed, charitable contributions from all sources declined for the first time since 1987.¹ Indeed, nonprofits traditionally have had five general sources of revenue, and each one has been declining sharply since late last year:

- *Corporate donations have dropped* dramatically;
- *Fees for services have faltered* among many nonprofits;
- *Foundation assets shrank 26%* in 2008, translating into fewer and smaller grants;
- *Governments have delayed or even stopped paying* nonprofits for services that government had contracted with nonprofits to provide; and
- *Individual giving has decreased.*

These declines in traditional revenue streams have left nonprofits grasping for resources—at the same time increasing numbers of individuals impacted by job loss, home foreclosures, lost job benefits, and tight credit markets turn to nonprofits seeking more help. Arts and cultural groups in particular have been impacted. In one survey presented below, 73% of theatres and orchestras reported “severe” or “very severe” financial stress.²

Unfortunately, the new economic realities mean governments can no longer simply assume that nonprofits will continue to deliver services “as usual.” Nor can governments mistakenly presume that nonprofits can “just go out and get a donation.” The vast majority of nonprofits are not large institutional nonprofits with endowments to see them through tough times, but small, community-based groups serving local needs (93.3% of America’s charitable nonprofits have income of less than \$1 million, according to the National Center for Charitable Statistics). These local nonprofits collectively hold vast portions of the social safety net, yet as the following surveys show, an increasing percentage of them are being strained beyond capacity.

¹ [Giving USA 2009: The Annual Report on Philanthropy for the Year 2008.](#)

² [Communiqué No 14: Impact of the 2007-2009 Economic Recession on Nonprofit Organizations.](#)

Findings of National Surveys

Guidestar:

Report on the Effect of the Economy on the Nonprofit Sector

In June 2009, Guidestar published the results of its updated online survey (2,279 useable responses) designed to gauge the effect of the downturn in the economy on the nonprofit sector from March-May, 2009.³ The Guidestar report provides additional evidence that nonprofits are experiencing reduced revenue and increased demand for services. Compared to the same period a year earlier:

- 58% of the responding organizations reported increased demand for their services.
- 52% of those surveyed reported a decrease in contributions, with 20% reporting a “great decrease” in contributions, and 30% reporting a “modest decrease.”
- 69% reported that fewer individuals contributed, and 68% reported that gifts from individuals were smaller.
- 38% indicated that corporate grants were smaller, and 23% said that corporate grants were discontinued.
- 37% of organizations reported that foundation grants were smaller than previous years.
- 8% of respondents reported they were in imminent danger of closing their doors because of financial difficulties.

The Executive Summary of the report notes: *“The results of the survey were remarkably similar to those from the survey Guidestar conducted earlier this year that covered the period October 2008 to February 2009. One way to interpret this similarity is to surmise that things haven’t gotten dramatically worse for America’s nonprofits over the last three months. On average, that interpretation may be true, but in reading respondent comments, one senses that at many organizations where things were going badly earlier in the year, they are going worse now. Reserves are being burned up, and services that had already been cut have been cut further. A typical comment from these organizations was, ‘We are hanging on, barely.’”*

John’s Hopkins University Listening Post Project:

Impact of the 2007-2009 Economic Recession on Nonprofit Organizations

In June 2009, The Johns Hopkins University Listening Post Project (of which the National Council of Nonprofits is a partner) published a report⁴ of its nationwide sounding reaching out to more than 1,400 nonprofit organizations, reflecting the following key findings from 363 responding organizations:

- 80% of responding nonprofits described some level of “fiscal stress” and close to 40% of the respondents considered the stress to be “severe” or “very severe.”
- 32% identified an increased demand for services.
- 53% reported increased operating costs, the majority of which were due to increased health benefits and wages.

³ [The Effect of the Economy on the Nonprofit Sector March-May 2009.](#)

⁴ [Communiqué No 14: Impact of the 2007-2009 Economic Recession on Nonprofit Organizations.](#)

- 51% of the organizations surveyed reported revenue losses between September 2008 and March 2009, as compared to the same time period a year ago.
- Smaller nonprofits (defined in the report as those with revenue under \$500,000) reported a more severe impact: close to 63% of smaller organizations reported revenue losses compared to 47% of larger organizations.
- 35% of all respondents reported declines in government support and 37% reported delayed payments from the government.
- 13% reported concern for the survival of the organization.

The Bridgespan Group: Update to “Managing in Tough Times – 7 Steps”

In June 2009, Bridgespan released its updated “Managing in Tough Times – 7 Steps” report (initially released in November 2008).⁵ The original survey instrument was shared with 800 nonprofit chief executives, presidents, and executive directors; more than 100 responded. This updated report reflects drastic funding cuts to nonprofits, especially small nonprofits, and simultaneously a marked increase in demand for services. During the seven months between the first survey findings reported in November 2008 and June 2009:

- 56% of the nonprofits surveyed identified an increase in the demand for services, *nearly doubling* the percentage reported in Bridgespan’s November 2008 survey.
- On top of the huge increase in demand for services, the percentage of nonprofits reporting funding cuts increased from 52% to 69% (a leap of 17% in just over half a year, totaling more than two-thirds of respondents losing funding).
- Almost a quarter of the respondents reported cuts of more than 20% of their overall funding.
- Smaller nonprofits (defined in the report as those with revenues of less than \$1 million) are feeling the impact most severely: 70% of small nonprofits responding to the survey reported that their finances have worsened in the past six months. Of the smaller nonprofits, 41% reported cuts exceeding 20% of their overall funding.

Nonprofit Finance Fund: “America’s Nonprofits In Danger”

In April 2009, the Nonprofit Finance Fund (NFF) released results of its nationwide survey in which more than 1,100 nonprofit professionals participated.⁶ The majority of the respondents represented nonprofits with less than \$2 million in total operating expenses. While the survey largely asks respondents to reflect on anticipated future events, it reinforces other national survey findings that nonprofits providing social services are experiencing financial stress due to an increased demand for their services and a simultaneous decrease in revenues. In blunt terms, the NFF report observes, “America’s nonprofits, including the ‘lifeline’ organizations that many depend on for food, shelter, and other basic services, are strained to the breaking point.” The report shared the following key findings:


⁵ [Update to Managing in Tough Times –7 Steps.](#)

⁶ [America’s Nonprofits In Danger.](#)


- 93% of “lifeline” organizations⁷ that provide essential services anticipate an increase in demand for their services during 2009.
- Only 12% of the respondents expected their budgets to break even in fiscal year 2009.
- Just 16% expect to be able to cover their operating expenses in both 2009 and 2010.
- 31% do not have enough cash to cover even one month’s operating expenses, and another third have less than three months’ operating expenses.
- 62% expect a decrease in foundation support.
- 49% expect a decrease in contributions from individuals during 2009.
- 43% expect a drop in government funding.




Findings from State-Specific Surveys



Several state associations in the National Council’s network of state and local nonprofits have conducted state-specific surveys to assess how nonprofits are faring in their local communities. Universally – and fully consistent with the four national reports above – the results show marked increase in demands for services coupled with a decline in revenues. Additionally, many of the state surveys reveal that increased costs, as well as reductions in personnel (**highlighted in bold**), have prevented a significant number of nonprofits from providing services to their clients. A sampling of these surveys from across the country is presented below.

<p style="text-align: center;">ARIZONA</p>  <p>For more information:</p> <p style="text-align: center;">Alliance of Arizona Nonprofits Phone: (602) 279-2966 www.arizonanonprofits.org</p>	<p><u><i>Finding a Way – Arizona Nonprofits Economic Survey</i></u></p> <p>During February 2009, the Alliance of Arizona Nonprofits surveyed nonprofits about the effects of the recession on their operations. Responses were received from organizations providing services in every county of Arizona. Key findings include:</p> <ul style="list-style-type: none"> • 75% of the respondents saw the demand for their services rise during 2008 and more than 80% expect the same for 2009. • 50% experienced a decrease in revenues in 2008, and two-thirds expect a decrease in 2009. Nonprofit revenues are down on average 18%. • As early as February, 75% of organizations had already made cuts to their 2009 budgets. • Contributions from individuals are down 13.6%, which is significant because individuals on average contribute 82% of all donations. • Nearly 60% of the respondents report government funding is down, and they expect deeper cuts during the remainder of 2009. • Nearly 40% of respondents will either reduce the level of services they provide, or the number of people served. • 44% of organizations will absorb the combination of service increases and falling revenues by further reducing costs. • During 2008, 57% of nonprofits put expansion plans on hold. • 27% are considering joint ventures or mergers with other nonprofits.
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⁷ Of those defined in the survey as “lifeline” organizations, 91% serve vulnerable populations.

	<ul style="list-style-type: none"> • 27% of nonprofits have laid off staff or plan to enact layoffs this year. That could translate into more than 11,000 nonprofit employees out of work in Arizona. <p>Read the summary of the report from the Web site of the Alliance of Arizona Nonprofits: http://www.arizonanonprofits.org/arizona-nonprofits/feb-09-az-nonprofit-economic-survey-results.aspx</p>
<p style="text-align: center;">COLORADO</p>  <p>For more information:</p> <p style="text-align: center;">Colorado Nonprofit Association Phone: (303) 832-5710 www.coloradononprofits.org</p>	<p><u><i>Weathering the Storm: Challenges and Opportunities Facing Colorado Nonprofits During Recession</i></u></p> <p>A report jointly published by the Colorado Nonprofit Association and the Community Resource Center, sponsored by The Colorado Health Foundation, demonstrates that Colorado's economy has impacted nonprofits all over the state. Key findings include:</p> <ul style="list-style-type: none"> • More than 43% of survey respondents reported the economic climate has had a negative impact on their ability to keep on track with program activities. • More than 38% reported they are unable to meet the needs of current clients. • Nearly 40 percent of survey respondents reported that their organizations fell short or significantly short of their 2008 revenue goals. • Only 16.1% surveyed reported that their organization is financially healthy and not currently vulnerable to economic conditions. • More than half of respondents reported that the economic climate has had a negative effect on their organization's fundraising activities: 51.4% have experienced a reduction or elimination of funding from a major supporter. • Arts and culture organizations were more likely to report falling short or significantly short of their goals (43.6% compared to 39.8% of the total group of respondents). • Youth organizations experienced more decline in corporate gifts (44% percent compared to 37% for total respondents) and a greater decline in overall revenues. • Among the top strategies reported for adjusting to declining revenue are: cutting nonessential expenses (27.4%); accessing reserves (22.8%); increasing fundraising activities (21.5%); restructuring staff responsibilities (17.7%); cutting programs (15.9%); not filling open positions (15.4%); and cutting staff positions or cutting back on hours worked (13.8%). • Over 10% of survey respondents reported that "continuing to operate in a deficit" was an approach they are using to address declining revenues. • Health care organizations expect significant increases in demand for services (38% compared to 29.8% of total respondents). • More than 35% of human service organizations have reduced staff hours, 38% have not filled positions through attrition, and nearly 20% have laid off staff or plan to do so. <p>Read the full report 📄</p>

<p style="text-align: center;">CONNECTICUT</p>  <p>CONNECTICUT ASSOCIATION of NONPROFITS</p> <p>For more information:</p> <p>Connecticut Association of Nonprofits Phone: (860) 525-5080 www.ctnonprofits.org</p>	<p><u>How Late Payments Harm Nonprofit Providers</u></p> <p>The Connecticut Association of Nonprofits surveyed approximately 500 members to assess how nonprofits were faring in the midst of the state's financial crisis. The survey focused on government funding and timely contract payments, including how those contract payments relate to a provider's cash flow and use of credit lines. Survey results demonstrate that a problem exists for Connecticut's nonprofit providers. Late contract payments from state agencies create cash flow problems, which in turn require nonprofit service providers contracting with the state to dip into budget reserves (if any) or seek lines of credits (if they can be had). Both options ultimately result in increased costs to the nonprofit. This inadequate funding arrangement seriously jeopardizes delivery of services that nonprofits provide to their local communities. Read the full report 📄</p>
<p style="text-align: center;">IDAHO</p>  <p>IDAHO nonprofit CENTER</p> <p>For more information:</p> <p>Idaho Nonprofit Center Phone: (208) 424-2229 www.idahononprofits.org</p>	<p><u>Idaho Nonprofit Current Conditions Report - January 2009</u></p> <p>To better understand the impact of the current financial crisis on Idaho's nonprofits, the Idaho Nonprofit Center conducted an online survey of nonprofits in the state during January 2009. The 270 responses represented nonprofits from every area of the state and a wide variety of missions and budget sizes. Key findings include:</p> <ul style="list-style-type: none"> • Over half (52%) reported an increase in demand for services. Demands among arts groups is up 27%, compared to increased demands of 54% experienced by health groups, 60% by education groups, 71% for animal-related groups, and an 82% increase by human services nonprofits. • Over half (52%) reported an increase in overall expenses, including a 45% increase in the arts and education groups, 48% among the health care nonprofits, and 68% by human services groups. • Almost two-thirds (64%) reported a decline in total revenue. • Over 50% of all respondents reported plans to reduce their budget for 2009. • 47% respondents reported they have reduced their budgets already; 30% have put expansion plans on hold; 24% have reduced their programs and services; 18% reported a hiring freeze; and 23% have reduced staffing. <p>Read the full report 📄</p>
<p style="text-align: center;">ILLINOIS</p>  <p>Donors Forum</p> <p>For more information:</p> <p>Donors Forum Phone: (312) 578-0090 www.donorsforum.org</p>	<p><u>Economic Outlook 2009</u></p> <p>The Donors Forum reports that Illinois' nonprofit sector is experiencing the negative effect of the economic crisis on charitable giving and increased demand for services. The report is based on responses from 260 nonprofit organizations and 54 grantmakers to a survey the Donors Forum conducted in late fall 2008. Key findings include:</p> <ul style="list-style-type: none"> • Two-thirds of nonprofits surveyed reported an increase in requests for services and 21% reported a decreased ability to meet the demand for services because of increased costs, funding cuts, the economy, and a lack of capacity.

	<ul style="list-style-type: none"> • Overall, nonprofits and grantmakers reported that operating revenues (for nonprofits) and assets (for grantmakers) declined in the last year. • 29% experienced government funding cuts at all levels (federal, state, local) with state funding cuts the most common. • 45% reported that they have dipped into their reserves or their reserves have decreased. • 71% of those responding to the question expressed interest in exploring a merger with another nonprofit. <p>Both grantmakers and nonprofits reported their sense that the sector has not yet felt the full impact of the economic crisis.</p> <p>Read the full report 📄</p>
<p style="text-align: center;">LOUISIANA</p>  <p>For more information:</p> <p>Louisiana Association of Nonprofit Organizations Phone: (225) 343-5266 www.lano.org</p>	<p><u>Louisiana Nonprofit Sector Fiscal Health Survey</u></p> <p>In March-April, 2009, the Louisiana Association of Nonprofit Organizations conducted an on-line survey on the fiscal health of Louisiana's nonprofit sector. The survey data indicates that Louisiana nonprofits experience a decrease in charitable giving and state budget cuts, an increase in rising operating costs, and increasing demands for services. Key findings include:</p> <ul style="list-style-type: none"> • Nonprofits report an 11.5% decrease in funding during 2009 compared to their 2008 operating budget; the most significant decrease was from state government. • Small nonprofits (defined in the report as those with less than \$150,000 in revenue) are experiencing the highest percentage decrease in funding from the most funding sources. • 51% are cutting costs. • 37% are deferring spending. • 35% are cutting staff. • 29.6% are making cuts to professional development budgets. • 26.5% are cutting programs. • Almost 16% report serving fewer clients. • 32% report they are exploring collaborations. • 10% report they are increasing fees. • Respondents expect a 12.5% further decrease in funding for 2010. <p>Read the full report 📄</p>
<p style="text-align: center;">MICHIGAN</p>  <p>Michigan Nonprofit Association</p> <p>For more information:</p> <p>Michigan Nonprofit Association Phone: (517) 492-2400 www.mnaonline.org</p>	<p><u>Financial Crisis Impacts Nonprofits in Michigan</u></p> <p>In mid-January 2009, the Michigan Nonprofit Association and the Johnson Center at Grand Valley State University surveyed more than 200 nonprofits in Michigan to determine how the recent financial crisis has affected their organizations. Key findings include:</p> <ul style="list-style-type: none"> • Nearly half (45%) of responding nonprofit organizations raised fewer funds in 2008 year-end fundraising compared to previous years. • 45% of nonprofits receiving government funding have experienced delays in scheduled government payments. • Of the organizations that have seen a decrease in cash flow, the majority (57%) have reduced the number of employees in their

	<p>organization.</p> <ul style="list-style-type: none"> • 46% reported that obtaining lines of credit has become more difficult and 16% reported that their lines of credit had been reduced. • 44% reported that their cash flow has decreased as a result of tightened credit. <p>Read the full report 📄</p>
<p>MINNESOTA</p>  <p>For more information:</p> <p>Minnesota Council of Nonprofits Phone: (651) 642-1904 www.mncn.org</p>	<p><u>Nonprofit Current Conditions Report June 2009</u></p> <p>In May 2009 the Minnesota Council of Nonprofits (MCN) surveyed its members again regarding the recession, receiving responses from 571 organizations representing a full range of nonprofit activities, budget sizes and distribution of nonprofits across Minnesota. The June report reveals Minnesota nonprofits are bracing for extended impacts from the reduction in revenues they have already experienced and that they expect will continue in the future. Key findings include:</p> <ul style="list-style-type: none"> • 56% of organizations report an increase in demand for services. • Organizations relying on state, local, or federal government are seeing varying levels of unreliability in payments from government, causing a cash flow crunch and making it increasingly difficult for organizations to plan on an informed basis. • 51% of responding organizations that receive corporate and foundation grants report a decline in grants and future commitments. • 50% of organizations that receive gifts from individuals report a decline in contributions. • As of April 2009, 54% have reduced their budget, 27% have reduced full-time staff, and 18% reported reducing part-time staff. • 34% have reduced programs and 23% have put expansion plans on hold. • Small organizations (defined in the report as those with budgets under \$3 million) are feeling the worst affects, with far more reporting declines in revenue and cash shortfalls. • 75% of small organizations lack a line of credit, and 40% report a greater than 10% reduction in their budget for 2009. <p>Read the full report 📄</p>
<p>NEW JERSEY</p>  <p>For more information:</p> <p>Center for Non-Profits Phone: (732) 227-0800 www.njnonprofits.org</p>	<p><u>2009 New Jersey Non-Profits: Trends and Outlook</u></p> <p>In mid-February 2009, the Center for Non-Profits (NJ) conducted its annual <i>Issues and Trends</i> survey to gauge trends, experiences, and projections of New Jersey nonprofits in the coming year. Key findings include:</p> <ul style="list-style-type: none"> • 70% of responding organizations reported that demand for their core services had increased during 2008, and an equal percentage expected demand to continue to rise in 2009. • One-third reported that expenses exceeded revenue during the most recently completed fiscal year. • 60% of survey respondents reported that a previous funding source had informed them in 2008 that they would not be giving funding

	<p>to their organization in 2009, or that they would be giving less.</p> <ul style="list-style-type: none"> • In response to these trends, 29% of nonprofits reported that they had curtailed programs or planned to do so. • 34% have either cut staff or plan to do so. <p>Read the full report </p>
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Conclusion

This Special Report is not intended to frighten or depress. Instead, it is meant to factually lay out the challenges America's nonprofits face in fulfilling their missions and serving their communities. Throughout the last year of this economic decline, the dominant question has been: "How is the economy affecting nonprofits?" Now we know. From the national and state levels, we can see the negative effects. The next step is to address them.

As reflected in the accompanying [Special Report Number 9](#), nonprofit leaders already have been making thoughtful choices to deploy ever-scarcer resources. Still, their seemingly endless creativity, ingenuity, and innovation will only go so far – just as the ability of governors, legislators, county supervisors, mayors, city council members, school board members, and others to balance their public budgets can only go so far. The communities we jointly serve need us, now more than ever, to work together to craft sustainable solutions.

If you serve the public through government, you can respond to the needs of your community by helping nonprofits in many ways, including:

- Find out whether your contracts with nonprofits to provide services are being paid on time, and if payments are being delayed, consider the negative impact such delay has on the ability of those nonprofits to continue providing essential health care and human services, as well as arts, recreational, and cultural activities.
- Work with your state association of nonprofits to host a community meeting that brings together governments and nonprofits to explore joint solutions to broader community challenges.
- Include nonprofits when designing solutions to deliver government services more efficiently, effectively, and creatively.
- Recognize that nonprofits are employers when considering health care reform, planning economic community development strategies, and developing community workforce strategies.

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Special Reports on Economic Recovery

This Special Report is one in a series prepared by the National Council of Nonprofits to help nonprofit leaders, grantmakers, policymakers, and the general public better understand the intersections between the nonprofit sector and our nation's economic recovery. Review the other Special Reports at www.councilofnonprofits.org/specialreports.