



ECONOMIC OUTLOOK 2009

Economic Crisis Weighs on Nonprofit Sector

A new economic outlook survey from Donors Forum documents the impact of the current downturn on grantmakers and nonprofits in Illinois and gauges their expectations for the future. Beginning with a survey in 2002 on the impact of the post-9/11 recession, Donors Forum - a membership association that promotes philanthropy and a strong nonprofit sector in Illinois - has looked regularly at the response of nonprofits and grantmakers to current economic challenges. This year, Donors Forum asked organizations to describe how they are affected by the economic downturn and the mortgage crisis. **Nonprofits** - from arts and cultural institutions to healthcare providers to human service agencies to educational institutions - told Donors Forum about their finances, operations, expectations, and needs in a survey conducted in late October and early November 2008. **Grantmakers**, including private foundations, community foundations, and corporate giving programs, completed a survey in October 2008 looking at their financial status, giving patterns, and changes they anticipated in response to the economy. The results detailed below describe the challenges the sector faces and provide a sense of how grantmakers and nonprofits plan to address them.

Key Findings

Nonprofits and grantmakers alike reported that operating revenues (for nonprofits) and assets (for grantmakers) have declined, with many attributing it to the economic crisis. Seventy percent of grantmakers reported that lack of asset growth or income was a very important or moderately important issue within their organization, while 45 percent of nonprofits reported that they do not have operating reserves or their operating reserves have decreased in the last year.

Nonprofits were more likely to mention government funding cuts or delays and declines in corporate giving than to mention declines in foundation and individual giving over the last year. This aligns with past

Grantmaker Respondent Profile

Fifty-four grantmakers responded to the survey, representing a quarter of Donors Forum's Members.

- ♦ Grantmakers with assets of a million dollars or less were underrepresented in the survey with six percent of respondents representing grantmakers in this asset range, compared with 15 percent of Donors Forum's members.
- ♦ Compared with Donors Forum's membership, a higher percentage of respondents were from grantmakers with assets over \$50 million.
- ♦ Nineteen percent of Donors Forum's Members fall in this asset range, while 29 percent of survey respondents reported assets of \$50 million or more.
- ♦ About 13 percent of survey respondents reported that they do not hold assets for grantmaking due to their organizational structure (e.g., corporate giving programs).
- ♦ By type, only seven percent of survey respondents were private corporate foundations, whereas they represent 24 percent of all Donors Forum's Members.
- ♦ Private independent foundations are more represented in the survey (24 percent) than among Donors Forum's Members (17 percent).

Nonprofit Respondent Profile

This report also reflects responses from 260 nonprofits, again about a quarter of Donors Forum's Partners. Human services organizations are represented at a somewhat lower level among survey responses (27 percent) than among the group that received the survey (33 percent), whereas arts organizations responded at a somewhat higher rate (18 percent) than they appear in the full group surveyed (14 percent).

research by Donors Forum and national research suggesting that the **second and third year following a recession are when foundations tend to decrease giving, if at all.**

Two-thirds of 168 nonprofit responses to a question about changes they experienced in the last year reported **increased requests for services.** Just over one-fifth (21 percent) overall reported a decreased ability to meet the demand for services, attributing this to a number of causes, including increased costs, funding cuts, the economy in general, and lack of organizational capacity.

To the extent that nonprofits reported success in meeting budget goals and service needs in the past year, they attributed it to **increased and improved fundraising and marketing efforts, careful planning and financial controls, and active board involvement** in stewardship.

To help nonprofits meet the challenges of the economy, **many grantmakers expressed a willingness to support nonprofit sustainability.** Giving more flexible general operating support and providing funding or technical assistance for leadership development, strategic planning, capacity building, mergers, and collaborations are among the strategies they said they plan to employ.

Both nonprofits and grantmakers reported a sense that the sector has not yet felt the full impact of the economic crisis. In anticipation, many organizations in both groups reported cost-cutting or cost-containment measures, such as delayed hiring and restricted travel.

Nonprofit Findings

Conservative Budgeting, Declining Reserves, and Government Funding Delays

From late 2007 through October 2008, 58 percent of survey respondents reported increases in their budgets while another 23 percent experienced level budgets.

Nonprofit respondents' budgets showed a median increase of about five percent overall.

Many of the same organizations - expecting to see continued effects of the economic downturn - are projecting more conservative, "flat" budgets over the next

Sustainability and capacity-building strategies of nonprofits: current and desired

	Currently using this strategy	Would like to use this strategy	Response count
Staff/board leadership development strategies	60.5% (89)	49.9% (63)	147
Nonprofit leadership development programming	50.9% (59)	52.6% (61)	116
Facilitation of nonprofit mergers	31% (13)	71.4% (30)	42
One-on-one consulting	48.8% (41)	53.6% (45)	84
Strategic planning assistance	61.2% (71)	41.4% (48)	116

Percentages do not add to 100 because some respondents indicated that a strategy was one they are currently using as well as one they would like to use.

year or minimal increases of less than five percent. Forty-five percent of nonprofit respondents reported they have no operating reserves or that operating reserves have declined in the past year.

Delays in government funding posed as many or more concerns than cuts. Over a third (35.5 percent or 54 of 152 of respondents with government funding) reported cash flow problems resulting from delays in government payments during 2008. This is up from just over a quarter (27 percent) of nonprofit respondents who reported similar problems for 2007 and 20 percent in 2006. These organizations said they employed a range of strategies to address their cash flow problems, including credit lines, delayed payroll and invoice payments, operating reserves, loans from board members, and delayed program implementation and hiring, with credit lines being the most frequently cited strategy.

Increased Demand for Services

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Responses about strategies currently employed to address sustainability and capacity building showed that nonprofits value and employ multiple strategies, many of which correspond to areas where grantmakers already are or plan to increase funding. Interestingly, 30 respondents expressed an interest in exploring mergers. That's 71 percent of the 42 respondents to this question and more than twice the number that indicated they are currently pursuing a merger (see chart).

In addition, 72 percent of 166 respondents reported that they currently operate with a strategic plan. When asked about changes they anticipate making, several described lengthening the time frame for achieving their objectives, delaying new hires they had planned, scaling back growth, and increasing fundraising efforts, all results that might be expected during a downturn. Others are more focused on maintaining programs, ameliorating the impact of the economic crisis on those they serve, and revisiting programs to make sure the right components are in place.

In line with grantmakers' sense of the current climate, while nonprofits reported initial steps to address the economic crisis, many were not yet sure what the full impact will be and what changes they may have to make in the future. By and large, they said they planned to cut costs using strategies such as renegotiating the lease, limiting travel, and paring programs, while increasing fundraising, marketing efforts, and board leadership development.

Changes in Sources of Support

The most significant declines in funding have been in the area of government funding. Twenty-nine percent of respondents reported government funding cuts in the last year, while just over a quarter (26 percent) had level support from government. Cuts in support at the federal, state, and city level were all mentioned as causes for the decreases, though decreases at the state level were most common.

Arts organizations in particular specified decreases in state funding as a challenge, while health and human services organizations also mentioned cuts or capped payments in housing, health, disability, and child and family services funding. Many respondents were less specific, attributing decreased government funding to "pressures on state budget," "budget cuts," and "Illinois [government] problems."

By contrast, for the majority of respondents, other sources of income - foundation and corporate giving (63 percent), individual giving (61 percent), and special events/benefit revenue (56 percent) - increased or stayed the same over the last year.

Foundation and Corporate Support

Those nonprofits with steady or increased support from foundations and corporations often pointed out that gains had been small and linked them to increased or improved development efforts. "More proposals; better contacts," summed it up for those that attributed their success to better, more targeted proposals, improved research and foundation relationship building, and "aggressive" efforts to maintain or increase support. Over 70 percent of respondents reported approaching more foundations and corporations for support in the last year. Nonprofits also pointed to better management and governance in increasing their foundation support. However, these same respondents anticipated decreased grant amounts or fewer grants from their existing funders in the future. As one respondent commented, "funding increased across the board for us this past year but we do believe the economy will impact us these next six months."

As for those with decreases in foundation and corporate support, most tended

to attribute it to the economic downturn or decreases in foundation assets, often mentioning "less money to give," "lower assets," "more critical and specific in their support," or simply, "the economy." In general, nonprofits saw declines in corporate support at greater rates than foundation support.

"It's too early to know the fallout," said one grantmaker of the economic crisis.

"Consistent [corporate funders] completely cut us off this year," said one, while others pointed to declines in corporate support due to smaller budgets or mergers.

Special Event/Benefits Revenue

While some nonprofits reported that special event attendance and revenue - especially from larger events and golf outings - were down this year and that the likely reason was the economic downturn, 38 percent of respondents saw increases in this revenue source. Among nonprofit respondents that saw decreases in event revenue (29 percent), comments were along the lines of one who said, "We had 70 more guests this year, but raised half as much money as in 2007."

Those with increases listed the keys to their success as increased volunteer, board, and staff effort to identify and cultivate sponsors and donors. "More motivated chairs heading the corporate sponsor effort," "well crafted communications and message," "pushed events harder," "increased our marketing," and "more aggressive board involvement," represent the range of reasons respondents gave for pulling off successful events despite challenges posed by the economic climate.

Several respondents also mentioned changing their event strategies. For instance, "One [special event] specifically was up substantially this year. It was a walk that asked people to collect pledges. We believe the increase came because it was easier for people to get five, ten, and twenty dollars from people/businesses than larger amounts."

Individual Giving

Two-thirds of nonprofits also reported increased or stable individual giving totals over the last year. However, as with the other sources mentioned earlier, even those with positive experiences to report expressed caution about the future, reporting some decrease in the amounts given by long-term donors and general concerns about the economy, leading to the need for focused attention to communicate and to recruit new donors. As one put it, "The individuals who give consistently continue to do so because they believe in the mission." Another said, "[We] worked VERY hard in this area to cultivate and steward our donors."

Over half of nonprofits reported increasing the number of individual donor strategies they pursued. One elaborated, "[we] increase[d] to make up for potential losses in the next year due to [the] economy." Tried and true strategies such as "personal cultivation" and "donor society management and segmentation" continued to support organizations in their fundraising from individuals.

Organizations also looked at better uses of technology to track donors, added e-solicitation, and incorporated individual donor goals in their strategic planning.

Grantmaker Findings

Declines in Assets and Changes in Future Giving Levels

Of 52 grantmaking organizations responding to a question about change in assets, only five (10 percent) reported increased assets in the last 12 months, while another five (10 percent) had level assets in the same period. Sixty-five percent of respondents experienced a decrease in assets. Eleven organizations (21 percent of all respondents) had a decrease greater than 20 percent.

In 2008, the majority of grantmakers (75 percent) expected level or increased giving compared to their totals in 2007. Only 50 percent expected to maintain or increase their giving levels in 2009.

Respondents most often cited declines in assets as the reason for changes in giving levels, while those that do not maintain assets (such as government-funded entities or corporate giving programs)

specified decreased appropriations or lower profits as the reason.

Seven grantmakers (13.5 percent) expected to decrease giving by more than 20 percent. Overall, 70 percent of grantmakers reported that lack of asset growth or income was a very important or moderately important issue within their organization.

As they did in the recession following 9/11, funders cited decreases in the availability of government funding as a concern, and some will attempt to increase grantmaking to ameliorate the impact.

Others are looking toward specific opportunities to help nonprofits and the people they serve weather the current economic climate. "We are thinking about holding a convening with grantees to see what implications this crisis will have on their policy-level work and if there are opportunities to leverage resources," elaborated one respondent, while another said "[We are] looking at programs that help people remain in their homes; increasing funding to basic human needs (hunger, emergency housing)."

While several grantmakers expressed concern about the impact of the recent economic crisis, they reported they are still working internally to determine the best course. "Too soon to know," "It's too early to know the fallout," and "We need to see how our assets have been impacted when things settle down," are among the comments by this group.

Changes in Funding Strategies

When asked about changes in the requests they receive from nonprofits, just over a quarter of grantmakers (28 percent) reported more requests for operating support last year, while 16 percent received more requests for emergency support. In turn, 34 percent expected to increase general operating support. Other increases expected are in support for renewal grants (30 percent) and funding to facilitate or support nonprofit mergers (17 percent).

In addition, thirty (61 percent) of respondents reported that they currently use or plan to use strategies to address nonprofit sustainability and capacity building.

The most frequently cited strategies were to increase funding for general operating support (60 percent), support

staff/board leadership development (53 percent), and help with strategic planning (50 percent).

Other strategies cited included giving capacity-building grants to nonprofits and grants to organizations that provide capacity building support, encouraging collaboration, examining shared back-office and administrative support, reassigning duties to board members, and planning support and grants to fund needs identified in smaller communities.

Grantmakers expressed a commitment to maintaining funding levels, if possible, and to streamlining the proposal process. Others emphasized general operating support in order to provide flexibility to nonprofits, and to other forms of support such as technical assistance.

Several grantmakers mentioned efforts to curb new projects and to help nonprofits build new funding relationships. "We are trying to maintain level funding and discouraging grantees from taking on any new projects. We have also increased our efforts to broker new relationships between other funders and our grantees."

Conclusion

Overall, several themes emerge in the face of what both grantmakers and nonprofits in Illinois see as more economic challenges to come.

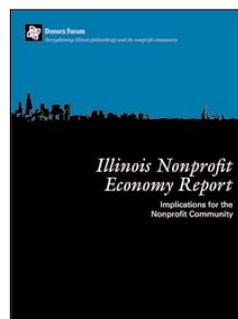
Nonprofits anticipate the need to tighten budgets, make up for lost sources of support with redoubled fundraising and marketing efforts, and build planning, management, and leadership capacity.

Grantmakers tell Donors Forum they will cut their own operating expenses, maintain funding for their current grantees, provide capacity-building and technical assistance support, and encourage collaboration and streamlining efforts by nonprofits.

Both groups emphasize the need for a tighter focus on organizational mission in driving program and financial decisions.

About Donors Forum

Donors Forum is a nonprofit membership association that promotes philanthropy and a strong nonprofit sector in Illinois. The sector, which includes nonprofit service providers as well as grantmakers, directly serves four out of every five Illinois residents. Indirectly, these organizations touch the lives of everyone in Illinois. Donors Forum offers a number of programs and resources to nonprofits and grantmakers. These include publications, workshops, an informative website, the Donors Forum Library, and six Philanthropy Centers. To learn more about Donors Forum and the resources and services it offers to strengthen grantmakers and nonprofits, call 312-578-0090 or visit www.donorsforum.org.



Related Research:

Illinois Nonprofit Economy Report
Released in October 2008, another report from Donors Forum documents the economic importance of nonprofits in Illinois. For example, at last count, nonprofits employed more than 427,000 people - more than one in twelve workers in the state. And in one year, they engaged 3.9 million volunteers whose time was valued at \$15.5 billion. In the past 15 years, nonprofit expenses (the best measure of their economic impact) grew by 163% to exceed \$15.2 billion. For a copy of the Illinois Nonprofit Economy Report, email publications@donorsforum.org, call 312-578-0090, or download a PDF at www.donorsforum.org.

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