



# WEATHERING THE STORM

The Economy's Impact on  
Georgia's Nonprofits

Q4 2008 to Q1 2009 comparative Index

Produced through the generous support of

The Home Depot Foundation

# Georgia's Resilient Nonprofit Sector

## *forward*

Georgia's nonprofit community is vibrant and resilient – even in the face of adversity. This has never been more apparent than now as nonprofits across the state assess the impact of the economic storm arising from Georgia's recession, and begin making preparations to weather the onslaught of forces impacting them in ways they have never experienced before. As we move into the latter part of 2009 and 2010, many are in uncharted territories, never having managed through a recession of this intensity – and we anticipate that as in any major storm, not every organization will remain unscathed. However, the nature of the sector is to innovate and we are both excited and amazed to witness, even during this time of reduced resources, a growing body of work which bears evidence to the flexibility and innovative spirit of the sector's leaders as they try to respond to the needs of Georgians while maintaining their own organization's viability and strengthening the staff and volunteers who serve in them.

As 2008 was coming to a close and the economy worsened, we were barraged with stories about the many obstacles nonprofits were facing. While the stories were compelling, we had no way to effectively quantify the extent of the challenges. And while we had immediate suggestions to address many of the problems, we did not have enough facts to address root causes or to recommend long-range strategies. To help play a positive and proactive role in stemming the tide of negative impacts on the sector and individual organizations, and to promote long-term viability of the sector as a whole, the Georgia Center for Nonprofits with generous support from The Home Depot Foundation, conducted a survey for collection of data about the impact of the recession on Georgia's nonprofits. We are pleased to present the second in a quarterly series of reports highlighting the pressures influencing our work along with the proactive steps leaders are taking during this time of change.

While this report is designed to provide insight to nonprofit leadership and their philanthropic partners to help them plan and manage their responses to the powerful and rapid changes influencing their work, it is far more than a reflection of our current economy and its impact on the nonprofit community. It is our hope that this report provides a greater understanding of what nonprofits are facing, what they have done in response to the declining economy and what they need in order to be most successful. We hope to provide a quarterly index that will potentially provide leading indicators of change, perspectives on what is working among peers, and a tool to benchmark organizational performance against peers.

We know that nonprofit professionals around the state are bracing themselves for change and that they are committed, resilient, innovative and for the most part optimistic about the future. They are willing to face the challenges of change, but need support in doing so. The results of the study can be used to assist nonprofits and foundations alike to move through this time of transformation – clarifying who we are as a sector, who we serve and how we conduct the business of maintaining the quality of life for the citizens of Georgia. While we are often referred to as nonprofits, citizens, government agencies and corporations alike are looking to nonprofits to produce even greater amounts of supportive services and resources to help struggling citizens and communities overcome these challenges. Indeed, the outcomes of this charitable work, whether a week's groceries for a family in need or the maintenance of a park that a city government can no longer afford to maintain, these are the *community profits* that are generated from the work of nonprofits. Our citizens, cities and towns need nonprofits more than ever and community leaders should be realistic about the support and partnership that agencies need to continue to provide vital services. Organizations weathering this storm will need to be well prepared, realistic and innovative – and they will absolutely need to demonstrate best practices to make it through intact.

The Georgia Center for Nonprofits is pleased to present this report, and remains prepared to offer leadership and resources to help nonprofits to position themselves to best meet the needs of their communities and cope with this economic maelstrom. We thank The Home Depot Foundation for their leadership and generous support in helping us to produce this report for the community.

# Georgia's Recession: Crisis and Opportunity for the Nonprofit Sector

The downturn in the nation's economy in late 2008 sent repercussions across our state, particularly throughout the nonprofit sector. Early signs indicate that the current economic climate has had a transformative effect on Georgia's nonprofit community, with both meaningful challenges and opportunities emerging.

Nonprofits, and particularly human services organizations, have noted dramatic increases in demand for service while simultaneously experiencing declines in funding sources. On the other hand, some arts and culture organizations have seen decreases in demand and are struggling to maintain programs as consumers change their spending priorities. In response to such challenges, many organizations are using this crisis as an opportunity to embrace proven best practices and to retool or innovate their activities for increased impact and effectiveness.

In December of 2008, the Georgia Center for Nonprofits released the first quarter results of our study on the impact of the economy on nonprofits. Simultaneously, we were hearing from nonprofits across the state about the troubles they were encountering.

We heard, for instance, that community food banks were seeing double-digit increases in demand each month for the last quarter of 2008. And, we heard that many homeless shelters from Savannah to Gainesville were experiencing significantly increased demand. These two examples exemplified what other organizations from around the state told us: there were significant increases in demand among human services groups and there was a new dimension to the client base – “middle class” clients that had never asked for services before. At the same time, we heard from almost every type of arts agency in counties across Georgia that audience levels were dramatically lower and that donors were reorienting their giving to critical needs causes.

While most organizations had some facts and figures, most accounts were anecdotal. It was important to initiate research to clearly detail the effects of the recession on nonprofits of all sizes, missions and geographic locations. Furthermore, it was essential that we understand the adaptations organizations were already making in response to the change, additional changes they were planning, and the resources and skills they needed to be most successful in 2009 and beyond.

In early June 2009, we partnered with our members to deliver the second installment of a comprehensive survey, which was completed by over 200 nonprofit professionals. We captured quantitative data from nearly every corner of the state, from the top professionals within organizations and across all mission areas. This information was complemented with personal accounts from interviews with nonprofit professionals in Atlanta and Southeast Georgia as well as telephone interviews with leaders from across the state.

One goal of the project was to respond to the greatest challenges facing nonprofits during this recession and to help them acquire the skills, resources and guidance they need to be most effective. Most organizations report that they are expecting significant changes in the way they do business within the next year and need help adjusting successfully to those changes. Our findings indicate that nonprofits have a high need for skill-based classes, networking and affinity groups to exchange ideas, and systems for sharing resources effectively. Further, the economic climate has created a sense of urgency for nonprofits that is driving closer examination of their work, methods and outcomes and they are asking for assistance to plan and pay for the work around mergers, collaborative efforts, consolidations and new approaches to meeting demand through technology, use of skilled volunteers and deepened board engagement.

Now is the perfect opportunity for nonprofits to sharpen their internal controls, hone alignment to mission, strengthen relationships with all stakeholders and set themselves apart as exceptionally effective organizations. It is a time for meaningful assessment of operational budgets and integration of staff feedback in reducing costs and exploring new revenue options. This is also an extraordinary time to renew or create partnerships that drive nonprofits to work better and more effectively than before. It is clear from the survey and subsequent conversations that nonprofits cannot afford to maintain the status quo.

Therefore, GCN and its philanthropic partners are actively learning about innovative approaches that present methods that could prove effective in strengthening individual nonprofit organizations and the sector as a whole as they emerge. To that end, The Georgia Center for Nonprofits will work together with the State's philanthropic community, sub-sector support groups and others to shape strategies to address specific needs identified in the report. For example, the Georgia Center for Nonprofits is producing toolkits, and implementing training programs to address the concerns highlighted by the survey; and, with the partnership of The Home Depot Foundation, we are planning to continue leadership networking sessions over the course of the year.

Finally, it is important to note that while the challenges of the day are very real and often quite difficult to contend with, the nonprofits in Georgia are, for the most part, optimistic about the opportunities arising to partner, innovate and generally rally to the challenges they face. It is their resilient spirit and tenacity that we celebrate, promote and hope to assist through projects like this report and the work that arises from it.

The Georgia Center for Nonprofits is energized and eager to help as Georgia's nonprofit sector responds to this unprecedented time of need. We hope that the study's results and subsequent case examples of nonprofit responses will be helpful to nonprofits as they take their work and collaboration to the next level of effectiveness and sustainability.



# GEORGIA CENTER

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## *for* NONPROFITS

**The Georgia Center for Nonprofits provides tools, resources and solutions that help nonprofits be more successful. We want to thank our members, and the core research partners who have committed their time and data to this research. We also thank The Home Depot Foundation for supporting this research and our efforts to convene nonprofit and philanthropic leaders around issues that matter to our sector and the community as a whole. For more information about this study, the Center or our work and impact, please visit**

**[www. GCN.org](http://www.GCN.org).**

# Survey of Georgia's Nonprofit Sector

The following survey results summarize the overall key findings and highlight some key differences based upon budget size, geography, role within the organization, and mission focus. For more information about the demographics of the survey respondents or the survey methodology, please see the last section of this report.

## Impact of the Economy on Financial Health

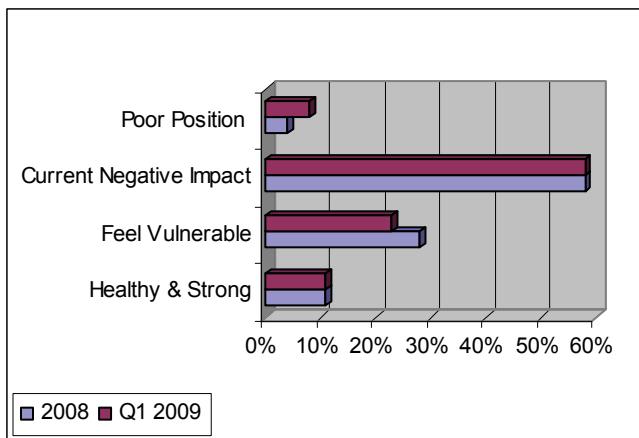
The overall financial situation of nonprofits has remained surprisingly stable from Q4 2008 to Q1 2009. Approximately 58% of respondents in each quarter indicated that they were feeling significant negative financial impacts attributed to the economy.

In both quarters 11% of respondents indicated that their financial position was healthy and strong.

The most notable shift from Q4 to Q1 was in those that indicated vulnerability without current negative impact; this group decreased from Q4 to Q1 by 5% underscoring the improved optimism of many nonprofit leaders that we will discuss later in this report.

More than 26 percent report that their organization is experiencing chronic financial problems but expect to survive and 8 percent of respondents do not know if their organization will survive through 2009.

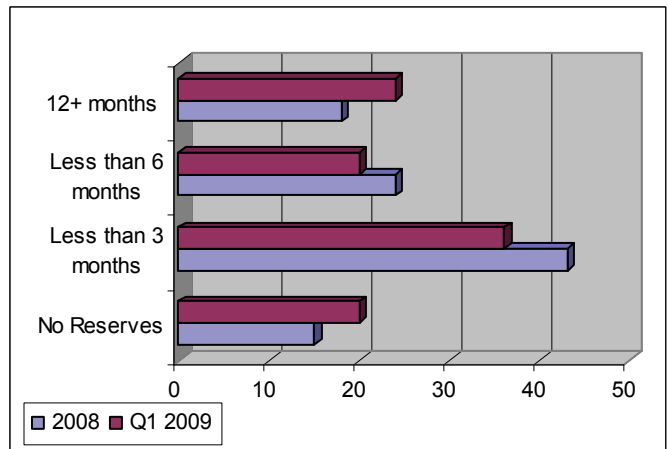
### Perception of Financial Health



### Levels of Cash Reserves

44% of the respondents reported their organization has more than four months of operating expenses in cash reserves, with approximately one third (27 percent) reporting that their organization has two or three months of cash on hand. Almost 20 percent of respondents have no cash reserves.

#### Cash Reserve Levels

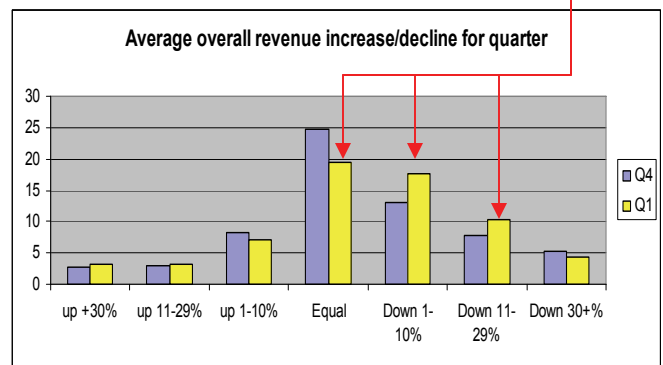


Some of the increases in reserve levels can potentially be attributed to a slight market recovery in the quarter which would have impacted invested reserves, and the paring down of direct Program expenses as well as other operating expenses.

## Revenue

Compared the prior 6 month period 30% of respondents report that revenues had declined 1-20% and approximately one quarter (24%) report revenue declines of more than 30%. 34% report even results, and only 6% report increases of more than 10%.

Magnitude of declines is increasing



By

far, the greatest area of decline for nonprofit fundraising was in corporate or business giving. More than 50 percent of organizations saw a decrease in direct grants or other types of support from the business community and 43 percent saw decreases in special event revenues, which often include a significant amount of business sponsorship.

Individual donations suffered as much as special events with 43% of respondents noting cash donors under \$1000 showing the sharpest declines followed by 39% of respondents noting declines in \$1000+ donors.

## Declines in Revenue by Funding Source

Overall, 27 percent of organizations surveyed saw an increase in revenue in Q4 2008 and this is exactly the percentage experiencing increases in Q1 2009.

However, compared to Q4 2008 where 25% experienced revenue increases of over 20%, only 12% saw revenue increases of more than 20%.

Concurrently, those experiencing relatively even revenue levels decreased 3% while those experiencing more than 30% declines increased by 3%.

Approximately 32% of Q1 respondents have already experienced the reduction or elimination of funding from a significant revenue source due to the current economy.

An additional 26% percent of respondents have not yet experienced this but expect to during 2009.

## Rising Pressure on Nonprofit Sustainability

The rising pressure on nonprofit sustainability is born out by looking at stress indicators. The table below indicates a rising use of credit lines, reserve funds, restricted funds and endowment corpus, and a rising instance of cash shortages. Nearly one quarter of the respondents (23 percent) reported that their organization experienced a time in which expenses exceeded revenues during 2009 causing cash shortages.

### Prior Deficits

Further, we asked nonprofits if they had run a prior deficit in the preceding two years and the percentage grew from 38% to 43% of respondents.

### Reserve Levels

Last, we wanted to know if nonprofits had a reserve cushion and if so, what was the depth of that cushion. The number of agencies reporting no existing reserves increased by 5%; those with 3 months decreased by 3.5%, and those with 6 months reserves decreased by 4%.

## Nonprofit Stress Indicators

As a result of budget shortfalls have you:	Q4	Q1	
Taken out a loan	4.8	4.2	
Taken out a line of credit	8	11	
Tapped an existing line of credit	13.1	15.3	
Tapped and existing reserve fund	31.9	39	←
Taken out a second mortgage	1.6	1.7	
Taken larger endowment payouts	3.2	5.9	
Used restricted funds with intentions of "paying it back"	9.6	14.4	←
Run out of cash for 1-2 weeks	16.9	19.5	
Run out of cash for 1+ months	5.7	6.8	
Used credit cards out of the norm	10.4	6.8	
Delayed Payroll	7.7	12.7	←
Delayed vendor payments more than 60 days to manage cash	13.5	8.5	
Taken a board member loan	4.9	7.6	
Delayed program implementation	37.2	42.4	←

# Contending with Declines in Revenue

Organizations responded to declining revenue sources and cash flow challenges in various ways from increasing fundraising efforts to cutting programmatic or operating expenses. The impact of reduced programmatic capacity among many nonprofits in the wake of a rising tide of demand remains to be seen in the coming quarters.

## Fundraising

The top strategy utilized to overcome financial pressure was to increase fundraising and marketing activity. Most notable was the overwhelming focus on classic marketing techniques. For example, many groups began to highly segment individual donor lists and “hyper” customize communications to those targets. Other agencies reported sharing mailing lists and combining marketing budgets to produce public PSA’s to reach a broader audience.

44 percent of respondents also reported that they would begin charging for their services. For example, several free clinics stated that they would need to begin charging for Glucose testing strips which were previously distributed to diabetic clients at no charge.

## Cost Cutting

Although 13 percent of respondents expect to increase program expenditures, many groups are resorting to deep cost cutting measures which includes program reductions.

In fact, the number one area of budget reduction was within direct program expenses (food, medical supplies, etc.) Looking at the survey results as a whole, we infer that this finding is related to nonprofits cutting back non-core programming

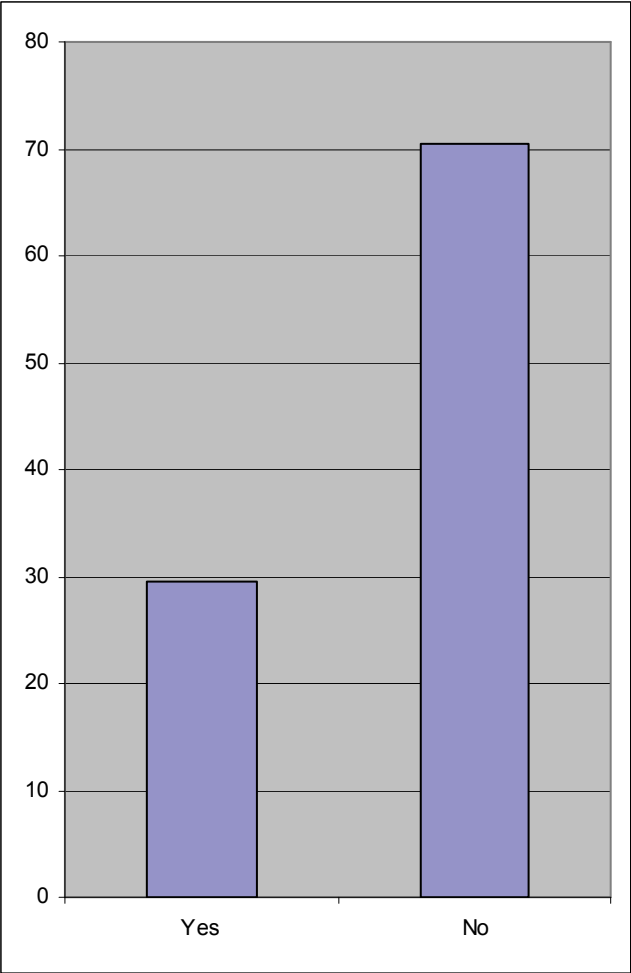
to focus on high impact, mission centric activity. Additionally, many nonprofits have experienced workforce reductions. In the Q4 2008 study, the majority of lay-offs were within program staff (rather than management or administrative), and therefore lower program expenses are simply a direct result of less programming.

In addition to programs, the primary areas of cost reduction were found in printing, as more agencies move efforts online; office supplies and equipment; conferences and travel; and staff benefits which were reported as an area of reduction to a lesser extent but still significant compared to other areas.

## Continued Staff Reductions

31% of respondents laid off staff in Q1 compared to 27% in Q4. The leading position for reduction was administrative staff and the second highest reductions were in upper Management positions. Moreover, about 30% of respondents expected to reduce staff in Q2 and 21% expected to hold vacant positions.

### Do you Expect Staff Layoffs in Q2?



What Positions were reduced in Q1?	
37.5%	Program Staff
45.0%	Administrative
23.5%	Specialists
5.0%	Development
12.5%	Mid Management
25.0%	Upper Management
10.2%	CEO

## Looking Forward – Strategies to Address Issues

- A majority of respondents reported that they expect the demand for services to increase or significantly increase during 2009.
- Nearly half (46.8 percent) of respondents are optimistic or very optimistic in their outlook for 2009.

## Key Findings by Geographic Setting

- There were no significant differences between rural and urban nonprofits in regards to effects of the economy Rural nonprofits had not been impacted as dramatically as their urban counterparts at the time of the survey, which resulted in fewer changes to fundraising or management strategies.
- While cash flow was reported as less of an issue, rural organizations did dip into reserves more readily (10.9 percent as compared to 7.9 percent).
- Rural organizations are already collaborating at a higher level than their urban counterparts.

## Key Findings by Mission Area

- Arts and culture organizations were more likely to report falling short or significantly short of their goals.
- Human services organizations reported difficulties in meeting the needs of current clients
- More than 35 percent of human service organizations have reduced staff hours, 38 percent have not filled positions through attrition and nearly 20 percent have laid off staff or plan to.
- Health care organizations expect significant increases in demand for services .

## Call to Action

### For Nonprofits

- Now more than ever, boards need to rigorously exercise their responsibility for financial oversight.
- Be careful that actions taken to address immediate challenges do not jeopardize future growth and impact.
- Diversify revenue sources to be less vulnerable in any economic climate, but especially during a downturn.
- Find creative ways to bolster staff morale.
- Consider using volunteers to fill gaps created by staff reductions or to meet increased program demands.
- Meet with your city council, county commissioners and state and federal legislators so that they are aware of your needs.
- Use partnerships to fill gaps created by increased demand and diminished funding.

### For the Funding Community

- Increase communications about changes in funding levels, grantmaking and other funder activities.
- Consider increasing grants to support general operations so that grantees have optimal flexibility.

### **A special note:**

Nonprofits, funders and donors facing the recession would do well to draw lessons from the challenging economic period that the sector went through in 2001, made worse by the terrorist attacks of September 11. The Nonprofit Finance Funds's analysis of data from over 6,500 midsize nonprofits reveals that it took years for many organizations to recover from that economic downturn. The number of all nonprofits in the sample that suffered deficits grew by 20 percent in fiscal year 2001 and had not returned to 2000 levels by 2005. Over 40 percent of the nonprofits reported a deficit in 2001, as well as in the two years immediately thereafter. From 2001 to 2003, nonprofit expenses, in general, grew at a faster pace than revenue, suggesting that organizations were providing more services than they could afford in response to increased needs. It was not until 2004 that expense growth rates among the nonprofits reflected a full adjustment to the lower revenue growth rates, coming down to a level that could be supported by lower revenue. More of the organizations that were entirely supported by the government felt the pinch during those challenging economic times than those with even 10 percent of funding from another source. Half of the entirely government financed organizations reported deficits in 2002 and 2003.

## Compensation & Benefits

63% intend to keep compensation levels the same a reduction of 10% from the prior quarter. And, 67% of respondents intend to keep benefit levels the same which is equal to the prior quarter. However, the majority of agencies noted that they were actively shopping their health insurance plans to reduce costs, and many stated that they would need to ask employees to share more of the costs of the plans.

It is common knowledge among nonprofits that many are curbing conference and travel expenses, however, we found that 58% of agencies intend to maintain or only slightly decrease professional development budgets. This may be attributed to the need to retain remaining staff to deal with reductions in force and/or demand increases. However we offer another perspective: When asked about the skill level of staff and board members relative to dealing effectively with demand, leaders noted that there were skill deficits in board members and chairs, finance, development and program delivery staff. The fact that they intend to maintain spending in building staff capacity correlates with this finding. Additionally, marketing and fundraising were the two areas ranked most often as fair or poor relative to capacity or skill level of staff to meet current needs.

## Collaboration & other un-natural acts

Leaders' consideration of mergers, shared services and collaborative marketing remained strong with 28% expressing interest in mergers if there were funds to manage them; 50% indicating collaborative advocacy programs or marketing efforts would be considered and 44% indicating that shared back office would be considered. These compare equally to the prior quarter, with the exception of merger consideration, which dropped by 8% indicating perhaps the improvement in financial outlook for the coming period [noted later in this study](#).

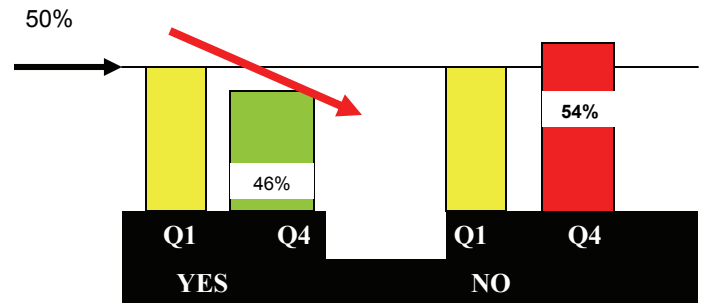
## The Economy's Impact on Organizational Goals and Objectives

The economic climate has had a mixed effect on programs, with some organizations experiencing significant increases in demand and others struggling to keep participant numbers consistent with past performance. Demand levels are highly correlated to mission focus. For example, many human services groups are experiencing hugely increased demand while many arts groups are working exceptionally hard to attract patrons at even half the volume of prior years.

64% of respondents indicated significant increases in demand levels and 30% of that groups indicated demand levels exceeding 30% greater than the same period in the year prior. With so many groups experiencing increased demand along with

diminished funding and staff, we were curious about how long agencies felt they could sustain their response levels. About 4% less reported capacity to meet current demand. 35.6% of Large and Small Nonprofits state that they can meet current demand levels for 1 year; 12.5% state they can last 6 months; and 25% state they can last 3 months or less.

### Are you in a position to meet increased demand?



Notably, the number of agencies able to sustain services at current levels for less than three additional months increased by 5% while those stating that they could sustain response to current demand levels for six months decreased by 8% from the prior quarter.

As a non-scientific observation, if one examines those agencies reporting less than three months of reserves along with declining revenues and demand levels reported above, it would seem that the remainder of 2009 and 2010 will be increasingly difficult for agencies to cope with and, without further investments, there will be notable impact on service provision.

## Coping with Demand

We've already established that in Q4 2008, the major staff category for reductions was program staff, in Q1 2009, the major category for cost reduction was direct program expenses. The trend toward program reduction will continue into 2009 as 44% will close some programs to shift support to core initiatives or to cut costs compared to 30.8% in Q4. Notably, 44.3% of respondents report that they will increase constraints to limit demand compared to 37.5% in Q4. This trend along with the push by many groups to charge clients for services will restrict services typically available in community.

## Some are Meeting Demand

Despite the odds, some agencies are, in fact, meeting the challenge of declining revenue and escalating demand. In response to survey questions probing their strategies, the majority of successful groups note that careful planning and financial controls along with aggressive development activity and heightened board involvement made the difference. Most successful groups reacted quickly and far in advance of any impact by slashing non-core programs, reducing non-essential staff and communicating needs to board and donors by using statistics and ensuring a "high-touch" approach to communications.

## Nonprofit Outlook & Optimism for 2009

In spite of the many challenges noted by respondents, close to 47 percent of nonprofits are optimistic about the future. In looking beyond 2009, respondents also varied in their predictions about the recession's longer-term effect on their organization. Approximately one third of respondents expect to examine their current operating assumptions in response to the economic climate, possibly emerging as a fundamentally different organization over the next 1-3 years. This type of reassessment could result in many different types of changes, such as: a shift in mission focus, expanded or reduced geographic focus or size and scope of organization. Many expect to change how they conduct outreach to clients or various populations.

Almost a quarter (22%) of respondents expected to increase programs and 54% expected to hold programs at current levels. This finding correlates with their revenue outlook.

### Revenue Outlook

Nonprofits seem to be slightly more confident about their revenue prospects for the remainder of 2009. In Q4 2008 40% of respondents stated that they projected significant revenue impact in 2009 versus 33% in Q1 2009. This confidence could result from nonprofits' experience in working through organizational issues and demand for a period and reassessing the impacts; additionally, many groups have taken steps to adjust programs, spending and to have serious donor conversations.

Therefore, this rising confidence could stem from a more planful and less panic driven state of mind now that groups have several months of dealing with the issues confronting them.

One quarter of respondents projected increased revenue during the remainder of 2009 and about 13% felt that they would experience a flat result compared to the same period in 2008. Interestingly, in the wake of continued declines in state revenues along with successive department budget cuts that impact nonprofit contracts, 30% of those respondents with government contracts felt that their revenue from government sources would remain stable in 2009. 40% Plan to deliver events as usual and 63% expect to hold salaries & benefits at current levels; 21% expect to start a capital campaign (compared to 10% in Q4); 24% expect to start a new event. Both of the latter findings track with the more aggressive approach to fundraising or what we are calling 'hole plugging' activity by nonprofits as sources decline in other areas.

It is instructive to note where nonprofits feel their largest declines and increases will stem from in 2009. The following table illustrates their current projections. Most notable is the declining confidence in foundation revenue. This data is consistent with the fact that most private foundations' giving levels correlate with a 2-3 year asset average; as assets have diminished so has the overall average which will determine the amount of money available to grant over the next two to three years.

Forecasted Revenue Category Results	N/A	Equal	LESS	A LOT LESS	MORE	A LOT MORE
Government Grants	30.2%	19.0%	19.0%	10.3%	19.0%	2.6%
Small individual Gifts	6.9%	36.2%	39.7%	2.6%	13.8%	0.9%
Major Individual Gifts	11.2%	30.2%	37.9%	8.6%	9.5%	2.6%
Corporate Grants	24.1%	22.4%	37.1%	9.5%	6.9%	0.0%
Corporate Sponsorships	26.7%	25.0%	31.9%	9.5%	6.9%	0.0%
Corporate In-Kind	26.7%	34.5%	21.6%	4.3%	11.2%	1.7%
Foundation Grants	17.2%	24.1%	29.3%	12.1%	13.8%	3.4%
Annual Event/Campaign Results	23.3%	20.7%	32.8%	7.8%	14.7%	0.9%
Performance or Earned Revenues	41.4%	14.7%	20.7%	10.3	11.2%	1.7%

## Collaboration and Transformation a Growing Leadership Response:

Regardless of the degree to which an agency increases its fundraising appeals, cuts costs or reduces its actions to the fundamental core of its mission—the fact is that there *is* a limit reached at which impact is diminished. Escalated fundraising comes at a cost—time, resources, leadership attention. Programmatic cuts come at a cost—reduced client services, client charges, etc. And cost cutting ‘costs’ in terms of employee morale and effectiveness, service excellence, etc.

Many of the strategies listed on the previous pages relate to an organization’s ability to maintain or grow programs according to need and they are heavily weighted toward expense reduction, paring back programs, workforce reductions and aggressive marketing and fundraising tactics. While we don’t expect these strategies to abate, moving forward, collaboration, sharing resources, and merged service approaches or outright mergers between agencies are top choices.

We found, for instance, that more than 28 percent were already collaborating to reduce program expenses, and another 27.3 percent were considering this.

28.9% would *consider* a merger if they had resources to manage it. 50% would combine advocacy efforts or marketing efforts with other groups and 44% would consider consolidating their back office or outsourcing it to reduce costs.

*"We must restructure in order to survive and are looking at every aspect of our organization to determine how we can share resources, collaborate and delete duplication of services."*

survey participant

Additionally, a number of organizations are using or considering the use of technology, volunteers, and increased use of best practices to improve their organization's efficiencies and effectiveness.

Of particular interest among participants was the identification and use of skilled volunteers to assist with marketing strategies,

**A special note to donors:** We asked nonprofits several open ended questions which we hope might help you guide and direct some of your responses to the needs of your partners.

### **Question 1. What three resources would most impact your organization’s ability to navigate the current economy’s impact on your organization?**

**Finding:** Of course, money was mentioned just a few times – but operating capital was the resounding refrain within that area of need. Interestingly, when we asked this question in Q4 2008, money was the primary answer; in Q1 2009 there were far more agencies who did not even list it as a critical resource (perhaps because it is a given). Instead, the most common answers were staff capacity and/or skill enhancement to market and fundraise; board development resources and board training assistance; access to skilled volunteers; space; access to financial and strategy advisors; and last policy assistance and help with navigating the legislative process.

### **Question: What should donors know & do right now?**

**Finding:** Nonprofits want funders to understand that operating capital is simply critical at this time. They also want donors to know that smaller gifts or partial reductions rather than an across the board cut are meaningful because large cuts are hard to bridge along with additional minor cuts from other donors. Nonprofits want partners who will listen and respond to the infrastructure needs of the organization as a part of executing the mission. And last, they want you to know that demands are overwhelming for many and they need your help to serve effectively; for others – particularly the arts, they want you to know that while their services may not be categorized as ‘critical needs’ (food, shelter, medical) they are vital to building a vibrant community and should be sustained.

# Summary

## Georgia's Resilient Nonprofit Sector

Georgia's nonprofit community is vibrant and resilient – even in the face of adversity. This has never been more apparent than now as nonprofits across the state assess the impact of the economic storm arising from Georgia's recession, and begin making preparations to weather the onslaught of forces impacting them in ways they have never experienced before. As we move into the latter part of 2009 and 2010, many are in uncharted territories, never having managed through a recession of this intensity – and we anticipate that as in any major storm, not every organization will remain unscathed. However, the nature of the sector is to innovate and we are both excited and amazed to witness, even during this time of reduced resources, a growing body of work which bears evidence to the flexibility and innovative spirit of the sector's leaders as they try to respond to the needs of Georgians while maintaining their own organization's viability and strengthening the staff and volunteers who serve in them.

As 2008 was coming to a close and the economy worsened, we were barraged with stories about the many obstacles nonprofits were facing. While the stories were compelling, we had no way to effectively quantify the extent of the challenges. And while we had immediate suggestions to address many of the problems, we did not have enough facts to address root causes or to recommend long-range strategies. To help play a positive and proactive role in stemming the tide of negative impacts on the sector and individual organizations, and to promote long-term viability of the sector as a whole, the Georgia Center for Nonprofits with generous support from The Home Depot Foundation, conducted a survey for collection of data about the impact of the recession on Georgia's nonprofits. We are pleased to present the second in a quarterly series of reports highlighting the pressures influencing our work along with the proactive steps leaders are taking during this time of change.

While this report is designed to provide insight to nonprofit leadership and their philanthropic partners to help them plan and manage their responses to the powerful and rapid changes influencing their work, it is far more than a reflection of our current economy and its impact on the nonprofit community. It is our hope that this report provides a greater understanding of what nonprofits are facing, what they have done in response to the declining economy and what they need in order to be most successful. We hope to provide a quarterly index that will potentially provide leading indicators of change, perspectives on what is working among peers, and a tool to benchmark organizational performance against peers.

We know that nonprofit professionals around the state are bracing themselves for change and that they are committed, resilient, innovative and for the most part optimistic about the future. They are willing to face the challenges of change, but need support in doing so. The results of the study can be used to assist nonprofits and foundations alike to move through this time of transformation – clarifying who we are as a sector, who we serve and how we conduct the business of maintaining the quality of life for the citizens of Georgia. While we are often referred to as nonprofits, citizens, government agencies and corporations alike are looking to nonprofits to produce even greater amounts of supportive services and resources to help struggling citizens and communities overcome these challenges. Indeed, the outcomes of this charitable work, whether a week's groceries for a family in need or the maintenance of a park that a city government can no longer afford to maintain, these are the *community profits* that are generated from the work of nonprofits. Our citizens, cities and towns need nonprofits more than ever and community leaders should be realistic about the support and partnership that agencies need to continue to provide vital services. Organizations weathering this storm will need to be well prepared, realistic and innovative – and they will absolutely need to demonstrate best practices to make it through intact. Therefore, in addition to the survey results, we thought that it might be helpful to include some descriptions of innovative approaches and new collaborative efforts happening across the country. We hope to bring more of these stories and examples from our own state as we move forward with the subsequent reports in the upcoming quarters of 2009.

The Georgia Center for Nonprofits is pleased to present this report, and remains prepared to offer leadership and resources to help nonprofits to position themselves to best meet the needs of their communities and cope with this economic maelstrom. We thank The Home Depot Foundation for their leadership and generous support in helping us to produce this report for the community.

# Stories From the Field: What is working now in terms of coping with the economy's Impact on Nonprofits

## Arts groups barter to save money

Catherine Jun / The Detroit News

Metro Detroit's arts institutions are huddling together to help each other out.

As donations have plummeted, several are turning to a creative money-saving solution: sharing. Through an online program, they're swapping what they can give with what they can use -- buses, museum tours, performance or office space -- even high-priced intangibles, such as marketing expertise.

Cranbrook Schools loaned to the Detroit Opera House a bus and driver to shuttle visiting ballet dancers from midtown to rehearsals at the Opera House downtown.

"It was a great financial help to us," said Carol Halsted, director of dance for the opera house, who believes it saved at least \$5,000. The dance department expects thousands of dollars less in revenue this year, mostly from falling enrollment in summer courses and corporate donations.

What's made it easy to barter is a service called the Sharing Resources Clearinghouse. Run by the Cultural Alliance for Southeastern Michigan, it lets groups make offerings, and take something they might need. Since its founding, at least 40 organizations have signed up.

The behind-the-curtains bartering highlights the efforts arts and cultural institutions are making to survive in a rugged economy.

### Corporate donations down

In a survey of 200 nonprofits in the region, 65 percent of arts and entertainment organizations reported declines in money raised in 2008 compared to previous years, and another 25 percent remained steady, according to the Michigan Nonprofit Association. Much of the loss is due to dramatic falloffs in corporate giving. That has hurt every major arts and performance venue in the region. Most recently, the Detroit Institute of Arts announced plans to lay off 20 percent of its staff. The Detroit Symphony Orchestra and Michigan Opera Theatre were forced into deeper belt-tightening earlier this year when the GM Foundation canceled its sponsorship pledges.

"They would rather cut behind-the-scenes costs rather than programs to the public," said Maud Lyon, executive director of the Cultural Alliance. "They're doing their strategic planning, and they're making hard choices and looking at what they have to do."

The rules on the Web site are simple: offer something, then you can take something.

### How they barter

Take this latest string of giving as an example: The Henry Ford in Dearborn recently offered up on the Web site its in-house team of graphic designers, who had some time available, to help with an image makeover.

"When we were inventorying ... we looked at some of the areas we had expertise in," said Carol Kendra, chief marketing officer for The Henry Ford. "I know there's a lot of organizations that do not have access to these resources."

The offer was snatched up by the Birmingham Bloomfield Arts Center. It put the team to work on a new logo, poster and ads for its

annual summer arts festival, renamed "Art Birmingham." The work would have cost at least \$10,000 had they hired someone.

"We could not have been able to do this," said Cynthia Mills, vice president of programs at the center, which has so far maintained funding levels but is bracing for a likely dip next year. "Their donation to us is huge," Mills said, adding, "We're hoping it will bring another generation in" to the festival.

The center, in turn, posted on the sharing site one-time use of its mailing list, made up of more than 2,500 members, donors and students -- an offer deemed priceless in the arts arena. The Macomb Center for Performing Arts used it earlier this year, sending out mailers to an upcoming string performance. The list was never disclosed; the Birmingham Bloomfield center forwarded the notices through its mail house.

Some observers say there's a quality of life issue in keeping such programs afloat.

The arts are a key component in attracting and retaining a young, educated workforce in any region, said Lou Glazer, president of Michigan Future Inc.

"It's an important ingredient in a strategy to attract and retain talent," he said. "Part of the quality of place they're looking for is the arts. That's the simple story."

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## **Human Services Agencies Merge Back-Office Functions to Save \$200M Annually**

Tough economic times are forcing all nonprofits, large and small, to think creatively about how to cut costs. One extremely unique example of this creative thinking was recently announced in Chicago where nine of the largest and oldest non-profit United Way agencies agreed to form a cooperative partnership to share back-office functions for their nonprofit organizations. The nine founding organizations' combined budgets total over \$300M and include the Metropolitan YMCA, Hull Housing Association, and Heartland Alliance (formerly Travelers and Immigrants Aid).

An article in Crain's Chicago Business on Feb. 4, 2008 explained that the nonprofits involved in this new cooperative expect to save an average of between 2% to 4% of their operating expenses, for a total estimated savings of \$20M annually. The group claims that the primary savings will come from the benefit of combined purchasing power, and not from lay-offs.

"We're in dire straits right now with all of these factors coming to a head," said Laura Thrall, CEO of Metropolitan YWCA. "The savings are important because of what it will allow us to do." Co-op members plan to shift back-office savings into programs where demand has been far beyond funding capacity for some time.

The co-op has its costs, however. The Chicago Community Trust is committing a grant of \$400,000 towards establishing the cooperative and the members themselves have agreed to pay a fee of 0.13% of their revenue for the next three years to cover the costs of the cooperative venture. The group is hoping to grow and entice more nonprofits to join them, though, in which case the cost savings could potentially be even more significant.

# Generating Income

Nonprofits hard-pressed for donations may consider creating a project to generate income.

In August 2008, the Joffrey Ballet in Chicago faced a 40% decline in ticket sales and a reduction in corporate sponsorships, leaving a \$300,000 budget shortfall. In January, the Joffrey decided to generate income by offering dance classes to the public. The classes are taught in the group's existing space, by the Joffrey's dancers, and the ballet's existing staff handles marketing, so there are no substantial additional expenses. Since January, the classes have generated \$200,000 in revenue, and the Joffrey is expecting to earn another \$300,000 by June. Moreover, people who take the classes are buying tickets to see their teachers and the rest of the company perform, says the Joffrey's executive director, Christopher Clinton-Conway.

Some advisers caution that an economic crisis can be the worst time to start an income-generating activity. "For a nonprofit to put a lot of resources into what could be a risky proposition could be dangerous," says Ms. Berman of Rockefeller Philanthropy Advisors. She suggests first making sure there is a market for the proposed business, and then determining how much money would have to be invested before it became profitable and whether the organization has the skills and staff to manage the business. Any activity should be directly related to the organization's mission and core capabilities, she adds.

## Serving the Not-So-Needy

Nonprofits that offer marketable services might be able to raise funding by expanding their client base to include people who are better off.

Bonnie CLAC (Car Loans and Counseling) is a nonprofit based in Claremont, N.H., that facilitates low-interest car loans for low-income individuals looking to buy cars and helps them through the car-buying process. To allow them to qualify for the loans, it requires them to take a five-week financial-literacy course. It also provides consultants they can call for financial advice of any kind. In 2008, it saw demand for its services increase more than 25% from the previous year as the economy worsened and credit standards tightened.

Bonnie CLAC charges about \$800 for its full range of services. But it costs the organization about twice as much or more to deliver those services, so every additional client is a financial drain. To generate more revenue, Bonnie CLAC decided to help people with higher incomes find loans and negotiate with car dealers. It charges these clients the same \$800, but because it doesn't require them to take the financial-literacy course and doesn't offer them consulting help, it reaps a profit of about \$500 for each of these clients, says Chief Executive Terri Steingrebe. And that has allowed it to keep up with demand for its services from lower-income clients. As an added bonus, Ms. Steingrebe says, many of the new clients have donated their old cars to the organization's bridge-car program, which provides low-cost loaner cars to people going through Bonnie CLAC's financial-literacy program.

Mr. Kelley of the Nonprofit Finance Fund says that while expanding a nonprofit's market can generate new income, it can also divert staff and other resources, and it may require new investment that won't be recouped for a while. He suggests nonprofits consider expansion only if they think they will be able to sustain the growth in the long term. They should consider whether they have

# Connecting with Donors

With donors facing job losses and economic uncertainty, the New York division of Covenant House, an agency serving homeless, runaway and at-risk youth, saw donations through its direct-mail campaign decline 20% in 2008 from the previous year.

Nonprofits say the uncertain economy has caused many donors to abandon their write-a-check-for-anyone approach in favor of more-focused charitable giving. That makes it critical for organizations to strengthen their connections with their current donors, says William Foster, a partner at the Boston office of Bridgespan Group Inc., a nonprofit consultancy for nonprofits.

Covenant House achieved that by enlisting the youths it serves to call past donors to thank them for their gifts and explain the impact the donations had made on their lives. The people receiving a nonprofit's services are the best spokespeople for the organization, says Jerome Kilbane, Covenant House's executive director.

After receiving a call, "the size of the donor's gift increased by 50% from the year before" on average, Mr. Kilbane says. That hasn't completely offset the decline in other donations, he says. But he adds that Covenant House also has seen at least a 50% increase in the number of people who are willing to take a tour of the organization, and historically donations are larger from people who make such visits. The calls are planting seeds that in some cases might bear fruit a year from now, says Mr. Kilbane.

While a personal connection is critical to fund raising, it could also go awry more easily than direct mail, experts caution. Anyone calling donors "needs training to effectively engage with someone on the phone," says Ms. Bernholz of Blueprint Research & Design.

"I would also be careful about calling people again in six months, because then you just become a telemarketer," she says.

Ms. Bernholz says nonprofits need to recognize that donors have fewer resources than they did last year, and do everything they can to help the donor "make a contribution they feel comfortable with, not guilty into."