Weathering the Storm:
The Economy's Impact on Georgia's Nonprofit Sector
Q1 2009 Executive Summary

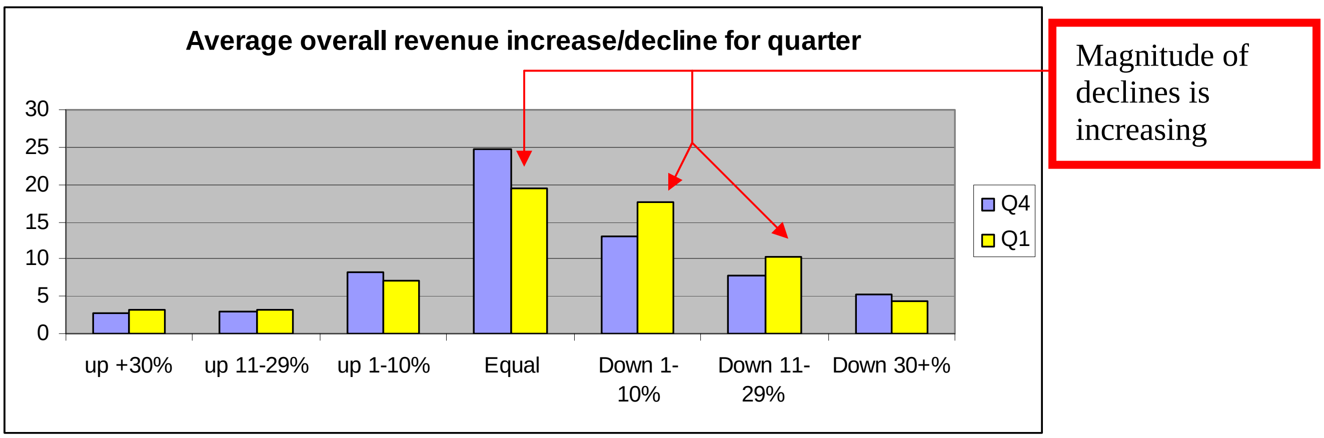
These current findings follow from results of a December 2008 study, in which the Georgia Center for Nonprofits surveyed nonprofit leaders across the state to find out how the economic downturn was affecting their organizations. We reached out to approximately 800 nonprofit chief executive officers, presidents, and executive directors; more than 375 responded. At the time, many nonprofit organizations were struggling to meet increased demand for their services in the face of deep budget cuts. However, more than a third of the nonprofits that had already experienced funding cuts were not reducing costs to manage through the downturn. Instead, they were trying to compensate by increasing fundraising capacity.

Much has changed in the U.S. since that initial research: There is a new President, a new budget, and a stimulus package of unprecedented magnitude. At the same time, the country continues to face a prolonged downturn and profound state budget crises. Georgia's situation has worsened over the period recording record numbers of foreclosures, unemployment reaching +11%, and a projected 2010 $900M budget deficit (rising to a possible $1 – 1.5B shortfall in 2011) which exacerbates issues across the board via governmental workforce reductions, decreased citizen services, and increasingly deeper nonprofit contract reductions. We completed our follow-up survey in June 2009 to gauge the effects of these developments on nonprofit organizations. We sent this survey to the same group of leaders who received the previous survey, asking all of the same questions, along with some new ones. The findings indicate that nonprofits are aggressively trying to bridge funding gaps by increasing marketing and development strategies, and they are taking many steps to cut costs and manage the forces that are confronting them as they also strive to deliver in the short term while planning for the future. But it also indicates a rising tide of stress indicators that are troubling in terms of the sectors future health, capacity and sustainability. The June 2009 survey findings, along with GCN commentary, are presented in detail in our report Weathering the Storm on www.gcn.org.

Financial Reality

Finding 1. The overall financial situation of nonprofits has remained surprisingly stable from Q4 2008 to Q1 2009. Approximately 58% of respondents in both studies indicate that they were feeling significant negative financial impacts attributed to the economy. In both cases 11% of respondents indicated that their financial position was healthy and strong. The most notable shift was in those that indicated nervousness about the economy without current negative impact; this group decreased from Q4 to Q1 by 5%.

Finding 2. Nonprofits plug revenue holes via increased asks but are also decreasing services. However, it appears that the magnitude of declines in various funding categories has increased and that nonprofits have responded by ramping up fundraising efforts in other areas to keep total revenues relatively stable. 100% of all respondents indicate that they will deal with service demand increases by increasing fundraising efforts. 44.3% will implement a new earned revenue strategy; 78% will increase marketing efforts. The sustainability of meeting ever increasing demands by plugging revenue holes with expanded fundraising efforts remains to be seen, however, notably over 44.5% will limit demand by tightening qualification thresholds or other constraints, 72.5% will utilize more volunteers and 44% indicate that they will close non mission-centric efforts.



Finding 3. Individual giving (particularly small givers) and corporate sponsorships lead category declines along with endowment losses in Q1.

Finding 4. Planning, Aggression & Marketing drive results. Those agencies experiencing increases in specific categories most attributed their success to three things 1. better planning 2. more aggression in pursuing revenue 3. better marketing, outreach or PR

Evidence of Increasing 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. 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. 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 implmentation	37.2	42.4	←

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.

Increasing Demand Exacerbates Financial Stress

At the same time the financial picture has worsened, the demand for services has increased.

Finding 1. Demand increases are sustained. 64 percent of the nonprofits surveyed noted an increase in demand with 31% noting dramatic increases. These figures are comparative to Q4 indicating a sustained increase in client demand for services, particularly among human services, health, youth and mental health groups.

Finding 2. **Nonprofits ability to cope declines**. Notably, those groups indicating that they are able to cope with increased demand decreased 4% from Q4 to Q1. In fact, those indicating that they would be able to sustain services at current levels for less than three additional months increased by 5% from the prior quarter while those stating they could sustain 6 months of current demand decreased by 8% from the prior quarter.

Finding 3. **Funding + Costs drive decreased response in some**. 43.4% indicated that reduction in funding was causing major challenges relative to meeting demand. 23.5% indicated that their decreased ability to meet demand was due to increased cost of service provision, and 24.5% indicated problems with staff capacity were hampering their demand response. 54% of respondents indicated that they would hold programs at current levels throughout the following quarter compared to 60% indicating this intention in Q4 2008. The change in this statistic was an increase in those respondents who indicated that they were unsure as to how they would manage program levels in the coming three months. Notably, 22% of respondents expected to expand programs in Q2 2009.

The financial scenario—coupled with the increase in demand for services—makes it more important than ever for nonprofit leaders to allocate their discretionary dollars and best staff to the activities that make the greatest difference in their organization's ability to achieve and sustain results.

Managing the Impact of Financial Declines

The deepening recession has led more nonprofits to resort to aggressive cost cutting measures that include staff lay-offs and reduced program activity.

Finding 1. Program cuts drive main cost cutting measures. As nonprofits pare back programs and reduce staffing within them, they project direct program expenses to lead cost reductions – and this includes fundraising event expenses - although 13% are increasing program expenditures. Other major cuts are planned in office supplies & equipment; printing; conferences & travel; and to a lesser extent but still significant are cuts in staff benefits. Notably,

Finding 2. Continued staff reductions. 31% of respondents laid off staff in Q1 compared to 27% in Q4. Administrative positions were the hardest hit with 43% of respondents who had experienced reductions indicating layoffs in this area. In Q4 the leading position type for layoffs was program staff with 52% of respondents with workforce reduction impacting these positions. This number decreased in Q1 by 13%. In Q4 development staff was the third most impacted position with 22% of respondents reporting layoffs in that position versus 7% in Q1. However, in Q1 upper management positions were the 2nd highest impacted position with 26% of agencies experiencing lay-offs reporting reductions in that area.

28% of Q1 respondents expect to lay off staff in Q2 2009; this compares to Q4 2008 response levels indicating that 30% of respondents planned reductions in Q1. Further 21% expect to hold vacant positions in Q2 which also compares with Q4 2008's 24.5%.

Finding 3. Retaining & retraining staff. 63% intend to keep compensation levels the same a reduction of 10% from the prior quarter. However 67% of respondents intend to keep benefit levels the same which is equal to the prior quarter. 58% of agencies intend to maintain or only slightly decrease professional development. This may be attributed to the need to retain remaining staff to deal with reductions in force and/or demand increases - however, when asked about the skill level of staff and volunteers to deal 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 most noted as fair or poor relative to capacity or skill.

Finding 4. 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 below.

Financial Outlook & Leadership Optimism

Finding 1. The overall financial outlook of nonprofits in Q1 2009 was improved. 7% fewer agencies in Q1 (compared to Q4 2008) felt that their revenue would be significantly less in 2009 than 2008 and 6% more respondents felt that revenue would be only slightly less (1-5%). This shift to a more positive outlook for overall financial results is also indicated in the category outlook where, with the exception of individual gifts and corporate sponsorships, leaders did not project further progression downward in the majority of revenue categories.

Finding 2. A fairly large percentage of respondents (30% versus 19% in Q4) in Q1 felt that their government contracts would remain stable throughout 2009. We found this odd as the governor has, within the past month asked for additional deep cuts in department budgets. 7% fewer respondents (compared to '08) felt that individual donations would hold steady from the prior quarter with many respondents expecting continued declines in this area. Last 5% more respondents felt that corporate sponsorship revenue would further decline in the coming quarters.

Finding 3. 40% of respondents expect to deliver their fundraising events as usual and this compares to 42% in Q4 2008; additionally, 24% expect to launch a new event in

2009 compared to 20.5% in 2008. Less than 10% expect to delay event launches or cancel pre-existing events which is roughly the same as Q4 2008. About 21% of respondents plan to start a capital campaign, which increased from 10% in 2008. This indicates a point made earlier, which is that nonprofits are responding to category declines by escalating fundraising efforts in other areas.

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 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 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.

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.