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# Weathering the Recession

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Where the Buck Stops for Nonprofits and Why.  
Is that Good for our State and Nation?

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# Nonprofits have evolved since 1980

1. Nonprofits have become a major provider of public services.
2. Funding practices have steadily eroded their ability to weather economic recessions.
3. Grantors have concluded that nonprofits do not need to cover costs, in contrast to for-profit service providers.
4. These trends will cause many nonprofits to fail in this recession or to merge in order to preserve their missions.

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# For more information on nonprofit issues:

- **Newsletter:** Linking Mission to Money newsletter
- **Book:** Linking Mission to Money: Finance for Nonprofit Board members
- **Web site:** Advice and Practical Solutions for Nonprofit Problems:  
[www.linkingmissiontomoney.org](http://www.linkingmissiontomoney.org)
- **Columbus Business First:** monthly column on the nonprofit sector

**All available on the web:**

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# What do nonprofits look like?

- Johns Hopkins Nonprofit Employment Data Project
  - Matched IRS 501(c)(3) registrations with Bureau of Labor Statistics employment data by employer (ES-202).
  - For the first time, we can see employment and wage information for just nonprofits.
  - We now can form a picture of the role of nonprofits in the workplace and see changes during the last recession (2002-2004).
  - The picture is consistent with subjective observations on the evolution of nonprofit sector.

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# National Profile of Nonprofits

- 14.1 million workers in 2002
  - 67% were paid
  - 33% were volunteers
- 1 out of every 10 employees work for a nonprofit.
  - Excludes public universities and medical centers, which are classified as governmental.
- Over 50% of US nonprofit workers are in just 3 of 9 US census regions.

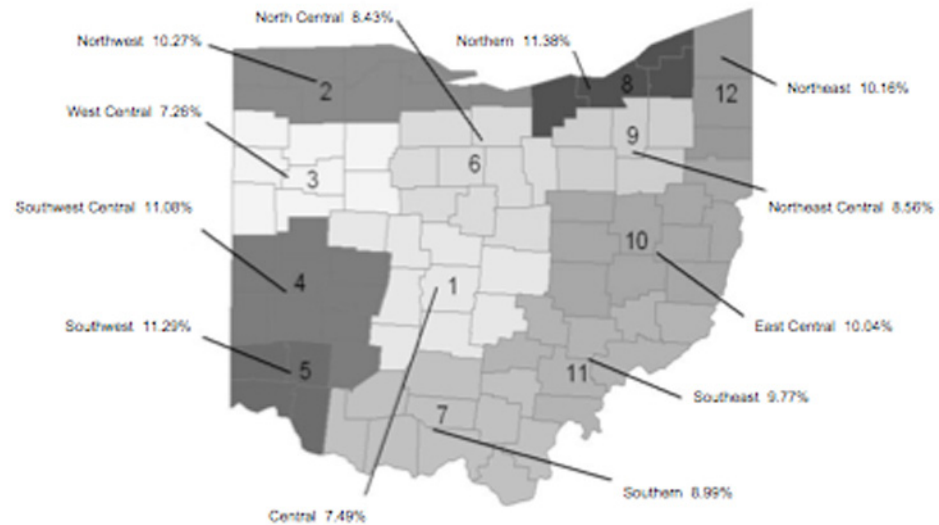
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# Ohio Profile of Nonprofits

- Rank 7<sup>th</sup> nationally in # of nonprofit workers.
- 372,114 worked for nonprofits, over 3x the number employed by state government.
- 9 of 10 nonprofit workers are in healthcare, social services, and education.
  - Healthcare employs 60% of all Ohio nonprofit workers.

# Nonprofit Share of Employment in Ohio - 2002

- 1 Central 7.49%
- 2 Northwest 10.27%
- 3 West Central 7.26%
- 4 Southwest Central 11.08%
- 5 Southwest 11.29%
- 6 North Central 8.43%
- 7 Southern 8.99%
- 8 Northern 11.38%
- 9 Northeast Central 8.56%
- 10 East Central 10.04%
- 11 Southeast 9.77%
- 12 Northeast 10.16%



Source: Johns Hopkins Nonprofit Employment Data Project based on Ohio ES-202 data.

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# Ohio Profile of Nonprofits

- Nonprofits grew strongly in the last recession:
  - Ohio nonprofit employment grew 14.7%.
  - 2002-2004 total Ohio employment grew 0.2%

What has caused this profile to emerge.....

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# Delivery of public services has evolved since 1980

- Federal government pushed unfunded mandates onto states.
- States balanced budgets by pushing unfunded mandates onto localities and school districts.
- Local budget stress required reduced employment, which led to outsourcing to nonprofit providers.
- States also outsourced many services to nonprofit providers.

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# Late 1990s: A Shift in Perspective

- Former view:
  - Provide support to nonprofit organizations.
- New view:
  - Increase the impact of grantor and donor funds.
  - Nonprofits are now an agent to execute the goals of the grantor/donor.
- Impact: Nonprofits have become a vendor that is forced to be the lowest-paid provider.

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# Vocabulary of Effective Philanthropy

- “We do not provide operating support; we only fund programs.”
- “We require matching funds before a grant will be awarded.”
- “We provide only start-up funding so that you, the nonprofit, must take over the full cost of the program in a few years.”
- “We require registration and customized reporting before you will be eligible to be awarded a grant or contract. No, you must bear the cost of our requirements.”

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# Nonprofits are poorly equipped for this role

- Balance sheets are weak.
  - Unrestricted cash is minimal.
  - Fundraising is predominantly restricted.
  - Endowments are misunderstood.
- Inadequate focus on the balance sheet by boards and management.
- Multi-year financial plans are not commonly used; the emphasis is on the budget and current-year balance.

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# Five Steps to Reduce Financial Stress on Nonprofits

1. Eliminate match requirements.
2. Pay the grant award up front.
3. Reduce reporting requirements.
4. Include overhead expenses in grant awards.
5. Make unrestricted grants.

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# Recap

- National trends have made the public service “buck” stop with the nonprofits.
- Nonprofits are now the public goods provider of last resort.
- Philanthropic and grant trends have weakened them financially.
- Nonprofits are a key component of the public service supply chain: government, corporate, and philanthropic grant-makers need to maintain their supply chain.

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