

# **The Effect of the Economy on the Nonprofit Sector**

**October 2008–February 2009**



**GUIDESTAR<sup>®</sup>**

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## Executive Summary

A survey of public charity and private foundation employees was conducted on-line from March 2, 2009, until March 16, 2009, the first of three such surveys that will be conducted by GuideStar in 2009. The purpose of the survey was to try to gauge the effect of the downturn in the economy on the American nonprofit sector during the period from October 2008 to February 2009, compared to the same period a year earlier. There were 2,979 usable responses, 2,753 (92 percent) from public charities and 226 (8 percent) from private foundations. Among the findings:

- More than half (52 percent) of the organizations have experienced a decrease in contributions.
- About a third (31 percent) of grantmakers gave less money in grants over the five-month period.
- Despite the economy and its effect on contributions, only 35 percent of organizations cut their annual budgets from 2008 to 2009. That more did not reduce their budgets, however, reflects more an increased need for their services (59 percent cited an increase in demand) than prospects for raising the money they need to meet that demand.
- Of the organizations that have cut their budgets, the majority are making ends meet by cutting services (57 percent) and freezing staff salaries (45 percent). Thus far, only 30 percent have resorted to layoffs.
- Eight percent of organizations reported that they are in imminent danger of closing their doors because of a lack of financial resources.

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### **Fundraising and Grantmaking**

More than half of the organizations that accept contributions experienced either a modest decrease (31 percent) or great decrease (21 percent) in the amount of contributions received. Most of these organizations cited a decrease in individual giving as the most important factor in the decline, both because of a decrease in the number of individuals giving (71 percent) and the amount that those individuals gave (71 percent). A number of organizations commented that whereas major donors stuck with their commitments, the “\$100 donor” from previous years either gave less or not at all.

Fewer organizations cited foundation and corporate grants as a problem in this five-month period, although the numbers were still disturbing: 34 percent said foundation grants were smaller than in previous years, and 39 percent said corporate grants were smaller. Many organizations lost funding from at least one former patron, with 23 percent citing the loss of a private foundation grant and 25 percent citing the loss of a corporate grant.

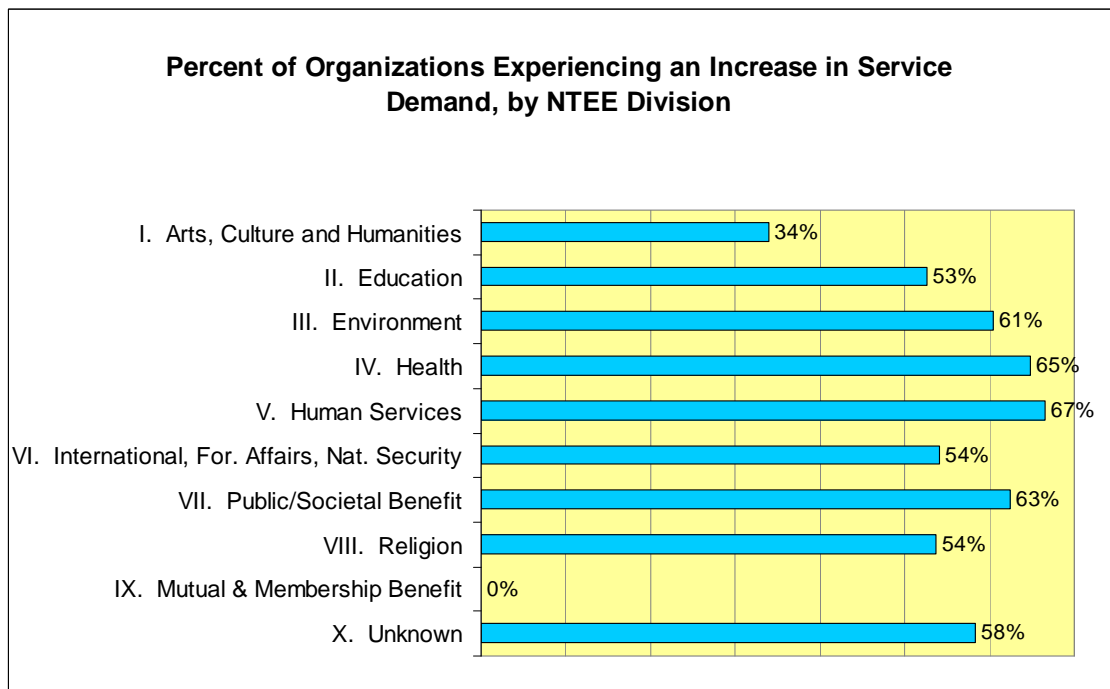
These results echo what grantmakers reported on the survey. Nearly a third gave less during this period than in the same period a year ago. Seventeen percent have cut back on the types of programs they fund, and 7 percent have stopped accepting applications altogether, choosing to continue to fund organizations they are already familiar with. Forty-five percent of funders reported an increase in the number of grant applications they received.

### **Making Ends Meet**

Despite the economy, on first glance, it appeared as if most organizations entered 2009 with high hopes. Only 35 percent have actually made cuts in the budget from 2008, and 38 percent have actually increased their budget. When you read participants’ comments, however, it is clear that many of the budgets reflect the needs of the community they serve rather than the realities of raising the money needed to serve them. Almost 60 percent of organizations reported an increase in demand for their services. Organizations are scrambling

to find new sources of money and resources. A typical comment from an organization that had increased its budget was “since the needs have not diminished, we will continue aggressively as long as we can, with more rapid reporting to alert us when we can’t.” Another organization that indicated it had greatly increased its budget said, “We were hit hard by the stock market decline as donors lost money and couldn’t donate the amount they had pledged. We’re desperately searching for funds and donations to keep our shelter going but we are in competition with many other agencies and organizations in our area.”

Comments along these lines from organizations with *higher* budgets were just as common as more positive comments, leading one to fear that many of those organizations will eventually be forced to cope with budget cuts.



Likewise, organizations that went into 2009 with roughly the same size budget as 2008 made comments that are not largely hopeful. The statement “It was—and continues to be—rough going” is typical of this group. Comments from organizations that had already undergone budget cuts were almost uniformly pessimistic.

Finally, 8 percent of organizations reported that they were in imminent danger of folding because of financial difficulties. Although there are unquestionably some organizations that remain very strong financially, the overall sense of the respondents is that 2009 will be tough, and 2010 could be tougher.

Organizations that had cut their 2009 budgets reported using a variety of strategies. A majority of organizations (57 percent) reduced program activities and services, and 45 percent froze staff salaries. Thirty-seven percent of respondents had instituted a hiring freeze, and 30 percent had gone through layoffs.

### Conclusions

The nonprofit sector is clearly feeling the effects of the current economic environment. Most troubling is the fear that many organizations are expecting the worst but may not be prepared for it. GuideStar intends to follow up with organizations as the year progresses to see how they are riding out the storm.

## GuideStar March 2009 Economic Survey

*Percentages are based on # of respondents to each question unless noted otherwise and do not total 100 percent in questions that allowed multiple answers.*

### What type of nonprofit is your organization?

	<u>COUNT</u>	<u>PERCENT</u>
Public charity	2,753	92%
Private foundation/grantmaker	226	8%
I am not associated with a nonprofit organization	11	<1%
Total	2,990	

### Does your organization accept contributions?

	<u>COUNT</u>	<u>PERCENT</u>
Yes	2,902	97%
No	81	3%
Total	2,983	

**Did total contributions to your organization increase, decrease, or stay about the same between October 2008 and February 2009, compared to the same period a year earlier?**

	<u>COUNT</u>	<u>PERCENT</u>
Total contributions increased modestly	462	16%
Total contributions increased greatly	125	4%
	Total increased	587 20%
Total contributions decreased modestly	896	31%
Total contributions decreased greatly	617	21%
	Total decreased	1,513 52%
Total contributions stayed about the same	769	27%
Don't know	31	1%
Total	2,900	

**What factors caused total contributions to decrease? (Select all that apply)**

	<u>COUNT</u>	<u>PERCENT</u>
Gifts from individuals were smaller	1,069	71%
Fewer individuals gave	1,074	71%
Corporate gifts were smaller	587	39%
Private foundation grants were smaller	510	34%
Corporate gifts were discontinued	372	25%
Private foundation grants were discontinued	347	23%
Government grants were smaller	203	13%
Government grants were discontinued	118	8%
Other (please specify)	111	7%
Government contracts were smaller	94	6%
Government contracts were discontinued	45	3%
Don't know	20	1%
Total	1,509	

**Did demand for your organization’s services increase, decrease, or stay about the same between October 2008 and February 2009, compared to the same period a year earlier?**

	<u>COUNT</u>	<u>PERCENT</u>
Demand for our services increased modestly	956	32%
Demand for our services increased greatly	796	27%
<b>Total increased</b>	<b>1,752</b>	<b>59%</b>
Demand for our services decreased modestly	131	4%
Demand for our services decreased greatly	49	2%
<b>Total decreased</b>	<b>180</b>	<b>6%</b>
Demand for our services stayed about the same	1,004	34%
Don’t know	36	1%
Total	2,972	

**Does your organization award grants?**

	<u>COUNT</u>	<u>PERCENT</u>
Yes	472	17%
No	2,388	83%
Total	2,860	

**Did the total amount of money your organization awarded increase, decrease, or stay about the same between October 2008 and February 2009, compared to the same period a year earlier?**

	<u>COUNT</u>	<u>PERCENT</u>
Total money awarded increased modestly	72	15%
Total money awarded increased greatly	34	7%
<b>Total increased</b>	<b>106</b>	<b>22%</b>
Total money awarded decreased modestly	93	20%
Total money awarded decreased greatly	52	11%
<b>Total decreased</b>	<b>145</b>	<b>31%</b>
Total money awarded stayed about the same	210	44%
Don’t know	10	2%
Total	472	

**Did the economy cause you to change your grantmaking practices or guidelines between October 2008 and February 2009, compared to the same period a year earlier? (Select all that apply)**

	<u>COUNT</u>	<u>PERCENT</u>
Yes, we cut back on the types of programs we funded.	78	17%
Yes, we reduced the amount of payouts we had committed to	37	8%
Yes, we stopped accepting grant applications.	32	7%
Yes, we only accepted applications from organizations that we have funded before.	25	5%
Yes, we increased our grantmaking specifically to help grantees cope with the economy.	22	5%
Yes, we did not make payouts we had committed to.	7	1%
Other (please specify)	48	10%
<b>Total "Yes"</b>	<b>249</b>	<b>53%</b>
No, we made no major changes.	267	57%
Don't know	10	2%
Total	467	

**Did the number of funding applications/grant requests increase, decrease, or stay about the same between October 2008 and February 2009, compared to the same period a year earlier?**

	<u>COUNT</u>	<u>PERCENT</u>
Applications increased modestly	153	33%
Applications increased greatly	55	12%
<b>Total increased</b>	<b>208</b>	<b>45%</b>
Applications decreased modestly	17	4%
Applications decreased greatly	7	2%
<b>Total decreased</b>	<b>24</b>	<b>5%</b>
Applications stayed about the same	213	46%
Don't know	21	5%
Total	466	

**How does your 2009 annual budget compare to your 2008 budget?**

	<u>COUNT</u>	<u>PERCENT</u>
Budget increased modestly	962	32%
Budget increased greatly	182	6%
<b>Total increased</b>	<b>1,144</b>	<b>38%</b>
Budget decreased modestly	644	22%
Budget decreased greatly	385	13%
<b>Total decreased</b>	<b>1,029</b>	<b>35%</b>
Budget stayed about the same	765	26%
Don't know	45	2%
Total	2,983	

**What measures have you used to reduce your budget? (Select all that apply)**

	<u>COUNT</u>	<u>PERCENT</u>
Reduction in program activities/services	567	57%
Salary freeze	448	45%
Hiring freeze	367	37%
Layoffs	297	30%
Salary reduction	199	20%
Reduction in employee benefits	204	20%
Reduction in operating hours	128	13%
Other (please specify)	247	25%
Total	1,001	

**Is your organization in imminent danger of folding due to financial reasons?**

	<u>COUNT</u>	<u>PERCENT</u>
Yes	243	8%
No	2,538	86%
Don't know	185	6%
Total	2,966	

**For classification purposes, what is your primary responsibility with your organization?**

	<u>COUNT</u>	<u>PERCENT</u>
CEO/Executive Director/President	1,556	52%
Development/Fundraising	492	17%
Chief Financial Officer/Organization Treasurer	274	9%
Executive Officer (other than CEO/Executive Director/ President or Chief Financial Officer/Organization Treasurer)	172	6%
Board Member/Board Director/Trustee	140	5%
Other	104	3%
Fiscal/Finance (other than Chief Financial Officer or Organization Treasurer)	76	3%
Programs and Services	75	3%
Communications	42	1%
Marketing	20	1%
Volunteer	17	1%
Technology	7	<1%
Publishing	2	<1%
Total	2,977	

**What is/are the main subject category/ies in which your organization works?  
(Select all that apply)**

	<u>COUNT</u>	<u>PERCENT</u>
Animal Related	191	6%
Art, Culture, Humanities	484	16%
Civil Rights, Social Action, Advocacy	205	7%
Community Improvement, Capacity Building	317	11%
Crime, Legal Related	69	2%
Diseases, Disorders, Medical Disciplines	137	5%
Education	877	30%
Employment, Job Related	150	5%
Environmental Quality, Protection, Beautification	208	7%
Food, Agriculture, and Nutrition	172	6%
Health—General and Rehabilitative	468	16%
Housing, Shelter	347	12%
Human Services	818	28%
International, Foreign Affairs, National Security	60	2%
Medical Research	56	2%
Mental Health, Crisis Intervention	251	8%
Mutual/Membership Benefit	30	1%
Philanthropy, Voluntarism, and Grantmaking Foundations	132	4%
Public Safety, Disaster Preparedness, Relief	72	2%
Public, Societal Benefit	207	7%
Recreation, Sports, Leisure, Athletics	153	5%
Religion	187	6%
Science and Technology Research Institutes, Services	39	1%
Social Science Research Institutes, Services	16	1%
Unclassified	6	<1%
Youth Development	569	19%
Don't know	0	0%
Other	327	11%
Total	2,963	

**What is the size of your organization, based on total annual expenditures?**

	<u>COUNT</u>	<u>PERCENT</u>
Less than \$25,000	232	8%
\$25,000 to \$49,999	141	5%
\$50,000 to \$99,999	234	8%
\$100,000 to \$249,999	389	13%
\$250,000 to \$499,999	409	14%
\$500,000 to \$999,999	404	14%
\$1 million to \$4,999,999	697	24%
\$5 million to \$19,999,999	309	10%
\$20 million or more	129	4%
Don't know	15	1%
Total	2,959	

**Organization location: State (*only top 20 shown*)**

	<u>COUNT</u>	<u>PERCENT</u>
CA	388	13%
NY	217	7%
TX	185	6%
PA	131	4%
FL	122	4%
IL	118	4%
MA	112	4%
OH	106	4%
WA	95	3%
VA	91	3%
MI	91	3%
NC	75	3%
CO	73	2%
MD	72	2%
MN	68	2%
GA	63	2%
DC	60	2%
NJ	60	2%
OR	58	2%
WI	58	2%
Total	2,922	

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