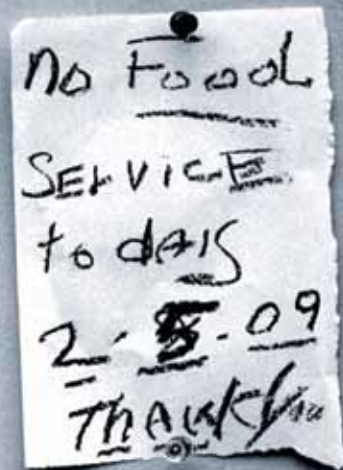


Vital To Our Recovery:

NONPROFITS AND FOUNDATIONS IN THESE DIFFICULT TIMES

Diana Aviv, President and CEO of Independent Sector



For nearly 16 years, Paul Martodam has helped Catholic Charities assist people throughout Phoenix with food, shelter and many other parts of daily life.

He has never seen anything like the current situation. In October alone, his Community Services program had to turn away nearly 1,000 requests because it was out of money. And it's not simply more assistance for the same people; trouble is moving from the backstreets to Main Street. "People who have been contributors for years," Martodam says, "are now asking for help. They never pictured themselves being on the receiving side of charity."

Millions of Americans across the country are floundering, struggling to stay afloat because of foreclosures, job losses and lack of health care. At the end of November 2008, demand at the food banks in Feeding America's network was up 30 percent over last year. Charities throughout the nation are

reporting similar spikes in need. While some organizations like Feeding America and the Salvation Army had record fundraising years in 2008, demand has substantially outpaced donations. Many nonprofits began witnessing a slowdown in donations late in the year and are deeply concerned about the financial outlook for 2009.

What's more alarming is that conditions may worsen. The Center on Budget and Policy Priorities estimates that if the current 8.5 percent unemployment rate rises to nine percent, the recession will have thrown as many as 10 million more people into poverty. And some economists are talking about double digit unemployment over the next 18 months. Real estate analysts are predicting new waves of foreclosures despite efforts by Congress and the administration to help people save their homes. These conditions have placed enormous pressures on the capacity of America's nonprofit community to meet the growing need.

People have always relied on nonprofits, not just for basic health and welfare needs, but also for advancement of knowledge and community problem solving—whether it be through their religious organizations, their local arts program, or through the myriad of national and international organizations created to improve quality of life. Our nation's network of nearly 1.5 million charitable and philanthropic organizations is a significant part of our economy, employing nearly 13 million people, or approximately 9.7 percent of the U.S. workforce, and accounting for 8.1 percent of wages paid in the United States. Together, these organizations spent nearly \$1.1 trillion in 2005 to fulfill their charitable purposes, using a mix of government funding, private contributions, foundation and corporate grants, and earned income to support their missions.

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Having the resources to meet program commitments is a perennial challenge for the charitable community. And now, just as organizations are seeing the ranks of those in need grow, the dollars available for services are heading in the opposite direction.

Worries about jobs and retirement investments are forcing millions of donors to reconsider what they are able to contribute to favorite causes. During each period of economic recession over the last 40 years, individual contributions have declined between 1.3 and 9.2 percent (adjusted for inflation), and many believe the current downturn could be even worse. Corporate donations are expected to decline or remain flat, and foundation giving, despite the valiant efforts of many foundations to increase payouts this year to fulfill promises, is expected to shrink significantly in 2010 due to endowments that may be down by as much as 40 percent.

Government funding for services provided by nonprofits is also challenged. Government funding supplies at least one-third of total nonprofit sector revenues, and health and human service providers count on government for over 50 percent of their support. Most state and local governments are facing severe budget shortfalls, causing them to cut funding for many critical programs, and many have not reimbursed nonprofits in a timely manner for expenses they have already incurred under government service contracts. Further, these organizations have yet to see any of the stimulus money.

In the past, nonprofits have relied on private contributions and lines of credit from financial institutions to cover the lag between expense and reimbursement, but many are finding it increasingly difficult to obtain new or expanded lines of credit due to the tight market. According to a mid-January survey by the Michigan Nonprofit Association, 16 percent of responding nonprofits reported that their lines of credit had been reduced over the past year—and nearly half stated that the economic downturn has made obtaining lines of credit “more difficult.” In Long Island, New York, SCO Family of

Services, a nonprofit agency that provides foster care, adoption services and residential programs for individuals with special needs, began 2008 with a \$25 million credit line to cover its bills while awaiting government reimbursements and donations. Since then, its bank has cut the organization’s line of credit twice, compromising SCO’s ability to pay employees and continue its services.

The declines in private giving and government funding, coupled with the credit squeeze, have forced many organizations to lay off staff and cut back or close programs. These unfortunate developments are appearing regularly in the media, including such esteemed organizations as Harlem Children’s Zone, which serves 8,000 children across 97 city blocks of Central Harlem. It was reported to have cut 10 percent of its staff due to declining revenues, with the possibility of more reductions in the future.

In the face of declining revenues, nonprofits are struggling just to maintain, much less expand, services to address the immense needs of our communities. Many charities and foundations are moving as quickly as possible to develop new ways of doing business and collaborating with each other to find cost-effective ways to conduct their business operations and manage their services. These steps have included postponing new projects, cutting back existing programs, not filling open positions, scaling back health and pension benefits, and instituting pay roll cuts and furloughs. Others have sought to relocate and find organizations interested in developing various cost-sharing arrangements. There are efforts to merge organizations. One such example involves the Task Force on Family Violence and Sojourner Truth House, both based in Milwaukee, which merged to form the Sojourner Family Peace Center, allowing the agencies to increase administrative and program efficiencies and streamline fundraising. Centro Latino de Chelsea and Concilio Hispano in Cambridge, two small nonprofits that primarily serve Latino and immigrant communities north of Boston, are forming Centro Latino Inc. to jointly provide health, educational and workforce training services. Sharing expenses

does not save costs immediately. Letting go staff, renegotiating existing contracts and paying lawyers, accountants and realtors to facilitate these processes are expensive and are for some organizations a barrier to proceeding.

Many nonprofits are also looking to innovative approaches to raise funds and collect resources. For example, in March and April of this year, The League of American Orchestras partnered with Feeding America, the nation’s largest domestic hunger-relief charity, to mobilize more than 225 orchestras across 50 states in a national food drive, “Orchestras Feeding America.”

Grantmakers are adjusting their priorities to ensure that nonprofits are able to continue serving their communities. Notable examples include the Weingart Foundation, which announced in December 2008 its decision to offer core support to underwrite administrative costs for nonprofits that provide necessities such as food, shelter and health care to the poor, unemployed and sick in the Los Angeles region. The Chicago Community Trust has responded to rising unemployment and increased demand on food pantries and homeless shelters with the creation of The Unity Challenge, a \$3-million initiative to expand the capacity of nonprofit agencies meeting basic human needs.

Foundations and nonprofits are also working together to inform the government about the important role they must play in sustaining our communities. These efforts educate government officials about the valuable work of the nonprofit community and share the stories of the difficulties organizations face serving people in the current climate. The better government understands the benefits of partnering with the sector and its responsibility in supporting those efforts, the more likely it is that lawmakers will consider additional appropriation of funds.

The federal government took dramatic steps through the Troubled Asset Relief Program to respond to failing financial and other targeted corporations, recognizing their centrality to the economy. Congress also

acted to help state and local governments maintain programs and provided some assistance to small businesses and nonprofits in the American Recovery and Reinvestment Act that President Obama signed into law in February. This extraordinary package of relief measures is a good first step, but does not begin to close the budget shortfalls most states are facing in 2009. State and local governments will still need to make tough decisions about raising taxes or cutting programs even further to close their budget gaps.

There are several steps Congress should take to make more public and private resources available to help nonprofits continue their vital services to our communities:

- **Bridge Funding:** Congress should help ensure that nonprofit organizations, particularly those serving our most vulnerable populations, have access to the low- or no-interest lines of credit they need to bridge gaps between service expenditures and government reimbursements. A short-term bridge loan program administered by the federal government, with interest-free loans disbursed through qualified state and local organizations to nonprofits that have valid receivables from government contracts, would help to prevent costly layoffs and maintain community services until state and local governments are able to fulfill their financial obligations on existing contracts.
- **Distribution of Economic Stimulus:** With the passage of the American Recovery and Reinvestment Act, the nonprofit community will encourage states to act expeditiously in distributing the stimulus funds that will provide continued access to countless programs for individuals in need. Charities and foundations will monitor the process to ensure that state and local governments apply economic recovery funds for the intended purposes of benefitting communities instead of patching holes in the budget. These organizations can also be powerful allies to local lawmakers in identifying how federal, state, and local dollars can be put to the most effective use in addressing areas of greatest need.
- **Additional Economic Recovery Measures:** Congress should treat funding provided through the American Recovery and Reinvestment Act as an important supplement to—not a replacement for—annual appropriations. Congress should also consider additional stimulus measures to address service gaps that have occurred as a result of diminished private resources and state and local government funding.
- **Ensure that Government has the Resources to Fulfill Its Obligations:** In preparing its tax and appropriations provisions for the coming years, Congress should provide adequate funding for vital health and human services, access to education and arts and cultural opportunities, environmental protection and medical and scientific research, taking into account the growing need for these programs. In developing its FY 2010 budget, Congress should follow the principles of “shared sacrifice” that characterized the major, successful deficit-reduction laws in 1990 and 1993 to create a balanced budget package that combines reasonable adjustments to major programs with increases in taxes.
- **Estate Tax:** Congress should maintain a robust federal estate tax at the levels set for 2009, which minimize detrimental impact on federal revenues, protect farms and small businesses, and preserve incentives to give back to the community through charitable contributions. Making permanent the 2009 estate tax exemptions and tax rate is the most appropriate reform to ensure adequate federal revenues and to continue to encourage charitable contributions that help nonprofits implement, complement, and enhance services provided by government and business.
- **Individual Giving:** Current tax law limits the deductions taxpayers can take for charitable contributions to 50 percent or less (depending on the type of contribution) of the taxpayer’s adjusted gross income, and permits taxpayers who are 70 ½ or older to give up to \$100,000 to charities from their Individual Retirement Accounts without

incurring any tax. Congress can encourage individuals who have the ability to make more generous contributions by raising or eliminating the ceilings on the amount of tax-deductible contributions permitted for the next two years.

Large and small charitable organizations, operating in all parts of the globe, offer relief in times of disaster, nurture our spiritual and creative aspirations, care for vulnerable people, and find solutions to medical, scientific and environmental challenges. They occupy a central place in every community, drawing upon the talents and generosity of and providing service to an enormously diverse group of people.

Collaborations among nonprofit organizations, businesses and government are essential for building lasting partnerships and advocating for smarter policies. As policymakers continue to consider and implement ways to maximize scarce resources and get the economy back on track, it must be sure that one of its key partners in fulfilling its commitments to the American people—the nonprofit community—remains strong and vibrant. In the end, it is our communities who benefit most. 

Diana Aviv is the president and CEO of Independent Sector, the national leadership forum for America’s nonprofits, foundations, and corporate giving programs. By representing tens of thousands of organizations across the country, Independent Sector’s mission is to advance the common good by leading, strengthening, and mobilizing the charitable community. Diana has testified before Congress and has been featured in media outlets, such as The New York Times, The Washington Post, The Wall Street Journal, NPR and MSNBC.com. Diana came to Independent Sector in April 2003 after spending nine years at United Jewish Communities. As UJC’s vice president for public policy and director of its Washington Action Office, she worked closely with federations and national agencies concerned with the domestic health and welfare needs of vulnerable people.