

Community Cornerstones: Arizona Nonprofits Ride Out the Economic Storm

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In 2009, Arizona weathered the state's worst recession in modern times and one of the worst economic climates in the country. Arizonans are still reeling from the effects of job losses, dramatic residential foreclosure rates, declining tourism, halting of historic population growth rates, and loss of public services because of state and local budget deficits. In the midst of this social and economic storm, Arizona's nonprofit organizations have fulfilled their roles as promoters, protectors and servants of communities across the state. And they have fulfilled those roles in an environment of withering donations and support from traditional supporters of nonprofit causes. Without the passion and commitment demonstrated by nonprofit leaders to meet the needs of Arizona's communities – especially those most vulnerable to the effects of the recession – Arizonans would suffer even more than they are.

Therefore, it is extremely important to understand how the recession is affecting the health and sustainability of these nonprofit organizations. In focusing on the needs of the communities they serve, sometimes nonprofits forget to communicate their own needs and the critically important value they have to the overall health and quality of life of our citizens and our economy. Nonprofits are, in fact, *cornerstones of our communities* – committed to responding to citizens in need and helping all of us build a stronger future. To the extent that we maintain community infrastructure which is badly needed to build our economic future in Arizona, nonprofit organizations are part and parcel of that infrastructure. Thus it is our collective community responsibility to pay attention to the health and needs of the nonprofits who support us.

The Alliance of Arizona Nonprofits, with a mission to serve, support, protect and promote Arizona's nonprofit community, is dedicated to telling the story of this sector, its 120,000-plus employees, its \$18 billion economic impact and immeasurable human impact on the lives of the people of Arizona. Since the beginning of the recession, we have been tracking the effects of economic changes on these organizations – more than 20,000 operating nonprofits – across the state. This report summarizes the results of our latest survey of nonprofits at the end of 2009.

Some of the results in this report are not surprising – falling revenues during a time of rising demand. Some of the results are hopeful – nonprofits trying to avoid employee layoffs so they can keep providing badly needed services. Some of the results are very disturbing – a growing shortfall in funding from government (which is 29% of all funding for the sector), a trend that is likely to accelerate significantly in 2010.

Overall, our survey results tell the story of nonprofit organizations trying desperately to continue meeting community needs, find new sources of revenue to support their work and discover creative approaches to doing business differently under an assumption that the current climate is the “new normal.”

We hope the results of this survey inspire leaders in the community to take a closer look at how they can work with nonprofit organizations collaboratively, engage nonprofits in new cross-sector partnerships with government and business, and support our collective commitment to building strong communities for the future of Arizona. If we are successful, we can ensure that nonprofits will continue to be community cornerstones, contributing to vital communities promoting a quality of life that all of us desire in the places we live, work and play. Please contact us if you are ready to join this effort.



Revenues Continue to Drop

The Alliance surveyed nonprofits at the end of 2009 about the effects of the recession and their projections for 2010. Many of the questions we asked were the same as those asked in a survey at the beginning of 2009, so we could track the effects of the recession as it played out in 2009. Other questions look forward to expectations in 2010.

As expected, nonprofits reported significant revenue losses in 2009, comparable to reports at the beginning of the year. **Nearly 6 out of 10 nonprofits experienced a drop in revenues in 2009.** (Notably though, about one-third of nonprofits had higher revenues than they expected at the beginning of the year, so the proportion who lost income was less than expected. However, it was still higher than the ratio who lost revenues in 2008.) The result of these lost revenues is lower budgets: **64% of organizations reduced or will reduce their budgets in 2010.** (Many nonprofit fiscal years begin mid-year.) Fewer organizations are reducing their budgets this year, suggesting that they many had made most of their budgetary adjustments by the end of 2009.

Box 1

Question: If you experienced or expect to experience a decrease in revenues, indicate the approximate percentages of decrease for each type of revenue source below.

Individual contributions	53% of organizations lost revenues (20.2% average decrease)
Corporate support	48% lost revenues (23.6% average decrease)
Government sources	44% lost revenues (24.9% average decrease)
Foundations	40% lost revenues (20.6% average decrease)
Earned income	27% lost revenues (17.7% average decrease)

On average, **revenues decreased 22.3% in 2009 (more than 2008)**. Looking at the major sources of nonprofit income (see Box 1), one change in 2009 is that the highest average decrease in revenues was from government sources: an average 25% decrease. This could indicate a trend that will accelerate in 2010, as state and local budget cuts fall more and more in categories that fund contracts with nonprofits. Nearly half of nonprofits reported losses from government funding.

After losses from government, the second largest reduction by source of income was in corporate support (down by 24%). One notable indicator of declining corporate support was a large number of reports by nonprofits that **giving through their special events dropped significantly in 2009**. Often, corporate sponsorship and purchase of tables at fundraising events is the most important driver for successful events.

More nonprofits (53%) reported declines in donations from individuals than any source; however, that was less than reported for 2008. It is important to note that the scale of cuts in funding from individuals was lower (an average loss of 20%), but since overall, giving by individuals comprises 87% of donated income to nonprofits, this can have a dramatic impact on many nonprofits' bottom lines.

Funding from foundations was down by 20% (4 out of 10 nonprofits reported a decline in their foundation support). Possibly a positive sign that the economy is improving, nonprofit income from earned revenues (fees, tuition, tickets, etc.) only dropped 18%, an improvement over last year. Nonprofits will probably need to look at more earned income strategies to sustain their work in the future, so the fact that these sources seem least affected by the recession points to funding strategies for nonprofits going forward.



Demand for Services Continues to Rise

Also continuing the trend observed at the beginning of 2009, the demand for services provided by nonprofits rose last year and should continue rising in 2010. Overall, **85% of nonprofits expect demand for their services to rise in 2010**, surpassing the growth in demand last year. In general, nonprofits absorbed this demand by reducing costs, and some without an impact on the bottom line. (See Box 2 for the impact of budget cuts on services.)

Box 2

Question: In general, what strategies are you deploying to respond to service demand increased?

- We are able to absorb increased demand, but are reducing our costs to handle it. **31%**
- We are able to absorb increased demand with no impact on our bottom line. **24%**
- We are cutting the level of service we can provide to each recipient, but still serve all recipients who demand service. **14%**
- We are cutting the number of recipients of our services, while maintaining the same level of service for each recipient. **14%**
- We are both cutting the level of service for each recipient and cutting the number of recipients. **9%**
- We will experience a general decline in quality of our services. **7%**

The downturn in revenues affected nonprofit plans to expand programs and services. In 2009, **65% of nonprofits put expansion plans on hold**. In responses to open-ended questions, nonprofits identified many particular instances of cutting back on program offerings, especially in the arts and culture community. So, for instance, while they are still offering programs, they may offer them less frequently or in fewer locations.

Nonprofits Trying to Hold On to Paid Staff

As the state reeled from the recession, the most dramatic impact in our citizens is through loss of jobs. According to U.S. Bureau of Labor Statistics, employers in Arizona have eliminated nearly a quarter million jobs since the beginning of the recession (nearly 200,000 in 2009 alone). Our survey asked nonprofits about the effect of the economy on their organizational health, especially employment of paid staff. Considering that nonprofits employ more than 120,000 people statewide, it was encouraging to learn that nonprofits have not laid off employees as dramatically as expected. **Only 38% of nonprofits reported layoffs of one or more employees**. Further, 85% of nonprofits do not anticipate layoffs before the end of 2010. Based upon the survey population, and an extrapolation to the sector as a whole, we estimate that **no more than 3,500 nonprofit paid positions were lost in 2009**. That is less than 5,000 to 10,000 lost jobs we expected based upon our February 2009 survey. That number is also proportionally *lower* than the nonprofit workforce as a share of the total Arizona workforce. This is an indication that, as they struggled to keep up with rising demand, nonprofits made efforts to keep as many of their staff employed as possible. (This should help nonprofits keep their unemployment insurance costs down, at a time when the State of Arizona is raising UI taxes by an average 50%.)

Recession Affecting Nonprofit Cash Flow

While the impact on employees was not as severe as expected, the revenue and budget implications of the recession are considerable for the general fiscal health of organizations. **Nearly half of nonprofits had to tap their reserves** in order to maintain operations in 2009. These are financial reserves that many nonprofits had carefully accrued over years of watchful long-term fiscal management. Because it is not easy to build up reserves in nonprofits due to restrictions imposed by funding sources, this could be a sign of troubled times ahead if



organizations continue using reserves this year and beyond. Notably, only 13% of nonprofits took on debt (also a sign of restricted credit markets) to maintain operations in 2009.

Possibly the sign of a growing problem, more than **one quarter of nonprofits experienced late payments on contracts**. This is another trend that cannot be sustained and will have harmful effects on nonprofit cash flow if it continues in 2010. Because state and local government deficits in 2010 are going to affect many services provided through contracts to nonprofits, this late payment and even non-payment issue could be the most disturbing warning sign in 2010.

In responses to open-ended questions, nonprofits identified the need to diversify funding sources as a way to stabilize cash flow. They frequently cited new and amplified efforts to raise new donations from individuals, especially large gifts from high net worth donors.

Collaboration is the Future

Similar to the findings in our early 2009 survey, nearly **one out of four nonprofits is considering or reviewing possibilities for merger with other nonprofits** and other joint ventures. We believe this could be a prominent trend in 2010, as organizations hit hard by government budget cuts have no choice but consolidation if essential services are to be continued in Arizona. In comments responding to open-ended questions, many organizations highlighted the need to work with other nonprofits, as well as government and business partners to reorient how they are doing business with fewer resources. There was also increased interest in social enterprise, fee-based services and creative approaches to finance.

Conclusion

A summative view of our late 2009 survey is that nonprofits are incredibly resilient in the face of recession, falling revenues and exploding demand for their services. With a long history of squeezing as much as possible out of every dollar, organizations have trimmed and focused their resources in 2009 to maintained critically needed services to serve their core missions. Many survey respondents described cutbacks in “non-essential” expenses such as travel out of state or “luxury” administrative expenses (which, considering the typical frugality of nonprofits, likely means canceling bottled water service for employees or finding free venues for events, not true “luxuries”). Trying to hold on to program staff while expanding volunteer outreach, nonprofits are committed to their communities.

However, the respondents also communicated an urgent appeal to the community: the reductions in 2009 cannot be repeated or sustained forever. And in particular, those organizations who rely upon government sources of income, cannot find enough private sources to replace 29% of the sector’s funding which comes from government grants and contracts. Foundations and individuals can help, and need to support nonprofits, but the pockets are not deep enough to fill the holes created by government cuts.

Most of all, nonprofits need individuals, foundations, business and government to work collaboratively, focused on our people and communities, to continue the essential common work that underlies the economic value and quality of life of Arizona.



SURVEY METHOD AND POPULATION

We surveyed nonprofit organizations who are members of the Alliance between December 2 and 18, 2009. We received responses to a web-based survey from 117 organizations, 27% of the survey population. Based upon analysis of the budget size and mission of survey respondents, we determined that the survey population is closely representative of approximately 8,000 charitable nonprofits in Arizona with revenues exceeding \$25,000. Therefore, we believe that these results can be confidently extrapolated to all nonprofits with significant operations and infrastructure.

Box 3

MISSION TYPES OF NONPROFITS SURVEYED

Human services/housing/employment/basic needs	32%
Education/education related	16%
Arts/culture/humanities	11%
Health/disease related	13%
Environment/animals	7%
Civic/community building/volunteerism/philanthropy	6%
Public/social benefit	6%
Legal/crime/civil rights/advocacy	3%
Membership	2%
Religion-related/faith-based	2%

The box above summarizes the organizational missions of the survey population, compared to the nonprofit sector as a whole in Arizona. The average budget of organizations surveyed was \$2.2 million. The average number of employees was 43 and the average number of volunteers was 213. The survey also reflects nonprofits providing services across Arizona: the survey population collectively provides services in every Arizona county. The survey population includes statewide and local community organizations: 65% are providing services in Maricopa County, 26% provide services in Pima County, 26% provide services in Coconino County, and three other counties have percentages over 15%.

The box below provides a look at the populations served by these nonprofits, which also offers a glimpse at which citizens in Arizona will be most affected by these findings.

Box 4

POPULATIONS SERVED BY NONPROFITS SURVEYED

Low income residents	46%
Youth under 18	42%
People with specific, targeted human service needs	42%
Seniors over 55	33%
Youth (not limited to those under 18)	31%
We have a broad community focus and do not serve a particular population	26%
Specific ethnic, racial minority, or religious population	17%
People with a particular interest in our arts/culture/humanities offerings	14%
Our members	12%
People outside the United States	7%
Planet Earth	4%





ABOUT THE ALLIANCE

The Alliance of Arizona Nonprofits is a unifying association formed in 2004 to advance the common interests of more than 20,000 nonprofits in the Grand Canyon State. We are a statewide organization of, by, and for all of Arizona's nonprofits.

The name "Alliance" is strategic. More than a mere "coalition" or an "association," an "alliance" involves collective action for a purpose: "an association to further the common interests of the members." The Alliance is an action-oriented group of partners across the state – both nonprofits and those in the community who support them – dedicated to furthering the common interests of Arizona's nonprofits.

The Alliance does this by serving, supporting, protecting, and promoting the nonprofit sector. We:

- Serve the Arizona Nonprofit sector by providing quality information, knowledge sharing and networking opportunities;
- Support the nonprofit sector by offering savings through group-buying discount programs;
- Protect the nonprofit sector by representing the nonprofit sector at the Arizona Legislature, state agencies that regulate nonprofits, and through the National Council of Nonprofits at the federal government level; and
- Promote the nonprofit community by projecting a collective voice to the public about the sector's essential contributions and significant challenges in our communities.

Its office and seven-person staff are based in Phoenix, but its reach extends across the state through many partnerships. It is governed by a Board of Trustees and advised by a statewide Nonprofit Leadership Council.

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