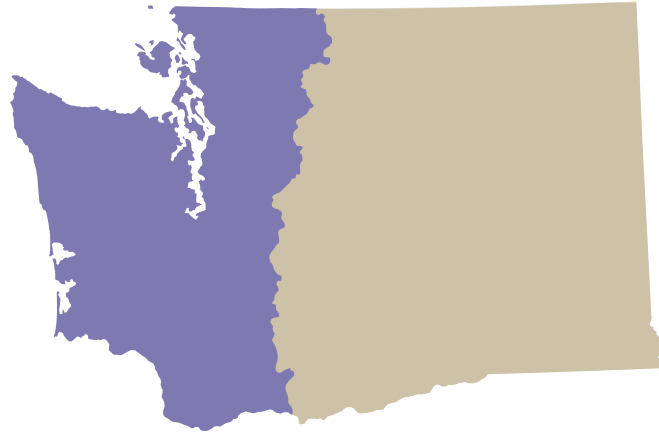




EVANS SCHOOL OF PUBLIC AFFAIRS

UNIVERSITY *of* WASHINGTON

Nancy Bell Evans Center on Nonprofits & Philanthropy



RESILIENT NONPROFITS

HOW WESTERN WASHINGTON NONPROFITS
HAVE BEEN COPING WITH THE IMPACT OF
THE ECONOMIC DOWNTURN

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Are Western Washington's nonprofit organizations rebounding from the recession and preparing to further strengthen their programs and increase their services? Or do they remain in a more troubling condition, in which slow economic growth, major constraints on government spending, and competition for donors combine to require that many nonprofits permanently restructure their programs and shrink their scope of services?

These are the questions explored by a class of graduate students from the Evans School of Public Affairs at the University of Washington in their recent interviews with nonprofit executive directors and program managers throughout the region. This report on [the impact of the economic downturn](#) summarizes those interviews and has been prepared by the Nancy Bell Evans Center on Nonprofits and Philanthropy at the Evans School (the "Center").

The interviews revealed a broad range of organizational responses to the effects of the deep recession the nation and region suffered. [At least two thirds of the organizations either did not face serious financial problems or took action to stabilize their budgets and operations, although in some cases at lower levels than before the downturn.](#) For those now existing at a stable level of operations, the question becomes how their past belt tightening will prepare them going forward—how to build upon the inventiveness that they displayed during tough times.

[Despite the stable condition of most of the nonprofits surveyed, there are still quite a few organizations that have been forced to significantly reduce their programs with no near-term prospects for recovery, to the clear disadvantage of those being served. Many of these organizations deliver contracted services for local, state, or federal agencies or rely heavily on government grants. These entities face continuing challenges due to their dependence on government support, which in many cases continues to decrease.](#)

The interviews were conducted across a range of nonprofits in such areas as education, social welfare, arts, environment, and international development. Nearly all of the organizations have budgets of more than \$300,000 yearly (ranging up to hundreds of millions of dollars) and all have professional staff. Organizations were selected by individual graduate students and do not represent a random sampling. Thus, broad conclusions about the general economic health of nonprofit organizations in our region should not be extrapolated from this summary.

All participating students were enrolled in [Management of Nonprofit Organizations](#), taught by Evans School Senior Lecturer David S. Harrison, who serves as the Center's Acting Director. He was joined in preparing this report by Paul Ahern, a nonprofit consultant who assists the Center in its work and Julita Eleveld, the Center's program manager.

Cautiously Moving Forward: Many Organizations

• Have Stabilized Their Operations

More than half of the organizations interviewed believe they have weathered the recession and are cautiously optimistic going forward. Most of these organizations achieved revenue growth in 2010 that is higher than 2009 and in many cases, came close to or exceeded the pre-recession revenue levels achieved in 2007. *These organizations reported a number of actions taken in 2008, 2009, and 2010 to weather revenue shortages, including staff furloughs and temporary reductions.* In almost all cases, they sought to “make necessity the mother of invention” by diversifying their revenue sources and realigning their mix of programs to address shorter-term financial shortfalls, which they now hope will make them stronger going forward.

During the early stages of the downturn, many of the organizations in this cohort benefited from one-time increases in giving by foundations and major donors intended to make up for support lost from governments and individuals. In these instances, the increases sustained the organization until previous funding levels were largely restored. The positive view of these organizations is further boosted by the recent strength in the stock market, with its corresponding impact on foundation portfolios. These organizations are less likely to be delivering the direct social welfare services that are the focus of governmental cutbacks, and thus are not being required to scramble to replace that foregone income.

A number of these re-stabilized organizations believe that the strategic re-examination necessitated by the downturn will make them stronger going forward. They believe that financial pressures caused by deteriorating revenue motivated them to achieve a higher and more productive stage of strategic planning and strategic decision-making. They entered into more intensive analysis of their operations and took such actions as sharpening their program focus, readdressing their core costs, increasing use of volunteers, and seeking out cost-reducing partnerships. Though the recession forced these actions, it did not require significant, ongoing structural change. Nonetheless, the organizations will benefit going forward from the strategic realignments. Here are a few examples of creative ideas that have been successfully implemented.

A. Alternative Budgeting with Greater Staff Involvement

During the worst part of the downturn, quite a few of the organizations in this segment increased staff involvement in the budgeting process and took the time and effort to develop alternate budget scenarios based on a range of revenue and expense assumptions. These innovations proved so beneficial to overall financial health and staff morale that they have been continued, even in organizations that believe they have largely weathered the storm, such as CityClub. The executive director of Open Arms Perinatal Services stressed that there had been an unexpected benefit caused by the downturn, saying there was a “renewed commitment and passion ... with the staff and the Board committing huge amounts of time and energy to ensuring the survival of the organization in a way that people don’t when times are good. It created a sense of ‘hold hands, heads down, and we will get through this.’”

B. Enhanced Use of Volunteers

Many of these organizations made significant efforts to offset paid staff reductions by increasing effective use of volunteers. These efforts met with varying degrees of success. Examples of successful efforts to make greater use of volunteers include El Centro de la Raza and Open Arms Perinatal Services. El Centro reports a 60% increase in volunteer hours since 2008, attributing this growth to creation of a centralized volunteer program (funded by a United Way grant) that actively recruits, trains, and places volunteers in different roles. In the case of Open Arms Perinatal Services, significant losses of government funding threatened the provision of no cost services to low income families. Open Arms has been able to maintain its no cost services for that population through development of a volunteer doula program (supplemented by increased solicitation of foundations and individual donors.)

C. Actively Seeking Cost-Reducing Partnerships

Instances of successful cost-reducing partnerships also occurred over a range of circumstances. For example, IslandWood, an outdoor learning center, both spread its fixed overhead costs by merging with a smaller distressed nonprofit, and also entered into new partnerships with local Boys and Girls Clubs that increased usage of its facilities. The Washington Wilderness Coalition responded to reduced financial resources by building its collaboration with other environmental groups to maintain the impact of its core advocacy mission.

D. Reducing Fixed Costs

A number of organizations successfully lowered their overhead by taking opportunistic advantage of the distress in the commercial real-estate market. CityClub, a nonprofit that promotes discussions of civic affairs that draw large audiences, used to spend a significant part of its budget on renting venues for its large public events. As the recession hit, many corporate sponsors diminished the levels of their support. Efforts to increase donations by individual donors, while successful, were not sufficient to offset those corporate losses, and CityClub was facing the prospect of having to significantly increase program fees and charges (limiting access to its programs). However, CityClub determined that moving its offices to a larger downtown venue with its own presentation space would allow it to host many of its own programs and spend much less on renting hotel meeting rooms and other costly venues. In the words of CityClub's executive director, this decisive move "simultaneously made our programs more affordable and our audiences more diverse. It was a win-win." A similar real-estate-related adaptation was utilized by the Pacific Northwest Diabetes Research Institute, which began incubating small biotech companies by subletting its unused laboratory space (and providing certain administrative services at affordable costs), cutting its own net overhead costs significantly. El Centro de la Raza also increased its rental income from subtenants and others using its facilities.

E. Basic Repositioning

Several organizations made it through the downturn only by facing up to the need for a basic repositioning of their identity and operations. An example of this is the work done by the Bellevue Art

Museum (BAM), an entity whose financial difficulties predated the downturn. BAM strengthened itself even during the recession by repositioning itself as the region's center for the exploration of art, craft, and design. This repositioning caused many funders to take a fresh look at the institution while also creating new sources of earned income.

The Mountaineers provide another example of ongoing repositioning. Fortified by earned income from its popular bookstore to offset lower revenues from membership dues, the Mountaineers is taking advantage of the current atmosphere to launch a serious planning process to restructure the organization.

F. Planned Deficit Spending

Several organizations did an impressive job of planning controlled deficit spending of reserves in order to minimize the adverse impact on the communities they serve. For example, Social Ventures Partners (SVP), faced with a loss of individual investment partners (funders) in the immediate wake of the stock market's fall, executed a temporary deficit spending plan so it could honor previously made multi-year funding commitments. This deficit spending was then curtailed by slowing the growth of new projects to sustainable levels and recruiting new partners as investment portfolios rebounded.

G. Increasing Earned Income

In many instances, social welfare organizations have attempted to offset losses of government funding by increasing fees and charges. The Boyer Children's Clinic has used this tactic with some success, but points out that nonprofits operating in our poorest communities cannot raise fees and charges without limiting access to the very populations they most want to serve.

In the same vein, Artist Trust, an organization that supports individual artists, has responded to lost government funding by beginning to charge tuition for its business training programs for artists.

II • Facing Continued Threats: For Some Organizations, Recessionary Conditions Continue Unabated

Approximately one third of the organizations examined are suffering serious persisting financial setbacks that require a significant, continuing modification of the individual organization's approach. Their current conditions and expectations of the future vary, but for these organizations, the impacts of the recession remain very painful for both their staff and the citizens they serve.

Because of additional anticipated cuts in government budgets at both state and local levels, and the imminent end of federal stimulus funding from which many nonprofit organizations benefited, some of these organizations face a budget picture that is at least as bleak today as it has been over the past three years.

Most of the organizations in this grouping have not yet arrived at a way to regain their previous strength and at least a few are in crisis. Several are grouped in the social welfare area, dependent on governmental

support to serve their clients. The hope that these organizations will be able to significantly increase their services in the face of impending additional government cutbacks will be largely unrealized unless individual contributions and major gifts grow far more rapidly than could be reasonably anticipated.

The organizations in this group will likely continue to pare down their program offerings, reduce their service area and eligible populations, and make staff reductions permanent. They may require special effort from foundations and other donors to remain strong or even to continue in operation. Here are some examples of how these agencies have tried to cope:

1. The local affiliate of a national organization that is focused on refugee resettlement efforts had already experienced significant declines in federal funding since 9/11. Now Washington state funding comprising 15% of its budget is expected to disappear. The organization is exploring partnerships with other agencies to determine whether they can work together to offer services at affordable prices that the state is unlikely to fund. Charging fees for citizenship classes will become permanent and certainly decrease the number of refugees who can afford to participate. As staff reductions must be made, the organization is cross-training its remaining staff in multiple programs in order to deepen the agency's competencies and provide consistency to the agency's presence within the refugee communities of the Puget Sound region. Even with these adaptations, however, the overall scope and quantity of services is being significantly decreased with no prospect of future recovery in sight.
2. Seattle Education Access, an area nonprofit that helps poor students progress to higher education opportunities, provides a representative example of the funding squeeze. Multi-year grants that had buoyed the organization through 2008 and 2009 expired in 2010 and other fundraising prospects have been bleak. According to staff, "this year we're constantly in a crunch ... A lot of family foundations have taken a huge hit ... Corporate giving is way down." A major effort is underway to increase individual donations. The agency is also increasing reliance on volunteers for tutoring and mentoring and "looking to set fees for tutoring/counseling" to keep serving as many students as possible. Nevertheless, it appears that financial stability at levels anywhere near their projected need for services is not on the horizon.
3. A similar situation in the education field is presented by the challenges faced by Arts Corps, a nonprofit that brings art opportunities into the Seattle schools. When the downturn hit, Arts Corps made staff reductions and furloughs, eliminated stipends for classroom assistants, and closed programs in some schools. In an effort to help schools remain partners with the organization and stabilize funding, Arts Corps is considering allowing schools to charge students for art classes rather than dropping the art programs entirely at these sites, and staff are putting increased effort into the cultivation of individual donors. Although Arts Corps has stabilized to some degree, albeit at a lower level of programming than in 2008, the organization's future financial situation is still uncertain. Arts Corps continues to operate with fewer staff, pay-freezes, and furloughs to keep administrative costs down - a trend they cannot continue for long. As an Arts Corps leader put it: The "challenge now is managing ambition and capacity ... keeping a momentum without burning out our reserves."

4. The Tenants Union of Washington State has been forced to terminate most of its lobbying and other public policy advocacy activities to focus on tenant education and counseling. This difficult move was made in response to a severe loss of revenue and upon the Tenants Union's perception that, while there are other organizations advocating for tenant rights in the public policy arena, its work in educating, organizing, and counseling renters are services not duplicated by other organizations.

III • Secure in Their Structure: A Few Organizations Avoided Economic Distress Entirely

A relatively small proportion of the nonprofits organizations (just seven of the 37 interviewed) experienced substantial growth in their operations despite the poor national and local economy. To the extent that these nonprofits prospered during this period, it was largely due to influences and factors unrelated to the downturn.

For the most part, these are organizations that are either heavily supported by earned income sources that remained healthy during the downturn; developed an all new program and related funding sources in 2007 or 2008; or have uncommon financial resources upon which they can rely.

A few such organizations experienced spectacular growth due to the receipt of very substantial multi-year grants from private foundations. For example, while most nonprofits struggled with shrinking resources over the past two years, the budget of Landesa, formerly the Rural Development Institute, grew several-fold due to large multi-year grants. Instead of staff layoffs and furloughs, Landesa has been the beneficiary of a hugely expanded hiring pool of qualified job applicants. (In contrast, the negative effect of the poor economy on hiring is being experienced by nonprofits like the Puget Sound Blood Center, which has been finding that "potential hires are much less mobile ... candidates from outside the region are impossible to recruit." This is likely exacerbated by the difficulty of selling homes in a dismal housing market.) Landesa is also placing "increased organizational emphasis on staff professional development and training" at a time when most nonprofits have been forced to eliminate or severely cut those types of capacity-building expenses. (For example, the Pride Foundation eliminated most of its professional development budget one year.) Landesa staff recognize how fortunate they have been and "feel like ... outliers" amongst their peers in the nonprofit community.

Another even larger organization that has avoided serious difficulty due to the recession is Program for Appropriate Technology in Health (PATH). PATH's budget actually increased from 2008 to 2010 due to several factors. First and foremost, PATH has built a very well-diversified complement of funding sources—multi-year foundation grants, U.S. agencies working in global development, multilateral organizations, and funding commitments from many national governments. It is also managed in a fiscally conservative manner and has strong financial information systems in place to monitor changed conditions in its various programs and make prompt changes in overhead expenditures as needed. PATH also perceives that the strength of its vertical and cross-program project teams has allowed its global health market share to increase during the downturn when constriction was experienced by other NGOs in the field.

Washington C.A.S.H. (Community Alliance for Self-Help), a microenterprise development organization, is an example of a nonprofit that has grown significantly due to a combination of changed government policy towards the unemployed, greater government funding, and increased utilization of skilled volunteers. In response to greatly increased demand for its services (caused in large part by the recession), C.A.S.H. has increased the number and depth of its programs, more than tripling the number of low income clients it counsels and serves.

A final example from this group shows how the downturn itself has increased earned income receipts for nonprofits that provide lower cost solutions to the community. Bike Works, a local nonprofit aimed at educating youth and promoting bicycling, has improved its financial condition with increased earnings from its sales of recycled bikes and bicycle parts along with its inexpensive bike repair shop. At the same time, recessionary effects in the commercial real-estate market have permitted Bike Works to lease its warehouse space at very low cost.

IV • Lessons for the Future: Nonprofit Planning and Preparedness Matter

Even for the many organizations that have largely recovered from the revenue reductions brought upon by the deep recession, significant lessons that have been learned:

Having well-diversified revenue sources is an important shield against reductions in any specific funding category.

Depending on their own circumstances, area nonprofits saw reductions in one or more of the primary revenue sources upon which they depend, including governmental contracts, foundation grants, corporate sponsorships, major gifts, individual donations, events, and earned income. Some of the organizations that are the strongest going forward used the urgency of the situation to immediately increase attention to other types of funding sources, most notably earned income or an increased reliance on small donors.

In many cases, reductions in staff were unavoidable but creative, collective thinking reduced the damage which would otherwise have been caused.

Many organizations were able to use furloughs, job sharing, volunteer deployment, and reductions in non-staff related overhead costs to limit staff layoffs. Several stressed organizations involved all staff in the development of alternative budget scenarios, which had the dual benefit of identifying additional cost savings while improving staff understanding and morale. Because the staff reductions were limited, these nonprofits were able to create a climate where the staff pulled together to protect the programs and services the organization offers.

The economic pressures faced by the region's nonprofits heightened their appreciation of the most effective forms of strategic planning and thinking.

Organizations that faced the crisis with a clear mission, vision, and operating plan were able to use that framework to better understand what modifications would be necessary, and how they could be executed with the least possible damage to those served. This outcome may well engender support for better strategic planning and attention to organizational effectiveness going forward.

Overall, the resiliency of the nonprofits in our study is heartening. It is clear that their boards and staff take their missions seriously and were willing to step up their efforts as the economic downturn worsened. In many cases, surges in individual donations of time and talent as well as treasure reminded all stakeholders of the value the community placed on the nonprofits' contributions. These commitments to mission and values will be tested again and again if, as it appears, recovery of traditional sources of government and corporate support comes at a painfully slow pace.

Ultimately it will always be the ability of the nonprofits to think strategically and respond effectively and inventively to changing conditions that will determine their health and their ability to contribute creatively to the communities they serve.

List of Organizations Interviewed

Anacortes Family Center	PATH
Arts Corps	Peace Trees Vietnam
Artist Trust	Pride Foundation
Bellevue Arts Museum	Puget Sound Blood Center
Bike Works	Salish Sea Expeditions
Boyer Children's Clinic	Seattle Education Access
Bridges for Understanding	Shunpike
CityClub	Social Venture Partners
Consejo Counseling and Referral Service	Stop Exploitation Now
El Centro de la Raza	Tenants Union of Washington State
International District Housing Alliance	Union Gospel Mission
IslandWood	Village Reach
Landesa (formerly the Rural Development Institute)	Washington C.A.S.H.
Literacy Bridge	Washington Health Foundation
Mountaineers	Washington Trails Association
National Eating Disorders Association	Washington Wilderness Coalition
New Horizons Ministries	Washington Wildlife and Recreation Coalition
Open Arms Perinatal Center	World Relief
Pacific Northwest Diabetes Research Institute	

The interview protocol for this project was drafted by David Harrison and Paul Ahern and modified after review by participating graduate students. In more than half of the interviews, the graduate student interviewed the executive director of the selected organization. In the remaining instances, the interview was conducted with a key staff member in a position to discuss the organization's strategies and financial condition. Most commonly, interviews took between forty minutes and an hour to complete.

The participating organizations can be divided into these subcategories:

Arts: 4

Social Welfare, Health, and Housing: 15

Education: 2

Environment and Recreation: 6

International Aid and Development: 6

Other: 4



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The aim of the Nancy Bell Evans Center on Nonprofits & Philanthropy (the "Center") is to enhance the understanding and vitality of the nonprofit and philanthropic sector. The Center conducts and supports research on nonprofits and philanthropy, and serves as an incubator for research-based nonprofit and philanthropic education at the University of Washington. The Center also convenes members of the academic, nonprofit, and philanthropic communities to stimulate thinking on current issues, share research and best practices, and promote increased dialogue and collaboration. The Center, housed within the Evans School of Public Affairs at the University of Washington, is run by Acting Director David Harrison.