INTRODUCTION

Year Three: Sixth Special Report Summarizing Key Impacts on Minnesota’s Nonprofit Sector & Economy

The Minnesota Council of Nonprofits (MCN) is regularly surveying nonprofits to continue to understand the impacts of the COVID-19 pandemic, international movements for racial justice, economic challenges, and other events. Since March 2020, MCN has conducted six surveys and issued six follow-up reports summarizing key trends, impacts, and outlook. All five reports are available online.

- May 2020
- July 2020
- December 2020
- May 2021
- December 2021
- October 2022

The primary purpose of these impact reports is to provide a broader context for organizations to put their individual situation in perspective for decision-making and communications with their boards of directors, supporters, and staff.

MCN shares this information with nonprofits, policymakers, funders, media, and the general public to help them understand how the current environment has affected the nonprofit sector and actions these organizations have taken. This sixth COVID-19 impact report summarizes results from 283 respondents to a survey collected July-August, 2022.

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Introduction: Nonprofits in Extraordinary Times - What happened and what's next?

It’s been 30 months since the onset of the global pandemic caused by COVID-19. Almost immediately nonprofit leaders made and sustained incredible shifts in programming and operations, adapting to a virtual-heavy world and adopting crucial measures to keep their communities and staff safe. The murder of George Floyd by Minneapolis police in May 2020 placed Minnesota in the epicenter of international calls for racial justice. Leaders and organizations across all sectors challenged themselves and others to live into values striving toward equity, critically examine systemic inequities, and lead reforms. These adaptations born of disruptions are slowly becoming integrated practices as nonprofits adopt updated policies, practices, and procedures that more clearly reflect organizational values, formalize hybrid work arrangements, continue offering expanded tele-services, and more. All of this work happened simultaneous to nonprofits facing increased demand for services, increased expenses, decreased staffing, and loss of revenue.

Throughout the prior five impact reports, many nonprofits consistently reported that increased charitable giving and government relief funding (such as forgivable Paycheck Protection Program loans and the Employee Retention Tax Credit) have played a key role in sustaining organizations through this highly disruptive time. Recognizing the crucial role of relief funding for nonprofits in this pivotal moment, with key partners MCN led the advocacy on the creation of a one-time Nonprofit Relief Fund, which would have provided $200 million for nonprofits statewide. While many industries and sectors had access to one or more programs with dollars specific to meet their needs, the nonprofit sector has had no designated relief dollars for recovery. Despite amassing hundreds of organizations in support of the establishment of the fund, it ultimately did not pass alongside countless other measures in what many consider to be an unsuccessful 2022 legislative session.

The state had a historic projected surplus of $9.3 billion in the general fund for the FY 2022-23 budget cycle (approximately 16 percent of the state’s baseline two-year general fund budget) and $6.3 billion in FY 2024-25. Many community and nonprofit advocates saw this as an unprecedented opportunity to invest in the basic infrastructure and address challenges facing everyday Minnesotans to build a more equitable state. The House, Senate, and administration failed to reach agreement in many major budget areas, including education, health and human services, transportation, and infrastructure. While they reached agreement in some other budget areas, those bills were not advanced for final votes once it became clear that all the pieces needed to enact the framework agreement reached between policymakers were not going to be completed. Ultimately, only about a quarter of the projected surpluses were allocated.

During this same time news broke of the nation’s largest case of alleged pandemic fraud: Minnesota-based nonprofit Feeding Our Future, alongside dozens of its business partners. Accused of fraudulently obtaining and disbursing more than $240 million in Federal Child Nutrition Program funds, the high-profile case has captured national attention and cast a bad light on the thousands of MN nonprofits who are honestly managing state and federal funds. MN is home to over 37,000 tax exempt entities, instances of fraud are exceptionally rare, and public trust is a crucial component in the efficacy of nonprofit work.

As relief funding dries up and a new normal settles in, many groups face an uncertain financial future and continued high community demand. While we celebrate the resilience of nonprofits across the state, the people behind this undertaking are experiencing high levels of burnout. Organizations are facing the question: How do we strategically continue to support our communities while caring for and retaining staff and remain financially viable?
This sixth report on current conditions and the impact of COVID-19 summarizes results from 283 respondents to a survey collected in July 2022. Key findings include:

**Increased demand for services and decreasing resources leading to workforce challenges**

Demand for nonprofit services increased during the ongoing COVID-19 pandemic. Nonprofits are trying to meet these needs while facing difficulty hiring and retaining staff due to the financial climate and competition from government and private sectors.

**Lasting impacts of COVID-19.**

Minnesota nonprofits supported the changing needs of their communities in response to COVID-19, demonstrating leadership and flexibility. While nonprofits across the state have shown tremendous resilience, the people behind this undertaking are experiencing high levels of burnout.

**Inflation and stagnated funding.**

Government relief funding played a pivotal role in the nonprofit sector's ability to function. Forgivable Payroll Protection Program loans were the most commonly accessed form of relief by nonprofits. Philanthropic organizations also increased funding. As relief funding dries up and private giving responds to a plummeting stock market, organizations are facing decreased funding.

**Nonprofit workforce trends:**

Despite losing 30,000 workers since 2019, the nonprofit sector has maintained its relative share of the state’s total workforce because other sectors experienced similar losses. Nonprofits still employ 14 percent of the workforce.

Another indicator of the nonprofit sector’s health as employing organizations are trends related to unemployment claims. An unemployment claim is filed when an employee experiences a qualifying event such as job loss, reduced hours, temporary furlough, etc. Unemployment claims skyrocketed across all three sectors April - July of 2020 and have since returned to near pre-pandemic levels. Nonprofit unemployment trends have, for the most part, matched statewide trends over the past two and a half years.

The decline in the number of unemployment claims from the nonprofit sector can be another indicator of the challenges nonprofits are facing in retaining and recruiting staff – nonprofits are making fewer cuts to hours and positions.

For a more comprehensive discussion of trends among Minnesota’s nonprofit employers and employees, please visit MCN’s 2020-2021 Minnesota Nonprofit Economy Report available at [https://www.minnesotanonprofits.org/resources-tools/sector-research](https://www.minnesotanonprofits.org/resources-tools/sector-research).
The nonprofit, for-profit, and government sector unemployment claims fluctuated throughout 2021 with a brief increase in November and December. Unemployment claims declined in early 2022. Nonprofits unemployment trends match statewide trends.

Initial 2022 nonprofit unemployment claims are lower than for-profit and government sectors at 4.5-5 percent of statewide unemployment claims.

The low unemployment claims from the nonprofit sector may be underscoring the challenges of a tight labor market.
Trends show that organizations continue to experience an increased demand for services due to COVID-19. Organizations are increasing programming yet have not been able to increase staff to meet higher demand. The job market remains strong and workers are seeking flexibility and human-centered workplaces. Attracting and retaining staff is difficult in the current financial climate. High rates of reported staff burn out caused by COVID-19, racial injustice, economic strains, among other reasons, plus employment competition pose a challenge for nonprofits.

Organizations face increased expenses while funding revenues remain relatively stagnant, which makes meeting increased needs more difficult.

Nonprofits receive funding from a variety of sources via contracts with local, state, and federal government to earned income to donations from foundations and individuals. Nonprofits who receive government funding experience misalignment between what grants and contracts will pay and the true cost of services. Imposed caps on staff salaries and limited indirect expense rates harm the sector’s ability to attract and retain talent and cover basic operational expenses. Grant funding from charitable foundations have returned to pre-2020 grantmaking levels. Nonprofits express concern over future giving. While a number of nonprofits reported receiving increased grant funding in 2020 and 2021 (as many as one-third, according to MCN’s May 2021 impact report), foundation grantmaking has since leveled off. The Minnesota Council on Foundation’s 2021 Giving in Minnesota Report found that in 2022, 76 percent of funders plan to maintain or slightly increase their giving, with an average increase of 2 percent over 2021. Foundation Mark also shows a leveling off trend in MN grantmaking despite a rapid growth in assets the previous four years (see chart below).
The ability to provide services and staffing levels are also not increasing to meet demand.

Survey responses show that demand for services, expenses and programming have increased while staffing levels and ability to provide services decreased:

“Inflation combined with recession is really challenging us. We rely on small ($25, $50, $100) donations and they are not coming in but going to gas, food, clothing, school supplies for families this year. Costs of providing our programs and services is up, staff costs and benefits are up. All of this is causing great distress for us and will for the foreseeable future.”

“We are really struggling as an arts organization to survive. We had 8 staff prior to the pandemic. We are down to two. Our budget, both income and expenses, has not yet to recover from the pandemic which means we are in the vicious cycle of being unable to hire additional staff and current staff are approach burnout.”

“We see the need for programming continuing to rise, but our fund-raising ability unable to grow at the same pace. Therefore, we feel constantly overworked which may result in staffing issues.”

“Our spending on food (food shelf) increased 20% this year compared to 2021 AND we are getting less food for the money. Food costs & gasoline are impacting our budget.”
Key Finding #2

Lasting Impacts of COVID-19: Minnesota nonprofits across the spectrum of organizations responded to the changing needs of their communities in response to COVID-19, demonstrating leadership and flexibility.

What changes to programming, operations, or methods of service delivery have you made or experienced in the last 2.5 years?

Of the changes you’ve made or experienced over the past 2.5 years, what do you foresee lasting?

Nonprofits are looking for ways to be creative to attract and retain staff in a competitive market. Flexible, fully-remote, and hybrid work arrangements continue to be explored; hybrid models are becoming the standard for most organizations. Additionally, organizations continue to offer programs and services online even as they resume in-person programming.

23 percent of survey comments reflected that hybrid work arrangements will remain.

31 percent of survey comments highlighted virtual services and programs as an ongoing offering.
CURRENT CONDITIONS AND COVID-19
IMPACT UPDATE 6.0
KEY FINDINGS (continued)

Workforce Challenges

The job market remains strong, and workers are seeking flexibility and human-centered approach to attracting and retaining staff. Without shifts in funding models that meet high inflation and yearly cost-of-living increases, meeting worker expectations for compensation—which includes salaries and benefits—is difficult in the current financial climate. High rates of reported staff burn out caused by COVID-19, racial injustice, economic strains, among other reasons, competition from for-profit and government sectors poses a huge challenge for nonprofit organizations to attract and retain talent.

Changes to staffing made or experienced in the last 2.5 years:

While we celebrate the resilience of nonprofits across the state, the people behind this undertaking are experiencing high levels of burnout. Organizations are now facing the question: How do we strategically continue to support our communities while caring for and retaining staff and remain financially viable?

“Pre-pandemic we would not have imagined delivering so many virtual programs. We believe that virtual education is here to stay, and these programs have allowed us to expand our constituency served and increase access. However, hiring and retention challenges, our inability to keep salaries apace with the corporate sector, and the ongoing stress of remaining staff implementing programs and continuing to innovate in the face of all the changes brought on by the pandemic is making it difficult to move our organization forward as much as we would like.”
84 percent of respondents said burnout has had at least some impact on their organization’s ability to retain staff, and almost half of those said it has had a “great impact.”

37 percent have or will decrease staffing

50+ percent are experiencing workforce shortages and staff turnover

“We have had significantly higher turnover than usual in the past 2 years, and most staff who left our organization went to work in other sectors (school districts, for-profit interpreting agencies, sales, etc.) Most of these were BIPOC professionals in their 20s with undergraduate degrees in human services, community health, social work, etc. I’m concerned about burnout in the sector, especially for people with marginalized identities, and about our future workforce as young professionals leave the sector and may not come back.”
While projections will not be fully accurate, the major change in how organizations see their financial stability is important. The following things predominantly impact how organizations discuss their financial security:

- COVID-19 Relief funding in FY 2021 provided stability and funding for staffing, which was especially helpful. Organizations do not anticipate ongoing sources of COVID-19 relief funding in the future.
- Increased needs and expenses without increased funding poses a threat to financial stability.
- Anticipated financial strain due to economic recession, increased cost of goods, and increased gas prices inform predictions of financial vulnerability.
- Organizations with investments anticipate a reduction in gains due to economic recession.
- Some funding organizations are pulling back funding because of these same issues.
Organizations were able to meet increased demand and uncertainty during COVID-19 because of government relief funding, especially PPP (Payroll Protection Program) funds. Minnesota nonprofits anticipate financial vulnerability and more organizational precarity in the future.

Perceptions of financial health and organizational vitality data for 1994 and 2000 are responses from studies conducted and published by MN Nonprofits Assistance Fund (now Propel Nonprofits).
CURRENT CONDITIONS AND COVID-19
IMPACT UPDATE 6.0
KEY FINDINGS (continued)

Fiscal Health cont.

Organizations that expressed concern for future survival:

- Experienced reduced budgets
- Increased or altered services to meet increased or changing community needs
- Reduced staff or are struggling to maintain staff
- Expressed concern over reduced/unavailable funding

Organizations that have some financial challenges and are not ready for more challenges:

- Reduced services and/or hours of operation
- Reduced staff to deal with financial strain
- Experience staff turnover issues
- Challenged to find funding to meet increased programmatic and workforce needs

“The increased demand for services is not going away, but our ability to fundraise to meet those demands has not risen at the same rate.”

“We have downsized by 50 percent and anticipate doing that again over the next 12 months. People will be left without services as in many areas, we are the only provider in a fifty mile radius.”

“The past 2.5 year have been incredibly difficult for the nonprofit sector. In the past year, we have had almost 80 percent turnover in staff, challenges with recruiting and retention, etc., and continued needs to pivot programs and forestall restarting furloughed programs due to the pandemic. After a 20+ year career dedicated to the nonprofit sector, I anticipate that burnout will also drive me from the sector in the not too distant future. Despite the many crucial community needs the the nonprofit sector provides, the system feels unsustainable.”

In addition to the challenges reflected in the key findings, respondents brought up the following challenges and opportunities:

Organizational challenges

Nonprofits have had to make quick adjustments to programming to meet increased or changing needs, which put strategic planning to the side. Organizations are open to new ways of operating while struggling with reduced human energy from the board of directors, volunteers, and staff.

Stagnant State Reimbursement Rates

“Due to low reimbursement rates from the State of Minnesota Department of Human Services, the organization is “changing programs” to a model that will meet the needs of staff and residents needs.”

Serving BIPOC Communities

Multiple organizations shared their strategies for serving Black Indigenous and other People of Color in response to equity issues and a desire to attract funding. Organizations in predominantly white communities are struggling to find their place among increasing commitments to racial justice.

Attracting Audiences

Organizations that rely on audiences like the arts and education are struggling to attract in-person audiences since COVID-19 reduced in-person attendance.
Minnesota often ranks at or near the top in the nation for civic participation, and nonprofit organizations are important contributors to that work. Nearly half of respondents indicated they led some sort of advocacy activity in the past 1.5 years. Many nonprofits indicated that government funding has played a crucial role in sustaining core operations and essential community services during the pandemic, and that funding continues to be a top priority. Access to state funding poses challenges for many groups such as lack of awareness of open opportunities, bespoke application processes, the level administrative capacity required, and mistrust of government. As a result, smaller, rural, and/or BIPOC-serving nonprofits tend to receive less state funding than the sector on average.

Due to a high profile case of alleged fraud by a MN-based nonprofit Feeding Our Future and dozens of business affiliates, proposed legislation was introduced in the 2022 session that would have limited nonprofits’ and the state’s autonomy in crucial ways, including: introducing a salary cap for nonprofit executives, adding duplicative reporting requirements for nonprofits, limiting who can serve on nonprofit boards, and limiting the nonprofits to whom a state agency can make grants. There are over 37,000 tax exempt entities in Minnesota. Cases of fraud and abuse in nonprofit organizations are rare, and mechanisms for identifying and rectifying fraud have been and are currently in place. MCN led advocacy efforts to oppose and ultimately defeat the proposed legislation. However, MCN expects to see more nonprofit oversight legislation proposed at the state capitol in 2023. For timely updates subscribe to MCN’s The Nonprofit Advocate newsletter (https://www.minnesotanonprofits.org/subscribe)

Minnesota Nonprofits engaged in the following advocacy activities in the last 1.5 years:

1. Contacting elected officials to provide information on your organization’s work, mission, and/or community
2. Contacting elected officials asking them to support or oppose specific legislation
3. Participating in coalitions
4. Organizing people to connect with elected officials about an issue
5. Promoting voting and voter registration
6. Other
Nonprofits are lifting up that access to funding – particularly government funding, especially at the state level – remains a top advocacy priority. Burdensome application and reporting processes and forms, limited time between requests for proposal (RFP) postings and deadlines, lack of accessible and timely information on open opportunities are some of the top cited barriers.

For more information on policy issues impacting nonprofits visit
Nonprofits rely on volunteers in a variety of ways to accomplish their missions.

Minnesota often ranks at or near the top in the nation for volunteerism with nearly half of the state residents volunteering every year.6

Respondent organizations benefit from volunteer support in the following ways:

- No volunteers
- Other
- Connect community members to services, such as driving to medical appointments
- Help deliver basic necessities, such as meals, to the community
- Working board who make up most of our volunteer force
- Assist with administrative tasks such as restocking shelves, office assistance, and sorting donations
- Implement programming (tutors, mentors, care companions, etc.)
- Implement one-time activities such as supply drives, community events, and clean-up days
- Grow our capacity (board members, committee members, strategic planning, etc.)

“The Board is burned out on fundraising and we have only one new Board member and lost 2. We expect to lose more without replacements in sight.”

“We lost a significant number of volunteers due to Covid, and are still recovering.”
CURRENT CONDITIONS AND COVID-19
IMPACT UPDATE 6.0
RESPONDENT UNIVERSE

What activity area best describes your organization’s work?

What best describes your role within your organization?

What is your organization’s annual operating budget size?
CURRENT CONDITIONS AND COVID-19
IMPACT UPDATE 6.0
RESPONDENT UNIVERSE (continued)

Is your organization led by the community it seeks to serve or benefit? (For example, the community is represented among your board of directors, top leadership, etc?)

What county are you located in?

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For decades nonprofit organizations in Minnesota have been a steady source of economic growth in every region of the state and played an important role in Minnesota’s communities – providing vital services, employing local residents, and improving the quality of life. The Special Edition Minnesota Nonprofit Economy Report Series (SE: MNER) is designed to complement MCN’s Minnesota Nonprofit Economy Report (MNER), an annual study that analyzes public data on nonprofit employers, employment, wages, and finances to describe the role nonprofit organizations play in the state’s economy.

The goal of both these reports is to understand the role of the nonprofit sector in Minnesota’s economy, and how the impact of the COVID-19 pandemic and the ongoing racial justice movement on nonprofit organizations and the communities they serve.

MCN continues to work in partnership with groups across the state to support the nonprofit sector’s response to the pandemic. For more information and resources (such as a free special edition of the Minnesota Grants Directory, virtual training opportunities, and resources on how to access federal relief programs) visit MCN’s COVID-19 & Nonprofits web page.

Data sources
Data in this report comes from the 2019 Minnesota Nonprofit Economy Report, Minnesota Department of Employment and Economic Development, Quarterly Census of Employment and Wages, the Internal Revenue Service exempt organizations business master file, and results from six surveys: the April 9, 2020 Federal Reserve Bank COVID-19 impact survey, and MCN’s COVID-19 impact surveys conducted on April 9, 2020; May 21, 2020; September 23, 2020; March 4, 2021; October 13, 2021, and July, 2022. Additional information about the nonprofit sector is available MCN’s website.

MCN thanks the Federal Reserve Bank of Minneapolis—Alene Tchourumoff, Michael Grover, and Libby Starling—for their partnership and support in the first impact survey distribution and data collection (April 2020).

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MCN is the statewide association of more than 2,300 Minnesota nonprofit organizations. Through its website, publications, workshops and events, cost-saving programs and advocacy, MCN works to inform, promote, connect and strengthen individual nonprofits and the nonprofit sector.

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Sources Cited

2 “from September 29 to October 11, 2021, 24.6% of adults in Minnesota reported symptoms of anxiety and/or depressive disorder...The share of adults in Minnesota with any mental illness was 20.5% in 2018-2019.” (https://www.kff.org/statedata/mental-health-and-substance-use-state-fact-sheets/minnesota/#:~:text=In%20comparison%2C%20in%202019%20approximately,of%20adults%20in%20the%20U.S.)
4 Perceptions of financial health and organizational vitality data for 1994 and 2000 are responses from studies conducted and published by MN Nonprofits Assistance Fund (now Propel Nonprofits)
5 Perceptions of financial health and organizational vitality data for 1994 and 2000 are responses from studies conducted and published by MN Nonprofits Assistance Fund (now Propel Nonprofits)
6 https://americorps.gov/newsroom/news/via
The Minnesota Council of Nonprofits works to inform, promote, connect and strengthen individual nonprofits and the nonprofit sector.