

Minnesota Nonprofit Economy Report

COVID-19 IMPACT UPDATE

May 2020





COVID-19 IMPACT UPDATE

EXECUTIVE SUMMARY

The spread of COVID-19 has presented monumental challenges to Minnesota’s public health and infrastructure. By the time of Governor Walz’s May 1, 2020 emergency executive order, Minnesota had 5,136 confirmed COVID-19 cases, with 1,044 hospitalizations and 343 fatalities. The spread of the disease itself and its economic impacts have already taken a harsh toll on communities served by nonprofit organizations, especially for low income and Black, Indigenous and Communities of Color who have been disproportionately affected by the pandemic due to existing systemic inequities.

Nonprofits, businesses, and government agencies have mobilized to protect their communities and the most vulnerable people within them. With social distancing, remote work where possible, and the March 25th shelter-in-place order from Governor Walz, Minnesota nonprofits immediately shifted or halted their operations.

The Minnesota Council of Nonprofits (MCN) took part in a national survey of nonprofits on April 9 in partnership with the Federal Reserve Bank to assess the impact of COVID-19 on the work of the nonprofit section of the U.S. economy. Key survey findings and other highlights include:

- 528 Minnesota nonprofits responded to the survey, with 80% indicating that COVID-19 had already significantly disrupted the work of their organizations, and half said that they expect recovery to be difficult.
- 88 percent of nonprofits reported that the community they serve is experiencing significant disruption, with the greatest impacts being health, basic needs, income loss and inability to pay bills, and further deepening the digital divide as crucial information, job opportunities, and services move online.
- While the financial and operational situation of individual nonprofits varies greatly –depending on revenue sources, whether the activity is compatible with shelter-in-place orders, and the organization’s balance sheet going into the crisis – survey results reveal common themes regarding early financial implications:
 - By early April, most nonprofits had experienced decreased ability to provide services (50%), decreased staffing levels (31%), reduced revenue from service fees (25%), decreased or anticipated decreased revenue from philanthropic funds (51%), and increased expenses (22%).
 - MCN projects that Minnesota nonprofits collectively lost \$1 billion of income in April alone (based on 2019 economic activity, with a 20 percent income loss across financially active nonprofit organizations due to facility closures, service disruptions, canceled events, etc.).
 - Most organizations reported that they expect to experience financial distress in a matter of months, with 32% seeing this happening in less than three months, and 29% in between three and six months. Only 3% responded that the “Current environment does not impact our financial health.”

These preliminary results raise four serious challenges facing the nonprofit sector going forward:

1. **Epic uncertainty:** Like other employers, nonprofit governing boards and managers immediately changed budgets, operational plans, staffing and facilities in response to the shutdown. After this



COVID-19 IMPACT UPDATE

EXECUTIVE SUMMARY (continued)

emergency response, organizations are responsible for developing plans for their services, staffing, revenue, and expenses – all in the context of a huge set of unknown shifts in charitable giving, philanthropy, state and local government finances, and overall economic activity;

2. **Financial crisis:** Nonprofits experienced sudden, catastrophic earned revenue loss beginning in mid-March due to public event, class, and conference cancellations and discontinuation of income-generating direct services. Among those hardest hit were performing arts organizations and museums who rely on ticket sales for live performances and exhibits. While Payroll Protection Program forgivable loans provided temporary relief to many nonprofit employers, large parts of the nonprofit sector were left out. As an economic collapse layers on top of the public health crisis, it is clear that no single organization can confront this new climate alone, and the recovery will be grim for many nonprofits;
3. **Racial inequity:** Organizations serving racial and ethnic communities were already on unequal footing in their balance sheets and revenue sources going into the pandemic, while the communities they serve are disproportionately affected both by the corona virus and the resulting recession. Social justice nonprofits that are led by or center Black, Indigenous, and People of Color, and work to address root causes of disparities due to historical and systemic racism, need to be recognized as essential community resources that require priority consideration in allocation of recovery resources; and
4. **Altered nonprofit role:** The period after a disaster is usually called a recovery, but does not mean a return to the prior state. The role of nonprofits in supporting communities trying to recover will likely need to be re-assessed with even greater attention to involving the people most impacted by the crisis. Community requirements are likely to be vastly different for years to come, with dramatic increases in unemployment, stress, and economic instability, with greater need for personal engagement, cultural support, and connection.

Like the rest of the economy, these organizations are facing an unknown scale and breadth of a recovery period with limited resources.

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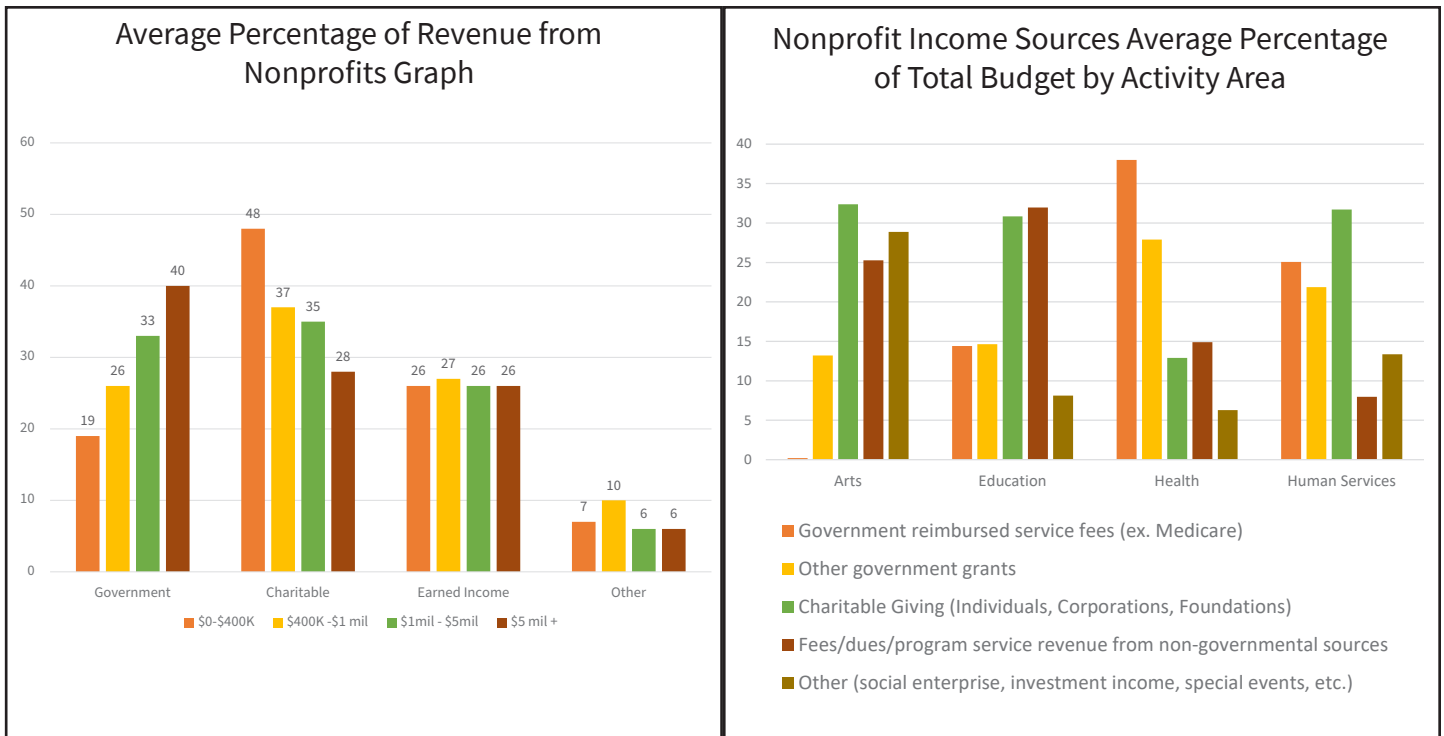


MINNESOTA'S PRE-PANDEMIC NONPROFIT ECONOMY

Reported in MCN's 2018 *Minnesota Nonprofit Economy Report*, Minnesota's nonprofits account for 13 percent of the state's workforce, with 385,000 workers and 9,000 employers. The nonprofit sector is a strong contributor to Minnesota's economy — generating \$86 billion in annual revenue — and providing essential services to Minnesota's communities. From food banks to charter schools to theatres, nonprofits touch the lives of almost every Minnesotan.

Revenue

The financial and operational situation of individual nonprofits varies greatly, depending on the organization's activity area and revenue sources. Many nonprofit organizations receive funding from a variety of income streams, including contracts and grants with all levels of government, earned income from program fees and ticket sales, charitable revenue from individuals and foundations, and more. Smaller nonprofit organizations tend to receive more of their funding from charitable sources, and larger organizations tend to receive more of their funding from government.

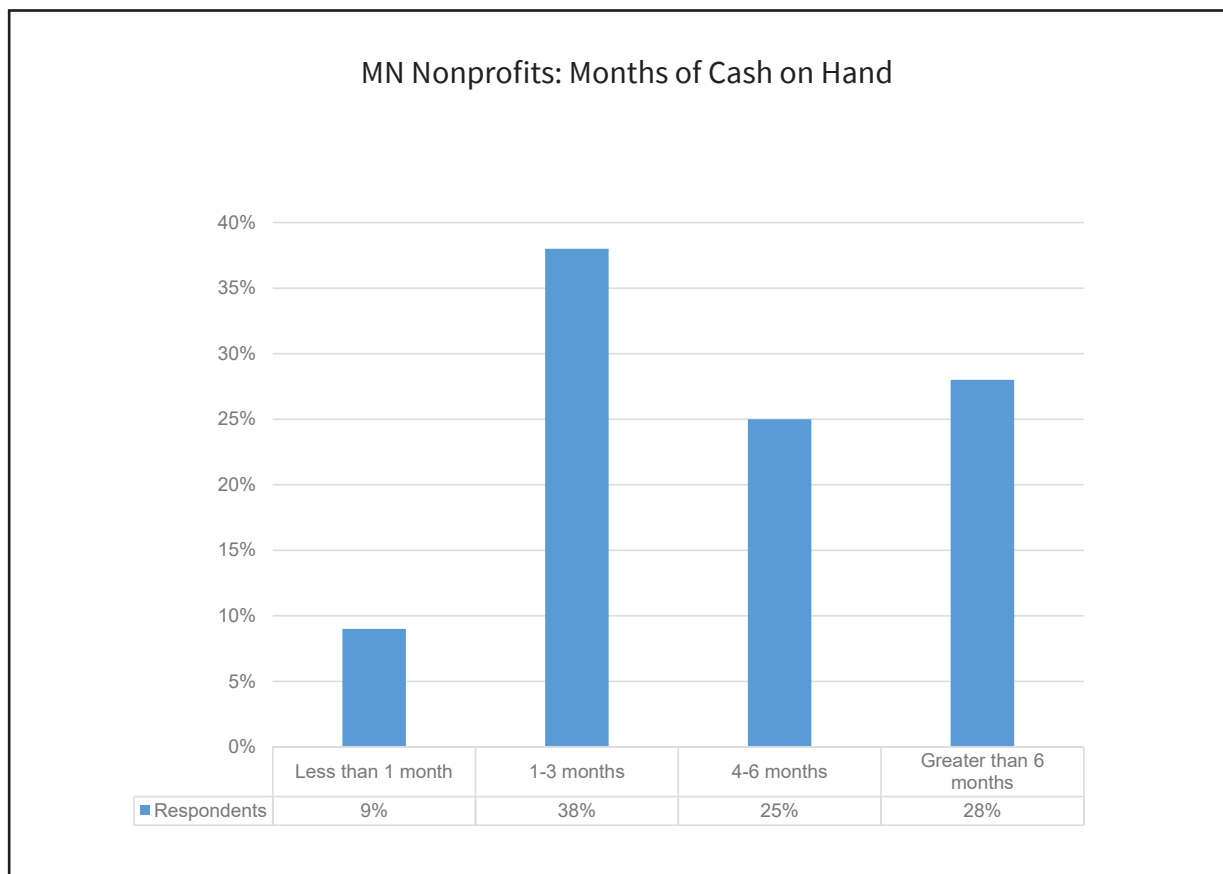




MINNESOTA'S PRE-PANDEMIC NONPROFIT ECONOMY

Cash Position and Operating Reserves

Before the pandemic, many of Minnesota's nonprofit organizations had limited financial flexibility or buffers. Reported in the *2018 Minnesota Nonprofit CFO Report*, 72 percent of MN nonprofits have less than 6 months of cash on hand (page 11), and 40 percent of MN nonprofits don't have an operating reserve.

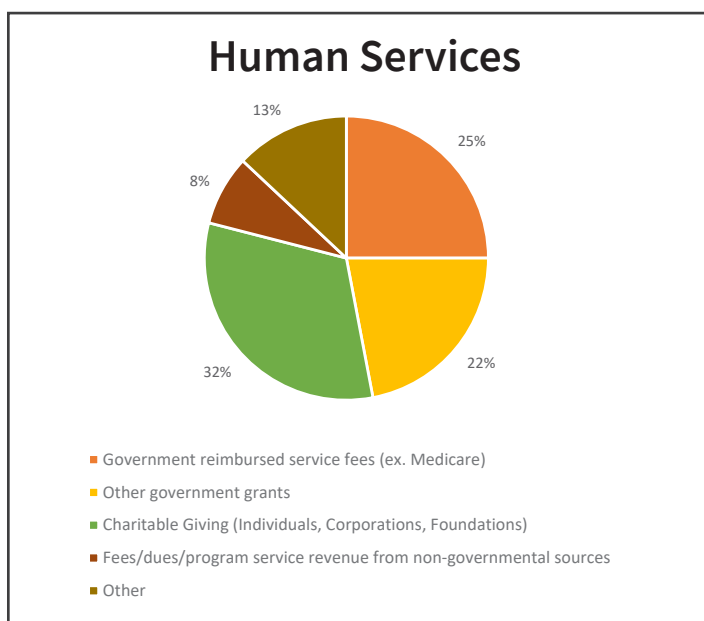
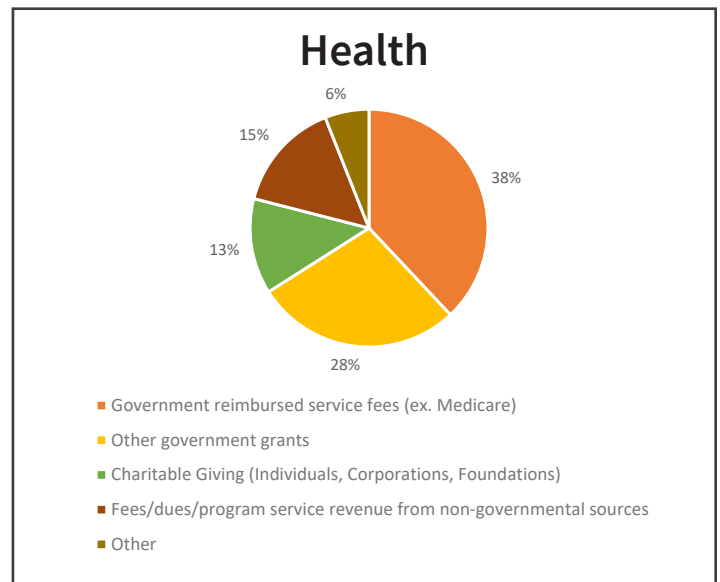




COVID-19 IMPACTS ON NONPROFITS AND THE COMMUNITIES THEY SERVE

MCN projects that Minnesota nonprofits collectively lost \$1 billion of income in April alone (based on 2019 economic activity, with a 20 percent income loss across financially active nonprofit organizations due to facility closures, service disruptions, canceled events, etc.). Each nonprofit organization has a different financial profile, which can be informed by the activities a nonprofit leads, the size of its budget and staff, how long it's been in operations. To best understand the different financial and operational impacts COVID-19 is having on the nonprofit sector, this report examines four major activity areas of Minnesota nonprofits (using data from the 2018 Minnesota Nonprofit CFO Survey):

Health: From large hospitals to community clinics, health-related nonprofit organizations receive the majority of funding from state contracts, state and federally-funded programs like Medical Assistance (nearly 60 percent), and commercial insurance reimbursements (15 percent). COVID-19 has challenged these funding streams, the Minnesota Departments of Health and Human Services, and health-related nonprofit organizations themselves as they all work together to quickly augment the systems for a remote world (such as the adoption of telehealth and telemedicine).



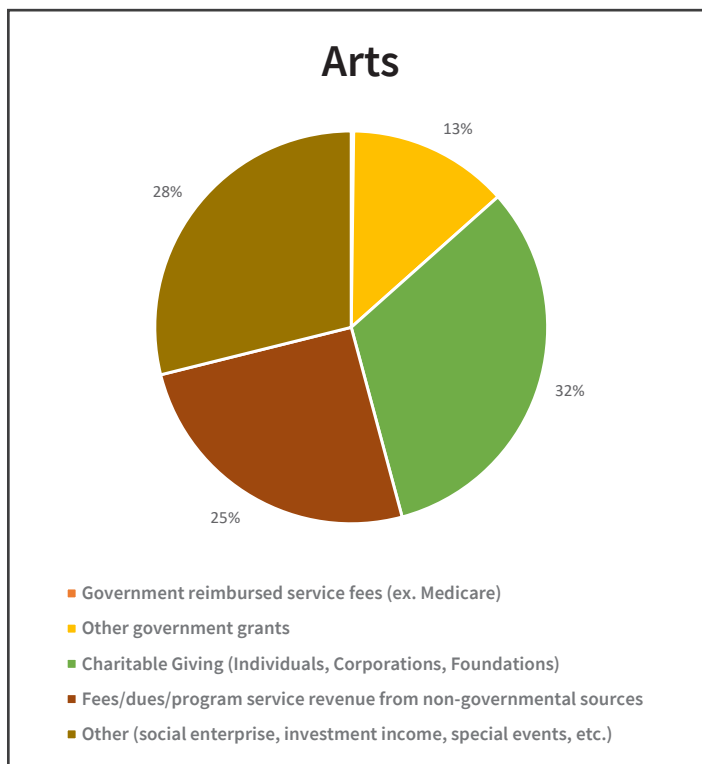
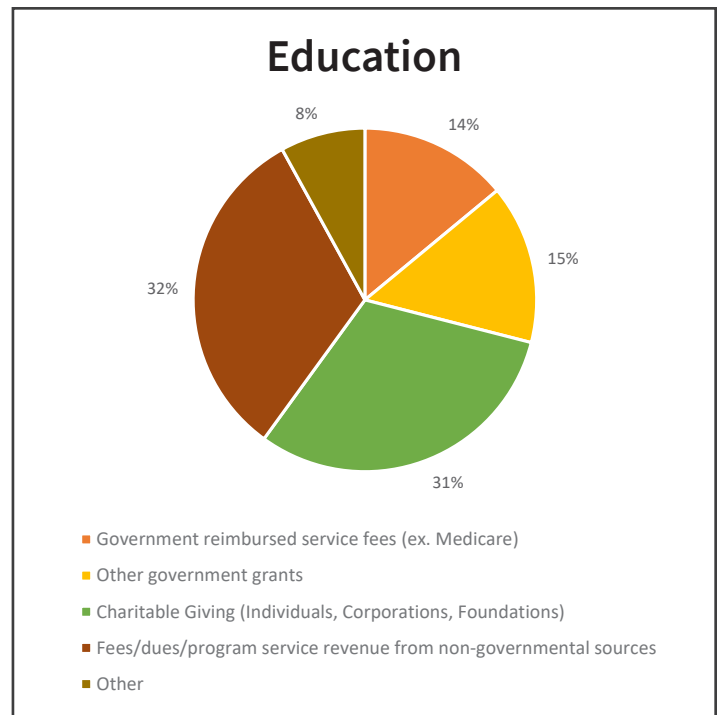
Human Services: From food banks, to shelters for those experiencing homelessness or domestic violence, chemical health and recovery services, and more, these nonprofit organizations represent the largest number of nonprofits in Minnesota. A quarter of their revenue on average comes from government reimbursed service fees. Social distancing to slow the viral spread has quickly led to operational challenges and service disruptions, which means human services nonprofits are still incurring fixed expenses (such as staff salaries) but can't access revenue (such as reimbursement for services). Nearly 60 percent reported they would experience significant financial distress in the next six months.



COVID-19 IMPACTS ON NONPROFITS AND THE COMMUNITIES THEY SERVE (continued)

Education: From major colleges and universities to local charter schools and early childhood education, education-related nonprofits on average receive one-third of their total revenue from program fees (largely tuition) and one-third from charitable giving.

For higher education in particular, on-campus housing accounts for significant income that may be lost as the fall semester approaches and social distancing measures to slow the spread of the virus remain in effect.



Arts: On average arts organizations in Minnesota receive half of their total revenue through ticket sales and special events, and one-third from charitable giving (largely corporate giving). Social distancing and large group gatherings canceled to slow the viral spread leads to financial challenges and operational disruptions. Canceled special fundraising events have been another pain point for nonprofits. While revenue from special fundraising events only accounts for 9 percent of total average annual revenue across all nonprofits, for arts organizations it accounts for 16 percent. Arts organizations are not only financially impacted by the cancellation of live performances but also more impacted by the cancelation of special fundraising events.

(All activity area revenue charts produced using data from the 2018 Minnesota Nonprofit CFO Survey)



IMPACT SURVEY RESULTS

The Minnesota Council of Nonprofits (MCN) took part in a national survey of nonprofits on April 9 in partnership with the Federal Reserve Bank to assess the impact of COVID-19 on the work of the nonprofit section of the U.S. economy. In total 2,470 nonprofits nationally responded to the survey, with 528 from Minnesota (21%). Minnesota nonprofit respondents were largely representative of the whole in terms of distribution of organizations by budget sizes, activity areas, and geographies.

At this point in time, what level of disruption is COVID-19 having on economic conditions in the communities you serve?

	Greater MN (179)	Twin Cities Metro (334)	Statewide (531)
No disruption	-	-	0%
Minimal disruption	-	1%	1%
Some disruption, but manageable	12%	7%	8%
Significant disruption, but expect to bounce back quickly after things settle	34%	22%	26%
Significant disruption, expect recovery to be difficult	51%	68%	62%
Unknown	2%	3%	3%

At this point in time, what level of disruption is COVID-19 having on the nonprofit organization you represent?

	Greater MN (179)	Twin Cities Metro (334)	Statewide (531)
No disruption	-	-	-
Minimal disruption	-	1%	1%
Some disruption, but manageable	12%	7%	8%
Significant disruption, but expect to bounce back quickly after things settle	34%	22%	26%
Significant disruption, expect recovery to be difficult	51%	68%	62%
Unknown	2	3%	3%

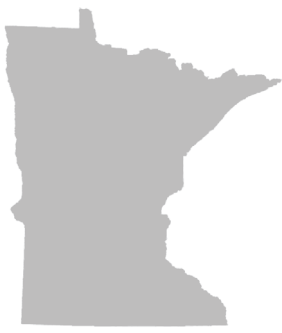


IMPACT SURVEY RESULTS (continued)

Nonprofit Activity Areas Reporting the Highest Levels of Disruption:

1. Arts
2. Health
3. Human Services
4. Public Society Benefit/Education

	Arts (60)	Education (53)	Human Services (287)	Health (44)	Public Society Benefit (63)
No disruption	-	-	-	-	-
Minimal disruption	-	2%	1%	-	2%
Some disruption, but manageable	7%	17%	19%	23%	19%
Significant disruption, but expect to bounce back quickly after things settle	27%	43%	45%	30%	43%
Significant disruption, expect recovery to be difficult	67%	36%	34%	48%	35%
Unknown	-	2%	1%	-	2%



IMPACT SURVEY RESULTS (continued)

In what ways has COVID-19 impacted the nonprofit organization?

	Demand for Services		Ability to provide services		Staffing levels		Expenses	
	Minnesota Nonprofits (528)	National Nonprofits (2,470)	Minnesota Nonprofits (529)	National Nonprofits (2,460)	Minnesota Nonprofits (528)	National Nonprofits (2,469)	Minnesota Nonprofits (527)	National Nonprofits (2,460)
Decreased	26%	15%	50%	37%	31%*	24%	10%	6%
Anticipated decrease	8%	6%	19%	19%	18%	15%	15%	13%
No change	10%	8%	12%	15%	42%	48%	31%	29%
Anticipated increase	19%	20%	10%	14%	3%	6%	21%	27%
Increased	36%	50%	8%	14%	4%	5%	22%	24%
N/A	1%	1%	1%	1%	2%	2%	1%	2%

* The majority of MN nonprofits (64%) indicated that they had not yet experienced a change in staffing levels, though 18 percent anticipate a decrease and 4 percent anticipate an increase. The Minnesota Department of Employment and Economic Development reported on 4/2/20 that nonprofit employee unemployment claims accounted for 5.8 percent of all claims compared to nonprofit employment representing 13 percent of the state's total workforce.

	Fee for Service		Philanthropic Funds		Government Funds	
	Minnesota Nonprofits (524)	National Nonprofits (2,446)	Minnesota Nonprofits (527)	National Nonprofits (2,458)	Minnesota Nonprofits (528)	National Nonprofits (2,460)
Decreased	25%	20%	20%	19%	7%	6%
Anticipated decrease	14%	11%	31%	26%	14%	14%
No change	29%	33%	16%	18%	27%	24%
Anticipated increase	5%	5%	20%	19%	28%	33%
Increased	2%	2%	7%	8%	6%	8%
N/A	24%	28%	6%	10%	18%	15%



IMPACT SURVEY RESULTS (continued)

How many months can the nonprofit organization operate in the current environment before exhibiting financial distress?

	Greater Minnesota (178)	Twin Cities Metro (334)	Minnesota Nonprofits (530)	National Nonprofits (2,480)
Less than three months from today	32%	33%	32%	26%
Between three and six months from today	33%	27%	29%	30%
Between seven and nine months from today	11%	11%	11%	11%
Between ten and twelve months from today	6%	9%	9%	8%
More than twelve months from today	2%	8%	6%	8%
Unknown	11%	10%	10%	14%
Current environment does not impact our financial health	5%	2%	3%	5%

	Arts (59)	Education (53)	Human Services (287)	Health (44)	Public Society Benefit (64)
Less than three months from today	29%	38%	31%	39%	31%
Between three and six months from today	39%	34%	27%	30%	23%
Between seven and nine months from today	12%	6%	13%	5%	14%
Between ten and twelve months from today	15%	8%	8%	7%	8%
More than twelve months from today	3%	2%	6%	9%	9%
Unknown	-	13%	13%	9%	9%
Current environment does not impact our financial health	2%	-	3%	2%	5%



GOVERNMENT AND PHILANTHROPY RESPONSES AND RECOVERY STRATEGIES

Federal Response

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law by the President on March 27, 2020, bringing \$2 trillion of economic relief to individuals, businesses, and communities. While many benefit from the relief policies already distributing funding, they have posed some challenges for nonprofit organizations:

- **Paycheck Protection Program** is an emergency loan program for nonprofits and for-profit entities to secure funds to pay staff and operating costs for two months, and secure full loan forgiveness under certain circumstances. The program is only available for organizations with 500 or fewer employees, which renders approximately 175 Minnesota nonprofits ineligible including large health and human service providers that are experiencing catastrophic revenue loss due to service disruptions.
- **The Economic Injury Disaster Loan (EIDL) program** has expanded eligibility of organizations, applies looser credit standards, and creates a rapid grant procedure (such as a \$10,000 advance). The loans and grants can be used to cover paid sick leave, meeting payroll, increased costs due to disrupted supply chain, mortgage, and debt service. As of April 16, 2020 the Small Business Administration is unable to accept new applications at this time, as this program is based on available appropriations funding.
- For more information on these programs and more, visit: www.minnesotanonprofits.org/covid-19-what-nonprofits-should-know/loans-available-for-nonprofits-in-the-cares-act.

Expansions to Unemployment Insurance

Both the federal and Minnesota state governments have enacted policies that expand unemployment benefits in anticipation and early experiences of a high number of layoffs and furloughs. While these expansions are good news for many organizations, the current policies pose challenges for a number of Minnesota nonprofit employers who are direct reimbursers and could be responsible for covering half of unemployment claims expenses.

For more information visit: www.minnesotanonprofits.org/about-mcn/news-detail/2020/03/24/unemployment-insurance-information-and-updates.

Minnesota Philanthropy Responses

Joint efforts through the Minnesota Council on Foundation's Minnesota Disaster Recovery Fund (MDRF) have raised \$11 million to date and granted \$6 million to community intermediaries, who are distributing grant funds to nonprofits and individuals impacted by COVID-19. For the latest information on the MDRF visit: mcf.org/minnesota-disaster-recovery-fund-coronavirus.



GOVERNMENT AND PHILANTHROPY RESPONSES AND RECOVERY STRATEGIES (continued)

Dozens of Minnesota-based private foundations and corporations have already begun responding to the impacts of COVID-19 on nonprofits and the communities they serve. MCN has assembled a free, special edition Minnesota Grants Directory that features information on 50 different funding opportunities and is available for free at: <https://www.minnesotanonprofits.org/covid-19-what-nonprofits-should-know>.

Emerging themes among grantmakers include: increasing payouts of grants from assets to help combat the collective catastrophic revenue loss from the nonprofit economy, redirecting dollars from other grantmaking programs to COVID-19 relief efforts, making program-related investments and lines of credit available, and loosening grant restrictions and reducing administrative burdens on nonprofit organizations (such as converting program grants to general operating or waiving reporting requirements).

Nonprofit prospects and strategies for recovery

The Federal Reserve survey and this report were designed to provide the first snapshot of the new situation facing nonprofits at the front end of the COVID-19 pandemic. Like the rest of the economy, nonprofit organizations face an unknown scale and breadth of a recovery period with limited resources, and the situation of each individual organization varies greatly.

The four direct challenges to nonprofits described at the beginning of this report set up key accountabilities for leadership and management attention going forward.

1. **Epic uncertainty:** Eight percent of nonprofits expect a decrease in demand for services, and 19 percent expect an increase in demand for services. The sheer volume and breadth of missing information has forced nonprofit managers and governing boards into unfamiliar territories of crisis decision making, taking significant decisions based on inadequate time, data or community input. Abrupt shifts raise expectations of timely information sharing across all of the organization's stakeholders, often disappointing internal and external audiences. Reducing uncertainty is in the interest of leadership to better inform available responses and explain actions. Yet much of the crucial information about everything from returning to large public events to changes in donations will be unknown for months. Information tracking, analysis and sharing is an essential organizational function. While not a cure to uncertainty, openness about what information is available, and increased board interaction, staff consultation and appropriate community engagement.
2. **Financial crisis:** Sixty one percent of Minnesota nonprofits expect their organizations to experience financial distress in less than six months. Bringing revenue and expenses in line is an obvious shared duty of nonprofit boards and managers, which the sudden drop in earned income again forced to top of mind. Depending on the organization, a wide range of financial adjustments are being implemented across the sector, including the PPP loans, use of reserves, disaster grants, layoffs, rent abatements, and more. Resource dependency on outside sources of income is a fact of life for many organizations, needing to



GOVERNMENT AND PHILANTHROPY RESPONSES AND RECOVERY STRATEGIES (continued)

satisfy conditions attached to funding. One encouraging response to COVID-19 has been a loosening of restrictions on funding by a number of institutional philanthropies and agencies of state and local government.

3. **Racial Inequity:** Minnesota's historic disparities between white and BIPOC residents in income, wealth, educational achievement and law enforcement carry over to many aspects of the nonprofit sector, including organizational assets, real property ownership, revenue sources and government contracts. In one of MCN's briefings with the Governor and Lt. Governor's office, Lt. Governor Peggy Flanagan said that the goal for recovery should not be to restore Minnesota to the status quo, but to make the state better. Addressing gaps in leadership resources and working capital will be essential to connect the recovery to communities most disproportionately affected by lost income, employment and housing stability.
4. **Altered nonprofit role:** Sixty two percent of nonprofits reported significant disruption and expect recovery to be difficult for their communities. Within each activity area - arts, human services, health, community service, youth development - organizations will be assessing how changed circumstances can put forward field specific responses and adaptation. The recovery period will challenge organizational leaders and their supporters, including foundations, to explore options without easy answers, and not expect digital conversion, mergers or social enterprise to enchantingly pop into place. Organizations that set out to change the world are themselves confronting a less stable world with unclear shifts in community needs and available resources. Public policy advocacy will take on increased importance in this new situation, as an essential First Amendment contribution to democracy by bringing nonprofit experience and connecting community voices to public decision making.

As follow-up to this report and survey, MCN will continue to track evolving conditions affecting nonprofits by surveying the field, reporting on the sector's recovery strategies and convening nonprofit community conversations.



ABOUT THIS REPORT

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 (SE: MNER) is designed to complement the Minnesota Council of Nonprofits (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 of these reports is to understand the role of the nonprofit sector in Minnesota’s economy, and now the impact of the novel coronavirus on nonprofit organizations and the communities they serve.

The Minnesota Council of Nonprofits 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 www.minnesotanonprofits.org/covid-19-what-nonprofits-should-know.

Data sources

Data in this report comes from the 2018 Minnesota Nonprofit CFO Report, 2018 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 the April 9, 2020 Federal Reserve Bank COVID-19 impact survey. Additional information about the nonprofit sector is available MCN’s website at www.minnesotanonprofits.org.

MCN offers special thanks to the Federal Reserve Bank of Minneapolis - particularly Alene Tchourumoff, Michael Grover, and Libby Starling - for their partnership and support in the impact survey distribution and data collection.

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The Minnesota Council of Nonprofits (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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