

2010: Daunting Challenges Face the Nonprofit World

Special Report: [10 Emerging Forces in 2010](#)

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The nonprofit world is about to face the toughest year in its history. By every measure, 2010 could be far more painful for charities and the people they serve than any other they have known.

Already many charities have been weakened by one of the longest recessions America has witnessed.

The Chronicle of Philanthropy's annual ranking of the 400 charities that raise the most money found that, by year's end, the nation's top organizations expect a median decline of 9 percent in donations, meaning half will see giving drop even more starkly.

The search for money to finance charitable work will grow more competitive than ever, as state governments and private foundations cope with coffers that have dropped sharply in value over the past two years. Need is growing fast — some 49 million Americans now don't get adequate nutrition every day, the federal government says, an increase of 13 million over last year. And the demands from the nation's most-vulnerable residents fall not just on emergency food and shelter groups, but on other organizations, such as health clinics that must serve the uninsured and colleges overwhelmed by demands for student aid.

The work force that charities and foundations mobilize to meet the challenges is far different than it was just a few years ago. Charities have laid off thousands of employees. Even workers whose jobs seemed protected have received pink slips, as Stanford University, one of the nation's most successful fund-raising institutions, laid off 50 staff members in its development office, and American Lebanese Syrian Associated Charities, the fund-raising arm of St. Jude Children's Research Hospital, last month eliminated 70 jobs.

At organizations around the country, workers are taking pay cuts and in many cases, reductions in retirement and health benefits. Some groups told Congress this fall that their very survival was on the line as they sought to meet federal pension rules and keep their organizations afloat.

As times get tougher, donors and governments are looking more carefully than ever to make sure every dollar charities receive is spent well. Lawmakers and donors look askance at the

multimillion-dollar executive salaries and raise questions about whether charities are making enough of a difference to justify their donations and government subsidies.

Even amid the challenges, interest in community service is at a new high and giving is becoming an integral part of everyday life. President Obama and the first lady, Michelle Obama, who both have nonprofit backgrounds, have helped to make community service "cool," inspiring a multitude of volunteer campaigns. Cultural arbiters like the Huffington Post and the Daily Beast this year introduced sections on their online news sites about doing good. And social media like Facebook and Twitter are bringing philanthropy to the masses through online fund raisers and contests.

The Chronicle examines 10 trends that will shape how charities fare in 2010. We urge readers to share their ideas; tell us what trends you think are key by writing to editor@philanthropy.com. And visit <http://philanthropy.com/live> for a discussion with the reporters and editors who compiled this list.

This special report was reported by Noelle Barton, Maria Di Mento, Holly Hall, Peter Panepento, Suzanne Perry, Caroline Preston, Christopher Thompson, Nicole Wallace, Ian Wilhelm, and Grant Williams.

1. Governments in Crisis

Charities that rely heavily on government grants and contracts will find little relief in 2010. The recession continues to take a bite out of tax revenues, and the recent climb in the unemployment rate will make things worse.

The National Governors Association's prognosis is bleak: States are in for a "lost decade," it says, thanks to the recession's severity, the projected slow recovery, and future demands to meet neglected needs.

"Leaders of nonprofits must get engaged in the policy process because this problem is not going away," says Tim Delaney, president of the National Council of Nonprofits.

BEHIND THE TREND:

State spending cuts. More than 40 states have reduced spending on services, including health care, education, and help for the elderly and disabled, in this fiscal year — which for most states ends on June 30 — as they struggle to close shortfalls totaling \$190-billion, the [Center on Budget and Policy Priorities](#) reports.

End to stimulus money. Federal economic-stimulus money to help states pay for Medicaid and avoid drastic budget cuts eased some of the pain this year. But the lion's share of that money will end on December 31, 2010.

County and local budget crunches. More than 80 percent of both counties and cities expect to see shortfalls in the next fiscal year, according to recent surveys by the [National Association of Counties](#) and the [U.S. Conference of Mayors](#).

As a result, more cash-strapped local governments may try to seek money from nonprofit groups, steps some cities have already pursued in 2009.

2. Strains in the Safety Net

While the economy is improving, the recovery from the recession is expected to be long and difficult. Charities can anticipate a continued surge in requests for food, housing, and many other social services as people struggle with job losses and other problems triggered by the downturn. The prolonged financial strains on individuals and families are also expected to lead to spikes in crime, domestic violence, mental illness, and substance abuse.

"In our 42-year history, we have never seen a demand for our services like we are seeing now — hunger relief is truly a growth industry," says Josh Fogt, public-policy manager for Northwest Harvest, a Seattle food bank.

BEHIND THE TREND:

High unemployment. In October, the unemployment rate rose above 10 percent for the first time since 1983, according to the U.S. Department of Labor. Some states are worse off, with Michigan facing the nation's highest unemployment at 15.1 percent. While the labor market is improving, a full recovery is probably several years away.

The new poor. The number of Americans who lack access to adequate nutrition rose to 49 million, one in seven people, the U.S. Department of Agriculture reported last month. That is the highest level of "food insecurity" since 1995, when the agency began tracking it. Many charity leaders worry that nonprofit groups will not be able to keep up with the rise in demand.

3. A Full-Court Press for Modest Gifts

As charities face cutbacks in state aid, as well as in grants from foundations and corporations, they are turning more intently to individuals — and focusing most seriously on small and medium-sized donations. While some signs of an uptick in giving are encouraging fund raisers, overall giving isn't likely to return to its pre-recession levels until at least 2012, after more people get jobs and the economy becomes much stronger, according to the scholars who compile *Giving USA*.

BEHIND THE TREND:

Stock. As the stock market has improved, charities are reminding donors of the tax savings they can achieve by donating securities. The Fidelity Charitable Gift Fund, for example, has seen a "big pickup" in gifts of stock since they ground to a halt following the financial meltdown in the fall of 2008, says Sarah Libbey, the fund's president. Last month alone, she says, gifts of securities were 275 percent greater in value than those received in November last year.

Online donations. Network for Good, an online charity portal, said the number of gifts it processed from January through the end of October grew 92 percent compared with the same time in 2008. The amount raised in that 10-month period was almost \$57.6-million, compared with \$40.3-million the year before. But the average gift size during that period was down, to \$72 in 2009 compared with \$96 in 2008.

Employee giving. The Combined Federal Campaign in the Washington metropolitan area, the fall fund-raising drive for federal employees that raises the most nationwide, is ahead of where it was last year at this time and is on track to raise \$64-million. That's up from \$62.7-million in 2008. What's more, the average gift has grown to \$478, compared with \$419 in 2008.

Mega gifts. While a few big donations have been announced in recent weeks, and fund raisers say more donors are willing to talk about big gifts, nobody expects gifts of \$10-million or \$100-million to resume in any big way soon. The number of gifts of \$1-million or more totaled \$3.4-billion this year for the period between January 1 and November 20, according to data compiled by *The Chronicle*, down from \$11.6-billion during the same time in 2008. And fund raisers predict another anemic year in 2010. Now fund raisers say they are getting excited as more-modest gifts arrive. "What might have been just a ho-hum \$25,000 or \$50,000 or \$100,000 gift is now a very special gift," Susan Paresky, a senior vice president at the Dana-Farber Cancer Institute, recently told *The Chronicle*.

Tax incentives. Congress is expected to extend a law that allows people to donate to charity up to \$100,000 annually tax free from their individual retirement accounts. It is also expected to maintain some kind of estate tax rather than let it expire in 2010 as planned. Studies have found that the tax motivates wealthy donors to give assets to charity rather than subject their estates to the tax. The Internal Revenue Service predicts, however, that because of plunging stock and home values, fewer estates will be big enough to trigger the tax in 2010. Congress has not taken up President Obama's proposal to limit tax breaks for charitable deductions as a way to pay for a health-care overhaul, largely because of concerns about how charities are weathering the recession. Some individual senators favor a modified version of the plan, though, so some nonprofit leaders remain wary.

4. Grim Grants Outlook

Hit hard by investment losses, many of the nation's largest foundations and corporations will probably trim their giving next year or keep it steady at 2009 levels. But as problems like hunger

and unemployment continue, they will face greater public pressure to increase their grant making. Some foundations have said they may close at a point in the near future and spend the entirety of their assets in response to financial declines and the growing social needs.

"Foundations have been fundamentally reset. Even though their portfolios are coming back, they were psychologically jarred," says Mario Morino, chairman of Venture Philanthropy Partners, a philanthropic fund in Washington. "You're going to see them be a little more tepid in terms of the things that they do."

BEHIND THE TREND:

Decreases in giving. Foundations often use a three-year rolling average to calculate their grant budgets, which means the investment losses suffered in 2008 and 2009 will affect grant making for a few years to come.

Twenty-six percent of 583 grant makers plan to decrease their giving in 2010 and 50 percent plan to maintain it at current levels, according to a Foundation Center survey. The research organization also estimated that foundation giving in 2009 will decline by more than 10 percent.

Corporate-philanthropy challenges. The outlook for corporate giving is less clear, but is likely to mirror that in the foundation world. Of 96 large companies that responded to a *Chronicle* survey this year, 16 percent said their giving would fall in 2009 and 53 percent said it would stay roughly the same.

Mounting pressures. Grant makers will be expected to give more to ameliorate growing problems in the United States and abroad. Members of Congress and state legislators will step up their calls for foundations to aid cash-strapped charities and to assist government programs facing budget shortfalls. For example, California lawmakers suggested in July that philanthropic money should support the state's health-insurance program for children, which at the time had been cut by more than \$100-million.

5. A Weakened Charity Work Force

Many charity employees will enter the new year under conditions ripe for burnout: 2009 was marked by layoffs, salary freezes, and other cutbacks in pay and benefits. Employees who have retained their jobs and taken on expanded workloads with no additional compensation will present management challenges for bosses as economic pressures continue into 2010.

Lester M. Salamon, director of the Johns Hopkins University Center for Civil Society Studies, says his research has found that many charities have yet to cut back on their service — even though they have reduced the size of their staffs. "Belt-tightening has its limits," he says, "and at some point starts to damage vital organs."

BEHIND THE TREND:

Trimming charity ranks. More than half of nonprofit employers cut jobs between the summers of 2008 and 2009, according to a *Chronicle* [survey](#) this fall of staffing trends at more than 1,000 nonprofit groups. Of the total, 850 groups reported new job losses of more than 6,000 — or 4.2 percent of their work forces.

Doing more with less. Of the 400 [most-successful fund-raising charities](#) polled by *The Chronicle*, 186 organizations said they had either cut or frozen salaries in the past year, declined to fill vacant positions or add new ones, furloughed employees without pay, or laid off employees due to the recession.

Hiring outlook. Despite the wave of layoffs, 28 percent of nonprofit organizations in a [survey](#) released last spring by the Bridgespan Group said they expected to hire people to fill senior-level positions this year, largely due to retirements. And layoffs of rank-and file employees appear to be tapering off: Only 9 percent of charities said they expect to trim more workers next year, according to *The Chronicle* survey. And 19 percent said they plan to hire in 2010.

6. A Sharpened Eye on Charity Pay

The Internal Revenue Service is scrutinizing many of the nation's wealthiest organizations, and has undertaken wide-ranging efforts to make sure charity leaders and their boards serve as good stewards of tax-subsidized dollars.

In Congress, lawmakers continue to seek ways to ensure that nonprofit groups justify their tax-exempt status.

Scandals from 2009 — most notably the Bernard Madoff investment debacle that left nonprofit and other investors out some \$5.1-billion — could lead to new scrutiny of trustees and managers. And public and government outcry over high pay and bonuses in the financial world will probably continue to provoke anger in many quarters.

"Currently, nonprofits — from private schools to hospitals to nursing homes — can pay huge executive compensation and spend millions on new buildings with essentially no repercussion other than outsiders raising their eyebrows," a November editorial in the *Des Moines Register* said. "Congress needs to ensure the public is getting its money's worth" from the tax subsidies charities enjoy.

BEHIND THE TREND:

Examining compensation. The tax agency is soon expected to release the early results of an investigation of how much colleges pay their top officials, and already the IRS has started

auditing some institutions to learn more about that issue as well as how they manage endowments and relations with outside groups.

The IRS also has signaled it is looking into whether the federal rules that govern how all charities establish compensation levels are adequate — or whether they lead to a gradual escalation of pay that goes against the federal government's desire to make sure nobody gets an undue financial benefit by working at a charity.

States too have expressed growing interest in regulating pay. Massachusetts in September announced plans to tighten its oversight of compensation practices at nonprofit health-care groups.

Justifying subsidies. Congress continues to look for ways to ensure that nonprofit groups provide sufficient public benefits to justify their tax subsidies. In particular, versions of the health-care legislation lawmakers are considering would add new requirements that nonprofit hospitals conduct a "community health needs assessment" at least once every three years.

7. Rising Donor-Charity Tensions

As donors grow more inclined to specify how they want their contributions to be used, cash-strapped nonprofit groups will struggle to honor those wishes. Organizations probably will continue to explore ways to use restricted endowments for more-general purposes.

"Donor-intent skirmishes are busting out all over," says Neal B. Freeman, chairman of the Foundation Management Institute, which advises donors. One of the reasons, he says, is that "the economic downturn has tipped the balance of power back toward donors and away from grantees. In the tradeoff between prestige and resource, the leverage is now shifting to resource."

BEHIND THE TREND:

Clashes with family members. Prolonged economic stress means charities can expect conflicts similar to those that arose at Brandeis University this year over plans to close its Rose Art Museum to the public and sell some of the museum's artwork. The move, designed to ease financial problems, drew an angry rebuke from the family of the original benefactors. The university has since backed away from the idea.

Taking battles to court. One of the highest-profile challenges to a donor's will is expected to be decided in 2010, as animal-rights groups wage a battle against Leona Helmsley's foundation — worth more than \$5-billion. They say it has violated the hotel mogul's intentions. The bad economy is likely to cause other charities to go to court. For example, an Ohio probate judge said in October that the Cleveland Museum of Art could use the investment income from four endowments to pay its construction bills, even though the funds were originally established to purchase art.

Pleas for general support. More charities will push grant makers and philanthropists to offer financial support that recipients are free to spend on administrative expenses and other costs, instead of solely for specific charitable programs.

8. Proving That Charity Works

Amid growing concern that donors have no way to know whether their giving makes a difference, efforts to improve how individuals pick and choose charities are gaining steam.

That could be good news for giving: A majority of wealthy people polled by Bank of America and the Center on Philanthropy at Indiana University say they would give more if they knew their dollars were having an impact.

But if the evaluations aren't done well, they could complicate life for charities, few of which are eager to jump through additional hoops.

BEHIND THE TREND:

Fresh approaches to evaluation. Charity Navigator, the nonprofit watchdog, is changing the way it rates organizations and next year will revamp how it evaluates charity finances so that low administrative costs aren't the primary consideration.

It will also start giving high marks to charities that are open about their programs and finances and plans to spend 2010 devising a new way to measure the results of charity programs.

Charity Navigator joins GiveWell, GreatNonprofits, and Philanthropedia, three groups that have recently developed new ways to give donors more information on nonprofit performance.

Explaining overhead costs. This month those four organizations and GuideStar, another group that provides information on charities, mounted an effort to tell Americans to stop seeking out groups to support based solely on how little they spend on overhead and to look instead at an organization's results.

Proliferation of financial advisers. Arabella Philanthropic Investment Advisors, the Philanthropic Initiative, and Rockefeller Philanthropy Advisors each have recently hired more employees or plan to do so in the coming year as more and more donors seek advice on how to steer their money to the best charities.

Nonprofit groups like Root Cause and New Philanthropy Capital are stepping up the services they offer to financial advisers whose clients want to know how to direct their charitable gifts.

9. Volunteerism Becomes Cool

Volunteerism and national service are getting high-profile attention, with both President Obama and the first lady giving the issue top priority. ServiceNation, a coalition of community-service advocates, now counts more than 250 members — up from 105 a year ago.

Next year brings a shift in the conversation, from how to recruit more volunteers to how charities can better absorb and manage them. A coalition of more than 20 nonprofit, government, and business leaders, for example, will continue work in 2010 on the Reimagining Service project, which is exploring the issue.

BEHIND THE TREND:

Mixed signals. Interest in national-service positions, which pay a stipend, has mushroomed, thanks partly to the tight job market and a new idealism among young people. Applications for AmeriCorps, the flagship national-service program, jumped 184 percent in the 2009 fiscal year.

However, the recession could impede efforts to promote a big jump in overall volunteer rates.

A recent National Conference on Citizenship [study](#) found that 72 percent of recession-weary Americans said they had cut back on volunteering and other civic activities.

Federal aid. The Serve America Act, passed this year, sets the stage for AmeriCorps to start growing in 2010 as part of a plan to triple the number of participants — currently at 75,000 — by 2017. However, Congress has not yet allocated the money.

City efforts. Local volunteer campaigns will expand next year under the Cities of Service program announced by Michael Bloomberg, mayor of New York, and 16 other mayors in October. The coalition now includes 46 cities and continues to recruit new members.

10. A Stalled Online Revolution

An array of online tools and networks such as blogs, Twitter, and Facebook allow nonprofit groups to connect with supporters, volunteers, and donors in a far more interactive, cost-effective way than ever in history. But few charities have figured out how to raise money using the new social networks.

Some of the most interesting technological advances have come as charities' most passionate supporters take on roles as unofficial fund raisers, spokesmen, and advocates for the causes they support.

BEHIND THE TREND:

A wave of experimentation. A survey of 200 nonprofit groups by Weber Shandwick, a public-relations company, found that 51 percent of charities are regularly using Twitter and other social-media tools, while 85 percent said they plan to use them more frequently.

New tools. Social-media companies continue to search for ways to make it easier for charities to raise money using their technology. For example, YouTube this year started allowing charities to embed written messages and links to their Web sites in videos.

Supporter-created campaigns. The widespread use of social-networking tools is making it easier for supporters to raise money on their own. The 93 Dollar Club — a Facebook effort set up by Carolee Hazard in August, when she was trying to decide what to do with money she received from a woman whose grocery bill Ms. Hazard had paid — has so far raised more than \$31,000 for a California food bank.