

## The COVID-19 Pandemic: Nonprofit Impacts and Policies to Boost Resiliency

Every day, in every community across the Commonwealth, nonprofits support individuals, strengthen their communities, and generate economic activity with widespread benefits. In times of crisis, nonprofits go above and beyond their mission areas to serve as first responders.

The work of nonprofits is critically important during the COVID-19 pandemic. The pandemic has created a daunting, unprecedented public health and economic crisis across Massachusetts. It has exacerbated racial and economic inequality, and presented a host of new challenges for the people served by nonprofits.

In the weeks following the outbreak, it has become abundantly clear that nonprofit services are essential to treat and care for those who have fallen ill, as well as to meet indirect needs created by the pandemic: food and housing assistance, mental health services, youth programming, and more. The sector will also help lead economic restoration, as one of the Commonwealth's largest employment bases (18% of all jobs). And the nonprofit sector will play a key role in advancing equity across Massachusetts. Its work and



### KEY POINTS:

- The COVID-19 pandemic has had an immediate impact on nonprofit operations, services, and jobs. Nonprofits report an estimated initial revenue loss of \$8.6 billion, and more than half have made reductions in their workforce.
- While there are common sector-wide impacts, there are disparities across subsectors and geographic location that should inform immediate and long-term recovery and relief efforts.
- Policy responses should include financial relief, unemployment insurance forgiveness, and expanded charitable giving incentives to sustain the programmatic services and economic activity that nonprofits will generate to help rebuild communities across Massachusetts.

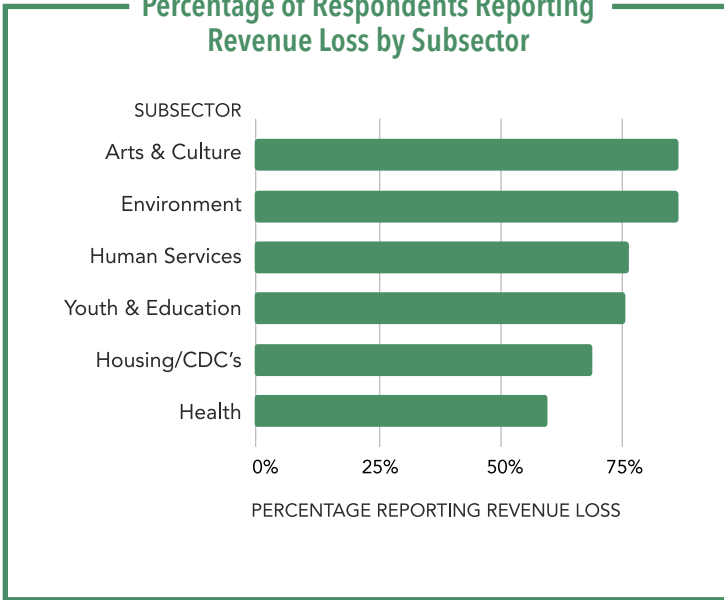
its values will help to bridge the racial and socioeconomic divides that have been made more apparent by the COVID-19 crisis.

This edition of Commonwealth Insights will delve into the pandemic's impact on the nonprofit sector, highlight subsector and geographical variances, and discuss policy responses needed to both support the sector and advance the well-being of the millions of Massachusetts residents it serves.

### Sector-wide Impacts of COVID-19

Throughout March, April, and May, the Massachusetts Nonprofit Network (MNN) partnered with Philanthropy Massachusetts to conduct sector-wide surveys. The surveys—which cumulatively generated more than 1,500 responses from all types of nonprofits across the Commonwealth—underscore the enormity of the impact of the COVID-19 outbreak. The top three impacts cited by respondents were disruptions of services to

**Percentage of Respondents Reporting Revenue Loss by Subsector**



clients and communities (88%), decreases in revenues (78%), and an increased demand for services from clients and communities (44%).

The surveys' revenue and employment data were especially stark. Nonprofits across Massachusetts reported a total of at least \$8.6 billion in lost revenues. When asked how long they could survive with current cash flows, the average reply was 11 months. Twenty percent of respondents indicated that they were laying off staff while 32% more were reducing staff hours and/or pay.

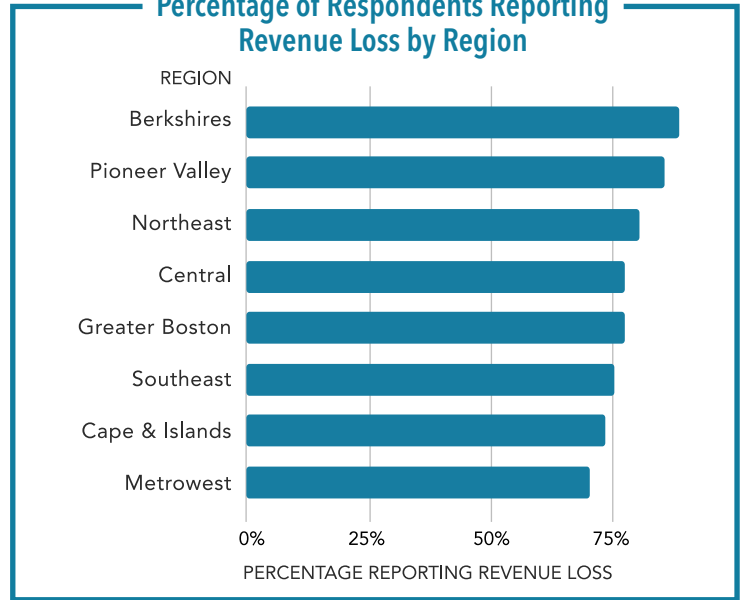
## Revenue and Cost Impacts

Although many nonprofits have elements in common with for-profit entities, their revenue streams are unique. Nonprofits rely on contributions from individuals, corporations, foundations, as well as government grants, and fees for services. Revenue streams vary greatly from one nonprofit to the next, and most rely on several different streams at a time.

The pandemic derailed two types of nonprofit revenue streams immediately: fee revenue as services had to be suspended, and contribution revenue as fundraising events had to be canceled, postponed, or changed. The pandemic's timing amplified the latter impact; many fundraising events take place in the second quarter each year.

Survey respondents from the arts and culture and environment subsectors reported the highest incidence (86%) of revenue loss. The majority of respondents in each subsector reported revenue

**Percentage of Respondents Reporting Revenue Loss by Region**

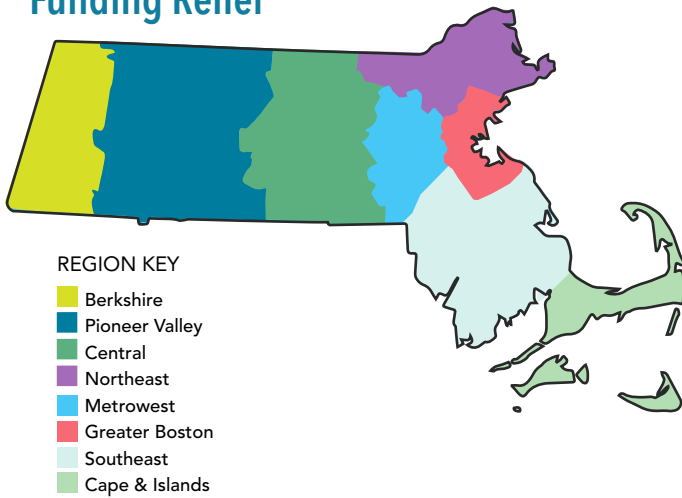


losses in the 10-40% range. The arts and culture subsector also had the highest percentage of respondents (93%) identifying financial relief as a top need. Many arts and culture and environment nonprofits have seen a dramatic revenue drop in the wake of COVID-19, as museums, theaters, historic parks, conservation land, and other public gathering spaces have closed completely. A breakout of survey results by geographic region shows nonprofits in the Berkshires and the Pioneer Valley with the highest percentages of respondents reporting revenue loss.

On the cost side, the health and human services subsectors had the highest percentage of respondents reporting increases in expenses (40% and 29% respectively). Nonprofits in both subsectors are treating COVID-19 patients in hospitals, community health centers, elderly care facilities and individuals' homes, experiencing significant unanticipated costs. For these entities, reliance on government grants and contracts is high. Governments have provided them with considerable financial relief during the crisis, and the need for such relief will continue in the months ahead.

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## Nonprofits Across Massachusetts are Seeking Philanthropic and Government Funding Relief



Nonprofits in the **Pioneer Valley** (89%) and **Greater Boston** (88%) regions reported the highest percentage of respondents pursuing philanthropic support.

Nonprofits in the **Northeast** region reported the highest percentage of respondents applying for Paycheck Protection Program (PPP) loans (88%), and nonprofits in the **Central** region reported the highest percentage of respondents applying for Economic Injury Disaster (EIDL) loans (50%).

**Arts and culture** and **youth and education** organizations reported the highest percentage of respondents pursuing philanthropic support (85%).

**Human services** organizations reported the highest percentage of respondents applying for PPP loans (63%), and **arts and culture** organizations reported the highest percentage of respondents applying for EIDL loans (38%).

## Workforce and Services Challenges

Nonprofits, like other employers across the Commonwealth, are facing difficult staffing decisions due to COVID-19. Each nonprofit's workforce decisions depend on a number of factors, including the make-up of its revenue streams, the structure of its unemployment insurance, and its access to philanthropic or government grants and loans. The subsector with the highest percentage of respondents reporting workforce reductions (layoffs, furloughs, or cuts in hours) was arts and culture (43%). The subsector with the highest percentage of respondents saying they anticipate future workforce reductions was youth and education (25%).

On the services front, nonprofits such as healthcare providers, food pantries, and shelters have seen a sharp increase in demand. Accordingly, survey respondents in the health, human services, and housing subsectors reported the highest levels of increased demand for services. Other nonprofits, such as arts and culture venues, youth and education programs, and environment organizations, have experienced outright closures or have had to dramatically curtail operations. In the surveys, the arts and culture, human services, youth and education, and environment subsectors reported the highest rates of disruption of their services. The human services subsector reported both a high level of increased demand and a high level of service disruption due to COVID-19.

The survey data also showed that nonprofits around the Commonwealth are pursuing philanthropic and government funding relief at a high rate. Charitable giving and government resources will be essential to help nonprofits both weather the storm and secure their long-term viability.

## Public Policies To Boost Nonprofit Resiliency

It is critical that government responses to the coronavirus pandemic relieve strain on the sector and facilitate nonprofits' contributions to rebuilding and recovery efforts. While the nonprofit sector is diverse, and needs will vary by organization and evolve over time, there are immediate relief options that cut across subsectors and geographic regions.

### ✓ Expand nonprofit access to capital

The next stage of federal relief should expand nonprofit access to capital to help nonprofits retain or rebuild their workforces. Nonprofits have been eligible for federal small business loans, but that relief is temporary and limited. Under the federal CARES Act, two loan programs — the Economic Injury Disaster Loan (EIDL) and the Paycheck Protection Program (PPP) — are available to nonprofits with 500 or fewer employees. The PPP's current 500-employee cap should be lifted, and the Mid-Size Business Loan Program should be adjusted to include loan forgiveness

## POLICY RECOMMENDATIONS

- ✓ Expand nonprofit access to capital and financial support;
- ✓ Provide unemployment insurance relief for self-insured nonprofits;
- ✓ Improve charitable giving incentives.

and support for nonprofit employers. Federal relief should also provide assistance for nonprofits hit hard financially by the pandemic. Dedicated funding (initial proposals would provide \$50 billion nationally) is needed to sustain nonprofit programs and services.

### ✓ Provide unemployment insurance relief

Workforce decisions are particularly complex for the many nonprofit organizations that self-insure their unemployment insurance (UI) costs. Instead of paying quarterly contributions into the state unemployment trust fund, they reimburse the trust when layoffs occur. During the COVID-19 pandemic, self-insured nonprofits are experiencing unimaginable expenses associated with those reimbursements. While the federal CARES Act provided funding for state UI trusts to forgive 50% of the claims owed by self-insured nonprofits, covering the remaining 50% is an insurmountable financial burden for many. The next federal relief package should provide more financial support for state-level UI costs. Doing so will allow states to consider policy options to address the timing and amount of UI reimbursement payments for the sector, without sacrificing front-line services or jobs.

### ✓ Improve charitable giving incentives

Charitable giving is the lifeblood of the nonprofit sector. Individual giving comprises the largest share (68%) of charitable donations upon which nonprofits

rely. At the federal level, the next relief legislation should improve the temporary (expiring at the end of 2020), limited (\$300/person cap) above-the-line charitable deduction provided in the CARES Act by making it permanent and increasing the cap. At the state level, the Massachusetts charitable tax deduction (reinstated on January 1, 2020) will apply to contributions made in 2021 and beyond. It will support giving at all levels, including by hundreds of thousands of low- and middle-income taxpayers who have not been able to utilize the federal deduction. Strengthening and preserving charitable giving incentives is a vital strategy to help rebuild the nonprofit sector during, and after, the COVID-19 pandemic.

## Conclusion

Nonprofits are the backbones of communities across Massachusetts, and they play particularly outsized roles when a crisis hits. As service providers, nonprofits' ability to respond swiftly to the evolving needs of their communities makes them an integral component of crisis response efforts. As employers, the jobs they provide generate economic activity that sustains families, communities, and the Commonwealth as a whole. MNN will work with nonprofits, supporters of the nonprofit sector, public officials, and others to ensure that the sector's work, on behalf of millions of Massachusetts residents, continues and strengthens in the years ahead.



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### About the Massachusetts Nonprofit Network

MNN brings together nonprofits, funders, business leaders, and elected officials across Massachusetts to strengthen nonprofits and raise the sector's voice on critical issues. The network has more than 700 nonprofit member organizations and more than 150 business affiliate partners. To join visit [massnonprofitnet.org/join](https://massnonprofitnet.org/join).

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