Nonprofits from page 11

gious congregations. Many nonprofits see only modest support from John Q. Public, and going after individual donors—large or small—often involves big outlays of time and resources.

Nonetheless, the outlook for charitable giving among nonprofit groups might be described as cautiously sanguine. Charitable donations nationwide grew by 4.4 percent in 2013, according to Giving USA, the fourth consecutive year of increase since the end of the recession.

In the Rapid City region, the United Way's donor campaign raised $2.4 million—the first increase going back to at least 2010, according to Parker. Though the increase was just $100,000 (about 4 percent), Parker said there is more optimism in the region, mostly due to a better economy.

"It's much easier getting into workplace campaigns. Doors are much more open today," said Parker. In the past, many employers wouldn't allow United Way representatives to talk with workers about giving, which she understood. "How can they be expected to donate when these workers are getting pay cuts or reduced hours?" Parker said. "Everybody here says it feels different now."

The other big source of nonprofit funding—foundation grants—is following a similar path in district states, according to the Foundation Center, a clearinghouse of philanthropic information. Giving by foundations typically is determined by their financial assets, which took a big hit in value during the recession, triggering a steep decline in overall grants from 2007 to 2009. While foundation grant funding appears to have recovered somewhat in Ninth District states, as of 2012 it remained below pre-recession levels (see Chart 4).

But Foundation Center data cover only 1,000 foundations nationwide, including 800 of the largest in the country. Minnesota alone has more than 1,500 foundations. As such, Foundation Center data arguably are a rough indicator of broad trends.

More comprehensive data from the Minnesota Council on Foundations (MCF) suggest that total corporate and foundation giving in that state did not dip much during the recession, and by 2012 was nearly 9 percent higher in real terms over pre-recession levels (see Chart 3). Unfortunately, similar data for other states aren't available.

While foundation giving has increased in recent years, it hasn't done so evenly among the many nonprofit sectors. The Foundation Center data suggest that arts and culture took the biggest funding hit from grantmakers (see Chart 5), and local sources said that is the case. Jon Pratt, executive director of MCN, said the sector experienced a sharp decline in giving, probably more than any other. The same was true in Montana, said Moore of MNA. "The thing that doesn't get funded in Montana is the arts. … Arts have been hit hard and have not come back."

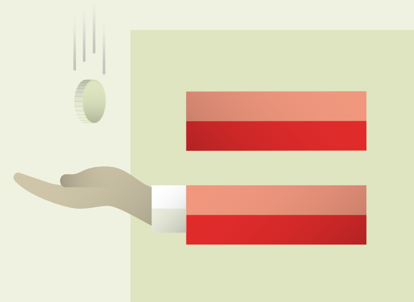
Many sources also noted that while foundation giving appeared to be returning, its emphasis has changed. Sertich, from the Northland Foundation in Duluth, said that "many foundations have recovered financially from the recession. However, there is a shift in the style of grantmaking resulting in … more prescribed funding as foundations focus on specific types of issues and activities."

This shift has affected general operating budgets the most. Maria Isley is head of the MCN branch office in Duluth. "Foundations are not giving for operating costs," preferring to support bricks-and-mortar projects "versus keeping the lights on," she said. "That's been a tough thing. These organizations can't function without operating funding."

The change in funding approach shows up in the data, at least in Minnesota. According to annual giving reports by the MCF, grants for general support have been falling gradually as a share of total giving by foundations, from about 27 percent (the average from 2002 to 2005) to just 20 percent in 2012.

The same appears to be happening in other states. "Foundations have changed their criteria … and are asking for more goal-oriented programs," said Parker, in Rapid City. "They want innovative ideas to solve problems." While logical and laudable on its face, not all new programs are better, Parker said, and they can pull re-

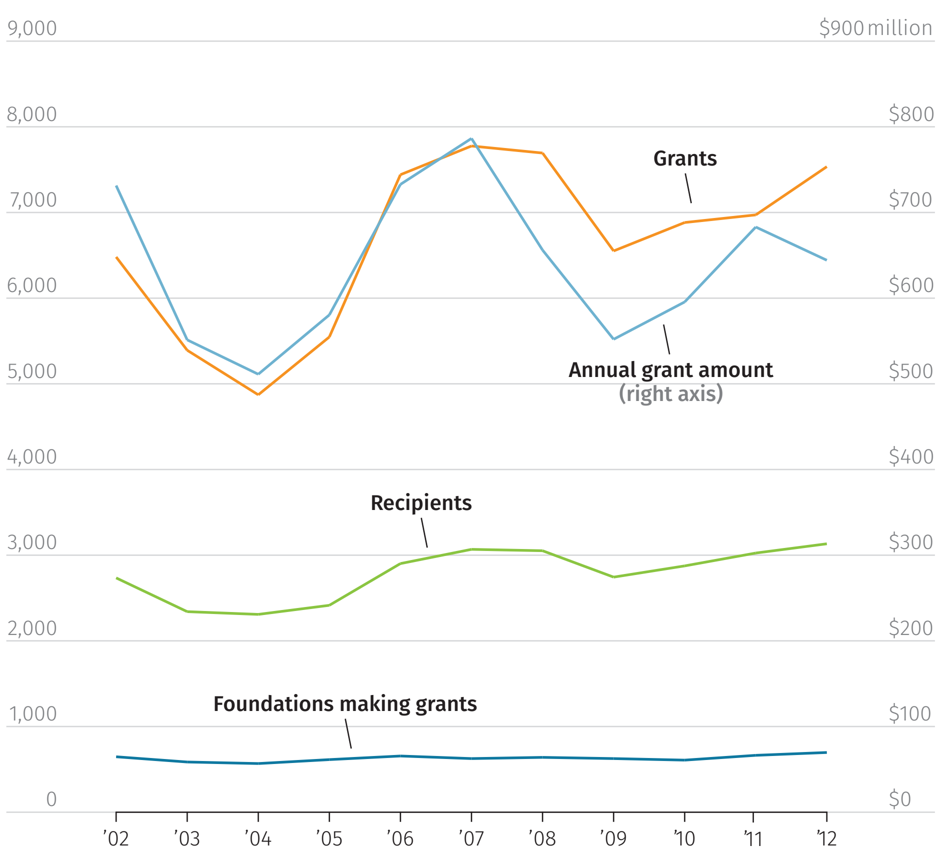
Not all states are created equal when it comes to foundation giving



Foundation roller coaster

CHART 4

Grants* from the top 1,000 foundations to recipients in Ninth District states**
Inflation adjusted (right axis)***



* Based on grants of $10,000 or more awarded by a national sample of 1,000 larger U.S. foundations, including 800 of the 1,000 largest ranked by total giving. For community foundations, only discretionary grants are included. Grants to individuals are not included.

** Minnesota, Montana, North Dakota, South Dakota and Wisconsin

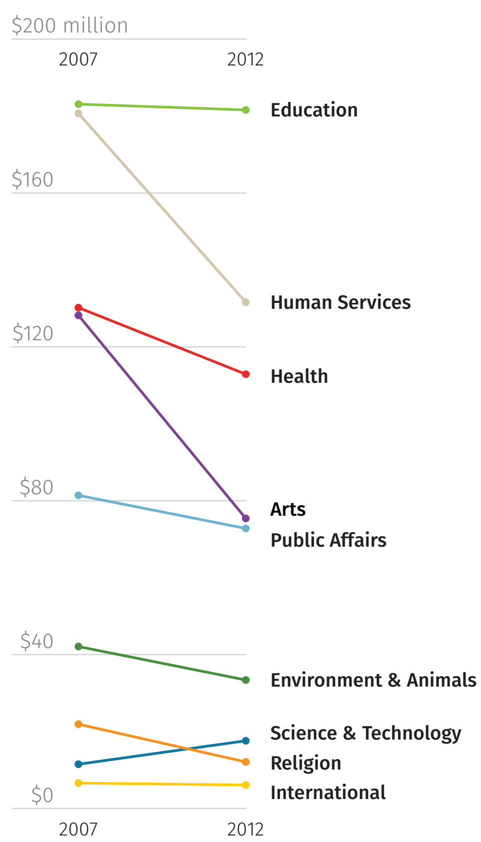
*** Using PCE Index

Source: The Foundation Center

The good ol' pre-recession days

CHART 5

Foundation giving in Ninth District states, by category*

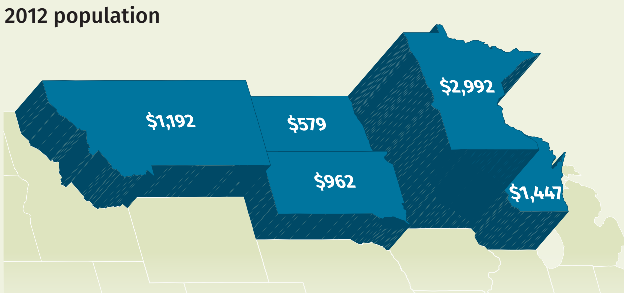


*Includes Minnesota, Montana, North Dakota, South Dakota and Wisconsin. Figures based on all grants of $10,000 or more awarded by a national sample of 1,000 larger U.S. foundations, including 800 of the 1,000 largest ranked by total giving.

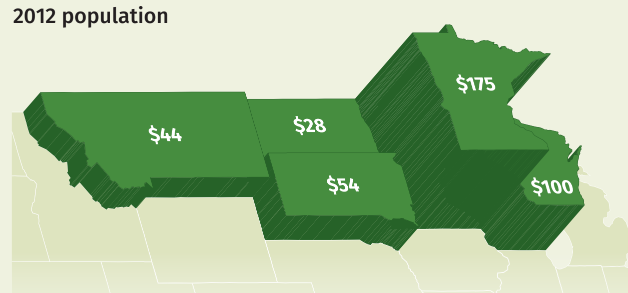
Source: The Foundation Center

In 2012, foundation grants to Minnesota recipients totaled $421 million, compared with $151 million for Wisconsin and between $20 million and $30 million for the Dakotas and Montana. Though many foundations give to recipients nationwide, foundation grants in a given state tend to be a function of the number and (especially) asset size of in-state foundations. Wisconsin has the largest number of foundations, both by absolute and per capita measures, but they tend to be smaller in asset size, at least compared with Minnesota's foundations. Minnesota not only has a healthy number of foundations, but many have considerable assets, which translates into higher overall giving. In 2012, Minnesota had more foundations with $100 million in assets than the other four district states combined (16 to 13). In 2013, the number of such Minnesota foundations grew to 24, according March 2015 data from the Minnesota Council on Foundations.

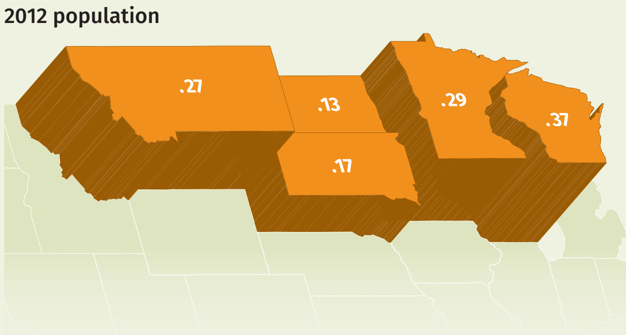
Foundation assets per resident
2012 population



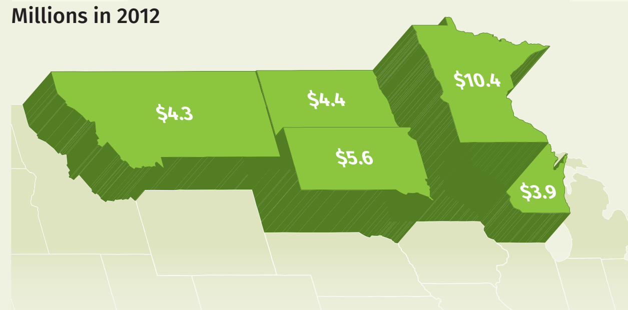
Annual foundation giving per resident
2012 population



Foundations per 1,000 residents
2012 population



Average assets per foundation
Millions in 2012



Source for all charts: The Foundation Center

sources from effective, long-running programs that "are not so jazzy."

Parker and other sources also noted that funders increasingly believe that short-term funding should help make programs ultimately self-sustaining. But for programs serving troubled youth, domestic or substance abuse, the homeless and many other populations with ongoing needs, "those people can't pay for services they are using so you're always going to need those dollars. You have to pay for program services in an ongoing way," said Parker.

No rest for the weary

In terms of future funding, nonprofits see an opportunity for windfall resources with the retirement of baby boomers and the subsequent transfer of generational wealth. As one source said, "That's where the real money is."

But even under the best assumptions—wealth transfers, higher government spending and a continued rebound of more traditional charitable giving—nonprofits aren't likely to get much of a breather despite an improved economy because demand for nonprofit services has been rising, and that trend is likely to continue.

"The consensus among nonprofits is that the needs of people are much more complicated today," said Sertich. "People are facing multiple, complicated issues such as mental health, substance abuse, low educational attainment, criminal record and so on. This makes helping them find economic security and stable housing difficult."

According to a national survey last year by the Nonprofit Finance Fund, 80 percent of respondents reported an increase in service demands in 2013, the sixth straight annual increase; only 3 percent said demand decreased. Almost three in five respondents said their organization was unable to meet demand in 2013—the highest level in the survey's history. Eighty-six percent expected demand to climb further in 2014.

All the while, donors will be asking for more tangible results and a closer accounting of spending. "One of the biggest challenges facing nonprofit organizations is their ability to demonstrate success and advancement of their missions," said Judy Alnes, executive director of MAP for Nonprofits, located in St. Paul. "The contributing community wants results, and nonprofits need to make certain that they are both achieving results and measuring results."

Some are struggling to make that adjustment, according to Alnes. "Many nonprofits in our communities are not organized for success. They operate as microorganisms and only chip away at the issues they aim to address."

But many sources said the recession nonetheless had some beneficial—if unintended—consequences for the nonprofit sector as a whole. Barr said that the recession had a silver lining in that it forced organizations to identify their strengths and focus resources on their service mission. "There were a lot of hard decisions, but they were good decisions" about the best way forward, she said. "They really had no choice."

Parker said that during the recession, "every agency was trying to fight for themselves" and their survival. Competition is still fierce for funding, "but people are joining hands and collaborating now" to provide service, she added. "We've seen great collaboration partly because they have to," Parker said. When considering funding requests to the Black Hills United Way, Parker said, "if you are an organization that doesn't play well with others, we don't fund you."

Diversify, and the hidden subsidy

The recession has also forced nonprofits to diversify their revenue—or else. "We're seeing more organizations that have an earned-income component," said Alnes, which gives organizations "less dependence on the vagaries of contributions. This makes it possible to exercise more self-determination" over what to do with revenue.

Nonprofits with retail lines like Goodwill-Easter Seals Minnesota, with its discount clothing and merchandise stores, have carved out successful revenue-raising niches to support their missions. From 2008 to 2013, the organization saw retail sales rise from $29 million to $67 million, according to its annual reports; net retail income, used to support the nonprofit's mission of job training, placement and support, rose from $18 million to $35 million.

But retail enterprise is hardly a sure-fire approach to solvency. Many nonprofits that have historically depended on earned income—especially from sales of discretionary products or services such as admission tickets to the zoo or artistic performances—suffered considerably during the recession and are reportedly still playing catch-up.

Even for those able to make the necessary funding adjustments, sources said other organizational challenges exist. Several people noted that the implicit service contract with government had eroded and needs to be renegotiated.

"Generally, the trend has been to shift traditional government services to the private sector, mainly nonprofits," said Sertich. "Early in this trend, 30 years ago, there was significant government funding to cover these costs. Over time, that funding has diminished."

The good news, said Barr, is that "the charitable sector has risen to the occasion," even during times of hardship. Nonprofits did "amazing things" to simply keep the doors open during the recession.

But she added that the nonprofit sector is starting to seriously grapple with the long-standing, hidden subsidies in many of its services—"where government underpays and gets a good deal," thanks to either volunteer labor or underpaid staff at nonprofits. Many organizations are now dealing with shifts in volunteerism and difficulty attracting skilled professionals to lower-paying jobs, especially in light of rising student loan debt.

Eventually, Barr said, "the subsidy is not sustainable, and there comes a point where [an organization] can't do it anymore."

See fedgazette *article on page 14 discussing volunteer trends among nonprofits in the Ninth District.*