

Minnesota Nonprofit Economy Report

COVID-19 IMPACT UPDATE 4.0

May 2021





COVID-19 IMPACT UPDATE 4.0

INTRODUCTION

Year Two: 2021 Survey of Minnesota’s Nonprofit 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 put in motion as a result of the murder of George Floyd, and exacerbated by the killing of Daunte Wright - both unarmed Black men killed by police in Minnesota; and other events. Since March 2020, MCN has conducted four surveys and issued four follow-up reports summarizing key trends, impacts, and outlook. [All four reports are available online.](#)

- [May 2020](#)
- [July 2020](#)
- [December 2020](#)
- [May 2021](#)

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.

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EXECUTIVE SUMMARY

Executive Summary

The first two reports identified four massive challenges for nonprofit leadership and management attention: **epic uncertainty**, **financial crisis**, **racial inequity**, and **altered nonprofit role**.

The third report added a fifth serious accountability, **health of the nonprofit workforce**. Over the last 12 months organizations have made a remarkable set of adjustments to each of the five critical challenges.

Five challenges facing nonprofit leadership & management

Epic uncertainty

In March 2020, COVID-19 compelled a conversion to remote delivery of services and cancellation of public events – with no known duration. The sheer breadth of missing information has forced nonprofit managers and governing boards into crisis decision-making, making significant decisions based on inadequate time, data, or community input.

Gaps in crucial information about everything from returning to large public events to predicting changes in donations or government resources remain, though now informed by a full year's experience in this environment.

Financial crisis

2020 proved to be the ultimate stress test for nonprofit balance sheets. Depending on the organization's activity area, a wide range of financial adjustments were implemented across the sector, including Paycheck Protection Program (PPP) loans, use of reserves, disaster grants, layoffs, rent abatements, and more. Arts organizations, education, and certain human services saw some of the greatest revenue drops, yet for the most part have continued operations, if at reduced levels.

There is little Minnesota evidence to supported national speculation that a third of U.S. nonprofits could go out of business ([according to a study released March 3, 2021 by the philanthropy research group Candid and the Center for Disaster Philanthropy](#)).

One encouraging development in response to COVID-19 has been a loosening of restrictions on funding by a substantial share of foundations and agencies of state and local government, which could influence practices going forward. The CARES Act represented a high watermark for Congressional recognition of the value of stabilizing nonprofit employment, shown with \$3.4 billion in Phase I forgivable PPP loans paid to Minnesota nonprofits.



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EXECUTIVE SUMMARY (continued)

Racial inequity

A top priority continues to be overdue action on Minnesota's historic disparities between white and Black, Indigenous, and people of color (BIPOC) residents in income, wealth, educational achievement, and law enforcement. These racial disparities also carry over to many aspects of the nonprofit sector, including organizational assets, real property ownership, revenue sources and government contracts.

Throughout the past year, nonprofits and philanthropies grappled with how their organizations could move beyond heartfelt public statements to taking specific actions and making fund allocations that directly address racial inequities. The December 2020 Minnesota Legislative special session made a special \$30 million allocation within the bonding bill for equity appropriations, including \$2 million to the Northwest Indian Community Development Center in Bemidji, \$1 million to Juxtaposition Arts in Minneapolis, and \$2 million to the Hmong American Farmers Association.

Altered operations and delivery methods

Minnesota nonprofits continue to report a wide range of management shifts to get through the last year, including: reduction in budget, increased fundraising, reduction in hours of operation, reduced facilities, and hiring or salary freezes.

Within each activity area — arts, human services, health, community service, youth development — organizations took steps to address how changed circumstances required field-specific responses and adaptation. From tele-health to remote learning, and Zoom government hearings and foundation site visits, nonprofits have struggled to maintain their essential role as community connectors.

New challenge

Health of the nonprofit workforce

Like every part of the state's workforce, nonprofit employees and volunteers have spent a year trying to be productive under often difficult or completely changed conditions.

After a full year coping with shutdown, significant variables continue to contribute to major workforce stress and morale issues, including: overall employment uncertainty, as the number of initial unemployment claims in 2020 among nonprofit employees equaled 43 percent of the nonprofit workforce; work from home orders; school age children of employees kept home; risks of COVID-19 infection for frontline workers; and COVID-19 infections (and, in some cases, deaths) among the nonprofit workforce and their friends and family.

Employers experimented with increased flexibility, paid time off, Zoom job interviews, and wellness support from supervisors and colleagues.



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DATA SUMMARY

May 2021 Data Summary

This fourth COVID-19 impact report summarizes results from 312 respondents to a survey collected from March 4, 2021 - March 19, 2021. Key findings include:

- **Further challenges and opportunities:** The second year of the COVID-19 crisis presents complicating forces: revenue loss for certain organizations due to the pandemic's disruption (from canceled events to lowered service capacity), partly offset by further federal stimulus; and broader public recognition of racial inequity (accelerated by the Derek Chauvin trial and acts of hate against the Asian/Asian American/Pacific Islander community). Virtual delivery of programming expanded services to new groups in 2020, and now nonprofits are exploring hybrid models that integrate in-person and virtual service delivery.

Looking to the future, nonprofits are also tasked with developing and implementing plans for a safe return to office and budget forecasting when the environment still presents variables and high degrees of uncertainty.

- **Increase in charitable and government revenue:** On the positive side, one-third of respondents have experienced enhanced donations from individuals, grants from foundations or corporations, and government funds. An enormous financial shot in the arm came from the CARES Act's forgivable Paycheck Protection Program (PPP) loans, which provided 5,305 Minnesota nonprofits with \$3.4 billion in the first round alone.

Of note:

- Government funds increased for 43 percent of respondents (up from 6 percent of respondents reporting an increase in government funds in April 2020, 19 percent in May/June 2020, and 25 percent in September/October 2020).
- Grants from foundations or corporate giving increased for 32 percent of respondents (up from 16 percent of respondents reporting an increase in grants from foundations or corporate giving in May/June 2020, and 21 percent in September/October 2020).
- Donations from individuals increased for 31 percent of respondents (up from 15 percent of respondents reporting an increase in donations from individuals in May/June 2020, and 19 percent in September/October 2020).

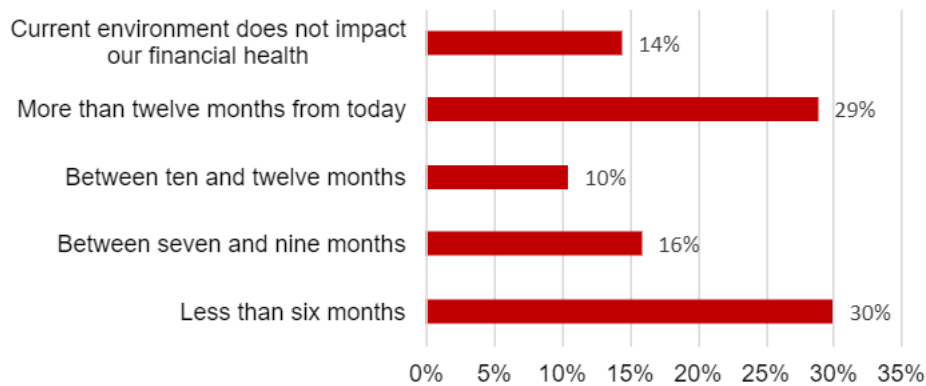


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DATA SUMMARY (continued)

- Continued risk of financial distress:** Despite one-third of respondents indicating they've experienced increases in a few key revenue sources, 30 percent of respondents reported in March 2021 that they have less than six months before they will exhibit financial distress, an improvement over the 61 percent in May, and 44 percent in July 2020 reporting the same time frame for financial stress.

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



Source: Minnesota Council of Nonprofits' 4th COVID-19 Impact Survey, open March 4, 2021 - March 19, 2021.

- Continued demand for services:** The second year of the COVID crisis shows that nonprofits continue to experience increased demand for services (41 percent of respondents) yet a depressed ability to provide services (36 percent of respondents). The theme of high demand for, yet limited ability to provide, services is consistent across all four impact surveys.

The percentage of nonprofits reporting a decreased ability to provide services is declining over time (50 percent in April 2020 down to 36 percent in March 2021). The following are eight shifts that have increased or decreased the most as reported by the highest percentage of nonprofits respondents in March 2021.¹

Increased the Most
Government funds (43 percent)
Demand for services (41 percent)
Grants from foundations or corporate giving programs (32 percent)
Donations from individuals (31 percent)

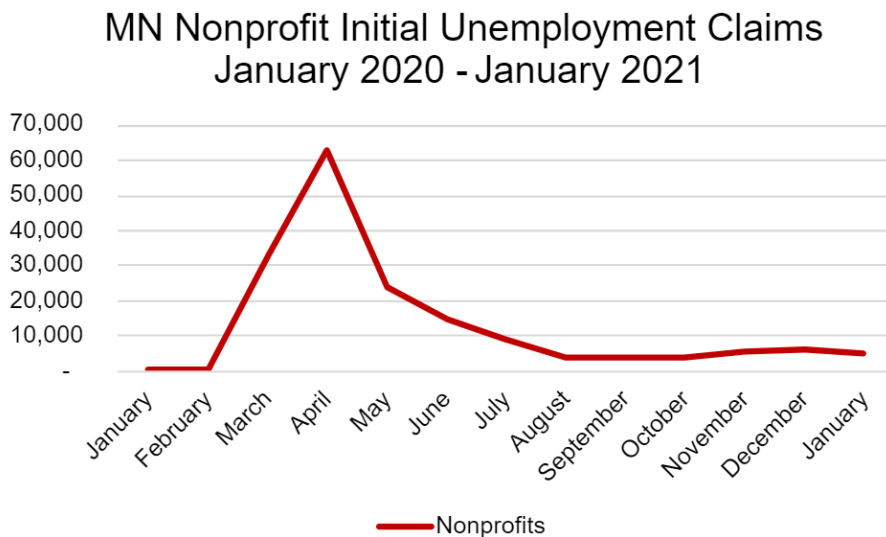
Decreased the Most
Ability to provide services (36 percent)
Fees for services (27 percent)
Staffing levels (25 percent)
Expenses (22 percent)



COVID-19 IMPACT UPDATE 4.0 DATA SUMMARY (continued)

- Overall nonprofit employment levels off:** The nonprofit sector saw a catastrophic jump in the number of initial claims for unemployment among nonprofit employees from March – July 2020 (averaging around 29,000 per month, with the highest of 63,012 in April). The proportion of the nonprofit workforce filing claims (43 percent) was slightly higher than the percentage of business employee claims (39 percent) and far above government unemployment claims.² Nonprofit unemployment activity leveled off starting in August 2020 (averaging around 4,800 a month from August 2020 through January 2021).

47 percent of survey respondents in March 2021 indicated they have not recently experienced any changes in staffing levels, and one-quarter of respondents indicated they have decreased their staffing levels. **Total nonprofit employment was 392,952 at the end of 2019, dropping to 353,852 by the end of June 2020 (-10 percent), and climbing slightly to 359,497 by the end of September 2020.**³



Source: Minnesota Department of Employment and Economic Development.

Reference

1. A table of complete results is found in the Appendix of this report.
2. Full data on initial unemployment claims filed throughout 2020 disaggregated by sector is available at the end of this report.
3. Data from the Minnesota Department of Employment and Economic Development.



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CHALLENGES & OPPORTUNITIES

Nonprofit managers and boards have good reason to be concerned about what lies ahead, with so many shifts out of their control. The March 2021 survey asked nonprofit leaders what they saw as the biggest challenge or opportunity facing their work and organization in the next three to six months. Their open-ended responses provide a first-person picture of what these organizations are facing:

Uncertainty about foundation & government funding levels next year

“A huge challenge is projecting revenue for our next fiscal year, as there are many unknowns about government and foundation funding.”

Staff recruitment, retention, burnout, and continuity

“Burnout, fatigue, and staff morale. They have been in emergency mode for a year without pause and the volunteers are gone.”

“Hiring qualified staff for group homes, mental health & behavioral services.”

Planning for the future

Respondents named that reopening safely for their employees and the public are both a top challenge and opportunity, as well as implementing hybrid models that continue to offer the benefits of programming and operations adapted to a virtual environment.

Fundraising

Respondents expressed concern about donor fatigue, how to connect with donors as nonprofits return to in-person, and restoration of donation amounts to pre-COVID levels.

“We have never lacked for one thing in securing our COVID response. Exemplary support from State, County, City, and private donors. We are responsible for COVID in the homeless community.”

Racism and impacts on BIPOC communities

A number of respondents indicated that the top biggest challenges facing their organization and work in the next 3 - 6 months is racial injustice and inequities, particularly the rise in anti-Asian hate and anxiety around the outcome of the then-ongoing Derek Chauvin trial.

Revenue

“Our earned revenues continue to be deeply affected by COVID. We went from 50/50 earned to donated revenue to having virtually all of our diverse streams of earned revenue evaporate overnight. We are slowly rebuilding our earned revenues, but have a long way to go to rebuild. A big challenge is that we have reduced our staff due to the financial impacts of COVID, and the uncertainty of when our earned revenues will be rebuilt makes it difficult to know when it will be prudent to rehire the staff needed to have the capacity to run parts of our business model that are normally revenue generating. Without continued relief from government (PPP has been essential to us) and increased dollars from our philanthropic community, our organization will need to make some difficult decisions that will impact our ability to serve our community and reopen effectively.”

“Rapidly developing acumen & depth in penning (monthly?) grant applications WHILE losing funds as we speedily expand outreach to gain BIPOC board members (but do NOT make a token of any human beings you win over!).”



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ADVICE FROM NONPROFIT LEADERS

Nonprofit Strategies for Recovery

The March 2021 survey also asked nonprofit leaders: “What advice or tips would you share with other nonprofits?” The following are key themes and select quotes from the 312 responses:

Opportunities of a virtual environment

A number of respondents indicated that the shift to virtual service delivery and remote work is going smoother now and they’re discovering ways to expand the reach of their work through technology. Respondents indicated:

- Greater understanding of the different online platforms and support for staff accessibility.

“We’ve transitioned to 100 percent work from home and will significantly reduce our office expenses in the future. We are also leveraging remote meetings (via Zoom etc.) to better connect with our members than we have in the past - and to save travel expenses.”

“We have become much more capable with technology. We likely never will return to in-office only work protocols.”

- Expanded access to virtual events / trainings sometimes yield higher attendance, though for others it’s costly & not the best option for their audiences.

“We are planning ways to expand virtual volunteer opportunities even when our office reopens.”

Impact on employees

Recognizing the immense toll the past year’s events have had and continue to have on the nonprofit workforce, respondents encouraged peers to invest in supporting staff, showing flexibility and adaptability:

- *“(Offer and encourage) self-care for staff - includes personal development funds; increased flexibility around mental health days so staff don’t have to use PTO / vacation days, etc.”*
- *“Be creative, flexible, and give people grace. Everyone is struggling in one way or another.”*
- *“Flexibility with employees is so important and something we need to maintain even when we can return to normal.”*
- *“Be practical and flexible. Do not allow your decisions to be driven by fear. Find the helpers in your community because you are valued more than you realize.”*

Commitment to equity

A number of respondents named that the pandemic and its disproportionate impact on communities of color, rise in hate against Asian/Asian American/Pacific Islanders, and murder of George Floyd by Minneapolis police have revealed profound systemic inequities and cited a deepened commitment to working toward equity.

- *“The cracks in the organizational, social, and economic frameworks have been laid bare - how can you use this as a time to recommit to mission, vision, and values?”*
- *“We have re-committed to a new DEI plan focused on racial justice that will reach out to all our employees, not just senior leaders...We are applying a standardized mission/margin matrix across our service lines with equity as a key measure within the rating for mission. The results will be incorporated into our budget process.”*
- *DEI issues can’t wait for pandemic to be over/ improved. We need to deal urgently with both COVID and equity/nonprofit structural issues that perpetuate white supremacy.”*



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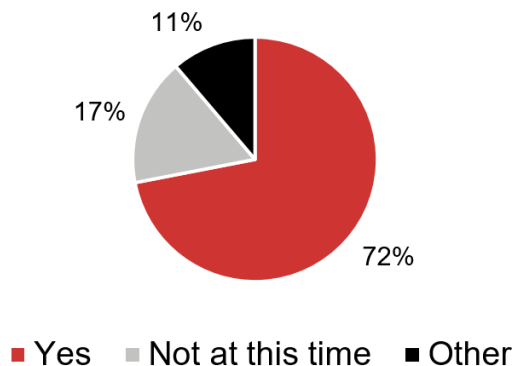
\$15 FEDERAL MINIMUM WAGE PROPOSAL

The American Rescue Plan Act

Finally, in response to a national economic and policy debate as part of the American Rescue Plan Act of 2021, two final questions in the survey addressed the proposal for a \$15 federal minimum wage.

QUESTION 1: “Congress is now considering the Raise the Wage Act of 2021 proposing a phased increase of the minimum wage to \$15 from now until 2027. Should the nonprofit sector support federal changes to require a \$15 minimum wage?”

Should the nonprofit sector support federal changes to require a \$15 minimum wage?



Source: Minnesota Council of Nonprofits’ 4th COVID-19 Impact Survey, open March 4, 2021 - March 19, 2021.

QUESTION 2: “What would be the potential impacts of a federal plan to phase in a \$15 minimum wage on your organization, including the impact on your business model for organizations for whom government reimbursement rates/funding is a significant funding stream?”

Most of the open-ended responses to this question tended to reflect the broad support expressed above:

- “None. All of our staff make \$15 or more. It may impact us if we offer summer camps, but if that is the rate, I am happy to support it.”
- “Supporting minimum wage at \$15 is the right thing to do. Many of our employees would benefit and communities will benefit in assuring workers are paid a working wage. This gradual increase will need to be complimented by government reimbursement for services and of course fundraising.”



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\$15 MINIMUM WAGE (continued)

- “From an equity standpoint, a \$15 minimum wage feels aligned with our organizational values. That said, we do have some entry-level staff who are currently paid at the Minneapolis minimum wage, and other staff who are at \$16 or \$17 an hour. An increase in the federal minimum wage will likely impact our business model and could potentially force us to cut staff hours or positions if we’re not able to balance a corresponding increase in revenues. Many foundations have been supporting our organization, and others like us in their portfolio of grantees, at the same dollar level for many, many years, without increases to account for inflation, increased staffing and rent costs, or other annual increases in the cost of implementing our programs and meeting the demands of our community. This is particularly discouraging at a time when foundation investment portfolios are flush due to the growth of market capital. MCN should encourage foundations to increase their giving, including above the minimum five percent payout requirement, to support nonprofits at this extraordinary time.”
- “We would welcome this move. We are already far beyond min. wage and continue to strengthen our livable wage vision.”
- “Demand for services would decline.”
- “Many of our staff are people of color. None of our staff makes \$15 per hour. The minimum wage that our organization pays is \$18 per hour. I am all about empowering people of color and those who are survivors of exploitation. We employ felons, folks with little work history to help them build a resume and get a foot in the door for future employment opportunities.”

The \$15 minimum wage is seen as a serious problem for a portion of nonprofit organizations’ business models, including the 17 percent that do not support it, in the absence of adjustments to state funding:

- “It could force us to shut down some of our departments - like PCA services to disabled persons and seniors.”
- “I think the operating budgets of the organizations we serve would decrease and therefore we would have fewer projects, if any, because they would no longer have the necessary discretionary funding. Our staff structure and ability to increase wages would flatten.”
- “Many of our services are only available through Medicaid payment models which are notoriously stagnant. Without a significant increase in revenue, many of these essential services will not be sustainable at a \$15 minimum wage. The minimum wage issue is complicated by wage compression for employees in all direct care programs.”
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\$15 MINIMUM WAGE (continued)

- “I support plans to provide a “livable wage” for all adults needing to support themselves and their family. However, I am concerned about how to mandate minimum wages in a way that allows for progression from the beginning employment force (ex. entry/teen jobs) as well as companies simply passing on the cost in a manner that may actually hurt the population the plan was looking to help. So my point is how to more equitably allow adults to have adequate wages and prices of goods and services, or access to such.”
 - “We would absolutely need support from state and federal funding streams to execute the \$15/hour minimum wage. As it stands, we would not be able to afford starting our employees at \$15 and paying our experienced employees a higher wage to properly compensate them for their hard work and dedication to the mission. We would need larger grants to continue paying the staff that we have.”
 - “It would likely cause us to decrease or restructure our intern programs.”
 - “We would have to lay off some people or not fill positions to handle the \$15 minimum wage requirement. Also, since we run a thrift store, this would impact the amount of proceeds and thus the services we would be able to provide.”
-

Much of the debate between supporters and opponents over raising the federal minimum wage has been whether the most important impact would be a reduction in poverty or a loss of low-wage jobs.

For Minnesota employers, including nonprofits, a useful comparison will be to look back to 2012, when Minnesota’s minimum wage was increased to \$9.50 by the state legislature. Overall nonprofit employment and wages have increased substantially each year since 2012⁴, indicating that while many organizations were affected, the bulk of the nonprofit sector was able to adjust to the higher rate.

(Minnesota’s state minimum-wage rates was adjusted again for inflation on Jan. 1, 2021, to \$10.08 an hour for large employers (\$500,000+ revenues) and \$8.21 an hour for small employers (under \$500,000 annual gross revenues).

Reference

4. Longitudinal data on Minnesota’s nonprofit workforce is available on [MCN’s website](#).



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APPENDIX

Number of initial unemployment claims as a percentage of total employment by sector:

	Total UIs filed January 2020 - January 2021	% of Total Employees at end of Q1 2020
Nonprofit	169,031	43%
For Profit	843,117	39%
Government	59,681	15%

Source: Minnesota Department of Employment and Economic Development

Responses to the question: “In what ways in COVID-19 and other current events impacting your organization?”

	Increased	Anticipated increase	No change	Anticipated decrease	Decreased
Demand for services	41%	14%	15%	7%	22%
Ability to provide services	15%	9%	26%	15%	36%
Staffing levels	15%	6%	47%	9%	25%
Expenses	32%	18%	17%	12%	22%
Fee for service	6%	6%	53%	8%	27%
Donations from individuals	31%	16%	23%	9%	20%
Grants from foundations or corporate giving	32%	13%	31%	10%	14%
Government funds	43%	15%	25%	9%	9%

Source: Minnesota Council of Nonprofits’ 4th COVID-19 Impact Survey, open March 4, 2021 - March 19, 2021.

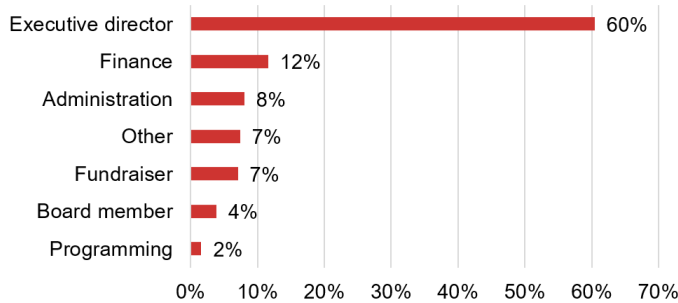


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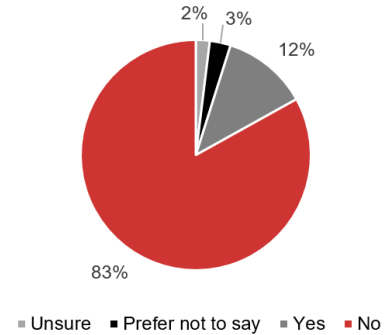
RESPONDENT UNIVERSE

312 individuals completed the Minnesota Council of Nonprofits fourth COVID-19 Impact Survey, which was open from March 4, 2021 - March 19, 2021. Distribution of respondents by activity areas and geographic regions are generally reflective of the broader nonprofit sector in Minnesota.

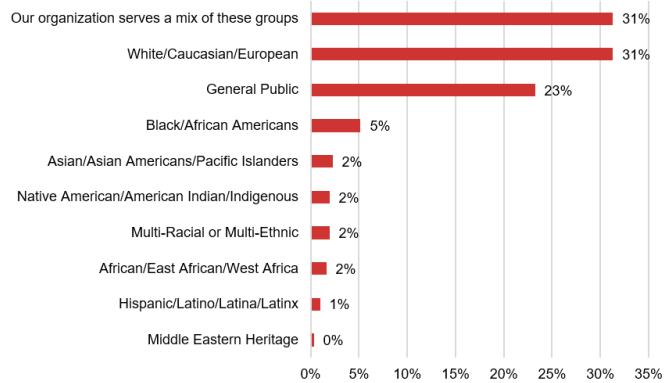
Which best describes your role within your organization?



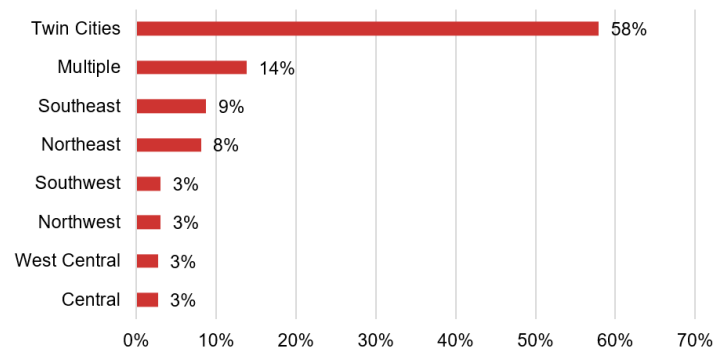
Is your organization BIPOC-led (meaning the organization's executive director/chief executive officer and/or the majority of the board are Black, Indigenous, and/or Person of Color)?



Who are your nonprofit organization's primary beneficiaries? (please select the group that represents 50 percent or more of your organization's average constituents)



Which county are you located in?





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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 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 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.

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 webpage](#).

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 four surveys: the April 9, 2020 Federal Reserve Bank COVID-19 impact survey and MCN's COVID-19 impact surveys conducted on May 21, 2020; September 23, 2020; and March 4, 2021. 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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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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