

Arizona Nonprofit Sector's Response to COVID-19

The continued impacts of the COVID-19
Pandemic on Arizona nonprofits

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ASU Lodestar Center
for Philanthropy and Nonprofit Innovation
Arizona State University

Educate. Empower. Connect.

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School of
Community
Resources and
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About the ASU Lodestar Center

Mission

The Center helps build the capacity of the social sector by enhancing the effectiveness of those who lead, manage and support nonprofit and philanthropic organizations.

Vision

The quality of life in communities is strengthened and enriched through impactful philanthropy and effective nonprofit practice.

What we do

The Center is a global leader in advancing understanding and effective philanthropic and nonprofit practice as a distinctive community development strategy. Through research, education, technical assistance and convenings, the Center focuses on educating, empowering and connecting nonprofit leaders and philanthropists to solve problems, to realize a community's highest aspirations and to accelerate social impact.

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The survey for this report was used, with permission, from the Nonprofit Management Institute at the University of San Diego and is part of efforts by the Nonprofit Academic Centers Council (headquartered at Texas A&M University) to learn about the state of the nonprofit sector during and after the COVID-19 pandemic.

Overview and background

Nonprofit organizations are an essential part of the economic and social fabric of Arizona. In fact, any review of the “state of our state” is incomplete without an examination of the contributions of the “social sector” that comprises individuals and entities that enact their purpose through organizations that are frequently on the front lines of providing essential services to those most vulnerable.

While not all nonprofits exist to provide resources to those most vulnerable during times of disruption, many do. As the story of the COVID-19 pandemic continues to unfold, a spotlight on the nonprofit and philanthropic sector is warranted because the nonprofit sector is also feeling the effects. On the one hand, some organizations (e.g. food banks, emergency child care centers, etc.) are seeing the demand for their services increase while others (e.g. performing arts organizations, museums, etc.) are halting their programs and services entirely. All are feeling the effects of adaptation to new operating procedures given social distancing, shelter-in-place orders, school closures and other measures to “flatten the curve.”

In Arizona, one in 16 employees works at a nonprofit, representing a total of \$8.3 billion in annual wages – making the programs and services provided by local nonprofits an important component of both the economic and social engines that ensure the quality of life for citizens in Arizona. Nonprofits are the fifth largest non-government employer in the state and generate more direct jobs, wages and salaries than such industries as construction, finance and insurance, manufacturing, real estate and mining¹. More importantly, however, is that the nonprofit sector contributes to social cohesion in a community as volunteers and donors enact their purpose while also providing much-needed services. Volunteerism, too, is disrupted due to COVID-19 as some nonprofits find their human resource capacity crippled at a time when their services are needed more than ever.

Building on some initial efforts to understand the impact of the COVID-19 pandemic on the ability of Arizona nonprofits to meet community needs, the ASU Lodestar Center for Philanthropy and Nonprofit Innovation completed a survey of nonprofit organizations in mid-April 2020. **The aim of this report is to provide relevant data to government officials, foundations and other decision-makers about the ongoing economic conditions facing nonprofits** and the need for immediate and long-term support in order to ensure the ongoing provision of critical services in the State of Arizona.

1. Alliance of Arizona Nonprofits (2018). *Beyond the Bottom Line: The Economic and Social Value of Arizona Nonprofits*.

Arizona nonprofit sector profile

22,907

501(c)(3) nonprofits in Arizona
filing IRS Form 990/990EZ
(typically revenue > \$50K)



2,816

staffed nonprofits

171,172

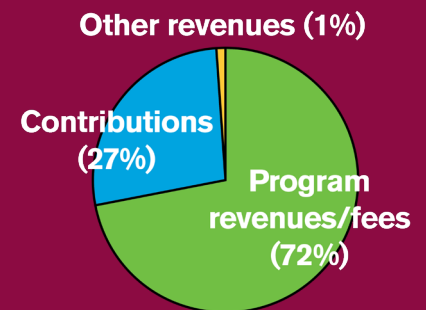
paid employees

\$8.3 billion

total wages

Annual nonprofit financials

Revenue	Expenses	Assets
\$31.1B	\$18B	\$50.8B



* Hospitals and other health-related nonprofits rely the most on program/service revenue. Environmental, public and societal benefit, and religious nonprofits rely mostly on contributions, gifts and grants.

Source: National Center for Charitable Statistics (NCCS) and Internal Revenue Service (IRS), 2016.

A sampling of nonprofit leaders was surveyed through the ASU Lodestar Center and its partner networks. A total of 449 nonprofits representing both small and large organizations from a variety of subsectors responded to the survey. Survey results of the convenience sample reveal all known nonprofit subsectors in Arizona are included with over-representation of human services and education and a slight underrepresentation of mutual benefit/social benefit organizations. In terms of budget size, there was representation from the smallest nonprofits (budgets under \$250,000) to the largest (budgets greater than \$10 million), each category representing 15% of the total respondents with a remarkably consistent distribution of budget categories in between.

Key insights

- Many Arizona nonprofits are challenged to meet their missions given disruption in service delivery. More than 40% of nonprofits say it is unlikely they will be able to provide services within the next four weeks, and 78% of organizations reported a reduction in normal services.
- There is an uneven effect on the sector, with demand for some nonprofit services increasing (e.g. human services) while demand for other nonprofit activities are in abeyance (e.g. performing arts). Nearly 40% of arts and culture nonprofits are not currently operating.
- At the same time that many nonprofits are coping with revenue shortfalls, organizations are also concerned that the pandemic will negatively impact individual giving of both time (volunteerism) and money (charitable giving), further disrupting their ability to deliver services and programs.
- Due to soaring unemployment and volatile financial markets, nonprofits will lose donations from personal income at the same time that demand for many services is spiking.
- The decline in revenue from canceled fundraising events, the closing of fee-based programs and other disruptions have caused concerns about developing sustainable economic models. Nearly 20% of nonprofits are “very unlikely” to meet payroll in eight weeks.
- The well-being of staff is a concern as nonprofits determine how to develop and retain their teams, especially for those expecting difficulty in making payroll within the coming weeks.

Survey results

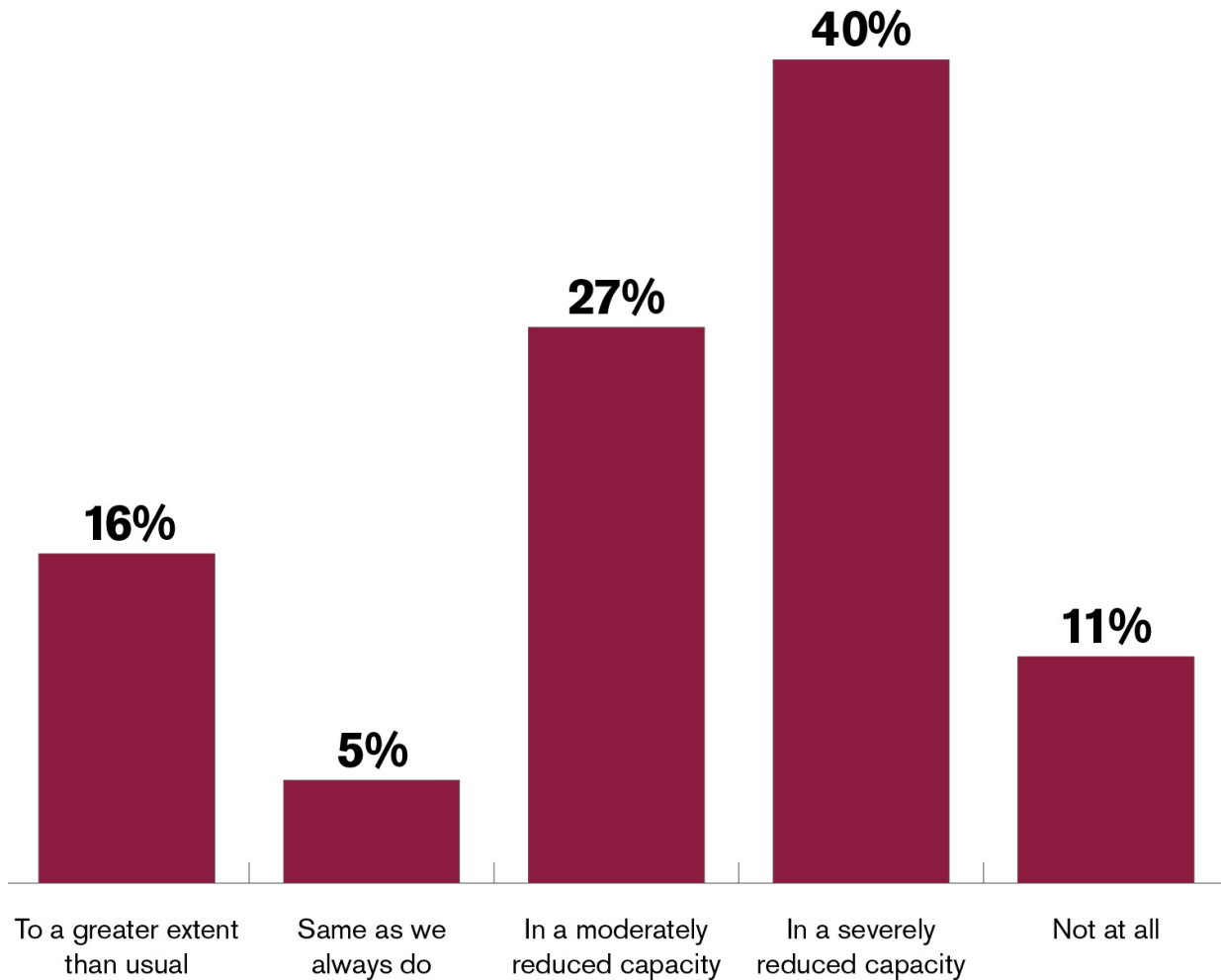
Service disruption is the norm for 95% of Arizona nonprofit organizations

Arizona nonprofit leaders representing all organization sizes and types report significant disruption as a result of COVID-19. Whether or not an organization self-identifies as serving the most vulnerable populations on the front lines, 95% of nonprofits reported a change in normal services as a result of COVID-19. As Figure 1 shows, 78% of respondents reported a reduction in normal services and 11% of respondents reported they were unable to offer any programs at this time. Only 5% of nonprofits reported offering programs and/or services “as they always do.”

We rely on volunteers to deliver the majority of our services. Due to COVID-19 risks and the closure of partner facilities, all of our direct-service programs are currently not in operation.

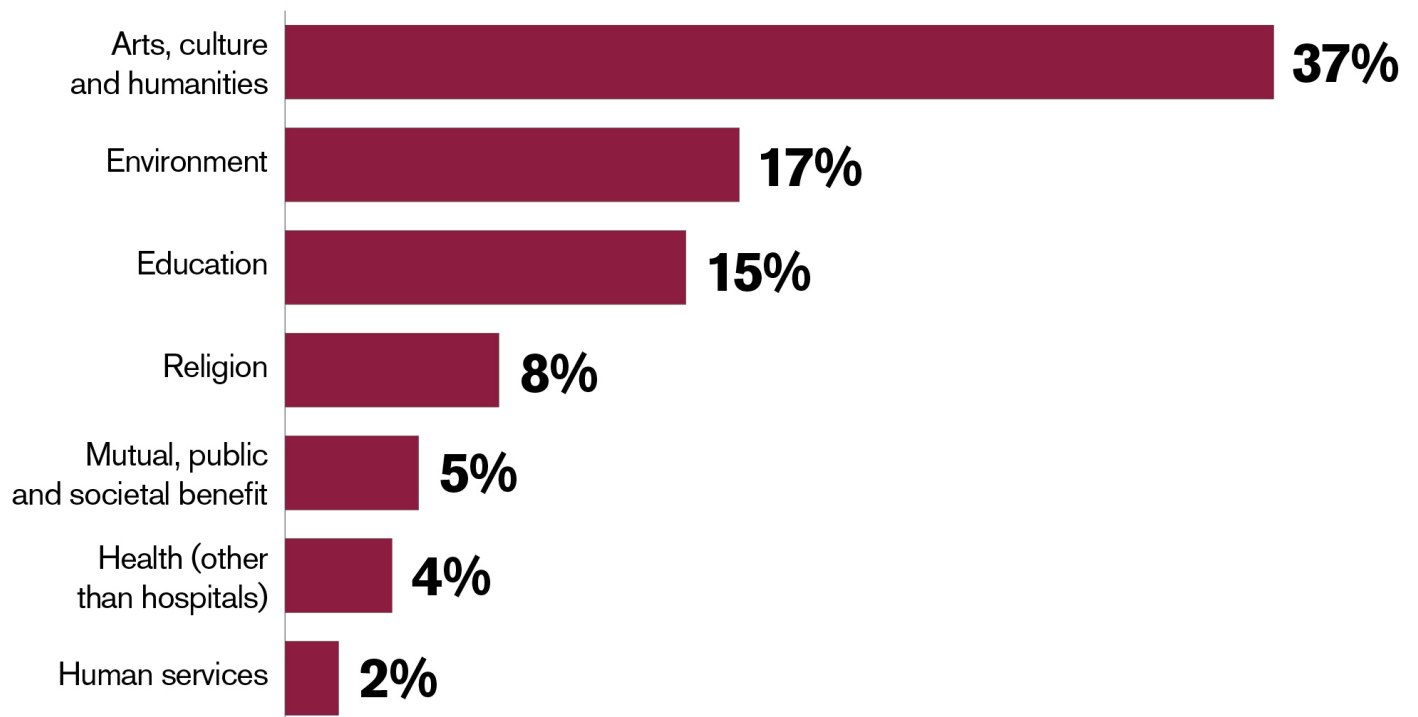
— Human services organization

Figure 1: Extent to which regular programs and/or services are provided



Across nonprofit subsectors, the COVID-19 disruption is realizing differing effects. While human service nonprofits see an increase in demand for services, especially those involving the most basic of human emergency needs, arts and culture organizations see a general decline at best and closure at worst. Figure 2 details the reality that 37% of arts and culture organizations and 17% of environmental nonprofits are currently not operating programs. (Excludes subsectors with fewer than 10 responses, including animal welfare, higher education, hospitals and international.)

Figure 2: Percent of organizations currently not operating programs, by subsector



More than 40% of nonprofits reported it was unlikely they will be able to fully provide services within the next four weeks.

Financial capital concerns are already a nonprofit reality

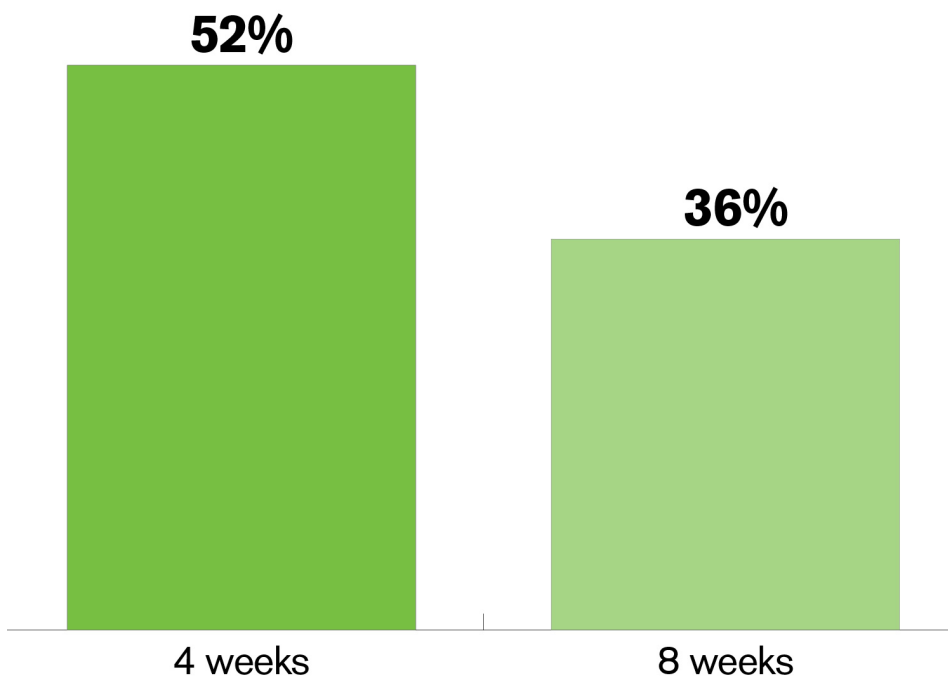
An analysis of nonprofit finances reveals ongoing concerns resulting from the COVID-19 disruption. According to the Nonprofit Finance Fund's [State of the Sector](#), a majority of surveyed nonprofits report less than three months of operating reserves on hand. Other studies in selected communities reveal a lean reserve of two months or less is the norm.² Despite how robust financial reserves are, nonprofits are reporting losses to nearly all revenue streams due to the cancellation of events and programs, with a real risk of some organizations closing entirely.

2. Deitrick, L., Schmitz, H., Lam, M., Trull, C., & Tinkler, T. (2016). Annual Report: State of Nonprofits and Philanthropy in San Diego. San Diego, CA: Caster Family Center for Nonprofit and Philanthropic Research, University of San Diego.

Funding payroll a looming challenge for many nonprofit organizations

Figure 3 reveals that over half (52%) of leaders reported they were “very likely” to make payroll within the next four weeks and that the number drops to just over a third (36%) who will be able to meet payroll demands eight weeks from now. Additionally, whereas 14% of leaders reported “very unlikely” to make payroll in the coming four weeks, the number increases to 18% who will be unable to do so in eight weeks.

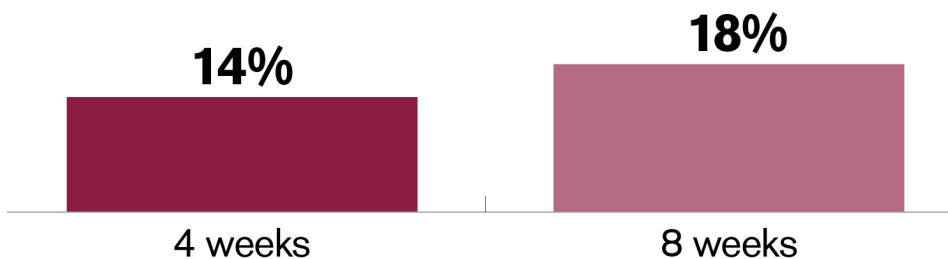
Figure 3: Percent of respondents “Very Likely” able to fully fund payroll in 4 and 8 weeks



Our largest fundraiser was postponed and likely will be canceled. This event provides the bulk of the revenue that sustains our programs and operations for the year.

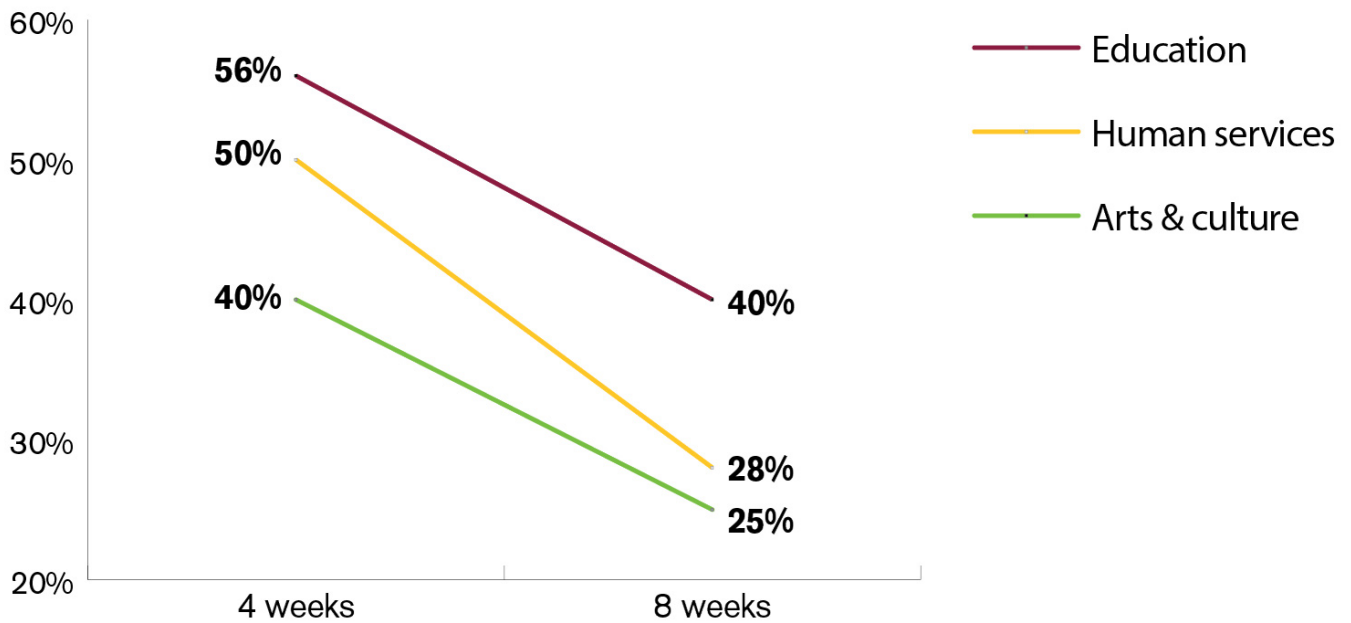
— Mutual, public and societal benefit organization

Figure 4: Percent of respondents “Very Unlikely” able to fully fund payroll in 4 and 8 weeks



Financial projections vary by nonprofit subsector. Figure 5 reveals that among selected categories, arts and culture nonprofits are least likely to make payroll in the next four weeks, followed by human services and education. Considerably less than half of the nonprofits within these three subsectors forecast that they are able to fully make payroll in the coming eight weeks.

Figure 5: Percent of respondents “Very Likely” able to fully fund payroll in 4 and 8 weeks, by subsector



[We are worried about] maintaining funding to keep our staff employed while losing revenue of stores and donations being down, as well as finding funding to keep serving those in our community in need and preparing for the influx of those needing our services as job loss occurs, businesses close and more families or individuals find themselves struggling.

— Human services organization

We have canceled our fall performances, community events, statewide school touring program, and annual gala fundraiser. The cumulative impact of these reductions is profound on our level of service, as well as on the financial position of the company.

— Arts & culture organization

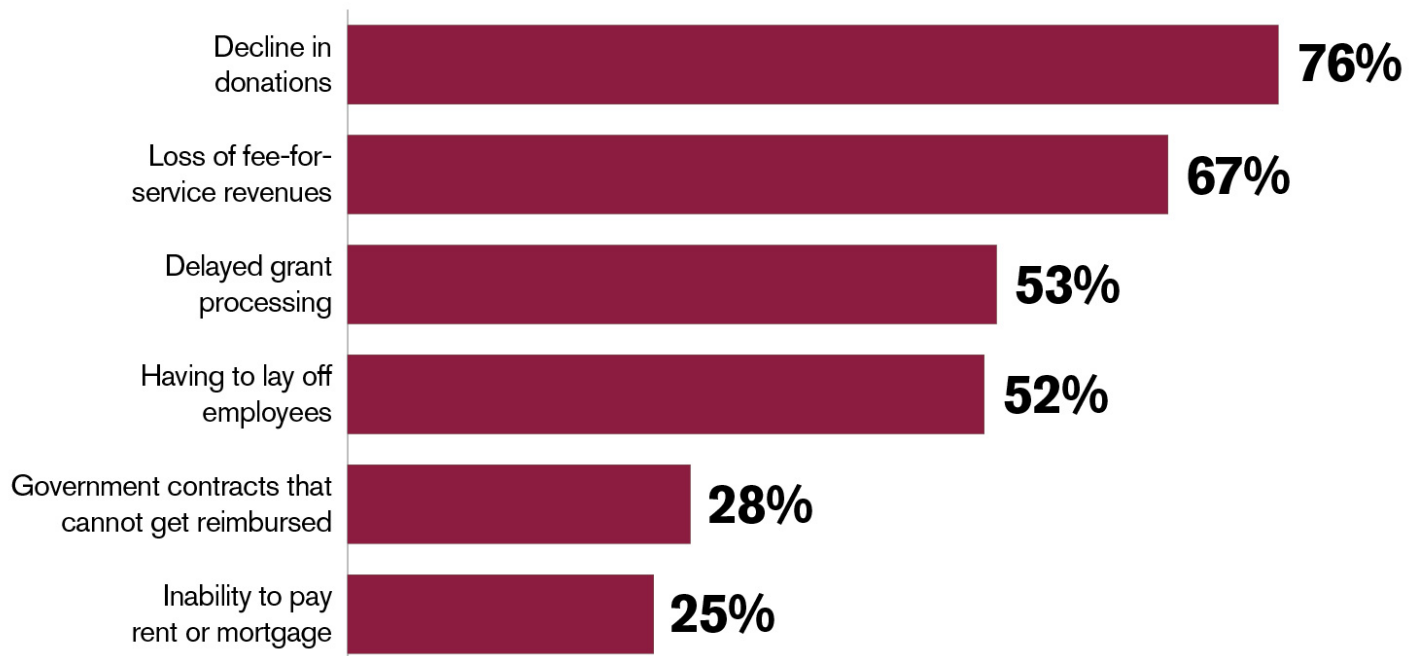
Our programs occur in schools and libraries, both of which are closed. We are trying to pivot to online classes/tutoring but there are many technical and logistical barriers to be overcome in order for us to get there.

— Educational organization

Revenue decline leads financial concerns

The greatest financial concern expressed by respondents is the decline in donations, reported by three out of every four leaders. Figure 6 reveals these concerns, which also include loss of fee-for-service revenue, delayed grant processing and government grants that cannot be reimbursed. Such concerns result in decisions to lay off employees and delay or suspend rent payments.

Figure 6: Percent of respondents “Moderately” or “Very” concerned about financial outlook

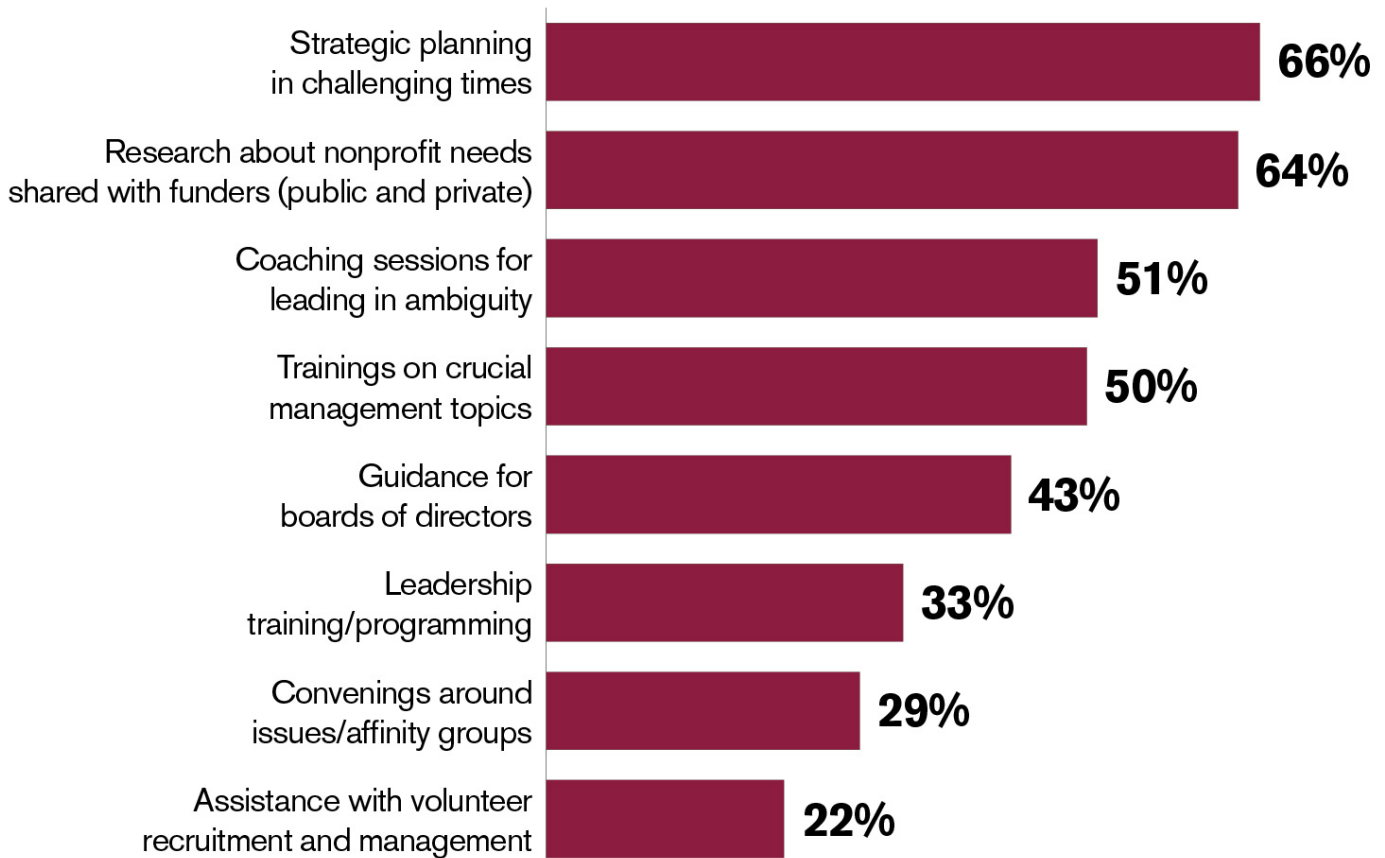


Organizational needs and opportunities

Nonprofit leaders in Arizona reported the need to further adapt to remote work environments, to incorporate increased use of technology and to execute strategic communications with both internal and external stakeholders. They expressed concerns for the well-being of their volunteers and paid staff and articulated the opportunities for nonprofit capacity building as they strive to assure their organization’s relevance and impact.

Figure 7 reveals the top areas of needs and opportunities expressed by nonprofit leader respondents, who selected their top five.

Figure 7: Nonprofit leaders' top needs (respondent-selected top five)



Our agency is currently providing services to a greater extent than usual since the services we provide usually increase during challenging times and times of crisis. However, our operations have been impacted drastically and have reduced our capacity and the way we deliver our services. Our agency continues to adapt and we continue to transition to do our work in a whole new way.

— Human services organization

No nonprofits are prepared for a pandemic and the effects it's taking on the service provided. Therefore leadership spends the majority of their time each day searching for grant assistance resources.

— Human services organization

With severely reduced staff, due to a need to cut expenses dramatically, leadership is struggling to maintain the most basic day-to-day operations while raising funds in a crisis situation in hopes of coming out alive on the other side. The depth of the crisis cannot be overstated in how it is impacting our organization's very potential for survival.

— Arts & culture organization

Conclusions and recommendations

The nonprofit sector is essential to the provision of services and programs, especially during the COVID-19 pandemic. Yet many of the very nonprofits needed at this time are faced with their own challenges in the areas of finances, human resources and service delivery to meet the needs of children, youth and families in the state. To realize its full potential, the nonprofit sector in Arizona deserves the attention of business, funders and government decision-makers. Additionally, how citizens who are able can enact their spirit of generosity by giving more of their time, money and know-how to the causes they care about is seen as imperative during and after this crisis.

To those who lead, manage and support nonprofits

In addition to digesting results of this COVID-19 survey, there is a plethora of knowledge and response resources for individuals and organizations, donors and volunteers, across a wide range of concerns and interests. They include the latest information on support for nonprofits in the Coronavirus Aid Relief and Economic Security Act (CARES ACT). Below are some of the national and Arizona-based knowledge platforms that may be useful in helping those who lead, manage and support the sector.

Arizona State University

- [ASU coronavirus information and updates](#)
- [ASU Lodestar Center program/ services support updates](#)

Nonprofit/philanthropic sector

- [Independent Sector](#)
- [National Council of Nonprofits](#)
- [Nonprofit Finance Fund](#)
- [Council on Foundations](#)
- [Center for Disaster Philanthropy](#)

Arizona-specific – nonprofit/ philanthropic sector

- [Alliance of Arizona Nonprofits](#)
- [Arizona Grantmakers Forum](#)

For additional research, resources, and reports:

- [ASU Lodestar Center for Philanthropy and Nonprofit Innovation](#)
- [Add your voice](#) to the ongoing COVID-19 Survey and [share your story](#) of nonprofit adaptation and innovation.
- Send any knowledge resources you find helpful to nonprofit@asu.edu to be considered for inclusion on the COVID-19 nonprofit resources page at lodestar.asu.edu.



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