



READY REFERENCE PAGE

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FOR YOUR FILE

Check List For Dealing With Tough Economic Times

Here are some things to think about when planning how to get through the current economic crisis

Participants at the 18th annual This Year in Nonprofit Law sponsored by *Nonprofit Issues*® and Montgomery, McCracken Walker & Rhoads spent a substantial amount of time discussing the tough economic times facing nonprofits and the rest of the business world. Below are some of the ideas that were generated for nonprofits to consider when planning how to get through the current economic mess.

Plan for the Worst

Although the impact of the financial situation will vary significantly according to the size and type of organization, nonprofits should plan for the worst. It makes sense to prepare several varying budgets, one for a best case scenario, one for the worst case scenario, and perhaps one or two in between.

Then the organization must constantly watch income and expense against the budget to retain flexibility to react and adjust. The Audit Committee, created in response to Sarbanes-Oxley, is supposed to understand the financial risks of the organization and should monitor what is going on on a regular basis.

There are two obvious areas on which to focus: cutting expenses and increasing revenue. But don't underestimate the impact of public policy on your situation, and be sure to participate in that debate to protect the work of nonprofits.

Reducing expenditures

Reduce discretionary spending where appropriate, including celebratory events such as anniversary parties (unless they are fundraisers), travel and overnight accommodation costs. See if service contracts can be converted to time and materials at a savings.

Reduce printing and publication costs and substitute Internet communication. Consider a short twice a month email update (including donation opportunity) instead of a quarterly print publication mailed to your constituents.

Delay capital projects where possible. Outsource services where it might be cost-effective.

Consider cost sharing arrangements with other nonprofits. The Pennsylvania Association of Nonprofit Organizations shares office space and personnel with

several other nonprofits, saving costs and expanding capacity.

Since personnel costs are usually a major part of nonprofit expenses, it is a critical area to review. Review overtime to see if it can be reduced or eliminated. Hold the line on salaries and bonuses if possible. Avoid filling vacancies.

Consider the use of volunteers, especially those who might be out of work and looking for resume building experience, to perform front line services where possible. Use the unemployed as consultants.

Some organizations have considered reductions in employee recognition gifts, job satisfaction surveys, and even education and training programs or tuition reimbursements.

Layoffs may be required, particularly if an entire program has to be cut because the government won't fund it any more. But also consider cutting salaries, or cutting working time so that staff can continue in place and will be available when the economy recovers. (If you have to do layoffs, consult with an experienced attorney before you

do so to reduce the risk of litigation.)

Consider cutting service delivery or the extra frills of service that are not critical. Close facilities and combine services in other places.

Obtain state tax exemptions if eligible and if not previously obtained. Get bulk rate mailing permits if mail is a key component of your work.

Income generating activities

Maximize reimbursements where there are third party payors. Charge for presently free services where appropriate. Shift services to more paying clients and fewer subsidized clients where possible.

Start other income-producing activities. Consider an affinity credit card if you have a substantial constituency. (Harvard University recently sent out an affinity card notice.) Investigate the possibility of royalties for endorsements. Rent your facilities to others. Increase your on-line sales. Consider putting advertising on your website. Some of these activities may generate unrelated business taxable income, but it may be worth it. ([See Ready Reference Page: "Charities Often Worry About UBIT."](#))

Consider sales of assets, especially unnecessary real estate that has large carrying cost.

Watch endowments and reserve funds carefully with professional advice. Charities in Pennsylvania and in states that have

adopted the Uniform Prudent Management of Institutional Funds Act can take out income even where the value of a fund falls below its original contribution value.

Fundraising

Don't stop. Review your case statement, and why your services are even more critical in these difficult times. Concentrate on your most loyal donors. Recommend IRA rollovers for those who are eligible, and charitable lead trusts for those who can take advantage of historically low interest rates.

Increase your efforts to obtain on line donations, including your new twice a month email.

If necessary, ask directors and stakeholders for loans.

Consider Affiliation, Acquisition, Merger

This is also a time to consider whether it makes sense to affiliate with others, or to merge and go out of business. It also makes sense, if you have a strong organization, to consider acquiring other nonprofits so that you can continue their programs along with your own when things improve. ([See Ready Reference Page: "Mergers and Acquisitions Take Many Forms."](#))

Public Policy

Support the umbrella associations, like the state associations of nonprofits or industry associations, that are working to protect the nonprofit sector and promote the kinds of work that you do. Work with them to create a Non-

profit Caucus in your state legislature.

Lead the lobbying against cuts in state or local funding where possible, and help create alternatives. Promote grants to states and local governments in the economic stimulus package. Resist the inevitable efforts that will come to impose new state and local taxes on charities.

Support the economic stimulus package, and work to include charities as a target of stimulus. The gross domestic product of goods and services of charities in the U.S. is larger than the total national economy of Canada or India. Charities employ about 11 million workers and ought to be considered a significant opportunity for job retention and creation and general economic stimulus.

A number of organizations are promoting a double charitable contribution deduction for taxpayers who give more to charity in 2009 and again in 2010 than they did in 2008. The double deduction would be applicable to the increase in total contributions to public charities in each year. This money is likely to be spent promptly, here in the U.S., and for goods and services for the public benefit. Get behind efforts like these. ([See Ready Reference Page: Lobbying Rules Create Opportunity for Charities.](#))

This is obviously not a time for passivity. It is a time for aggressive effort to promote your program.