THE CHRONICLE OF PHILANTHROPY

Financing During a Pandemic: How to Adapt to a Crisis

By Jim Rendon (March 30, 2020)

The coronavirus pandemic has upended the finances of nonprofits around the world. Organizations have called off or postponed fundraising events. Donors at all giving levels are feeling the impact of the economy screeching to a halt and the plummeting stock market. Foundations have seen their endowments slashed by investment losses. "It's the equivalent of a natural disaster. But it's worse than a hurricane or earthquake because it's not confined to a single geography. It is literally global," says Maya Winkelstein, CEO of Open Road Alliance, an organization that helps nonprofits respond to unexpected events and manage risk. "It's like every single city in the world just had an earthquake. That's the economic impact."

Nonprofits are searching for financial help as they struggle with or anticipate lost revenue — various kinds of loans, lines of credit, and emergency grants. But these financing mechanisms are very different from one another, and each one can help solve very different financial problems, says Joe Neri, CEO of IFF, a community-development financial institution that provides financial services primarily to nonprofits in nine Midwestern states.

"We're talking to all of our borrowers to better understand what their needs are," Neri says. Some groups might just have problems with cash flow: Their revenues won't come in time to cover their expenses. "Some of them could be much more difficult."

Figure out where you stand.

The first step to determine how to address a shortfall is for the group to get a handle on its finances and the particular problems they're likely to face.

Propel Nonprofits, an organization that helps nonprofits in Minnesota and surrounding states with financial management and governance, has been fielding calls from the groups it works with asking for loans or lines of credit. Staff members start by asking callers to examine their organizations' cash flow. It even has a spreadsheet on its website that groups can download to help them do this themselves. They are often discovering they can survive for the next 45 days or more. Propel staff then encourages those groups to go back and do more planning and run different scenarios to determine what the future may hold.

Another important step is to determine how much of an organization's money is restricted. Groups should contact the donors of those restricted funds to see if the money can be converted to general operating support — something some foundations are doing now. Being able to do that gives those groups greater flexibility to meet their fast-changing financial needs.

Forecast what money is coming in.

After groups better understand their current financial position, they need to determine what revenue they can count on over the next three months or more and what expenses they are incurring, says Sandi McKinley, a vice president at the Nonprofit Finance Fund.

That's not easy to do in this crisis, says Dipty Jain, principal at Fiscal Management Associates, which helps nonprofits and foundations improve their financial-management practices. Despite the unknowns, groups need to do their best. "It's really uncertain," Jain says. "As of right now, it's all guess-based."

Some groups should consider a best-case scenario: Perhaps they lose 25 percent of revenue, says Jain. The worst case could be considerably bleaker. Some groups may need to lay off employees or cease operations entirely.

"Not everyone is going to make it out of this," Winkelstein says. "It’s an awful thing to say, but it has to be said so that we can then turn around and do what needs to be done and help as many people as we can."

Charities with government contracts may be better off than others. Illinois, for example, is continuing to pay day care centers even if children are no longer showing up for services, Neri says. Those groups have very thin margins, and any loss of revenue can be devastating, he says. "It’s fundamental because it deals with their liquidity issues. It deals with their angst about the future," says Neri. "It is something that the state can do. And it doesn’t require emergency loans and all kinds of things that are difficult to put together."

Loans make sense when revenue is delayed.

As tough as it is to predict how this crisis will unfold and what that will mean for revenue, groups need to do their best to figure out what income will just be postponed — a gala moves from April to September, for example. In other cases, revenue may be lost and won’t be coming back in the near future — like canceled contracts.

Experts say if revenue is delayed, a loan could be the best course of action. Neri says that as a lender he does his best to determine how likely it is that the revenue will reappear at a later date. If an organization has a future source of revenue it can count on, a loan can help it bridge its short-term lack of cash, he says. In that case, a loan is better than a grant. "You don’t want to use your grant money to solve that problem because you’re going to need it to solve other problems, he says."

The certainty of future revenue is key to deciding if a loan is appropriate. Under normal circumstances, Propel Nonprofits makes loans to groups that have confidence that funds will be coming in the door, says Kate Barr, the group’s president. They may have a contract that will pay them soon, an annual fundraising event with a proven track record coming up, or a pending performance for which they are sure they will sell tickets.

"Right now that confidence is so up in the air," says Barr. "Until there’s more certainty, I don’t think there’ll be that confidence. And nonprofit leaders who don’t have confidence know that borrowing is not the thing to do."

Loans should be viewed as a way to make up for short-term revenue losses or payment gaps. Lines of credit, which in many cases have to be paid back in a year, may make sense for even shorter-term revenue losses that will be quickly made up or to help groups make payroll while another funding source is delayed, Jain says.

Large nonprofits that have many government contracts likely already have lines of credit to smooth out the cash flow between the time they provide services and the time the government pays for them, for example.

While no one knows for certain how this crisis will play out, Neri says that the tightening of credit that took place during the financial crisis may not happen this time. Back then, banks stopped trusting each other after Lehman Brothers failed. Now the government is quickly pumping money into the financial system to create liquidity.

A loan isn’t always the answer.

It’s important to understand that in some cases, a loan or line of credit can make a bad situation worse.

For example, if a nonprofit is unlikely to recoup lost revenue, a loan would be a bad idea — assuming the group could even get one — because it would be unlikely to be able to pay it back. A loan might fix the short-term problem, giving an organization the funds to keep operations going. But the loan would exacerbate long-term problems because loan payments would increase the group’s expenses.

Instead, organizations that have lost revenue will need to cut costs — likely laying off staff and cutting other expenses — while looking for emergency grants and other ways to bring in revenue.

Emergency funds are being set up.

Some groups have created emergency funds for nonprofits that combine low-cost loans and grants.

Among the entities offering relief:

1. The Small Business Administration is providing disaster-relief loans with 2.75 percent interest rates and payback terms as long as 30 years.
2. The $2 trillion dollar relief bill contains many loan provisions that can help nonprofits. Those with 500 or fewer employees will be eligible for Small Business Administration loans of up to $10 million and expedited loans of up to $1 million. The money would have to be used for employees, facilities costs, and debt service. Those that keep their employees on the payroll from February 15 to June 30 could have their loans forgiven. It appropriates an additional $10 billion to the SBA's Economic Injury Disaster Loans, and waives creditworthiness requirements. Applicants can get checks for $10,000 within three days.
3. Many community foundations and others are stepping up with emergency grants. For example, the Chicago Community Trust together with other partners raised $12 million for emergency grants and has already begun disbursing them.
4. Open Road Alliance is offering loans at below-market interest rates to groups adversely affected by the pandemic. It also has grants and loans available for groups that are helping to slow the growth rate of coronavirus infections.

The Nonprofit Finance Fund will administer $75 million donated by 17 foundations to provide unrestricted grants and loans to New York charities. The fund will provide zero-interest loans of about $250,000 to $3 million to New York human-service and cultural institutions with budgets of about $2 million to $35 million. The goal is to help groups get through a couple of payroll cycles and reorient, says Norah McVeigh, the Nonprofit Finance Fund's managing director for financing.

The combination of loans and grants in the fund is very important, Neri says. For groups that need cash now, the loans can be very helpful. For those that have lost contracts entirely, a loan won't help, but an unrestricted grant can help a group survive through the crisis.

"It's just beautifully done," says Neri who hopes that more financial organizations take this approach to emergency aid. "Let's just learn from New York [philanthropists] who learned this from the last crisis."

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