From the CEO’s Desk – Quarter 4 (Oct - Dec) 2012

As a part of this Index, CEOs of Trend Reporter organizations are given the opportunity to report on emerging trends in the nonprofit sector. The purpose for this component of the index is twofold. First, it provides a regular platform for nonprofit leaders to share first hand observations in an expedient fashion and with a collective voice. Secondly, the qualitative information provided in this component of the index provides context for the data presented in the overall index. Select quotes are provided and attribution is noted when permission was given by the respondent.

During Quarter 4 (Oct - Dec) 2012, nonprofit CEOs observed the following:

1. Funding
2. Changes to the Model: Collaboration, Consolidation, Competition
3. Concerns about Politics
4. Concerns about the General Economy
5. Employment and Staffing Challenges

Trend #1: Funding
Funding and financial challenges has been the top concern among Trend Reporters since the inception of this Index. While Quarter 4 of 2012 is no different, there is a notable increase: 53% of Trend Reporters cited this as a concern as compared to only 39% in Quarter 3. Four of the twenty three responses in this category were positive, with respondents indicating, “Donors are beginning to make donations to nonprofits again.” However, the majority of these responses indicate that there are more challenges than solutions. These responses reveal concerns over changes in government spending, looming tax changes in Washington, D.C., and the lingering effects of the economy on private donors and foundations. These concerns result in donor uncertainty and what one Trend Reporter terms as “Decreased capacity to make long term decisions [which has created] indecision for support for nonprofits.”
"The nonprofit organizations that have a ‘fee for service’ program have fared much better in this economic downturn.” Nonprofit CEO

“Small, non-profits experiencing lower donations and more demands for services.” Nonprofit CEO

“Community & Corporate Foundations are fewer and their resources to give are smaller. Nonprofits have to work two to three times as hard to secure funds and maintain fundraising revenues each year.” Pauline Martinson, I Love a Clean San Diego

“Increased scrutiny from funders both private and public. Granting of more restricted dollars even from private donors.” Nonprofit CEO

Trend #2: Changes to the Landscape: Collaboration, Consolidation, Competition
As respondents discussed financial challenges, they also shared the many ways nonprofits in San Diego are addressing these challenges. Principally, nonprofits are seeking to collaborate, consolidate, or compete for market share.

Collaboration seems to be the primary ways Trend Reporters observe nonprofits reacting to financial pressures. There is a “Need for effective collaboration. Not collaboration for the sake of it, but collaboration that pays attention to the underlying economic and functional needs of the organizations.” This collaboration appears to be happening across sectors, not just within nonprofits. “I see more openness at all levels of government for resource management and conservation to partnership with the nonprofit sector for public-private partnerships,” Serge Dedina, WiLDCOAST

Nonprofits seem to also be reinventing or reorienting themselves. One Trend Reporter from an Arts and Culture institution wrote: “It is an ongoing struggle to attract visitors with the increasing amount of competition for their time and dollars (internet, etc.). I believe we each will have to raise the bar in terms of what it takes to attract an audience. A certain amount of reinvention will need to occur as our audience has definitely changed.”

Two Trend Reporters shared that they had been targeted by for-profit companies. In one case, a Trend Reporter noted: “increased high profile marketing from the IT sector reaching out the nonprofits.” Another respondent observed: “Media outlets marketing more aggressively to nonprofits.” These comments could be understood as the for-profit sector’s emerging understanding of nonprofits as a viable sector (and thus a source potential clients). The comments can also be understood in light of the business-orientation trends happening across the
country whereby nonprofits are increasingly encouraged to become more ‘business-like’ in all aspects.

**Trend #3: Politics**

Politics first appeared on the CEO’s Desk just prior to the November 2012 elections. The topic has remained a concern through the elections and now into the beginning of 2013. Concerns include:

- Charitable contribution tax policies
- Healthcare costs (for employers)
- Redevelopment
- Partnerships with government agencies
- Budget processes and the sequester
- Change in payroll tax
- ARRA Funding
- Reduction in core funding

This list demonstrates the many ways nonprofits are affected by and interact with government. As employers, nonprofits are subject to changes in payroll taxes and the effects of healthcare reform. As tax exempt organizations, nonprofits are concerned about tax law. As long-term providers of government services including health and education providers, nonprofits are affected by budget constraints. And, as the third sector of our economy, nonprofits are affected by overall government policies which affect the economy.

“The uncertainty in governmental policy, particularly in regard to tax policy and healthcare costs creates risks in planning for the future.” Nonprofit CEO

“The change in payroll tax laws has had a negative impact. The looming minimum wage increase is a concern. Several of our vendors are nonprofit organizations and they are concerned about the potential for significant financial deficiencies by year’s end.” Nonprofit CEO

“In FY 2012, there was clearly no ARRA (Recovery Act) funding supporting or subsidizing some of the programs in human service organizations, schools and the government sector. I believe the related program budgets are now finding their natural balance point, which may show up as a reduced budget in 2013 and 2014.” Nonprofit CEO

**Trend #4: Economy**

Given the aforementioned trends noted by the Trend Reporters, it is no surprise that 16% of them made explicit reference to the economy in regards to Quarter 4 trends. These comments were in keeping with the themes presented above: San Diego-based nonprofits are “seeing slow recovery
from [the] recession.” One Trend Reporter succinctly wrote: “As the general economy improves, generally so does the nonprofit sector.”

**Trend #5: Employment and Staffing**

While only 7% of Trend Reporters discussed employment and staffing, it is worthy of note especially as the Index overall has reported that the number of job postings have risen in recent months.

Nonprofits can find themselves competing with for-profits and for-profit salary for qualified employees. “Improved economic [conditions] means more competition for good talent to hire. . . so we have to be more aggressive here.”

Many nonprofits have sought to consolidate by reducing staff in order to compensate for diminishing revenue. As one Trend Reporter explains, this strategy can backfire: “For us as a mid-sized arts organization, there’s always a struggle between revenue and services provided - need always grows more quickly than contributed or earned income. And for our organization, which makes a programmatic and philosophical decision to pay artists as the skilled and valuable workers they are, balancing payment of people with revenue is always difficult. Do we skimp on administrative salaries in order to pay artists? Do we cut subsidized services in order to balance our ledger - and if so, do we undercut our ability to raise contributed and earned income? We run the risk of decreasing our income further even as we try to cut costs.” John Highkin, Young Audiences of San Diego