



Nonprofit Recovery Fund Would Strengthen North Carolina's Economy

North Carolina nonprofits have suffered a variety of economic hardships due to the COVID-19 pandemic. State legislators can help communities recover from the pandemic – and strengthen the state's economy – by investing some of the state's American Rescue Fund aid into a nonprofit recovery fund.

Nonprofits have suffered many types of economic harm due to COVID-19, including:

- **Revenue losses during some period of the pandemic.** Nearly 80% of North Carolina nonprofits reported lost revenue due to the pandemic in a survey in mid-2020.
- **Shutdowns of operations due to COVID-19 limitations.** Many nonprofits – particularly arts organizations and museums – were forced to close their operations for months due to executive orders responding to the COVID-19 pandemic.
- **Loss of fundraising event revenue.** Many nonprofits rely on fundraising events like galas and 5K races for a significant portion of their revenue. For these organizations, the shift to virtual fundraising events has meant far less revenue than budgeted for 2020 and 2021.
- **Loss of volunteers during the pandemic.** Normally, volunteers provide service that is equivalent to about 100,000 full-time staff for North Carolina nonprofits each year. Far fewer North Carolinians have been able to volunteer during the pandemic. This means that nonprofits are now much more reliant on paid staff to provide programs and services.
- **Costs incurred by changing the way programs and services are provided as a result of social distancing.** The pandemic and related executive orders have forced many nonprofits to incur technology and infrastructure costs to restructure their programs and services and to adapt their physical spaces to allow for social distancing and remote activities.
- **Increase in services to meet community needs during the pandemic.** Many organizations, including food banks, domestic violence agencies, housing providers, childcare providers, and health clinics, saw dramatic increases in demand for services during the pandemic. Others have had to provide new services to help address changing community needs.

Nonprofits' economic challenges are affecting our communities and economy

- Most nonprofits operate on tight budgets, so these economic challenges have created significant budget holes that can't be easily fixed with existing private funding sources. Without additional financial support, many nonprofits will need to cut back on services, and more North Carolinians will have to look to government to meet their basic needs.
- Nonprofits provide a wide range of essential services in North Carolina communities, including healthcare, after-school programs, arts and cultural services, food assistance, childcare, faith-based programs, affordable housing, and much more. During the COVID-19 pandemic, **60% of North Carolina nonprofits are experiencing an increase in need.**
- Nonprofits are a significant part of the state's economy, comprising about **10% of North Carolina's private sector workforce.** Nationally, nonprofit employment is down by 6.6% since the start of the pandemic, and analysts at Johns Hopkins University estimate that **it will take another 18 months for nonprofit employment to return to pre-pandemic levels.**

A state nonprofit recovery fund could provide much-needed help

- The American Rescue Plan Act (ARP) provides about \$5.3 billion in aid to the state of North Carolina to assist with relief and recovery from the COVID-19 pandemic. **Congress intended for some of these funds to provide economic relief to nonprofits.** The first of the four purposes for states' use of funds in the ARP is: “**assistance to** households, small businesses, and **nonprofits**, or aid to impacted industries such as tourism, travel, and hospitality” (emphasis added).
- **State legislators can help ensure that nonprofits continue to have the financial resources necessary to meet the needs of their communities by using some of the state's ARP allocation to establish a nonprofit recovery fund.** A nonprofit recovery fund would also go a long way to strengthening the state's economy by helping restore jobs in the nonprofit sector.
- Nonprofits have indicated that a fund would be most helpful if it includes:
 1. **Appropriate eligibility criteria.** As noted above, nonprofits have suffered a wide variety of types of economic harm during the pandemic. It would be particularly beneficial for a nonprofit recovery fund to have a variety of eligibility criteria based on lost revenue, shutdowns of operations, lost volunteers, increased services, and/or costs incurred due to operational changes needed to respond to the pandemic. For many nonprofits, Paycheck Protection Program loans and other sources of financial assistance have not covered the full extent of their economic losses from COVID-19.
 2. **A broad set of allowable uses.** Ideally, a nonprofit recovery fund would provide general operating support grants to nonprofits. If funds must be used for specific purposes, it would be beneficial to allow them to be used to cover: (a) direct or indirect expenses related to COVID-19 (e.g. reimbursement for technology costs or rent, mortgage, and utilities that were incurred during the pandemic); (b) staffing costs related to lost volunteers or increased services; or (c) lost revenue.
 3. **Adequate funding to make a meaningful difference for a significant number of nonprofits.** North Carolina has about 11,500 charitable nonprofits with annual budgets of \$50,000 or more, and most of these organizations suffered financial harm due to COVID-19. While it is unrealistic to make funding available to all – or even a majority – of these nonprofits, a larger nonprofit recovery fund would help minimize the loss of critical services in communities across the state and would lead to a faster restoration of jobs in the nonprofit sector. **For example, a \$75 million nonprofit recovery fund could go a long way to restoring nonprofits' ability to more fully serve the needs of North Carolina's communities.**
 4. **A simple and straightforward application and administration process.** Most nonprofits are already stretched thin as fewer staff and volunteers provide more services. Excessive red tape in the application process can be a barrier to many organizations' ability to access funding. Nonprofits that received state grants through the Job Retention Grants (JRG) and the Mortgage, Utility and Rent Relief (MURR) programs have indicated that the NC Department of Commerce had a simple, clear, and efficient process for grant applications and grant administration. Nonprofits would welcome a similar approach for a nonprofit recovery fund.