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A Surge of Nonprofit Closures

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One of Cincinnati's largest nonprofits, Talbert House, notified the State of Ohio that it will be placing at least 50 workers on furlough on April 3rd because of circumstances related to COVID-19. Talbert House offers housing services, addiction treatment, workforce development, and other assistance to its community. The initial wave of COVID-19 layoffs has been concentrated in the private sector, but the reduction of nonprofit services is a sobering reminder of the widespread economic impact of the pandemic.

At a time when individuals will need assistance more than ever, some nonprofits must temporarily close to comply with social distancing measures. Unfortunately, many of these nonprofits may never reopen because their sources of funding have dried up. The phrase "cash is king" is the lifeline to which organizations cling to keep the lights on and employees working. Without access to cash, unemployment will spike in the nonprofit sector, and many individuals will lose access to much-needed services. This cry for cash will only grow louder. On the same day that the Talbert House furloughed its workers, the Cincinnati Museum Center, which includes the Cincinnati History Museum, the Children's Museum, and several other exhibits, requested $10 million dollars from its county government to address its cash flow issues.

To understand the precariousness of our nation's charitable safety net, I analyzed the most recent financial statements of every nonprofit (excluding schools and hospitals) that filed a form 990 with the IRS in order to maintain its nonprofit status. I restricted my analysis to nonprofits with more than $50,000 in functional expenses and calculated the *days of cash on hand* or the number of days that a nonprofit can continue to maintain its operations from cash and cash-equivalents with no new money coming in from donations, grants, or service revenue.

A recent study from JP Morgan & Chase found that 47 percent of small businesses have less than two weeks of cash on hand. Among the 155,000 nonprofits in the IRS data, the average nonprofit had just over 92 days, or 3 months, of cash on hand. Unfortunately, 18,000 nonprofit organizations possessed less than two weeks of cash on hand. These organizations collectively employed 1.65 million of the nonprofit sector's 18.5 million workers in the United States. The recently passed Paycheck Protection Program provides loans for nonprofits with less than 500 employees, and it is critical for the future viability of these at-risk organizations. If these nonprofits cannot quickly access funding for their operations, unemployment claim numbers will continue their drastic climb.

Once these nonprofits run out of cash, the clients that they serve will also suffer. Now, nonprofit services are increasingly in demand, and we need more—not fewer—nonprofits. Nonprofits are embedded in communities; they can identify and provide immediate relief to those who need it most. These nonprofits are so critical to getting our lives back to normal that Ohio Governor Mike DeWine excluded essential nonprofits from the State's stay-at-home order. In the United States, there are 6,000 essential nonprofits like food banks, diaper banks, and homeless shelters, that have less than two weeks of cash on hand. More than 30,000 Ohioans work for these essential nonprofits that are spending $1.4 billion every year in the State to provide services to those in need. If these nonprofits disappear, so does the service capacity, expertise, and community assistance that are needed most in times of crisis. In total, more than 85,000 Ohioans work for nonprofits with less than two weeks in cash on hand.

While overall charitable giving in an economic recession may decline by 13 percent, a study from the Stanford Center on Poverty and Inequality, suggests that essential nonprofits like food banks may not actually see declines in financial gifts and contributions over a one-year period. If these at-risk, essential nonprofits can quickly access funding from the Paycheck Protection Program, our country should be able to quickly rebound from its current economic crisis. Unfortunately, once the Paycheck Protection Program has run its course, nonessential nonprofits with less than two weeks of cash on hand are facing the looming prospect of laying off many of their employees.