

# Dealing with the Downturn

Future concerns, predictions, and strategies for New York's non-profits

BY JILLIAN BLUME

Considering the shake-up on Wall Street, it's doubtful the first thought on most people's minds is philanthropy. Anxiety about paying the mortgage or rent and the demise of retirement funds pushes season tickets to the opera or donating money to maintain and improve our public parks to the bottom of the list. But even with the end of the year approaching, signaling the last chance to get in on those enticing charitable gift deductions, non-profit organizations are not experiencing — or expecting — “the gift of giving.” As the latest buzzword “Main Street” indicates, the disappearing act of Wall Street's major corporations and banks not only throws the lives of New York's wealthy and elite into turmoil, it also effects everyone in the metropolitan area, across the gamut of employment. The New York State Department of Labor predicts that 40,000 jobs in the financial services industry in the city will be lost in the current downturn, while 120,000 additional jobs may be directly or indirectly impacted.

Since non-profits care for and help define this city, tending to our public spaces, providing us with world-class art and cultural events, caring for the dispossessed and educating the young, what kind of city will we have if disappearing corporate donations causes programs to fold and organizations to go under?

“As generous as the companies are, if you add all of the philanthropy of the executives in the companies, they are significantly larger than what the companies themselves give,” Reynold Levy, President of Lincoln Center told The Observer. “You have some extraordinarily wealthy people and a large number of people in the upper middle class, with Wall Street payrolls representing 22% of the payrolls of New York City. So their dislocation due to temporary unemployment until they find another job, or move out the city entirely, or move to another line of business, is inevitably going to reduce their focus on something like philanthropy.” Mr. Levy notes that Lincoln Center has been through a number of recessions, including 9/11 and its aftermath, when attendance dropped 10 to 15 percent, and they can't predict how significant an impact the current climate will have on attendance. They also run many free and off-price programs, and he considers them an important part of Lincoln Center's public mission. “We're committed to maintaining these free events, and we have the resources to maintain them,” he said. Other non-profits don't sound as confident.

With a substantial portion of their funding unexpectedly lost at the end of their fiscal year, Georgia Boothe, Associate Executive Director of Covenant House, is worried. Bear Stearns heavily funded their annual awards dinner and fundraiser in prior years, and the loss of that contribution, late in their fiscal year, significantly affected their bottom line and left the organization no time to



come up with a Plan B. According to Ms. Boothe, the event usually grosses \$1.5 to \$2 million a year, but this year the number fell to around \$800,000. “Those funds support all our programs, not just New York programs,” she said. David Kener, Executive Director of The American Place Theater, a performance-based literacy program that brings literature to the stage, shares Ms. Boothe's concern. “One of our main funding sources is a Wall Street investment bank, and I just found out that their contribution is going to come in at half of what we expected,” he said. “That has hurt us significantly.” He also receives contributions from board members, some of whom have their own foundations. “Those foundations are invested, and those markets have been hurt. So it's a double-edged sword. Whether it comes out of a personal account or a foundation, everyone's invested.”

## Future Predictions

Though the financial crisis on Wall Street only recently reached a breaking point, the effects are already noticeable. Small and mid-size trusts and foundations that depended heavily on corporate and individual donations are scrambling to stretch their budgets, and some plans are already being scrapped.

Melissa A. Berman, President and CEO of Rockefeller Philanthropy Advisors, believes there will be a significant downturn in foundation giving in 2009, and it may be flattened for the next few years. “There will certainly be non-profits that aren't going to be able to survive,” she said, “and non-profits that are going to have to join forces in order to survive and carry on with their core activities.”

All non-profits, regardless of size, can expect a drop off in donor contributions, especially if we're facing a long recession. “As much as 80% of philanthropy in America comes from individuals,”

notes Mr. Levy, “so how they fare, what the employment rate is, what their after-tax income is, what their discretionary income is, and how they view their future, are important elements in their preparedness to give to charity.”

Drew Becher, Executive Director of the New York Restoration Project, has had to put some things on hold, including a website redesign, a new financial system, and new trucks to deliver their services. “Scaling back our programs would be the last thing that we cut,” he said. “I'm more worried about our donors that give us \$25, \$35, and \$50. We get close to \$800,000 in our budget from individual donors, and that's where we have to focus ourselves, to let them know that their money is going to support something important.”

For social service non-profits, the majority of the expenses are from their programs. At Covenant House, according to Ms. Boothe, July and August saw a drop off of 15% in direct mail contributions. “We may have to scale back and possibly close some programs to shore up as much of the income that we can,” she said.

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According to Mr. Levy, the loss of contributions from individuals will have a greater effect than the loss of institutions such as Lehman, AIG, and Merrill Lynch. “We have to understand that they represent a very small portion of philanthropy in New York and in the country,” he said. “We need to focus our efforts even harder and more energetically on the many other sources of funding that we're able to pursue.”

It's hard to predict long-term financial losses in a volatile market, and the effect on non-profits may vary depending on the type of services that are provided. Mr. Kener places the arts at the top of the endangered list, particularly because they're viewed as enrichment programs rather than core programs. Along with many other non-profits, The American Place Theater recently held an emergency board meeting to discuss the latest notification of funding cuts. “From some of my conversations with the board and my colleagues in the arts education and non-profit community, there's definitely concern for next year and the ramifications for two or three years down the line.”

When non-profits are struggling to maintain, they cannot look to expand, which is one of Mr. Kener's greatest frustrations. “We have been growing beautifully,” he said, “and we want to continue that momentum. It would be criminal to not be able to because, with all the politics and all the financial turmoil, if we don't get down to the basics, if we

**Full Court Dress: From left to right standing are: David Rockefeller, Nelson A. Rockefeller, Winthrop Rockefeller, and Laurance S. Rockefeller. Seated are: John D. Rockefeller 3rd, and John D. Rockefeller Jr.**

**Covenant House National Annual Dinner, Light the Night Gala, held at the Waldorf-Astoria in June 2008.**

can't keep giving schools the tools to get their students excited about learning, it's all talk.”

## Fundraising Strategies

With corporate and individual donations declining, many non-profits will need to adjust their fundraising strategy. The principles of sound investing apply, and diversification is clearly the way to stay afloat. Lincoln Center has been in the fundraising business for over 40 years, and their methods are well mapped out. “Our strategy is to approach the funding marketplace with a view toward developing a very diversified donor base,” Mr. Levy said. “We have a wide range of sources and a wide range of methods.” Specifically, they diversify between individuals, corporations, and foundations, while fundraising methods include face-to-face solicitations, special events, bequests, applications to corporations and foundations for philanthropy, and corporate sponsorships.

Non-profit organizations and charitable trusts need to determine what attracts their donors and how to expand that interest base. “It's not enough anymore to market yourself based on the need and the problem, Ms. Berman said. “When people have to make tough decisions and choose among alternatives, non-profits really have to focus on the solution.” Her advice is to be as clear as possible with potential and current donors about how their contributions are being used and how that use works on solving a specific problem.

Some executives of non-profits believe that the



downturn in the market makes their services even more essential to the health of the city. A depressed economy equals a depressed population, and the services offered by non-profits are often aimed at providing relief. While the more concrete services include sheltering the homeless and caring for the sick, the arts and the environment are equally important.

“A lot of New Yorkers remember the neglect of public spaces and parks in the late 80s and early 90s, and we can't let that happen again,” Mr. Becher said. “This is our time to shine, to help neighborhoods keep themselves clean, to step in where services are being cut by other groups and by the government.”

Even in a depressed economy, the arts are part of the engine of the economy of New York City, with performing arts and museums drawing in massive amounts of tourists from around the world. “After the financial sector, that's the second largest sector for New York City's economic development,” Ms. Berman said.

While some non-profits are responding with panic and others with determination, the non-profits will ultimately have to address the problem from a broader perspective. “These concerns cannot be addressed as individual concerns, even though in the end they are,” Mr. Kener said. “They have to be addressed from a community perspective.”

