

Alaska's Nonprofits: Three Considerations and Seven Requests to Include Nonprofits in the State's Disbursement of CARES Relief Funding

Testimony of President/CEO Laurie Wolf to House Labor and Commerce Committee, April 25, 2020

Thank you, Representative Spohnholz and members of the committee for giving me the opportunity to speak on behalf of the almost 6,000 Alaska nonprofits that partner with federal, state, and local governments and businesses to serve Alaskans, and that currently are responding to the COVID-19 pandemic.

I am here today as President and CEO of The Foraker Group, which serves as Alaska's nonprofit association and the capacity building organization for nonprofits and tribes across the state. Central to our work is to give voice to nonpartisan public policy issues that affect the Alaska nonprofit sector. And for that reason, we have three points for you to consider as you decide how to structure relief packages for Alaska's nonprofit organizations.

Before outlining those considerations, I want to emphasize the critical role nonprofits play in Alaska.

Importantly, nonprofits are a major economic driver for our state. We deliver essential services, leverage public funds for maximum impact through public/private partnerships, invest in our communities, and ensure community well-being and quality of life. Alaska nonprofits are an economic driver both as major employers and as revenue generators.

No industry in Alaska can prosper without the strength of the nonprofit sector. We are part of healthcare, fisheries, and the oil and gas industries. We provide essential services such as firefighting, early childcare, basic utilities, housing, and food security — just to name a few. We are the safety net across Alaska. Every family in our state is the beneficiary of a nonprofit because nonprofits are woven into the fabric our communities.

When most people think about nonprofits, they focus on the 501(c)(3)s – or charitable nonprofits with missions like healthcare, arts, conservation, education, and many others. While 70% of Alaska's nonprofits are charitable, it is important to note the other types of nonprofits are important contributors to our economy.

These other nonprofit classifications include 501(c)(19) veterans organizations that are covered in the CARES act, and others that are not, including 501(c)(4) social welfare organizations, (c)(6) business leagues, (c)(12) entities such as electric utilities, and (c)(14) entities like state-chartered credit unions.

The significant economic impact of Alaska nonprofits

Nonprofits create Alaska jobs and revenue for the state's economy. The sector directly employs 44,000 Alaskans and represents approximately 17% of the state's workforce – over 40% in some

regions. In 2016, the last time we have this data, nonprofits generated \$3.8 billion in total income and \$6.98 billion in revenue.

We often lose sight of these impacts because nonprofits are not seen as an industry in and of themselves. Alaska's Department of Labor and Workforce Development tracks jobs by industry not by sector. There is no distinction in which sector the work originates. For example, we talk about healthcare or fisheries as if it is all one sector when in fact it takes all three sectors – nonprofit, government, and for-profit – to be successful. This is true for all aspects of our workforce.

It's also true that nonprofits are integral to this economy. In rural Alaska, nonprofits are often the largest source of employment, accounting for nearly half of all jobs in some areas. Nonprofits also play key roles in strengthening the state's other largest industries. It is not possible for government at any level, or any industry to do their work without a vibrant nonprofit sector.

We are in this economy and this pandemic together.

What we know in this ever-changing environment

Alaska's nonprofits are experiencing significant impacts from the COVID-19 crisis. In a survey Foraker conducted March 16-24, over 450 organizations from every segment of the nonprofit community and every part of the state confirmed that their ability to deliver services is deeply affected as a result of the pandemic.

Nearly 80% of respondents said the impact on their operations is high, and 69% report that services to clients and communities have been disrupted.

This survey was taken just as Alaskans were "hunkering down." The size of the response and the quickness in replies from all parts of the state and all missions strikingly demonstrated the urgency we are all feeling.

The impact on Alaska's nonprofits can be classified in two ways:

1. Increased demand to adapt quickly and expand service and delivery options while losing volunteers, money, and spending reserves.
2. Closure of organizations in the name of public health that lost all revenue while needing to maintain missions, facilities, and cover their expenses. Many of these groups will see another hit with the loss of tourism dollars this summer.

Human service nonprofits are likely to face significant increases in demand for some time to come. For example, domestic violence providers expect increases in the need for services, including orders of protection; food banks and food pantries are reporting a 50-80% increase in food requests; homeless shelters and related service providers are seeing spikes in the need for their services; and mental health nonprofits already report increases in patient numbers.

This survey, which is now six weeks hold, also found that 15% of those responding believed they were at risk of closure. At the same time, our nonprofits are filling significant gaps while facing resource challenges from cancellations or postponement of fundraising events, a decrease in volunteerism, loss of earned income, and impacts on their investments from a declining stock market.

Three considerations for relief

As you work through the ways to improve our economy and respond to this pandemic, I offer you three considerations in your approach to the nonprofit sector. Nonprofits need a different but connected response to your efforts to support small businesses, local governments, and tribes in Alaska.

First – We must plan for the future we want to see in our recovery and beyond.

Imagine an Alaska with no museums, no shelters for the homeless, and no care for our seniors. Imagine no summer camps, no faith congregations, no industry associations, no after school care, or no economic development programs. Imagine an Alaska where we depend 100% on business and government to provide for our residents?

This is not how Alaska works best. Instead we need to plan for the future we want for Alaska.

Alaska's nonprofit sector isn't just nice to have, it is essential to every Alaskan every day – and every nonprofit just like every business has been hit by this pandemic. These are unprecedented times and nonprofits are rising to the occasion as fast as they can to serve Alaska.

Even before this pandemic, nonprofits were living on thin or no margins and those with reserves are now spending them to survive or scrambling to request philanthropic support that cannot fill all the gaps. Truthfully, without state support and a generous outpouring of donations, nonprofits will face major changes, deep cutbacks, and some closures.

Alaskans, state, federal, and local governments, and businesses rely on a thriving nonprofit sector. As we saw in our survey, there is a real possibility that many organizations will not survive and many more will reduce the services they can offer Alaskans. The result is more pressure on government to respond.

For all these reasons, and more, it is our strong position that nonprofits must be part of fiscal relief packages delivered by the state and at every level of our economy. That is how we plan for the future we want.

Second – Time is critical, and support must occur in at least two phases.

Nonprofits just like our small businesses will need support in two time frames and maybe even three.

1. They need support now for the adaptations to ramp up and serve Alaskans and to maintain their missions with closed programs and no revenue.
2. They will need support three-to-nine months from now because the PPP program will be over, most CARES Act money will be distributed, and our economy will not yet be recovered.
3. And those that rely on tourism, seafood, and oil and gas will also likely need more support measured in years, not months, to recover from the impacts of this pandemic.

Third – Recognize that many avenues are present within the CARES Act and there are many ways to support industries, sectors, and regions.

We need this response to be holistic and to recognize the direct and indirect ways that nonprofits were impacted and the ways they will be part of Alaska’s recovery. In all options, we encourage consideration in the following ways:

- Recognize that nonprofits were impacted differently. Some needed to rapidly expand and adapt to serve the community. Some were forced to close in the name of public health.
- Special attention is necessary for small organizations that do not meet the criteria for PPP or EIDL funding because of their nonprofit status or staffing status. Options are needed to replace funding reserves for those that had to tap into their savings to respond. Options are needed for groups with no staff but that incurred financial hardship from their response. And more nonprofit categories than just (c)3 and (c)19 organizations should be eligible if they meet other criteria.
- Nonprofits that receive state or federal grants should not be penalized for accepting a PPP loan if every attempt is made to not duplicate funding.
- Every effort to provide relief must take into account the need for operating support to deal with the impacts of this pandemic both in program adaptation, temporary closure, and loss of revenue.

Seven requests to support the nonprofit sector and to provide a stronger economy and vibrant communities as we emerge from this crisis

1. Say “nonprofits”

This is the first time in history that nonprofits are specifically included in relief efforts. And I am pleased to note that it is great to see nonprofits listed in the Governor’s proposal. Your words matter. When you exclude nonprofits, we don’t know our options, and we remain invisible to you and to your constituents. We need to be visible not just in the relief effort but in Alaska’s collective response and recovery.

We recommend that you – as legislators – say the word “nonprofit” every time you talk about small business – in your speeches, your newsletters, and your legislation.

2. Support all small nonprofit businesses

Alaska nonprofits are diverse and make up the backbone of many of our industries. However, not all 501(c) organizations were part of the CARES Act programs. An example would be our chambers of commerce and economic development entities. They have certainly been affected by this pandemic and will be part of recovery efforts.

We recommend that Alaska’s response should include all nonprofits that have been financially impacted by COVID-19.

Alaska can also offer funding solutions that don’t just focus on organizations with staff. Most of our nonprofits fall into the small and ultra-small category of employment. Food pantries are an excellent example. They often run on volunteers with few staff.

We recommend that granting programs should be based on mission not just staffing as a criteria for funding.

3. Grants, not loans

Yes, many of our nonprofits have prudently saved reserves to cover contingencies but this crisis goes well beyond any normal planning scenario. Grants are the best option given our business structure. Simply put – grants need to be a key component to any workable recovery plan for nonprofits.

We recommend that a separate granting option with a minimum of \$50 million be set aside for nonprofits that have been financially harmed by the COVID response. This program should occur outside the state system and should be managed by experts in nonprofits to ensure accessibility and a quick and efficient process.

We are encouraged to hear that the House Finance Committee is likely modifying their proposed \$300 million loan program into a grants program. Nonprofits must be included in those offerings.

4. If loans, make them accessible

Nonprofits are not accustomed to taking loans – in fact, it is often the least prudent option for a board to make given the organization’s reliance on charitable giving and mission-based income to survive. Expecting nonprofits to comply with the same set of loan requirements as for-profit businesses, like having collateral and asking the CEO to guarantee loans, are deal breakers. Additionally, making up revenue to pay back a loan is not possible for most organizations based their business models. We have developed loan parameters that lower the barriers to

participation based on state approved criteria from the Pick.Click.Give. program but with expanded options for participation. We will share those parameters with the committee.

We recommend that any loan program be designed with the understanding of nonprofit business models and governance structures. We also recommend equitable and appropriate access for nonprofits to any loan program created or mandated by the state.

5. Partner with local governments

Funds from CARES will flow directly and indirectly to local governments. This is another access point for nonprofits that partner with local governments. We acknowledge the need of local governments for flexibility to meet the distinct needs of their communities. We also recognize the role of nonprofits in meeting those needs. Nonprofits can and should be seen as full partners with municipalities and the state in delivery of relief services.

We recommend that you strongly encourage local governments in your district to include nonprofits in both their direct and indirect funding decisions with a focus on operating grants rather than loan programs to ensure rapid relief. We also recommend that you include nonprofits in your overall guidelines.

6. Adopt federal Office of Management and Budget flexibility

Nonprofits are quickly adapting to this crisis. They have limited funds, fewer or no volunteers, and in many cases less staff. Delivering on plans articulated before the crisis is strained at best. Implementing flexibility across all state granting programs will position organizations to better focus on service delivery without facing reporting penalties and delays in receiving their funding. By avoiding disruptions in grants and contracts, the state reduces the chance that organizations may have to cut services or shut down completely.

We recommend that you ensure flexibility in state grants and contracts by following, at a minimum, OMB COVID relief rules, which include:

- No-cost extensions on expiring grant awards
- Abbreviated non-competitive continuation requests
- Allowing expenditure of award funds related to the public health emergency, including resumption of activity in the future and the appropriateness of future funding
- Waivers from prior approval requirements
- Exemption of certain procurement requirements
- Extension of financial and other reporting
- Extension of the Federal Single Audit submission

We also recommend that you ask nonprofit leaders which of the temporary relaxed regulations can continue based on positive evidence of their effectiveness during this time.

Going back to old ways of doing business is not always the best choice. Engaging the providers directly will help us keep the rules that deliver the best services in a cost effective and high-quality environment. Trust, communication, and collaboration between the state departments and nonprofits is getting us through this pandemic. Let's keep that going.

7. *Be transparent to honor intent*

Unfortunately, since we are moving very fast to build our relief car and driving it at the same time, no system currently exists to know how money will be allocated by sector. As I noted earlier, SBA information and Department of Labor statistics focus on industry, not sector. We only have labor statistics on the nonprofit sector because of our own research.

We recommend that the state create a public-facing dashboard to show how nonprofits, small businesses, and local governments are benefiting from CARES dollars through the SBA, PPP, EIDL programs and also from the \$1.25 billion dollars in state relief funds.

Ensuring intent builds trust and sets us up for long-term recovery across all sectors.

By following these three considerations and our seven requests, we can ensure that nonprofits will continue to respond to this pandemic and are with us as we recover long into Alaska's future.

Thank you for considering this, and I'm happy to take any questions you may have.