



# COVID-19's Impact on the Human & Social Services Sector

FEMA Region 3

COVID-19 Interagency Recovery Coordination Task Force

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# FEMA

Photo from cover page: The “Tuesday Terrors” volunteer corps’ return to the Chester County Food Bank where the mission “to mobilize our community to ensure access to real, healthy food” continues in a year of uncertainty and challenges. (Photo Credit: Chester County Food Bank)

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“People have put their lives and livelihoods on hold, making enormous sacrifices to protect not just their own health and that of their loved ones, but also their neighbors and the broader community. While we are all affected, the burden has fallen most heavily on those least able to bear it. . . almost 40 percent of those in households making less than \$40,000 a year had lost a job in March. This reversal of economic fortune has caused a level of pain that is hard to capture in words, as lives are upended amid great uncertainty about the future.” (Jerome Powell, Chair of the Federal Reserve, May 13, 2020).<sup>1</sup>

## Purpose

- To broadly define the impacts of the pandemic and shutdown on the human and social services sector, given the sector’s critical role in recovery.
- To focus on the nonprofit sector and how secondary effects of the pandemic have resulted in threats to its services and survival.
- To provide a rationale and foundation for more specific assessments, executed through a whole community partnership and intended to support data-driven interventions, inform the adaptation of policy to meet evolving needs, redirect funding streams, and design innovative strategies.

This White Paper focuses on impacts within Region 3 (mid-Atlantic), which serves Delaware, the District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia and seven federally recognized tribes. Despite this regional focus, the data compiled in this report includes a scan of the entire nation, which reflects our concern with understanding each state and region as part of the greater whole. We support the need for national understanding of the impact of COVID-19 on this sector.

## Overview

The primary goal of the shutdowns that began across the nation in March 2020 was to slow the spread of the virus that causes COVID-19 and to ensure that our healthcare system would be able to cope with the infection rate, need for ICU beds, and a scarcity of Personal Protective Equipment (PPE) and life-saving equipment. However, a secondary effect of the pandemic has been a slowing of the economy and a precipitous slide into recession.

Understanding the economic impacts of COVID-19 on the human- and social services sector requires recognizing the role of this sector as an engine of our economy, in addition to the overwhelming need for its services. The human- and social service sector includes a wide array of economic actors, such as nonprofits, government agencies, and for-profit businesses. Human- and social service programs in the U.S. include fiscal stimulus programs established to automatically stabilize the U.S. economy during recessions<sup>2</sup>. Automatic stabilizers refer to fiscal policy tools that counteract cycles of economic contraction using cash transfers and in-kind benefits provided to low-income households.<sup>3</sup> During economic downturns, these permanent government programs are triggered without government action or special legislation. These fiscal policy tools encompass programs such as unemployment insurance, food stamps, health insurance, and financial assistance,<sup>4</sup> and ease the burden

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<sup>1</sup> Powell, Jerome H. (May 13, 2020). An Economic Update by Fed Chair Jerome H. Powell – Chair of the Board of Governors of the Federal Reserve System. Peterson Institute for International Economics. <https://www.piie.com/events/economic-update-fed-chair-jerome-h-powell>

<sup>2</sup> Sliding scales that decrease taxes automatically are part of this mix but have been left out here as they are not administered by human & social service agencies.

<sup>3</sup> Automatic stabilizers require no legislative action to increase spending or decrease taxes when the economy slows.

<sup>4</sup> TANF, SNAP, WIC, CHIP, Medical Assistance, State Medicaid, and Unemployment Insurance.

of a decline in income while they function as a form of stimulus for individual households. Essentially then, human- and social service programs can dampen the effect of economic shocks and direct critical resources to where they are needed most. They prevent massive devastation of the economy, enable impacted households to meet basic needs, create and even save jobs, and end when conditions improve.<sup>5</sup>

The value to society of a healthy human- and social services ecosystem can be measured in a variety of ways. First-order impacts to effective human and social service delivery take place at the level of individual households: when they receive quality services that meet their needs, they go on to lead healthier, more stable and productive lives. This enhanced productivity benefits society and our broader economy as well. Conversely, when people do not receive quality services in a timely fashion, future challenges in their lives can become more serious and persistent and can require more extensive and expensive interventions later on – ultimately imposing greater direct and indirect costs for them, our taxpayers, and society. Human- and social services have profound long-term economic impacts, with the potential to transform our society’s financial health and well-being. While the immediate economic impact of human and social services is substantial, the long-term economic impact is even greater. High-quality, effective human and social services can produce positive impacts for people that last a lifetime, allowing them to realize their fullest potential and boost our nation’s productivity. A troubled youth who receives timely behavioral health support, a person or family experiencing homelessness who is able to find stable housing, and a child who receives nutritional support are all more likely to lead productive, employed lives 10



A volunteer at Holy Trinity Lutheran Church Food Pantry in Dingmans Ferry, Pa. The number of families requesting food assistance has doubled during the COVID-19 Pandemic. (Photo Credit: Liberty Lutheran)

and 20 years down the road as a result.<sup>6</sup>

## Testing Our Assumptions Against Reality

Major disaster events are typically followed by multiple ad hoc assessments covering a broad range of sectors, and carried out by different agencies, nonprofits, think tanks, community groups, media outlets, and research centers. These assessments are wide-ranging — from rapid assessments of immediate needs, which can be quite informal, to detailed assessments of long-term recovery requirements. The sheer number of assessments and the array of anecdotal, incomplete and unverifiable accounts of need, coupled with diverse methodologies, can result in a lack of clarity for government, nonprofit and

<sup>5</sup> Boushey, H., Nunn, R. and Shambaugh, J. (2019) *Recession Ready: Fiscal Policies to Stabilize the American Economy*. <https://www.brookings.edu/multi-chapter-report/recession-ready-fiscal-policies-to-stabilize-the-american-economy/>

<sup>6</sup> Oliver Wyman Consulting (2017). *A National Imperative: Joining Forces to Strengthen Human Services in America*. <http://seachangecap.org/wp-content/uploads/2018/03/A-National-Imperative-Joining-Forces-to-Strengthen-4-1.pdf>

private sector partners as they plan for recovery and, in this case, prepare for future waves of the pandemic's spread.

As the many stakeholders to the work done in this sector have been in conversation about the impacts of COVID-19 in recent weeks, a growing consensus has emerged that better data at the local / regional level is needed to groundtruth assumptions, help make good policy decisions, direct funding, and design effective interventions. Much of the information available to this stakeholder group encompasses pre-COVID-19 data sets. These are extremely valuable when establishing a baseline, but not for gauging how the situation has evolved since this data has been collected. The lack of information about current needs translates into an inability to judge the extent to which our bureaucratic apparatus is providing an adequate safety net, in addition to how much the crisis threatens the survival of the nonprofits that deliver critical services. Without the ability to test our assumptions against real data, we may be missing things hidden from our view

that require critical interventions.

## COVID-19: Equity Concerns

Human and social service programs are set up to deal with wicked problems in the public sphere, and the pandemic has presented vexing issues that require this sector to confront issues such as the fact that the pandemic has not impacted all Americans in the same way. Social class, race, ethnicity, being deemed an essential worker, and gender have arisen as primary determinants of both infection rates and economic impacts. According to the COVID Tracking Project at The Atlantic,<sup>7</sup> data on case infection (51 of 56 states and territories) and death rates (50 of 56 states and territories) by race and ethnicity is still incomplete in the US, but extant data tells us that while African Americans only make up 13 percent of the US population, they represent 22 percent of all deaths where race has been a matter of record. Using just a selection of the data from the COVID 19 Racial Data Tracker for Region 3 on Oct. 13, 2020, we see the following trends:

**COVID-19 Cases and Deaths by Race and Ethnicity on 10/21/2020<sup>8</sup>**

	% of pop. (Black)	% of cases (Black)	% of deaths (Black)	% of pop. (Latinx)	% of cases (Latinx)	% of deaths (Latinx)	% of pop. (white)	% of cases (white)	% of deaths (white)
DE	22	28	26	9	24	7	63	42	65
DC	47	50	75	11	27	13	41	23	11
VA	19	25	27	9	28	10	62	39	57
MD	29	37	41	10	25	11	51	31	43
WV	4	5	3	n/a	n/a	n/a	93	76	83
PA	11	22	20	7	23	6	81	72	73

<sup>7</sup> The Atlantic. (October 13, 2020). COVID 19 Racial Data Tracker. <https://covidtracking.com/race/dashboard>

<sup>8</sup> The Atlantic. (October 13, 2020). COVID 19 Racial Data Tracker. <https://covidtracking.com/race/dashboard>

Examining this data reveals trends in the District of Columbia, where African Americans make up 47 percent of the population, but have experienced 75 percent of all deaths, while whites who make up 41 percent of the population represent only 11 percent of deaths. Essential workers, many of whom earn low

wages and do not receive benefits from their employers, have suffered disproportionately,<sup>9</sup> while furloughs in sectors with high female employment shares and child-care duties have created a large gender disparity in terms of employment outcomes.<sup>10</sup>

## COVID-19: Economic Impact on the Human and Social Service Sector

According to the May 2020 Bureau of Labor Statistics Employment Situation Report,<sup>11</sup> the human and social services sector has been hard hit by unemployment with 2.5 million jobs lost in education and health services, 1.4 million in health care, and 651,000 in social assistance in April 2020.

While there were very modest gains in employment in the human and social services sector in May, June, and July 2020, in August there was little change in the sector's employment numbers. In September 2020, the sector again saw minor employment gains. It is important to note that the Bureau of Labor Statistics (BLS) data on unemployment statistics was inaccurate, due to classification errors through June 2020, which means there is a lack of clarity about the full effects of unemployment in the human- and social service sector.<sup>12</sup> <sup>13, 14</sup> In July, August and September 2020, the BLS reports having remediated much of this issue, although some misclassifications have persisted.<sup>15</sup>

In Region 3, the human- and social service sector's impact on the economy is as follows:



A volunteer from the Chester County Food Bank warehouse, Pa. (Photo Credit: Chester County Food Bank)



Below: Central Pennsylvania Food Bank sees a huge line of cars representing households in need of food assistance and experiencing food insecurity as COVID-19 job loss mounts. (Photo Credit: Pennsylvania Association of Nonprofit Organizations)

<sup>9</sup> Garfield, R., Rae, M., Claxton, G. & Orgera, K. (April 29, 2020). Double Jeopardy: Low Wage Workers at Risk for Health and Financial Implications of COVID-19. Kaiser Family Foundation. <https://www.kff.org/coronavirus-covid-19/issue-brief/double-jeopardy-low-wage-workers-at-risk-for-health-and-financial-implications-of-covid-19/>

<sup>10</sup> Alon, T., Doepke, M., Olmstead-Rumsey, J. & Tertilt, M. (April 2020). The Impact of COVID-19 on Gender Equality. NBER Working Paper No. 26947. <https://www.nber.org/papers/w26947>

<sup>11</sup> Bureau of Labor Statistics. (May 8, 2020). The Employment Situation - April 2020. Press Release. <https://www.bls.gov/news.release/archives/empst05082020.htm>

<sup>12</sup> BLS made note of an error in its unemployment estimates since March (misclassified data) due to people being counted as temporarily "absent" from work for "other reasons," who should have been classified as unemployed. April went from the 14.7 percent official rate to a 19.5 percent adjusted rate (upper bound), and May went from the 13.3 percent official rate to a 16.4 percent adjusted rate. In June, the official rate of 11.1 percent was adjusted to 12.3 percent, in July 2020, the official rate of 10.2 percent was adjusted to 11.1 percent. In August 2020, the official rate fell to 8.4 percent, and the adjusted rate was 9.1 percent. In September the official unemployment rate was 7.9 percent, and the revised rate was 8.3 percent.

<sup>13</sup> Furman, J. & Powell, W. (July 2, 2020). US unemployment rate falls again but little progress after accounting for recalls from temporary layoffs. Petersen Institute for International Economics. <https://www.piie.com/blogs/realtime-economic-issues-watch/us-unemployment-rate-falls-again-little-progress-after>

<sup>14</sup> Bureau of Labor Statistics (August 7, 2020). Employment Situation Report July 2020. <https://www.bls.gov/news.release/pdf/empst.pdf>

<sup>15</sup> Bureau of Labor Statistics (October 2, 2020) Employment Situation Report September 2020. <https://www.bls.gov/news.release/empst.nr0.htm>

## Human and Social Services as an Engine of Region 3's Economy

	Health Care & Social Assistance Employment <sup>16</sup>	State Budget Allocations to Human- & Social Service programs in 2019	Size of the Charitable Nonprofit Sector (Source: National Council of Nonprofits, 2019, except where noted). <sup>17</sup>
DE	16.9% of labor force	28.1% to Health & Social Services, 4.1% to Services for Children, Youth and Families, & 34.6% to Public Education. <sup>18</sup>	876 nonprofits employ 11.6% of the private workforce & generate \$6 billion in annual revenue. 20% work in human & social services, 15% education, 11% health, 9% public benefits, & 5% public safety. <sup>19</sup>
PA	20.1% of labor force	37% to Health & Human Services & 37% to Education. <sup>20</sup>	49,632 nonprofits employ over 16% of the private workforce and generate almost \$117 billion in annual revenue.
MD	15% of labor force	39% to Health & Human Services, 18% for Education. <sup>21</sup>	29,746 nonprofits employ almost 13% of the state's private workforce and generate more than \$47.6 billion in annual revenue.
DC	11.3% of labor force	24% to human & social services & 27% to public education. <sup>22</sup>	10,448 nonprofits employ 26% of the private workforce and generate \$37.6 billion in annual revenue.
VA	14.1% of labor force	34% to Education & 31% to Health & Human Services. <sup>23</sup>	36,210 nonprofits employ over 9% of the private workforce and generate over \$51 billion in annual revenue.
WV	19.5% of labor force	25.3% to Health & Human Resources (includes human & social services), 1.5% to Senior Services, & 42.3% to Public Education. <sup>24</sup>	8,045 nonprofits employ over 14% of the private workforce & generate more than \$9 billion in annual revenue.

## Human & Social Services in the Public Sector

In December 2019, the Economic Policy Institute (EPI) published a report detailing the power of state, local, tribal and territorial (SLTT) governments as fiscal institutions, pointing to the fact that over one-third of all public spending in the U.S. is attributed to SLTT governments. “In 2018, these governments combined spent roughly \$2.8 trillion, or almost 14% of U.S. Gross Domestic Product.”<sup>25</sup> EPI’s analysis highlighted a continual decline in federal government grants to state &

local governments for education, training, employment and social services over the course of the last four decades – with the share in those categories falling from 26.7 percent in 1979 to 8.7 percent in 2018. This sobering trend is a cause for concern in the current pandemic environment, as revenue reductions impact the ability of state and local governments to sustain spending on mandated social service programs at the same time as demands on safety net spending are increasing. The

<sup>16</sup> Source: ESRI 2019 Business Summaries

<sup>17</sup> National Council of Nonprofits (2019). Nonprofit Impact Matters. DC: NCNP <https://www.nonprofitimpactmatters.org/data/state-nonprofit-data/>

<sup>18</sup> Office of Governor Carney. (2020). State of DE Financial Overview for Fiscal Year 2019. <https://budget.delaware.gov/budget/fy2019/documents/budget-presentation.pdf>

<sup>19</sup> Share Delaware (2019). State of the Nonprofit Sector. <https://delawarenonprofit.org/wp-content/uploads/2019/09/State-of-the-Nonprofit-Sector-Share-Delaware-Infographic-1.pdf?x16310>

<sup>20</sup> Office of the Governor Harrisburg (2020). Pennsylvania Budget in Brief. [https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2019-20%20Proposed%20Budget/2019-20\\_Budget\\_in\\_Brief\\_Web.pdf](https://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2019-20%20Proposed%20Budget/2019-20_Budget_in_Brief_Web.pdf)

<sup>21</sup> MD Budget Highlights Fiscal Year 2019 <https://dbm.maryland.gov/budget/Documents/operbudget/2019/Proposed/BudgetHighlights.pdf>

<sup>22</sup> Office of Mayor Bowser. (2020). DC’s FY19 Budget. [https://mayor.dc.gov/sites/default/files/dc/sites/mayormb/page\\_content/attachments/Final%20FY19%20Budget%20Presentation%20-%20smb.pdf](https://mayor.dc.gov/sites/default/files/dc/sites/mayormb/page_content/attachments/Final%20FY19%20Budget%20Presentation%20-%20smb.pdf)

<sup>23</sup> Virginia Dept of Planning and Budget (2020). Virginia’s Budget. <https://dpb.virginia.gov/budget/>

<sup>24</sup> WV State Budget 2019 <https://budget.wv.gov/executivebudget/Documents/Presentation%20FY%202019.pdf>

<sup>25</sup> Bivens, Josh. (December 18, 2019) How to make federal aid to state and local governments more transparent and effective. <https://www.epi.org/publication/federal-aid-to-state-and-local-governments/>

mushrooming cost of many economic lifeline programs puts them in danger of being cut. Most states have already had to make difficult budgetary decisions to pass FY20-21 spending plans and enact budgets in the face of dramatic revenue shortfalls.<sup>26</sup> Some states, such as Pennsylvania, have turned to unorthodox, short term budgets (Pa. has passed a 5-month 2020-2021 initial budget) allowing more time to determine the degree to which state revenue has been impacted, as well as to wait for potential federal aid packages that would avert an economic catastrophe.<sup>27</sup>

The public sector has already seen major impacts due to COVID-19. In April 2020, the Bureau of Labor Statistics reported the loss of 1 million government jobs, mostly reflecting cuts in education and health services.<sup>28, 29</sup> In May 2020, government employment declined with a loss of 585,000 jobs in the local government education sector accounting for almost two-thirds of the decrease (-310,000) and reflecting school closures and reduced staffing in state education agencies (-63,000).<sup>30</sup> In June 2020, there was an insignificant change in government employment numbers (+33,000 jobs overall), as job losses in state government (-25,000) were offset by gains in local government education (+70,000).<sup>31</sup> In July 2020, government employment rose (+301,000),<sup>32</sup> mostly driven by state and local hiring in the education sector and federal hiring of temporary workers for the 2020 Census. In August 2020,<sup>33</sup> government employment

increased (+344,000), with the job gain in the federal government (+251,000) reflecting 238,000 temporary 2020 census workers. Local government employment rose (+95,000). In September 2020, state (-231,000) and local government employment (-49,000) declined.<sup>34</sup> Despite overall gains, employment in the government sector has 942,000 fewer jobs than it did in February 2020.<sup>35</sup>

State and local governments employ a large workforce dedicated to human and social service provision. Departments of Public Health, Education, and Human Services run a wide array of programs covering childcare and nutrition, public hospitals and health care, social safety net assistance, and supportive services for the disabled and other vulnerable groups in society. The range of services offered from state to state varies, but generally covers similar categories of need. These programs provide different types of socio-economic support, commonly understood to be a form of social insurance, in addition to being sound fiscal policy interventions. Designed to respond to deteriorating macroeconomic conditions, these services are in demand during periods of economic crisis. The human and social service sector is sensitive to business-cycle fluctuations, such as those that have resulted from recent COVID-19 shutdowns, as workers have lost their jobs. As the unemployment rate increases, human and social service programs provide economic assistance for citizens who find themselves

<sup>26</sup> The majority of US states have fiscal years that run from July 1 - June 30. The District of Columbia's fiscal year runs from Oct 1 - Sept 30 and there are other exceptions. States vary in how much authority their legislatures have to change their budgets, and some pass temporary spending bills to keep government running until a budget is enacted. Each state's budget reflects estimated revenue the state will collect in the coming fiscal year. If the estimate is short of what the state needs to fund ongoing services and meet its obligations for the year, the state has a "budget shortfall" or "projected deficit." When this occurs, the state must typically re-balance the budget using reserve funds, cutting spending, and increasing revenues. States operate under constraints in issuing bonds and must also comply with state constitutions and statutes governing the budget process. <https://www.cbpp.org/research/policy-basics-the-abc-of-state-budgets>

<sup>27</sup> <https://www.post-gazette.com/news/politics-state/2020/05/26/Facing-nearly-5-billion-shortfall-Pa-lawmakers-plan-to-pass-short-term-budget/stories/202005260088>

<sup>28</sup> Statement by Commissioner William W. Beach, Bureau of Labor Statistics, May 8, 2020, <https://www.bls.gov/news.release/jec.nr0.htm>

<sup>29</sup> Bureau of Labor Statistics (May 8, 2020). Employment Situation Report April 2020. [https://www.bls.gov/news.release/archives/empsit\\_05082020.htm](https://www.bls.gov/news.release/archives/empsit_05082020.htm)

<sup>30</sup> Bureau of Labor Statistics (June 5, 2020). Employment Situation Report May 2020. [https://www.bls.gov/news.release/archives/empsit\\_06052020.htm](https://www.bls.gov/news.release/archives/empsit_06052020.htm)

<sup>31</sup> Bureau of Labor Statistics (July 2, 2020). Employment Situation Report June 2020. [https://www.bls.gov/news.release/archives/empsit\\_07022020.htm](https://www.bls.gov/news.release/archives/empsit_07022020.htm)

<sup>32</sup> Bureau of Labor Statistics (August 7, 2020). Employment Situation Report July 2020. <https://www.bls.gov/news.release/pdf/empsit.pdf>

<sup>33</sup> Bureau of Labor Statistics (September 4, 2020). Employment Situation Report August 2020. <https://www.bls.gov/news.release/empsit.nr0.htm>

<sup>34</sup> Bureau of Labor Statistics (October 2, 2020). Current Employment Statistics Highlights September 2020. <https://www.bls.gov/web/empsit/ceshighlights.pdf>

<sup>35</sup> Bureau of Labor Statistics (October 2, 2020). Current Employment Statistics Highlights September 2020. <https://www.bls.gov/web/empsit/ceshighlights.pdf>

negatively impacted. Spending on these programs falls into the following categories:

1. **Social Security Insurance (SSI) spending:** on retirement and disability insurance.
2. **Social Safety Net spending:** Supplemental Nutrition Assistance Program (SNAP), Unemployment Insurance (UI), Medical Assistance, Temporary Assistance for Needy Families (TANF), the Women, Infants and Children (WIC) program, the Low Income Home Energy Assistance Program (LIHEAP), affordable and subsidized housing, congregate care facilities, assisted living programs for the elderly, meals for elderly shut-ins and the disabled, mental health and substance abuse services, and more.
3. **Health Care spending:** Medicare, Medicaid, Affordable Care Act (ACA) marketplace subsidies, and the Children's Health Insurance Program (CHIP), etc.
4. **Education spending:** Head Start, Child Care assistance and after school programs, the National School Lunch Program (NSLP), educational support services for children with disabilities, special education programs, etc.

Job security for civil servants and SLTT government spending represents a lifeline for the U.S. economy, and federal allocations that support state and local investments in safety nets are more critical now than ever. At a time of growing need, SLTT governments

must be able to not only sustain, but increase the level of their investments in social services, education, employment services, unemployment insurance, food security and health care, and they must be able to maintain the capacity to deliver these services in a high-need environment.

## Human and Social Services in the Private Sector

According to a 2012 Bureau of Labor Statistics report, the private sector accounts for 60 percent of social services jobs.<sup>36</sup> The privatization of public services in the human and social service sector has been supported as an alternative to traditional government service delivery models, due to government capacity issues, the ability of the private sector to offer services at a lower cost with a higher standard of care, or to more effectively execute these tasks. The term 'delegated governance' describes outsourcing arrangements which engage private actors in the delivery of public benefits for federal, state or local government agencies. Under these arrangements, the government pays private entities (both nonprofit and for-profit firms) to deliver services or run programs. The human and social service sector has seen many programs shift from government to private sector management, although government agencies continue to finance and regulate service provision and set industry standards.

For the purposes of this white paper, privatization of the government human and social service sector refers to the provision of publicly funded services and activities by non-governmental entities, both nonprofit and for-profit. This includes the operation of correctional facilities, case management services, employability assessment, job placement and training services, hospitals, health care

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<sup>36</sup> Jones, John I. (Oct. 2012). *Employment and wages in community and social service occupations - Beyond the Numbers: Employment & Unemployment*, vol. 1, no.16, Occupational Employment Statistics program, U.S. Bureau of Labor Statistics. <https://www.bls.gov/opub/btn/volume-1/employment-and-wages-in-community-and-social-service-occupations.htm>

facilities, mental health/substance abuse services, public assistance and safety net programs, poverty reduction efforts, child support enforcement, assistance for those with developmental disabilities, skilled nursing facilities for the elderly/people with access and functional needs, and more.

Medicaid, the largest health care program serving the nation's poor, has been contracted out in the vast majority of states to private, for-profit corporations. Because federal, state and local government agencies rely on private social service, health and education providers to deliver services and provide a large share of their revenue, these organizations also stand to be negatively impacted in a recession.

## Human and Social Services in the Nonprofit Sector

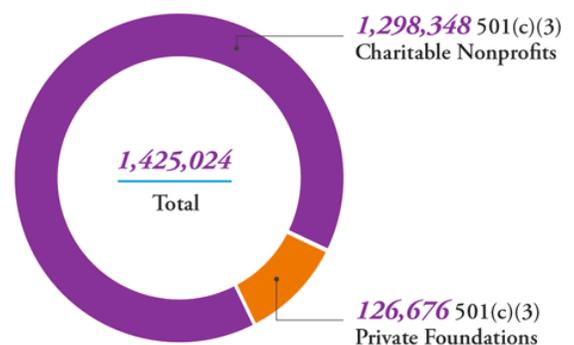
“Nonprofit revenues from all sources—government contracts, fee-for-service, and donations—are down and likely to remain so for years. Many organizations will face unmanageable revenue declines given their liabilities and fixed expenses. Cash flow challenges will be daunting as near-bankrupt state and local governments struggle to pay their bills on time or may even renege on contracts at the same time as banks are reluctant to renew, let alone increase, lines of credit. Widespread distress will also erode charitable assets—among society’s most precious resources—if struggling organizations use them for mere survival rather than the effective and efficient pursuit of their missions” (SeaChange, 2020).<sup>37</sup>

The nonprofit sector is part of our country’s critical economic infrastructure and represents more than 1.3 million nonprofits employing 12.3 million people or more than 10 percent of America’s private workforce.<sup>38</sup> This represents more jobs than those that exist in the manufacturing, construction, or finance sectors of our national economy. In fact, charitable nonprofits make up the third-largest workforce in the nation.<sup>39,40</sup> The nonprofit sector was also the **third** largest generator of payroll income in 2017, with \$670 billion in wages paid to employees. As further evidence of their impact, nonprofit organizations contributed an estimated \$985.4 billion to the U.S. economy in 2015, comprising 5.4 percent of the country’s gross domestic product.<sup>41</sup> Additionally, the employment growth rate for nonprofits in social assistance was 123.8 percent, while for the private sector it was only 18.2 percent.<sup>42</sup> Of the revenue that nonprofits represent, about one-third of their funding comes from government sources, according to the Federal Reserve Bank of Minneapolis.<sup>43</sup>

### Nonprofits by the Numbers

97 percent of nonprofits have budgets of less than \$5 million annually, 92 percent operate with less than \$1 million a year, and 88 percent spend less than \$500,000 annually for their work. The “typical” nonprofit is community-based, serving local needs.

**Total Registered 501(c)(3) Organizations**  
(including private foundations)



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<sup>37</sup> SeaChange (2020). Think Outside the Box: How Stakeholders Can Help Nonprofits Face the Challenge of COVID-19.

<http://gd7xi2tioeh408c7o34706rc-wpengine.netdna-ssl.com/wp-content/uploads/2020/06/Think-Outside-The-Box-How-Stakeholders-Can-Help-Nonprofits-Face-COVID-19.pdf>  
<sup>38</sup> <https://www.nonprofitimpactmatters.org/>

<sup>39</sup> National Council of Nonprofits (2019). Nonprofit Impact Matters. DC: NCPN. <https://www.nonprofitimpactmatters.org/site/assets/files/1/nonprofit-impact-matters-sept-2019-1.pdf>

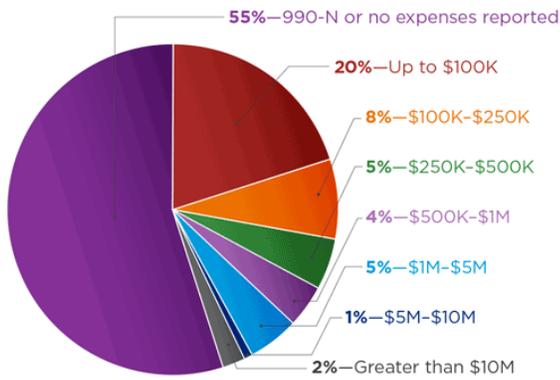
<sup>40</sup> Johns Hopkins Center for Civil Society Studies (2020). 2020 Nonprofit Employment Report. <http://ccss.jhu.edu/2020-nonprofit-employment-report/>

<sup>41</sup> Urban Institute (2015). Registered Nonprofit Organizations by State. Washington, DC: National Center for Charitable Statistics. <http://nccsweb.urban.org/tablewiz/bmf.php>

<sup>42</sup> Johns Hopkins Center for Civil Society Studies (2020). 2020 Nonprofit Employment Report. <http://ccss.jhu.edu/2020-nonprofit-employment-report/>

<sup>43</sup> <https://www.minneapolisfed.org/article/2015/a-world-of-nonprofits>

### 501(c)(3) Charitable Nonprofits by Size (excluding private foundations)



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The National Council of Nonprofits (NCNP) tells us that there are over 1.3 million nonprofits at work in the U.S.<sup>44</sup> Of this number, only those reporting gross receipts of \$200,000 or greater, or assets of \$500,000 or greater, are required to file a full Form 990 with the IRS.<sup>45</sup> Thus, data on many small nonprofits is not available to help assess the financial health of the sector, but past experience with post-disaster impacts has shown that smaller nonprofits are less likely to have the assets and reserves to withstand a recession or a shutdown, much less a budget reduction at the same time as their services are in greater demand. These entities function on shoe-string budgets, often experiencing a state of permanent financial peril similar to that of their clientele. Yet in moments of crisis, these organizations spring into action and use their scarce reserve funds to meet needs present in their communities. As their resources are depleted, there is often no way for their coffers to be replenished and their acts of goodwill are rewarded with their demise.

Few nonprofits have the type of monetary reserves<sup>46</sup> that would help them survive the loss of donors,

fundraising opportunities, and fee-for-service arrangements that have become common since the pandemic and resultant economic crisis began. Philanthropy has attempted to shift its historical preference for investing in programs, with some funders realizing the need to also provide support for operating costs. Some 781 foundations and grantmaking charities have signed a COVID-19 pledge of action committing them to more quickly provide the financial support needed to shore up the nonprofit sector since the crises began,<sup>47</sup> but even if significant philanthropic resources could be redirected, philanthropy does not have the scale of resources that will be necessary to prevent widespread insolvencies in the sector.

### Revenue Sources for Charitable Nonprofits

The entire nonprofit sector earns more than 80 percent of its revenue via private fees for services and performing government grants and contracts (although each individual nonprofit has its own revenue mix—there is no standard one-size-fits-all).



- 49% EARNED** Private Fees for Services
- 31.8% EARNED** Government Grants/Contracts
- 8.7% DONATED** Individuals
- 2.9% DONATED** Foundations
- 1.5% DONATED** Bequests
- .9% DONATED** Corporations
- 5.2%** Other

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<sup>44</sup> National Council of Nonprofits (2019). Nonprofit Impact Matters. DC: NCNP. <https://www.nonprofitimpactmatters.org/site/assets/files/1/nonprofit-impact-matters-sept-2019-1.pdf>

<sup>45</sup> National Center for Charitable Statistics (2018). The Nonprofit Sector in Brief 2018. Washington, DC: Urban Institute. <https://nccs.urban.org/publication/nonprofit-sector-brief-2018#the-nonprofit-sector-in-brief-2018-public-charities-giving-and-volunte>

<sup>46</sup> SeaChange Capital Partners (2018). The Financial Health of the U.S. Nonprofit Sector. <http://gd7xi2tioeh408c7o34706rc-wpengine.netdna-ssl.com/wp-content/uploads/2020/01/The-Financial-Health-of-the-US-Nonprofit-Sector.pdf>

<sup>47</sup> Council on Foundations (2020) Philanthropy's Commitment During COVID-19 Pledge. <https://www.cof.org/news/call-action-philanthropys-commitment-during-covid-19>

<sup>48</sup> Nonprofit Finance Fund (2018). State of the Nonprofit Sector Survey 2018. <https://nff.org/surveydata>

In its 2018 State of the Nonprofit Sector survey<sup>48</sup>, the Nonprofit Finance Fund found that 75 percent of nonprofits reported they only had enough savings to support six months of operating costs, while 19 percent of the nonprofits surveyed said they only had enough funds on reserve to survive for a month. Unlike philanthropic organizations that have endowments and well-managed financial asset portfolios, nonprofit finances mirror those of the populations they serve. The same survey reported 86 percent of nonprofits stated the demand for their services was continually increasing, while 57 percent said they could not meet these growing needs at present. Within organizations serving low-income communities, 65 percent of nonprofits surveyed were not able to meet the level of demand for their services.<sup>49</sup>

## Data on Nonprofit Sector Hardships due to COVID-19

**“The COVID-19 crisis will drive many nonprofits into insolvency, unable to pay their bills when due or carrying liabilities in excess of their assets” (SeaChange, June 2020)<sup>50</sup>**

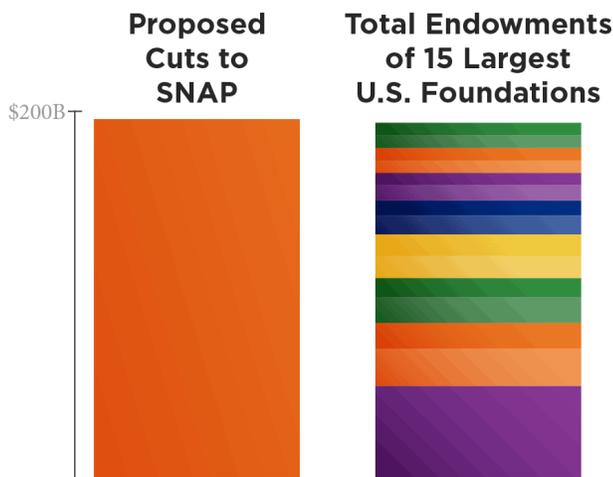
This is a time of incredible uncertainty. Much of the sector faces an existential threat from service shutdown, revenue loss, and the unpredictable duration of the pandemic. The Monitor Institute of Deloitte projected the contraction of the nonprofit sector will range between 10 percent to 40 percent. The Johns Hopkins Center for Civil Society Studies (CCSS) released its 2020 Nonprofit Employment Report<sup>51</sup> on June 16, 2020, which showed the impact of the COVID-19 pandemic on this sector of the economy:

- Nonprofit employment shows an estimated loss of over 1.6 million jobs from March to June 2020, which represents 13 percent of all jobs across the sector.

It is important to note that nonprofits were made eligible to apply for the Small Business Administration’s Paycheck Protection Program (PPP) loans (which if spent correctly will become grants), but smaller nonprofits were not able to access the loans due to SBA bureaucratic challenges and a lack of a prior lending relationship with banks. Nonprofits also have had great difficulty qualifying for the SBA’s Economic Injury Disaster Loans (EIDL). The inability to access these vehicles in a timely and efficient manner, if at all, created further barriers to financial solvency for many charitable organizations.

### Foundations Can’t Replace Government Cuts (even if they wanted to)

Consider: The White House proposed cutting \$193 billion from the Supplemental Nutrition Assistance Program (SNAP). It didn’t happen, but if it had, the amount of money needed to replace such a large funding gap would have required the equivalent of the 15 largest foundations in the country (such as the Gates Foundation and Ford Foundation) to cash out all their assets and permanently close their doors.



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Source of all graphics on nonprofits in this White Paper: National Council of Nonprofits (2019). Nonprofit Impact Matters: How America’s Charitable Nonprofits Strengthen Communities and Improve Lives. Washington, DC.

<sup>49</sup> Nonprofit Finance Fund (2018). State of the Nonprofit Sector Survey 2018. <https://nff.org/surveydata>.

<sup>50</sup> SeaChange (2020). Think Outside the Box: How Stakeholders Can Help Nonprofits Face the Challenge of COVID-19.

<http://gd7xi2tioeh408c7o34706rc-wpengine.netdna-ssl.com/wp-content/uploads/2020/06/Think-Outside-The-Box-How-Stakeholders-Can-Help-Nonprofits-Face-COVID-19.pdf>

<sup>51</sup> Kasper, G. & Marcoux, J. (July 2020). An event or an era? Resources for social sector decision-making in the context of COVID-19. The Monitor Institute: Deloitte. <https://www2.deloitte.com/us/en/pages/about-deloitte/articles/covid-19-planning-scenarios-for-social-sector-organizations.html>

Further, under the law in many states, nonprofit organizations (and local governments and federally recognized tribes) can opt either to pay State Unemployment Taxes (SUTA) or to self-insure to provide unemployment insurance (UI) benefits. Those nonprofits that self-insure for UI benefits must reimburse state UI trust funds for the full cost of benefits paid to former employees. The federal CARES Act enacted in March fully covers the costs of COVID-related unemployment benefits paid by states for former employees of most faith-based nonprofits and small charitable organizations that have fewer than four employees, but covers only half the cost of benefits to former employees of self-insured employers. Without full federal coverage of the costs charged to self-insured employers, these organizations must make sizable payments to their states now, when these resources are needed most to continue delivering services, and likely will have to lay off more employees and reduce operations as a result.<sup>52</sup>

A number of surveys have been conducted by different organizations try to assess the financial and programmatic impacts of COVID-19 on the nonprofit sector, and these data gathering efforts provide a sense of the scope of the challenges facing the sector at this time.

Many of the largest nonprofits and for-profit social service organizations with budgets over \$50 million a year are dependent on state and local government funding, which is set to undergo dramatic cuts as revenue from taxes and fees-for-service cannot be generated. These large human- and social service nonprofits and for-profit entities extend the ability of governments to provide essential services to their residents. The outsourcing of service delivery that

governments must provide to these entities make them quasi-governmental in nature, and the services they provide, fundamental to the continued healthy functioning of our communities. When large nonprofits, public sector agencies, and private sector human and social service providers fail, the results are communities without services for vulnerable populations, such as the homebound, elderly, women and children needing protection from abuse, the developmentally disabled, and the homeless, among many others.



Salvation Army disaster teams began distributing clean-up kits in Lake Charles, La to help those affected by Hurricane Laura recover. These kits contain masks, bleach, gloves, scrub brushes and assorted cleaning supplies. (Photo Credit: National Voluntary Organizations Active in Disaster – NVOAD)



Volunteers at the Coatesville Community Garden, Pa., a joint project of the Trinity Episcopal Church and the Chester County Food Bank where local participants find “health and strength in diversity and shared effort.” (Photo Credit: Chester County Food Bank, Quote: Mason Vollmer, Environmentally Friendly Gardening)

<sup>52</sup> Johns Hopkins Center for Civil Society Studies (2020). 2020 Nonprofit Employment Report. <http://ccss.jhu.edu/2020-nonprofit-employment-report/>

# Findings of National Surveys on the Impact of COVID-19 on the Nonprofit Sector

	Charity Navigator & Reuters News, April 2020 survey (298 respondents) <sup>53</sup>	La Piana Consulting, May 2020 survey (750 respondents) <sup>54</sup>	Nonprofit Organization Research Panel - May 2020 - human service respondents (614 – weighted results) <sup>55, 56</sup>
<b>Lost Revenue</b>	83% suffering financially with 38% decline in revenue expected for April to June period. 74.6% had to cancel a fundraising event.	90% of organizations experienced revenue loss compared with 70% in March 2020.	On average, respondents expected between a 19.3% - 37.3% decrease in revenue.
<b>Cutting Programs to Survive</b>	64% reported cutting back on programs, while 48.8% ceased a primary program.	91% had to curtail services or adapt how they provided them, & 51% expect to make further reductions in services.	25% made cuts to current programs while 39% expected to make cuts to upcoming or planned programs.
<b>SBA PPP Forgivable Loan</b>		69% applied for a Paycheck Protection Program Loan ranging between \$5K and \$6.8M. Fewer than half have received funding.	
<b>Increased Demand</b>	50.2% seeing an increase in demand for programs & services.		15% had experienced increased demand for their service and 46% expected to in the future.
<b>Staff Reductions</b>	14.2% of respondents have laid off staff, while 27% are planning to lay off staff due to the pandemic.	18% of staff have been furloughed on average, and 44% of responding organizations expect to make further reductions in staff.	26% of human service nonprofits had furloughed or laid off staff and 20% had reduced staff hours.
<b>Volunteer Shortages</b>	35.3% report volunteer shortage		63% saw a decrease in the number of their volunteers.
<b>Closed a Site</b>	10.5% report closing an office completely with the inability to work remotely.	Most school-based and arts & culture organizations are closed, many with 100% loss of revenue.	

<sup>53</sup> Charity Navigator & Reuters News (April 17, 2020). Impact of the Pandemic & Economic Shutdown on the Nonprofit Sector. <https://www.charitynavigator.org/index.cfm?bay=content.view&cpid=7900>

<sup>54</sup> La Piana Consulting (May 2020). The Continuing Impact of COVID-19 on the Social Sector. <https://www.lapiana.org/Portals/0/Documents/R2-COVID-Data-Share-Final.pdf>

<sup>55</sup> Nonprofit Organization Research Panel (May 22, 2020). COVID-19 and Nonprofits: NORP Survey Series #8. Andrew Young School of Policy Studies at Georgia State University. [http://norpanel.org/NORP%20Survey%20Report\\_8.pdf](http://norpanel.org/NORP%20Survey%20Report_8.pdf)

<sup>56</sup> The NORP Survey produced weighted and unweighted findings as part of this survey. Weighted variables correct imbalances between the survey sample and the population by applying a weighting process to variables based on representation and intended to improve the quality of the estimates that are produced. Only unweighted percentages are presented in this table.

## Lessons from the Great Recession of 2007-2008

On April 9, 2020, the Economic Policy Institute estimated that at least \$500 billion in additional assistance to State, Local, Tribal and Territorial (SLTT) governments would be needed by the end of 2021 to prevent budget cuts that would reduce SLTT governments' capacity to offset pandemic impacts on their citizens.<sup>57</sup> On May 20, 2020, this projection changed, and the Center on Budget and Policy Priorities forecasted \$765 billion in state budget shortfalls over the course of the next three years, based on Congressional Budget Office (CBO) and Goldman Sachs projections.<sup>58</sup> These projections were revised downward in June 2020, with COVID-19's economic fallout now expected to reach a cumulative \$555 billion over state fiscal years 2020-2022.<sup>59</sup> These numbers have led economic policy think tanks, research centers, and bipartisan state, county and professional associations<sup>60</sup> to call for much-needed assistance packages to preserve the capacity of state, local, tribal and territorial (SLTT) governments to inject funds into their economies and preserve vital services.<sup>61</sup>

SLTT spending austerity has been shown to depress economic growth, as it did after the Great Recession of 2007-2008. Federal policy decisions at that time failed to provide support for continued spending at lower levels of government and the consequent loss of revenue led to major spending cuts, dramatically slowing the pace of economic recovery.<sup>62</sup> In fact, from 2009-2013, job loss in SLTT governments

reached almost 500,000 employees, a loss of capacity and expertise essential to the production of public goods and services, most of which are executed at the SLTT level of government. Due to the inability of SLTT governments to stimulate local economies with their spending, growth stagnated and recovery trajectories flatlined.<sup>63</sup> The Great Recession of 2007-08 demonstrated that it is prudent policy to invest in state and local government capacity and service delivery.

In order to avoid repeating the mistakes from the recent past and risking a prolonged depression, leading economists are advocating federal aid packages to ensure state and local government's lack of spending do not become a drag on the economy.<sup>64</sup> This type of policy intervention requires an evidence base that accurately portrays current needs in each state in order to prevent public spending cuts that will have a trickle-down effect that includes widespread job loss in the private and nonprofit sector, which is a major beneficiary of state and local government spending.

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<sup>57</sup> EPI (April 9, 2020). At least \$500 billion more in coronavirus aid is needed for state and local governments by end of 2021. <https://www.epi.org/blog/at-least-500-billion-more-in-coronavirus-aid-is-needed-for-state-and-local-governments-by-the-end-of-2021/>

<sup>58</sup> Center on Budget and Policy Priorities (May 20, 2020). Projected State Shortfalls Grow as Economic Forecasts Worsen. <https://www.cbpp.org/blog/projected-state-shortfalls-grow-as-economic-forecasts-worsen>

<sup>59</sup> Center on Budget and Policy Priorities (July 7, 2020). States Continue to Face Large Shortfalls due to COVID-19 Effects. <https://www.cbpp.org/research/state-budget-and-tax/states-continue-to-face-large-shortfalls-due-to-covid-19-effects>

<sup>60</sup> National Governors Association (NGA), National Association of State Budget Officers (NASBO), National League of Cities (NCL), National Association of Counties (NACO), Peterson Institute for International Economics (PIIE), Center for Budget and Policy Priorities (CBPP), Moody's, etc.

<sup>61</sup> Center for Budget and Policy Priorities. (May 20, 2020). Projected State Shortfalls Grow as Economic Forecasts Worsen. <https://www.cbpp.org/blog/projected-state-shortfalls-grow-as-economic-forecasts-worsen>

<sup>62</sup> Bivens, Josh. (May 19, 2020). A prolonged depression is guaranteed without significant federal aid to state and local governments. <https://www.epi.org/blog/a-prolonged-depression-is-guaranteed-without-significant-federal-aid-to-state-and-local-governments/>

<sup>63</sup> Brookings Institute (2012). State and Local Budgets and the Great Recession. <https://www.brookings.edu/articles/state-and-local-budgets-and-the-great-recession/>

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