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OF NONPROFITS SERVING CHILDREN IN THE WASHINGTON, D.C., AREA

Nonprofit Child and Youth Service Providers Showed Signs of Fiscal Stress before 9/11

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Community-based nonprofits play important and tangible roles in the lives of children and youth in the United States. They provide a host of vital services, such as tutoring and mentoring programs, youth development initiatives, and emergency services that help children in low-income families fulfill basic needs. But many child and youth nonprofits currently face difficult challenges. From elevated community needs that impact demand for services to state and local budget shortfalls that jeopardize funding flows, local community-based providers confront tough choices about how to maintain service levels (Atkins et al. 2004).

Many of the current issues confronting child and youth nonprofits, and the nonprofit sector more broadly, can be traced to the economic downturn, policy shifts, and the increase in public reticence toward charities that followed the terrorist attacks on the Pentagon and World Trade Center on September 11, 2001. The economic slowdown in the country, in part, caused state budget deficits to soar to \$40 billion in fiscal year 2002 (National Governors Association and National Association of State Budget Officers 2002). In response, states cut deeply into social programs in which child and youth nonprofits are heavily involved, including child welfare services, teen pregnancy programs, low-income assistance, and child care (Children's Defense Fund 2002; Johnson 2002). On the policy front, government priorities shifted from domestic issues to homeland security and the war on terrorism. In philanthropic circles, well-publicized scandals at a few prominent charities increased public distrust of nonprofits, straining the capacity and fundraising ability of some providers. Taken together, the events that followed the terrorist attacks in 2001 produced

new environmental stressors for community-based nonprofits.

Strong fiscal health can help nonprofits overcome—or at least weather—uncertain environments (see De Vita and Twombly 2003). For example, a nonprofit with a cash surplus can offset, at least temporarily, the loss of a grant or a decline in charitable donations. In contrast, nonprofits in poor financial standing are particularly vulnerable to environmental shocks that threaten to force them out of business (see Tuckman and Chang 1991). In the end, the survival of community-based nonprofits depends in part on their financial status prior to the introduction of environmental stressors, such as those that followed the events of 9/11.

Little is known, however, about the financial position of community-based nonprofits of child and youth services before 9/11. This brief addresses this issue by assessing the financial health of child and youth service nonprofits at the end of 2000 and, for a panel of child and youth serving nonprofits, examining how their fiscal well-being changed from 1998 to 2000. The brief describes the extent to which they were financially ready to absorb the environmental stressors that followed the events of 9/11.

The brief focuses on locally oriented nonprofits that directly serve children and youth in the Washington, D.C., metro area. Children and youth are defined in the study as those age 0 to 17. The brief divides the nonprofit child and youth field into three types of providers: education, youth development and recreation, and social welfare. A detailed description of this typology is provided in box 1. The brief uses a newly developed dataset that contains financial and organizational information on nonprofits in the D.C. region

that filed Form 990 with the Internal Revenue Service in 2000. Because not all nonprofits file with the IRS, supplemental information was obtained from several foundations in the D.C. area and added to the dataset. The final dataset includes 1,114 local nonprofits that serve children and youth in the D.C. region. Of these organizations, 882 nonprofits (80 percent) include financial data in 2000. The 631 groups that supplied financial information in both 1998 and 2000 constitute the panel set in this analysis.

Findings

The analysis reveals four key findings about the financial structure and well-being of child- and youth-related nonprofits prior to 9/11:

More than 30 percent of child and youth nonprofits lost money in 2000.

The data show that 30.6 percent (or 270 groups) had expenses that exceeded revenues in 2000 (table 1), a proportion that is similar to the percentage of all nonprofits that lost money in 2000 (33.3 percent). But the typical local child and youth nonprofit ended 2000 with fewer financial resources than the typical nonprofit in the region on the whole. The median or typical operating margin (total revenues minus total expenses) for local child and youth nonprofits was 4.5 percent in 2000, compared with a median operating margin of 5.7 percent for the entire nonprofit sector in the D.C. area. The 4.5 percent operating margin translates into roughly \$9,000 that

TABLE 1. *Operating Margins in 2000 of Child and Youth Serving Nonprofits by Type of Provider in the Washington, D.C., Metropolitan Area*

Type of provider	N	Operating margin (\$)		Operating margin as percentage of revenue	Nonprofits with negative balance (%)
		Mean	Median		
Education					
Charter schools	22	171	49	6.2	36.4
Preschool, early childhood education	64	2	5	3.9	31.3
Other primary and secondary schools	131	725	142	8.7	19.8
Other education, including tutoring	42	175	12	7.0	23.8
Youth development					
Community facilities/youth centers	32	72	2	2.2	40.6
Scouting, youth sports	191	59	5	4.3	31.9
Social welfare					
Adoption, foster care, abuse/neglect	8	51	52	8.3	25.0
Child care	99	13	7	2.6	36.4
Community physical or mental health	65	101	5	4.7	35.4
Crisis intervention, counseling	54	40	4	3.2	33.3
Delinquency prevention	15	36	6	3.6	40.0
Multiservice providers	159	196	21	4.7	29.6
All local child and youth nonprofits	882	184	9	4.5	30.6
All nonprofits	7,606	560	11	5.7	33.3

Source: D.C. Regional Nonprofit Database, The Urban Institute.

Notes: Dollars in thousands. Financial amounts in this table are limited to organizations that filed Form 990 with the IRS in 2000. Of the 1,114 local child and youth providers in the study, 79.2 percent (or 882 nonprofits) filed Form 990.

could be carried forward to 2001 by the typical child and youth provider. These findings suggest that the financial stress of many child and youth nonprofits predates the 9/11 attacks and was, by and large, deeper in the child and youth field than in the nonprofit sector, on the whole.

Not all child and youth providers, however, fell on hard fiscal times. In fact, primary and secondary (noncharter) schools fared well financially in 2000, when more than four of every five had revenues that exceeded expenses. The average K–12 school also had an operating margin of more than \$700,000 that year (see table 1), and local private schools ended 2000 with very high net worth, compared with other child and youth nonprofits. Local private schools had average net assets (that is, total assets minus total liabilities) of more than \$6 million. The child and youth field had average net assets of roughly \$1.5 million in 2000. Part of the high net assets of private schools relates to local real estate, which increased in value in the late 1990s. But while the data show a set of private schools with relatively high fiscal capacity, these groups often do not reach the most at-risk students.

The finances in the child and youth field grew substantially from 1998 to 2000, but the growth rate significantly trailed the region's nonprofit sector.

Revenue and expenses for the average nonprofit child and youth group increased by \$366,000 and \$302,000, respectively, between 1998 and 2000. The average gain in assets (\$636,000) was even greater. In contrast, the average revenues and expenses in the region's entire nonprofit sector expanded by more than \$800,000—a growth rate that is nearly 2.5 times the average increase in the child and youth field. Average asset growth (roughly \$2 million) in the region's nonprofit sector was more than three times larger than the increase at child and youth nonprofits.

Much of the financial growth in the child and youth service field related to the rapid expansion of local charter schools, which constitute a key compo-

nent of the reform initiatives for the public education system in the District of Columbia. The revenues and expenses of the average charter school increased by more than \$1 million from 1998 to 2000, and more than 80 percent of charter schools saw their revenue increase by at least 175 percent. But the financial experience of most local charter schools differed substantially from those of the typical—or median—local child and youth nonprofit. Not only did the budget of the typical provider expand modestly from 1998 to 2000, but the increase in expenses outpaced the growth in revenues. Income at the median child and youth nonprofit grew by roughly \$53,000, but expenses increased by \$58,000, suggesting that the typical provider had lost financial ground by the close of 2000. Median assets also increased modestly, up by roughly \$39,000 from 1998 to 2000.

Some of the hardest hit service fields were early education providers, community facilities and youth centers, scouting and sports leagues, child care and crisis intervention, and counseling. For all of these service industries, median expenses increased faster than median revenues between 1998 and 2000. Even the typical private K–12 (noncharter) school saw their revenue growth eclipsed by the increasing cost of service provision.

A greater proportion of child and youth nonprofits lost money in 2000 than in 1998.

Despite the hefty growth of revenues and expenses between 1998 and 2000 in the child and youth field, many nonprofits lost ground financially, at least with respect to their operating budgets. Of the 631 local providers in the panel, 25 percent had expenses that exceeded revenues in 1998. In 2000, the percentage of local providers that lost money had grown to more than 30 percent.

Fiscal shortfalls became more prominent during this time frame in several service fields, including scouting, youth sports, and other education providers that supply afterschool activities and tutoring and mentoring. In 1998, for example, 26 percent of scouting organizations and youth sports lost money.

By 2000, this proportion jumped to 35 percent. Among groups that provide afterschool, tutoring, and mentoring programs, the percentage with budget deficits increased from 21 percent in 1998 to more than 30 percent in 2000. But mounting deficits were most clearly evident among crisis intervention and counseling groups. Among these providers, the proportion of groups that lost money doubled from 17 to 34 percent.

Some local child and youth providers suffered significant budget declines. One provider that focuses on teen pregnancy prevention saw its revenue drop from \$865,000 in 1998 to \$238,000 in 2000. While its expenses also dipped from \$683,000 to \$584,000, it ended 2000 with a budget deficit of \$346,000.

The data show that the child and youth service field largely split into a mix of fiscal “haves” and “have-nots” between 1998 and 2000. The operating margin for the

median provider that turned a “profit” in 1998 was \$32,400. By 2000, the difference between revenues and expenses for groups that at least broke even had grown to \$37,500. In contrast, for local child and youth providers that lost money in 1998, the average budget deficit was \$14,800. Among these fiscal losers in 2000, the average budget shortfall had grown to \$22,140. The bottom line is that financially successful providers experienced bigger fiscal gains in 2000 than in 1998, while struggling child and youth nonprofits lost ground financially.

By 2000, budgets tightened at nearly half of all local child and youth nonprofits.

Roughly 50 percent of local providers in the D.C. region experienced a drop in their end-of-year operating margins (that is, revenues minus expenses) between 1998 and 2000, although the typical non-

TABLE 2. Change in Operating Margins by Type of Child and Youth Nonprofit in the Washington, D.C., Metropolitan Area, 1998–2000

Type of provider	N	Median operating margin change (\$)	Organizations with smaller margin in 2000 than 1998 (%)
Education			
Charter schools	6	157,445	16.7
Preschool, early childhood education	45	-2,941	55.6
Other primary and secondary schools	108	4,907	49.1
Other education, including tutoring	23	15,101	39.1
Youth development			
Community facilities/youth centers	20	-1,083	50.0
Scouting, youth sports	125	-1,615	44.8
Social welfare			
Adoption, foster care, abuse and neglect	7	17,778	57.1
Child care	78	-1,994	52.6
Community physical or mental health	48	-4,571	56.3
Crisis intervention, counseling	42	1,296	61.9
Delinquency prevention	10	38,238	30.0
Multiservice providers	119	14,177	46.2
All local child and youth nonprofits	631	762	49.1
All nonprofits	5,456	-521	51.1

Source: D.C. Regional Nonprofit Database, The Urban Institute.

Note: Operating margin calculations in this table are limited to nonprofits that filed Form 990 with the IRS in 1998 and 2000.

profit had a slightly higher operating balance in 2000 when compared with 1998. This finding suggests that while the median local child and youth provider had a slightly bigger budgetary cushion—roughly \$760 more in 2000—many groups saw their budgets tighten.

Some types of providers saw deep declines in their operating margins. For example, the typical community-based health provider had an operating margin in 2000 that was nearly \$4,600 less than in 1998 (table 2). Preschool and early childhood educational nonprofits also experienced losses in their year-end budget surpluses. The median operating margin dropped by \$2,900 from 1998 to 2000. One exception to the general fiscal trend in operating margins in the child and youth field was evident at local charter schools in the District of Columbia, where the typical budget cushion (revenues minus expenses) grew by more than \$157,000.

Discussion

These findings show that while the fiscal status of K–12 and charter schools generally improved between 1998 and 2000, the financial health and well-being of several types of local child and youth nonprofits declined. Indeed, many groups were in precarious fiscal situations prior to the terrorist attacks in 2001. On a more positive note, the net assets of child and youth nonprofits grew by more than \$200 million from 1998 to 2000, and the total net worth of these providers was roughly \$1.2 billion as they entered 2001. But even here the findings are mixed, because much of the growth in net assets occurred at local private K–12 institutions and charter schools. Other child and youth nonprofits, particularly in youth development and those that provide social welfare services, began 2001 with comparatively little capital on which to draw when the social service environment became more difficult to navigate.

The findings of this brief suggest that many nonprofit providers were poorly positioned financially to

absorb the social and economic shocks that followed the events of 9/11. This finding takes on new importance in today's uncertain environment. Gronbjerg (1993) found that nonprofit organizations rely on predictability and continuity in revenue sources. Another environmental shock to the social service delivery networks for children and youth will likely disrupt funding flows and change client needs. As a result, there is a need for child and youth nonprofit organizations and the policy and foundation communities that fund them to prepare for future events that could threaten the effective delivery of children's services.

Such preparation can come in many forms. On the practitioner side, nonprofit providers may need to shift cash into reserve, creating robust “rainy day” funds that can be carried into future years and expended in times of financial trouble. In concert, policymakers and other funders may need to help further develop the management capacity of local nonprofits through training grants and other initiatives that promote good short-term and long-range fiscal planning by these groups. Developing solid business plans that include saving some resources for the future and engaging in capacity-building efforts that strengthen the internal operations of nonprofits can help local providers ensure their fiscal health and long-term stability.

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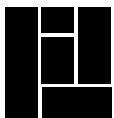


About the Author

Eric C. Twombly is a research associate in the Urban Institute's Center on Nonprofits and Philanthropy. His research focuses on community-based social service provision.

Box 1. Defining the Child and Youth Service Field

The study uses data from the National Center for Charitable Statistics and information from foundations and grantmakers in the D.C. region to categorize child and youth nonprofits along three broad dimensions: education, youth development and recreation, and social welfare. The education dimension includes pre-kindergarten and Head Start providers, primary and secondary private schools and charter schools, nonprofit libraries, and groups that focus on tutoring and afterschool activities. Youth development and recreation includes community facilities, youth centers, such as the Boys and Girls Clubs, scouting troops, and youth sports. The social welfare dimension consists of adoption, foster care, and groups that focus on the prevention of abuse and neglect; child care; community physical and mental health organizations; crisis intervention and counseling; delinquency prevention; and multiservice organizations, such as Catholic Charities. Although multiservice nonprofits may supply services to community residents of all ages, their crucial role in the delivery of services to children and youth warrant their inclusion in the study.



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This policy brief series discusses the national implications of a multi-phase project that examines the nonprofit safety net for children. Using the Washington, D.C., region as a case study, the series explores the financial structure and health, spatial distribution, and current and future challenges of nonprofit organizations that serve children.

For more information on nonprofit resources for children in the Washington, D.C., metropolitan area and this project, see the Urban Institute web site or contact Eric C. Twombly, etwombly@ui.urban.org or Jennifer Claire Auer, jauer@ui.urban.org.

Data Source: D.C. Regional Nonprofit Database, The Urban Institute. Derived from the IRS Form 990 and information provided by agencies and grantmakers in the D.C. region.

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