

2023

Current Conditions of Minnesota's Nonprofit Sector

September 2023



This report shares results from a current conditions survey the Minnesota Council of Nonprofits (MCN) conducted in 2023 from June to July (197 responses). This survey builds from a special report series MCN developed in response to the COVID-19 pandemic that tracked nonprofit well-being over time throughout the pandemic, international movements for racial justice following the murder of George Floyd by Minneapolis police, economic challenges, and other events.

Between March 2020 and July 2023, 2,090 nonprofit leaders responded to seven surveys MCN has conducted. Reports summarizing key trends, impacts, and outlook from previous surveys include:

- [May 2020](#)
- [July 2020](#)
- [December 2020](#)
- [May 2021](#)
- [December 2021](#)
- [October 2022](#)

Each of the past six reports, as well as MCN's annual and longitudinal Minnesota Nonprofit Economy Reports, are available at www.minnesotanonprofits.org/resources-tools/sector-research.

Report Purpose

The primary goal of surveying nonprofit leaders is to provide a broader context for organizations to place their individual situation in perspective for decision-making and communications with their boards of directors, supporters, and staff.

MCN shares this information with nonprofits, policymakers, funders, media, and the general public to help them understand how the current environment has affected the nonprofit sector and actions these organizations have taken.

About the Minnesota Council of Nonprofits

The Minnesota Council of Nonprofits (MCN) is the statewide association of more than 2,200 Minnesota nonprofit organizations. Through its website, publications, workshops and events, cost-saving programs and advocacy, MCN works to inform, promote, connect and strengthen individual nonprofits and the nonprofit sector.

Report Authors

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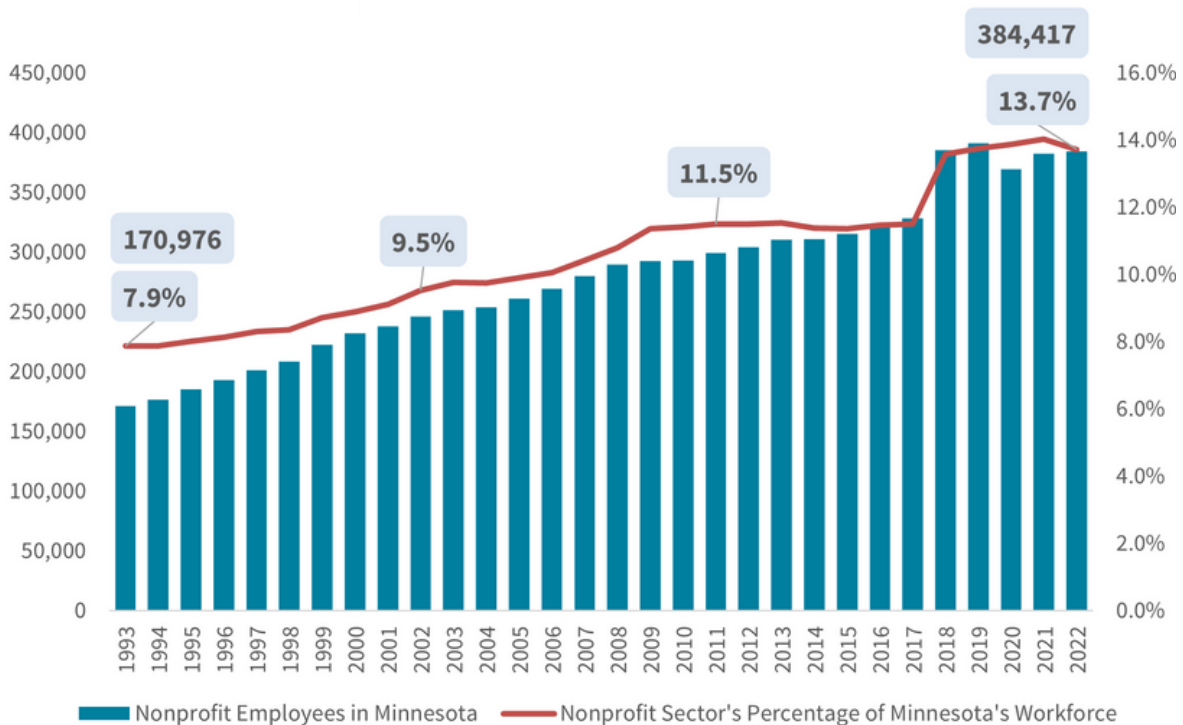
Context Setting

The nonprofit sector is a substantial contributor to Minnesota's economy — with over 9,000 nonprofit organizations employing nearly 385,000 workers and providing essential services to Minnesota's communities. From food banks to charter schools to theatres and hospitals, nonprofits touch the lives of almost every Minnesotan and make up 14 percent of the state's total workforce.

Key Finding #1
Recruiting, retaining, and competitively compensating staff continues to be a top management challenge.

While the nonprofit workforce has grown steadily (doubling the number of employees over 30 years), the sector was not immune from the effects of the COVID-19 pandemic. Overall the number of Minnesota nonprofit employees is approximately 5,000 workers less than its pre-pandemic height in 2019, though the nonprofit sector has made the quickest recovery in terms of the number of employees when compared to government and for-profit sectors.

Number of Nonprofit Employees vs. Percent of State's Total Workforce (from 1993)



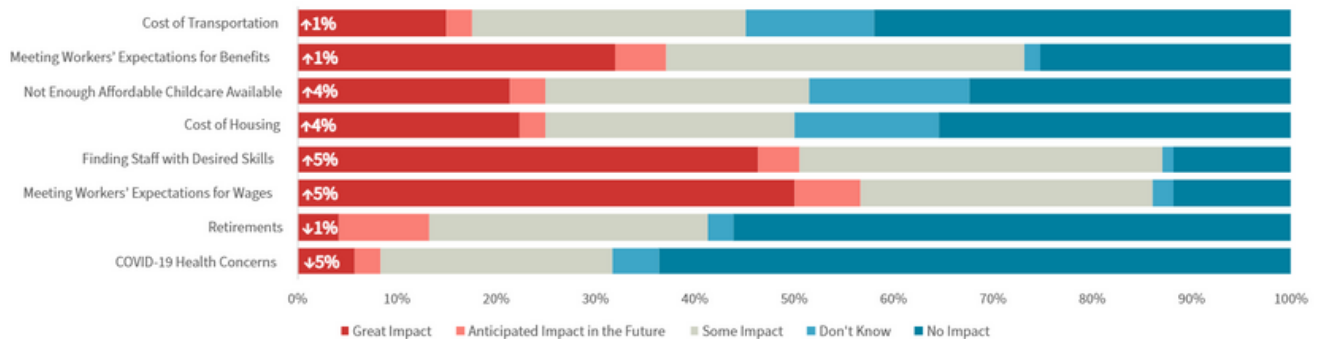
Retaining and hiring staff continues to present a significant challenge for nonprofit managers, reported in response to MCN's 2023 Current Conditions Survey. **When nonprofit leaders were asked about the biggest challenges facing their organization over the next 12 months, nearly 40 percent said difficulties with staff recruitment, over 30 percent said difficulties with staff retention, and 20 percent said staffing levels (up from previous reports).**

Impact on Staffing Under Current Conditions



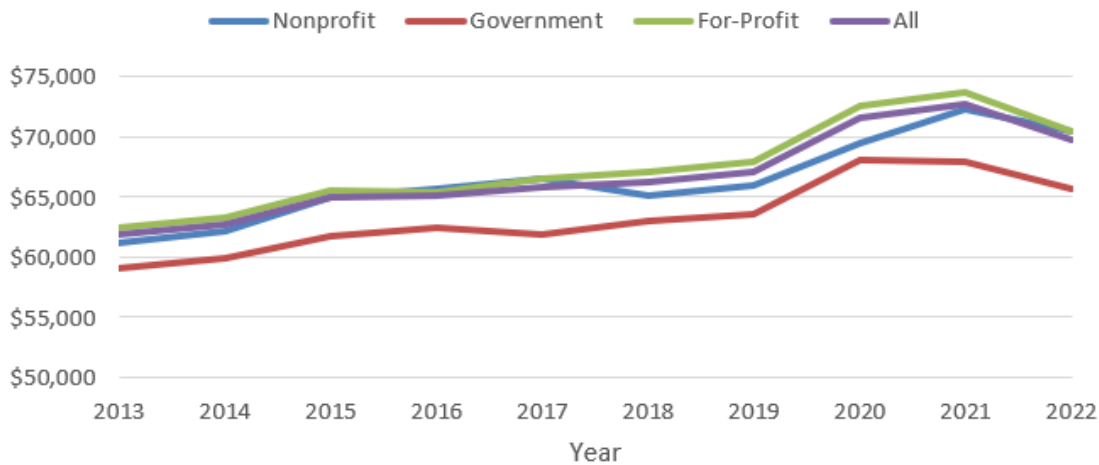
When asked what the biggest challenges to staffing were, respondents identified the two largest as meeting workers' expectations for wages and finding staff with desired skills. These two challenges also increased the most since the prior survey, with 5 percent more respondents reporting these as having great impact compared to the fall of 2022.

To what degree are the following factors creating challenges in hiring and retaining staff?



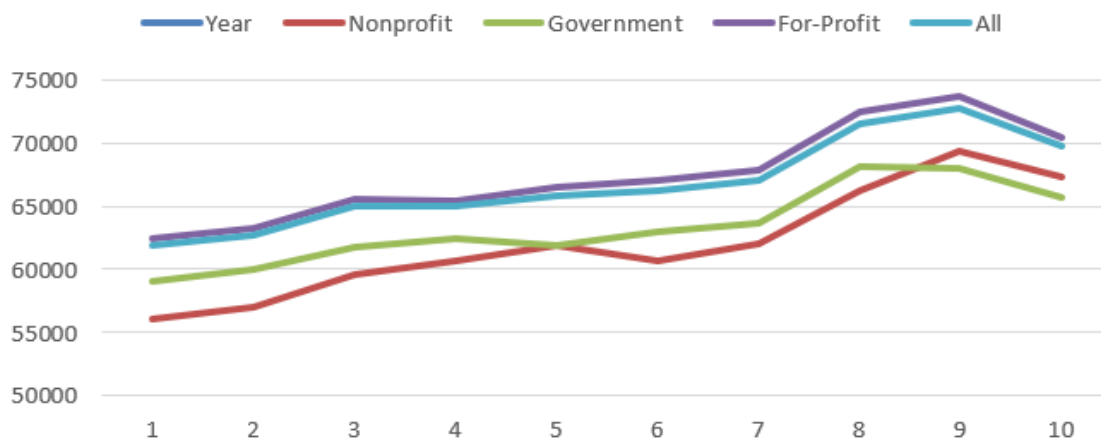
All three sectors (nonprofit, government, and for-profit) saw a drop in inflation-adjusted average annual wages from 2021 to 2022, reflecting the challenges employers face across sectors in keeping their wages in step with the continued impacts of high inflation (2022-2023 Minnesota Nonprofit Economy Report).

Minnesota Average Annual Wages by Sector (2022 USD)



Nonprofit hospitals and universities are some of the largest employers in the sector and can significantly inflate average annual wages. Removing them from the analysis decreases average nonprofit annual wages, which is more reflective of the vast majority of nonprofit employers; over 70 percent of nonprofit employers have annual operating budgets less than \$1 million.

Minnesota Average Annual Wages by Sector Excluding Hospitals and Higher Education (2022 USD)



For a vast majority of nonprofit employers, compensation of employees is the largest annual expense. Current conditions have placed heightened stress on nonprofits' financials, which impacts their ability to compensate workers.

◀ ***"The cost of labor has increased significantly while the funding has remained stagnant or decreased. This will force our organization to make some tough choices on what needs to remain and what can stay to keep the budget balanced."***

- Twin Cities-based arts organization focused on Asian, Asian American, and Pacific Islander communities with \$1-\$2 million in annual operating revenue; respondent to MCN's 2023 Current Conditions Survey.

◀ ***"[Our organization's biggest challenge is] raising funds necessary to pay staff fair wages and recruit and retain quality staff. Grant funding has been strong for us, but individual and corporate giving has been down since COVID."***

- Crow Wing county-based organization with less than \$400,000 in annual operating revenue; respondent to MCN's 2023 Current Conditions Survey.

◀ ***"As a primarily fee-for-service based organization, our service rates have remained stagnant, while our expenses- mainly salaries- are increasing much faster than we ever anticipated."***

Pressures: business support staff (HR, IT, Finance) salaries have gone up so rapidly in the broader market, we are having to pay much more for competent staff than we did before ...and good staff are being aggressively recruited forcing us to either match salaries or re-post and start over knowing the new salary may be even higher than the match. At the same time, our service-side staff salaries are low due to reimbursement rates that we cannot get raised through legislation.

This is hard. 1- just to keep up in a world in which we NEED strong business-side infrastructure and 2- paying our direct service staff what we know they deserve."

- Twin Cities-based human services organization with \$10-\$20 million annual operating revenue; respondent to MCN's 2023 Current Conditions Survey.

Key Finding #2**Increasing reports of declines in charitable giving and government stimulus funding.**

Overall, nonprofits often have markedly different business models than for-profit or government, with dozens of different revenue streams that can include bespoke restrictions on funding including: contracts and grants with multiple levels of government, earned income from program fees and ticket sales, charitable revenue from individuals and foundations, and more.

Each revenue source can represent very different transaction costs, timing, attached conditions and expenditure restrictions, reporting requirements, and tax consequences. Smaller nonprofit organizations are more likely to receive a higher percentage of their funding from charitable sources (including individual contributions and foundation grants), while larger organizations tend to receive a larger share of their funds from government and program service fees (including third party reimbursements from insurance or Medicare/Medicaid).

From 2020-2022, nonprofit organizations consistently reported increased demands for services, rising expenses, and the introduction of new expenses (such as personal protective equipment, technology to support remote work, and more).

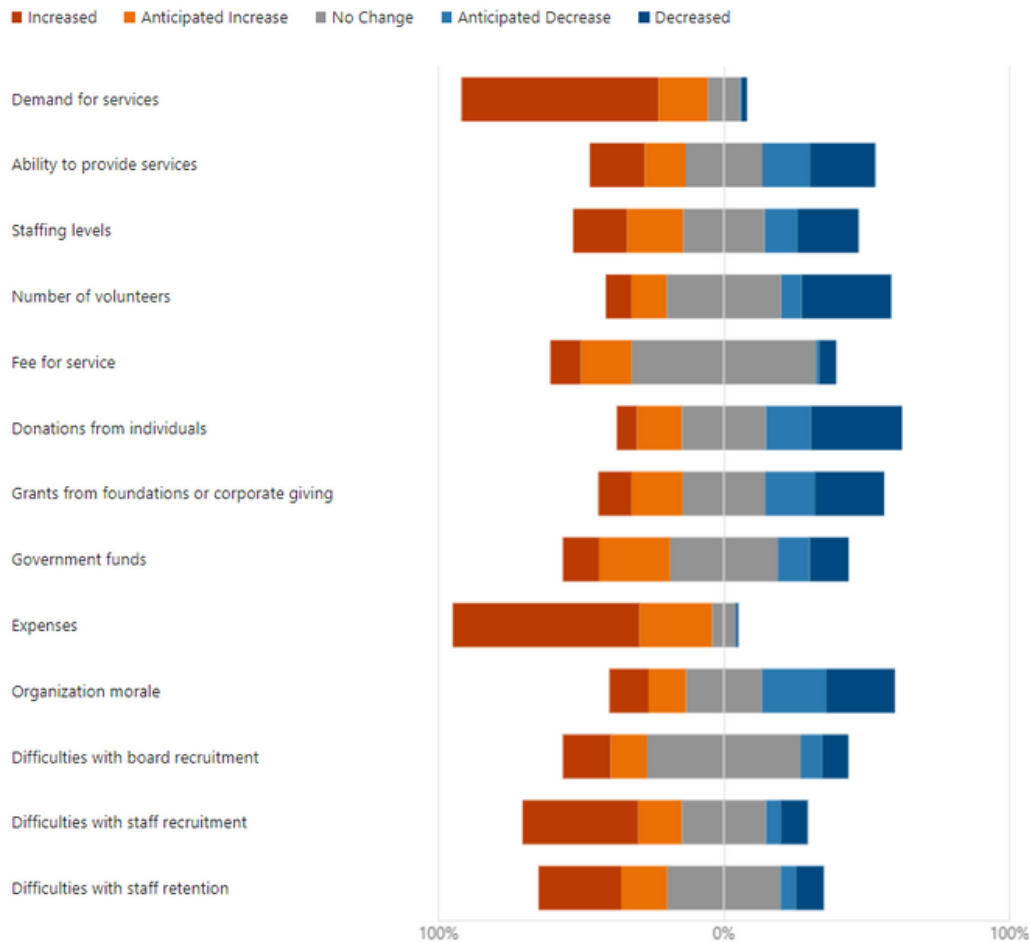
Crucial boosts in funding from government stimulus (such as Paycheck Protection Program loans, which provided \$16.6 billion in forgivable loan funding to 225,338 businesses, including nonprofits, in Minnesota, according to federalpay.org) to increased charitable giving played a pivotal role in stabilizing nonprofit operations and ensuring continuity of services during this time. While increased charitable giving and government stimulus funding has proven to be a crucial part in sustaining nonprofit employers over the last three years, respondents to the 2023 current conditions survey indicate that is changing.

Even though the most common management action people have taken is increased fundraising efforts (70 percent) the past year, more people are reporting decreased giving from individuals and grants from foundations (about one-third of respondents, the highest number since MCN began surveying nonprofits in March 2020).

◀ ***“[Our organization’s biggest challenge is] ramping up fundraising because historical funding is being pulled.”***

- Itasca county-based public benefit organization with less than \$400,000 in annual operating income; respondent to MCN’s 2023 Current Conditions Survey.

In which of the following ways are current events impacting your organization?



"[Our organization's] Biggest challenges are fundraising & capacity to serve increased community need amid economic, social, and political crises. Fundraising for our organization because everyone -- individual donors, private foundations, small businesses and corporations, and government funding has decreased significantly, with a smaller pot of money available that can't possibly meet the growing need within the community. The nature of our work is known for swift burnout rates, and when combined with social and political unrest, turnover has become unavoidable. We are committed to paying livable, competitive wages, offering professional development and activities that encourage community and nurture mental health and wellbeing, sustaining the level of staffing necessary to provide the level of services needed for the individuals we serve has become increasingly difficult."

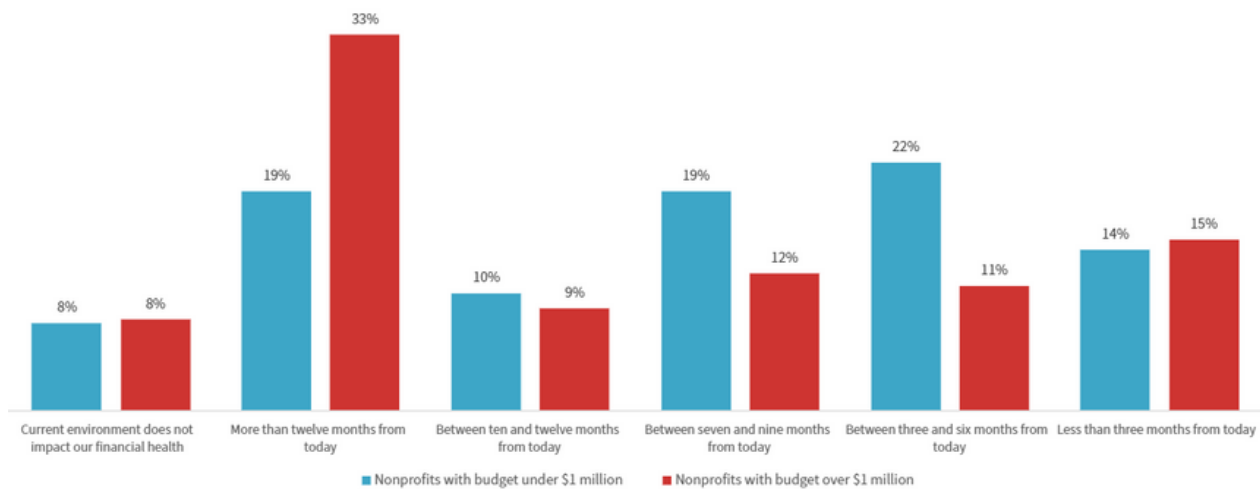
- Twin-Cities based human services organization focused on African, East African, and West African communities with \$5-\$10 million in annual operating revenue; respondent to MCN's 2023 Current Conditions Survey.

Key Finding #3
Anticipation of a “financial COVID cliff.”

Respondents to the 2023 Current Conditions Survey revealed nonprofits are facing pressure from high inflation in the current economy and lingering effects of the past three years. Some anticipate or are already experiencing a “financial COVID cliff,” meaning the temporary increases in charitable giving and one-time government stimulus funding are drying up -- yet community need for services and increased expenses are leaving nonprofits caught between increased expenses and potential shortfalls in revenue.

When asked about the level of impending financial distress, almost 60 percent of respondents indicated their organizations can operate in the current environment for less than a year before exhibiting financial distress. A disaggregated look at responses by budget size reveals that large and small nonprofits are being impacted differently by their economic challenges.

◀ **How many months can your organization operate in the current environment before exhibiting financial distress?**



Nonprofits with annual budgets over \$1 million are more likely to report financial distress further into the future, while nonprofits with annual budgets under \$1 million are more likely to report financial distress in the next year. A decrease in government relief stimulus and charitable giving from individuals, private foundations, and corporations will slow pandemic recovery and present an uncertain future for a number of nonprofit organizations.

◀ ***"Ending the year with a surplus or deficit over the past few years isn't a good measurement for financial stability. We had multiple years in which we received [Paycheck Protection Program] funds, used them, received forgiveness and they didn't show up on our income sheet until the following year.***

We are now at the point three years later and we are showing a significant deficit for FY 2023 but we used operating cash received in the previous years to remain solvent all year. Now that operating cash is almost all used."

- Twin-Cities based human services organization focused on Asian, Asian American, and Pacific Islanders community with an annual operating budget under \$400,000; respondent to MCN's 2023 Current Conditions Survey.

◀ ***"[We are] unable to function due to decreased funding post-pandemic."***

- Beltrami county-based organization focused on Native American, American Indian, and Indigenous communities; respondent to MCN's 2023 Current Conditions Survey.

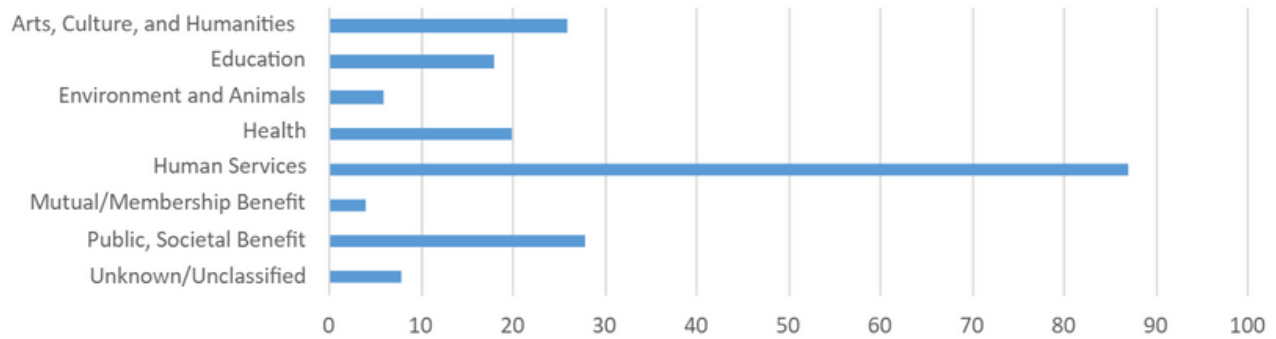
◀ ***"We received two rounds of [Paycheck Protection Program] funding and are anticipating a large employee retention credit this year. So, we look better than prior. At the same time, without sustainable funding into the future, we're not financially stable.***

Yes, we have a lot more in reserves, which is great, but with an annual budget of \$20 million, \$5 million can go quickly."

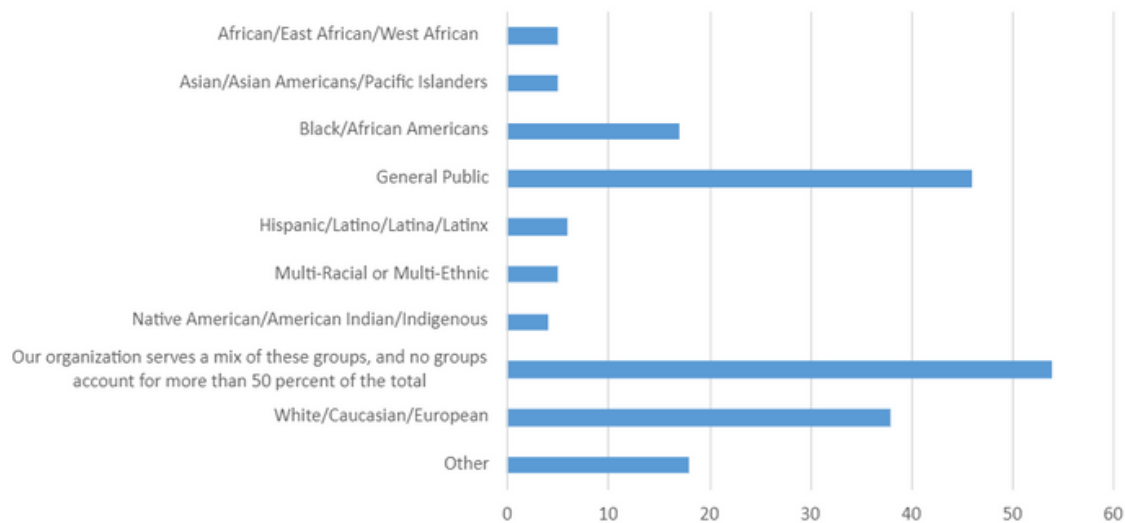
- Twin Cities-based human services organization with a \$10-\$20 million annual operating budget; respondent to MCN's 2023 Current Conditions Survey.

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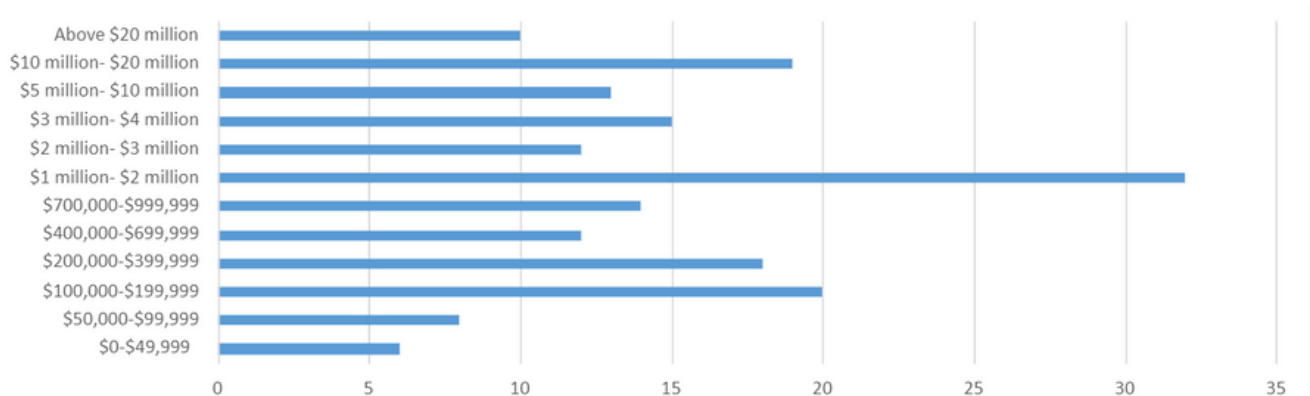
◀ **Which activity area best describes your organization's work?**



◀ **Who are your nonprofit organization's primary beneficiaries?**



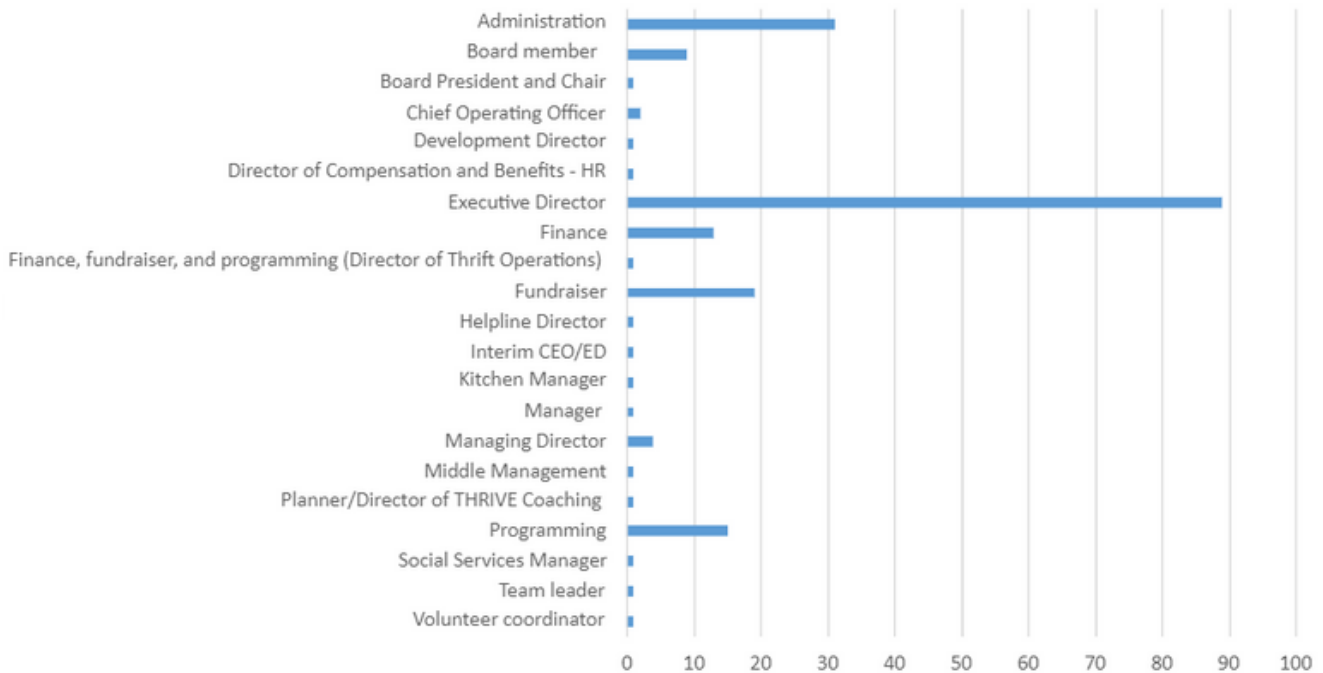
◀ **What is your organization's annual operating budget size?**



◀ **What county are you located in?**

Anoka	2	Itasca	5	Rice	1
Beltrami	2	Jackson	1	Roseau	1
Blue Earth	3	Kandiyohi	1	Sherburne	1
Carver	1	Koochiching	2	St. Louis	8
Cass	2	Morrison	2	Stearns	3
Clay	1	Mower	2	Washington	4
Crow Wing	2	Nobles	1	Wilkin	2
Dakota	6	Olmsted	4	Winona	1
Freeborn	1	Otter Tail	1	Wright	1
Goodhue	3	Ramsey	42	Multiple	15
Hennepin	51	Redwood	1	Statewide	3
				Other	10

◀ **Which best describes your role within your organization?**



ABOUT MCN

The Minnesota Council of Nonprofits (MCN) is a 2,200+ member strong network of nonprofits and allies. We are a trusted ally and advocate, providing relevant workshops and programming, timely sector research, state and federal advocacy, and a strong member network and benefits.

Visit our website or follow us on social media to discover how MCN can support your mission and professional development.

Our mission is to inform, promote, connect, and strengthen individual nonprofits and the nonprofit sector.

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