

Forecasted economic impacts of coronavirus on the charitable sector in 2020

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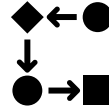
Executive Summary

- This document outlines scenarios for revenue and staff for charities in 2020 because of coronavirus driven social distancing shutdowns and a corresponding recession
- We created two scenarios combining the revenue and staff consequences of 3-months to 6-months of social distancing and a moderate to severe recession
- We project that charities will lose between **\$9.5 billion** and **\$15.7 billion** in revenue and be forced to reduce staff by between **117,000** and **195,000** in 2020
- The key drivers of these declines are declines in donations and fundraising (\$4.2 to \$6.3 billion in lost revenue), closures of charities' earned income operations (\$2.8 to \$4.7 billion lost)
- Declines in investment income and foundation giving also play important roles
- We assumed no change in government funding to build this model and excluded hospitals, universities, and colleges in the analysis

About the model

- **Model introduction:** Our modelling rests on numerous key assumptions about the likely organizational effects of social distancing and the associated economic downturn relating to fundraising, investments and inter-charity transfers, and earned income activities. These are outlined in detail in Appendix 1.
- **Scope:** Analysis excludes hospitals, universities & colleges, but does include their associated foundations (mainly hospital foundations, but also a modest number of university foundations). Additionally, the analysis does **not** include any shifts in government funding.
- **Contextual assumptions:** Analysis uses 2018 reported T3010 revenues as a baseline and does **not** account for the effects of inflation between 2018 and 2020. Analysis also assumes that recessionary effects are between 1X and 2X the magnitude of the 2008/2009 downturn and that social distancing lasts for either 3 or 6 months. Once social distancing ends, depending on the specific revenue source, effects on revenue are assumed to be back to previous normal within 5 to 9 months.

Modelling Process

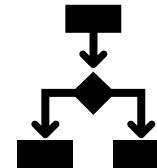


We reviewed numerous research studies, gathered feedback from dozens of stakeholders, and reviewed 1000s of financial statements and tax returns to build an accurate model



Assumptions were validated by some of the charitable sector's leading experts in social enterprise, foundation giving, and fundraising

Developing scenarios: Our model hinges on three questions



Questions

What actions will individuals and charities take to respond to the crisis?

How long will shutdowns last for?

How severe will the recession be?

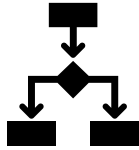
Implications

Reviewed past research, financial statements, press releases, and conducted expert interviews to develop assumptions (parameters outlined in Appendix 1)

Two scenarios: **3-month** and **6-month** social distancing shutdowns

Two scenarios: a **moderate recession** and a **severe recession**

Scenarios



1

**Moderate
recession and 3-
month shutdowns**

2

**Severe recession
and 6-month
shutdowns**



Summary of results from the model

Projected declines in revenue and staff for charities

Charities will lose between **\$9.5 billion** and **\$15.7 billion** in revenue and layoff between **117,000** and **195,000** in staff because of social distancing closures and a recession

Key Metric	Scenario 1 – Moderate recession and 3-month social distancing closures	Scenario 2 – Severe recession and 6-month social distancing closures
Total revenue change for charities in 2020	-\$9,470,000,000	-\$15,654,000,000
Percentage decline in charitable revenue	-6.7%	-11.1%
Amount of total expenditures that charities will cut from staff	-\$5,494,000,000	-\$9,082,000,000
Amount of total expenditures charities will cut from other costs	-\$3,976,000,000	-\$6,572,000,000
Staff laid off in the scenario	-117,588	-194,382

Projected declines in charity revenue by category

	Scenario 1 – Moderate recession and 3-month social distancing closures		Scenario 2 – Severe recession and 6-month social distancing closures	
Aggregate Category	Percentage change in revenue	Change in revenue projected for 2020	Percentage change in revenue	Change in revenue projected for 2020
Donations (received and not) and fundraising	-19%	-\$4,293,000,000	-27%	-\$6,240,000,000
Revenue from other charities	-19%	-\$1,042,000,000	-37%	-\$2,083,000,000
Revenue from government	0%	\$0	0%	\$0
Other revenue	-5%	-\$632,000,000	-10%	-\$1,263,000,000
Investments and sales of assets	-15%	-\$697,000,000	-30%	-\$1,393,000,000
Fees, memberships, rentals, and sales of goods and services	-21%	-\$2,806,000,000	-35%	-\$4,675,000,000
Total	-6.7%	-\$9,470,000,000	-11.1%	-\$15,654,000,000

Questions and follow-ups

- Thank you to the numerous charitable sector leaders who provided feedback on inputs and outputs from the model!
- Prepared by:
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 - David Lasby, Director of Research, Imagine Canada
 - Brian Emmett, Chief Economist for Canada's Charitable and Nonprofit Sector, Imagine Canada
- For questions about the model, please contact:
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Appendix 1 – Key model assumptions

Assumptions

These assumptions outline some of the key parameters of the model. As the model has dozens of assumptions involved, we outline a few that have some of the biggest impacts but do not detail everything that went into the model.

Recession impact

- We analyzed the 2008 recession to get base level impacts on each revenue category in a recession.
- We added on the additional impacts of social distancing to measure the total impacts.

Fundraising and donations

- Percentage of tax-receipted giving that comes directly from activities that will be affected by social distancing (e.g., events, galas, door-to-door fundraising, canvassing in public places, etc.) **Assumption: 25%**
- Percentage of fundraising (non-receipted) giving that comes from activities that will be affected by social distancing **Assumption: 40%**
- Percentage of fundraising revenues affected by social distancing that can be recouped by changing fundraising methods (e.g., increasing online donations, etc.)
 - **Assumption: 25%.** Estimates of the financial impact on receipted and non-receipted giving/fundraising above take this substitution into account.

Assumptions (continued)

Investments and transfers from other charities

- **Assumption** : Charities and foundations will respond to declines in their investments similarly to how they reacted to the 2008/2009 recession and the decline in investments size and income will be similarly severe.

Fees for goods and services, memberships, and rental revenue

- Percentage of revenues from sales of non-governmental goods and services, memberships (gym memberships, art galleries, symphony, etc.), and rental income (closures of facilities spaces, office space, etc.) that will be affected by social distancing
 - **Assumption**: Sales decrease by 60%, memberships by 66%, and rental income by 40% during the closure and take some time to return to normal after services reopen

Compensation and staff

- Percentage of total expenditures going to employee costs
 - **Current assumption**: 58%
 - We used 2018 data on average staff compensation
 - This would entail staff losses between 98,000 and 165,000 full-time equivalents.
 - **Contextual assumptions**: Nonprofits who experience revenue declines will be forced to layoff staff **regardless** of any cash reserves and reduction in revenue translates into reduction of headcount on a 100% basis with no preferential cutting of other expenses (i.e., 58% of every dollar lost is lost from staff compensation).



Appendix 2 – Additional Scenarios

Projected declines for charities for 4 scenarios

	2018 Actuals	3-month closures		6-month closures	
		Moderate Recession	Severe Recession	Moderate Recession	Severe Recession
	2018 actual revenue	Change in revenue projected for 2020		Change in revenue projected for 2020	
Total revenue change for charities in 2020	\$141,136,000,000	-\$9,470,000,000	-\$11,838,000,000	-\$12,200,000,000	-\$15,654,000,000
Amount of total expenditures that charities will cut from staff	\$81,859,000,000	-\$5,494,000,000	-\$6,868,000,000	-\$7,078,000,000	-\$9,082,000,000
Amount of total expenditures charities will cut from other costs	\$59,277,000,000	-\$3,976,000,000	-\$4,970,000,000	-\$5,122,000,000	-\$6,572,000,000
Percentage change in charitable revenue	N/A	-6.7%	-8.4%	-8.6%	-11.1%
Staff laid off in the scenario	N/A	117,588	146,996	151,490	194,382

Detailed projected declines in charity revenue for 4 scenarios

	2018 Actuals	3-month closures		6-month closures	
		Moderate Recession	Severe Recession	Moderate Recession	Severe Recession
	2018 Actual revenue	Change in revenue projected for 2020		Change in revenue projected for 2020	
Donations (received and not) and fundraising	\$22,694,000,000	-\$4,293,000,000	-\$4,293,000,000	-\$5,154,000,000	-\$6,240,000,000
Revenue from other charities	\$5,597,000,000	-\$1,042,000,000	-\$2,083,000,000	-\$1,042,000,000	-\$2,083,000,000
Revenue from government	\$82,145,000,000	\$0	\$0	\$0	\$0
Other revenue	\$12,630,000,000	-\$632,000,000	-\$1,263,000,000	-\$632,000,000	-\$1,263,000,000
Investments and sales of assets	\$4,640,000,000	-\$697,000,000	-\$1,393,000,000	-\$697,000,000	-\$1,393,000,000
Fees, memberships, rentals, and sales of goods and services	\$13,430,000,000	-\$2,806,000,000	-\$2,806,000,000	-\$4,675,000,000	-\$4,675,000,000
Total	\$141,136,000,000	-\$9,470,000,000	-\$11,838,000,000	-\$12,200,000,000	-\$15,654,000,000