

September 2017

Just two weeks ago, we could not have predicted that a storm in the Atlantic hundreds of miles from Texas could upend our lives in such an indescribable way. Today, as the Houston area moves through the earliest stages of recovery, the 20,000 nonprofits in the region are looking to the future and wondering: "What does this mean for us?"

This paper, one in an occasional series, summarizes what we know at this time, what we do not know yet, and what experience tells us about how to move forward.

We have the benefit of past disasters to guide us. September 11, the Enron crisis, Tropical Storm Allison, the recession of 2008-2009, and the recent precipitous decline in the price of oil all created significant turmoil in Houston's nonprofit marketplace. One silver lining is the experience we have gained while riding out these events.



David J. Phillip/AP

Impact on the Nonprofit Sector and Individual Nonprofits

As Houston woke up to the shock of what Hurricane Harvey had done to our city and region, several area nonprofits had already begun to prepare. Those in the disaster "business" and in the first responders' network started to get ready by organizing shelters, food supplies, medical services, animal rescues, and preparing in other ways. When the storm passed, nonprofits sprang into action to help organize and mobilize the thousands of volunteers who were able to help, partnering with the City of Houston, Harris County, and state and federal government agencies to rescue people and address their most basic needs.

Even without hurricanes, people frequently turn first to nonprofits when they are in crisis. After Harvey, this was (and is) certainly the case. Over the past week, we have seen hundreds of nonprofits get back to work. The demand for services is variable, and organizations in the health and human service subsector are facing enormous increases in people seeking their services. While helping others, many of these organizations are also caring for their own employees and those they serve.



The number of relief funds following Hurricane Harvey – tightly focused fundraising efforts to benefit specific groups – seems to be dwarfing any such activity following earlier disasters. Digital communications and social media are driving these fundraising efforts, which are attracting support from far and wide. In launching these efforts quickly, it is very important to put the right systems and controls in place to avoid mismanagement and even trouble with the IRS down the road. We have compiled some best practice guidelines (attached) that may be useful to organizations that have launched a relief fund.

Every nonprofit in Houston needs to consider the impact of the hurricane and make appropriate adjustments. We recommend pulling your organization's leaders together to consider the following four questions, which will give you a solid working framework for the days ahead.

1. *What impact will this event have on your organization, programmatically and financially? Will the demand for your services and programs increase or be reduced? Do those services need to change in response to what has happened? Do you anticipate a reduction or an increase in earned revenue? Will there be new public funds available to support your activities? Do you have the experience and bandwidth to manage the increases and changes?*
2. *How do you need to adjust your plans to mitigate the impact? And, if your organization's mission allows it, how can you respond directly to the event and show why you are more relevant than ever. If you are in an organization that will face increased demand for your services following the hurricane, develop scenarios that allow you to consider what will be required to meet that demand. If you can take skills and capacity and shift them to meet community needs in ways that are not being met by others, what will that require? If you believe the relief efforts will reduce the public's need or interest in what you are doing, create contingency plans immediately.*
3. *How can you communicate quickly and effectively with your donors, modifying your story in every medium to show that you care, that you are carrying on, and (if appropriate) that you are very important to the community going forward? Reframing your case to put it into context is important. As the recovery efforts continue, you will need to continue refining the message over time.*
4. *What are your contingency fundraising plans to get through the bumps that always occur when donors respond to the immediate needs emanating from the event? History shows that when disasters hit, donors respond by giving to meet the immediate need. These gifts are almost always above and beyond their usual charitable contributions. They then revert surprisingly quickly to their former philanthropic habits. It may be wise to expect a short-term drop in fundraising, but it is smart to create a contingency operating and fundraising plan to make sure your organization can get through the quick shift in giving patterns.*

The results of this exercise will look different from one nonprofit to the next, but these are the basic steps that Sterling Associates believes every group needs to consider.

Impact on Charitable Giving

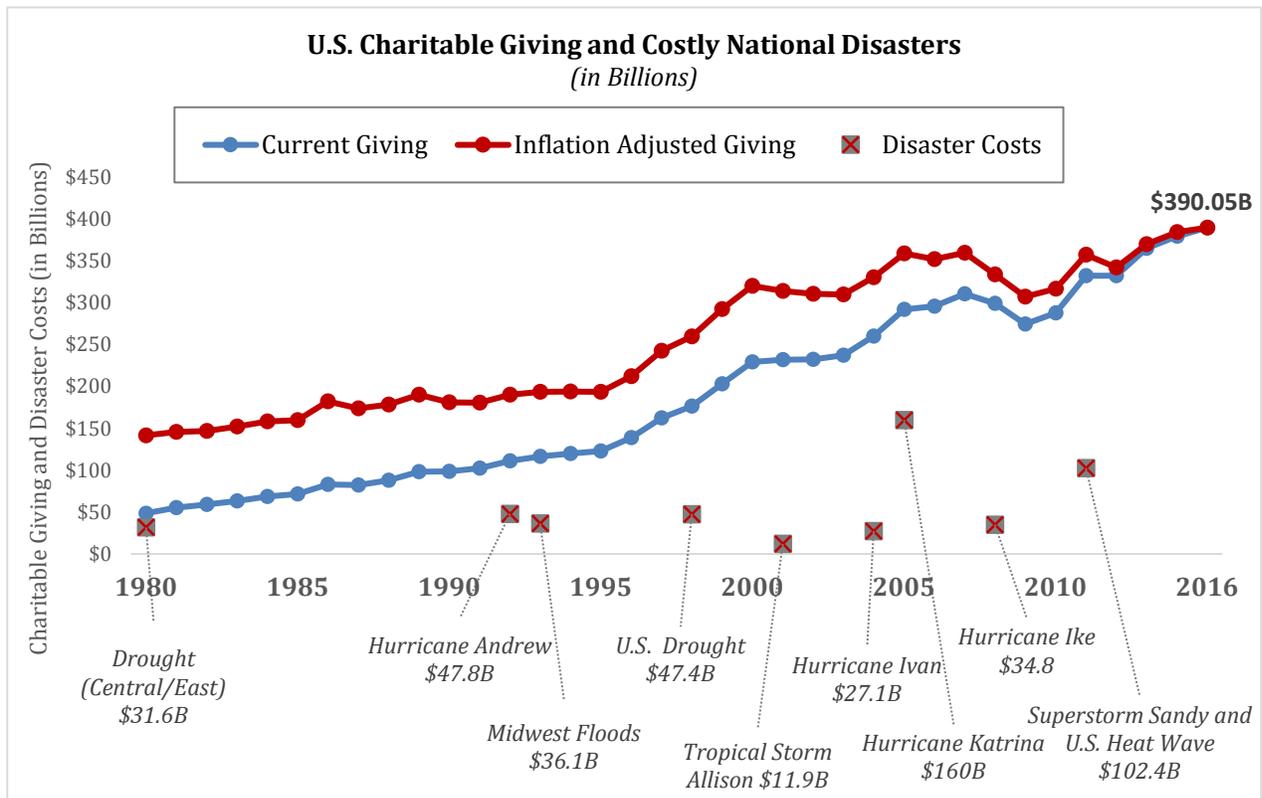
History tells us quite definitively that the nonprofit charitable marketplace is extremely resilient. Even when costly disasters occur, charitable giving continues to increase overall (see graph below).

Even in New York after September 11, the most catastrophic event in many decades, total giving did not decline and the distribution of gifts among different subsectors shifted only minimally. After Hurricanes Katrina and Rita, Americans contributed \$2.96 billion. Interestingly, the sources of funds mirrored the typical sources of annual philanthropy in the United States, with 17% coming from foundations and corporations, and 83% coming from individuals. It is worth noting that much of the giving came from outside the area impacted by the storms.



Getty

Similarly, we are seeing foundations, corporations, and individuals from far beyond Houston and Texas responding for hurricane relief following Harvey. *This will help mitigate the impact of the storm on charitable giving in Houston.* Individuals are likely to redirect some of their giving to support hurricane relief and then return to their usual causes. Foundations and corporations may give above and beyond their usual allocations, but they only represent 15 to 20% of total giving. It is also important to remember that the vast majority of the funds required for the city's recovery will come from public sources and insurance, not philanthropy.



Sources: Giving USA 2017, Houston Business Journal National, and Centers for Environmental Information

Impact on Capital Campaigns and Annual Fundraising

General Advice

- Sterling Associates' experience strongly indicates that *nonprofits should continue campaigns* that are already in progress or proceed with launching new campaigns. Charitable giving has gone up almost every year for the past 40 years, and that trend has continued even through the downturn in oil prices, both nationally and in Houston.
- *Patience will be required*, as cultivation may take longer than originally anticipated. Be prepared to educate your prospects more thoroughly on your project and its merits, framing the case in the context of what has just happened to our city and region.
- *A strong case for support and validated community need are more important than ever* and will be necessary to attract major gifts.
- *Arts organizations tend to be affected the most in a down market, and we will need to watch this carefully.* With major damage to the Theater District, we may see Houstonians rally to the arts, especially as there seems to be broad recognition that we will need to emphasize many positive aspects of Houston's quality of life going forward to regain lost ground.

Fundraising Advice

- Because the stock market remains relatively strong, *foundation portfolios should remain strong*, and giving will not decline even if more grants are given to relief efforts in the short term.
- *Affluent donors have been making decisions a little more slowly* than in the past two to three years. As time passes, however, we are seeing confidence grow again as Houston continues to rock along, and the current situation might shock people back into making charitable decisions more quickly.

- *Pay even better attention to your long-term and loyal donors.* During times of crisis, many major donors reduce the number of organizations they support, giving the vast majority of their funds to their top two or three charities. Organizations should work to stay on the short list of people who give to them most faithfully. *The typical nonprofit retains only 1 in 5 donors from year to year. Work on donor retention, since it is so much easier to keep a donor than to find a new one.*
- *Gifts paid with appreciated stocks will continue to be very attractive to donors* and should remain a popular method for funding major gifts.
- *The amount coming from bequests and other planned gifts* should not be affected, and this segment of the charitable giving stream is continuing to grow, as trillions of dollars of net worth are passed on from one generation to the next and bequests are included in those plans. *Launch that planned giving program if you have not already done so!*
- Although corporate giving represents the smallest source of the charitable dollars given in the United States, this support is important to many nonprofits. It is likely nonprofits will need to *do an even better job demonstrating that their organization is aligned with the market served by corporate donors*, or that their relationship is strong with decision-makers in the company.
- *Capital campaigns should not be affected by corporate giving behavior*, since so few corporations give to capital campaigns.

Additional Comments on Capital Building Projects

- *Construction prices will increase* as Houston rebuilds. Price escalations could accelerate, especially compared to recent years, and subcontractors will be less available than they have been over the past few years. This will make it more challenging to keep construction projects within budget.
- *Project managers will be more important than ever* and are earning their keep during this economic downturn, helping nonprofits find savings and steward their funds wisely.
- *Building projects should be carefully value-engineered.*
- *To be safe, consider basing construction contracts on guaranteed maximum price* to reduce scope and price creep at the end of projects.
- *Look to all possible sources of expense relief, including in-kind donations* of furniture, fixtures, equipment, materials, and labor. Seeking out these nontraditional sources strengthens the case that you are receiving the highest return on the donated dollar.
- *Project sequencing and intentional phasing allow for natural “exit ramps”* during long-term project development. Reevaluating phases on an annual basis allows an organization to adapt and respond to current conditions.

Closing Thoughts

Best practices still rule the day and are more important than ever as Houston faces a new challenge following quickly on the heels of the slump in energy prices and the recession of 8 to 9 years ago. Mission-focused, high-impact projects are rolling forward to meet real challenges throughout the community, and funders will continue to support these organizations. Create strong campaign strategies, execute them faithfully, remain flexible, and stay the course to reach your goal, recognizing that you are working in an environment that will continue to change.



We have gathered the following information and advice from leaders of high-performing nonprofit organizations regarding accounting, distributing, and tracking funds raised for specific groups affected by Hurricane Harvey. If you have information to add or suggestions to share, please send them to ksterling@sterlingandassociates.com. Thank you!

Accounting

1. If possible, *do not accept gifts of cash.*
2. If you do accept cash, *photocopy the bills, coins, and make a notation on the photocopy as to the donor.* If possible, two people should “witness” the exchange. Some people love to just drive up and drop off \$100 bills. It gives them great pleasure, and it is fun to experience a joyful giver -- but it is more difficult to control cash, so do your best to document the donations even if you are not able to provide a receipt, and of course deposit it promptly.
3. *Establish a fund within your chart of accounts that you can use just to track money coming in and going out for flood relief.* You do not need to establish a separate, restricted account, but you will want to code monies in and out against a designated fund.
4. *Issue tax receipts that show the purpose of the donation.* If people give online, your website can probably indicate the purpose on the auto-generated receipt. If they send a check, ask them to note the purpose on the check and credit that deposit to the appropriate fund. This is a best practice when acknowledging any type of gift.

Disbursements

1. *Create three categories for disbursements:*
 - *Immediate* (within 2 weeks) – for things like food, clothing, medicine, temporary housing (hotels), transportation including immediate car repairs, cleaning supplies.
 - *Short-term* (1-3 months) – for more permanent temporary housing (apartments), furniture, household goods, work-related items (boots, tool replacements), etc.
 - *Long-term* (4 months or more) – for things like rent assistance, utilities, etc. For long-term assistance, there should be a case manager handling these clients, which is likely to require an agency that is set up to do this. Individuals and families needing this kind of support are typically the most vulnerable (disabled, elderly, very poor, homeless to begin with, etc.).
2. *Create a standard amount to distribute per family or per person for the immediate and short-term categories.* It will be complicated and time-consuming to try to differentiate between levels of need. When people have lost everything, \$500 for immediate needs can be extremely useful, as can \$1,000 for short-term needs. The objective of immediate and short-term funds is to tide people over until they get FEMA and/or other assistance.
3. *Do not distribute long-term funds yet.* Have a list of referral agencies that provide different kinds of assistance and services – from rent to mental health care – because in many cases your families will be able to access many resources beyond those that you have to distribute.

4. *Require documented families to obtain all the assistance they can obtain from other sources (public and nonprofit), then come to you for what is left, rather than make you the first stop.* However, consider making an exception on rent assistance for those whose landlords are demanding September rent now. The goal is to keep the housed in their apartments and houses and prevent them from becoming homeless.
5. *It may be harder to require undocumented individuals and families to file* because it is unclear how this will be regarded by the federal government and whether they will receive FEMA funds. In any case, they are likely to be worried about being deported. FEMA is very clear that if one person from a household (including a child) is a legal permanent resident or a citizen, that household will receive assistance. Whether this is the current practice or not is another question, and convincing undocumented parents that it is ok to register in the current climate is tricky. Attorneys in the city are working on this and Lone Star Legal Aid, in particular, has a great deal of information and lawyers who can provide expert advice and support.
6. Some people may apply for short- or long-term funds but not immediate funds. For example, a family might not have lost their home, but their workplace has been destroyed. *There is no reason not to allow them to apply for this kind of help.*
7. *Make the application very simple* – name, address, contact information, description of the damage they have sustained.
8. If you have staff who interact frequently with those you serve, you may want to let them be the point of contact for people to come and apply. Because they are known and trusted, they can increase applicants' level of comfort with seeking assistance.
9. *The preferred method for distributing funds is gift cards.* Visa and MC gift cards are best because they can be spent anywhere (not, for example, just at Wal-Mart or a specific grocery store), but look for those that charge the minimal fee. An organization can also order from Amazon and have items delivered directly to families. This allows the organization to select items and the recipient to manage them.
10. *Keep track of how much you disburse to each family.* A simple Excel spreadsheet or database is fine; nothing fancy is required. If multiple people will be distributing money, you can use googledocs to keep all information in one place.

Other Notes

1. *Be sure you can distribute all of the funds you collect for the purpose of the fund.* You do not want to collect more than is needed by the families who apply. This is the tricky part. Forecasting the need and one's capacity at a time when the city needs providers to step up is tough but it is true.
2. *You will have to provide documentation about funds in and funds out to the IRS, so be sure to keep everything straight in your ledger.*
3. Families receiving assistance may also have to declare the assistance they receive to the IRS. It is not yet clear whether any type of IRS form will be required; at this point, it appears this will not be necessary for most immediate support. *If you are providing major donations (cars, condominiums, etc.), this will be necessary.* In any event, the spreadsheet (see #10 above) or database can be a resource to provide a record to the client at tax time, if needed.
4. If your staff or volunteers have been affected, *create a policy about whether to create a carved-out allocation for them.* They are in a different category than families you serve, but if they need assistance, you may want to help them too. Just be mindful of issues related to fairness and equity. If you help a staff member, is that unfair to other staff? Do your volunteers need support as much as the families you serve? Remember the importance of being transparent if you have appealed for funds that will be directed to families rather than staff, etc.