EMERGING REVENUE STREAMS FOR NONPROFITS

CIS on Screen
St Croix Valley Foundation
December 15, 2020
Tom Triplett
TODAY’S TOPICS

- Current fiscal realities, uncertainties
- Differing impacts on nonprofit types
- New and growing revenue streams
- Skill sets needed to access streams
- Alternative structures
- Sources of additional help
REALITIES AND UNCERTAINTIES

- Pandemic
- Crises in family budgets
- New Administration in DC *but*
- Split leadership state and federal
- Growth in donations *but*
- Unequal impacts among types of nonprofits and revenues
1. CONTRIBUTED INCOME

Foundation support for gen ops ?
Foundation support for projects +
Corporate contributions and sponsorships ?
United Way & other combined giving -
Misc individual donations +
Fundraising events -
Legacy giving ?
NONPROFITS TODAY

- 2.3M now; most are 501c3 (or 501c4 or 501c6)
- Employ about 10.7M (10% of US workforce)
- **450 new ones each day!**
- Uncertain ability to manage funds and provide services
IMPACTS OF PANDEMIC

• More $: Basic Needs, usually Health/Hum Services, Housing

• Less $: Arts and Culture

• So-so $: Environment, Education

• New $: COVID: PPP, more to come?
CONTRIBUTED INCOME

*Intermediary funders*

- *SCVF COVID/mental health*
- *United Ways*
- *Community foundations*
- *Annual giving days*
Together we give.

December 1, 2020
ST. CROIX VALLEY
giveBIG
APRIL 28
www.givebigscv.org
Thank you!!
STILLWATER AREA FDN

• Basic needs: healthcare, food, housing, transportation (thru SCVF COVID relief funds)

• Social and Racial Justice
LEGACY GIVING

- Also called “planned giving”
- Gifts that take effect after death
- Bequests, charitable trusts
- Require special efforts
- Combined programs?
PUBLIC/GOVT INCOME

A major source of funding for nonprofits
~75% of nonprofits receive some govt $
~55% rely on govt $ for most of income

Much if not most of this govt $ is in jeopardy
2. PUBLIC/GOVT INCOME

Huge budget shortfall:
• Federal deficit will be $2.6 trillion
• Accumulated fed debt of +$20T

Will negatively impact:
• Federal pass-thru dollars
• State approps and contracts
• Local city and school district budgets
ROLE OF FORECASTS

• Major determinant of state spending
• Looks up to 3 years ahead
• Can be major swings -- $2 billion
• State reserve helps to protect –
• Now at $2.4B, but $2.6B projected shortfall for 2021-’23
• Most assuredly will be more taxes AND spending cuts in many areas
SELECTIVE GAINERS

Providers of basic needs: esp. housing and food
Mental health clinics (part of police reforms)
Refinancers of student & business debt
Climate and environmental protection
Business start-up assistance
Animal training and support
3. EARNED INCOME

• Sale of goods or services
• The fastest growing revenue category
• Helps ensure organizational independence
• Appeals to other funders
EXAMPLES OF EARNED INCOME

• Operating a gift shop at a museum or a thrift shop
• Leasing excess space in your bldg
• Selling athletic gear to participants in youth sports program
• Stabling private horses at an equine therapy program
• Selling accumulated knowledge – e.g. consulting or a curriculum
MANTRA

Every Nonprofit Should Evaluate Options for Earned Income!
A GREAT RESOURCE
www.propelnonprofits.org/resources/social-enterprise-business-plan/

power your mission

propel nonprofits
RELATIONSHIP TO MISSION

• Always better to have earned income sources tie to tax-exempt mission
• When it does not, the unrelated business income tax – UBIT – may be assessed
• Often difficult to know if mission-related or not
“SOCIAL ENTERPRISE”

• Selling a product or service that’s related to your nonprofit mission
• Should have a major charitable component
• MN is hotbed for social enterprise:
EXAMPLES OF SOC ENT

- Love Your Melon
- MN Diversified Industries
- Acres for Life
- Wilderness Inquiry
- Cookie Cart
- Habitat for Humanity
- Finnegan’s Beer
SOC ENT RESOURCES

• Social Enterprise Alliance
  – www.se-alliance.org

• Active Twin Cities chapter
  – www.seatwincities.org
Sparks!
SOCIAL ENTERPRISE CAMP
NEEDED SKILL SET

Flexibility
Entrepreneurship
Creativity
COOL EXAMPLE:
ISSUES WITH EARNED INCOME

- Often over-sold as *net* revenues
- Subject to economy dysfunctions
- Can create cultural dysfunctions
- May result in unrelated business income taxes
- Requires *entrepreneurial spirit, energy and expertise*
PARTNERING: A WAY TO WORK AROUND ISSUES

• With other nonprofits that have complementary skills
• With for-profits *but be cautious*
• With a variety of tools such as joint ventures, wholly owned subsidiaries, licenses, sale of revenue rights
OLDEST EXAMPLE...
4. QUASI-EQUITY INCOME

• The newest revenue source
• Most often tied to earned income and social enterprise
• Attempts to access revenue streams that have historically been the province of for-profits
• Almost always requires a new entity
OPPORTUNITIES

• Tax credits (e.g. low-income housing, New Markets, angel investing)
• Foundation investing through PRI(s) and MRI(s); www.missioninvestors.org
• Targeted bank investments (EQ2s to meet CRA requirements)
• “Impact investing” by VCs, ESG funds
• Equity Crowdfunding
ISSUES WITH QUASI-EQUITY

• Can be complex transactions
• Possible securities and banking regulation
• May result in too much “profit” focus
• Risk of fraud
• Requires new breed of funders
• Not yet “prime-time”
NONPROFIT TRENDS

• Overall goal: *new business models that provide the best of the for-profit and nonprofit worlds*

• Two main approaches
  • Partnering with another entity through a joint venture, license, or even a franchise
  • Creating a wholly new entity: e.g. a for-profit subsidiary or one of the new *hybrids*
EMERGING HYBRIDS

• New business models that bridge the gap between for-profits and nonprofits
• Emulating some of the EU structures
• Examples:
  • *Public Benefit Corporations*
  • *Certification by B-Lab*
SUMMARY

• Nonprofits are adding new revenue streams that are more effective, diversified, and sustainable
• But major uncertainties exist, esp. re govt funding
• Many of the most new promising streams resemble for-profit businesses
• Distinction between for-profits and nonprofits is narrowing via new hybrid business structures and relationships
RESOURCES

*Exec Ed programs at area universities*
  *UST, Hamline, UWRF*

*LegalCORPS.org*

*Propel Nonprofits*

*MN Council of Nonprofits/Foundations*

*Local Social Enterprise orgs*
RESOURCES

Community Banks!

- First State Bank & Trust
- Lake Elmo Bank
- Bremer Banks
- Midwest One
- Citizens State Bank Hudson
- Others?
FUTURE CIS ON SCREEN

• Effective board meetings – Feb 16

• Strategic planning – Apr 20

• Social media – Jun 15
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