SeaChange

MAIN STREET LENDING 2.0

A PROPOSAL TO SUPPORT OUR MOST VITAL NONPROFITS

MAY 12, 2020

Executive Summary

The government distinguishes "large" from "small" organizations in many ways, though the most common is whether they have 500 or more employees. Nonprofits deemed "large" under this definition have been completely shut out of the two most important sources of COVID-19-related financial support: the SBA's Paycheck Protection Program ("PPP") and the Federal Reserve's Main Street Lending Program ("MSLP"). This is unfortunate because, while small nonprofits are collectively important, the large ones do most of the work. This is true not only in higher education and hospitals, but in other areas that support the well-being of communities including: shelters, emergency food distribution, mental health, hospice, foster care, nursing homes, and caring for the developmentally disabled.

These large nonprofits are systemically important partners to state and local governments, and many are on the front lines of the COVID-19 crisis. However, unless they receive immediate assistance, some will not make it through the next few months; few, if any, will survive without making drastic cuts to services that will be more vital than ever to our collective health, well-being, and safety during the COVID-19 crisis and its aftermath.

Given the pressure on their budgets, and the difficulties that states and cities have in raising immediate funds from taxes or the capital markets, only the federal government has the scale of available resources to help large nonprofits. Fortunately, there is no need to develop an entirely new program; PPP and MSLP can be modified to get the job done:

- Our discussions with large social service nonprofits suggest that loans of two months of expenses would allow them to bridge the unfunded costs associated with COVID-19 and the one-time restructuring costs that are likely as they shrink in response to tighter state and local budgets.
- Assuming that this need can be extrapolated to the other sectors, the total need would be about $251 billion ($45 billion excluding hospitals and higher education);
- The government should immediately make clear that nonprofits with over 500 employees can still qualify for PPP under the alternative test of having $5 million (or less) of net income and $15 million (or less) of tangible net worth. It should also provide unambiguous guidance about how to interpret this test given nonprofit accounting standards;
- A new MSLP program should be created for nonprofits ("MSLP 2.0") that offers ~0%, six-year loans (including a one-year deferral) for the lesser of (i) 2 months of expenses or (ii) $25 million (or better yet, $50 million);
- If risk sharing is important to the Federal Reserve, it should consider allowing third parties—foundations, board members, etc.—to hold the 5% risk position in the MSLP 2.0 loans;
- Banks and CDFI's should be given incentives—origination fees, credit against their CRA obligations—as inducements to participate actively in the program.

Each of these ideas is explored further in this note.

The Universe of Large Nonprofits

The approximately 1.6 million nonprofits in the United States employ 12 million people and have total expenditures of about $2.5 trillion (about 10% of GDP).[1] We estimate that approximately 6,680 of these organizations (less than 1%) have more than 500 employees. These "large" groups represent about $1.5 trillion—about 60%—of all nonprofit spending and a similar fraction of employment.

Table 1 shows the composition of these organizations by size and sector. Although hospitals and higher education institutions dominate in terms of spending (and most hospitals and higher education institutions are large), approximately 60% of all social service spending is also accounted for by large groups. Large nonprofits tend to be particularly important in areas like residential care (e.g. homeless shelters, foster care, homes for the developmentally disabled, etc.) where smaller organizations do not have the capacity (technology, HR, finance, compliance, etc.) or the scale to do the work.

Table 2 shows the financial results (pre-COVID-19) of large nonprofits divided by sector:

- Nonprofits have low margins. Average aggregate margins are 5.3%, ranging from 8.1% in arts & culture and higher education, to 1.5% in social services.
- Philanthropy represents only 7.6% of revenue, ranging from 34.7% in arts & culture to 2.2% in hospitals and health care.
- Large nonprofits have cash (including savings), unrestricted net assets (i.e. equity), total financial assets, and operating reserves equal to 1.5, 8.9, 10.9, and 3.6 months of expenses, respectively.

The aggregate results shown in Table 2 conceal the very different circumstance facing individual organizations and sectors. This becomes clear when the data are disaggregated. **Table 3A-C** show the distribution of financial results by size and sector:

- The median social services nonprofit has a margin of 1.0%, gets 3.6% of its revenue from philanthropy (including investment income), has total financial assets (including endowments and other assets that are subject to legal restrictions) equal to 1.9 months of expenses, and operating reserves of less than one month of expenses.
- By contrast, the median arts & culture nonprofit has a margin of almost 5%, gets 49% of its revenue from philanthropy (including investment income), has total financial assets equal to 14.7 months of expenses, and operating reserves of 1.5 months of expenses.
- Less than 20% of large nonprofits have 6 months or more of operating reserves, a widely accepted standard for "financial strength" for nonprofits. Social services organizations are the most fragile, with less than 10% reaching this standard.

The precarious financial condition of large social service nonprofits is not the result of inefficiency or poor management. It is the inevitable consequence of the context in which they operate. These organizations are overwhelmingly funded by government in recognition of the critical role they play as a foundation for the well-being of communities.

1 See the Technical Appendix for methodological details.

Unfortunately, government funding seldom covers the full cost of doing the contracted work, so there is simply no way for the nonprofits to generate the surplus required to build reserves. Government funding also creates cash-flow challenges since, unlike grants, it is paid after the work has been completed, can be subject to long and unpredictable delays in payment, and the associated quasi-receivables are not conventionally financeable.[2]

Needs Emerging from COVID-19

The COVID-19-driven credit needs of large nonprofits differ greatly by sector:

- *Social services groups have seen an increase in demand and in the costs associated with keeping staff and clients safe.* These nonprofits offer resources like food assistance, housing, and emergency child care that all are in high demand right now to meet the needs of struggling families. In addition to covering the increased costs of these services, these groups also face prospective restructuring costs associated with the need to shrink/restructure in the face of inevitable reductions in state and local budgets. The main issue facing these groups is cash flow because their primary customers—state and local governments—have been unable or unwilling to pay for the increased costs on a timely basis even though some of these costs are associated with hiring more staff. Very few of these groups had meaningful pre-COVID-19 reserves. Over time, however, the large groups should be able to live within the strictures of the available government funding; surviving until then is the challenge.

- *Hospitals have suffered from a shift in demand with associated losses.* They are overwhelmingly based on fee-for-service revenue and are suffering (financially) from COVID-19 because of a shift in demand from higher-margin elective procedures towards loss-generating COVID-19-related work. They also face higher costs associated with keeping staff and patients safe.

- *Higher education institutions face highly uncertain demand, increased costs, and over-capacity in a competitive market.* Private nonprofit colleges were already under a great deal of strain pre-COVID-19, and many were in difficult financial shape (notwithstanding the large endowments enjoyed by a few super-elite institutions). COVID-19 has depressed revenue because of reduced enrollment among new and returning students and has reduced gifts, executive education, summer camps, and other supplemental programs. To a lesser degree, they will also see increased expenses from financial aid to support students with higher needs due to widespread employment disruption, the return of this spring's room and board funds, downward pressure on tuition, and higher costs for instructional design and technology, facilities cleaning, and employee health insurance.

- *Arts & culture institutions are struggling from the collapse of demand caused by closed facilities and the associated reduction in earned revenue from tickets, memberships, and retail.* Many of these groups have already laid off much of their staff and are effectively hibernating. However, they still face unavoidable costs during their hibernation and must reserve the funds needed to restart once the COVID-19 crisis has abated.

2 Many are "quasi-receivables" because they cannot be assigned and government agencies often reserve the right not to pay under certain circumstances, including bankruptcy. Nonprofits are often under great pressure to do work under government contracts before those contracts have become legally binding as described here.

Philanthropy is very important for many large arts groups, giving them more flexibility but also exposing them to donor sentiment. Those lucky enough to have meaningful endowments have been forced to begin draining them (though borrowing against them might be more attractive).

Addressing the Need: Some Rough Math

Our discussions with large social service nonprofits suggest that loans of two months of expenses would (i) allow them to bridge the unfunded (or not yet funded) increased costs associated with COVID-19, and (ii) give them the liquidity to cover the one-time costs likely to be associated with a post-COVID-19 restructuring as they shrink in response to tighter state and local budgets.

Assuming that this need can be extrapolated to the other sectors, two months of expenses would total $251 billion in loans. These loans could be repaid from three sources: future revenue, current unrestricted net assets without donor restrictions, and future philanthropy. (Philanthropy is more flexible and more easily used to repay debt than revenue from government contracts.) Ideally these loans would be in addition to, rather than in lieu of, grant-like support, and would be forgivable (or at least extendable) under certain circumstances. PPP and MSLP should be modified to provide the necessary resources.

Payroll Protection Program

PPP is already available to for-profit groups with more than 500 employees, provided they meet two conditions: (i) net income of $5.0 million or less and (ii) tangible net worth of $15 million or less. Unfortunately, the SBA has indicated in some of its guidance that nonprofits are not eligible under these criteria. (This is the consensus view though the guidance is confusing, appears to revolve around an arcane technical issue, and has been interpreted by sensible people in different ways.[3]) Nonprofit ineligibility makes zero sense. Why would otherwise eligible organizations established for public purposes be less worthy of PPP assistance than those established for private gain?

Further adding to the confusion, "Net Income" and "Tangible Net Worth" are not labelled as such on nonprofits' financial statements, though they have almost exact analogies: "Change in Net Assets" and "Net Assets Without Donor Restrictions (less Intangibles)."

Table 4 shows that 1,989 organizations (30% of large nonprofits) might be eligible for PPP under the $5.0 million/ $15 million test. Table 4 also shows that the tangible net worth part of test is the more stringent, particularly in higher education and arts & culture where some groups have meaningful real estate or endowments.[4]

Although the potentially available loans total only $9.4 billion, they would be particularly important for groups under $100 million, 40% of which would be eligible for loans totaling $6.7 billion, representing 8% of the total budgets of those eligible. For social service

3 The arcane technical issue is that the SBA does not have size standards for nonprofits since ordinarily it works only with for-profits. But since PPP (an SBA program!) applies to nonprofits, they need a standard for "small". Rather than develop an appropriate standard, they appear to be using 500 employees as an ill-considered default.

4 Real estate, while usually counted in "unrestricted assets", is often restricted by use-covenants and deed restrictions placed on it by former donors (usually government) which greatly reduces its financial value.

organizations, which are typically low-margin and have weaker balance sheets, a full 51% of organizations would be eligible for $3.4 billion in PPP, representing 7% of the total budgets of those eligible.

The government should immediately make clear that the $5 million/ $15million test applies to nonprofits and provide unambiguous guidance about how to interpret it under nonprofit accounting standards. They should also ensure that there is a "for-nonprofits only" allocation of PPP to avoid the risk that organizations get crowded out by for-profits that are more lucrative customers for banks. Although this access to this PPP funding is not sufficent on its own, and many large nonprofits will not quality even under the $5 million/ $15 million test, the funds would be particularly helpful for the smallest of the "large" nonprofits.

Main Street Lending Program

The Federal Reserve has stated that "while nonprofit organizations are not currently eligible under the MSLP program, we acknowledge the unique needs of nonprofit organizations, many of which are on the front lines providing critical services and research to fight the pandemic...and will be evaluating the feasibility of adjusting the borrower eligibility criteria and loan eligibility metrics of the Program for such organizations."

Modifying MSLP for nonprofits is tricky. The "earning power" of nonprofits is limited and there is no rough-and-ready measure of their debt-bearing capacity equivalent to the "EBITDA multiples" used in the for-profit sector.[5] However, a modified MSLP program offering ~0%, six-year loans (including a one-year deferral) could make a huge difference to large nonprofits while likely incurring only modest losses. We estimate that such a program might require $251 billion ($45 billion excluding hospitals and higher education institutions, which have already received $180 billion in targeted aid). While these figures seem large, $45 billion is only 7.5% of the total MSLP budget.

Table 5 models how MSLP for nonprofits ("MSLP 2.0") might work. We are assuming that loans would be available for the lesser of (i) two months of expenses; or (ii) $25 million at 0% interest (or the lowest legally permissible rate) with a one-year deferral followed by a minimum five-year repayment period. The longer repayment period gives borrowers time to repay their loans by, in effect, allocating 5% of their revenue over the 5-year period. We believe this is manageable for well-run organizations. Table 5 also shows how other types of limits—perhaps based on unrestricted net assets or philanthropy—would affect the volume of available loans.

The core assumptions behind this type of program are:

- Strong nonprofit management will be able to reduce expenses by 5% for five years to repay loans which are, in effect, similar to revenue bonds. Those unable to find the necessary efficiencies will have time to enter into thoughtful mergers, joint-ventures, or restructurings without undue disruption in services;

5 Cash-flow based lending to nonprofits is limited. Most lending is asset based, with a heavy concentration in real estate develoment (e.g. affordable housing, community facilities, etc.). Nonprofit leaders have been rightly reluctant to use debt to cover even temporary operating deficits under "normal circumstances". Our discussions with larger groups suggest that most have been rebuffed in their requests to increase existing lines of credit.

- All nonprofit stakeholders—including philanthropy and state/local government—recognize the wisdom of allowing a small portion of their future payments to nonprofits to be used to repay the loans that allowed those nonprofits to survive;[6]
- Shortfalls in repayment from future revenue could be made up, in part, through the realization of net assets already on the books, though this might take time. Better yet, these loans could be structured as revenue bonds with a repayment requirement equal to a percentage of revenue for as long as it takes for repayment and with the ability to defer under certain circumstances;
- MSLP 2.0 uses the $25 million size limit for new loans in the existing MSLP program. This limit makes the loans of limited use to the very largest nonprofits, many of which are concentrated in hospitals and higher education. However, these sectors have received, and may continue to receive, more specific support. The Federal Reserve should consider a higher limit of $50 million for the nonprofits in sectors that have not had access to other forms of support.

While banks and CDFIs are best positioned to underwrite and manage the MSLP 2.0 loans, it is unlikely that conventional banks would be interested in holding a risk position—even 5%—in zero-interest (or even very low interest) loans. If risk sharing is important to the Federal Reserve, it should consider allowing third parties—foundations, board members, etc.—to hold the 5%. Banks must also be given incentives—origination fees, credit against their CRA obligations—as inducements to participate in what, while vitally important, would be a financially unattractive program.

No Time to Waste

Large, systemically important nonprofits are facing a potentially fatal liquidity squeeze. Unlike for-profits, they will not be able to secure debtor-in-possession financing or to restructure while continuing to operate under the protection of the bankruptcy court. In addition to the services they provide, large nonprofits also employ millions of relatively low-wage workers. Failures will create a crisis not only for clients, who will suffer from a disruption in services, but also low-income staff who will be out of work. Protecting nonprofits from failure through MSLP 2.0 is a very cost effective job-loss protection program, particularly for social service organizations which have seen increased demand and would actually hire more staff provided access to funding.

Large nonprofits that have failed in the past did so for idiosyncratic reasons. In most cases, they were surrounded by healthy peers who, in partnership with government agencies, were able to step into the breach to maintain services. This is not the case today. The failure of any large group—and without almost immediate federal help it will be more than one—will tear the fabric of the local social safety net with devastating consequences for clients, staff, and the well-being of the community.

* * *

It is a great strength of the United States that so much of our health, safety and well-being is supported by a relatively small group of systemically important nonprofits. These

6 Many government contracts specify allowable and disallowable costs. Debt service is seldom an allowable cost in state and local government contracts. Philanthropy is more flexible.

mission-driven organizations have done a far better job than the other two options: direct government provision or profit-seeking corporations. In COVID-19, these nonprofits face an extinction-level event. Yet, so far, they have been excluded from the most important COVID-19-related assistance. If things don't change immediately, some of these nonprofits will falter, leaving their employees, the communities they serve, and even the U.S. taxpayer far worse off than if they had been given the support to make it through this crisis. The clock is ticking.

TABLE 1 shows the distribution of large nonprofits based on data from the most recent IRS Form 990.

For example, the 166 Arts & Culture organizations are 2.5% of the total by count and 0.9% by expenditure.

All in US$ 000,000s

	Number of Organizations	Total Expenses	Total Assets	Total Net Assets	Unrestricted Net Assets	Operating Reserves
Arts & Culture	166	$ 14,088	$ 57,502	$ 45,411	$ 19,098	$ 2,932
Higher Education	976	$ 246,110	$ 861,953	$ 618,441	$ 270,675	$ 47,759
Hospitals & Health Care	2,847	$ 983,704	$ 1,444,600	$ 692,829	$ 635,850	$ 244,559
Social Services	1,548	$ 120,769	$ 129,256	$ 49,895	$ 38,885	$ (5,295)
Other	1,143	$ 141,356	$ 345,543	$ 224,716	$ 150,957	$ 106,506
Total	**6,680**	**$ 1,506,028**	**$ 2,838,854**	**$ 1,631,292**	**$ 1,115,464**	**$ 396,461**

Organizations by Sector and Size	<$100MM	<$250MM	<$500MM	<$1.0BN	$1.0BN+	Total (#)
Arts & Culture	135	24	5	1	1	166
Higher Education	542	275	82	35	42	976
Hospitals & Health Care	1,304	672	422	249	200	2,847
Social Services	1,299	197	41	7	4	1,548
Other	874	166	57	27	19	1,143
Total (#)	**4,154**	**1,334**	**607**	**319**	**266**	**6,680**
Arts & Culture	2.0%	0.4%	0.1%	0.0%	0.0%	2.5%
Higher Education	8.1%	4.1%	1.2%	0.5%	0.6%	14.6%
Hospitals & Health Care	19.5%	10.1%	6.3%	3.7%	3.0%	42.6%
Social Services	19.4%	2.9%	0.6%	0.1%	0.1%	23.2%
Other	13.1%	2.5%	0.9%	0.4%	0.3%	17.1%
Total (%)	**62.2%**	**20.0%**	**9.1%**	**4.8%**	**4.0%**	**100.0%**

Total Expenditure by Sector and Size	<$100MM	<$250MM	<$500MM	<$1.0BN	$1.0BN+	Total Expenditure ($)
Arts & Culture	$ 6,788	$ 3,525	$ 1,836	$ 549	$ 1,391	$ 14,088
Higher Education	$ 31,598	$ 42,277	$ 28,065	$ 24,600	$ 119,571	$ 246,110
Hospitals & Health Care	$ 72,367	$ 109,119	$ 149,466	$ 169,568	$ 483,184	$ 983,704
Social Services	$ 64,269	$ 29,411	$ 13,843	$ 4,358	$ 8,888	$ 120,769
Other	$ 44,573	$ 25,130	$ 19,567	$ 19,082	$ 33,005	$ 141,356
Total Expenditure ($)	**$ 219,595**	**$ 209,461**	**$ 212,776**	**$ 218,158**	**$ 646,039**	**$ 1,506,028**

Total Expenditure	<$100MM	<$250MM	<$500MM	<$1.0BN	$1.0BN+	Total
Arts & Culture	0.5%	0.2%	0.1%	0.0%	0.1%	0.9%
Higher Education	2.1%	2.8%	1.9%	1.6%	7.9%	16.3%
Hospitals & Health Care	4.8%	7.2%	9.9%	11.3%	32.1%	65.3%
Social Services	4.3%	2.0%	0.9%	0.3%	0.6%	8.0%
Other	3.0%	1.7%	1.3%	1.3%	2.2%	9.4%
Total Expenditure (%)	**14.6%**	**13.9%**	**14.1%**	**14.5%**	**42.9%**	**100.0%**

Expenditure by Size per Sector (%)	<$100MM	<$250MM	<$500MM	<$1.0BN	$1.0BN+	Total
Arts & Culture	48%	25%	13%	4%	10%	100%
Higher Education	13%	17%	11%	10%	49%	100%
Hospitals & Health Care	7%	11%	15%	17%	49%	100%
Social Services	53%	24%	11%	4%	7%	100%
Other	32%	18%	14%	13%	23%	100%
Total (%)	**32%**	**18%**	**14%**	**13%**	**23%**	**100%**

TABLE 2 shows all the large (over $30 million) nonprofits in each sector as if they were a single organization.

For example, the 1,548 large organization in social services have total revenue of $122 billion.

Income Statement ($million's)	Arts & Culture	Higher Education	Hospitals	Social Services	Other	Total
No. of Organizaions	166	976	2,847	1,548	1,143	6,680
Service Revenue	$ 4,762	$ 182,243	$ 950,827	$ 65,762	$ 59,538	$ 1,263,133
Government Grants	$ 2,994	$ 24,416	$ 14,329	$ 28,576	$ 33,328	$ 103,644
Philanthropy	$ 5,326	$ 28,543	$ 22,414	$ 24,358	$ 40,563	$ 121,204
Investment Income	$ 1,614	$ 29,647	$ 27,533	$ 1,900	$ 10,487	$ 71,183
Other	$ 640	$ 4,950	$ 18,928	$ 1,998	$ 4,007	$ 30,524
Total Revenue	$ 15,337	$ 269,799	$ 1,034,032	$ 122,595	$ 147,923	$ 1,589,687
Expenses	$ 14,088	$ 246,110	$ 983,704	$ 120,769	$ 141,356	$ 1,506,028
Net Income	**$ 1,249**	**$ 23,689**	**$ 50,328**	**$ 1,826**	**$ 6,567**	**$ 83,659**
Add: Interest	$ 194	$ 4,666	$ 12,015	$ 1,367	$ 1,987	$ 20,228
Add: Depreciation	$ 1,119	$ 13,175	$ 42,562	$ 3,589	$ 4,680	$ 65,125
EBITDA	$ 2,562	$ 41,529	$ 104,905	$ 6,782	$ 13,234	$ 169,012
Balance Sheet ($millions)						
Accounts Receivable	$ 540	$ 14,577	$ 121,279	$ 8,634	$ 12,298	$ 157,328
Cash + Savings	$ 4,009	$ 38,793	$ 100,741	$ 14,471	$ 31,852	$ 189,866
Investments	$ 29,183	$ 506,468	$ 444,312	$ 28,756	$ 168,808	$ 1,177,527
Land and Buildings	$ 16,796	$ 240,829	$ 434,540	$ 53,392	$ 68,889	$ 814,445
Other	$ 6,975	$ 61,286	$ 343,728	$ 24,004	$ 63,695	$ 499,689
Total Assets	$ 57,502	$ 861,953	$ 1,444,600	$ 129,256	$ 345,543	$ 2,838,854
Accounts Payable	$ 1,972	$ 28,736	$ 133,339	$ 11,215	$ 16,628	$ 191,890
Secured Notes	$ 631	$ 17,913	$ 43,248	$ 9,212	$ 24,438	$ 95,442
Unsecured Notes	$ 933	$ 24,810	$ 11,797	$ 1,155	$ 7,527	$ 46,221
Tax Exempt Bonds	$ 4,341	$ 85,488	$ 244,570	$ 23,009	$ 19,914	$ 377,322
Other Liabilities	$ 4,057	$ 72,959	$ 289,198	$ 33,400	$ 48,255	$ 447,869
Total Liabilities	$ 11,934	$ 229,906	$ 722,152	$ 77,990	$ 116,761	$ 1,158,743
Restricted	$ 26,313	$ 347,766	$ 56,979	$ 11,010	$ 73,759	$ 515,828
Unrestricted	$ 19,098	$ 270,675	$ 635,850	$ 38,885	$ 150,957	$ 1,115,464
Total Net Assets	$ 45,411	$ 618,441	$ 692,829	$ 49,895	$ 224,716	$ 1,631,292
Operating Reserves	$ 2,932	$ 47,759	$ 244,559	$ (5,295)	$ 106,506	$ 396,461
Key Metrics						
Service Revenue	31.0%	67.5%	92.0%	53.6%	40.2%	79.5%
Government Grants	19.5%	9.0%	1.4%	23.3%	22.5%	6.5%
Philanthropy	34.7%	10.6%	2.2%	19.9%	27.4%	7.6%
Investment Income	10.5%	11.0%	2.7%	1.6%	7.1%	4.5%
Other	4.2%	1.8%	1.8%	1.6%	2.7%	1.9%
Total Revenue	100%	100%	100%	100%	100%	100%
Net Income	8.1%	8.8%	4.9%	1.5%	4.4%	5.3%
Accounts Receivable (Days)	14	22	45	26	32	38
Accounts Payable (Days)	51	43	49	34	43	47
Reserves (Months of Expenses)						
Cash + Savings	3.4	1.9	1.2	1.4	2.7	1.5
Cash + Savings + Investments	28.3	26.6	6.6	4.3	17.0	10.9
Net Assets	38.7	30.2	8.5	5.0	19.1	13.0
Unrestricted Net Assets	16.3	13.2	7.8	3.9	12.8	8.9
Operating Reserves	2.5	2.3	3.0	(0.5)	9.0	3.2

TABLE 3A shows the distribution of key income metrics for large nonprofits

For example, the 60% of social service organizations generate 3.2% or less of their revenue from philanthropy.

Net Income Margin

Distribution	10%	20%	30%	40%	50%	60%	70%	80%	90%
Arts & Culture	-11.2%	-3.1%	0.0%	2.3%	4.6%	7.8%	11.4%	17.7%	27.4%
Higher Education	-4.9%	-1.3%	0.4%	2.0%	3.7%	5.2%	7.4%	10.5%	15.8%
Hospitals & Health Care	-10.1%	-2.7%	-0.1%	1.1%	2.8%	4.7%	6.7%	9.4%	13.4%
Social Services	-5.0%	-1.8%	-0.3%	0.3%	1.0%	1.9%	3.1%	5.0%	8.6%
Other	-8.1%	-2.7%	-0.1%	0.8%	2.5%	4.3%	7.5%	12.1%	20.1%
Total	**-7.3%**	**-2.3%**	**-0.1%**	**0.8%**	**2.3%**	**3.9%**	**6.0%**	**9.0%**	**14.1%**

Philanthropy (%)

Distribution	10%	20%	30%	40%	50%	60%	70%	80%	90%
Arts & Culture	3.6%	12.9%	24.9%	30.7%	39.2%	44.5%	49.3%	54.3%	69.1%
Higher Education	1.4%	2.9%	4.2%	5.8%	7.1%	8.9%	11.5%	14.4%	21.1%
Hospitals & Health Care	0.0%	0.0%	0.1%	0.2%	0.3%	0.5%	0.9%	1.8%	5.5%
Social Services	0.0%	0.1%	0.4%	0.9%	1.6%	3.2%	7.2%	17.2%	77.8%
Other	0.0%	0.1%	1.6%	5.5%	11.5%	20.0%	32.7%	61.6%	93.5%
Total	**0.0%**	**0.1%**	**0.2%**	**0.6%**	**1.3%**	**3.3%**	**7.0%**	**14.0%**	**42.8%**

Investment Income (%)

Distribution	10%	20%	30%	40%	50%	60%	70%	80%	90%
Arts & Culture	0.0%	0.3%	1.1%	2.4%	3.6%	6.2%	10.7%	14.6%	27.7%
Higher Education	0.4%	1.2%	1.8%	2.6%	3.7%	4.9%	6.9%	9.5%	16.2%
Hospitals & Health Care	0.0%	0.0%	0.1%	0.2%	0.5%	0.8%	1.4%	2.3%	4.2%
Social Services	0.0%	0.0%	0.0%	0.1%	0.2%	0.4%	0.9%	1.8%	4.3%
Other	0.0%	0.0%	0.2%	0.5%	0.9%	1.7%	2.9%	5.7%	11.3%
Total	**0.0%**	**0.0%**	**0.1%**	**0.3%**	**0.7%**	**1.3%**	**2.2%**	**3.9%**	**8.0%**

Invest Income + Philanthropy (%)

Distribution	10%	20%	30%	40%	50%	60%	70%	80%	90%
Arts & Culture	5.2%	15.6%	33.0%	41.6%	49.5%	53.6%	63.0%	70.5%	79.1%
Higher Education	3.4%	5.7%	7.7%	9.7%	12.3%	15.2%	18.7%	24.6%	37.0%
Hospitals & Health Care	0.0%	0.2%	0.5%	0.9%	1.4%	2.1%	3.3%	5.0%	10.5%
Social Services	0.1%	0.4%	0.9%	1.9%	3.6%	6.1%	10.1%	21.5%	80.5%
Other	0.2%	1.4%	4.2%	9.1%	16.8%	26.6%	44.0%	74.8%	97.8%
Total	**0.1%**	**0.5%**	**1.1%**	**2.1%**	**3.7%**	**6.6%**	**11.6%**	**21.3%**	**54.1%**

TABLE 3B shows the distribution of reserves for large nonprofits

For example, the median social service organization has 1.0 months of cash and savings.

Cash/Savings									
Distribution	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
Arts & Culture	0.6	0.9	1.4	1.8	2.5	3.0	3.9	5.3	7.9
Higher Education	0.3	0.5	0.8	1.1	1.4	1.9	2.4	3.0	4.1
Hospitals & Health Care	0.0	0.1	0.3	0.5	0.7	1.1	1.6	2.3	3.7
Social Services	0.2	0.3	0.5	0.7	1.0	1.3	1.8	2.4	3.5
Other	0.2	0.6	1.0	1.4	2.2	3.0	3.9	5.5	8.1
Total	**0.1**	**0.3**	**0.5**	**0.8**	**1.1**	**1.5**	**2.1**	**3.0**	**4.8**

Cash/Savings/Investments									
Distribution	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
Arts & Culture	2.8	4.8	6.6	10.2	14.7	22.9	33.0	46.0	66.4
Higher Education	3.1	5.2	7.1	9.2	11.5	14.5	17.6	23.6	39.6
Hospitals & Health Care	0.0	0.3	0.9	1.7	2.6	3.9	5.5	8.0	12.1
Social Services	0.3	0.6	1.0	1.4	1.9	2.9	3.9	5.7	11.3
Other	0.5	1.4	2.8	4.4	7.0	10.3	14.4	21.5	37.8
Total	**0.2**	**0.7**	**1.5**	**2.5**	**3.8**	**5.6**	**8.4**	**12.4**	**22.0**

Unrestricted Net Assets									
Distribution	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
Arts & Culture	(0.1)	1.9	4.2	9.6	12.6	17.5	23.5	27.8	45.0
Higher Education	1.6	3.8	5.6	7.2	8.9	10.5	12.8	16.1	22.5
Hospitals & Health Care	-	1.2	2.8	4.3	5.7	7.3	9.0	11.9	17.0
Social Services	-	0.7	1.4	2.2	3.0	4.1	5.6	7.5	11.9
Other	-	0.5	1.7	3.2	5.1	7.7	12.1	19.4	30.7
Total	**-**	**1.1**	**2.4**	**3.8**	**5.4**	**7.1**	**9.4**	**12.8**	**19.8**

Operating Reserves									
Distribution	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
Arts & Culture	(9.0)	(4.7)	(0.7)	0.3	1.5	2.8	5.7	9.5	19.5
Higher Education	(7.2)	(4.8)	(3.3)	(2.0)	(0.8)	0.4	1.6	3.4	7.8
Hospitals & Health Care	(4.0)	(1.3)	(0.0)	0.7	1.7	2.8	4.4	6.4	11.1
Social Services	(8.8)	(1.0)	0.0	0.5	0.9	1.5	2.3	3.5	5.6
Other	(5.1)	(1.2)	-	0.7	1.8	3.0	5.1	8.7	18.4
Total	**(5.6)**	**(2.0)**	**(0.3)**	**0.4**	**1.2**	**2.1**	**3.4**	**5.6**	**10.5**

Social Services									
Distribution	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**
Cash/Savings/Investment	0.3	0.6	1.0	1.4	1.9	2.9	3.9	5.7	11.3
Unrestricted Net Assets	-	0.7	1.4	2.2	3.0	4.1	5.6	7.5	11.9
Operating Reserves	(8.8)	(1.0)	0.0	0.5	0.9	1.5	2.3	3.5	5.6

TABLE 3C shows the distribution of reserves for large nonprofits by size and sector.

For example, 20% of arts and culture institutions have 4+ years of financial resources.

Social Services

Cash/Savings/Investment

Distribution	10%	20%	30%	40%	50%	60%	70%	80%	90%
$1.0BN+	0.5	0.5	0.5	1.2	2.2	3.1	4.1	4.9	5.8
<$1.0BN	0.5	0.5	0.5	0.6	0.8	0.8	0.9	1.1	6.4
<$500MM	0.1	0.4	0.5	0.7	0.9	2.3	3.3	4.4	6.0
<$250MM	0.3	0.6	0.8	1.2	1.6	2.1	4.1	5.3	9.5
<$100MM	0.3	0.6	1.0	1.4	2.0	2.9	4.0	5.8	11.8
Total	**0.3**	**0.6**	**1.0**	**1.4**	**1.9**	**2.9**	**3.9**	**5.7**	**11.3**

Arts & Culture

Cash/Savings/Investment

Distribution	10%	20%	30%	40%	50%	60%	70%	80%	90%
$1.0BN+	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5
<$1.0BN	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
<$500MM	5.5	5.5	6.5	8.4	10.3	27.5	44.8	61.0	76.4
<$250MM	4.5	4.7	6.4	10.7	19.2	23.1	40.3	49.9	60.9
<$100MM	2.7	5.0	7.1	10.7	13.7	23.0	32.7	42.3	66.4
Total	**2.9**	**4.9**	**6.8**	**10.3**	**14.7**	**22.8**	**33.0**	**46.0**	**66.4**

Higher Education

Cash/Savings/Investment

Distribution	10%	20%	30%	40%	50%	60%	70%	80%	90%
$1.0BN+	5.6	10.6	12.3	15.8	20.9	26.3	32.5	45.8	73.8
<$1.0BN	6.7	9.6	11.5	14.5	15.9	17.5	18.1	19.5	25.1
<$500MM	3.0	6.7	8.8	11.6	13.7	16.2	20.1	29.2	48.4
<$250MM	4.9	7.1	8.9	11.3	13.4	16.4	18.9	27.6	55.1
<$100MM	2.6	4.6	5.6	7.3	9.5	12.0	15.5	20.0	28.3
Total	**3.1**	**5.2**	**7.1**	**9.2**	**11.5**	**14.5**	**17.6**	**23.6**	**39.2**

Hospitals & Health Care

Cash/Savings/Investment

Distribution	10%	20%	30%	40%	50%	60%	70%	80%	90%
$1.0BN+	0.3	1.2	2.2	3.5	4.9	6.1	7.7	9.7	13.2
<$1.0BN	0.0	0.7	1.7	2.8	4.0	5.5	7.6	9.2	13.8
<$500MM	0.0	0.2	0.9	1.6	2.7	4.4	6.2	8.3	11.7
<$250MM	0.0	0.2	0.6	1.4	2.4	3.7	5.3	8.0	12.8
<$100MM	0.0	0.3	0.8	1.5	2.3	3.3	4.6	7.1	11.2
Total	**0.0**	**0.3**	**0.9**	**1.7**	**2.6**	**3.9**	**5.5**	**8.0**	**12.1**

TABLE 4 shows large nonprofits eligible for PPP under the alternative net income and net worth criteria.

For example, 1,356 social services organizations with total budgets might be eligible for $3.4 billion in loans.

Net Income <$5.0 Million	#	Expenses	Total Loans	Avg Loan	Loans (% of Exp)	Eligible (%)
Arts & Culture	103	$ 6,828	$ 454	$ 4.4	6.7%	62%
Higher Education	573	$ 54,577	$ 3,065	$ 5.3	5.6%	59%
Hospitals & Health Care	1,645	$ 251,498	$ 10,927	$ 6.6	4.3%	58%
Social Services	1,356	$ 98,828	$ 6,637	$ 4.9	6.7%	88%
Other	800	$ 75,240	$ 3,462	$ 4.3	4.6%	70%
Total	4,477	$ 486,971	**$ 24,545**	$ 5.5	5.0%	67%

Tangible Net Worth <$15.0 Million Sector	#	Budget	Total Loans	Avg Loan	Loans (% of Exp)	Eligible (%)
Arts & Culture	40	$ 2,540	$ 179	$ 4.5	7.1%	24%
Higher Education	148	$ 21,858	$ 649	$ 4.4	3.0%	15%
Hospitals & Health Care	761	$ 137,914	$ 4,593	$ 6.0	3.3%	27%
Social Services	818	$ 54,912	$ 3,505	$ 4.3	6.4%	53%
Other	435	$ 42,315	$ 1,686	$ 3.9	4.0%	38%
Total	2,202	$ 259,539	**$ 10,611**	$ 4.8	4.1%	33%

Satisfy Net Income and Net Worth Tests Sector	#	Budget	Total Loans	Avg Loan	Loans (% of Exp)	Eligible (%)
Arts & Culture	30	$ 1,639	$ 121	$ 4.0	7.4%	18%
Higher Education	116	$ 10,466	$ 460	$ 4.0	4.4%	12%
Hospitals & Health Care	678	$ 81,371	$ 3,980	$ 5.9	4.9%	24%
Social Services	792	$ 52,112	$ 3,395	$ 4.3	6.5%	51%
Other	373	$ 29,431	$ 1,430	$ 3.8	4.9%	33%
Total	1,989	$ 175,021	**$ 9,387**	$ 4.7	5.4%	30%

Satisfy Net Income and Net Worth Tests All Sectors	#	Budget	Total Loans	Avg Loan	Loans (% of Exp)	Eligible (%)
$1.0BN+	10	$ 18,899	$ 100	$ 10.0	0.5%	4%
<$1.0BN	19	$ 11,883	$ 158	$ 8.3	1.3%	6%
<$500MM	84	$ 28,962	$ 664	$ 7.9	2.3%	14%
<$250MM	231	$ 35,732	$ 1,720	$ 7.4	4.8%	17%
<$100MM	1,645	$ 79,545	$ 6,745	$ 4.1	8.5%	40%
Total	1,989	175,021	**9,387**	4.7	5.4%	30%

Satisfy Net Income and Net Worth Tests Social Services	#	Budget	Total Loans	Avg Loan	Loans (% of Exp)	Eligible (%)
$1.0BN+	1	$ 2,937	$ 10	$ 10.0	0.3%	25%
<$1.0BN	3	$ 1,970	$ 19	$ 6.2	0.9%	43%
<$500MM	14	$ 4,585	$ 78	$ 5.6	1.7%	34%
<$250MM	65	$ 9,786	$ 406	$ 6.2	4.1%	33%
<$100MM	709	$ 32,834	$ 2,882	$ 4.1	8.8%	55%
Total	792	52,112	**3,395**	4.3	6.5%	51%

TABLE 5 models a possible Main Sreet Lending Program for nonprofits.

Program Assumptions			
Maximum Amount Needed (Months of Expenses)		2.0	
Maximum Amount ($Millions)	$	25	
Deferral Period (Years)		1.0	
Repayment Period (Years)		5.0	
Total Loan Term (Years)		6.0	
Repayment Capacity Metrics		**Total**	**Per Year**
Revenue (per annum over repayment period)		17%	3.3%
Unrestricted Net Assets ("UNA")		33%	6.6%
Philanthropy		50%	10.0%

Total Loan Program

		Total	Limits and Metrics			
	# of Orgs	Loans Needed	Size	Net Assets	Philanthropy	All Limits
Arts & Culture	166	$ 2,348	$ 1,817	$ 1,799	$ 1,672	$ 1,609
Higher Education	976	$ 41,018	$ 15,444	$ 34,255	$ 13,229	$ 14,006
Hospitals & Health Care	2,847	$ 163,951	$ 49,200	$ 119,230	$ 9,629	$ 38,155
Social Services	1,548	$ 20,128	$ 16,349	$ 9,096	$ 5,914	$ 9,991
Other	1,143	$ 23,559	$ 13,720	$ 13,650	$ 9,833	$ 10,613
Total	**6,680**	**$ 251,005**	**$ 96,529**	**$ 178,030**	**$ 40,277**	**$ 74,374**

Percentage Of Need Based On Limits

	Size	Net Assets	Philanthropy	All Limits
Arts & Culture	77%	77%	71%	69%
Higher Education	38%	84%	32%	34%
Hospitals & Health Care	30%	73%	6%	23%
Social Services	81%	45%	29%	50%
Other	58%	58%	42%	45%
Total	**38%**	**71%**	**16%**	**30%**

Total Need

	<$100MM	<$250MM	<$500MM	<$1.0BN	$1.0BN+	Total
Arts & Culture	$ 1,131	$ 587	$ 306	$ 92	$ 232	$ 2,348
Higher Education	$ 5,266	$ 7,046	$ 4,677	$ 4,100	$ 19,929	$ 41,018
Hospitals & Health Care	$ 12,061	$ 18,186	$ 24,911	$ 28,261	$ 80,531	$ 163,951
Social Services	$ 10,712	$ 4,902	$ 2,307	$ 726	$ 1,481	$ 20,128
Other	$ 7,429	$ 4,188	$ 3,261	$ 3,180	$ 5,501	$ 23,559
Total	**$ 36,599**	**$ 34,910**	**$ 35,463**	**$ 36,360**	**$ 107,673**	**$ 251,005**

Total Available

	<$100MM	<$250MM	<$500MM	<$1.0BN	$1.0BN+	Total
Arts & Culture	$ 1,028	$ 406	$ 125	$ 25	$ 25	$ 1,609
Higher Education	$ 4,477	$ 5,780	$ 1,905	$ 818	$ 1,025	$ 14,006
Hospitals & Health Care	$ 8,155	$ 11,078	$ 8,588	$ 5,637	$ 4,697	$ 38,155
Social Services	$ 6,712	$ 2,564	$ 551	$ 63	$ 100	$ 9,991
Other	$ 5,648	$ 2,691	$ 1,212	$ 660	$ 402	$ 10,613
Total	**$ 26,020**	**$ 22,519**	**$ 12,382**	**$ 7,204**	**$ 6,249**	**$ 74,374**

% of Need Satisfied

	<$100MM	<$250MM	<$500MM	<$1.0BN	$1.0BN+	Total
Arts & Culture	91%	69%	41%	27%	11%	69%
Higher Education	85%	82%	41%	20%	5%	34%
Hospitals & Health Care	68%	61%	34%	20%	6%	23%
Social Services	63%	52%	24%	9%	7%	50%
Other	76%	64%	37%	21%	7%	45%
Total	**71%**	**65%**	**35%**	**20%**	**6%**	**30%**

Total Available — **Total Cash/Savings/Investment in Months of Expenses**

	<6	<12	<24	<36	36+	Total
Arts & Culture	$ 345	$ 560	$ 875	$ 1,078	$ 531	$ 1,609
Higher Education	**$ 2,269**	**$ 6,010**	**$ 10,667**	**$ 11,947**	$ 2,059	**$ 14,006**
Hospitals & Health Care	$ 23,996	$ 33,249	$ 36,478	$ 37,061	$ 1,095	$ 38,155
Social Services	$ 7,646	$ 8,917	$ 9,544	$ 9,789	$ 201	$ 9,991
Other	$ 4,098	$ 6,463	$ 8,549	$ 9,318	$ 1,295	$ 10,613
Total	**$ 38,354**	**$ 55,200**	**$ 66,113**	**$ 69,193**	**$ 5,181**	**$ 74,374**

% of Total	<6	<12	<24	<36	36+	Total
Arts & Culture	21%	35%	54%	67%	33%	100%
Higher Education	16%	43%	76%	85%	15%	100%
Hospitals & Health Care	63%	87%	96%	97%	3%	100%
Social Services	77%	89%	96%	98%	2%	100%
Other	39%	61%	81%	88%	12%	100%
Total	**52%**	**74%**	**89%**	**93%**	**7%**	**100%**

SeaChange champions nonprofits facing complex challenges and is the partner of choice for funders seeking to help. SeaChange has been active over many years in the financial analysis of the nonprofit sector. This briefing note was only possible because of data generously provided by Candid, which helps millions of people get the information they need to do good. To learn more about what Candid can do for you, visit candid.org. It was also based on the following reports:

- The Financial Health of the US Nonprofit Sector
- Risk Management For Nonprofits
- Philadelphia Risk Report
- Overhead for Trustees
- New York City Contract Delays
- Closing the Gap: A True Cost Analysis
- Tough Times Call for Tough Action
- Too Big To Fail

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