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Great Recession Generates Many New Charities



By Ian Wilhelm

As a child, Beth Zimmerman daydreamed about helping animals, imagining a huge grassy estate where she could free caged dogs.

Now an adult with a successful career as a business consultant, Ms. Zimmerman has decided to revisit her childhood hopes.

Last year she formed Pets for Patriots, in Long Beach, N.Y., to help military families adopt pets from animal shelters.

Earl Martin Phalen says the summer program he started in early 2009 is an outlier in terms of its financial success.

As a charity formed in 2009, Pets for Patriots is a member of the philanthropic class of the Great Recession. It is one of thousands of nonprofit organizations with the distinction—or stigma—of receiving its tax-exempt status as America grappled with one of the worst economies in 60 years.

As a result, those groups probably will face greater challenges than their older peers. Members of Congress and philanthropy experts already question whether there are too many nonprofit groups, and many donors are avoiding new projects, instead focusing their scarce dollars on well-established charitable efforts.

But new nonprofit leaders like Ms. Zimmerman largely shrug away such concerns.

She acknowledges the fund-raising environment is difficult; she has had to spend more than \$8,000 of her own money to finance the group. But she says such problems won't deter her nonprofit dream.

“You always wait until some other day to do the thing that you're really very passionate about,” says Ms. Zimmerman. “I just decided one day that was going to be today.”

More Than 46,000

According to an analysis of Internal Revenue Service data by the Urban Institute, a think tank in Washington, the nonprofit world continued to grow at a steady pace in 2009. The tax agency classified 46,633 groups as charities and private foundations under Section 501(c)(3) of the Internal Revenue Code last year. In 2008, 40,124 received the designation, and in 2007, 47,002 did.

(The figures do not necessarily represent the number of nonprofit groups created in a given year. For example, a charity could have started operating in 2008 and applied for tax-exempt status that year but not have received the designation until the following year.)

In all, the IRS says, more than 1.2 million organizations now hold charity status, though it says an unknown number of nonprofit groups may have shut down so the number is probably an overestimate.

In some cases, victims of the bad economy have sought new careers as nonprofit founders.

Gwendolyn Pongracz, for example, set up a charity when she lost her job as an administrative assistant at a software company. Her organization, Kids of Character, in New Tripoli, Pa., will teach young people about honesty, compassion, and other values.

Ms. Pongracz has had a long-simmering interest in teaching—she has a master’s degree in education—and now that she is unemployed, she means to pursue it.

“I was out of a job and I was like, OK, do I want to just get back into the corporate world or do I want to go back to what I originally wanted to do with my life, which was make a difference in kids’ lives?” she asks.

'Time to Help'

Seth Reams of Portland, Ore., has similar aspirations. When he lost his job as a concierge at an apartment building he started an informal network of laid-off workers to help with projects like painting a battered women’s shelter. He started a blog to document the effort, which he called We’ve Got Time to Help, and so far has organized more than a 100 volunteers.

“Most of us have been laid off and are having a tough time finding a job in this awful economy,” he says. “We are using a small portion of that time to make our community a better place.”

It’s unclear how many new charities have been started by people like Mr. Reams. Some anecdotal evidence suggests that a significant number of laid-off workers are considering creating a nonprofit group for gainful employment or to fulfill a philanthropic passion.

In Michigan, which has the nation’s highest unemployment rate, the state’s Bureau of Commercial Services says these days its seminars on how to start a nonprofit group are often packed with people who recently lost their jobs.

Bao Vang, leadership program coordinator at the Minnesota Council of Nonprofits, says she sees a similar trend at the association's quarterly classes about nonprofit management.

According to the Urban Institute, both Michigan and Minnesota had a larger number of organizations receive federal tax-exempt status in 2009 than in 2008.

With the economy sapping philanthropic resources, however, Ms. Vang says, she tries to give her classes a strong dose of reality. "One of the myths I try to dispel for people who are really excited about starting their organization is that there is a pot of gold behind the nonprofit door," she says.

She encourages potential nonprofit entrepreneurs to conduct research to learn whether other charities offer services similar to the ones they are proposing or to team up with a well-established nonprofit group instead of starting a separate entity.

The new nonprofit leaders for the most part say they did such research before applying for federal tax-exempt status.

Ms. Zimmerman, of Pets for Patriots, says she did extensive "competitive research" and that her group fills a special niche since it doesn't work with puppies or kittens, but older animals for whom it is harder to find a home.

So far, the group has 600 "fans" on Facebook and more than 1,600 Twitter followers.

She says other animal-related organizations, however, have not been as positive in response to her new group.

"Some of the larger, national, more-established charities that really could help us with some counseling and some strategic information so far seem unwilling to do so," she says.

Ms. Pongracz, of Kids of Character, says she also faces a tough situation.

She has connected with several local youth groups and held several events but has raised very little money so far.

Her government unemployment insurance ends in a few weeks. After that, she may have to take on a part-time job to subsidize her nonprofit work.

"I'm at the point where I need to sit back and do some strategic planning," she says. "I really need to look at more fund raising."

Room for Successes

Despite the tough times, some new charities are thriving.

In early 2009, Earl Martin Phalen had an idea to create a summer program that would keep students physically active and learning during the months they were away from school.

Last year, his group, Summer Advantage USA, received its first grant—\$90,000 from the Mind Trust, a grant maker in Indianapolis that seeks to bring new charitable ideas to Indiana. The trust also introduced Mr. Phalen to other local foundations, like the Lilly Endowment, and city officials. The connections have proved to be a windfall.

Mr. Phalen, who previously worked at after-school programs in Boston, has raised \$3.6-million in 2010 and will serve 3,500 kids this summer.

He realizes that his nonprofit organization is an outlier, given the tough economy. Other grant makers and donors, he says, should follow the example of the Mind Trust and offer opportunities for new projects—an idea other freshmen nonprofit leaders echo.

“We reached out to other funders and a lot of them unfortunately said, 'Gosh, the economy is so bad we're not taking any new ideas,'" Mr. Phalen says. “But these are the tough times where we need the foundations and the nonprofit sector to be greater because families are really suffering.”