National Council of Nonprofits

Champions for the public good

Nonprofit Workforce Shortages: A Crisis That Affects Everyone

An Update

July 2022

The shortage of workers in all sectors is a matter of common knowledge, but the significance of the crisis affecting the work of charitable nonprofits – which often involves human lives and well-being – is different. The loss of nonprofit jobs means people suffer because nonprofits cannot deliver services the public needs.

As documented at the end of 2021 in The Scope and Impact of Nonprofit Workforce Shortages, charitable nonprofits from across the country and all subsectors have been experiencing higher job vacancy rates than their for-profit and government counterparts, are confronting unbearable salary competition as those other sectors poach nonprofit employees, and must deal with burnout caused by the relentless pressure imposed on frontline nonprofits to deliver higher volumes of services without much relief since the pandemic began more than two years ago.

While job vacancies in the government and business sectors may cause disappointment and lost profits, the lack of adequate nonprofit staffing means delayed or complete loss of needed services.

The positive news since publication of that special report is that governments at all levels have taken some, although limited, actions to alleviate workforce shortages. However, the crisis continues to grow, which hurts real people when organizations do not have enough employees to meet the public's needs. Now is the time for public officials to commit to advancing policy solutions at the local, state, and federal levels to eliminate a crisis that affects everyone.

The Challenges Continue

In the December 2021 report from the National Council of Nonprofits, The Scope and Impact of Nonprofit Workforce Shortages, three out of four nonprofits (76%), with missions ranging from health and human services to arts, culture, and education, reported job vacancies of greater than 10%. An astonishing 42% had a fifth (20%) or more of their positions open. Organizations without adequate levels of personnel obviously cannot deliver the same volume of services, much less respond to growing demands.

The labor market is exceedingly hot. More than 11 million jobs were posted in May 2020 and roughly 4.3 million workers quit or changed jobs that month, according to the Bureau of Labor Statistics.[1] That agency does not breakout nonprofit jobs, so nonprofits are forced to rely on anecdotal evidence to determine whether job applicants are taking work in the for-profit or governmental sectors rather than nonprofits, and which subsectors, if any, are close to their pre-pandemic employment levels.

According to a recent article in the *Chronicle of Philanthropy*, the challenges nonprofits face in hiring and retaining staff do not appear to be abating.[2] The article cites an April survey, for instance, that found two-thirds of fundraisers and advancement leaders in the education subsector said staff shortages and resignations were their biggest workplace concerns. Hiring replacements is also challenging for nonprofits; according to survey results from the Advisory Board for the Arts, filling jobs is taking three-to-six months for more than one-third (38%) of respondents. Finding social workers appears to be particularly difficult; the job posting company Indeed.com lists thousands of open social worker positions, some listings offering signing bonuses of up to $10,000.

Government Policies Hurt the Financial Sustainability of Nonprofits. Nearly four out of five nonprofits (79%) responding to the National Council of Nonprofits' survey last fall reported that salary competition impacted their ability to hire. Yet too often nonprofits cannot raise wages or change their compensation packages because they lack the financial capacity to do so. Frustratingly, government policies continue to exacerbate the lack of resources.

Charitable Giving Incentives: Contrary to pronouncements at the time, the 2017 tax reform law did not generate increased charitable giving among wealthier taxpayers who claim itemized deductions.[3] In fact, charitable giving *declined* by 0.7% in 2021, according to new data from Giving USA, when factoring in inflation.[4] One bright spot in federal tax policy in recent years was a universal charitable deduction that enabled taxpayers who claimed the standard deduction to donate to charitable organizations and claim a $300 deduction (couples could claim up to $600 in charitable deductions in 2021). That special universal deduction for non-itemizers incentivized 42.2 million tax filers to support the work of nonprofits through donations of $10.9 billion in 2020, the latest data available.[5] However, Congress allowed the universal charitable deduction to expire at the end of 2021, depriving charitable nonprofits of this meaningful source of revenues when it was most needed to address workforce and service needs.[6]

Employee Retention Tax Credit: Congress made another harmful policy change when it retroactively repealed the Employee Retention Tax Credit (ERTC) on which many nonprofits were relying. Repeal by Congress of the ERTC for the fourth quarter of 2021 was based on a demonstrably incorrect presumption that the program was underutilized. In fact, the Government Accountability Office found that employer usage *tripled* in 2021 compared to 2020.[7] Indeed, fully 15% of respondents to the National Council of Nonprofits survey last fall reported claiming the ERTC, with utilization rates as high as 24% reported in Kentucky and North Carolina. The ERTC, one of the most successful forms of relief during the pandemic, enabled nonprofit and for-profit employers to retain and hire staff when layoffs were excessive. The premature repeal of the law meant that organizations were denied resources to keep people on the job and perhaps pay a little more to retain and attract staff.[8]

Government Grants and Contract Challenges: Antiquated and broken government grants and contracting systems at all levels of government impose yet another set of serious financial challenges on nonprofits. Recurring flaws include failing to adjust reimbursement rates to reflect real costs – a significant problem made even worse by inflation. Another common hindrance occurs when governments restrict the hourly rates they will reimburse the nonprofits they hire to provide services to the public on behalf of government. Too often, nonprofits cannot pay their employees competitive wages due to these restrictions, so nonprofits lose their employees to those very governments or businesses that pay more. Recent testimony before the Boston City Council revealed that the Commonwealth's model budgets for human services programs provide a ***median*** salary of just $16.79 per hour, a rate that factors in positions requiring college degrees and credentialling. By contrast, Target pays $24.00 per hour, Bank of America has a starting wage of $20.00 per hour, and

Hobby Lobby pays $18.50 per hour.[9] These challenges are longstanding, but are exacerbating the inability of nonprofits to retain and attract staff.[10]

Increased Costs – Wages, Inflation, Gasoline. Further strain on nonprofit operations comes from rising costs. One factor, of course, is the increased costs for wages and salaries, which rose 5% for private sector employees for the 12-month period ending in March 2022, according to the Bureau of Labor Statistics.[11] Separate from labor costs, inflation rose 8.3% in the last 12 months, according to the Consumer Price Index.[12] Further, for nonprofits that rely on volunteer drivers, rely on transportation to provide services, or are based in transit deserts, gasoline prices are also a barrier to providing services: the national average gas price at the end of June was $4.81, a 53 percent increase from last year.[13]

Unlike for-profit businesses that can raise the costs they charge, government policies and economic realities prevent nonprofits from doing the same. As the head of a food bank in Virginia recently explained, raising prices is simply not an option for nonprofits: "We don't get to say, like, 'We're going to double the cost of our food,' Because doubling the cost of our food is still zero."

Increased Volumes of Work. Costs are not the only thing rising in 2022. Half of nonprofits participating in the Nonprofit Finance Fund's survey this spring responded that they continue to face significant increases of more than 10% in the demand for their services[14] This continuing strain on nonprofits to do even more produces yet further negative consequences. The rising volume of work by people seeking services at understaffed nonprofits often faced waiting lists for services or outright denial of services when organizations could no longer accept new clients or referrals, according to responses to the National Council of Nonprofits survey discussed above. Respondents also reported severe concerns of nonprofit leaders about the well-being of their staffs and the likely further loss of employees due to burnout as variants of COVID-19 surge and increased demands persist.

Negative Impacts on the Public. Rising competition for staff and rapidly increasing costs are not unique to the nonprofit sector. What makes nonprofit workforce shortages a crisis that should be of concern to everyone is the impact on people's lives. The negative consequences affect all residents. A sign saying "no lifeguards on duty" may be the clearest example of how the workforce shortage can lead to life and death situations. But at least at the beach or pool, people have the choice of whether to assume the risk. Not so for the spouse suffering domestic abuse seeking shelter, the shut-in senior needing a meal, or individuals seeking mental health first assistance. Nonprofits and the people and communities they serve need solutions now. Before more people are hurt.

Solutions Identified by Frontline Nonprofits

The December report of the National Council of Nonprofits identified policy solutions that governments and private funders can implement to help address the crisis in nonprofit workforce shortages and mitigate the resulting harm to the public. These appear in two categories: Solutions of General Application and Government Grant and Contracting Reform Solutions. So far in 2022, nonprofits are seeing some progress in the exploration of policy solutions, as discussed below. But, additional policy changes and wider adoption of proven approaches need to be implemented as quickly as possible to protect the public.

Solutions of General Application

All Governments – Prioritize Equity from the Outset: Intentionally seek out solutions identified by marginalized and under-resourced communities that would overcome barriers blocking access to services and support for providing services.

- **Federal Prioritization**: In June, the U.S. Treasury Department published an Equity and Outcomes Resource Guide highlighting how governments are incorporating equity, community engagement, evidence, and performance management into their use of Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) allocated to them under the American Rescue Plan Act. The Resource Guide provides three-dozen examples of strategies local governments in 19 states are applying throughout the lifecycle of their CSLFRF-supported programs, from policy and project selection through implementation. These equity strategies include goal setting; using equity frameworks to consider equity throughout all stages of development and implementation; identifying high-need populations; engaging underserved communities so people can participate in the process and have a voice in their own future; convening leaders from diverse backgrounds to analyze data through engagement processes; using evidence; and tracking progress toward advancing equitable outcomes.[15]

Congress – Reinstate and Extend Expired Tax Provisions: The expiration of the **Employee Retention Tax Credit** and the **Universal Charitable Deduction** deprive charitable nonprofits of the resources they need to overcome the workforce shortages adversely affecting the public. In a letter to Congress, a broad coalition of charitable organizations calls for immediate relief. Specifically, the letter urges Congress to retroactively restore the Employee Retention Tax Credit, as proposed in the bipartisan ERTC Reinstatement Act (H.R. 6161/S. 3625), and make additional reforms to reflect the increased costs charitable organizations have incurred as they struggle to maintain or expand services to meet local needs throughout the health and economic crises. Nonprofits are also calling on Congress to renew the Universal Charitable Deduction at least through 2022 and significantly increase the cap on the deduction, as proposed in the bipartisan Universal Giving Pandemic Response and Recovery Act (S.618/H.R.1704). Attention must also be given to extending two additional **disaster-relief giving incentives** that expired on December 31, 2021 – the provision permitting individuals who itemize to deduct charitable donations up to 100% of their adjusted gross income and the measure allowing corporations to deduct charitable donations up to 25% of taxable income.[16]

States – Promote Affordable Child Care: Nonprofits responding to the survey last fall reported that, following compensation, the second greatest challenge to employee recruitment and retention is the inability of prospective and current employees to find affordable child care. A February 2022 survey found that 39% of women caregivers had left the workforce or reduced their work hours since the pandemic began; 83% of women in the survey said they could not afford to stop working.[17] Bureau of Labor Statistics data show that more than one child care worker in 10 hasn't returned to their jobs since the pandemic began, a shortage of nearly 100,000 workers.[18] The magnitude of the challenge was brought home during a Federal Reserve webinar when a nonprofit provider pointed out: "There is no recovery of the economy without child care."[19] A few states recognize the impact of the problem on their residents and economy are taking decisive action.[20] Here are some recent notable examples:

- **Kentucky**: The new Employee Child Care Assistance Partnership program creates a $15 million fund for employers to contribute and the state to match up to 100% of contributions for employers to voluntarily create and apply for child care assistance programs.
- **Maryland**: The state Department of Education has been tasked with administering child care stabilization grants to provide financial support to providers that have faced a financial hardship or suffered an operational burden during the COVID-19 pandemic. Child care providers eligible to participate in the $50 million program include those operating in areas "lacking child care slots" and serving primarily low-income populations in areas of high poverty, among other factors. A separate program, the Therapeutic Child Care Grant Program, directs grants to providers that offer specialized child care and early education to children who have delays in development or physical disabilities.
- **New York:** The FY 2023 budget establishes child care facility building incentives and excludes certain student debt forgiveness awards from the state income tax.
- **Utah**: The state is dedicating a share of its ARPA funds to provide grants to eligible child care providers to assist in paying start-up costs associated with providing child care.

States – Provide Student Debt Relief: The December report from the National Council of Nonprofits called on policymakers and funders to do more to relieve nonprofit employees from crippling burdens of student loan debt so they can remain in the sector promoting public good in their communities.

- **California**: Pending legislation would establish the Golden State Social Opportunities Program to provide scholarships of up to $20,000 annually for social work, therapy, or psychology students who commit to working at least two years at an eligible nonprofit in the state upon graduation.
- **Illinois**: A new program enacted in June, the Human Service Professional Loan Repayment Program, will provide loan repayment assistance to eligible direct service professionals practicing in community-based, human service organizations that contract with or are grant-funded by a state agency. By focusing on professionals working for community-based health and human service providers in Illinois, the program seeks to improve employee retention, support frontline workers, and create continuity in service delivery.
- **Massachusetts**: A bill would create an education loan repayment program for eligible human service workers meeting workweek, income, and employment length requirements. Workers would receive up to $1,800 for as many as four years to repay a qualified education loan.
- **New Jersey**: Pending legislation would allow a gross income tax deduction for employees for amounts paid by their employer for specific student loans.

Government Grants and Contracting Reform Solutions

State & Local Governments – Cost of Living Adjustments (COLAs): The December report recognized that just as governments increase their own spending to reflect costs of providing services, they must also annually adjust their grants and contracts with nonprofit service providers to cover rising costs of living and actual costs that the nonprofits incur doing work for those governments.

- **Connecticut:** The FY 2023 budget includes a 7.6% COLA funded by the state's General Fund and American Rescue Plan Act allocation.

- **New York:** The state's FY 2023 budget includes a 5.4% COLA to raise wages for certain human services workers. However, many hard-hit fields – e.g., domestic violence programs and supportive housing – were left out of COLAs.

State & Local Governments – Payment of Indirect Costs: Reimburse charitable nonprofits their actual indirect cost rates, as required under federal regulations, which state and local governments should adopt when using their own funds to provide efficiencies and consistency across governmental agencies.

- **California**: Pending legislation would align state reimbursement rates for any state grants that are created on or after July 1, 2023 with the federal OMB Uniform Guidance. The measure tracks similar laws in the District of Columbia, Illinois, and Maryland.
- **North Carolina**: Reform legislation approved unanimously by the state Legislature and signed by the Governor establishes a de minimis indirect cost rate of 10% of modified total direct costs if the nonprofit grantee or contractor does not have a federally approved indirect cost rate. The new law also requires multi-year agreements and automatic contract extensions to ensure continuity of services and payments while new contracts are being negotiated.

Acknowledging Government and For-Profit Sector Challenges

To be sure, workforce shortages are not unique to nonprofits, and policy and practical solutions often are readily available. Nationwide, 30% of small businesses report difficulty hiring, with Missouri and Vermont experiencing the greatest challenges according to nearly 45% of surveyed small businesses reporting having a hard time hiring workers. With thousands of government jobs going unfilled, Maryland recently announced that it will no longer require college degrees for a wide variety of jobs ranging from parole agents to information technology specialists. Some Alaska employers are building housing for workers to relieve pressure on the tight housing market, which has been a disincentive for individuals to accept jobs in the state. The chronic shortage of nurses affects all healthcare employers – nonprofit, government-run, and for-profit alike; regulatory reforms like loosening licensing requirements and offering monetary incentives can help.

The same level of commitment to creative solutions is needed to resolve the nonprofit workforce shortages crisis because the stakes are so much higher for the public at large. When a nonprofit closes, the ripple effects cannot be ignored: communities lose access to food, shelter, mental health care, and other vital services. Nonprofits need relief for communities to recover from the adversities heightened by COVID-19. We call on policymakers and nonprofits to come together to recognize and resolve this crisis affecting everyone.

Endnotes

[1] Job Openings and Labor Turnover Summary – May 2022, Bureau of Labor Statistics, July 6, 2022.

[2] The Nonprofit Hiring Crisis, Jim Rendon, *Chronicle of Philanthropy*, June 7, 2022.

[3] The Tax Cuts and Jobs Act and Charitable Giving by Select High-Income Households, Howard Husock, American Enterprise Institute, April 2022.

[4] Giving USA Data Shows $18.6B Lift Flattened By Inflation, Paul Clolery and Peggy Wright, *The NonProfit Times*, June 21, 2022. The data found that two-thirds (67.5%) of charitable donations came from individuals, down from 83% forty years ago, a very troubling trend.

[5] Individual Income Tax Returns, Preliminary Data, Tax Year 2020, Statistics of Income Bulletin, Internal Revenue Service, Spring 2022.

[6] Restoring and Improving Charitable Giving Incentives, National Council of Nonprofits, June 15, 2022.

[7] COVID-19: IRS Implemented Tax Relief for Employers Quickly, but Could Strengthen Its Compliance Efforts (GAO-22-104280), Government Accountability Office, May 17, 2022.

[8] Reinstating the Employee Retention Tax Credit, National Council of Nonprofits, June 15, 2022.

[9] Boston's human services sector and workforce challenges, testimony of Michael Weekes, President and CEO, Providers' Council, May 3, 2022.

[10] See generally, Toward Common Sense Contracting: What Taxpayers Deserve, National Council of Nonprofits, April 2014.

[11] Employment Cost Index – March 2022, U.S. Bureau of Labor Statistics, Apr. 29, 2022.

[12] Consumer Price Index Summary, U.S. Bureau of Labor Statistics, May 11, 2022.

[13] National Average Gas Prices, AAA, accessed June 30, 2022.

[14] 2022 State of the Nonprofit Sector Survey, Nonprofit Finance Fund, June 2022.

[15] See also, Advancing Equity through the American Rescue Plan, U.S. Treasury Department, May 2022.

[16] Pandemic and Workforce Shortage Relief for Charitable Nonprofits Letter to Congress, updated June 13, 2022, including signatures from more than 1,700 charitable organizations from all 50 states.

[17] Forced Out of Work: The Pandemic's Persistent Effects on Women and Work, Fact Sheet, RAPID, Stanford University, June 30, 2022. See also, Jobs Aplenty, but a Shortage of Care Keeps Many Women From Benefiting, Lydia DePillis, Jeanna Smialek, and Ben Casselman, *New York Times*, July 7, 2022.

[18] U.S. Bureau of Labor Statistics, All Employees, Child Day Care Services [CES6562440001], retrieved from FRED, Federal Reserve Bank of St. Louis, July 8, 2022.

[19] Ellicia Lanier, founding Executive Director of Urban Sprouts Child Development Center in St. Louis, speaking on the webinar, Impact of COVID-19 on Organizations Serving Low-to-Moderate Income Communities, Federal Reserve Bank of St. Louis, Dec. 2, 2021.

[20] With Child Care Scarce, States Try to Fix 'a Broken Market', Dana Goldstein, *New York Times*, June 19, 2022.