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Rising Interest in Nonprofit Dissolutions & Mergers

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Something of concern is happening in the nonprofit community that merits our collective attention. Multiple sources signal that an increasing number of charitable nonprofits, especially smaller ones, are looking to close their operations. Visits to our webpage on [nonprofit dissolution](#) have been increasing steadily since the pandemic began, and spiked 30 percent during January 2022 compared with January 2021. State associations of nonprofits across our network are reporting markedly increased requests from nonprofits in their states for information about how to dissolve or merge nonprofits. And we're hearing the same from consultants who help nonprofits with mergers and consolidations.

That emerging trend, while frightening, isn't totally surprising. When COVID-19 first hit and demand for nonprofit services skyrocketed for some and disappeared for others, while revenues were plummeting for most, [we and many others warned policymakers of the dire consequences to the public](#) if they excluded nonprofits from relief packages and allowed nonprofits to go under. Fortunately, that advocacy paid off – Congress made charitable nonprofits eligible for Paycheck Protection Program ("PPP") loans, and as a result [charitable nonprofits received approximately \\$50 billion in forgivable PPP loans](#). The government's PPP data show that more than

200,000 nonprofits received PPP loans, which helped support 6.2 million nonprofit jobs. Congress also included nonprofits in the Employee Retention Tax Credit, provided unemployment insurance relief, and enacted enhanced charitable giving incentives. These and other federal, state, and local government programs helped keep nonprofits afloat so they could continue to provide needed jobs and services in local communities.

But Congress closed the PPP program in May 2021, ended unemployment relief to workers and employers before Labor Day, prematurely stopped the ERTC program at the end of September, and let all of the enhanced charitable giving incentives expire on December 31. [Studies](#) show how instrumental the forgivable PPP loans were to nonprofit sustainability, so it should be no surprise that the removal of those funds and the other programs has hit nonprofits especially hard. The good news is that the government programs worked. The bad news is that the removal of those programs – while the pandemic-related health and economic struggles continue – is forcing many small and midsized nonprofits that serve local communities to scramble for solutions.

Why does this trend merit the collective attention of the media, the public, nonprofits, funders, and policymakers at all levels of government? Because “small and midsized” nonprofits doesn’t mean “inconsequential.” Ninety-seven percent of America’s nonprofits have revenues of less than \$5 million, and 92 percent have less than \$1 million. Combined, charitable nonprofits employ our nation’s third-largest private workforce. These are the organizations that deliver behavioral health services, cultural attractions that bring in businesses, educational centers for young people, conservation groups for the environment, and so much more. When these nonprofits disappear, it hurts everyone in the community, not just the nonprofit employees. That’s why nonprofits are again signing a letter [urging Congress to provide nonprofit pandemic and workforce shortage relief](#).

More on this emerging trend

We spoke with Doug Sauer, an independent advisor to the [New York Council of Nonprofits](#) (NYCON) and its former CEO, who is consulting with a number of New York-based nonprofits to help them explore and navigate mergers and acquisitions. NYCON also has a legal team on staff that provides dissolution services. “It is important to first note that dissolution is not necessarily a bad thing and may very

well be the responsible action to take if there are assets to be preserved that can transfer to a nonprofit of similar mission,” he said. He also observed that nonprofits do not need to have a viable business or effective program model to be created, so we should not be surprised that many do not survive, especially during tough economic times.

“A lot of the smaller community-based organizations hung on during COVID and were helped greatly by the PPP loans they got, but thought things were basically going to go back to the way they operated before without making the changes needed. Add to that, the fact that fatigue has set in at both the board and staff levels and folks are naturally just worn out from propping things up and lack the bandwidth to continue and be competitive for resources,” Sauer said. “They got through the worst of COVID and now they need to face the reality of their very viability as independent organizations.”

Sauer added, “I don’t think the public realizes the extraordinary level of stress, if not vicarious trauma, that nonprofits at the front lines serving vulnerable populations continue to experience as they struggle to retain, attract, and have the infrastructure to manage an underpaid workforce in what is an increasingly regulated environment. It is important to note that the decision to merge, affiliate or dissolve are decisions made by volunteer boards of directors, and boards have been destabilized as well due to the challenges of dealing with COVID for so long.”

Changes in the COVID-influenced landscape are starting to emerge that make the environment more conducive to restructuring opportunities. For example, the public’s growing recognition of the mental health and substance abuse crises in our country is driving the integrated care or behavioral health movement. Through strategic partnerships and mergers, substance abuse and mental health nonprofits that have been historically “siloes” by discipline and funding streams are joining forces to provide improved integrated care at the local level and to be unified in their advocacy efforts.

The heavily regulated corporate compliance and billing issues associated with Medicaid-funded services, for example for the developmentally disabled, are now exacerbated even further by the workforce shortage. “Mergers in the Medicaid provider world have been a trend for some time, as nonprofits seek the infrastructure and scale needed to maintain quality services and be financially viable, and now struggle to meet the required staffing necessary to maintain

standards,” explained Sauer. “More and more nonprofits that have previously been resistant to affiliation or merger for reasons such as fear of losing their culture, becoming ‘too corporate,’ or losing their brand are now more open to the concept, especially where mission and values compatibility exists and where they see opportunities to expand, including geographically, the good work they do. They recognize that this may be the best strategy for preserving or enriching mission, which should at the end of the day be what it is all about.”

“There will be some loss of longstanding ‘mom and pop’ locally-controlled operations, which is a casualty of the times,” according to Sauer. “But change is happening one way or another. The choice is to be reactive or proactive, negotiate from strength when things are going relatively well or wait to do so from a weakened position. It is interesting that nonprofits are often seen as the change agents in communities, but our sector can be quite resistant if it means we need to be the ones that change.”

Mergers, affiliations, shared services, and even dissolutions can add value in a variety of ways, such as protecting a critical community service, preserving historic property, and enhancing program impact. These and other benefits are achieved by, among other ways, shoring up infrastructure, taking advantage of economies of scale, and helping fill a leadership vacuum.

But they aren’t free. Careful financial and human capital planning and qualified professional assistance is needed to neutrally navigate and support the process. Recognize up front that the amount of time, effort, and money required is usually underestimated. Also, factor into decision-making that the process itself will *increase* demands on the capacity of both organizations at a time when that capacity is already over-stretched. And resolve before starting the process that making the informed decision *not* to affiliate or merge may very well be the right decision and should not be seen as a failure.

Funding is needed for such work, yet organizations can’t always wait for enough money to be raised, or the opportunity can be lost. “Organizations often have a hard time getting the funds to make these deals work, particularly the due diligence and legal expenses,” said Sauer. “Plus, it’s a people-driven discovery process and you can’t necessarily predict the issues that may emerge. Mission and facts aside, personalities, relationships, and vested interests matter greatly.”

Another important factor: “State bureaucracies can make it difficult to merge,” according to Sauer. “This varies by state; however, it can be expensive, difficult, and lengthy. Timing is everything in these transactions and often the regulators are the primary obstacles. A trend we are seeing is that nonprofits want to move quickly due to dire financial circumstances, a change in executive leadership, or a fatigued board. Nothing is more frustrating than for nonprofit partners to go through the entire process of negotiating a mutually acceptable arrangement only to then wait six months to a year for regulators to approve the transaction.” He added that temporary workarounds may be available in some circumstances, such as shared service agreements and parent-subsidiary arrangements.

The role and involvement of funders is also a critical factor. Sauer has found that funders, both philanthropic and governmental, are increasingly supportive. “Our view is that philanthropy, particularly at the local level, can set a very positive environment, make it safe for people to have what are very sensitive and often confidential conversations.” In some communities, Sauer said, private foundations, community foundations and United Ways are very supportive of the process and the end result of mergers, as they see the vital need to preserve community infrastructure and services. In fact, affiliations, mergers, and shared services are prominent strategies to lower overhead and remain competitive in the donor market among United Ways themselves.

There is a fallacy that comes from the private business sector that nonprofit mergers should produce financial savings that will result in less need for resources. This causes nonprofits to fear that if they do merge, it will be an excuse for funders to invest less. The reality is that the economic efficiencies are often relatively negligible and need to be reinvested back into building more capacity in order to ensure organizational success. That’s why “the best model is for funders to invest in the various phases of the restructuring continuum – exploration, negotiation, implementation, and general operating funds afterwards to ensure success,” Sauer explained.

“Every case is unique, and there’s always lots of history,” Sauer observed. Relationships are key. One large urban substance abuse organization Sauer has worked with expanded into mental health and housing, acquiring four smaller organizations in other cities that had been in trouble but were the only local providers in their area. The larger nonprofit’s expertise was in fiscal management, Medicaid compliance, and business operations. “All four of these only happened

because the outgoing executive directors had excellent relationships with the larger organization,” explained Sauer. These relationships meant that the services were preserved in each of the cities where the sole provider was faltering.

Resources available to your nonprofit

In addition to [NYCON](#), other state associations of nonprofits such as [the Foraker Group](#) in Alaska, [Maryland Nonprofits](#), and the [Pennsylvania Association of Nonprofit Organizations](#) offer strategic guidance and facilitation for mergers and collaborations. [Your state association](#) may offer such assistance or be able to connect you with trusted consultants.

A resource for possible funding support is the [Sustained Collaboration Network](#), a group of seven funder collaboratives in five states. Each collaborative supports nonprofit capacity to explore mergers, partnerships, and other formal changes to their operating structures. If there’s not one near you and your nonprofit is considering such a change, be sure to contact your funders to see if they’d support your capacity to merge, partner, or otherwise formally connect with another nonprofit to consolidate some resources while maintaining or increasing impact.

For nonprofits that are seeking to take advantage of economies of scale short of merging or being acquired, Foraker, NYCON, and some other state associations, including [Nonprofit Association of the Midlands](#) (Nebraska) and [Forefront](#) (Illinois), also offer back-office and shared services such as finance and accounting to nonprofits.

If you’re exploring dissolving the nonprofit corporation entirely, you may need professional assistance, depending on your state’s requirements. Our page on [Dissolving a Nonprofit Corporation](#) includes a 7-step process, practice pointers, and other resources, but is meant only as a starting point. Dissolution is a process governed by state law that requires various actions by the board of directors, distribution of any remaining assets to another tax-exempt organization, and other steps that take careful consideration. Check with your nonprofit attorney for more guidance on what your state requires.

Nonprofits need to keep an eye on their two bottom lines: their financials and the people they serve. Sometimes merging or partnering with another organization is the best way to preserve the nonprofit’s mission and ensure that both bottom lines will be served.