



Closing the Resource Gap Strengthening the Nonprofit Sector in California



Foreword

With support from The James Irvine Foundation, Nonprofit Finance Fund (NFF) used its 2015 State of the Nonprofit Sector Survey to examine California nonprofits, focusing on organizations in the San Joaquin Valley and the Inland Empire. The Foundation asked NFF to look at the challenges facing organizations in these regions, their resource needs, and their overall financial situations both on an absolute basis and in comparison to their coastal neighbors in the Bay Area and Los Angeles.

The Inland Empire and the San Joaquin Valley are rapidly growing areas that are home to 8 million people, representing nearly one fifth of California’s population. These regions have long suffered chronic under-investment by traditional funders, which has hampered their ability to meet the ever-growing needs of the low-income Californians they serve. Vulnerable populations in both of these areas depend on the services of nonprofits. However, most regional nonprofits are resource-strapped and struggle to meet the needs of these populations.¹ And because these regions are capable of vast growth in the near future, it is imperative for the health of California as a whole that they are not neglected.

The third sector has long provided critical services to those in need. As a vibrant part of national and local economies, we are tasked with providing for those whom the market has failed. Currently, a broad cross-section of the philanthropic community generously supports the vital work and role of nonprofits. We have, however, failed to do so equitably and, as a result, have left some regions behind.

We encourage California funders to read this report, share our findings, and consider our recommendations for improving the status quo. If we as a sector are to meet the needs of all Californians, we must support the social sector equitably and direct funder dollars, without reservation, where they are needed.

Table of Contents

- 1 Foreword
- Methodology Statement
- 2 Executive Summary
- 3 California Survey Respondents
- Community Need
- 4 Northern California Regional Analysis
 - 4 Community needs
 - Financial Health
 - 5 Challenges
 - Actions Taken
 - 6 Government Funding
 - Funder Dialogue
- 7 Southern California Regional Analysis
 - 7 Community needs
 - Financial Health
 - 8 Challenges
 - Actions Taken
 - 9 Government Funding
 - Funder Dialogue
- 10 Recommendations for Inland Empire and San Joaquin Valley Sector Supporters

Methodology Statement

Nonprofit Finance Fund’s seventh State of the Nonprofit Sector Survey asked nonprofit leaders a series of programmatic, operational, and financial management questions that examined their experiences in 2014 and their expectations for 2015. Data was collected from mid-January to late February 2015. Respondents were anonymous unless they explicitly chose to identify themselves. Our sample is a nonprobability based sample, and should not be considered a random sample by scientific standards.

For the purposes of this analysis, NFF grouped the 1,112 California respondents into ten distinct geographic regions. Seven respondents were removed due to conflicting demographic responses, yielding a final sample of 1,105 nonprofit respondents for the regional analysis. Organizations were classified by California region based on their self-reported zip code. The zip codes were matched to their California county, and then aggregated into a region.

| REGION | # OF RESPONDENTS TO THE 2015 SURVEY | CALIFORNIA COUNTIES INCLUDED... |
|---------------------------|-------------------------------------|---|
| INLAND EMPIRE | 113 | Riverside, San Bernardino |
| LOS ANGELES | 280 | Los Angeles |
| SAN JOAQUIN VALLEY | 55 | Fresno, Kern, Kings, Madera, Mariposa, Merced, San Joaquin, Stanislaus, Tulare, Tuolumne |
| BAY AREA | 340 | Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, Sonoma |

Executive Summary

Now in its seventh year, Nonprofit Finance Fund's State of the Nonprofit Sector Survey has long provided vital, sector-wide data assessing the programmatic, operational, and financial health of nonprofits. NFF heard from 5,451 organizations from around the country that shared their current organizational challenges, the state of community need, and ultimately how they struggle to move beyond a hand-to-mouth existence.

It is against this backdrop that NFF assessed how the Inland Empire and San Joaquin Valley nonprofits fared in absolute terms and in comparison to their coastal peers, Los Angeles and the Bay Area, respectively.

The Inland Empire, situated directly east of the Los Angeles metropolitan area, houses 4 million people and has the highest poverty rate among the nation's 25 largest metropolitan areas.² Approximately 43 percent of the Empire's inhabitants are Latino,³ including approximately 275,000 undocumented immigrants of predominantly Mexican origin.⁴ Despite the region's poverty, it is nonetheless projected to be one of the fastest-growing regional economies in the nation.⁵ In part, this growth reflects an upswing from a large economic downfall during the Great Recession. It is also indicative of the area's increasing population, proximity to the Los Angeles economy, and tremendous manufacturing potential.

The San Joaquin Valley comprises ten counties to the east of the San Francisco Bay area and is home to 4 million residents. Over one third of residents are Hispanic or Latino,⁶ and like the Inland Empire, the Valley is also home to undocumented immigrants from Mexico and Central America.⁷ With high unemployment and low wages, this predominantly agricultural area faces serious economic and social challenges. Nonetheless, the southern portion of the Valley expanded its employment base by more than 50% since 1990, and the area shows signs of potential demographic and economic growth due to an emergent energy sector.⁸

Our survey data and attendant analysis, firsthand on-the-ground experience, and anecdotal evidence provided by funders and nonprofits themselves, have produced a clear picture of the regional nonprofit landscape.

KEY FINDINGS

Organizations are struggling to meet the rising needs of low-income communities

In keeping with national trends, nonprofits are serving low-income communities at high rates and reporting increased demand for services and a continued inability to meet rising demand.

Nonprofits are overwhelmingly concerned with long-term sustainability issues

Our sector is well-versed in the challenges of making ends meet and doing more with less. Increasingly, however, there is a much-needed shift in strategic thinking that reflects an acknowledgement of how this constrains sustainability and growth.

Inland Empire and San Joaquin Valley nonprofits are hamstrung by their size and limited resources

Inland Empire and San Joaquin Valley nonprofits are notably smaller, as measured by annual operating expense, than their coastal peers yet they experience similar rates of increased demand for services from high-need populations. In addition, they are more limited in their ability to grow in order to meet the increasing demand. Both regions report expanding programs and hiring new staff in order to attempt to keep up with demand.

Comparatively, Bay Area and Los Angeles nonprofits are poised to make critical investments in organizational infrastructure

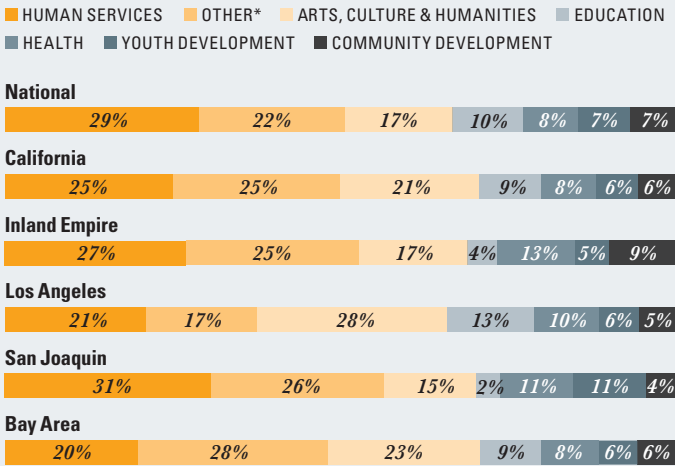
Nonprofits across all four regions are overwhelmingly concerned with long-term sustainability issues; however, data suggests that Bay Area and Los Angeles nonprofits are better positioned to make the strategic infrastructure investments that address these sustainability issues than their inland counterparts. Los Angeles nonprofits are bolstering their workforce, while Bay Area organizations are investing in professional development for staff.

This report will elucidate the regional similarities and differences while exposing the status quo and structural barriers to growth and stability.

California Survey Respondents

Which organizations responded to our survey? The subsector distribution of California nonprofits largely mirrors the national trend: a wide variety of sectors were represented, but the majority of respondents identified as either Human Services or Arts, Culture, and Humanities. These two subsectors represent at least 40% of survey respondents in California and in the specified regions.

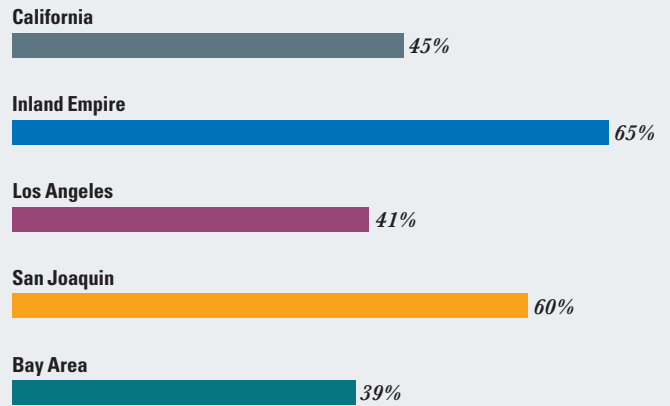
RESPONDENTS BY SECTOR



* The 'Other' category includes: Environment and Animals, Foundation, House of Worship, International/Foreign Affairs, Public/Societal Benefit, Mutual/Membership Benefit, Workforce Development, Early Childhood Education (0-5 years old), Veterans' Services, and Other.

Forty-five percent of organizations in California had operating expenses of \$1 million and under in fiscal year 2014. The share of Los Angeles (41%) and Bay Area (39%) nonprofits in this budget band were slightly under the statewide trend. The percentage of organizations that had operating expenses of \$1 million and under significantly increased for nonprofits serving the Inland Empire and San Joaquin Valley: 65% and 60%, respectively.

ORGANIZATIONS WITH ANNUAL EXPENSES OF \$1 MILLION AND UNDER

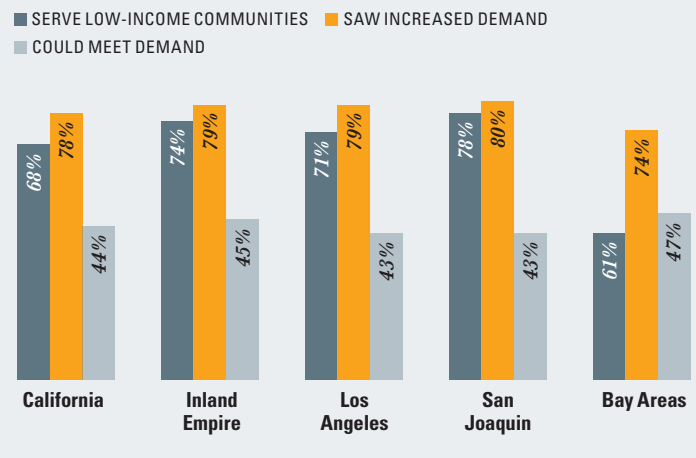


Community Need

Every year, our Survey respondents tell us a parallel story of rising demand for their services, coupled with an intense struggle to meet that demand. This year was no different. Just over 65% of California respondents served low-income communities either exclusively or primarily. Both Inland Empire and San Joaquin serve low-income communities at higher rates than their coastal peers, Los Angeles and the Bay Area, respectively. Many of these organizations also reported a surge in demand for services and, disturbingly, less than half were able to meet the demand.

More alarmingly, California nonprofits across the board report that their clients' needs remain unmet if they are unable to provide services (74%). In keeping with national trends, agencies do try and plug the service gap by referring potential clients to their peers. However, if many agencies are struggling to meet demand, those in need may have difficulty finding organizations with capacity to provide necessary services.

STATE OF DEMAND FOR SERVICES IN 2014



“We are meeting 10% of the need in our community [and] would like to increase to 25% over the next three years.”

—Bay Area, Human Services

“Although demand for services has increased, the rate of reimbursement for services has remained the same (been frozen) for the past 10 years.”

—Los Angeles, Human Services

NORTHERN CALIFORNIA REGIONAL ANALYSIS

The **Bay Area** has long been the home of a vibrant arts & culture scene, and more recently, an ever-growing tech scene. In line with what we see in cities across the U.S., the Bay Area is flourishing—seeing a reinvestment in infrastructure, an influx of young and educated workers, a growing economy, and a booming, increasingly expensive, housing market. However, as the overall economy has recovered and strengthened many major metropolitan areas, smaller neighboring communities have not all felt the same positive effects.

Adjoining the Bay Area, the **San Joaquin Valley** covers a much larger geographic portion of the state and is a mix of a few mid-size cities and large swaths of rural and agricultural land. San Joaquin has struggled with high poverty rates and low educational attainment, and is primarily fueled by a low-wage economy (predominantly seasonal agriculture and service jobs).

Community Needs

The economic and demographic realities in Northern California are clearly reflected in local community needs. The San Joaquin population tends to be both mobile and transient. That, combined with the impact of this year's drought, has acute workforce development implications. **San Joaquin nonprofits** have identified their top community needs as:

- Youth development programs (33%)
- Job availability (27%)
- Access to healthcare (25%) & job training (25%)

Although 11% of survey respondents identified as youth development service providers, higher than the statewide figure (6%), program offerings cannot currently keep up with service demand. Additionally, parts of the Valley have been designated as a Health Professional Shortage Area (HPSA), a federal label indicating that there is a dearth of primary medical care, dental, or mental health services.

Unsurprisingly, the **Bay Area nonprofits** identified affordable housing as the top community need. The Bay Area has struggled to mitigate the effects of limited housing stock, an influx of new residents, and weak tenant protections for those living in rapidly gentrifying communities. The top community needs identified were:

- Affordable housing (40%)
- Strong, well-performing schools (24%)
- Youth development programs (23%)

While there is overlap in the need for youth development programs, the Bay Area and San Joaquin have distinct community needs, which inform service demand trends for local nonprofits.

Financial Health

A nonprofit's fiscal health can be measured by its end-of-year financials and the months of cash it has on hand. Although every organization's needs are different, nonprofits with fewer than three months of cash on hand are generally more at risk for cash flow issues. Nonprofits were asked to share these two indicators for fiscal year 2014.

Overall, Bay Area organizations closed 2014 in better financial shape than their San Joaquin counterparts. Bay Area nonprofits were more likely to have a surplus and less likely to have a deficit in 2014.

San Joaquin nonprofits were slightly more likely to close with break-even financials and have three months or less of cash on hand.

2014 FINANCIALS

| | SAN JOAQUIN | BAY AREA |
|---|-------------|----------|
| OPERATING DEFICIT | 33% | 22% |
| UNPLANNED DEFICIT | 56% | 60% |
| PLANNED DEFICIT | 44% | 40% |
| OPERATING SURPLUS | 35% | 49% |
| BREAK-EVEN FINANCIALS | 31% | 29% |
| 3 MONTHS OR LESS OF CASH ON HAND | 57% | 51% |

Challenges

As with respondents nationally, nonprofits in San Joaquin and the Bay Area are overwhelmingly concerned with long-term sustainability issues. The sustainability concerns take different forms but center around the financial (full cost funding), operational (marketing), and human capital (staff pay & retention). When asked to identify their top three organizational challenges, nonprofits reported the following:

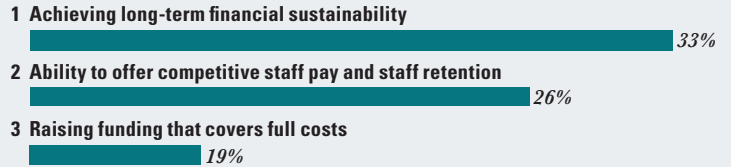
TOP ORGANIZATIONAL CHALLENGES

SAN JOAQUIN NONPROFITS



Both regions are grappling with insufficient resources to cover the true, full cost of doing business. Meanwhile, San Joaquin nonprofits identified connecting to the communities as an issue, perhaps due to the migrant labor workforce that cycles in and out for short-term intervals.

BAY AREA NONPROFITS



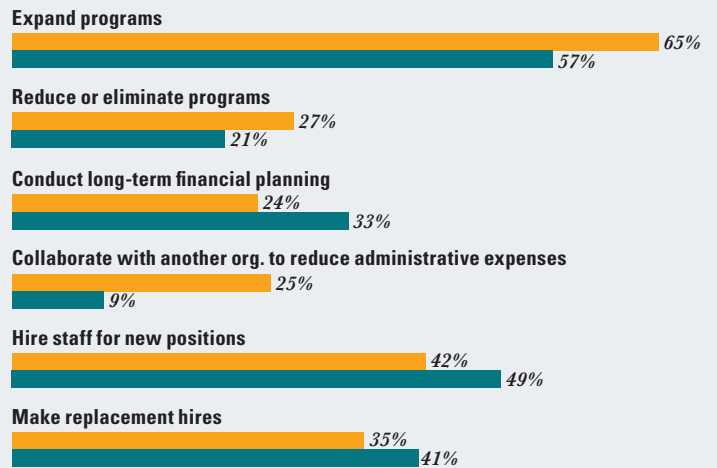
Actions Taken

In addition to running programs and managing daily operations, organizations must make strategic investments in their programs, operations, and staff if they wish to maintain stable organizations with strong mission work. As we see in San Joaquin and the Bay Area, many organizations prioritize program expansion when they have the opportunity to invest. San Joaquin nonprofits were expanding programs at higher rates than Bay Area nonprofits, but were less likely to hire staff (either for new positions or replacement hires). This raises important questions about “sweat equity”: is program expansion without commensurate staff expansion a sustainable formula? At what point does an organization risk staff burnout?

Organizational behavior can indicate regional trends. When looking at the actions organizations are taking in San Joaquin and the Bay Area, themes emerge. San Joaquin nonprofits are working innovatively to meet the needs of their communities, like employing holistic service delivery models. Given that San Joaquin nonprofits tend to be smaller, their higher-than-average rates of collaboration imply they are aware of their restricted resources and are trying to keep down costs. Meanwhile, Bay Area nonprofits are making more infrastructure upgrades (human capital and operational). They seem to have access to more resources, enabling them to provide professional development opportunities for their staff and upgrade IT systems.

TOP PROGRAMMATIC, OPERATIONAL, AND HUMAN CAPITAL ACTIONS IN 2014

■ SAN JOAQUIN ■ BAY AREA



“[Our greatest challenge is...] staff retention; we cannot pay enough and benefits continue to grow in cost. We have developed an employee recognition program to offer incentives to remain with the agency.”

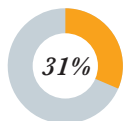
—San Joaquin, Health

“Our greatest challenge is funding to help with operational costs or to help with cash reserve. Most of our funders require a great deal of reporting and pay us late.”

—Bay Area, Public / Societal Benefit

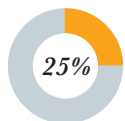
SAN JOAQUIN NONPROFITS WERE MORE LIKELY TO...

The +% indicates the percent difference between the two regions



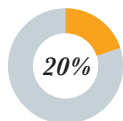
Retain existing personnel

+9%



Collaborate with another organization to reduce administrative expenses

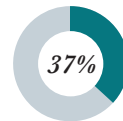
+16%



Employ an integrated approach to holistically address client needs

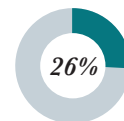
+6%

BAY AREA NONPROFITS WERE MORE LIKELY TO...



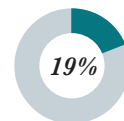
Invest in staff professional development

+8%



Upgrade hardware / software to improve organizational efficiency

+10%

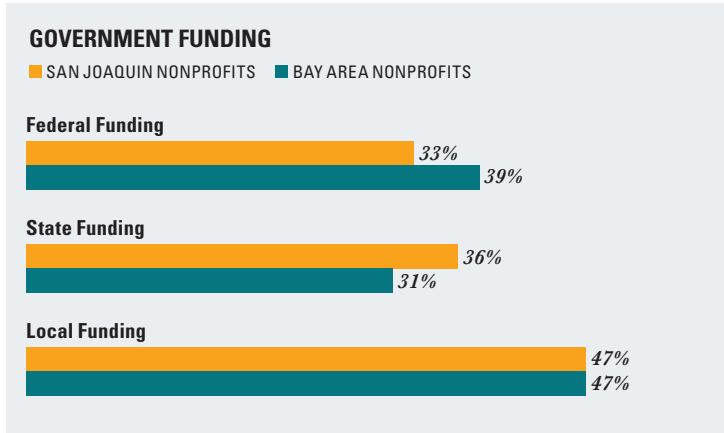


Pursue an earned revenue venture

+15%

Government Funding

For many nonprofits, government funding can be a critical revenue stream. Roughly a third of nonprofits in both the Bay Area and San Joaquin Valley reported receiving either federal or state funding. Bay Area organizations were slightly more likely to receive federal funds, whereas those in San Joaquin were more likely to receive state funding. Both regions reported identical rates for receipt of local government funding.



SPOTLIGHT: DELAYS IN GOVERNMENT PAYMENT

While government funding can comprise a significant portion of funding, for many agencies there are corresponding operational headaches, such as delays in receipt of the government funding. San Joaquin nonprofits were more likely to use their reserves (44%) versus their Bay Area counterparts (32%) to manage delays in government payments.

When looking at how frequently nonprofits grapple with delayed payments, particularly at the state (79%) and local (53%) levels, not only were San Joaquin nonprofits more likely to experience delays, they were more likely to experience delays in excess of 30 days. It is no surprise, then, that San Joaquin nonprofits were dipping into reserves more often to manage delays in payment.

DELAYS IN GOVERNMENT PAYMENT

| GOVERNMENT FUNDING TYPE | SAN JOAQUIN | BAY AREA |
|-------------------------|-------------|------------|
| FEDERAL FUNDING | | |
| 1-30 DAYS | 8% | 13% |
| >30 DAYS | 31% | 27% |
| TOTAL | 39% | 40% |
| STATE FUNDING | | |
| 1-30 DAYS | 29% | 30% |
| >30 DAYS | 50% | 32% |
| TOTAL | 79% | 62% |
| LOCAL FUNDING | | |
| 1-30 DAYS | 16% | 21% |
| >30 DAYS | 37% | 24% |
| TOTAL | 53% | 45% |

Funder Dialogue

The relationship between funder and grantee is paramount. In a perfect world, the relationship would be characterized by an open, honest dialogue about current and future needs. For both Bay Area (51%) and San Joaquin (35%) nonprofits, program expansion was cited as the topic they felt most comfortable discussing with funders. Conversely, conversations focused on financial health, such as developing a rainy day fund or paying off loans, ranked at the bottom. While loan repayment or developing reserves may not be the most scintillating topics, they are necessary components of moving organizations towards a more sustainable state.

SPOTLIGHT: LET'S TALK



SOUTHERN CALIFORNIA REGIONAL ANALYSIS

The story of our Southern California regional analysis is very similar to Northern California: a resource-rich metropolitan area neighbored by an underserved community. **Los Angeles** much like San Francisco, has been able to harness the energy of a renewed interest in urban living. The **Inland Empire**, which includes neighboring Riverside and San Bernardino counties, has seen a dramatic influx of residents and is projected to see a steady rate of growth in the next five years.

As the Inland Empire continues to grow, public and social infrastructure have failed to accommodate new residents. A small but resilient nonprofit sector reports an ever-rising community need and the limited ability to meet those needs.

Community Needs

The Inland Empire and Los Angeles have similar community needs. Affordable housing ranks highest for both and is followed by youth development programs at identical rates. The Inland Empire struggles with affordable housing due to limited supply and an influx of new residents in search of cheaper housing.

The top community needs in the **Inland Empire** are:

- Affordable housing (32%)
- Youth development programs (27%)
- Access to healthcare (25%)

Los Angeles, much like other U.S. cities, has undergone a renaissance. Although the rate of growth is slower than in San Francisco, the cost of housing has steadily increased nevertheless, placing more of a burden on those living at the margin.

Los Angeles nonprofits identified the following as top community needs:

- Affordable housing (32%)
- Youth development programs (27%)
- Access to cultural opportunities (25%)

L.A. and the Inland Empire have similar needs but diverge around their third most-pressing community need—access to healthcare for the Inland Empire and cultural opportunities for L.A. More residents of the Inland Empire tend to be uninsured; while the Affordable Care Act has added more residents to the rolls, many remain without coverage. This problem is compounded by fewer service providers in the region: the Inland Empire has fewer doctors and federally qualified health centers than other parts of California.⁹

Financial Health

The two critical measures of financial health, end-of-year financials and months of cash on hand, yet again provided insight into how Southern California organizations were faring. While nonprofits in the Inland Empire were less likely to close 2014 with a deficit, it was far more likely that those deficits were unplanned. And overall, they were more likely to close with break-even financials (39%). Almost half of LA nonprofits reported surpluses (47%).

When looking at months of cash, a slightly higher percentage of Los Angeles nonprofits had three or fewer months of cash on hand.

2014 FINANCIALS

| | INLAND EMPIRE | LOS ANGELES |
|---|---------------|-------------|
| OPERATING DEFICIT | 23% | 27% |
| UNPLANNED DEFICIT | 71% | 48% |
| PLANNED DEFICIT | 29% | 52% |
| OPERATING SURPLUS | 38% | 47% |
| BREAK-EVEN FINANCIALS | 39% | 27% |
| 3 MONTHS OR LESS OF CASH ON HAND | 58% | 62% |

Challenges

Inland Empire and Los Angeles nonprofits faced similar challenges in 2014. Thematically, the challenges were primarily focused on long-term financial sustainability issues.

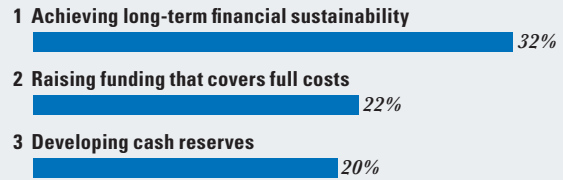
Unlike national and statewide trends, both regions identified developing cash reserves as a top, critical challenge. While maintaining cash reserves is a best practice, it is simultaneously promising and concerning to see this rise to third place on the list of challenges. There has been a strategic effort by regional funders to emphasize the importance of developing cash reserves, which may account for its prominence on this list.

“Our greatest challenge is having sufficient income to cover expenses and build a reserve to cover the ebbs and flows of income.”

—Los Angeles, Human Services

TOP ORGANIZATIONAL CHALLENGES

INLAND EMPIRE NONPROFITS



LOS ANGELES NONPROFITS



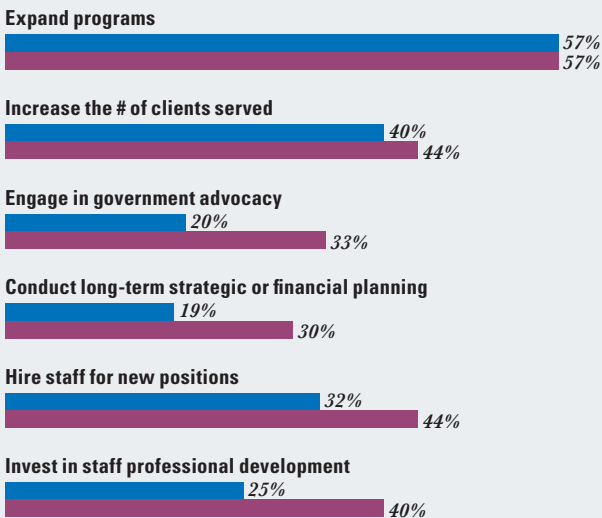
Actions Taken

Nonprofits in both regions were very committed to expanding programs and increasing the number of clients they served. And while both regions cited long-term financial sustainability as their top challenge, Los Angeles nonprofits were engaging in the requisite long-term planning at significantly higher rates.

As we saw in Northern California, a resource and capacity deficit becomes apparent when comparing the various actions taken by nonprofits in 2014. Los Angeles nonprofits were more focused on building financial, human capital, and programmatic infrastructure than their Inland Empire peers. This is particularly pronounced when looking at the human capital indicators.

TOP PROGRAMMATIC, OPERATIONAL, AND HUMAN CAPITAL ACTIONS IN 2014

■ INLAND EMPIRE ■ LOS ANGELES



SPOTLIGHT: HUMAN CAPITAL TRENDS

Los Angeles nonprofits were better positioned to focus on strengthening their workforce by making the following human capital investments:

- Hiring staff for new positions L.A. (44%) vs Inland Empire (32%)
- Making replacement hires L.A. (39%) vs Inland Empire (21%)

And are engaging in sustainability activities at higher rates than their Inland Empire counterparts:

- Leadership succession planning L.A. (20%) vs Inland Empire (14%)
- Giving cost of living adjustments (COLA) L.A. (27%) vs Inland Empire (10%)
- Giving raises beyond COLA L.A. (20%) vs Inland Empire (3%)
- Investing in professional development L.A. (40%) vs Inland Empire (25%)
- Spending more on staff benefits L.A. (21%) vs Inland Empire (7%)

In the long run, these types of investments yield significant results, as they tend to reduce staff turnover and increase job satisfaction. Given that Los Angeles nonprofits cited competitive staff pay and staff retention as a top challenge, it is encouraging to see they are able to directly address these issues. The reality remains that Inland Empire nonprofits skew small and tend to subsist on a skeleton staff and a devoted volunteer corps. As they are frequently operating on razor-thin budgets, many of these organizations simply cannot afford such basics as COLA raises and increased spending on staff benefits.

“We want to grow, but it’s hard to grow and pay staff at the same time. Finding grants that are applicable to our organization [is challenging] because we make so little.”

—Inland Empire, Arts, Culture & Humanities

Government Funding

The Southern California government funding landscape was similar to Northern California. Roughly a third of nonprofits received either federal or state funding. Los Angeles nonprofits edged out their Inland Empire peers by marginal rates at the state and federal levels.

However, when looking at local funding levels, a disparity emerges. Fewer Inland Empire nonprofits (44%) received local dollars in comparison to Los Angeles nonprofits (56%). Although the reason for this disparity requires further analysis of government funding sources, the data may suggest that local government funding sources in the Inland Empire have fewer dollars to disburse to nonprofits.

GOVERNMENT FUNDING

■ INLAND EMPIRE NONPROFITS ■ LOS ANGELES NONPROFITS

Federal Funding



State Funding



Local Funding



Funder Dialogue

An honest, open line of communication is the aspiration of all funder-grantee relationships. However, due to an inherent power dynamic, this is frequently not the case. Nationally, nonprofits feel most comfortable talking about program expansion, which was also the case for Los Angeles (53%) and Inland Empire (34%) organizations. Statewide, that number is 49%, which indicates that organizations in the Inland Empire and San Joaquin Valley (35%) are generally less comfortable discussing program growth than the state as a whole. And while providing innovative services for clients is always a priority, organizations struggle to have conversations that could ensure their long-term sustainability:

SPOTLIGHT: LET'S TALK

MY ORGANIZATION CAN HAVE OPEN DIALOGUE WITH FUNDERS ABOUT...

■ INLAND EMPIRE ■ LOS ANGELES

Paying off loans

1%

1%

Flexible capital for organizational change

2%

4%

Developing a rainy day fund

6%

6%

Working capital (cash flow needs)

8%

9%

Multi-year funding

15%

23%

Recommendations for Inland Empire and San Joaquin Valley Sector Supporters

In an era of rising demand for services and an inability to meet that demand, organizations are grappling with the dual challenges of maintaining existing programs while simultaneously positioning themselves to be adaptable in the long-term. If you happen to be a nonprofit located in either the Inland Empire or the San Joaquin Valley, managing that tension, much less getting ahead of it, is a Sisyphean undertaking. Organizations in the Inland Empire and San Joaquin are facing acute resource deficits. Some of this is attributable to a lagging social sector infrastructure that has been unable to keep up with growing demand. And for some nonprofits, the barrier to entry for philanthropic dollars is too high, preventing them from accessing the capital they need.

Both regions have unique operating climates and service demand drivers in comparison to their coastal peers. There isn't an off-the-shelf solution; however, the broader philanthropic community can make targeted investments to better support local nonprofits.

NFF encourages funders to dig deeper and ask themselves if their funding dynamics reflect the resource disparity we found. If you are funding primarily in coastal areas, why? And if you are funding the Inland Empire or San Joaquin Valley, are there ways to bolster support beyond the program grant? These nonprofits—and ultimately their clients—have unique challenges but have the same desire for a viable, stable future. Attention need not be at the expense of Bay Area and Los Angeles organizations or other regions of California. Instead, it is an opportunity to redress funding disparities and support the nonprofit sector as a whole.

We recognize that funding is limited—there is never enough to go around. We encourage funders and other stakeholders to maximize the resources that are available. They can consider steering their investments in the following ways:

- **Approach grantmaking decisions with greater flexibility in under-resourced regions**
Organizations that have continuously operated on razor thin margins rarely achieve financial stability, much less have sophisticated financial reports. Yet high reporting standards are often a criteria for foundation grants. These organizations provide critical services and have managed to keep the lights on despite their challenges. We encourage funders to acknowledge their resiliency as an important indicator of viability, and to take that into consideration in their funding decisions, even if these organizations may struggle to meet grantmaking criteria.
- **Fund the full cost of programs**
The lack of full-cost funding plagues the sector. But if funders encourage grantees to fully account for all non-programmatic costs and then adequately fund those requests, nonprofits will be poised to create more financially sustainable organizations.
- **Move beyond the program grant**
On the upside, nonprofits are expanding programs in an attempt to meet ever-growing need, and many feel comfortable talking to funders about expansion. However, the critical investments in organizational infrastructure that will allow for sustainability and adaptability have yet to materialize. Organizations require increased general operating support, cash reserves, loan repayment plans, and cost of living adjustments for staff that remain underfunded and highly needed.
- **Foster a climate of honest, open dialogue**
There is a missing element in dialogue between funders and grantees. Grantees cite a need for reserves but say they feel most comfortable discussing program expansion. And most nonprofits report not being able to have an open dialogue with funders about topics that could set them on the path to financial health. Funders should reflect on the ways in which they can best support the financial management goals of their grantee portfolio, and nonprofits should work on more forthright presentation of true needs.

The financial health and operational vitality of the California nonprofit sector is largely dependent on and reflective of the funding environment. By improving the overall climate, nonprofits can devote more resources to service delivery and move away from a model of uncertain and precarious finances.

LIMITATIONS TO THE ANALYSIS

Data variance among the regions was examined in comparison to the national dataset, California nonprofits, or both. By and large, the national and California statewide responses mirrored each other with little variation.

The results of this survey reflect the responses of nonprofits that both heard about the survey and elected to respond. This therefore creates a probable voluntary response bias¹⁰ from nonprofits that opted to participate. Thus survey results are not to be construed as a random sample by scientific standards. As a result, the data from this survey may not accurately represent the state of the nonprofit sector as a whole.

As is the case with all self-reported data there remains an inherent risk of inconsistent and inaccurate data reporting. Researchers attempted to control for inaccuracy among survey responses by removing numerical outliers; however, the validity of all self-reported responses cannot be guaranteed. The results of this survey are not weighted for statistical significance and, therefore, may over- or understate differences between demographic or other respondent groups.

Finally, this dataset should be treated as snapshot data, capturing a specific moment in time, and is not to be considered longitudinal.

1 Silverman, Carol, et. al. "The Inland Empire Nonprofit Sector: A Growing Region Faces the Challenges of Capacity," The James Irvine Foundation and the University of San Francisco, 2009. https://folio.iupui.edu/bitstream/handle/10244/371/inlandempire_report.pdf?sequence=2.

Also see "Foundation Giving in California: A Snapshot of Overall Giving, Asset Distribution, and Regional Disparities among Private and Community Foundations," Putnam Community Investment Consulting and the James Irvine Foundation, November 2006.

2 U.S. Census Bureau, American Community Survey 2012 Estimates, as reported in Nisperos, Neil, and Hagen, Ryan, "Census: Inland Empire Has Nation's Highest Poverty Rate," The San Bernardino Sun, September 2013.

3 Silverman, "The Inland Empire Nonprofit Sector," 2009.

4 Migration Policy Institute, "Unauthorized Immigrant Population Profiles," MPI Data Hub. Accessed August 2015. <http://www.migrationpolicy.org/programs/us-immigration-policy-program-data-hub/unauthorized-immigrant-population-profiles>.

5 IHS Global Insight, "U.S. Metro Economies: GMP and Employment 2013-2015," the United States Conference of Mayors. Accessed August 2015. <http://usmayors.org/metroeconomies/2014/06/report.pdf>

6 Public Policy Institute of California, "Just the Facts: California's Central Valley," June 2006. http://www.ppic.org/content/pubs/itf/JTF_CentralValleyJTF.pdf

7 Migration Policy Institute, "Unauthorized," 2015.

8 Levine, Jordan G. "South San Joaquin Valley Forecast," Beacon Economic LLC, 2014. <http://www.patbrowninstitute.org/up/documents/publications/SJVReport.pdf>

9 McSherry, Lauren. "Inland Empire Health Plan Tops One Million, Scurries to Keep Up with Growth," California Healthline, January 2015. <http://www.californiahealthline.org/insight/2015/inland-empire-health-plan-tops-million-scurries-to-keep-up-with-growth>

10 Voluntary response bias can occur when responses to a survey are entirely voluntary. Frequently those who volunteer to respond have stronger opinions on a given subject matter than the general population.

About Nonprofit Finance Fund

Nonprofit Finance Fund® (NFF®) unlocks the potential of mission-driven organizations through tailored investments, strategic advice and accessible insights. Founded in 1980, NFF helps organizations connect money to mission effectively, and supports innovations such as growth capital campaigns, cross-sector economic recovery initiatives and impact investing.

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