

State of the Nonprofit Sector in the San Fernando Valley - 2009

Overview

Valley Nonprofit Resources (VNR) offers comprehensive capacity-building services and information to strengthen the more than 4,000 nonprofit organizations in the San Fernando Valley region of Los Angeles County. VNR serves nonprofit executive directors, staff and board members, plus leaders of volunteer groups and of smaller foundations. Training workshops, conferences, technical assistance and a concierge service are among VNR's offerings to Valley nonprofits. More information on VNR is available at: www.valleynonprofitresources.org

One of VNR's objectives is to provide an annual update on the nonprofit sector in the Valley. This second annual report was adapted from the UCLA Center for Civil Society's (CCS) *Resilience and Vulnerability: The State of the Nonprofit Sector in Los Angeles 2009*. Some CCS data presented here also focus on nonprofits in the San Fernando Valley.

As it moves into its fourth year of operation, VNR has completed or is planning a number of activities designed to provide services and information to Valley nonprofits. These include educational workshops, technical assistance consultations, information and referral services, the extensive VNR website, and a major annual conference, *MENDING Poverty*, held each June in collaboration with MEND and other organizations.

VNR has provided capacity building for animal welfare agencies, theatres, affordable housing nonprofits and many other types of nonprofit organizations. As an example, an October 2009 workshop for 50 animal welfare agencies, cosponsored by ASPCA and PETCO Foundation, also included \$30,000 in grants made exclusively by the co-sponsors to workshop participants - most of them decided on at the workshop, from "pitches" made by participants!

A number of other capacity-building activities for Valley nonprofits also have taken place over the last year. These include training workshops conducted by Center for Nonprofit Management, Los Angeles City Community Development Department and Community Redevelopment Agency, and numerous other groups. Among higher education institutions in the Valley, both California State University Northridge and Pierce College give courses oriented to nonprofit managers. These are described in more detail on VNR's website, with linkages to the programs themselves.

Los Angeles County Findings from the CCS Study

This past summer, the UCLA Center for Civil Society surveyed a representative sample of Los Angeles nonprofit organizations (NPOs) to determine the impact of the economic downturn on the sector and to find out what local nonprofits are doing to survive and fulfill their missions. What emerged in the data portrays a sector facing conditions much more difficult than in years past – coupling increasing demand with decreasing revenues.

More than a third of nonprofits reported decreased revenues over the past year, while only 14% of nonprofits reported increases. Larger nonprofits appear to have been hardest hit. Whereas nearly half of large nonprofits reported decreased revenue in the previous year, about a third

(33% and 31%, respectively) of medium and small organizations reported a decrease. While revenues have declined, fixed administrative costs, such as health care for employees, are continuing to rise.

Organizations dependent on government and foundation revenue report major budget shortfalls. Human services organizations are experiencing particularly difficult times meeting demand; it's hard to run job training programs when there is double-digit unemployment among experienced and skilled workers.

These findings are in line with a number of recent nonprofit surveys conducted nationally. The Nonprofit Finance Fund (Greco, 2009) conducted a national survey that showed only 11% of nonprofits expect to operate above break-even this year; only sixteen percent (16%) anticipate being able to cover their operating expenses in both 2009 and 2010.

A Johns Hopkins Listening Post Project survey found that 37% of nonprofit leaders identified their level of fiscal stress as "severe" or "very severe" (Salamon, Geller & Spense, 2009). And surveys by the Bridgespan Group revealed that small nonprofits are hurting the worst; a majority of nonprofits are experiencing funding cuts; demand for services are increasing; and staff anxiety is high (Foster et al., 2009). The steep declines in the market decreased endowments among both private foundations and public charities, diminishing assets used for grantmaking and for providing financial cushions to large organizations (Foundation Center, 2009; Commonfund Institute, 2009).

The Center for Civil Society's 2009 Los Angeles Nonprofit Survey asked questions about the strategies and tactics upon which organizations will rely most heavily during these times of cutbacks and increased demands. The most frequently mentioned high priorities included *focusing on fundraising, controlling and cutting costs, and increasing visibility*. Most notably absent in these responses were mention of efforts to improve evaluation and program effectiveness, engage in meaningful advocacy roles, and consider strategic collaborations or even mergers.

In spite of some troubling findings, local nonprofit leaders did reveal a degree of resiliency in their approach to the downturn. While just 14% of survey respondents experienced increased revenues, more than a third (37%) reported increased expenditures in the past year, and more than half (52%) of the respondents have engaged in strategic planning exercises in the same period. Nearly twice as many nonprofits reported adding new programs than those that reported having to cut programs.

Most have been able to maintain their level of full- and part-time employees and there has been an increase in volunteers. In terms of employment, it appears that the nonprofit sector is holding up better than the for-profit and government sectors.

Nonetheless, it should also be noted that these trends may very well indicate that nonprofits are overextending themselves, outspending their revenue capabilities and overworking staff and volunteers. If expenditures continue to outweigh revenues, as is anticipated by the survey respondents, then further fiscal strain will exacerbate the current challenges to meet growing demands.

Among this year's significant findings from the CCS study:

The Economic Downturn and NPOs in Los Angeles

- More than half (57%) of surveyed nonprofit organizations responded that demands for their programs or services increased during the economic downturn.
- More nonprofit organizations have experienced declines in revenues and expenditures than before the downturn. But at the same time, many have managed to maintain or increase expenditures, presumably to keep up with demand for services.

- The majority of nonprofit organizations responded that their staffing and volunteer levels stayed the same during the downturn. Twenty-five percent (25%) reported a decrease in full-time employees, while 26% reported an increase in the number of volunteers.
- Respondents appear to be slightly more optimistic about the year ahead. Fewer respondents anticipate decreased revenue compared to the percentage of respondents who reported decreased revenues in the previous year.

The L.A. Nonprofit Sector: A Statistical Update

- About 41,500 registered nonprofit organizations exist in Los Angeles County – the highest number among all U.S. counties. Of these, 84% are 501(c) (3) public charities and 16% are various kinds of member-serving organizations registered under sections 501(c) (4-26).
- Twenty-nine percent (29%) of all registered 501 (c) (3)s – 9,641 organizations – filed an IRS Form 990 in 2007. Of the filers, 42% (4,031) had revenues under \$100,000, 39% (3,796) had revenues between \$100,000 and \$1 million, 15% (1,430) had revenues between \$1 million and \$10 million, and 4% (384) had revenues in excess of \$10 million.
- In general, both the nonprofit major sub-fields and nonprofit sector overall in Los Angeles have been growing in numbers and expenditures, but that growth has slowed in recent years. The nonprofit sector is not shrinking, although growth in the number of organizations continues to outweigh growth in expenditures. This equates to a reduction in the median and average size of L.A. nonprofits.
- The nonprofit sector employs close to 238,000 people in L.A. County (or about 6% of the county's workforce) and accounts for about 6% of the county's total wages.
- Nonprofits experienced a 1.3% decline in total employment between October 2007 and September 2008 (faring slightly better than for-profit firms' 1.8% decline), while public sector employment experienced a 4.6% decline.

Findings Specific to the San Fernando Valley

CCS also extracted data from its overall 2009 results to identify trends in VNR's service area, the San Fernando Valley. These findings are presented in four charts at the end of this report. Chart 1 shows that the total number of Valley nonprofits has been increasing slowly but steadily since 1995, though there was a dip in growth rate (not in absolute numbers) in 2006. Chart 2 indicates that there has been a general increase in Valley nonprofit expenditures, but with a significant drop in 2006 (and only a small increase in 2007).

Chart 3 shows changes in the number of Valley nonprofits by four major subfields, revealing slow but steady upward growth in all between 2001 and 2007. Finally, Chart 4 chart depicts changes in nonprofit expenditures for these four same subfields - with the same generally rising trend, but with a large spike in expenditures in 2004 for health service nonprofits. This variant result may reflect changes in the organizational status of some health care institutions in the Valley around that time.

Recommendations

The severity of the economic downturn, which has deeply affected the ability of government and foundations to support human services, arts, the environment, health, and education programs, has nevertheless put the spotlight on the nonprofit sector and civil society more generally as vital and necessary resources in helping to provide opportunity, social justice, environmental protection, and public health. The CCS report demonstrates that civil society in Los Angeles (including the San Fernando Valley) faces severe challenges under the strain, albeit not without evidence of resilience and a sense of cautious optimism.

In its report, the UCLA Center for Civil Society makes three recommendations (based on what was heard from local nonprofits and general observations of the sector). CCS offers these knowing that many organizations are already revisiting their strategic and fundraising plans and calculating ways to curb and control costs. The three recommendations are:

● **Renewed focus on program evaluation.** It is not enough for organizations to revisit their missions and engage in planning activities around core competencies and initiatives without an evaluation framework. Nonprofits need to develop capacity to measure their progress toward stated outcomes and measure the effectiveness of their programs and activities.

Quality program evaluation matters more than ever – for nonprofits, funders and those who receive services. Difficult decisions about scarce resource allocation should be made based on sound data and results that can be reported clearly to staff, funders, and other stakeholders and shared with similar nonprofits and government agencies.

Program evaluation does not have to be a costly third-party option. With adequate support from the public and private funding community, including capacity building to improve evaluation methodologies, nonprofits can become better equipped to measure the quality of their respective programs and services.

● **More widespread advocacy efforts among nonprofits.** Nonprofits must move beyond the misperceptions around advocacy and the legal rules that limit lobbying activities. All nonprofits can engage in advocacy without penalty, although the scope and extent of activities vary according to the tax exempt status of the organization.

In recent years, many nonprofit organizations report that they have become more effective in joining forces with other nonprofits for specific purposes, e.g., serving foster children, pushing for environmental regulations, etc., but what is also needed is a wider shared commitment to higher visibility and understanding of civil society and the nonprofit sector as a whole toward increasing civic engagement for the common good. Depleted public coffers should not dissuade nonprofits from engaging with elected officials and other lawmakers. Nonprofit voices need to infiltrate the debates around health care reform, economic recovery and other social issues.

● **New modes of strategic collaboration and consolidation.** Efficiency should play a more prominent role in collaborative activities. This is to say that many collaborative efforts do not address the issues of duplication of services and administrative inefficiencies.

Collaborative efforts should decrease costs and increase efficiencies for involved parties – not the other way around. Collaborative models can also address the urgent need for knowledge-sharing and empirically-based research on how nonprofit organizations are coping with the crisis; how they are responding to rising service demands; what alternative funding options they are pursuing; what changes they are making internally and externally, as well as the social, health, environmental, educational, and cultural costs flowing from decreased nonprofit capacity and budget cuts.

Nearly half of the CCS survey respondents reported engaging in some type of collaborative effort in the past year, but the quality and effectiveness of these efforts remain unknown. And with respect to the most extreme examples of collaboration – consolidation and mergers – it appears as if these strategies are extremely rare among local nonprofits. This economic downturn may very well require more widespread consolidation – voluntary and otherwise – of local nonprofits, and the sector needs information and guidance on how to most effectively pursue such avenues.

In the San Fernando Valley, the recommendations for advocacy and collaboration will be addressed directly in *MENDING Poverty*, the annual conference VNR and MEND co-host. The June 2010 conference will provide a platform at which these issues can be discussed, along with practical strategies for addressing them among Valley nonprofits, their funders, and public policymakers.

References

- Commonfund Institute. (2009). *Commonfund Benchmarks Study 2009 operating charities report*. Available at www.commonfund.org
- Foster, W., Perreault, G., & Sable, S. (2009). *Managing in tough times: May 2009 Nonprofit Leaders Survey Update*, The Bridgespan Group. Available at www.bridgespan.org
- Foundation Center. (2009). *Highlights of Foundation Yearbook*. Available at www.foundationcenter.org
- Greco, D. (2009). *Leading your organization through the economic downturn*. Presented at Nonprofit Day 2009. San Francisco, CA. August 27, 2009.
- Howard, D.B. & Kil, H.J. (2009). *Resilience and vulnerability: The state of the nonprofit sector in Los Angeles 2009*. Los Angeles: UCLA Center for Civil Society.
- Salamon, L., Geller, S., & Spense, K. (2009). Impact of the 2007-2009 Economic Recession on Nonprofit Organizations. *Listening Post Project. Communique No. 14*. Baltimore: Center for Civil Society Studies, Johns Hopkins University.

This report was prepared by Thomas E. Backer, PhD & Julaine Konselman, Valley Nonprofit Resources; and Jocelyn Guihama, UCLA Center for Civil Society. San Fernando Valley data charts were created by CCS's Hyeon Jong Kil, and graphics support was provided by VNR's Kate Groves.

December 2009

Chart 1

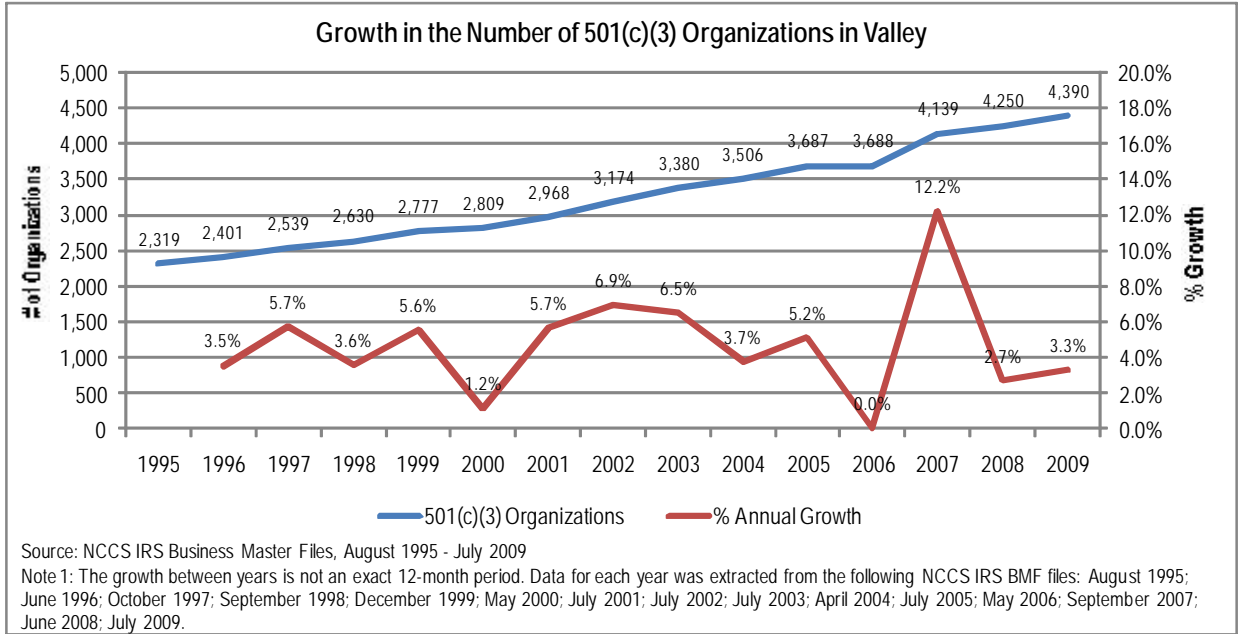


Chart 2

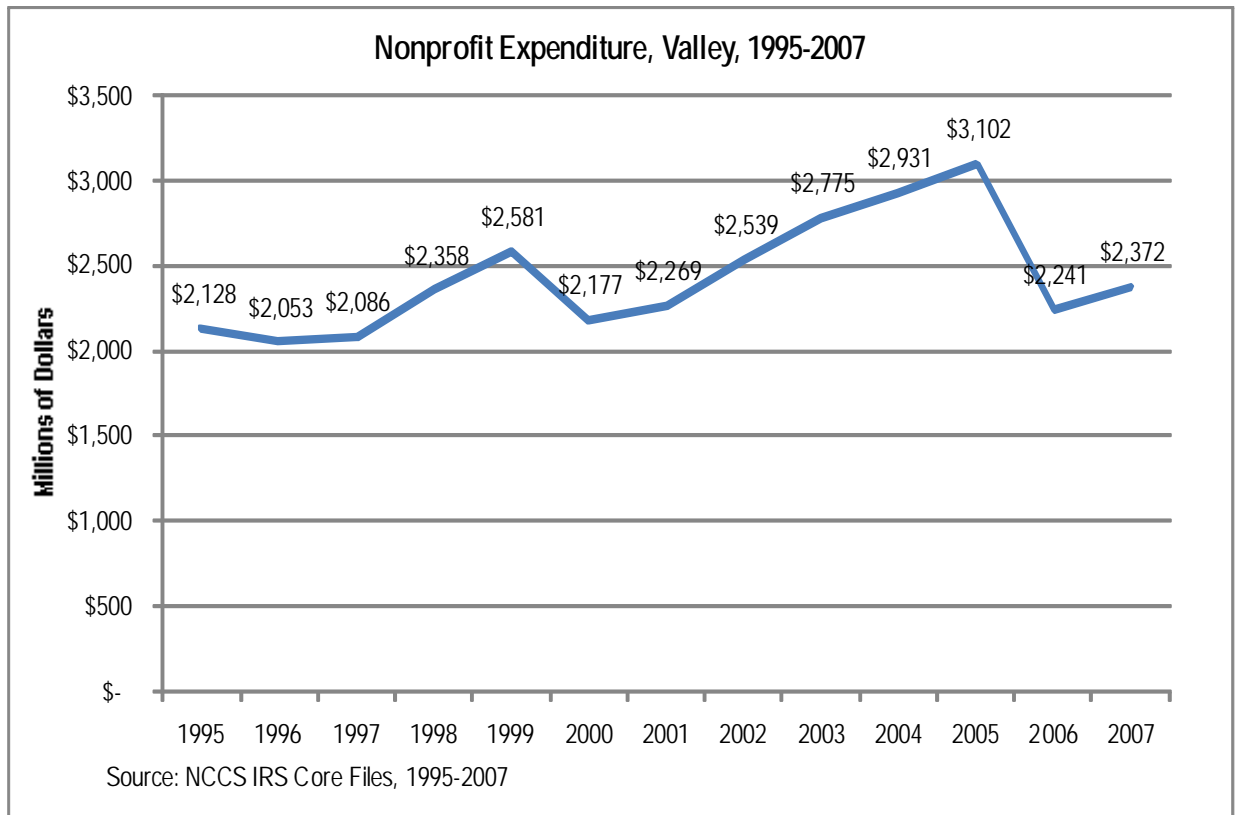


Chart 3

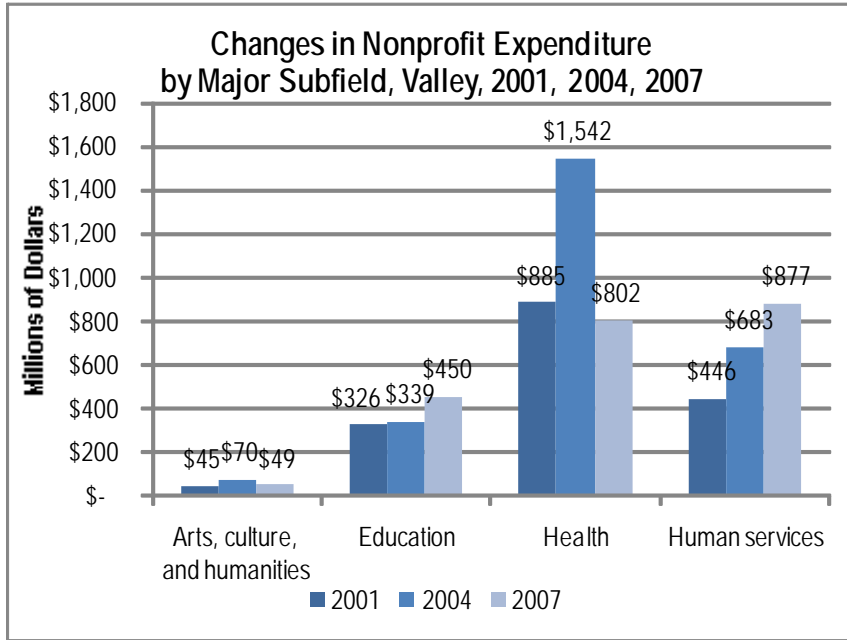


Chart 4

