

State of the Nonprofit Sector in the San Fernando Valley - 2010

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. Los Angeles County survey data, which forms the majority of this third annual report, was adapted from the UCLA Center for Civil Society's (CCS) *Hard Times: Impacts, Actions, Prospects. The State of the Nonprofit Sector in Los Angeles* (Kil & Howard, 2010). In 2010 CCS did not collect data specific to nonprofits in the San Fernando Valley, but VNR's report closes with a few observations based on work in the Valley.

Now in its fifth 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 in Pacoima 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, in 2011 VNR will offer a suite of workshops on Financial Management for Nonprofits, covering topics ranging from capital campaigns to budgeting.

A number of other capacity-building activities for Valley nonprofits also have taken place over the last year. VNR and Flintridge Center hosted the first-ever convening of nonprofits in the City of Glendale, and now are developing plans for follow-on activity with the City. Similar activities are being explored with other communities within the Valley. VNR also introduced the national organizations Nonprofit Finance Fund and Taproot Foundation to the Valley, and both organizations now offer services in this region. 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

In 2010, the Center for Civil Society again surveyed a representative sample of Los Angeles nonprofit organizations to determine the impact of the economic downturn on the sector and to learn what local nonprofits are doing to cope. The results are summarized here.

What is the current status of the nonprofit sector in LA County?

Although the recession may be ending by private sector measures, nonprofit organizations are still experiencing financial decline. The severity of the downturn's effects on nonprofit organizations is most evident by looking at the recent trends in nonprofit revenues and

expenditures. In 2006-07, before the recession, only about 20 percent of nonprofits experienced a decline in revenue. In the 2009 Center for Civil Society survey, 34 percent of local nonprofits reported revenue declines, with more than a third reporting that they are operating in deficit.

In terms of expenditures, local nonprofits, which were cutting costs before the recession even began, continue to exercise tight management practices. In 2006-07, about 40 percent of Los Angeles nonprofits experienced increases in expenditures. As the recession took hold, that rate has "leveled off" with 38 percent of local nonprofits reporting increases in expenditures last year and 33 percent reporting increases in 2010.

Despite the increased instances of nonprofits reporting revenue and expenditure declines over the past year, demands for services have continued to increase. For human services and related nonprofits, the picture is bleakest, particularly when need for services - a direct result of private layoffs and government cuts - is factored in. In 2009, human service nonprofits reported a 65 percent increase in demand over the previous year. This year 60 percent reported a decline in revenue. What is more, demand increased especially for organizations that serve more low-income population.

What are Los Angeles nonprofits doing to cope?

Cuts and layoffs. Local nonprofits under financial stress have been more inclined to cut administrative and overhead costs, lay off staff, and scale back and cut programs than to institute salary and benefit cuts. One philanthropic leader suggested that these cuts in personnel and programs may be attributed to cuts in government funding that are targeted to specific programs. Another foundation leader suggested that nonprofit wage and benefit scales are already so low, particularly in medium and small nonprofits, that additional salary cuts could drive many employees below a living wage.

Resilience. Along these lines, it is interesting to note that one third of the nonprofits surveyed in 2010 are weathering the recession, as indicated by responses to questions about revenue, expenditure, and demand. In last year's report, however, closer to half of the nonprofits surveyed reported this level of resiliency. Again, these nonprofits tend to be those that have been aggressive in cost cutting and reducing programs. These cost-cutting measures also may have reduced the sector's ability to serve and fulfill missions. In other words, for many nonprofits the key to sustainability has come at a cost to those they serve.

The 2010 survey found little evidence that nonprofit organizations are actually going under. In part, this may be because nonprofits can maintain their operating status with little or no economic activity. Increased dependence on volunteers is also evident. Although only 13 percent of the nonprofits in the survey reported an increase in full-time employees, almost 30 percent reported an increase in volunteers.

Optimism. As difficult as the recession has been for a majority of nonprofits, there is little evidence from the 2010 survey of fundamental change and adaptation in the sector. In fact, there continues to be an implausible optimism throughout, as more and 90 percent of the organizations surveyed anticipate better times ahead in the next three to five years.

Empirically, this optimism is as mysterious as it is enduring. In 2009, three quarters of the nonprofit organizations surveyed by UCLA expected their funding levels to stay the same or increase in the next year. In 2010 that turned out to be true for only one third of them. More than half, in fact, experienced decreases in funding.

How long will the recession last for nonprofits?

As Helmut Anheier, the founding director of the Center for Civil society, has noted, the nonprofit sector typically lags two to three years behind the private sector when recovering from a "normal" recession. The recovery from a recession this severe, however, is more likely to be in

the four- to five-year range, and even then the likelihood of a full return to pre-recession economic conditions is doubtful.

Although economists have declared that the recession was officially over in 2009, the September 2010 UCLA Anderson Economic Forecast (referenced in the UCLA CCS report) anticipates very sluggish growth for the foreseeable future. The Anderson forecasters believe that recessions from the bursting of debt-fueled financial bubbles are invariably slow and are associated with high unemployment rates and government debt. California has lost 1.3 million jobs in the recession, the prospects for young entrants into the job market will continue to be bleak, and unemployment is estimated to remain in double digits into 2012. In this light, nonprofits should plan for current trends in their revenues, expenditures, and demand to persist well into the middle of the decade. More details about these findings are in the full UCLA CCS report (Kil & Howard, 2010).

That is not to say, however, that the nonprofit community should not remain optimistic. Optimism is in the DNA of the nonprofit community, especially where organizations are striving to solve some of society's most intractable problems by providing public good where it is most absent and where pessimism prevails.

What are the keys to survival and sustainability?

Collaboration. The key to maintaining needed optimism and sustainability in this long, sluggish recovery from recession will require more than continued cost cutting and intensified fundraising. Survival in this new economic reality will require aggressive and creative collaboration and advocacy across the sector as well as collaboration for advocacy among subsectors and peer organizations. According to the survey results and interviews with nonprofit and philanthropic leaders, nonprofits are now active in seeking collaborations with other nonprofits. When asked whether organizations were involved in collaborative efforts, 70 percent reported being engaged in at least one collaborative activity. The most frequently cited activities were advocacy on behalf of the organization's clients, obtaining funding, reducing program expenses, and sharing space. The more organizations depend on government funding, the more likely they are to collaborate with similar organizations.

Advocacy. Almost 70 percent of organizations were involved in at least one advocacy activity. The most frequently cited were meetings with public officials and staff, influencing public officials, and participating in a coalition. Few respondents were knowledgeable about IRS's 501(h) election, which allows organizations to more carefully track their lobbying and advocacy expenditures. Only three nonprofit organizations (1 percent of the survey respondents) had filed a 501(h) election.

What are the prospects for the future?

The Los Angeles nonprofit sector must continue to expand efforts toward collaboration and advocacy to establish a proactive rather than a reactive position. It is clear that the effects of the poor economy, uncertain government policies, and ongoing demographic changes are already straining the sector's capacity to serve those in need. Now more than ever the nonprofit sector needs to adapt and anticipate not only how it will develop but also how it will emerge from the economic crisis - so that it can continue to give voice to those it seeks to represent and serve. The UCLA CCS study report makes the following specific recommendations:

1 - Increase focus on the low income and most vulnerable. Given a recent study on the widening wage gaps for California's workers cited in the full report, and as the findings of the UCLA CCS study suggest, the people with the least are suffering the most. Indeed, as the for-profit sector tries to emerge from the economic recession, as government struggles to balance budgets, and as the nonprofit sector is forced to eliminate programs and services, more and more social costs are being forced onto families and individuals. The nonprofit sector is a vital part of civil society and can connect these individuals to the arena of economic and policy developments that impact their lives, but the most vulnerable are becoming exposed to even

more risk as the capacity of nonprofit organizations diminishes. Therefore, there must be an even stronger commitment to systemic change that will positively affect the lives of the poor.

2 - Get the word out. Times are indeed hard. Nevertheless, the nonprofit sector needs to change the discourse and publicize the impact it has on communities. Earlier in 2010, for example, the Los Angeles City Administrative Officer recommended the city abolish a program that allows a number of nonprofits to pay \$1 per year on city-owned buildings and require them to pay at least half of the market rate rent. Arts for LA, an advocacy group, immediately contacted arts organizations, partners, and community stakeholders to vigorously advocate to City Council for the proposal to have a full hearing. One councilmember admitted, "If the nonprofits charged us in real value what they are providing we would owe them money."

3 - Explore more options. Nonprofits must continue to engage in the quest to explore new business models, social enterprise opportunities, business partnerships, and marketing innovations. Cutting core costs, however, lessens the capacity of the sector to move toward collaboration, advocacy, and innovation.

4 - Improve tracking and reporting of policy issues. Considering the impact of government actions on nonprofits and the populations they serve, nonprofits need to be more proactive in their search for political support and legitimacy. Individually, organizations need to be better informed about relevant legislative and policy activity. There should also be better tracking and reporting on the regional dynamics of nonprofit and philanthropic trends in surrounding regions such as Orange County, the Inland Empire, Ventura, and Santa Barbara County.

5 - Initiate more dialogue and dissemination. One of the most striking findings of the 2010 UCLA CCS study is the overwhelming optimism that characterizes the nonprofits surveyed, despite the dire economic environment in which they operate. Although this hope and idealism is needed, the nonprofit sector also needs to convene more regularly - both across sectors and among peer organizations - to encourage a realistic dialogue that both captures this hope and makes space for innovation and strategic planning for the future. As one nonprofit executive director aptly put it, "Even in the toughest of times, you need to plan. Don't stop envisioning, but be prepared for opportunity."

Another nonprofit leader quoted in the UCLA CCS report calls for "a fundamental re-imagining of the compact between governments and nonprofits that has formed the predominant model of service provision to poor people in America for the last two generations. Business leaders need to understand and act aggressively in support of a network of stabilizing civil society organizations...in communities they want to keep their customer base and where their works live and raise families."

6 - Conduct additional cross-sector research. With the strains of the budget crises at all levels, the Los Angeles community needs to better understand the relationship between sectors, especially with respect to the nonprofit's role in the public good. It is now possible to estimate more precisely the size of Los Angeles' nonprofit sector because of recent federal mandates, and UCLA's research suggests that smaller nonprofits experienced more stability over the past year. One area that calls for additional analysis is the relationship between government and the size of nonprofits, especially around collaboration efforts and funding streams. This information could empower nonprofits, philanthropic, and civic leaders to determine the needed steps to attain outcomes that can benefit all people of Los Angeles.

What is the national view of these challenges?

Many of the nonprofit sector challenges noted by the UCLA CCS study for Los Angeles also appear in national surveys of the sector, such as the Listening Post series of Johns Hopkins University and Guidestar's study of the impact of the economy on nonprofits (McLean & Brouwer 2010). Another study of the nonprofit sector study from Johns Hopkins University Center for Civil Society (2010) provides a more optimistic finding, as summarized in the words of nonprofit research expert Lester Salamon: "That nonprofit organizations have been able to increase

employment in the face of the most severe recession since the Great Depression is a testament to the effectiveness of the federal stimulus program which channeled assistance to many nonprofit organizations, and to the resilience and determination of nonprofit leaders and those who support them in the private and public sectors.”

What do these findings mean for the San Fernando Valley?

Valley Nonprofit Resources, and other organizations concerned with the health of the nonprofit sector in the San Fernando Valley, such as the Valley Economic Alliance, are working together to strengthen nonprofits in this region. Some of VNR’s activities in this, its fifth year of operation, have already been mentioned. In addition, VNR is planning several conferences that will help to highlight the sector’s current and future challenges, including the June 15, 2011 Fourth Annual MENDING Poverty conference (co-sponsored with MEND). This year the conference theme is “Two Checks or Two Grants Away from Poverty,” with California Budget Project director Jean Ross and Father Greg Boyle of Homeboy Industries as the keynote speakers. The emphasis of the conference will be on the fiscal challenges experienced both by individuals and by nonprofits, and how to cope with them through creative financing and management strategies, as well as through advocacy and collaboration.

VNR also is continuing its emphasis on *strategic planning* as a tool to help nonprofits adjust to the new realities they face. An educational workshop on strategic planning was conducted in December 2010, and a number of current technical assistance consultations focus on helping nonprofits in the Valley create and implement a good strategic plan. The current regional initiative in Glendale, several planned for other communities, and VNR’s Latino Initiative, focused on Latino-led and Latino-serving nonprofits in the Valley, also are part of VNR’s master plan for expanding the scope of its impact on nonprofits and the communities they serve. More emphasis on building skills for advocacy also are a part of this effort, such as a forthcoming educational workshop on how nonprofits can be more effective advocates for increased funding of the sector.

Finally, as recommended in the UCLA CCS report, Valley Nonprofit Resources is continuing to expand its own collaborations, as well as encouraging them for the nonprofits it serves. In addition to an ongoing partnership with Flintridge Center for VNR’s work in the Glendale area, VNR is constantly identifying new potential partners for everything from individual workshops to ongoing initiatives. The VNR website keeps Valley nonprofits up to date on these new efforts.

References

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