

THE LOS ANGELES NON-PROFIT SECTOR: A PROFILE

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This chapter offers an overview on the contours of the nonprofit sector in Los Angeles and highlights topics and issues of particular interest and concern. In doing so, it seeks to inform debate about the sector's current and future role, and the wider civil society of which it is a part. In addition to presenting data on the scale and scope of nonprofits, we take a look at nonprofit capacity to serve local needs in selected fields, and explore in more depth some implications of current policy and budget developments at the Federal, State and local levels. Clearly, public budget negotiations are important for nonprofits during the best fiscal times, particularly in a region like Los Angeles where many nonprofits, such as health and human service providers, rely to significant degrees on public funds to support operations.

Budgets are not only about contracts and dollars, however; they are expressions of stewardship for the public good generally, and of obligations and responsibilities for meeting social needs specifically. Budgets spell out a division of labor between the public and the private sectors, a partnership in a generic sense that requires capacity and commitment from all sides. For nonprofits and philanthropic institutions, successful engagement with government – be it at local, state or federal levels – rests on an active, even proactive approach.

Indeed, in an era where governments are doing less, advocacy for and by the sector becomes ever more important, and one should expect the voice of nonprofits to be heard loud and clear in City Hall, the County Supervisor Offices, and the halls of Sacramento and Washington, D.C. For advocacy to be successful and yield sustainable outcomes, an infrastructure for collective action among nonprofit and philanthropic leaders is clearly needed. Yet despite some encouraging developments in recent years – such as the establishment of a philanthropy liaison office in City Hall or the greater emphasis on the homeless population – too little advocacy work is taking place, and many nonprofits seem to shy away from more active engagements with the legislature and the executive.

While there may well be good reasons why nonprofits are advocacy-shy, e.g., being too busy providing services to meet growing needs, there is one more reason why nonprofits and philanthropies have to become better advocates for themselves and the constituencies they represent: the changing role of government itself. In the past, nonprofits were able to identify needs and provide services because public funds were available to support their activities to address them. Over the last few years, this pattern seems to have been replaced by a new and largely unspoken model of 'being expected to do more with less' and a laissez-faire attitude that 'nonprofits will handle this somehow.' This pattern of short-term budget fixes in the absence of more profound policy debates seems to take the place of the public-private partnership that has long characterized the relationship between government and nonprofits in the region.

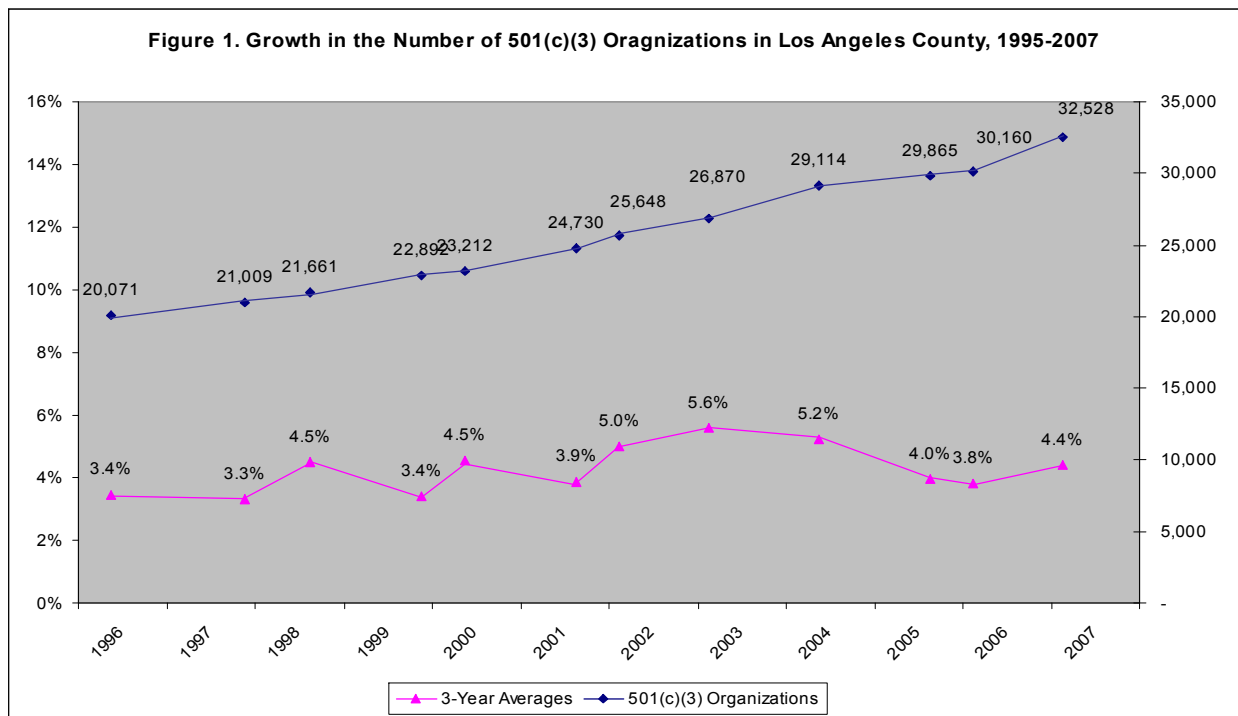
Unilateral action by government in imposing budget cuts, changing contract conditions and requirements, ‘pushing the envelope’ to nonprofits, or expecting foundations to compensate for shortfalls in public budgets – all these demands, in our opinion, require greater policy awareness and understanding on and by nonprofit organizations and foundations. In other words, we see the future of the region’s nonprofit and philanthropic sector closely intertwined with its ability to advocate for its causes and needs, and to find voice for itself and for those it seeks to serve and represent. Being a good advocate means being able to see and create opportunities, and to help shape a future that is closer to the preferences of nonprofits and philanthropic leaders and the constituencies they represent.

The Nonprofit Sector in Los Angeles

Throughout 2006 and into this year, the nonprofit sector in Los Angeles County experienced moderate growth in terms of number of organizations, reversing the slow-down following the California budget crisis earlier in the decade. There are currently close to 53,000 nonprofit organizations in Los Angeles County of which 32,528 are registered as 501 (c) (3) public charities. About 20% of registered 501 (c) (3) organizations are religious congregations and about 13% are private foundations. In addition, member-serving organizations of various kinds registered as 501 (c) (4-26) make up 14% or about 7,300 of the total number of organizations. There has not been much growth in this latter group, with a 1% increase over the previous year.

It is estimated that there are about 12,600 small, informal community groups in LA County, an increase of about 8% from 2005¹. Given the limited information available for these informal community groups and that 501 (c)(4-26) organizations are primarily member-serving rather than public-serving, the data presented in the rest of this chapter refer only to the 32,528 public charity organizations registered under section 501 (c)(3) of the Internal Revenue Code.

At first sight, in terms of number of organizations, the nonprofit sector experienced the largest growth over any 12 month period since 1996, an increase of 8% from January 2006 to January 2007². However, given the way and timing that data on the number of nonprofit organizations are typically recorded, collected and issued for any given year, a more accurate measure of growth is the average change for the previous, current, and following years or a three year average³. Therefore, the three year average trend line in Figure 1 shows that growth has actually remained relatively steady at 4% since 2004, and has been ranging between 3.3% and 5.6% over the last ten years.



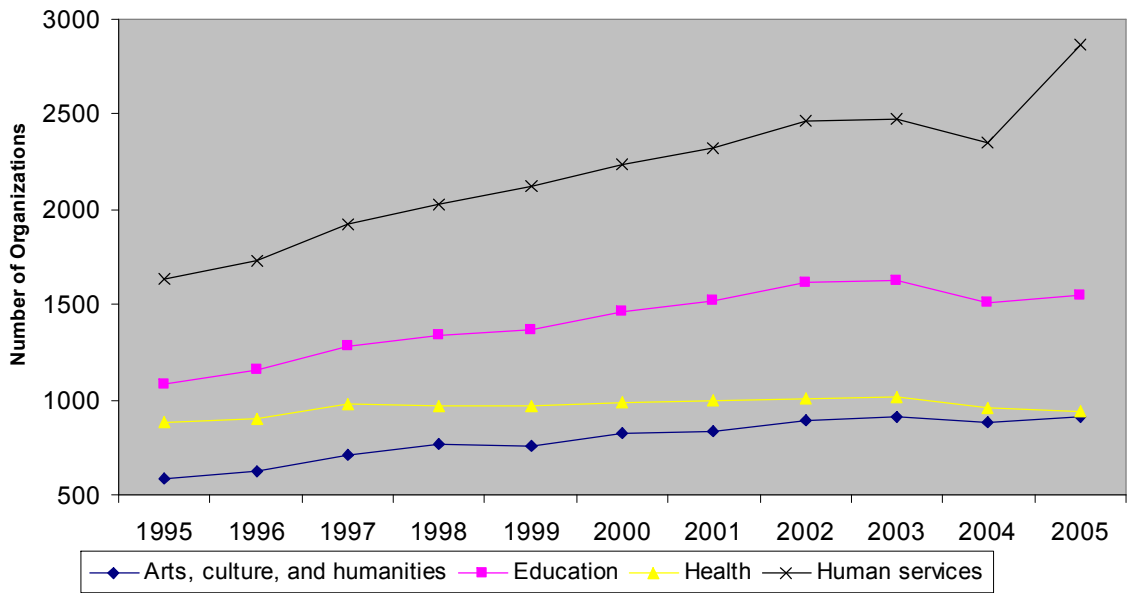
Source: IRS Business Master Files, 1995-2007

L.A. County added about 2,500 nonprofit organizations to the existing stock between 2006-2007, or six to seven per day on average; however, these data say nothing about how ‘active’ nonprofit organizations actually are. Data on defunct, deregistered or simply inactive nonprofits are largely absent, which means that growth in the number of organizations reported here should be interpreted as gross rather than net expansion, and very likely an over-estimate of the actual stock of active organizations.

While growth in the number of nonprofit organizations across all major nonprofit fields declined between 2003 and 2004, Figure 2 reveals a mixed pattern for 2004-2005: the health sector remained relatively steady, the education and arts and culture fields experienced modest increases, and the human services sector, of which recreation and sports organizations are a part, experienced the greatest rate of growth.

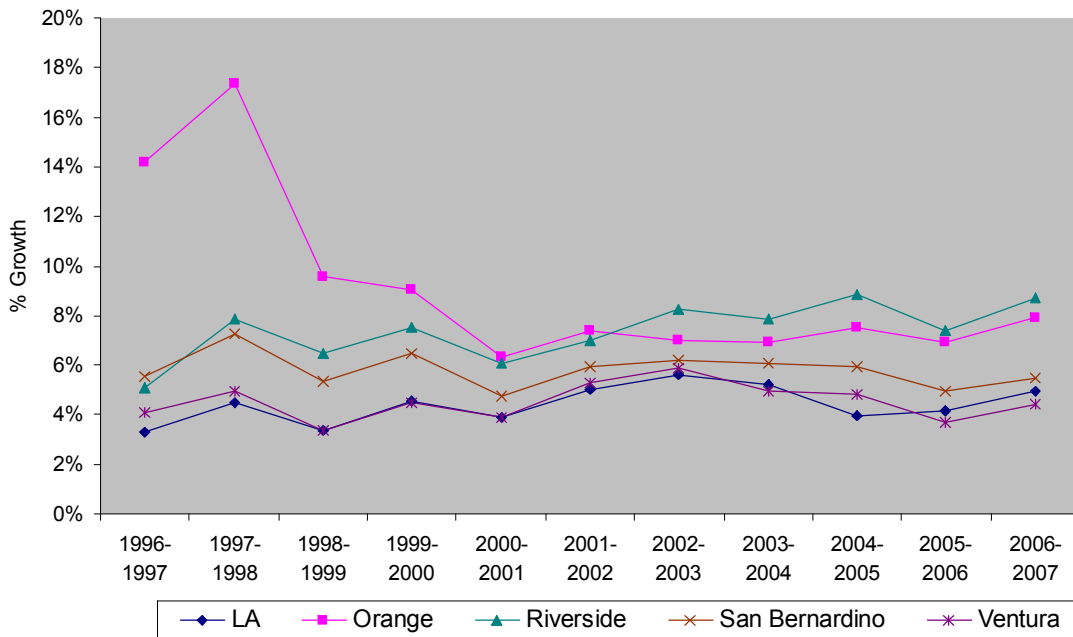
How does the growth in Los Angeles County compare to surrounding counties in Southern California? As in LA County, we observe moderate increases across the four surrounding counties as well, as indicated by Figure 3 in the upward trend in the average growth from 2005 to 2007. Riverside County continues to grow at the most rapid pace, followed by Orange and San Bernardino Counties, with the Los Angeles County nonprofit sector next to last in terms of average growth.

Figure 2. Growth Rate of Nonprofit Organizations by Select Subfields, Los Angeles County, 1995-2005



Source: IRS Core Files, 1995-2005

Figure 3. Growth Rate of Nonprofit Organization, 1995-2007, 3-Year Averages by County



Source: IRS BMF Files, 1995-2007

Expenditures⁴

Figures 4a and 4b shows that the relative size of the nonprofit sector in the five-county region remains somewhat below state and national averages at about 27 organizations per 10,000 persons served (10% less than the state and about 14% less than national average), or just under \$2,300 per resident in terms of nonprofit expenditure as opposed to \$3,750 for the country as a whole. Los Angeles County remains the highest both in terms of organizations and expenditure compared to the other four counties. It is on par with the state average in terms of organizations with about 30 organizations per 10,000 persons served, but only 81% of the state and nation in terms of expenditure, suggesting a smaller size of the average nonprofit in LA. Riverside and San Bernardino Counties are on par in terms of organizations per 10,000 served, but Riverside spends only half as much as San Bernardino County.

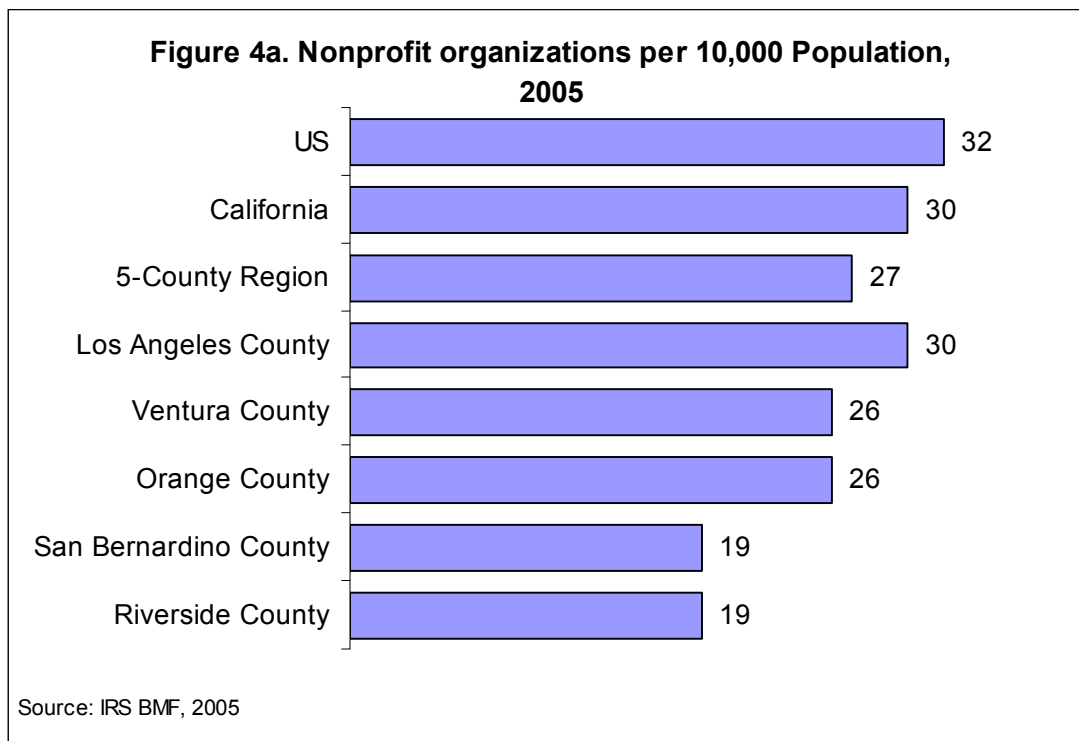
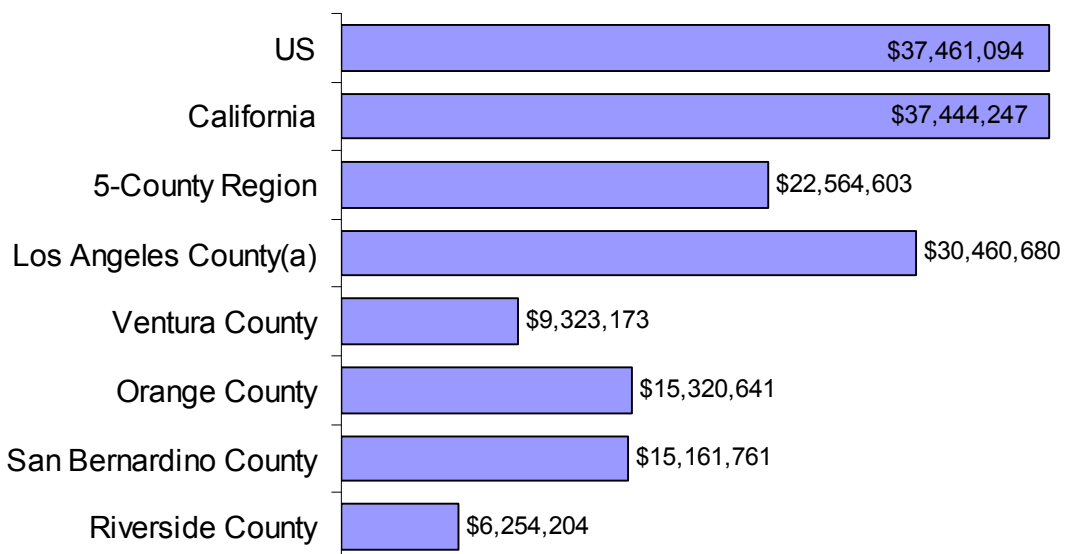
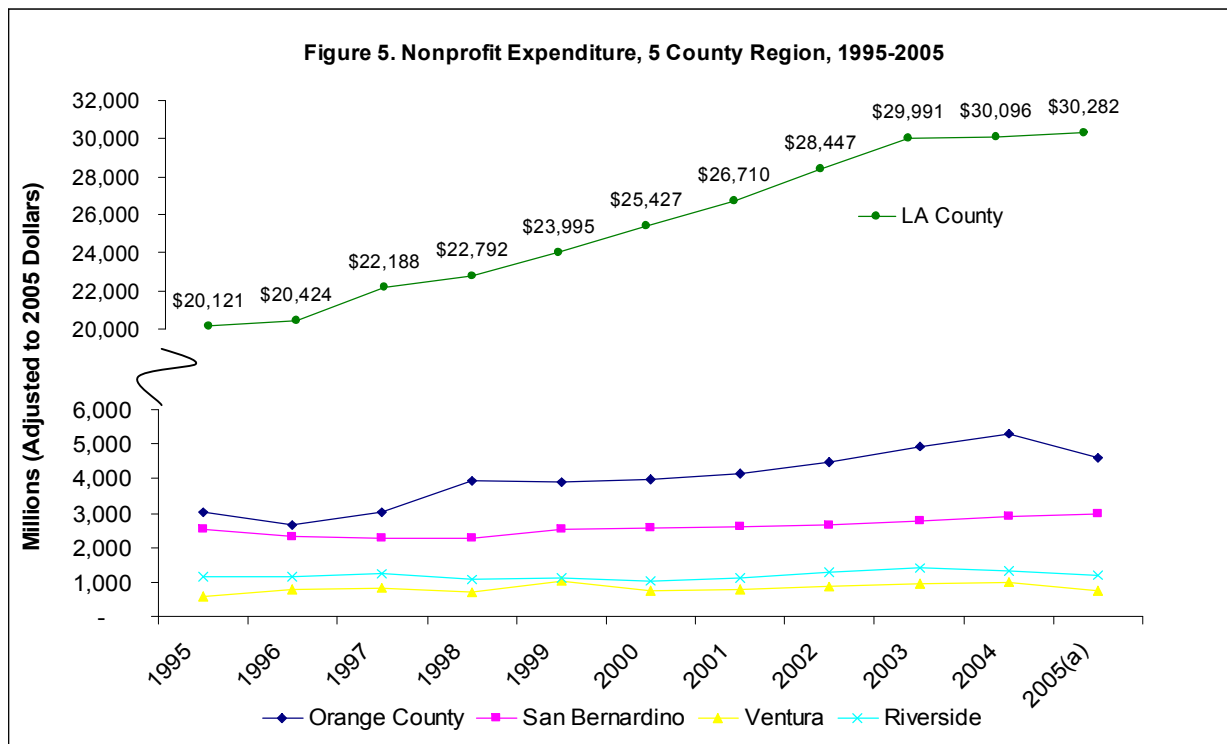


Figure 4b. Nonprofit expenditure per 10,000 Population, 2005



Source: IRS CORE Files, 2005; OSHPD, 2005; U.S. Census Population Estimates (<http://www.census.gov/popest/datasets.html>)

(a) Expenditure for the nonprofit hospital sector extrapolated from Office of Statewide Health Planning Department (OSHPD) data (1 increase between 2003-2005).

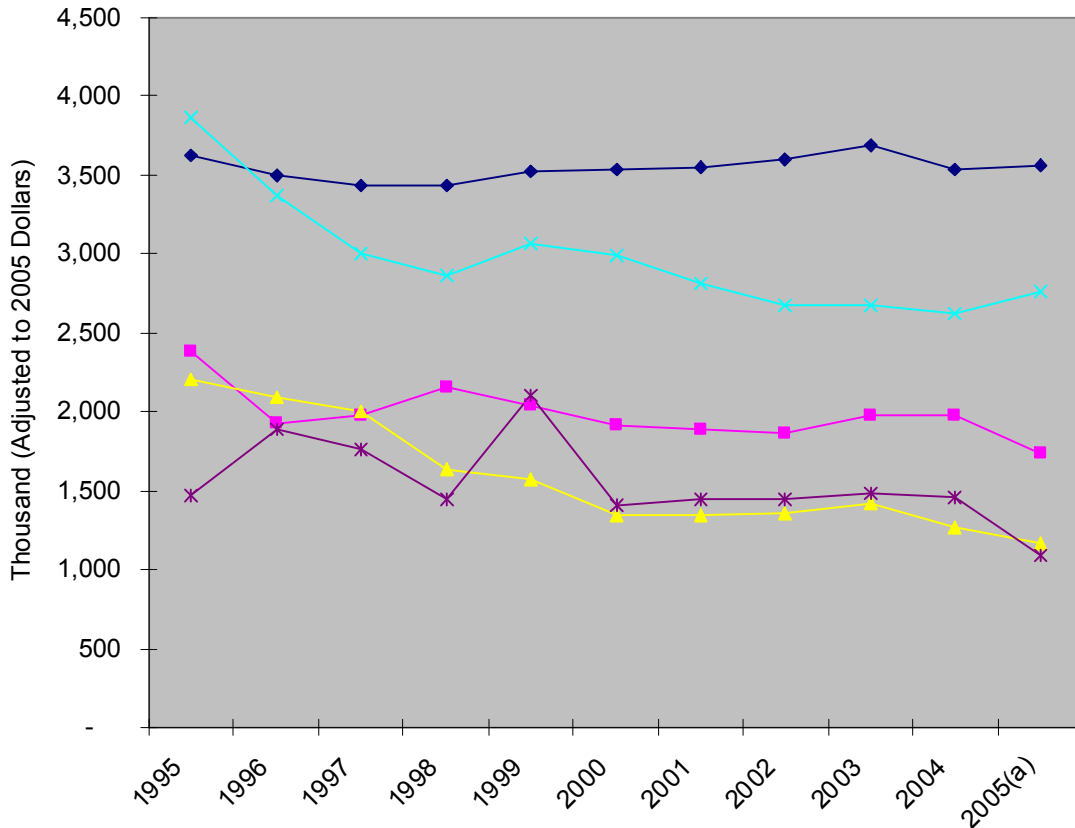


Source: IRS Core Files, 1995-2005; Office of Statewide Health Planning and Development (OSHPD).
 (a) Expenditure for the nonprofit hospital sector in Los Angeles County extrapolated from Office of Statewide Health Planning and Development (OSHPD) data (12% increase between 2003-2005).

Comparing expenditure over time, Figure 5 shows no significant growth across the region. Indeed, expenditures have either remained flat or declined slightly in the region. Expenditures for Orange and Ventura Counties appear to have declined while those for Los Angeles, San Bernardino, and Riverside Counties appear to have reached a plateau.⁵

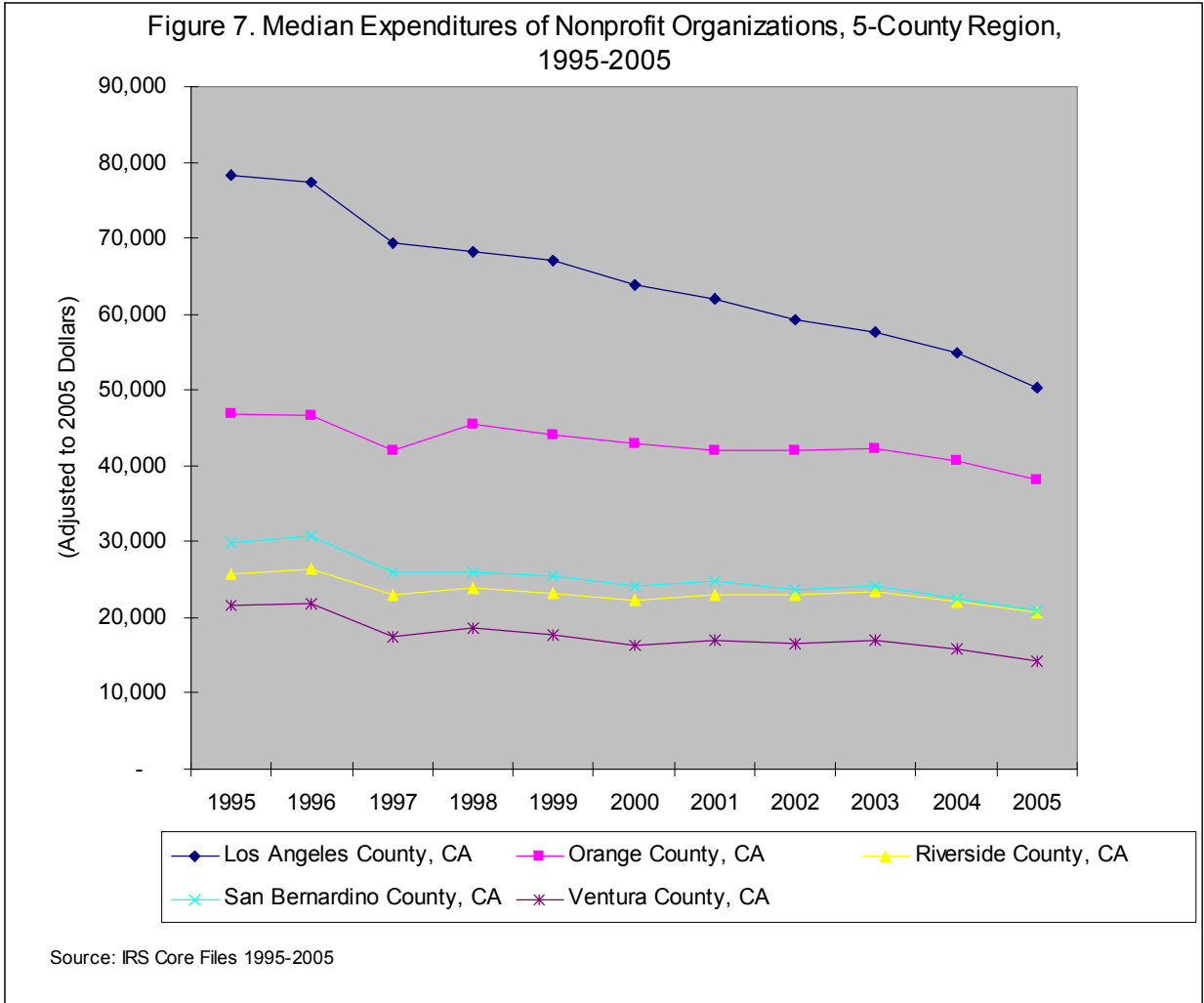
Total expenditures have to be seen in relation to the financial size of nonprofit organizations. Average and median expenditures provide some insight into how the financial capacity of organizations is developing. Is the ‘average’ nonprofit organization growing in size? Or do nonprofits remain stable over time, perhaps even shrinking in terms of average trends? For nonprofits as a whole in Los Angeles County, Figures 6 and 7 show that average expenditures are steady while median expenditures are decreasing. For Ventura and Orange Counties, we see that average expenditure has decreased from 2004 to 2005, but median expenditure has remained relatively stable for the same time period. These results suggest that while the nonprofit sector in the region seems to expand in terms of numbers over time, and contract slightly in terms of expenditures, the average financial capacity of nonprofits remains stagnant at best.

Figure 6. Average Expenditure of Nonprofit Organizations, 5-County Region, 1995-2005



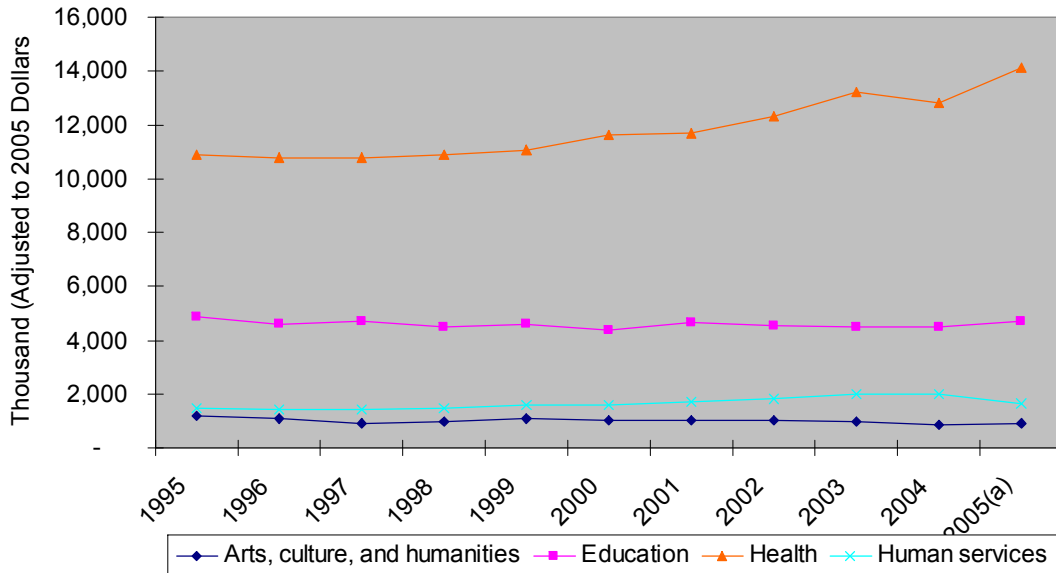
◆ Los Angeles County, CA
 ■ Orange County, CA
 ▲ Riverside County, CA
× San Bernardino County, CA
 ✱ Ventura County, CA

Source: IRS Core Files 1995-2005; Office of Statewide Health Planning and Development (OSHPD), 2005.
 (a) Expenditure for the nonprofit hospital sector in Los Angeles extrapolated from Office of Statewide Health Planning and Development (OSHPD), 2005.



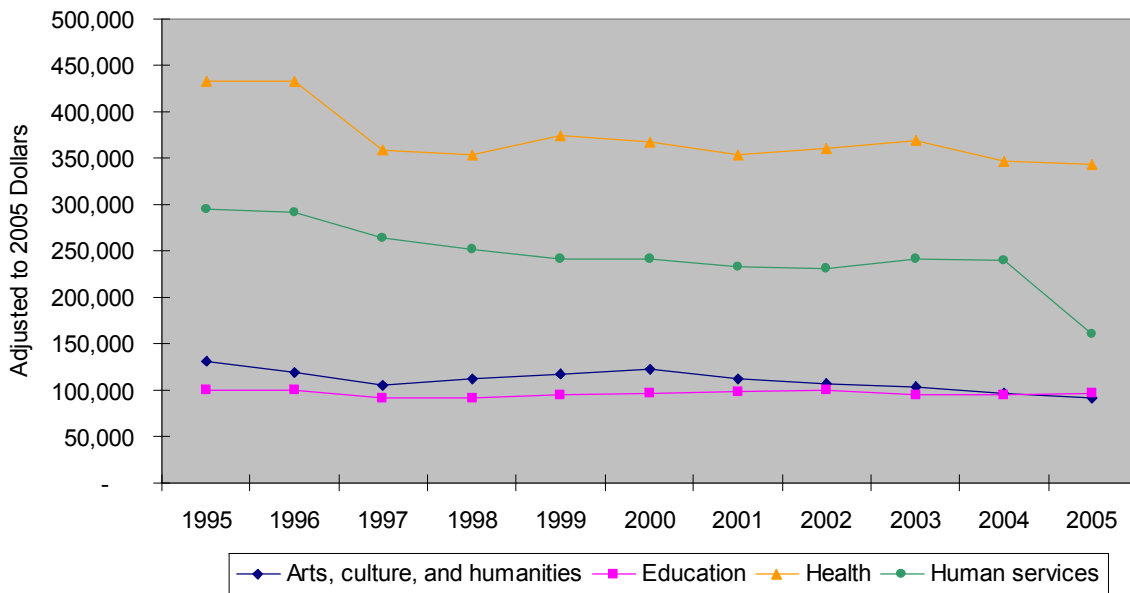
However, total expenditures for the nonprofit sector as a whole may mask some of the changes occurring in particular fields. Figures 8 and 9 show that while average and median *Health* expenditures are higher than in other fields, median expenditure has fallen over time while average expenditure has increased. This growing gap between median and average expenditures implies that the health field is increasingly dominated by a smaller number of larger organizations, and suggests that a consolidation process may be underway. By contrast, median and average expenditures for *Education* and *Arts and Culture* organizations have remained relatively stable. *Human Service* organizations, on the other hand, appear to be similar to health organizations in that there is a growing gap between average and median expenditures: average expenditures have remained steady while median expenditures appear to have fallen, particularly in 2005. In other words, in both health and social services, we observe slight consolidation or concentration trends that have yet to yield greater financial capacity for the ‘average’ nonprofit organization in these two fields.

Figure 8. Average Expenditure of Nonprofit Organizations by Select Subfields, Los Angeles County, 1995-2005



Source: IRS Core Files 1995-2005; Office of Statewide Health Planning and Development (OSHPD), 2005
 (a) Expenditure for the nonprofit hospital sector extrapolated from Office of Statewide Health Planning and Development (OSHPD) data (12% increase between 2003-2005)

Figure 9. Median Expenditure of Nonprofit Organizations by Select Subfields, Los Angeles County, 1995-2005



Source: IRS Core Files 1995-2005

In terms of nonprofit expenditure as a percentage of Gross Metropolitan Product, spending has steadily increased between 1999-2002, from 5.7% to 6.7% and has remained relatively stable since 2002 averaging about 6.8% of GMP between 2002-2005. This means that the nonprofit sector is no longer growing at the expansive rates of the earlier part of this decade, and that other parts of the region's economy are outperforming nonprofit developments.

We suspect two factors behind this slowdown, although we cannot be certain about the nature and scale of their impact: a first factor could be a somewhat anti-cyclical, delayed pattern of nonprofit expansion, whereby nonprofit sectors might grow more towards the end of business cycles when donations and public revenue are likely to be higher than during recovery and initial boom periods when revenue sources are lower. The second factor is the combined medium to long-term impact of Federal and State budget cuts and continued fiscal uncertainty (Bowman, 2003), whereby reduced government spending (inputs) results in lower levels of measured economic activity by nonprofits in terms of expenditures towards GMP (outputs). In other words, as government input to nonprofit organizations declines, the ‘value added’ by nonprofit organizations will either decline as well or find compensation in other inputs (donations) and outputs (greater fees and charges).

The relative stability of the LA nonprofit sector is also borne out in the internal composition of total expenditures over time. Table 1 shows two and three year changes in nonprofit expenditures by subfield. The health sector, which includes hospitals, represents the bulk of expenditures and has been relatively stable since 2000, making up about 43-45% of total expenditure. The two-year change, however, shows that the health sector decreased by about 1%. By virtue of its size, a 1.2% reduction in nonprofit health care means a 0.5% drop for the nonprofit sector as a whole. The education sector is the second largest, accounting for about one quarter of all nonprofit expenditure, and has experienced only a slight 1% increase over two years. Overall, the nonprofit sector grew by only 1% from 2003 to 2005, but almost 20% from 2000 to 2005.

Table1. Changes in Nonprofit Expenditure by Subfield, Los Angeles County, 2000, 2003, 2005						
Subfield	2000 (% of total)	2003 (% of total)	2005 (% of total)	2 year change	5 year change	
Health (b)	45.1%	44.7%	43.7%	-1.2%	15.4%	
Education (a)	25.2	24.2	24.2	1.0	14.4	
Human services	14.2	16.6	15.7	-4.4	32.3	
Other (c)	7.6	6.8	7.4	9.5	16.8	
International	2.6	3.4	4.9	45.8	122.8	
Religion	1.5	0.9	0.9	-3.5	-30.6	
Environment	0.5	0.4	0.4	0.0	-0.2	
Arts, culture, and humanities	3.4	0.030	0.030	-5.00	-1.60	
Total (d)	\$ 25,427	\$ 29,991	\$ 30,282	1.0%	19.1%	

Source: IRS Core Files 2000, 2003, 2005; Office of Statewide Health Planning and Development (OSHPD), 2005

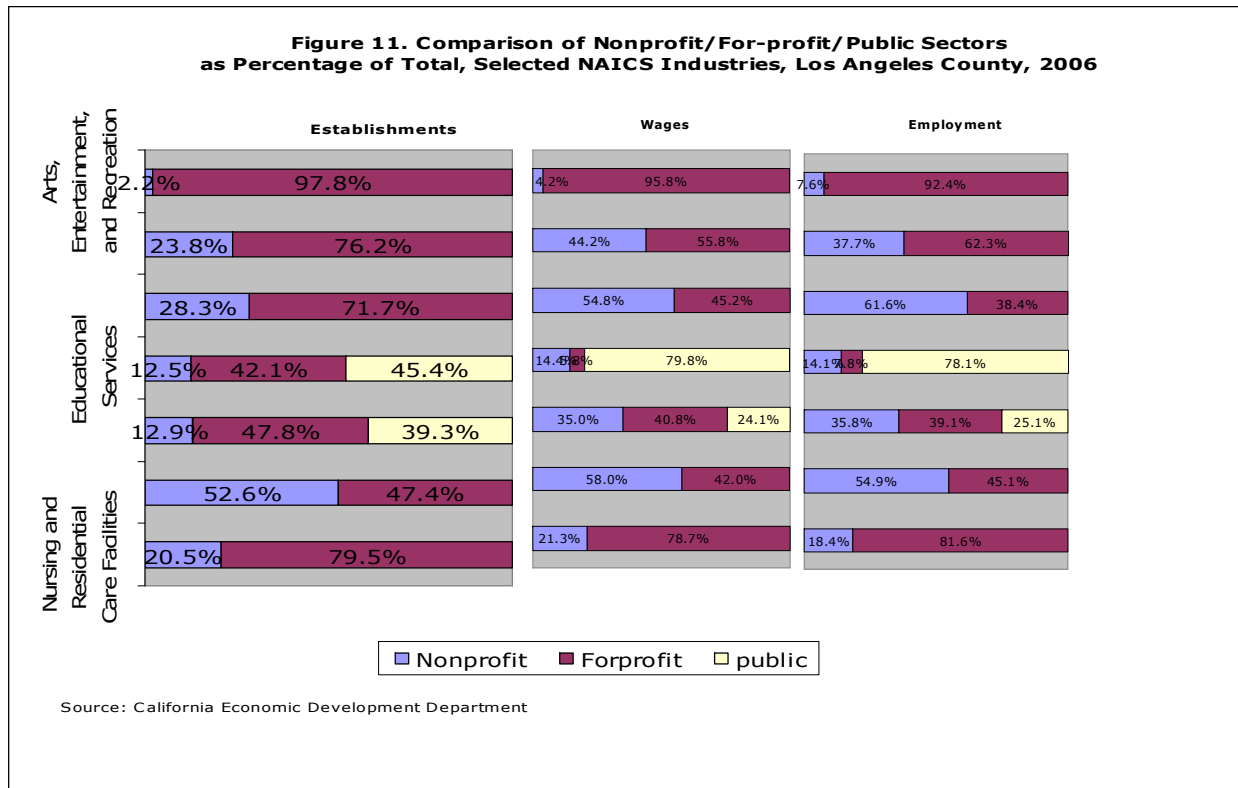
(a) Includes higher education

(b) Includes Hospitals; 2005 hospital expenditure based on OSHPD data (12% increase between 2003-2005)

(c) Includes mutual benefit; public and societal benefit; and unknown categories

(d) Figures are in millions and adjusted to 2005 dollars

Figure 11 shows the percentages of nonprofit, for-profit, and public entities in terms of number of organizations, employment, and total wages by select industries. For wages and employment, nonprofit organizations make up the majority in the individual and family services as well as in civic and social organizations. For-profit dominate in arts, entertainment, and recreation as well as in child care services and nursing and residential care facilities. The public sector, not surprisingly, dominates in the education field in terms of wages and employment, and health care has seen an expansion of for-profit firms in recent years, with hospitals and clinics assuming for-profit status.



What Figure 11 shows is that the nonprofit sector is part of a ‘mixed economy of care’ in which it plays varying roles relative to those of business and government. In some fields, nonprofits are the majority provider, the ‘mainstream,’ while in others they are in a minority position, perhaps even niche providers. Yet in either case, changes in the scale and role of nonprofits in a particular field will have implications for business and government agencies working in the same area, and vice versa. For this reason, it is better to think of the nonprofit sector not in isolation of the other two sectors, but in terms of a complex and changing partnership where each partner brings in specific capacities in addressing social needs.

Capacity

Clearly, LA County faces growing and changing needs that the nonprofit sector will undoubtedly be called on to meet. Nonprofit leaders agree that growing numbers of elderly, ethnic, and low-income populations will put pressures on the County’s safety-net system that is already in distress. There are also the needs of children, the uninsured as well as the “hidden”

populations such as the homeless and undocumented, as burgeoning concerns. To what extent are nonprofits currently managing some of these concerns, and will they be capable of doing so going forward? We examine three areas: health, homelessness, and housing. Available data reveal a complex, though troubling picture, although the field of housing affordability is showing some bright spots, and the homelessness issue may turn for the better given the greater attention paid to this longstanding social problem.

The Uninsured

Despite declining numbers of uninsured residents in Los Angeles County over the past five years, the number of people that access community clinics as the primary source of medical care continues to grow. The rate at which residents used community clinics during this same time climbed 7%, from 2001-2005. This suggests that despite an increase in health coverage, nonprofit and government-supplied health services continue to be an important source of health coverage for Los Angeles residents, and certainly not for the uninsured only. However, despite a growing demand for community clinics, nonprofit dollars spent per uninsured person fell by almost \$700, from \$1,815 in 2003 to \$1,150 in 2005⁶. This decrease is due more to an increasing demand for services rather than a drop in nonprofit health expenditures. However, it does indicate that nonprofit health expenditures have not grown at a rate comparable to demand increases. In other words, nonprofit capacity is trying to catch up but seems to fall further behind.

The Homeless

Over the past five years, the growing numbers of homeless in Los Angeles County has garnered national attention. In the most recent homeless count, Los Angeles reported nearly 90,000 homeless residing in the County (Institute for the Study of Homelessness and Poverty, 2005). This large population of homeless did not explode overnight; rather, the number of homeless has been steadily growing. Between 2000 and 2005, the number of homeless grew by almost 10,000 or 12%. While the number of nonprofit organizations increased over this same period, it has remained rather stagnant since 2003 and expenditure has decreased from 2003-2005.

Although the number of nonprofit temporary housing and homeless shelters increased by 50% from 2000-2003, from 22 organizations to 33 organizations, and only slightly from 2003-2005 (from 33 to 34 organizations), the homeless population remains underserved. Each nonprofit temporary housing or homeless shelter served almost 2,600 homeless persons in 2005, a 4% increase from 2003. In addition, nonprofit expenditures for homeless have increased 56% between 2000 and 2003 from \$30 million to \$47 million. As a result, nonprofit expenditures per homeless person increased by almost \$200. However, by 2005, and because of the continued increase in numbers of homeless, expenditures per homeless person fell by almost \$100 per person⁷.

Housing

The cost of housing has increased for all residents in the region, but renters have been affected the most. In Los Angeles County, as in other counties, renter incomes (about \$35,000 annually in 2005) are growing more slowly than both the Area Median Income (AMI) (about \$57,000 in 2005) and the cost of housing (about \$50,000 in 2005 for two bedroom apartment). In 1997, the median income for a renter was approximately 73% of AMI, but by 2005 it was only 63%.⁸ The cost of rental housing, in contrast, grew 72%. Ten years ago, over half (59%) of all renters in the County could afford the fair market rent for a two-bedroom apartment.⁹ However, by 2005, only a third (33%) of renters could afford the fair market rent.¹⁰

The total number of organizations providing services addressing housing and affordability¹¹ decreased between 2000 and 2004 from 215 to 204. At the same time, however, the number of residents unable to afford rents increased substantially, which implies that on average more persons are being served per organization. While nonprofit expenditures in this field nearly doubled between 2002 and 2004, and increased another 8% between 2004 and 2005, an estimated additional 200,000 residents become unable to afford fair market rents, an increase of 27%¹².

In our focus groups, when asked if the L.A. nonprofit sector will be able to maintain or increase capacity in the future, most participants expressed skepticism for a number of reasons, including: an increase in demand for services and higher overhead costs coupled with flattening public support and greater competition for foundation funding and individual donations; a lack of proper communication channels to inform the public about the nonprofit sector; shifting demographics; and the need for more technical expertise, especially among smaller agencies. Importantly, some executives agreed that the nonprofit sector continues to show resiliency, and seems in constant search of new strategies, e.g., investing more in quality staff, focusing on collaboration and creating new networks and partnerships.

Summary

In conclusion, while nonprofit sector growth in terms of number of organizations is the highest it has been in any given 12 month period from January 2006 to January 2007, the three year average actually shows rather steady growth at about 4% since 2004. For existing and established organizations, expenditure has remained stagnant, increasing only about 1% over a two year period. At the same time, there are indications that many nonprofit organizations are serving a greater number of people per organization and spending less per person in need, as shown by expenditures for community clinics and the homeless. In terms of employment and wages, we see that average annual income for nonprofit sector staff, too, shows only slight increases. Moreover, while average annual wages in the nonprofit sector are becoming more stagnant, wages in both the private and public sectors are showing increases. The gap in average annual wages between the nonprofit sector and the other two sectors has widened.

So are nonprofit organizations consolidating in the face of increased demands and a continued slow growth in the number of organizations? Across two of the four major sectors (human services and health) we looked at, this appears to be the case as average expenditure

appears to rise or remain stable while median expenditure appears to have fallen. The overall result is that while continuing to slow down, and beginning to consolidate, the sector does not appear to be contracting. It may well be that after years of expansion in the scale and scope of the LA nonprofit sector, we are entering a period of reorganization and consolidation.

The 2007 Policy Environment for Nonprofits

The nonprofit sector operates within a constantly shifting policy environment that creates both opportunities that help organizations fulfill their missions and constraints that make their work more difficult. In this section, we highlight issues and concerns we have found in the 2007/08 federal and state budgets that are of importance to nonprofit organizations. We also review recently enacted legislation on nonprofit accountability, provide an update on faith-based initiatives, and examine state and local policies, both passed and proposed, that may provide important opportunities for nonprofit organizations in health and human services.

The Federal Budget

Federal and state budget decisions affect nonprofits by determining the availability of federal, state, and county revenue nonprofits can draw on to meet the needs of their communities. However, even those agencies that do not rely on government funds for support are affected by public budget decisions, because when the amount of public resources available to address public problems decreases, the demand on the nonprofit sector to supply those services increases. In this section, we review aspects of the President's proposed budget for federal fiscal year (FFY) 2008 that impact nonprofit organizations.¹³

Medicaid

This year, the President's proposed cuts of \$25.7 billion (\$13 billion in legislative changes and \$12.7 billion in administrative changes) to the Medicaid program between FFY 2008-12 threaten to decrease public funds available to nonprofits that operate in the health care field. Most cuts shift costs to states by, for example, reducing payments to public hospitals and eliminating payment for some services to children with disabilities. Specifically, this year's proposal to cap the federal matching rate to Medicaid's Targeted Case Management (TCM) program to no more than 50% will mean that states will have less support for child welfare since this program represents a significant source of state child welfare funding ("The President's FY 2008 Budget and Children" 2007). California, which is projected to struggle with deficits for the next several years, may be hard pressed to offset such losses with state funds.

According to public hospital officials, the proposed cuts to Medicaid, known in California as Medi-Cal, could result in the loss of \$500 million a year to California public institutions and the private agencies they contract with. The Los Angeles County healthcare system could lose \$200 million a year. The proposed cuts would eliminate the use of Medi-Cal funding to cover the cost of low-income uninsured who are often the 'working poor'—those who make too much money to qualify for Medicaid but too little to afford their own health insurance ("President's Budget," 2007).

State Children's Health Insurance Program (SCHIP)

This program provides federal funding that supports states' efforts to expand health coverage to uninsured children. In California, SCHIP funding covers about two-thirds of the cost for Healthy Families, a program that provides low-cost health coverage to over 775,000 California children in low-income families who are not eligible for Medi-Cal. SCHIP expires in 2007, and according to estimates by the California Budget Project, the President's proposed FFY 2008 budget would allocate around \$1 billion over the next five years, which is less than half of what it would cost to maintain the current program. Moreover, the President's budget discourages California and other states from using SCHIP funds to cover children in families with income above 200 percent of federal poverty level (FPL), thus potentially eliminating federal funding to support coverage for approximately 200,000 California children in families with incomes between 200 and 250 percent of the FPL who are enrolled in Healthy Families ("SCHIP Reauthorization," 2007). A compromise SCHIP package that would have provided an additional \$35 billion over five years, was approved by the Congress. The President promised to veto the compromise package and did so.

Other Proposed Budget Changes

While the President's FFY 2008 budget proposes no change to the Headstart Program from FY 2007, with funding to be set at about \$7 billion, the final enactment of the FY 2007 budget by Congress will result in a \$100 million decrease possibly resulting in 10,700 fewer slots in California in FFY 2008; to the Childcare and Development Block Grant (CDBG), which would make it more costly for California to comply with work participation requirements enacted in 2006; and to the Women, Infants, and Children Program (WIC), which as a result would have the capacity to serve an estimated 55,600 fewer Californian children and women in 2012 than it currently serves. In addition, funding to the Community Development Block Grant (CDBG), which supports a range of community development activities, including housing development, homeless assistance, and economic development, would suffer cuts, along with the Social Service Block Grant (SSBG), which supports the assistance of victims of Hurricane Katrina, Community Care licensing, and services to the deaf in California. The President's proposed budget eliminates funding in 2008 for The Commodity Supplemental Food Program, which provides support for food packages to approximately 51,700 low-income elderly per month in California. The Community Services Block Grant (CSBG), which provides funds to community action agencies that support emergency housing, housing assistance, domestic violence services, and other services for vulnerable populations, would also be eliminated, resulting in a loss to California of \$295.5 million between FFY 2008-12 ("President's Budget," 2007).

The State Budget

After one of the longest budget stalemates, Governor Schwarzenegger signed the 2007–2008 budget into law on August 24th, one month after Assembly approval. The 2007-2008 budget reduces General Fund expenditures by \$700 million most of which (\$527 million or 75%) are reductions to Health and Human Service Programs. Some critical public programs targeting low-income residents and vetoed by the Governor include \$331 million for the Medi-Cal

Program, which according to the California Budget Project, should not affect enrollees (<http://www.cbp.org/pdfs/2007/082407govsigns.pdf>). The Governor also vetoed \$55 million for the Integrated Services for Homeless Adults with Serious Mental Illness program, which funds mental health agencies serving the homeless and other adults with mental illness.

Other programs will also suffer funding cutbacks including the “Children’s Outreach Initiative,” a \$20 million outreach program that encouraged eligible parents to enroll their children in Medi-Cal and Healthy Family health care coverage. Suspension of the July 2007 CALWORKs cost of living adjustment and continuing suspension of the California Work Opportunity and Responsibility to Kids Program cost of living adjustment amounts to over \$124 million in savings to the state in 2007-2008. Hardest hit by this cut would be children, who make up 80% of CALWORKs recipients. However, the budget does reject a few of the Governor’s proposals that affects vulnerable groups, such as the Governor’s proposal to eliminate cash assistance to the Cal WORKs Program and support for child care assistant (“Governor Signs 2007-08 Budget, 2007). As it stands, in spite of these few measures, welfare spending continues its downward slide as a priority in the California budget.

Implications for Nonprofits

In our focus groups, most participants agreed that despite increased organizational expenses, such as rent, staff salaries, health insurance, and workman’s compensation, public funding has remained stagnant at best for several years. Some nonprofit executives shared that their government contract rates have not increased in close to ten years despite annual rises in overhead costs. One executive stated that her organization’s rent recently increased by more than 400%, and declared that “nonprofits that don’t own are in incredibly perilous situations.”

One obvious solution to the withdrawal of government support is revenue diversification, but nonprofit leaders stated that other sources of nonprofit support, such as foundation money and individual donations, are also harder to come by than in the past. Accordingly, executives maintained that nonprofit organizations need to do more to publicize their work, their needs, and the issues affecting local communities. Leaders stressed that a lack of communication translates directly to a lack of resources. One nonprofit leader noted that “there is a key connection between capacity needs and getting the word out,” while another stated that “if we’re not meeting needs and can’t provide enough services, we have to let people know about it.” According to executives in the focus groups, public relations efforts need to be directed toward government officials as well as to the public at large. “We need elected officials to pay attention. If not, more money will continue to be diverted from programming.”

Legislative Issues

Institutional trust has an impact on volunteering and giving, and thus is essential to charities – the public is not likely to support charities suspected of carrying out their missions in an unethical, illegal, or irresponsible way. Not surprisingly, a few high profile cases of abuse can erode the public’s confidence in the entire sector, raise demand for nonprofit accountability, and ultimately result in legislative efforts to increase regulation of nonprofits. Sometimes abuses are clear violations of the law. A former financial controller for Goodwill Industries, for

example, was convicted in 2003 of embezzling more than \$500,000 to cover gambling debts, and IRS commissioner Mark Everson reported in a USA Today article in 2005 that tax-exempt groups have been involved in half of the IRS' 31 categories of tax-shelter scams (Iwata, 2005). Even legal maneuverings can provoke scathing critique when they appear to lack transparency. The American Red Cross, for example, was highly criticized when it diverted donations solicited for victims of 9/11 to a relief fund so that when the next disaster hit, they would have the capacity to mobilize quickly. When the practice came to light it ignited a firestorm of criticism, and the organization responded by firing its CEO, changing its board, and retooling its policies.

There is evidence that public attitudes toward charities tumbled after the 9/11 scandal, and have remained low ever since. Surveys conducted by the Princeton Research Group on behalf of the Center for Public Service show that only around 12-15% of people surveyed expressed "a great deal" of confidence in charitable organizations between 2002 and 2004, a level of confidence that is 10% to 15% lower than in the summer of 2001. In 2004, only 11% of those surveyed felt that charities do a "very good" job at spending money wisely (Light, 2004).

The Pension Protection Act of 2006

Under increasing scrutiny, the nonprofit sector is exploring ways to rebuild public trust. For example, the Independent Sector, a nationwide coalition of 500 nonprofit organizations, joined lawmakers in calling for stronger penalties for nonprofit officials and donors who engage in illegal transactions. These efforts have resulted in the Pension Protection Act of 2006, which deters individuals from attempting to use donations for personal gain and ensures that donations are used for charitable purposes. Under the law, taxpayers who itemize deductions may only claim deductions for donated clothing and household items that are in "good used condition." While there has been a lack of clarity over the issue, there are indications that the burden of identifying the condition of the item must be established by the donor, not the charitable organization. In addition, deductions for items with minimal value (i.e., socks) can be prohibited by the Treasury Secretary, and individual items for which deduction of \$500 or more are claimed now require the filing of a qualified appraisal of the item with the tax return. To monitor whether donated items are used for charitable purposes, nonprofits are now required to file a form 8282 if they sell or dispose of donated items valued at more than \$500 within three years of receipt, unless the item is consumed or used for charitable purposes. Under the new law, nonprofits also risk large penalties if they fraudulently claim an item was used for charitable purposes to enable a larger tax deduction by the donor.¹⁴

The Sarbanes-Oxley Act and the California Nonprofit Integrity Act

The Pension Protection Act of 2006 is the latest in a series of federal and state legislation meant to strengthen oversight of nonprofit management practices. The Sarbanes-Oxley Act, which became federal law in 2002, focuses on reforms geared toward corporate corruption but includes two provisions that require nonprofit compliance. One makes it illegal to destroy litigation-related documents, while another makes it a crime to retaliate against whistle-blowing nonprofit employees. To help ensure compliance, nonprofits should formalize policies on written document retention and destruction and on management of complaints.

In 2005, the Nonprofit Integrity Act was enacted in California. Under the law, all nonprofits with revenues over \$2 million must publicly disclose all financial statements and are required to have an independently conducted annual audit. They must also form an audit committee separate from their finance committee and ensure that CEO and CFO compensation is just and reasonable. Further, all nonprofits, regardless of size, must register with the Registry of Charitable Trusts within 30 days of receiving assets and publicly disclose any audited financial statements. The law also regulates fundraising in a variety of ways. Hospitals, educational institutions, and religious organizations are exempt from the provisions in the act.

While the public should have access to accurate information about nonprofit finances, programs, and activities, there is a cost to increased oversight. More regulations force nonprofits to divert resources toward compliance, including preparation and filing of reports to multiple agencies and several audits a year, which can be extremely costly. Funds and energy may be diverted away from service delivery – a sign of the very administrative-heavy practices that these regulations are designed to discourage. And increased oversight, while it suppresses illegal activity and allays concerns about unfettered corruption, may also feed the perception that charities are untrustworthy. Finally, as nonprofits are held to higher efficiency and effectiveness standards, their legitimacy is questioned when they fail to produce evidence of their impact. For example, LA Bridges, a Los Angeles-based gang-prevention program that allocates public funds to community agencies that implement interventions, has recently come under fire for lacking measurable results, leading to the threat of funding cuts. However, evaluating programs is costly and finding evidence of program impact can be difficult when social problems are multi-faceted and resistant to ‘quick fixes.’

With this said, the push to tighten laws and regulations affecting nonprofit accountability shows no signs of abating. The Senate Finance Committee appears to have momentum in this area, and the House Ways and Means Committee may intensify their examination of nonprofits, especially hospitals. Meanwhile, nine states introduced legislation intended to increase transparency requirements in 2006 and many states increased the threshold for which nonprofits are required to submit financial statements for auditing. While a minority of the 2006 state bills became law, the sheer volume of proposed legislation was an indication that regulation of nonprofit practices will continue to increase at the state level.

In our focus groups, most participants agreed that current regulations do little to discourage wrongdoing, and at the same time increase the “cost of doing business.” For some participants, the laws made no difference, for their organizations were already following most of the guidelines anyway. For others, however, especially smaller agencies, the regulations “just add another layer of bureaucracy.” And in many cases, according to participants, the smaller groups do not always have the financial expertise to comply. At the same time, many of the consultants, while abhorring the new auditing requirements for accounting, did express a greater need for nonprofit accountability for performance outcomes and efficiency. “I’ve found that a large percentage of agencies don’t have performance goals. There’s no accountability for performance.”

Faith-based Initiatives

On January 29, 2001, President George W. Bush issued Executive Order 13198 which was designed to address perceived barriers that prevent faith-based organizations from providing human services in partnership with the federal government. The Initiative endorses strategies such as making federal funding more accessible to faith-based organizations, and supports federal, state and local government efforts to collaborate with local faith-based organizations.

As part of a broader movement that encourages greater government collaboration with community-based religious groups, especially in the provision of services to low-income people, the White House Faith-Based Initiative furthers the agenda initiated by the “charitable choice” provision of Section 104 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which prohibits states, if they contract with nonprofit organizations for the delivery of human services, from requiring faith-based organizations to alter their internal forms of governance (such as employment practices that hire on the basis of religious belief) and remove religious icons, art, or other symbols of faith on the physical site at which services are delivered when they contract to deliver services. Recent legislative efforts in Congress have similarly attempted to remove barriers to the participation of faith-based organizations in the provision of human services to low-income people, and several states, including Mississippi, Texas, and Minnesota, have passed legislation to actively encourage faith-based organizations to become more involved in the provision of human services.

However, mounting concerns about separation of church and state are reflected in *Hein v. Freedom from Religion Foundation*, a recent Supreme Court case that challenged the constitutionality of the president’s faith-based initiative. The Wisconsin-based Freedom from Religion Foundation challenged the initiative on first amendment grounds, arguing that the White House is using taxpayer funds to support religion. Under debate was the issue of whether taxpayers have legal standing to sue the government over how taxpayer money is spent by government officials. The government’s argument rested on the general rule that taxpayers can only sue if they show that they have suffered personal injury, but the Wisconsin group pointed to a 40-year-old case, *Flast v. Cohen* (392 U.S. 83 1968), in which the Supreme Court created an exemption when it ruled that taxpayers could sue when government spends money to promote religion. On June 26, 2007, the Supreme Court turned away the lawsuit, ruling that the plaintiffs had no legal standing.

Still, the Supreme Court case shook nerves at the state level and slowed momentum in this area. Developments surrounding California’s recent attempt at such legislation—AB 165—provide an example. The legislation, introduced in 2007, would have created a California “Office of Faith-Based and Community Initiatives” within the Office of the Governor. It would have encouraged government partnerships with faith-based and other community agencies by developing a clearinghouse of information on public funding at the federal, state, and local levels, encouraged organizations to learn about and request public funding, and acted as a liaison between state agencies and those organizations. The office also would have provided information about the barriers to collaboration between faith-based organizations and governmental entities to the Governor, the Legislature, and an advisory board of the office and recommend strategies to remove those barriers. However, the bill, renamed “Office of Community Initiatives,” was amended to excise any reference to faith-based status.

New opportunities

Many of the proposed cuts to state and federal programs this year reduce the amount of resources available to address social problems and thus increase the need for services. The burden to meet these needs is shifted onto the private sector, including nonprofit organizations, at the same time that government support to the sector becomes scarcer. There is no doubt that this year's proposed budget cuts will produce challenges for the nonprofit sector if passed; however, there are also some noteworthy policy developments on the horizon that could translate into major opportunities for nonprofit organizations.

Federal Healthcare Policy

Broadly, President Bush's health care plan aims to make private health insurance more affordable, increase the number of Americans with health coverage, and move the nation 'away from reliance on government-run health care.' The crux of the President's proposed health care overhaul is a health care tax deduction to help individuals purchase health insurance on the private market. The standard health care tax deduction would allow families to shelter the first \$15,000 of their income (\$7,500 for individuals) from taxes. The President hopes that this standard deduction will make purchasing individual health insurance more affordable while rewarding individuals who already purchase individual health care.¹⁵ Critics argue that the President's tax cut for health care would not be accessed by the majority of Americans who currently don't have health care.

California Healthcare Policy

At the state level, the Governor has also unveiled a series of reforms designed to make healthcare accessible by requiring all Californians to carry a minimum level of health coverage. To help individuals obtain coverage, the plan would provide subsidies to help low-income adults not covered by public programs purchase coverage, and expand California's Healthy Families program from its current coverage of children with family incomes under 250 percent of the FPL to children with family incomes up to the 300 percent of the FPL. The Governor's plan also penalizes employers with 10 or more workers if they do not provide health coverage for employees, requires hospitals to pay a fee, increases payments to Medi-Cal providers by \$4 billion, and requires health insurance companies to insure all who apply and to spend at least 85% of premiums on patient care. To offset costs, funding that counties receive to treat the uninsured would be reduced.

While ambitious, the Governor's plan raises a series of questions, such as whether individuals will bear a disproportionate share of risks, whether low-income individuals and families that are ineligible for public programs can afford to pay for comprehensive coverage, and whether there is enough federal and state money to pay for the plan. For example, expansion of the Healthy Families program to children with family incomes up to 300 percent of the FPL puts the plan at odds with the federal proposal, which discourages use of SCHIP money (used to fund Healthy Families) to cover children in families with income above 200 percent of FPL ("SCHIP Reauthorization," 2007).

Meanwhile, healthcare advocates and some democratic lawmakers have recently renewed efforts to promote a “single-payer” plan that places the entire health care industry under a government-run health plan that would pay for medical treatment for all Californians. Health care facilities would remain privately run. SB 840, a bill that would enact single-payer health coverage in California, has been advanced in different forms by State Senator Sheila Kuehl for three years in a row. In 2006, the bill was approved by the Legislature, but vetoed by the Governor. At this writing, the governor and legislative leaders are working on a health plan whose fate is undetermined. Reportedly, it would include an administrative set-up in legislation and leave the tax side to a ballot proposition, thereby avoiding the need for a two-thirds vote in the Legislature.

Homelessness: Update on the County and City Plans

In April 2006, the LA County Board of Supervisors approved a \$100 million plan to aid transients and persons released from hospitals or jails without a place to stay, establish a dedicated center for homeless families, located downtown, which would rapidly transfer people to long-term housing throughout the county, and create a special court designed for homeless persons to resolve outstanding warrants for misdemeanor quality of life infractions. The most ambitious part of the plan involves the establishment of five “regional stabilization centers” across the county that will provide temporary shelter and social services for homeless persons. The plan would reduce the concentration of services on Skid Row, thus distributing responsibility for homelessness more evenly throughout the county. As noted in a report by the Inter-University Consortium against Homelessness (Wolch, et. al., 2007), only 25 of 88 cities in the county direct funds toward housing and services for homeless people. In effect, cities that do not provide resources for homelessness rely on the many agencies in the downtown Skid Row area.

From the start, the regional centers have been the most controversial part of the county’s strategy. On the heels of the plan’s announcement, West Covina officials told the *Los Angeles Times* that converting their drop-in center to one of the regional stabilization centers would interfere with efforts to revitalize West Covina’s downtown area. (“W. Covina resists idea of Regional Homeless Center,” 2006), and community opposition in Sylmar has stalled a plan to set up a center that would house homeless women and children transferred from Union Rescue Mission on Skid Row. Also, the fairness of a plan that would divide funds evenly among the five regions without regard for differing regional levels of need has been questioned (“Finding a Way Home,” 2006).

Adding to these implementation issues, county officials were caught off guard when the US Department of Housing and Urban Development (HUD) recently allocated \$8 million less than the agency received the prior year, eating into projected funds for the project (“Troubles Stall Help,” 2007). Despite these hurdles, Assistant Administrative Officer Lari Sheehan of the County’s Chief Administrative Office has said that there is interest in establishing centers in South Los Angeles, Pomona, and the “gateway cities” area south of downtown, but no commitments have been made (DiMassa & Leonard, 2007).

At the same time, the city continues its efforts to address homelessness in Los Angeles. The Affordable Housing Trust Fund has been fully funded at \$100 million for two years running, with \$50 million a year devoted to permanent supportive housing for homeless individuals. According to the plan, on-site supportive services, including case management, employment and training services, money management counseling, and assistance with independent living skills, must be combined with housing. The funding will be used for development and operating costs, with funds for on-site social services coming from nonprofit collaborators.

However, the city is hard pressed to put enough money in the Affordable Housing Trust Fund to offset the costs for developers. A plan to create a permanent funding source by borrowing \$1 billion through a housing bond was narrowly defeated in November 2006. Investors would have been paid back with money from a property tax increase of about \$14 per \$100,000 of a house's value. The plan failed to secure the required two-thirds vote needed to raise property taxes, and Mayor Villaraigosa has stated that he will place the plan on the ballot again in a future election (Helfand & Hyman, 2007).

In the focus group, nonprofit leaders underscored the need for more affordable housing in the Los Angeles area. While they commended the City and County for pushing forward with plans to address the issue, they agreed that a greater degree of strategic coordination between the two would be fruitful. They worried that policy shifts at the federal level, such as the proposed elimination of the Community Services Block Grant and the withdrawal of HUD funding for supportive services, would compromise their ability to serve the homeless, while noting that the city and county plans represent a significant effort to come up with much needed solutions to the county's persistent problem with homelessness, and one that nonprofit organizations can participate in.

“Dumping” Patients on Skid Row and New Solutions

In Los Angeles County, a shortage of homeless programs and an overtaxed healthcare system have converged in highly publicized incidents that involve the “dumping” of homeless hospital patients on Skid Row. The City of Los Angeles has sued several local hospitals for allegedly releasing patients onto the street without an adequate discharge plan, and City Attorney Rocky Delgadillo has proposed legislation that would make the practice a crime. Introduced by State Senator Gilbert Cedillo, SB 275 would prohibit hospitals from transporting patients to locations other than their residences without their informed consent (Winton & Blankstein, 2007). Hospital advocates note that, within the context of inadequate resources for homelessness, discharge planners can spend hours or days trying to find a place for homeless patients who are well enough to leave the hospital. Meanwhile, emergency room patients that need longer term inpatient care must wait for hours or days for a hospital bed to become available, in part because beds become de-facto shelter for homeless patients that are well enough to leave but have nowhere to go upon discharge.

Some rays of light include the expansion of a respite-care program on Skid Row. Funded by private foundations, the 42-bed program offers up to 90 days of medical support and housing to homeless patients who are recuperating from illness or injury. The County has also earmarked

nearly \$20 million to pay for housing alternatives for people released from hospitals or jails with nowhere to stay (Cousineau, 2006).

California's Initiative system

California's initiative system serves as a potential mechanism for the funding of programs that are central to the work of nonprofit organizations, but that policymakers are unable or unwilling to adequately support. For example, the passage of Proposition 10 in 1998 generated funds for early childhood development, and Proposition 63 in 2004 provides support for mental health services by placing a 1% tax on income over \$1,000,000.

In November, California voters passed one initiative that provides important resources for the nonprofit sector, and failed to pass another that would have afforded significant supports. Proposition 1C, the Housing and Emergency Shelter Trust Fund Act of 2006, passed easily with 57% of the vote. This Act authorizes the state to sell \$2.85 billion in general obligation bonds to fund thirteen new and existing housing and development programs that would benefit low-income people. The bond will provide low-interest loans and grants for: a) development projects, such as parks, water, sewage, transportation, and environmental cleanup, that facilitate "infill" development, support for housing near public transportation, b) housing for low-income renters, homeless youth, and farm workers, c) low-income housing connected to services such as health and mental health care, and d) homeless shelters.

In our focus groups, other changes in state and local policy did prompt positive feedback from participants. According to one executive, there are many new innovative local programs in the area of aging. "For the first time ever, local government has created a line item for aging." Another executive pointed to new resources to fund mental health services (Mental Health Services Act – Prop 93). Other executives are hopeful because of increased attention to homelessness and housing needs in L.A.

The nonprofit sector lost an opportunity, however, with the failure of Proposition 86, which would have imposed a \$2.60 per pack excise tax on cigarettes. The initiative, which sought to raise funds to support health services, children's health coverage, and tobacco-related programs, was narrowly rejected by California voters.

Promising developments at the federal level

At the federal level, the passage of the Pension Protection Act of 2006 provides a potentially substantial windfall for nonprofit organizations by increasing incentives for charitable giving. The act, which was signed into law on August 17, 2006, includes pension reform legislation that permits donors who are 70 ½ and older to make contributions up to \$100,000 to public charities from a traditional IRA or Roth IRA without counting the donation as taxable income. As the law took effect immediately but expires on December 31, 2007, nonprofits should act quickly to advise their donors to consult with their own tax or legal professionals to see if their gifts qualify under the provision. If the provision shows promise as an incentive for charitable giving, it could be expanded in the future.

Finally, the national elections in November 2006 saw the ascendancy of Democratic Party, which took control over both houses of Congress. Nonprofits with strong ties to Democrats (e.g., Independent Sector and OMB) may gain influence over Congress, while those with ties to Republicans may see their influence wane.

Conclusion

The nonprofit sector in the Southern California region is vibrant and strong and represents a significant portion of the economy. As noted previously, in Los Angeles County, the nonprofit sector employs about 200,000 people per month and has over \$30 billion in annual expenditure; this is almost five times as large as San Francisco county which employs about 47,000 people per month and has about \$2 billion in annual expenditures. Therefore, while this chapter focuses primarily on the Southern California region, and Los Angeles County in particular; as the largest county in state in terms of geography, population, and its economy, the trends and challenges faced by the nonprofit sector in Los Angeles is indicative of and represents the largest share of the overall nonprofit sector in the state.

The nonprofit sector in Los Angeles county may also be reaching a “saturation” point as we see a slow down in the number of organizations created as well as expenditure since 2004 and as compared to the other four counties in the region. The average size of organizations, as measured by expenditure, has remained stable while median expenditure has decreased, which is an indication that the gap between large and small organizations is increasing. Are nonprofits in fact consolidating and larger organizations beginning to dominate the nonprofit landscape? Given that the LA county population is steadily growing, aging, and becoming more diverse, the needs for social and human services will inevitably increase. Will the population be better served by larger nonprofits and are “social entrepreneurs” in fact looking to alternative organizational forms rather than creating nonprofit organizations? We will have to wait and see if this slow down in growth will continue.

In terms of the policy environment, we see policies that are both favorable and restrictive to the nonprofit sector. Nonprofits have to become more proactive in their advocacy efforts to ensure that, at the very least, legislators will be aware of how policies such as Sarbanes-Oxley affect nonprofit daily operations. At best, increased advocacy efforts will allow nonprofits to receive a great share of federal and state budget allocations. The “new opportunities” for nonprofits in this policy environment will have to be created, in part, by managers and social entrepreneurs working in the sector. This chapter has outlined areas and directions where new opportunities may take place and given the size and scale of the nonprofit sector, it is vital that legislators know the significant role the sector plays in not just social service provision but artistic, cultural, and political expression.

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Appendix

Sources of Nonprofit Data

1. IRS Business Master Files and Core Files from the National Center for Charitable Statistics

For information on the number of nonprofit organizations and foundations in the region, we used the IRS Business Master Files, available through the Urban Institute's National Center for Charitable Statistics (<http://nccsdataweb.urban.org>). The Business Master Files are cumulative and contain descriptive information on all active tax-exempt organizations derived for the most part from the IRS Forms 1023 and 1024. We used files for 501(c)(3) organizations (public charities and private foundations) for all figures, unless otherwise indicated. The Core Files, produced annually, combine descriptive information from charities' initial registration with financial variables from the Form 990, 990-EZ, or 990-PF. Only organizations required to file these forms are included in the files. The Core Files used for this report include only 501(c)(3) public charities filing Forms 990 or 990-EZ and reporting gross receipts of at least \$25,000. The numbers of religious organizations and foundations in Figure 1 is based on IRS FND-NCD codes (reason for and type of 501(c)(3) exempt status including codes for operating and grant making foundations, and other types of public charities).

2. California Employment Development Department, Labor Market Information Division.

Data on employment and wages were provided by the Labor Market Information Division of the California Employment Development Department (EDD). The figures are for California and Los Angeles County by sector for the 1995-2006 period, and for the second quarter (April-June) of each year. They constitute a "snapshot" of wage and salary employment for the specific quarter presented (for these data the June 12th pay period). The employment data are derived from private and public sector employers covered by California's unemployment insurance (UI) laws. They are a product of a Federal-State cooperative program known as the Quarterly Census of Employment and Wages (or ES-202) program. The ES-202 program accounts for approximately 97 percent of all wage and salary civilian employment (the program does not cover self-employed and family workers). The principal exclusions from ES-202 are railroad workers, employees of religious organizations, and students.

In terms of nonprofit employment, the exclusion of religious organizations is the most significant. In the data in this report, religious organizations were mostly excluded, since most religious organizations do not report to the EDD or the IRS. Only those religious organizations that choose to be UI-covered are included in the data in the report. However, the EDD does estimate religious organization employment as part of their Current Employment Statistics program. The estimated number of employees in religious organizations for 2005 was 94,000.

Employment is the number of filled jobs as reported by the employer and it includes full and part-time workers. If a person holds two jobs, that person would be counted twice in these

data. Wages include bonuses, stock options, the cash value of meals and lodging, tips and other gratuities.

To identify nonprofit organizations in EDD's database, we provided the EDD with the IRS Nonprofit Business Master Files from 1995-2005. The Federal Employer Identification Numbers (FEIN) from the BMF Files were then used to "flag" records in the California ES-202 system. Two methods are generally used to "flag" nonprofit organizations: California state employer flag (Category 2) and the national Exempt Organization Master File (EOMF) flag (Category 1). The Category 1 method is based strictly on a match between the IRS files and the ES-202 files, while the Category 2 match is based on an internal match of the ES-202 and another EDD database. This Category 2 match occurs because organizations that are listed as nonprofits by the IRS are not always classified as nonprofits in EDD's databases. Moreover, there are some organizations that EDD classifies as a nonprofit that did not match to the IRS files, probably because of different or missing FEINs. Categories 1 and 2 provide differing sets of employment numbers. Previously, EDD provided two other sets of employment numbers, one based on nonprofit organizations that matched in both Categories 1 and 2, and a second based on nonprofits that matched in either Categories 1 or 2. This last matching method, which can be called Category 4, produces the most comprehensive list of nonprofit organizations; but due to time and resource limitations, the EDD was not able to provide us with a Category 4 match this year. Data on employment and wages for this report was based on the Category 1 method.

Sometimes, employers with multiple locations pose a problem when using EDD data. For this report we were able to break out most multiple sites' employment by their county locations. We would like to thank John Milat from the EDD Labor Market Information Division for his help.

3. The Office of Statewide Health Planning and Development (OSHPD).

The Office of Statewide Health Planning and Development (OSHPD) is part of the California Health and Human Service Agency. Its vision is to promote "Equitable Healthcare Accessibility for California." For more information on OSHPD services and its mission and vision, visit the OSHPD website (www.oshpd.ca.gov/index.htm). In addition, OSHPD provides quarterly and annual data on California's healthcare infrastructure (hospitals, long-term care facilities, primary care and specialty clinics, home health agencies and hospices) by producing reports, pivot profiles, data files, and other electronic media. Data used for this report are pivot profiles for hospital annual financial data for 2003, 2004, and 2005. The requirements for hospital annual financial reporting are, "Within four months of their fiscal (accounting) year end, California licensed hospitals must submit an annual financial report that includes a detailed income statement, balance sheet, statements of revenue and expense, and supporting schedules. These financial reports are based on a uniform accounting and reporting system developed and maintained by the Office and undergo a through desk audit." The pivot profiles can be downloaded at (www.oshpd.ca.gov/HQAD/Hospital/financial/hospAF.htm). For a list of Frequently Asked Questions about hospital annual and quarterly financial data, visit: www.oshpd.ca.gov/HID/hospital/finance/faqshospfin.htm.

5. Data for the “Capacity” section is derived from the Community Health Interview Survey, the Weingart Foundation, the Los Angeles Homeless Services Authority, and the National Low Income Housing Coalition. Data for the uninsured comes from the California Health Interview Survey (CHIS). CHIS is a telephone survey of adults, adolescents, and children from all parts of the state conducted every two years. Specifically, “CHIS is the largest state health survey and one of the largest health surveys in the United States. CHIS gives health planners, policy makers, county governments, advocacy groups, and communities a detailed picture of the health and health care needs facing California's diverse population. The survey provides: (1) Statewide information on the overall population including many racial and ethnic groups. (2) Local-level information on most counties for health planning and important comparison purposes. The CHIS sample represents the geographic diversity of California, and the available multi-language interviews accommodate the state's rich ethnic diversity. The California Health Interview Survey (CHIS) is a collaborative project of the UCLA Center for Health Policy Research, the California Department of Health Services, and the Public Health Institute.” For more information on CHIS, visit their website (www.chis.ucla.edu).

Data for the homeless population comes from the Weingart Center's Institute for the Study of Homelessness and Poverty. The Institute is a nonprofit organization located in the Los Angeles “skid row” district. The mission of the Institute is stated as follows, “The Institute delivers reliable analysis, data and solutions to institutions and individuals to spark new collaborations and foster new initiatives, policies and programs to better understand and address homelessness and poverty. For more information on the Institute, visit its website at: www.weingart.org/institute. Data for this report comes from the Institute's *Just the Fact* publication series which reports on homelessness in Los Angeles. The full series can be downloaded from the Institute's website.

Data for housing comes from the National Low Income Housing Coalition (NLIHC). Established in 1974, NLIHC is a research and advocacy organization dedicated to informing the public and raising awareness of national housing conditions. For more information on NLIHC and its mission visit the NLIHC website (www.nlihc.org). Data for this report was gathered from NLIHC's *Out of Reach* annual reports for 1998-2005. Specifically, the, “*Out of Reach* is a side-by-side comparison of wages and rents in every county, Metropolitan Area (MSAs/HMFAs), combined nonmetropolitan area and state in the United States. For each jurisdiction, the report calculates the amount of money a household must earn in order to afford a rental unit at a range of sizes (0, 1, 2, 3, and 4 bedrooms) at the area's Fair Market Rent (FMR), based on the generally accepted affordability standard of paying no more than 30% of income for housing costs. From these calculations the hourly wage a worker must earn to afford the FMR for a two-bedroom home is derived. This figure is the Housing Wage.” To access the reports, visit: www.nlihc.org/oor/index.cfm.

Endnotes

¹ Based on actually growth of 501(c)3 organizations between 2006-2007. This estimation reflects the discrepancy between the number of nonprofit organizations in the California Secretary of State Registry and the number of nonprofit organizations in the National Center for Charitable Statistics (NCCS) Internal Revenue Service (IRS) Business Master File. The NCCS Business Master File contains information on all active tax-exempt organizations and data contained on the BMF are mostly derived from the IRS Forms 1023 and 1024 (the applications for IRS recognition of tax-exempt status). In 2001 approximately 10,000 smaller organizations, typically with annual expenditures below \$25,000, were contained in the State Registry, but not in the IRS files. This number was projected for 2006 based on the number of organizations in 2004 (see Anheier et al, 2005) and the actually growth rate of 501(c) (3) organizations in the IRS Business Master File for December 2004 - January 2006.

² The number of nonprofit organizations counted for each year is not on a strict 12 month period since the data (IRS Business Master Files from the National Center for Charitable Statistics) is released about once or twice a year and at various times (i.e. August of 1995; June of 1996; January of 2007). The only other 12 month period in the data is from January 2002-January 2003 with a 5% growth.

³ The three year average is an average of present, previous, and following years; it is used to demonstrate trends in which year to year figures tend to fluctuate.

⁴ All expenditure information is extracted from NCCS Core files, which only capture 501(c)3 public charities filing Forms 990 or 990-EZ and reporting gross receipts of at least \$25,000. Organizations in the IRS Core Files are about one quarter of those listed in the IRS Business Master Files.

⁵ This year, we projected expenditures for Los Angeles County hospitals based on data observed from the California Office of Statewide Health, Planning, and Development (OSHPD). OSHPD data showed a 12% increase in nonprofit hospital expenditure for Los Angeles County from 2003-2005 while other data sources (California Economic Development Department and the IRS Core Files) showed a slight decrease in hospital expenditure. This discrepancy may be due to differences in the way hospitals are coded between the OSHPD data and NCCS Core data; in addition, we also found that some large nonprofit hospitals in the OSHPD data are not captured in the NCCS BMF data (e.g., USC Norris Cancer Hospital, Kaiser Foundation Hospitals, etc). Since hospitals are among the largest entities in terms of expenditure (see Table 1) in the nonprofit sector, a change in hospital data will necessarily affect the sector overall. Consultations with health experts from the UCLA School of Public Affairs and the UCLA Center for Health Policy Research informed us that OSHPD data is an accurate and reliable source of hospital statistics in California, and we therefore based hospital expenditure on OSHPD data.

⁶ Source: IRS Core files 2001-2005; Community Health Interview Survey (www.chis.ucla.edu). Note that community clinic use data includes government clinics and community hospitals; nonprofit expenditure includes spending by health organizations (NTEE major group HE) and excludes hospital expenditure.

⁷ Source: IRS Core Files 2000-2005; Weingart Foundation, Los Angeles Homeless Services Authority (LAHSA), Economic Roundtable. Note that nonprofit expenditure and number of organizations serving the homeless includes organizations classified as temporary housing and homeless shelters (NTEE-CC, L40 & L41).

⁸ National Low Income Housing Coalition, "Out of Reach" reports from 1998 to 2005, www.nlihc.org (accessed between October 9 and November 3, 2006)

⁹ Rents are considered unaffordable when a tenant must spend more than one third of income on rent.

¹⁰ National Low Income Housing Coalition, "Out of Reach" reports from 1998 to 2005, www.nlihc.org (accessed between October 9 and November 3, 2006)

¹¹ Nonprofit organizations reporting their primary activity (ACTIV1 variable) as Low-income housing (380); Low and moderate income housing (381); Housing for the Aged (382); or Other housing activities (399) are considered engaged in activities related to housing and affordability.

¹² Source, IRS Core Files 1997-2005; National Low Income Housing Coalition website, U.S. Census. Note that income required for a two bedroom apartment at fair market rents is based on 30% of income spent on housing costs. Nonprofit expenditure for housing includes organizations classified as housing development (NTEE-CC, L20; L21; L22; L24; L25).

¹³ Federal fiscal years begin on October 1.

¹⁴ To learn more: <http://www.independentsector.org/programs/gr/charityreform.html>

¹⁵ White House Office of Communications, 2007 State of the Union Address. www.whitehouse.gov