UCLA Center for Civil Society

School of Public Affairs

HARD TIMES: IMPACTS, ACTIONS, PROSPECTS

The State of the Nonprofit Sector in Los Angeles

2010

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Hard Times: Impacts, Actions, Prospects
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ACKNOWLEDGMENTS

The 2010 Report would not have been possible without the contributions and assistance of many. First and foremost, we would like to thank the nonprofit leaders in Los Angeles County who so graciously participated in our survey.

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FOREWORD

This report marks the first project of the newly organized Center for Civil Society, which will incorporate the robust research agenda established by the Center for Civil Society, the collaborations between Los Angeles community organizations and UCLA scholars developed through the Center for Community Partnerships, and new research on social justice issues conducted within the School of Public Affairs.

The core mission of the School of Public Affairs is to engage in world-class research while educating and training the leaders of tomorrow through our Departments of Public Policy, Social Welfare, and Urban Planning. Nearly one third of our students go onto positions in the nonprofit sector, and the past year has certainly presented serious and unique challenges for all of us working to shape the future communities of Southern California. The State of the Nonprofit Sector Reports provide an empirical background for nonprofit organizations, foundations, the business sector, and government agencies to better understand, anticipate, and plan for emerging needs and challenges across Los Angeles.

This report is an illustration of our commitment to Los Angeles nonprofit and philanthropic institutions through robust university–community partnership, as well as our dedication to social justice and equity, which defines our mission within and beyond the boundaries of UCLA. As the health and well-being of the region's nonprofit sector has been diminished by the current recession, those who have the least are suffering the most. As academics, policymakers, grantmakers, nonprofit and community leaders, business executives, and citizens, we have to work to turn the tide and provide greater security and opportunity where it is most needed.

Franklin D. Gilliam
Dean, UCLA School of Public Affairs

EXECUTIVE SUMMARY

WHAT ARE THE TRUE IMPACTS OF THE RECESSION ON LOS ANGELES NONPROFITS?

For the second year in a row, the Center for Civil Society 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.

Harder times. 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, we found that 34 percent of local nonprofits experienced decreasing revenues over the previous year. And now in 2010, more than 50 percent of local nonprofits report 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, even before the recession started, 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 instance 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 demand, 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 demands over the previous year. This year, 60 percent reported an increase in need over 2009 at the same time that 56 percent reported a decline in revenue. What is more, demand increased especially for organizations that serve more low-income populations.

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.

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Resilience. Along these lines, it is interesting to note that one third of the nonprofits we surveyed 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 we surveyed reported this level of resiliency. Again, these nonprofits tend to be those that have been aggressive in cost cutting and reducing programs. We can surmise that these cost-cutting measures have also 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.

We were also curious as to whether we would see a number of nonprofit closures in the past year from our sample. Although we were not able to trace back the status of nonrespondents, we found little evidence of organizations actually going under. In part, this may be because nonprofits can maintain their 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. Indeed, as difficult as the recession has been for a majority of nonprofits, there is little evidence of fundamental change and adaptation in the sector. In fact, there continues to be an implausible optimism throughout, as more than 90 percent of the organizations we 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 we surveyed 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 (Anheier, 2009). 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.

The recovery from a recession this severe, however, is more likely to be in the four- to five-year range

Although economists have declared that the recession was officially over in 2009 (Lee, 2010), the September 2010 UCLA Anderson Economic Forecast anticipates "very sluggish growth for the foreseeable future" (UCLA Anderson Forecast, 2010, para.1). 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" (para. 2). 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 (UCLA Anderson Forecast, 2010). In this light, nonprofits should plan for current trends in their revenues, expenditures, and demand to persist well into the middle of the decade.

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. We also found that the more organizations depend on government funding, the more likely they are to collaborate with similar organizations.

Advocacy. In terms of advocacy, we found that, like collaboration, almost 70 percent of organizations were involved in at least one advocacy activity. The most frequently cited activities were meeting with public officials and staff, influencing public officials, and participating in a coalition. We were surprised, however, at how few respondents were knowledgeable about the 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.

PROSPECTS FOR THE FUTURE

We believe 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 is the time for the nonprofit sector 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. Specifically, we recommend the following.

Now more than ever is the time for the nonprofit sector to adapt and anticipate not only how it will develop but also how it will emerge from the economic crisis

Increase focus on the low income and most vulnerable. Given a recent study on the widening wage gaps for California's workers (Anderson, Alamo, Macias, & Sandler, 2010) and as the findings of this report 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, we advocate for an even stronger commitment to systemic change that will positively affect the lives of the poor.

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 this year, 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.

Nevertheless, the nonprofit sector needs to change the discourse and publicize the impact it has on communities.

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" (Arts for LA, 2010, para. 6).

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.

Improve tracking and reporting of policy issues. Considering the impacts 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 including Orange County, the Inland Empire, Ventura, and Santa Barbara County.

Initiate more dialogue and dissemination. One of the most striking findings of this report is the overwhelming optimism that characterizes the nonprofits surveyed, despite the dire economic environment in which they operate. Although we cannot attempt to temper this hope and idealism, we do suggest that the nonprofit sector 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... assertively 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..."

Another nonprofit leader with whom we spoke assertively 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."

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. We are just beginning to estimate more precisely the size of Los Angeles' nonprofit sector because of recent federal mandates, and our 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. We believe this information may empower nonprofit, philanthropic, and civic leaders to determine the needed steps to attain outcomes that can benefit all people of Los Angeles.

THE 2010 NONPROFIT SURVEY: THE ECONOMIC CRISIS, CONTINUED

INTRODUCTION

Since 2003, the Center for Civil Society has monitored the developments in the Los Angeles nonprofit, philanthropic, and community sector. *Hard Times: Impacts, Actions, Prospects* continues research we began in 2009 on how nonprofits are faring during the economic downturn and allows us to look closely at questions raised after the release of the previous report. Specifically,

1. What is the true impact of the recession on the Los Angeles nonprofit sector?
2. In what areas is nonprofit capacity strongest? Where is it weakest?
3. How has the recession effected change in advocacy, collaboration, and fundraising among nonprofits?

At the time of this writing, the state is facing a $19 billion deficit. Although the great recession is officially over, the decline in home values continues to negatively affect local municipal and county budgets, and the job market remains deeply entrenched in the economic downturn as several industries in the region struggle. The state's unemployment rate is 12.4 percent, and the weak job market in turn inhibits wage gains. Moreover, the gap between the state's high-wage workers and those at the low end of the scale is growing wider. A California Budget Project report suggests that the adverse effects of job loss are likely to persist for many years and have significant negative consequences for workers and their families (Anderson, Alamo, Macias, and Sandler, 2010).

In surveys of its nonprofit customers and users, Guide Star reported a 40 percent (McLean & Brouwer, 2010) and the Center for Nonprofit Management reported a 50 percent (Flynn & Birdsell, 2010) decline in income and contributions. The Foundation Center also reports that foundation funding declined across five of 10 major subject areas, with human services experiencing the largest decline (12.7 percent) in the first year of the economic crisis (*Highlights of Foundation Giving Trends*, 2010).

Because more data on very small nonprofits are available, the Center for Civil Society now estimates that the nonprofit sector includes 18,622 active 501(c)(3) registered public charities and private foundations in Los Angeles County (see Box 1). The Los Angeles County nonprofit sector spent an estimated $38 billion in 2008 to operate a variety of programs and services. The region's sector also employs nearly 246,000 people—more than 6 percent of the county's overall workforce.

Given the context in which nonprofits are operating and to compare nonprofit outlooks and behaviors given the economic climate, the Center for Civil Society conducted a phone survey during the summer of 2010. (Please see the Appendix I for details on the methodology and Appendix II for the survey instrument). Because we wanted to make accurate comparisons between last year's respondents and this year's, we used the same data source, the same random sampling method, and the same data collection process as in 2009. The 2010 survey was administered to a representative sample that included four major subfields: Arts, Culture and Humanities; Education; Health; and Human Services.[1] In addition, throughout the writing of this report, we spoke with nonprofit leaders whose comments are not individually attributed, but who provided invaluable insight into our findings.

BOX 1. THE NONPROFIT SECTOR IN LOS ANGELES COUNTY - AN UPDATE

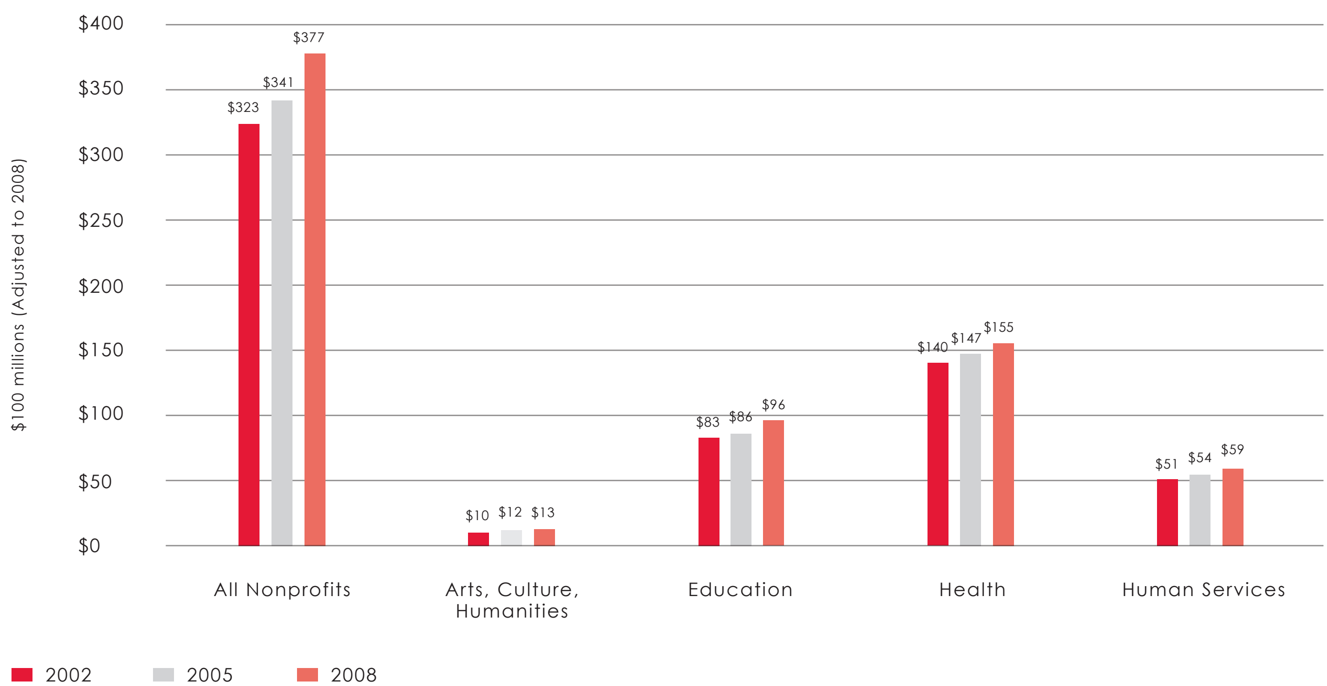
A More Precise Estimation of the Size of the Sector

As in our previous *State of the Nonprofit Sector in Los Angeles* reports, the 2010 report primarily focuses on the public-serving nonprofit organizations registered as 501(c)(3) public charities and private foundations.[2] In a break from previous year's reports, in 2010 we attempt to present the number of organizations that we know to have been active in the past two years.[3] In past years, the size of active nonprofit organizations could not be measured precisely because of those very small-sized organizations with gross receipt below $25,000 which were not obligated to file an annual Internal Revenue Service (IRS) Form 990. However, the Pension Protection Act of 2006 mandated all nonprofits with less than $25,000 to file a Form 990-N. As a result, we can more precisely estimate the size of the sector.

In April 2010, there were 18,622 active 501(c)(3) registered public charities and private foundations in Los Angeles County. Of these, 2,236 (12 percent) are Arts, Culture and Humanities organizations; 3,142 (16.9 percent) are Educational organizations; 1,691 (9.1 percent) are Health organizations; and 4,460 (24 percent) are Human Service Organizations. Over the past year, 1,542 (8.2 percent) new organizations received tax-exempt status from the IRS (April 2009–March 2010).[4]

With respect to financial size, 10,717 (57.6 percent) either have not reported financial information or reported less than $25,000 in revenue in their recent fiscal year, 2,764 (14.8 percent) had revenue under $100,000, 3,424 (18.4 percent) had revenues between $100,000 and $1 million, 1,336 (7.2 percent) had revenues between $1 million and $10 million, and 381 (2.1 percent) had revenues in excess of $10 million.

Figure B-1. Changes in Nonprofit Expenditures, Los Angeles County, 2002, 2005, 2008

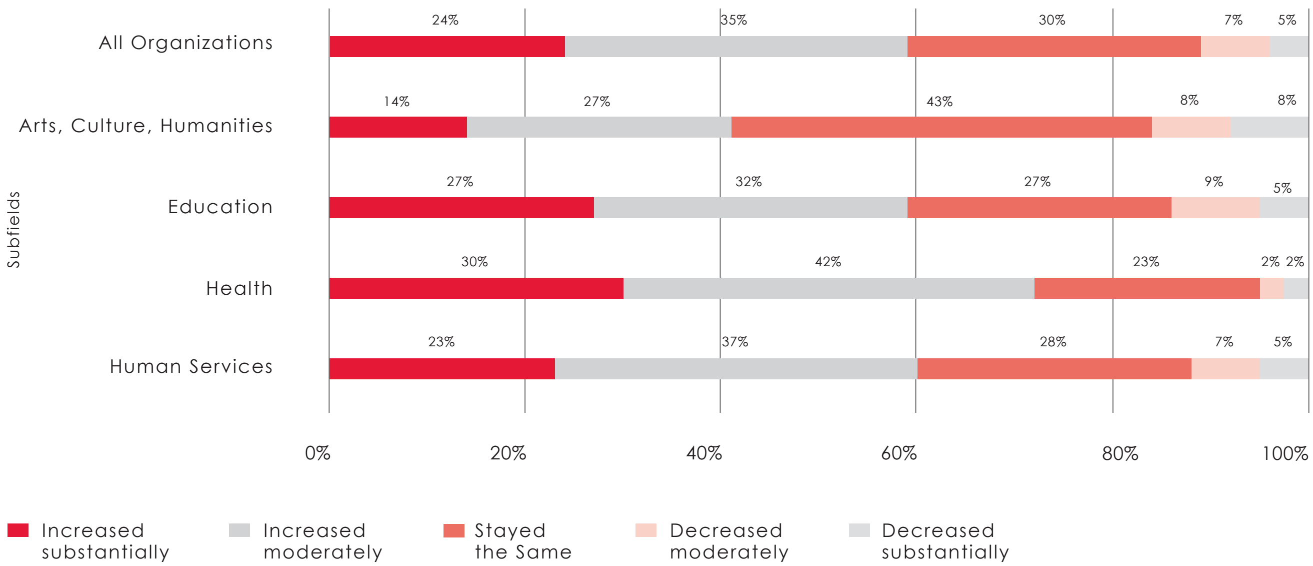


Source: National Center for Charitable Statistics IRS CORE files, 2002, 2005, 2008

The nonprofit sector in LA County spent an estimated $38 billion dollars in 2008 to operate a variety of programs and services, as seen in Figure B-1. Health nonprofits had the largest expenditures (about $16 billion dollars), followed by Education, Human Services, and Arts, Culture, and Humanities. The aggregate financial size of all public charities has increased steadily since 2002, with increases reported in the largest subfields.

DEMAND

Figure 1. Have Demands for your Organization's Program or Services Increased, Decreased, or Stayed the Same?



Source: 2010 Los Angeles Nonprofit Survey

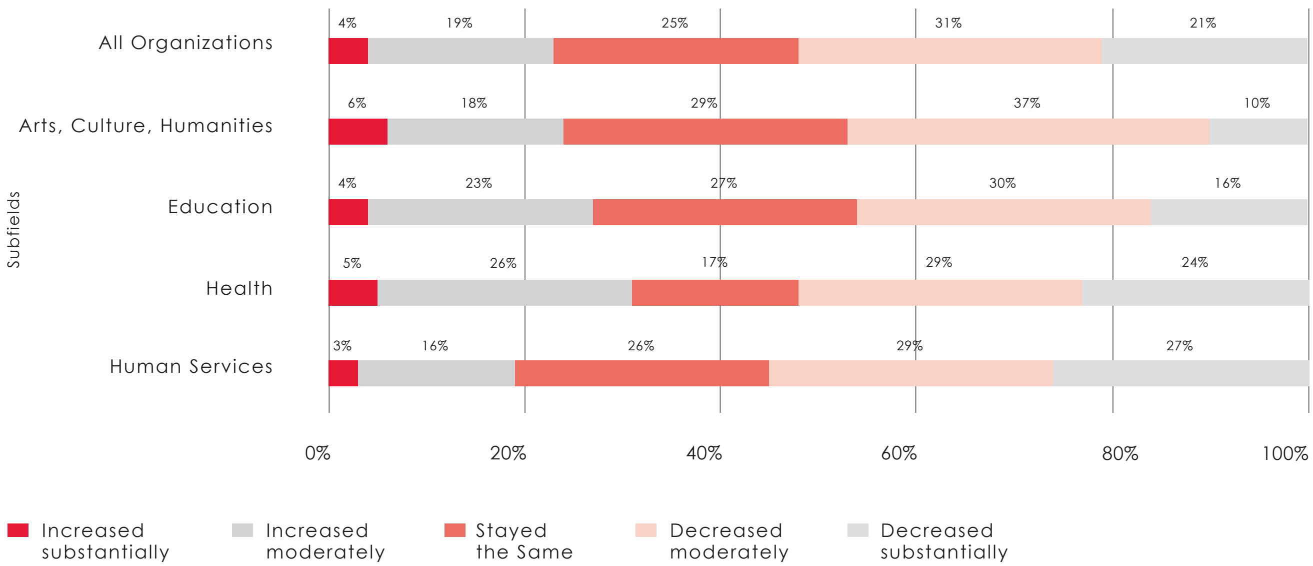
Unemployment rates in the county have reached their highest levels in decades, and public budget shortfalls have compromised services for vulnerable populations and funding for arts and education. To gauge the extent to which demands have changed in the past year, as in the 2009 nonprofit survey, we asked nonprofit organizations whether they experienced an increase, decrease, or no change in the demand for their programs and services. As Figure 1[5] shows, a majority of respondents experienced an increase in demand (59 percent), and only 12 percent reported a decrease in demand. In 2009, 57 percent reported an increase in demand. This trend points to a second straight year of significant increase in demand.[6]

When we break the findings down by subfield, we find that Health and Human Services organizations experienced the largest increases in demand (72 percent and 60 percent, respectively). This is not surprising given the weak economy's continued impact on populations that typically rely on nonprofits for health and human services. It is further worth noting that Human Service organizations that serve a greater share of low-income clients experienced a significant increase in demand for services over the past year.[7] As forecasts continue to predict continued job loss and slow economic growth (Kyser, Sidhu, Ritter, & Guerra, 2010), nonprofits must prepare for further demand increases.

Human Service organizations that serve a greater share of low-income clients experienced a significant increase in demand for services over the past year.

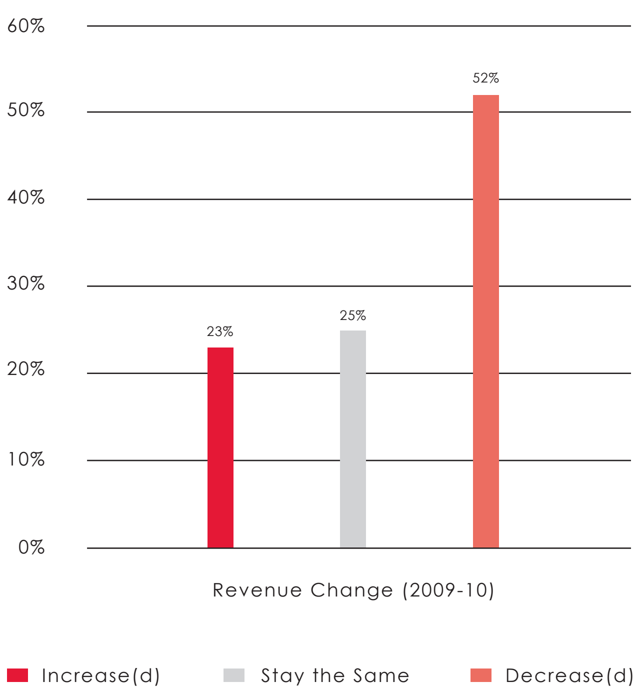
REVENUE CHANGE

Figure 2-1. In the Past Year, Have Your Total Revenues Increased, Decreased, or Stayed the Same?



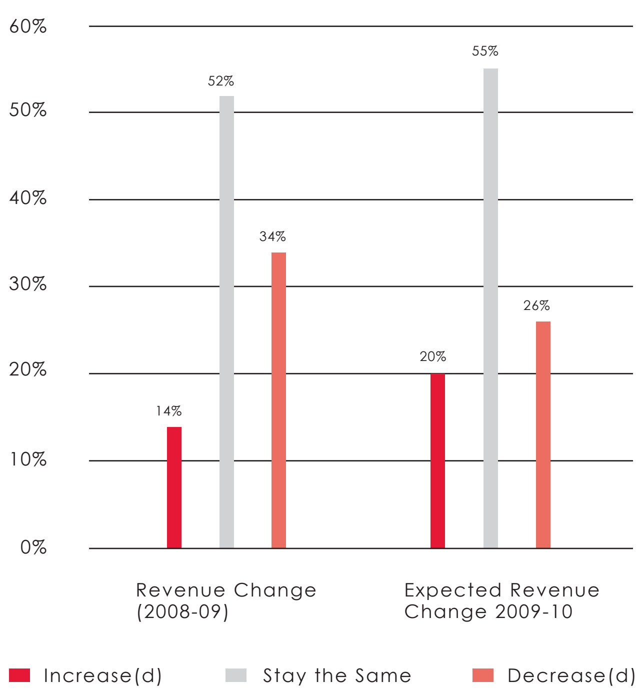
Source: 2010 Los Angeles Nonprofit Survey

Figure 2-2. Reported Revenue Change 2009-10



Source: 2010 Los Angeles Nonprofit Survey

Figure 2-3. Revenue Change 2008-09 and Expected Revenue Change 2009-10



Source: 2010 Los Angeles Nonprofit Survey

As is the case with the for-profit companies and public sector agencies, the economic downturn has had a direct effect on nonprofit organizations' financial health. Figure 2-1 shows that 52 percent of nonprofit organizations in Los Angeles County experienced a decrease in revenue in the past year and only 23 percent reported an increase. Although a higher percentage of organizations reported revenue increases this year (23 percent) compared with last year (14 percent), there was a greater increase in the percentage of organizations that reported decreased revenue (34 percent in 2008–09 compared with 52 percent in 2009–10) over the same period.

52 percent of nonprofit organizations in Los Angeles County experienced a decrease in revenue in the past year and only 23 percent reported an increase.

In addition, considering only 25 percent of respondents reported no change in revenue over the past year (52 percent in 2008–09), we also identified that nonprofits experienced far less stability in terms of revenue generation.[8]

Even more alarming is how little nonprofit organizations were aware that this drop in revenue was about to occur. In the 2009 survey, when asked about revenue expectations for the coming year, despite the drop in revenue experienced that year only 26 percent of nonprofit organizations expected further revenue declines. Furthermore, 55 percent expected revenues to stay the same. The actual figures for revenue change over the past year (Figure 2-2) clearly contrast these expectations and speak to important implications for the sector.[9]

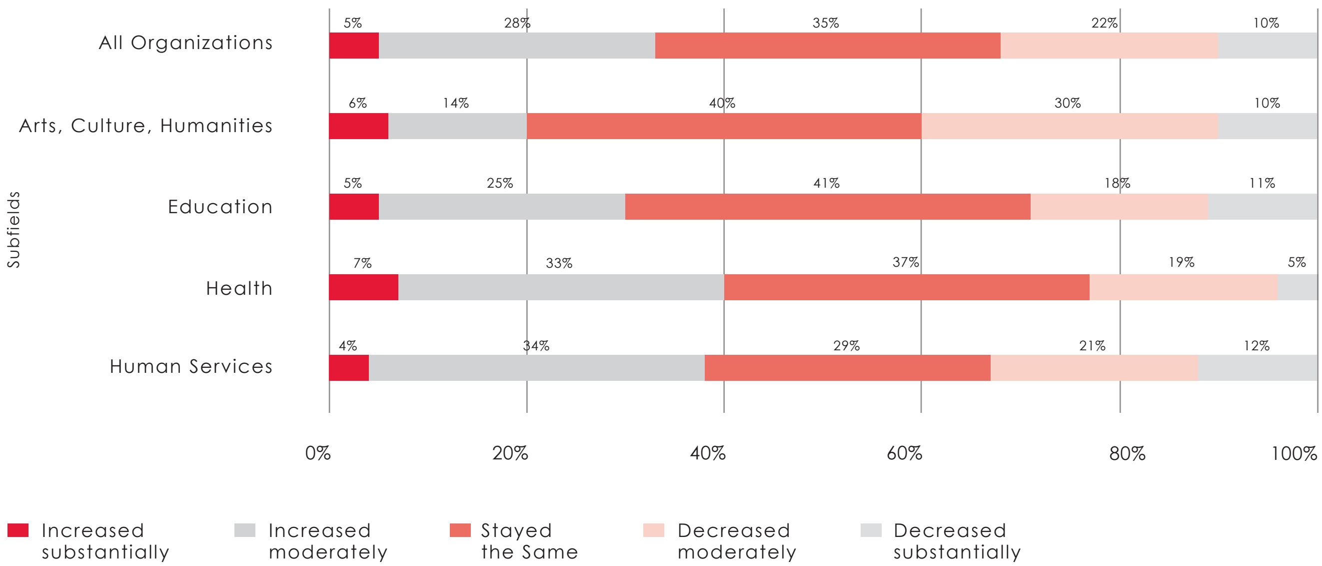
Interestingly, smaller sized nonprofits reported more stability than medium- and large-sized organizations.[10] Although nearly one third of small organizations reported no change in revenue over the past year, medium (27 percent) and large (13 percent) organizations less frequently reported stable revenue. In addition, small organizations reported revenue declines less frequently (46 percent) than their medium- and large-sized counterparts (54 percent and 52 percent, respectively). This finding refutes the common notion that smaller organizations are more susceptible to economic turmoil.

Interestingly, smaller sized nonprofits reported more stability than medium- and large-sized organizations.

Our analysis also looked at revenue changes in relation to organizational reliance on various forms of revenue (e.g., government, donative, fees),[11] and the survey results showed that those organizations that receive 50 percent or more of their revenue from fees, sales, dues, and other earned income were the most likely to report decreased revenue (58 percent) and the least likely to report an increase (18 percent). These results are somewhat puzzling because last year's survey data showed a very different picture—one in which organizations relying on government funding for 50 percent or more of their revenue showed the largest revenue losses and organizations relying on fees reported the lowest percentage of declining revenue.

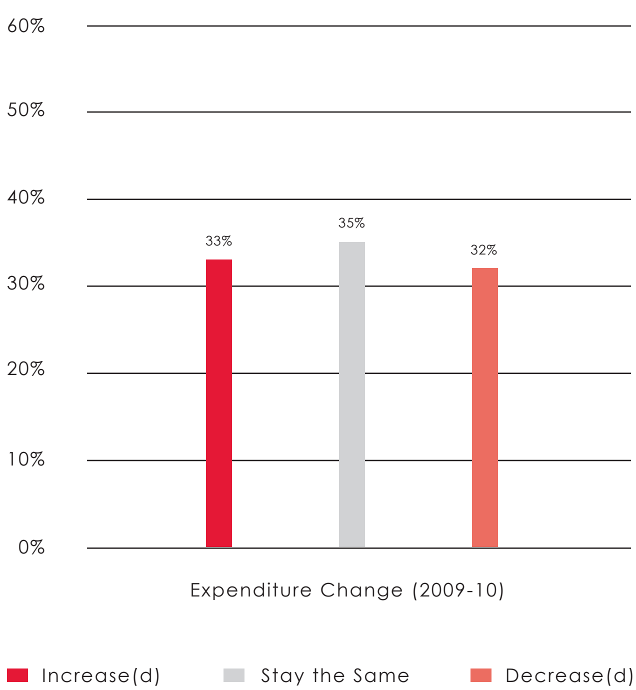
EXPENDITURE CHANGE

Figure 3-1. Expenditure Change Over the Past Year



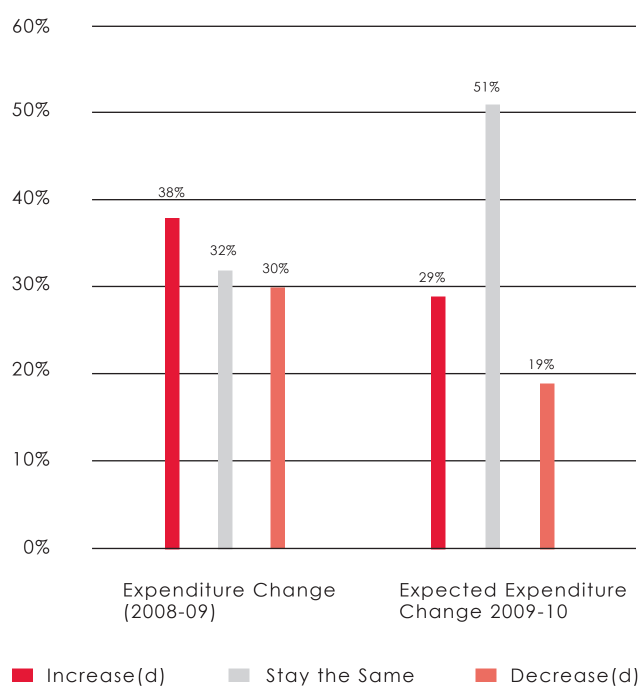
Source: 2010 Los Angeles Nonprofit Survey

Figure 3-2. Expenditure Change 2009-10



Source: 2010 Los Angeles Nonprofit Survey

Figure 3-3. Expenditure Change 2008-09 and Expected Expenditure Change for 2010



Source: 2010 Los Angeles Nonprofit Survey

Our survey results show that over the past year, 33 percent of nonprofit organizations in Los Angeles County increased expenditures, and 32 percent of nonprofit organizations reported decreased expenditures (Figure 3-2). This trend is very similar to last year's results, although a smaller percentage of nonprofit organizations experienced an increase (38 percent in 2008–09 to 33 percent in 2009–10) and a slightly greater percentage of nonprofit organizations experienced a decrease (30 percent in 2008–09 compared with 32 percent in 2009–10. See Figure 3-3).[12] Furthermore, Figure 3-1 shows that larger percentages of Education, Health and Human Services organizations reported increased expenditures compared with Arts and Culture nonprofits, suggesting an increasing demand for services that provide relief.

We can examine expenditures more deeply by looking at two key aspects of nonprofit organizations—demand change and revenue change. We found that nonprofit organizations that experienced increased demand were more likely to increase expenditures over the past year. Similarly, nonprofit organizations that experienced decreased revenue were more likely to decrease expenditures over the past year.

We found that nonprofit organizations that experienced increased demand were more likely to increase expenditures over the past year.

Therefore, from the results of these analyses, we can conclude that nonprofit organizations do consider both demand change and revenue change when determining their level of expenditure and activities.[13]

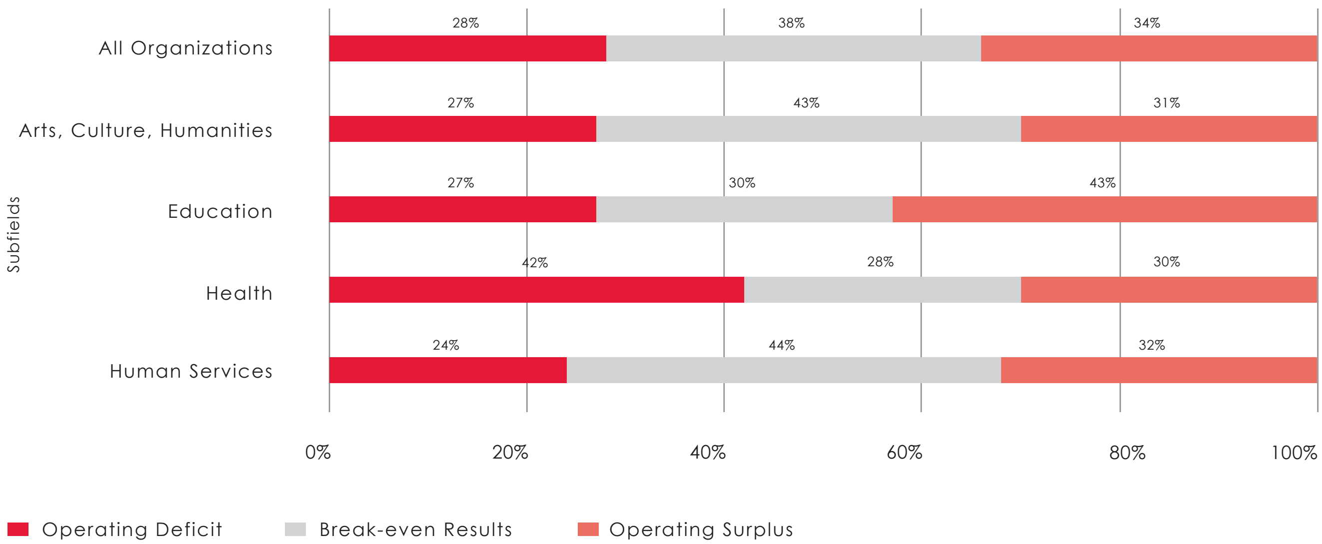
We generally understand that nonprofits exist to meet needs defined in their mission statements. When experiencing revenue decreases, organizations must decide whether they will pursue strategies (e.g., deficit spending) to meet the needs or use strategies that decrease the capacity to serve these needs for the organization to survive. Because nonprofits in 2008–09 reported increased expenditures that outweighed increases in revenue, perhaps the more balanced revenue and expenditure increases in 2009–10 reflect further efforts to control costs and avoid overextension. To explore this issue further, organizational strategies and activities related to cost containment are reviewed later in this report.

When we revisit our organizational size analysis, we again find that smaller organizations were the most stable in terms of expenditures over the past year. More than half (51 percent) experienced no change in expenditures, and one third (32 percent) of medium and one quarter (25 percent) of large organizations reported no change. Small organizations, however, were by far the least likely to report increased expenditures. Only 17 percent of small organizations reported an increase, compared with 38 percent of medium-sized and 40 percent of large-sized organizations.

The next set of analyses examines how well nonprofits stayed within their budget during the past year.

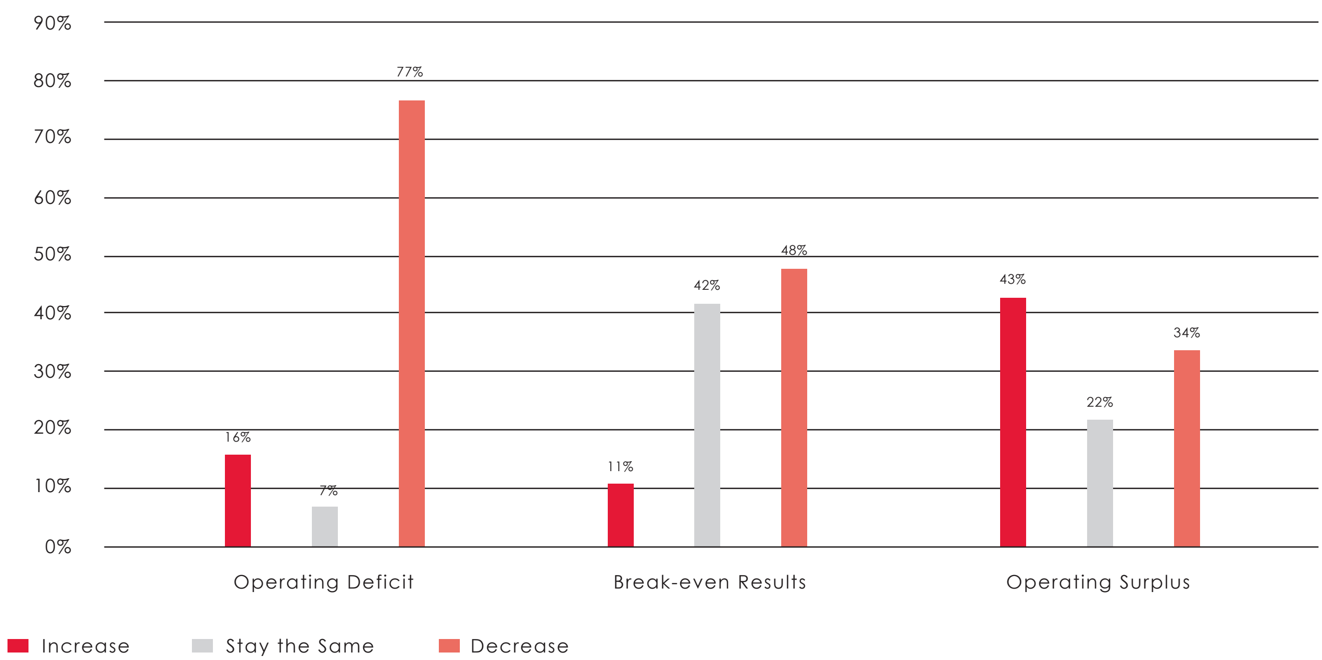
FINANCIAL RESULT

Figure 4-1. What Financial Result Did You Have at the End of the Past Fiscal Year?



Source: 2010 Los Angeles Nonprofit Survey

Figure 4-2. Financial Result at the End of the Past Fiscal Year, by Revenue Change



Source: 2010 Los Angeles Nonprofit Survey

Although nonprofit organizations can and do earn "profits" (i.e., income that exceeds annual expenditures), revenue and expenditures tend to closely mirror each other.[14] With this in mind, we asked organizations whether they were operating at a deficit, break-even, or a surplus at the end of the past fiscal year. Because organizations reported higher instances of expenditure growth than revenue growth and higher percentages of revenue decline than expenditure decline, we were particularly curious to see whether organizations were able stay within budget. We also examine how revenue and expenditure changes affected nonprofit organizations' financial results. Although securing revenue has become more difficult over the past year, Figure 4-1 shows that 38 percent of nonprofit organizations were able to breakeven and more than one third (34 percent) operated at a surplus at the end of their past fiscal year. This finding comes as somewhat of a surprise considering the imbalance of revenue and expenditure growth reported in the previous year. However, this finding may also indicate that organizations are laying off staff, spending down endowments or other asset pools, or decreasing capacity in other ways to break even.

this finding may also indicate that organizations are laying off staff, spending down endowments or other asset pools, or decreasing capacity in other ways to break even.

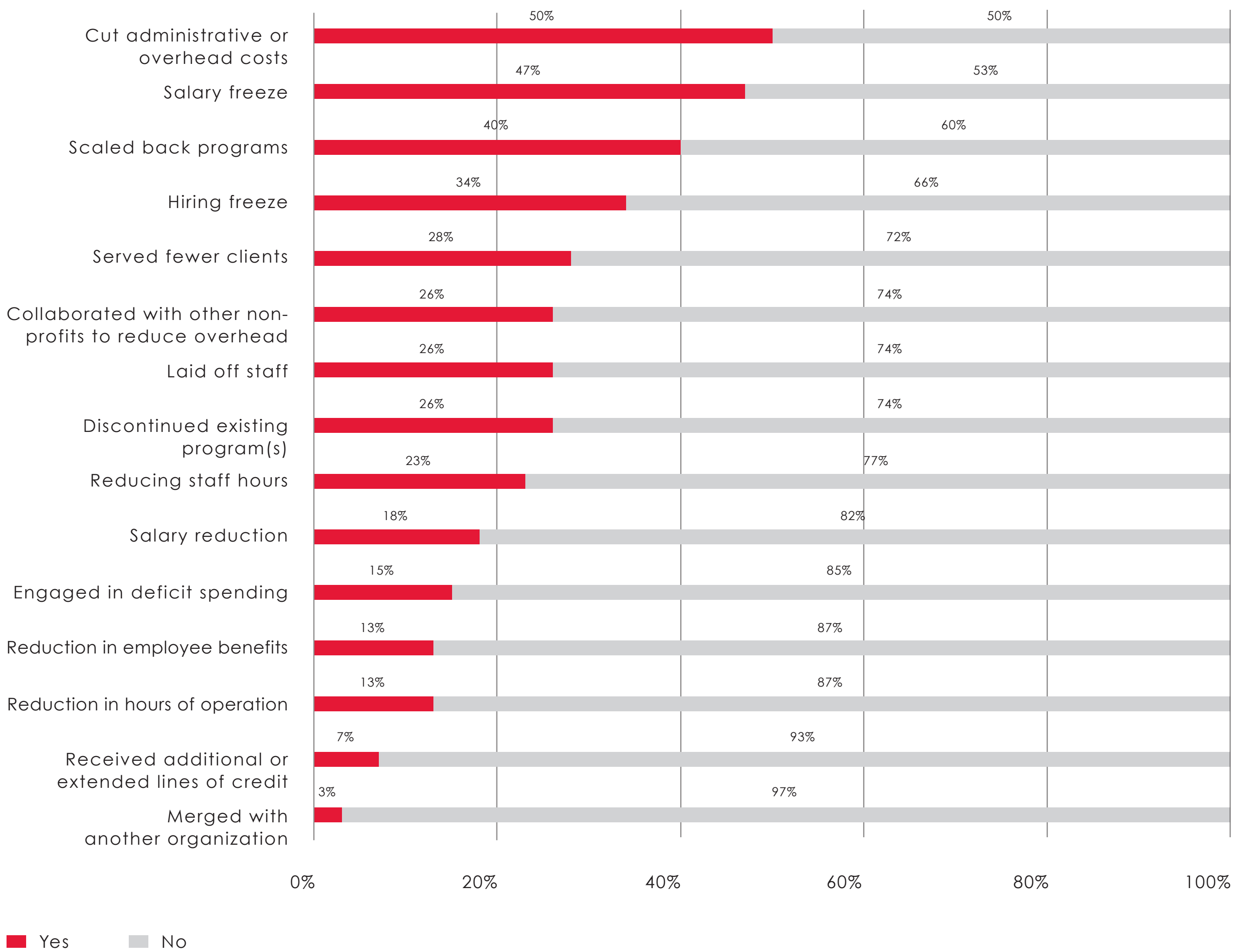
To better understand these numbers, we look closely at the relationship between revenue change and expenditure change. As seen in Figure 4-2, 77 percent of nonprofit organizations that experienced operating deficits reported decreased revenue, and 43 percent of nonprofits organizations that experienced operating surplus reported increased revenue.[15]

Health nonprofits show a relatively higher percentage of organizations operating at a deficit (42 percent), with the other subfields experiencing similar trends (Arts and Culture at 27 percent, Education at 27 percent, and Human Services at 24 percent). In terms of size, large organizations showed the highest levels of volatility—most frequently reported in both operating deficits (40 percent) and surpluses (42 percent) compared with medium- and small-sized organizations.

The next section takes a closer look at the types of cost-saving and fundraising strategies organizations used during the past year.

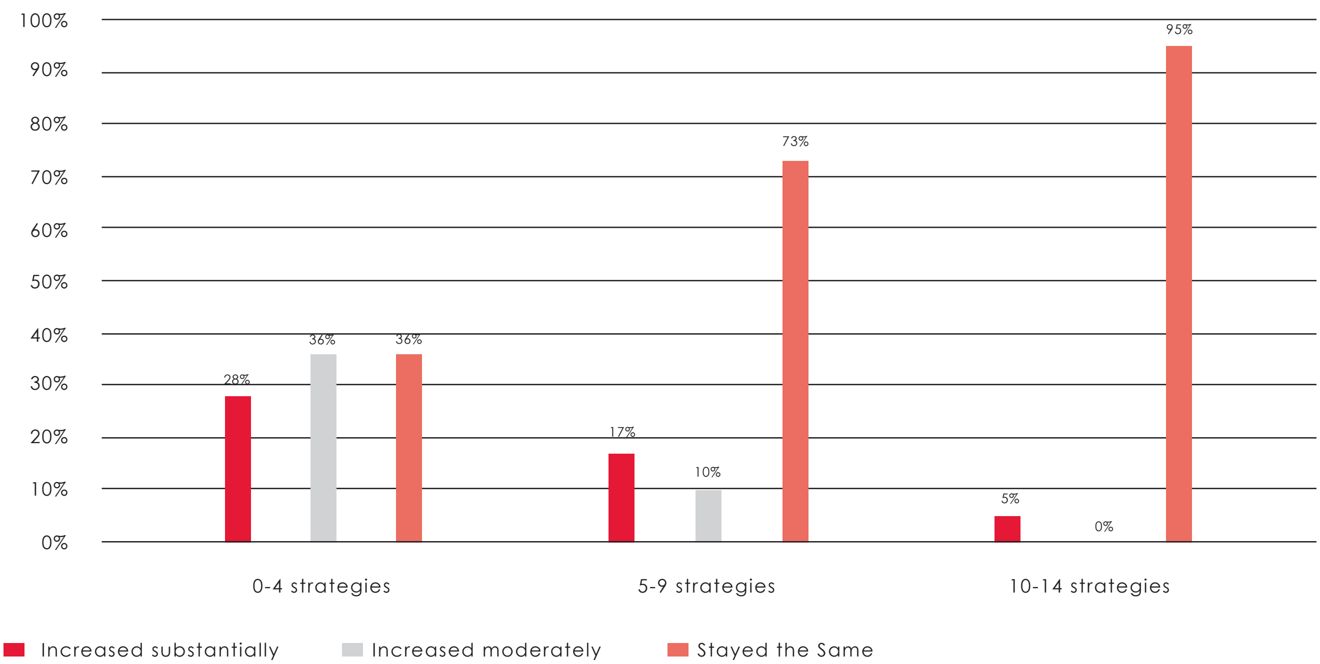
COST-SAVING STRATEGIES

Figure 5-1. Has Your Organization Undertaken or Experienced Any of the Following Cost-Saving Strategies?



Source: 2010 Los Angeles Nonprofit Survey

Figure 5-2. The Number of Cost-Saving Strategies by Revenue Change



Source: 2010 Los Angeles Nonprofit Survey

We asked a series of questions about the implementation of cost-saving strategies to understand the respondents' abilities to break even or generate a surplus. Although it is interesting to note that many nonprofits appear to have avoided the necessity of major cost-saving strategies, those that did relied heavily on cutting administrative budgets. Figure 5-1 lists the cost-saving tactics in order of usage. We find that most nonprofits (78 percent) reported that they used at least one cost-saving strategy listed in the figure. On average, nonprofit organizations implemented about four (3.68) strategies during the past year. The most frequently used cost-saving strategy was to cut administrative or overhead costs (50 percent), followed by salary freeze (47 percent),scaled-back programs (40 percent), and hiring freeze(34 percent).[16]

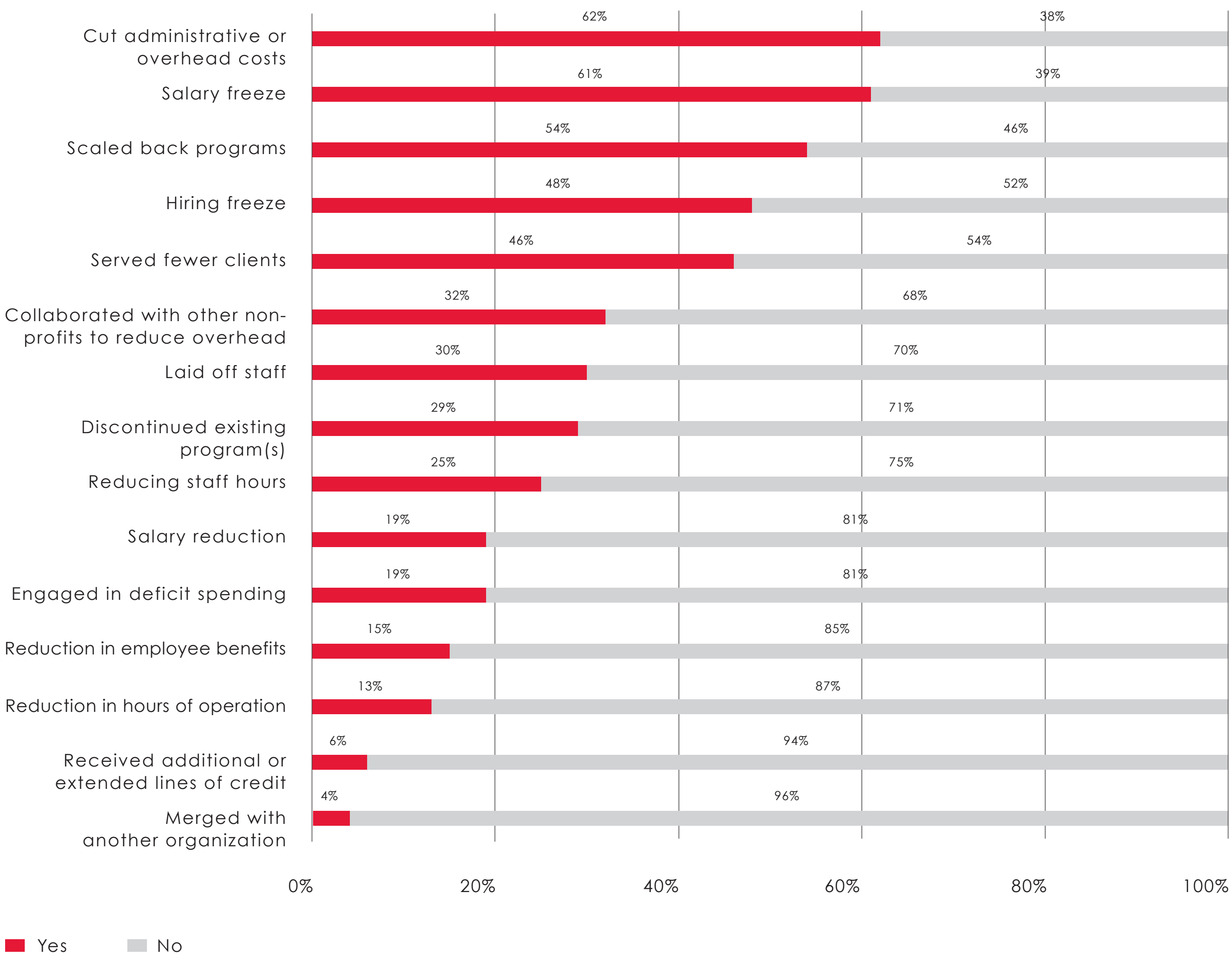
We also analyzed strategies with respect to revenue change to get a picture of the financial constraints under which nonprofit organizations are operating. Not surprisingly, we found that those nonprofit organizations implementing a greater number of cost-saving strategies were those experiencing revenue declines over the past year. Figure 5-2 shows that 36 percent of respondents using between zero and four strategies, 73 percent of respondents using between five and nine strategies, and 95 percent of respondents using between 10 and 14 strategies experienced decreased revenues.[17] Furthermore, we found that nonprofit organizations with less "unrestricted operating reserves" tended to use more cost-saving strategies over the past year.[18]

As expected, more than a quarter of respondents indicated that they served fewer clients in the previous year (28 percent) and a similar percentage reported having discontinued programs (26 percent).

As expected, more than a quarter of respondents indicated that they served fewer clients in the previous year (28 percent) and a similar percentage reported having discontinued programs (26 percent). The latter represents a 5 percent increase compared with results from last year's survey, in which 20 percent of respondents reported discontinued programs. Our analysis also found that revenue change was a key factor in discontinuing existing programs and scaling back programs in the past year.[19] The 2010 results also show that 34 percent of organizations that experienced decreased revenues in the previous year also reported discontinued programs (more than half [52 percent] of organizations that experienced substantial revenue decreases reported discontinued programs).

If we look more closely at just those organizations that broke even or operated at a surplus despite the decline in revenue, we find that they engaged in cost-cutting strategies at higher percentages, especially around employment and staffing (see Figure 5-3). In addition, these nonprofit organizations are scaling back programs (54 percent), serving fewer clients (46 percent) or discontinuing services (30 percent). Only 25 percent are collaborating with other nonprofits as a way to cut costs and only 4 percent have merged with another organization. Meanwhile 6 percent received additional or extended lines of credit.

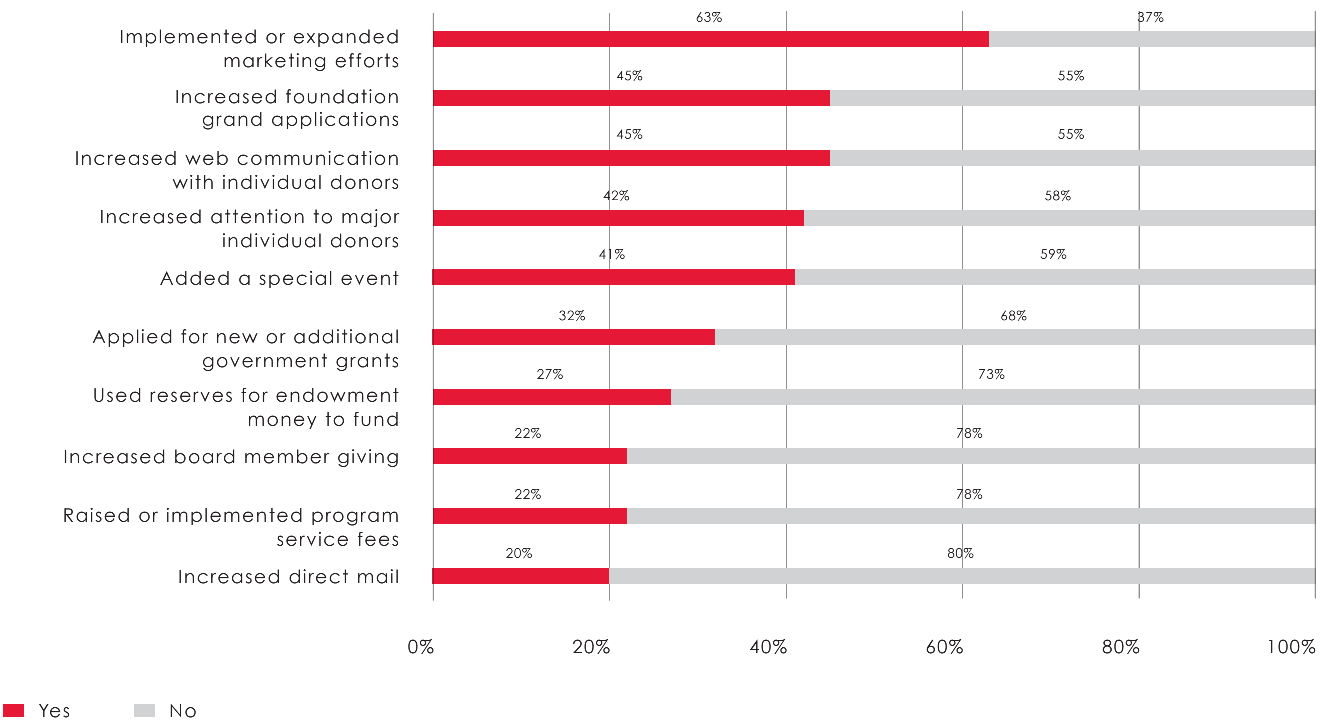
Figure 5-3. Cost-Saving Strategies for Nonprofit Organizations That Experienced Decrease Revenue and Nonoperating Deficit



Source: 2010 Los Angeles Nonprofit Survey

FUNDRAISING STRATEGIES

Figure 6. Has Your Organization Relied on Any of the Following Fundraising Strategies in the Past Year?

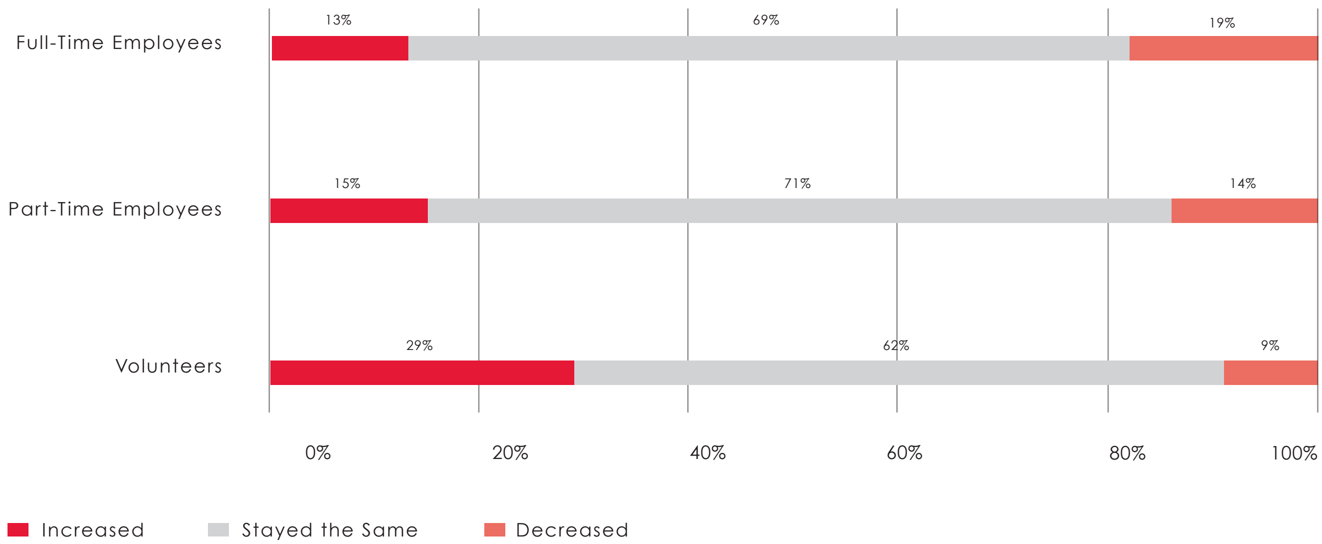


Source: 2010 Los Angeles Nonprofit Survey

In addition to cost-saving strategies, nonprofit organizations have been engaging in several types of fundraising strategies to survive the economic downturn. Eighty-eight percent of respondents reported that they used at least one of the fundraising strategies listed in Figure 6 and, on average, respondents used about four (3.6) strategies over the past year. As seen in Figure 6, the most frequently used fundraising strategies were to implement/expand marketing efforts (63 percent), increase foundation grant applications (45 percent), increase Web communication with individual donors (45 percent), and increase attention to major individual donors (42 percent).

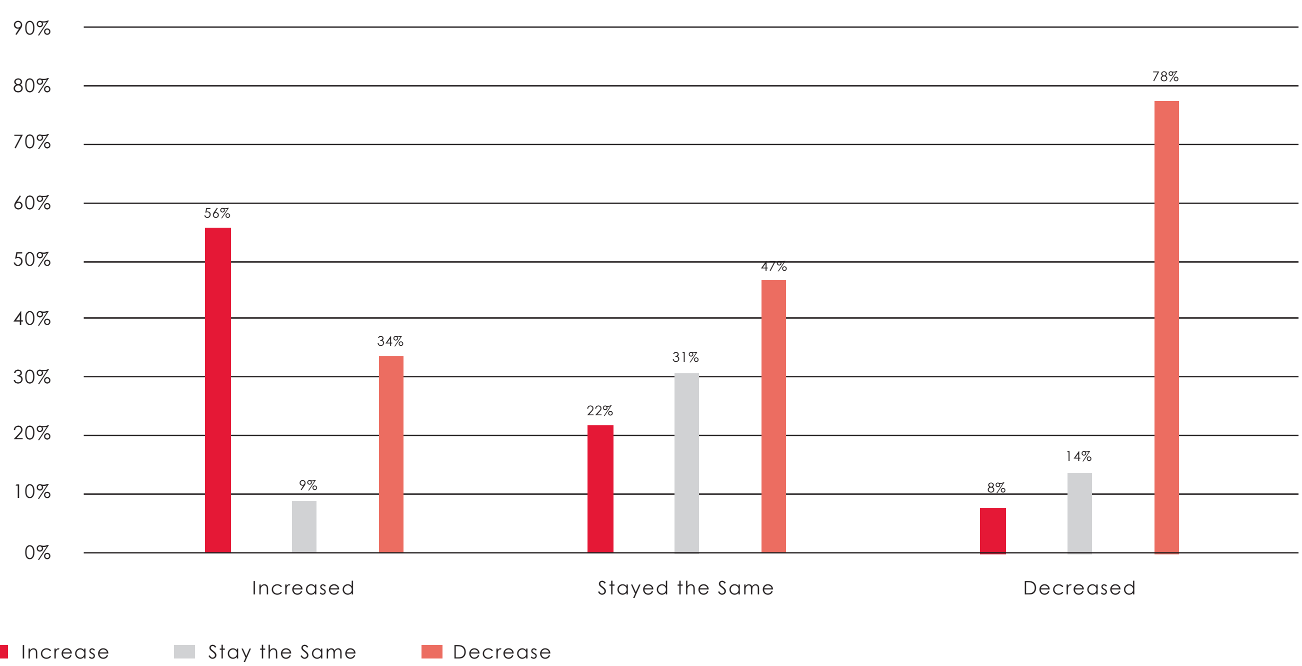
EMPLOYMENT AND VOLUNTEERS

Figure 7-1. Change in Employees/Volunteers Over the Past Year



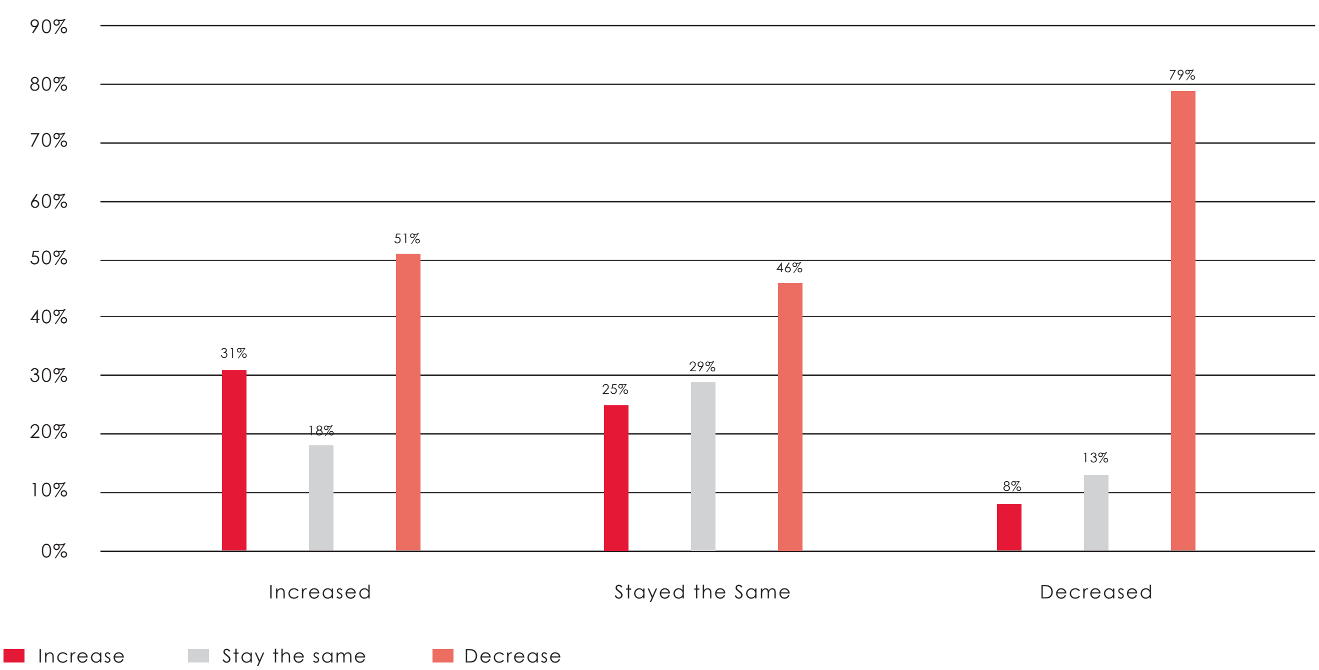
Source: 2010 Los Angeles Nonprofit Survey

Figure 7-2. Change in Full-Time Workers, by Revenue Change



Source: 2010 Los Angeles Nonprofit Survey

Figure 7-3. Change in Part-Time Workers, by Revenue Change



Source: 2010 Los Angeles Nonprofit Survey

When we examined the change in nonprofit employees and volunteers over the past year, we found trends similar to last year's survey results. Figure 7-1 shows the percentage of change in the number of employees and volunteers over the past year. We found that the majority of organizations maintained their number of full-time employees (69 percent), part-time employees (71 percent), and volunteers (62 percent). Only 19 percent of nonprofit organizations reported a decrease in full-time employees, and 29 percent indicated an increase in volunteers over the past year, which is similar to last year's findings.

Only 19 percent of nonprofit organizations reported a decrease in full-time employees, and 29 percent indicated an increase in volunteers over the past year,

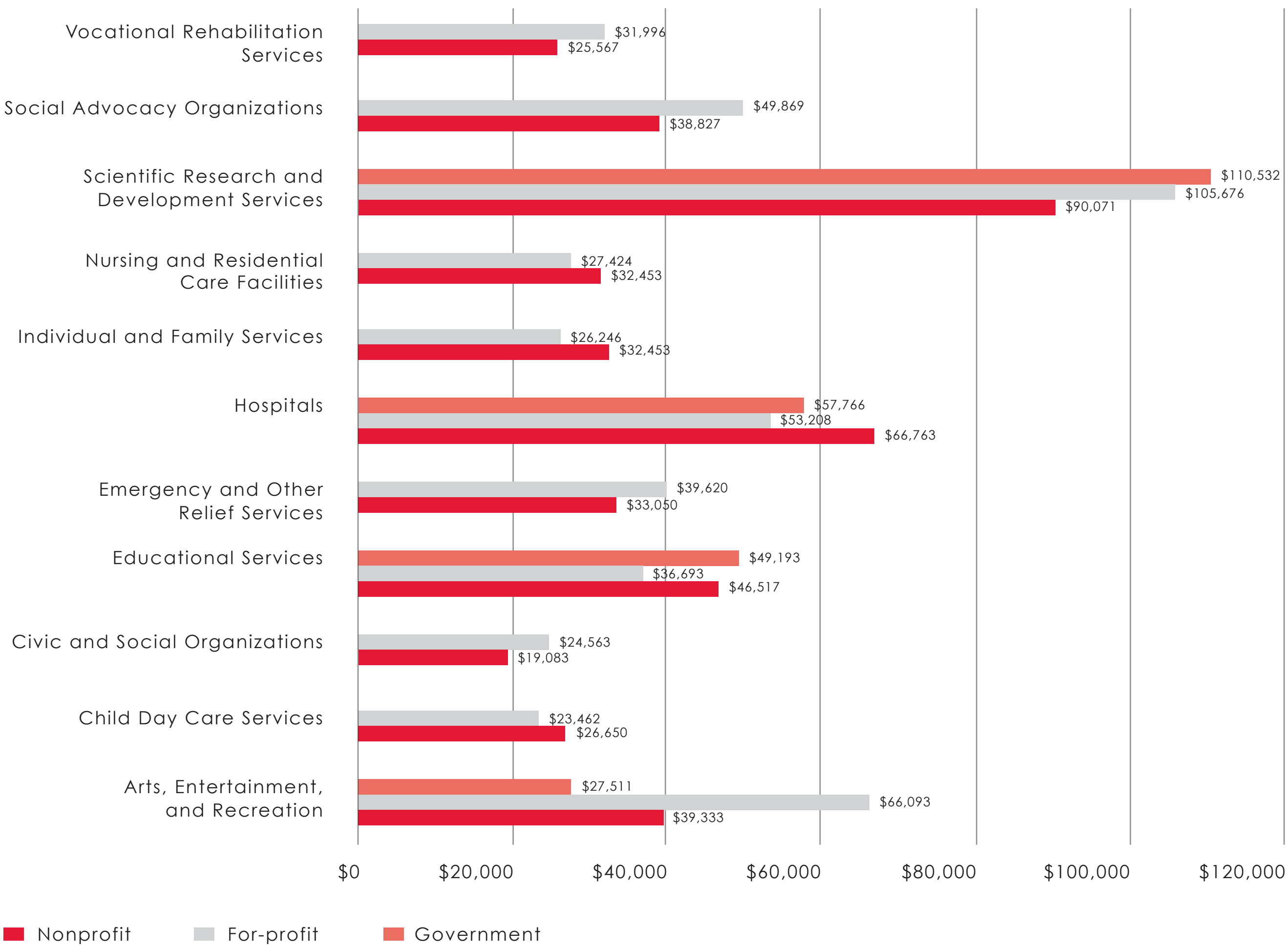
If we consider that those nonprofit organizations that decreased the number of full-time employees are more likely to increase volunteers, it is possible that an increased volunteer pool may to some degree compensate for lost employees.[20]

Compared with last year's survey results, respondents were slightly more likely to have increased the number of full-time employees (13 percent in 2009–10 compared with 10 percent in 2008–09). Large nonprofits were far more likely to increase their full-time employees, with nearly a third (32 percent) reporting an increase in the past year compared with just 17 percent reporting an increase in the period before that. In addition, large nonprofits were more likely to report an increase in volunteers last year than in the previous year's survey (only 14 percent reported increases in 2008–09, whereas 29 percent reported increases in 2009–10). Once again, we found that small organizations also appear to be more stable in terms of full-time employment. Whereas 17 percent of small organizations reported decreases in full-time employment in 2008–09, only 3 percent of the organizations in the current year's survey reported a decline in full-time employment.

Not surprisingly, we found that revenue is the major driver of employment changes. By looking at the change in the number of staff with respect to revenue changes, we found that nonprofits that experienced revenue decreases were likely to lay off staff and decrease both full- and part-time staff (see Figures 7-2 and 7-3).[21]

BOX 2. NONPROFIT EMPLOYMENT IN LOS ANGELES COUNTY - AN UPDATE

Figure B-2. Average Annual Wage of Nonprofit/For-Profit/Public Sectors, Selected Industries, 2009



Source: California Employment Development Department, 2009

The LA nonprofit sector employs nearly 246,000 people—more than 6 percent of the county's overall workforce. In terms of employment share, nonprofit employment increased its percentage from 2008 to 2009 by 0.60 percent to 6.2 percent (compared with 78.5 percent in for-profit and 15.3 percent in government). Nonprofit employment experienced a 3.3 percent increase over the past year and a 2 percent increase over the past two years. Although nonprofit employment showed modest growth, for-profit and government employment showed declines between October 2007 and September 2009. For-profit employment declined by 8.3 percent between 2008 and 2009 after falling by nearly 2 percent the previous year. Government employment fell by 2 percent between 2008 and 2009 after a 5 percent decline the previous year.

When we examined only select industries in which nonprofit organizations have a notable presence, nonprofits still largely outperformed their for-profit and government counterparts—a slight change from last year. Although the nonprofit sector lost a higher share of jobs in select industries than for-profits in those same industries between 2007 and 2008, nonprofits experienced growth in 2008–09, whereas for-profits (and government employers) suffered increasing declines.

Total nonprofit wages grew a modest 2 percent in 2009 to nearly $2.9 billion (compared with a 9 percent reduction in total wages for for-profit private firms and a negligible change among government employers). The nonprofit share of total wages increased by half a percent from the prior year to less than 6 percent (compared with 76 percent for for-profits and 18 percent for government).

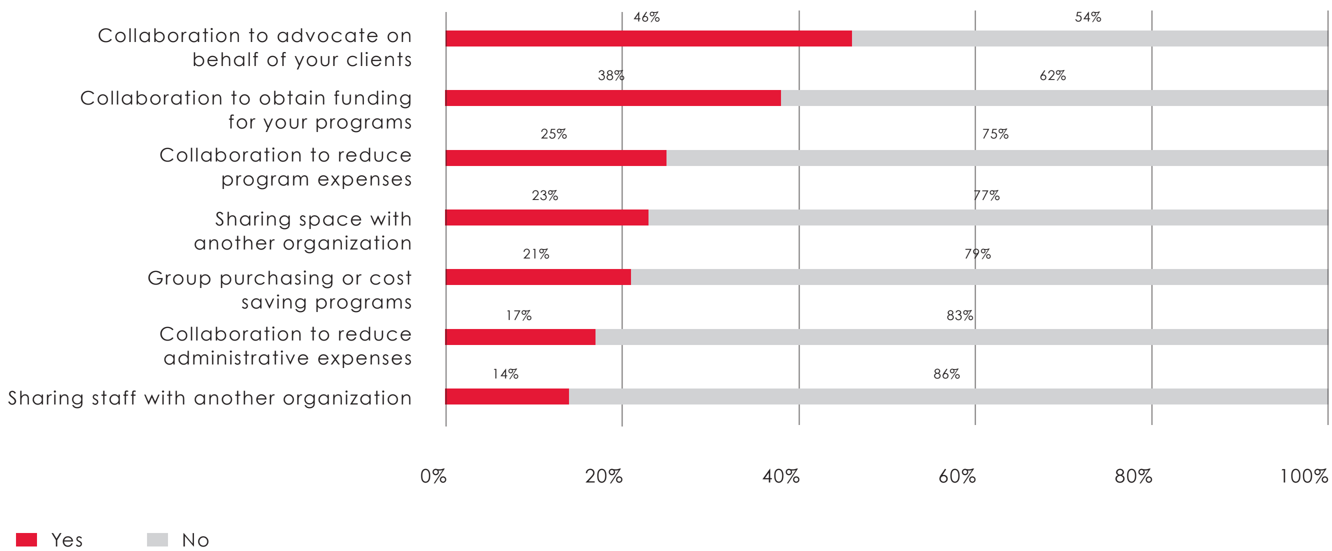
Figure B-2 compares average annual salaries for nonprofit organizations across select industries. Scientific Research and Development ($90,071), Hospitals ($66,763), Educational Services ($46,517) had the highest average annual salaries among nonprofits, and Civic and Social Organizations ($19,083), Vocational Rehabilitation ($25,567), and Child Day Care services ($26,650) had the lowest average annual salaries.

When comparing salaries among the three sectors, one notices that nonprofit average annual salaries are higher than their for-profit and government counterparts in Hospitals, Individual and Family Services, Nursing Care and Residential Care Services, and Child Day Care Services. The biggest gaps between for-profit and nonprofit annual salaries exist in Arts, Entertainment, and Culture groups (average for-profit arts salaries are more than one and a half times higher than those in nonprofit arts and culture groups), Scientific Research and Development (for-profit salaries are 17 percent higher than nonprofit salaries), Hospitals (nonprofit salaries are more than 25 percent higher than for-profit salaries), and Social Advocacy Organizations (for-profit salaries are 28 percent higher than nonprofit salaries).

Despite the modest gains in employment numbers and wages among nonprofits between 2008 and 2009, average salaries increased more consistently among for-profits in the highlighted select subfields. For the six industries in which for-profit average salaries were higher than nonprofit salaries, four increased the salary gap, one maintained the salary gap, and just one showed a decrease in the gap. For the remaining five industries, in which nonprofit average salaries are larger than for-profit salaries, three of the five saw shrinking gaps between for-profit and nonprofit salaries.

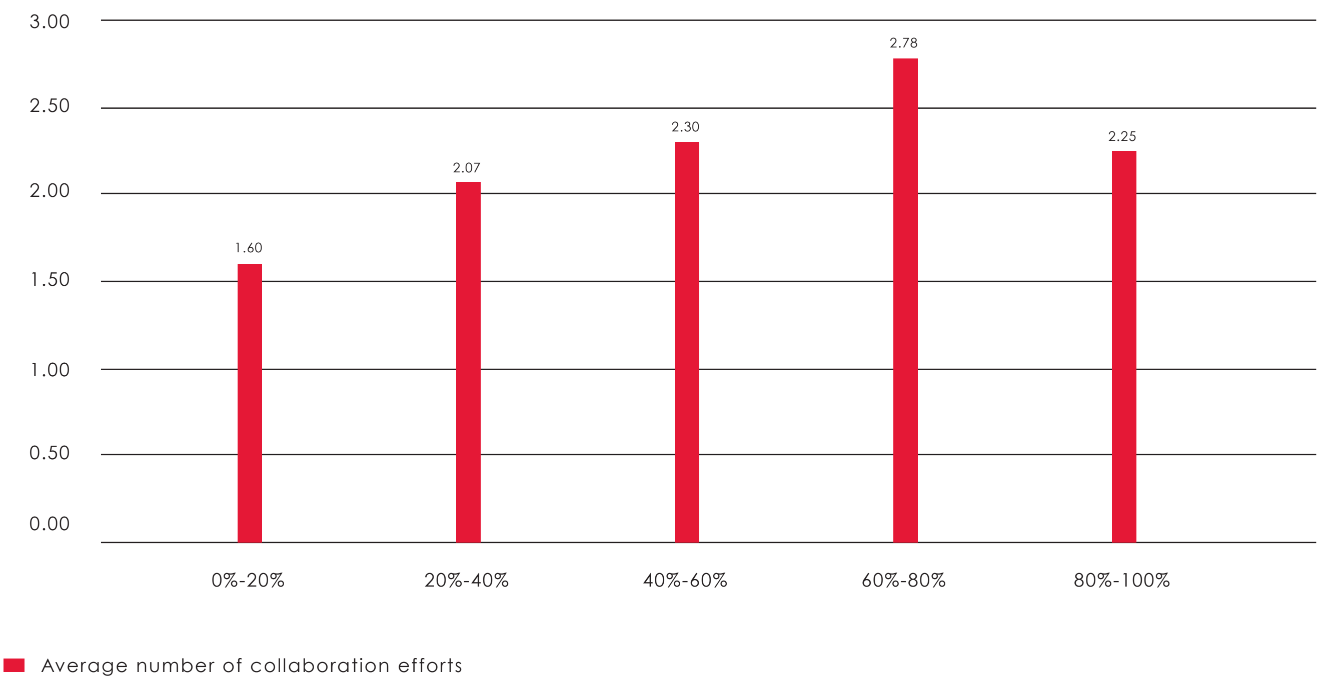
COLLABORATION

Figure 8-1. Has Your Organization Been Involved With Collaborative Efforts for Any of the Following Activities?



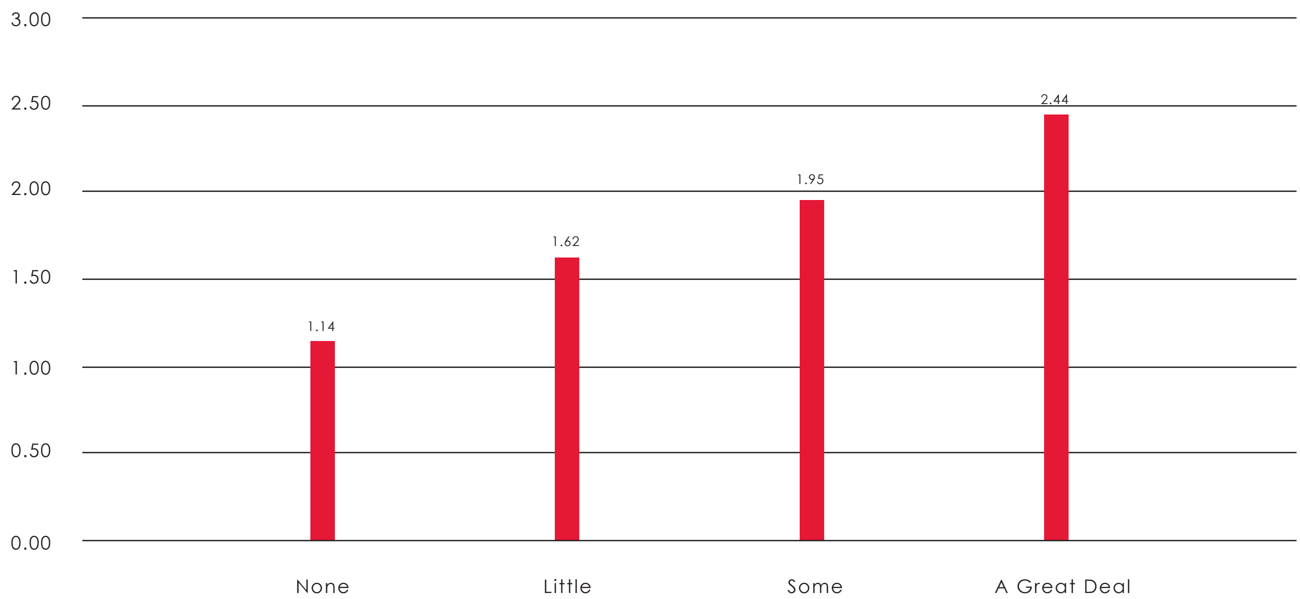
Source: 2010 Los Angeles Nonprofit Survey

Figure 8-2. Average Number of Collaboration Efforts, by Share of Revenue From Government



Source: 2010 Los Angeles Nonprofit Survey

Figure 8-3. Average Number of Collaboration Efforts, by the Level of Competition in Obtaining Funding



Average number of collaboration efforts

Source: 2010 Los Angeles Nonprofit Survey

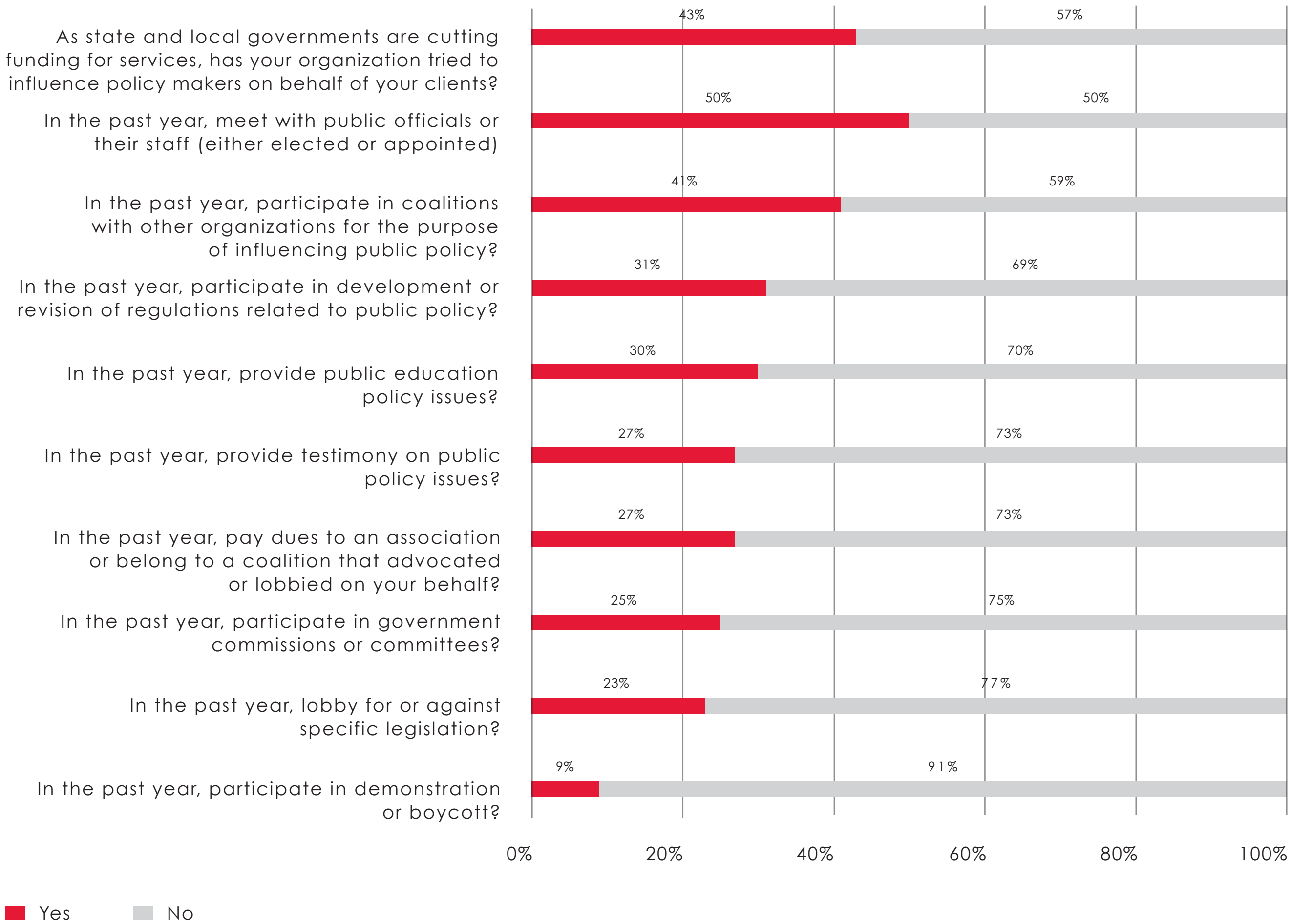
The 2010 survey also asked a set of questions regarding nonprofit organizations' efforts around collaboration over the past year. When we inquired whether organizations were involved in collaborative efforts, 70 percent of nonprofits responded that they were involved at least one collaboration activity listed in Figure 8-1. On average, a nonprofit organization was involved in about two activities (1.80) over the past year. As seen in Figure 8-1, the most frequently cited collaborative activities include advocacy on behalf of organizations' clients (46 percent), obtaining funding for programs (38 percent), reducing program expenses (25 percent), and sharing space with another organization (23 percent).

Our analysis showed that collaboration is closely linked with both government revenue and competition for funding. Figure 8-2 reveals that nonprofit organizations that received a greater share of their revenue from government participated in higher numbers of collaborative activities. One reason for this finding might be that government funding often requires and encourages collaboration or subcontracting. In addition, nonprofits that experienced higher levels of competition for funding tended to participate in more collaborative efforts over the past year to overcome this challenge (Figure 8-3.[22]

Our analysis showed that collaboration is closely linked with both government revenue and competition for funding.

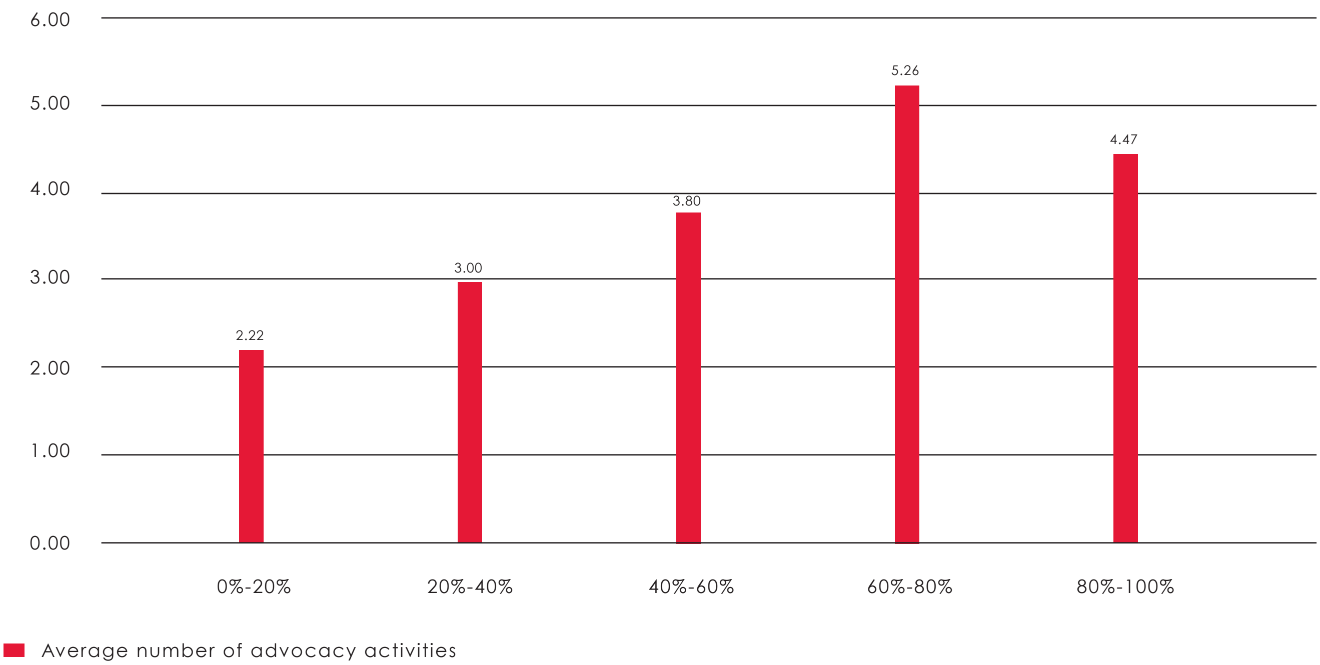
ADVOCACY

Figure 9-1. Advocacy Activities



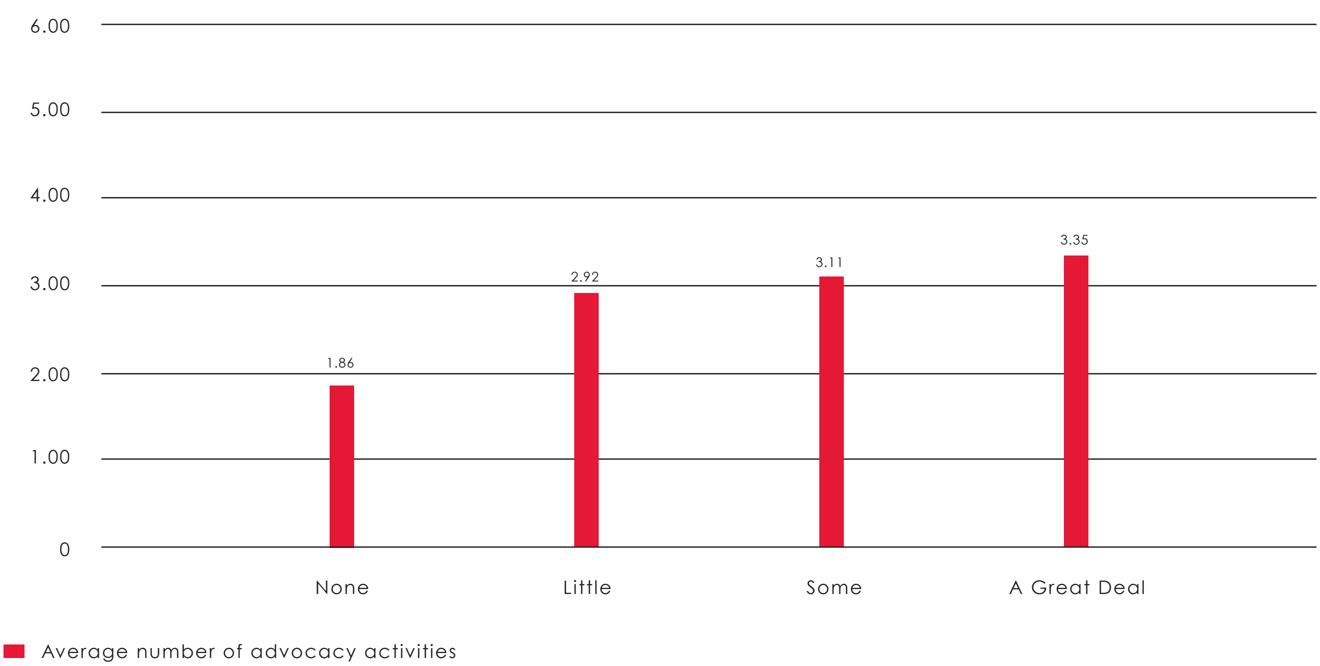
Source: 2010 Los Angeles Nonprofit Survey

Figure 9-2. Average Number of Advocacy Activities, by the Share of Revenue From Government



Source: 2010 Los Angeles Nonprofit Survey

Figure 9-3. Average Number of Advocacy Activities, by the Level of Competition in Obtaining Funding



Source: 2010 Los Angeles Nonprofit Survey

The 2010 survey asked a series of questions around advocacy tactics to gauge how nonprofits are interacting with public policy. When nonprofit organizations were asked the general question, "As state and local governments are cutting funding for services, has your organization tried to influence policy makers on behalf of your clients?" 43 percent of nonprofit organizations responded that they had indeed attempted this (see Figure 9-1).

When we broke down the various advocacy tactics used over the past year, 69 percent of nonprofit organizations were involved in at least one advocacy activity. On average, a nonprofit organization participated in about three (2.8) advocating activities over the last year. Figure 9-1 shows the most frequently used advocacy tactics include meeting with public officials or their staff (50 percent), followed by attempts to influence policymakers on behalf of clients (in light of state and local public funding cuts) (43 percent), participating in a coalition (41 percent), participating in development or revision of regulations (31 percent), and providing public education (30 percent).

Somewhat surprisingly based on the previous set of findings, a very small percentage of respondents indicated knowledge of the 501(h) election. When asked, "Has your organization made a 501(h) election, only three nonprofit organizations (1 percent) responded with a definitive "yes," and an overwhelming majority responded "no" or "I don't know what that is" (92 percent).

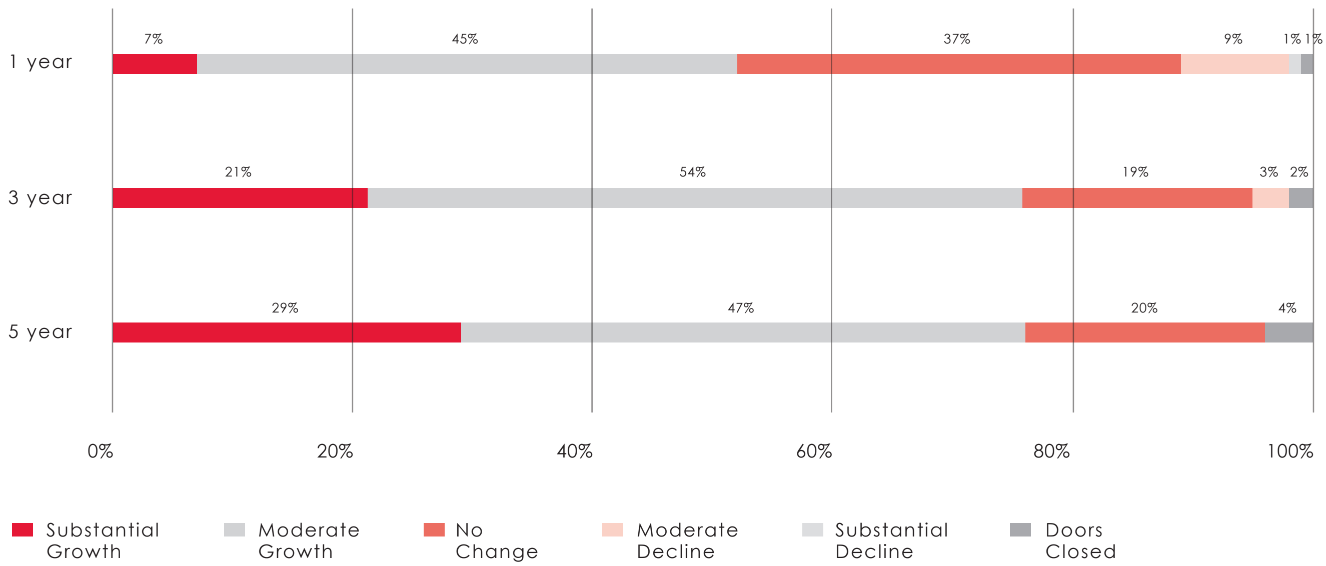
When asked, "Has your organization made a 501(h) election, only three nonprofit organizations (1 percent) responded with a definitive "yes," and an overwhelming majority responded "no" or "I don't know what that is" (92 percent).

The 501(h) election is an option for nonprofits that want to be more transparent about their advocacy and lobbying activities. Organizations that file a 501(h) election return to the IRS provide a clear breakdown of lobbying expenditures to ensure that they not violating the 501(c)(3) provision that nonprofits are not to make lobbying a substantial part of their activities.

Not surprisingly, however, Figure 9-2 show that nonprofits with a greater share of revenue from government sources tend to participate in a greater number of advocacy activities.[23] In fact, when we compared advocacy participation with revenue sources (i.e., government, donations, and fees), nonprofit organizations that rely heavily on government funding engaged in greater numbers of and more varied advocacy tactics. In addition, those experiencing more competition tended to participate in greater numbers of advocacy activities (see Figure 9-3).[24] When we consider the previously mentioned findings regarding collaboration efforts, we can say that a reliance on government funding and higher levels of competition are major drivers in engaging in higher numbers of collaborations and advocacy efforts over the past year.

LOOKING AHEAD

Figure 10. Expected Organizational Growth



Source: 2010 Los Angeles Nonprofit Survey

In an attempt to capture the sector's outlook for the future, we asked nonprofit organizations where they saw their organizations in (a) 1 year, (b) 3 years, and (c) 5 years. Eighty-nine percent of respondents expected that their organizations would either (a) grow or (b) stay the same over the next year, and only 11 percent reported that their organizations would experience organizational reduction. The optimism only increases with the three- and five-year forecasts. Figure 10 reveals that 94 percent of nonprofit organizations anticipate their organizations will either grow or experience no change in three years' time, and 96 percent of the respondents expect that this will also be the case in five years.

Given the contrast between expected revenue levels reported last year and the actual revenue changes mentioned in this report, this optimism is likely overstated. However, one nonprofit executive that we interviewed explained, "You don't stop envisioning even when you're exhausted." Another executive director suggested, "Nonprofits are conditioned to speak positively as part of funder cultivation. What I've found is that this can work against you. I try to balance this by focusing on 'need.'" Nonprofit organizations do vary in identity, and many factors are related to the growth of the nonprofit sector in Los Angeles County. The sector's anticipated optimistic future may convey only hope rather than a serious reflection of need within the economic reality.

FINDINGS AND RECOMMENDATIONS

KEY FINDINGS OF THE 2010 STATE OF THE NONPROFIT SECTOR IN LOS ANGELES REPORT REVEAL:

- Nonprofits are experiencing a growing resource–demand dilemma whereby demands for services continue to increase while revenues and expenditures have increasingly been in decline. In general, nonprofit financial health was more volatile in the past year. Although more organizations reported increased revenue than in the previous year, respondents were also far more likely to report revenue declines.

- Fifty-nine percent of nonprofit organizations reported an increase in demand for services over last year. Fifty-two percent of respondents experienced revenue decline. Thirty-four percent reported that they were operating in a deficit.

- Although nearly one third of small organizations reported no change in revenue over the past year, medium (27 percent) and large (13 percent) organizations less frequently reported stable revenue. In addition, small organizations reported revenue declines less frequently (46 percent) than their medium- and large--sized counterparts (54 percent and 52 percent, respectively).

- Nonprofits did not do as well as they thought they were going to over the past year. Although 75 percent of nonprofits surveyed in 2009 forecasted steady or increasing revenue, only 48 percent were able to do so.

- Eighty-nine percent of nonprofit organizations believe that their organizations will grow or experience no change over the next year. However, 94 percent believe that their organizations will either grow or experience no change in three years' time and 96 percent expect that this will also be the case in five years.

- Even though nearly 70 percent of nonprofits reported some type of advocacy activity in the past year, less than 2 percent of respondents indicated use or knowledge of the 501(h) election.

Hard Times: Impacts, Actions, Prospects presents the dilemma of increasingly high demand and receding resources that nonprofits are facing as the entire region struggles to emerge from the economic recession. For health and human service organizations, and those agencies serving a greater proportion of low-income clients, demand increases have been particularly severe. To counter the impacts of declining revenues, nonprofit organizations are turning to traditional internal cost-cutting measures—reducing overhead costs and instituting hiring and salary freezes. At the same time, however, they are also serving fewer clients as they scale back or eliminate programs, thereby decreasing organizational capacity. Because the nonprofit sector upholds and gives voice to those vulnerable populations that are overlooked, we must ask at what cost these survival strategies come.

Throughout the history of these reports on the state of the nonprofit sector, we have consistently recommended that nonprofit organizations become more active in advocacy. We were pleased to learn that nearly 70 percent of nonprofits reported some type of advocacy activity in the past year even though less than 2 percent of respondents indicated use or knowledge of the 501(h) election. We also know that in the past year, many nonprofits involved in collaborative activities and that those nonprofits dependent on government funding tend to collaborate and participate in more advocacy activities. Given the likelihood that the recession's effects will continue for 48 – 60 months, we stress the urgency to continue to push the policy debate forward toward a more systematic and forward-looking engagement between the nonprofit sector and government to strengthen a public–private partnership. As one nonprofit leader articulated, "Civil Society…cannot exist without deeper commitments from government with its taxing, mandating and scaling power and from business with its power to fill market gaps, generate wealth and invest in a capable workforce and the communities where workers live."

"Civil Society…cannot exist without deeper commitments from government with its taxing, mandating and scaling power and from business with its power to fill market gaps, generate wealth and invest in a capable workforce and the communities where workers live."

Nonprofits respond to crisis in different ways. Surprisingly, we found that it is the small nonprofit organization that has exhibited resiliency and stability over the past year. The lower rates of expenditure and employment change may very well be the result of organizations not being able to reduce any further. However, nonprofit organizations are also unique in the way they can suspend operations, shift into an inactive mode, or transition to a completely voluntary operation. Meanwhile, another leader for a program serving high-risk youth admitted, "Collaboration takes energy," and went on to explain how developing partnerships before the economic downturn has recently led to an innovative way to deliver services to students while also providing training to teachers who will continue the work in classrooms throughout the county. We need to capture these efficiencies and emerging organizational forms that both nonprofit organizations and government agencies are developing.

Advocacy needs a platform to develop and requires access to the policymaking process to be heard. Given our findings, our recommendations focus on improved communication not only within the sector but also to the external parties whose decisions have an impact on how nonprofits operate. Getting to these discussions is not easy. It requires internal checks, as well as external gauges. Therefore, we would like to reiterate the importance of the following:

Advocacy needs a platform to develop and requires access to the policymaking process to be heard.

- **Improve tracking and reporting of policy issues.** By deliberately engaging with the policymaking process, nonprofits have the opportunity to inform the conversation. In one interview, for example, we learned how a health organization used participatory methods to document unsafe conditions in the community. After presenting this to the city council, changes were made within two months. But the real success of this story is how this group has since been invited to play a part in a strategic planning process for the city.

- **Additional cross-sector research.** The former modes of operation are being challenged. Nonetheless, this gives room for nonprofits, foundations, and government agencies to explore how to work across sectors to promote efficiencies and forward-thinking planning.

- **More dialogue and dissemination.** From better reporting and research, we would like to see a change in the discourse surrounding the ways nonprofits work to effect positive change for the residents of Los Angeles. This requires stakeholders–nonprofit boards, nonprofit executives, government officials–to convene among peer networks and across sectors. We would also like to see the sector explore new organizational forms that not only embrace the idealism but are also fluid enough to weather economic—and political—crises. In our interviews with small, medium, and large nonprofit organizations, we did see a great deal of creativity and enthusiasm, but the challenge is how to capture these qualities in a way that moves the sector forward. Nonprofits might begin with objective organizational assessment or evaluation to identify areas within their organizations that have been weakened (or strengthened), and develop plans to build back organizational capacity and sustainability.

Nonprofits might begin with objective organizational assessment or evaluation to identify areas within their organizations that have been weakened (or strengthened), and develop plans to build back organizational capacity and sustainability.

Throughout this report, we analyze organizational behavior with respect to revenue changes over time. And despite the dire picture we present during this time of continued funding uncertainty, the vast majority of nonprofit organizations surveyed believe that their organizations will grow or experience no change over the next five years. As Los Angeles continues to resolve its economic troubles, this may be an opportunity to target a shift in perspectives, to capture the optimism and enthusiasm for deliberate reflection so that the sector can advocate more effectively for its causes and needs, and to find voice for itself and for those it seeks to serve and represent.

APPENDIX 1: DATA DESCRIPTION

Los Angeles Nonprofit Survey, 2010

The 2010 Los Angeles Nonprofit Survey, conducted by the Center for Civil Society at UCLA, was designed to gather information on how nonprofit organizations in Los Angeles are faring in 2009–10 as a result of the economic recession.

The 2008 National Center for Charitable Statistics (NCCS) CORE BETA file was modified to construct a sample frame. First, because the target region for the survey was Los Angeles County, all nonprofit organizations outside the county were deleted from the file. Second, because the survey focused only on the following four subfields: (a) Arts, Culture and Humanities, (b) Education, (c) Health, and (d) Human Services, all nonprofit organizations in other subfields were deleted from the file. Finally, considering the difficulty in contacting key personnel for very small and very large nonprofit organizations, those whose expenditures were less than $50,000 or more than $10,000,000 (rounded) were also deleted from the file. The 2010 sampling frame excludes the Environmental subfields.

After this modification, the sample frame was categorized by (a) subfields, (b) size, and (c) age. Ten percent of nonprofit organizations of each categorized group were randomly selected from the sample frame (stratified proportionate sampling). Finally, a total of 512 nonprofit organizations in Los Angeles County were selected.

A phone survey was used as the primary method of data collection, with faxed or e-mailed surveys made available on respondents' request. Data were collected for approximately eight weeks (July 6, 2010–August 27, 2010).

The total response rate was 53 percent (269 of 512). As seen in the following tables, the responses are well distributed by subfield, size, and age, indicating that the responses are representative of the sample frame.

Appendix Table 1. Response Rate to 2010 Nonprofit Survey

Subfield	**Sample**	**Response**	**Percent**
Arts, Culture, and Humanities	88	50	56.8
Education	120	56	46.7
Health	81	43	53.1
Human Services	223	120	53.8
Size (Expenditure)	**Sample**	**Response**	**Percent**
Large ($1 million-$10,002,303)	111	63	56.8
Medium ($100K-$1 million)	280	141	50,4
Small ($50K-$100K)	121	65	53.7
Age (Years)	**Sample**	**Response**	**Percent**
Old (30 or more)	121	70	57.9
Medium (10-30)	236	130	55.1
Young (0-10)	155	69	44.5
TOTAL	**512**	**269**	**52.5**

IRS Business Master Files and CORE Files from the National Center for Charitable Statistics

For information on the number of 501(c)(3) public charities and private foundations and the financial size of public charities in Los Angeles County, we used the Internal Revenue Service (IRS) Business Master File 501(c)(3) (BMF 501(c)(3)) and CORE PC files, available through the Urban Institute's National Center for Charitable Statistics (http://nccsdataweb.urban.org). The BMF 501(c)(3) is cumulative and contains descriptive information on all active tax-exempt 501(c)(3) public charities and private foundations derived mostly from IRS Forms 1023. The CORE PC files, produced annually, combine descriptive information from public charities' initial registration with annually updated financial variables from the Form 990 or 990-EZ. Only organizations required to file these forms are included in the files. The CORE PC 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.

In the report, an active 501(c)(3) public charity nonprofit organization or private foundation is defined as an organization that submitted any 990 forms within a 24-month period. Specifically, it includes (a) all organizations that reported their required 990 forms within a 24-month period and (b) all organizations that received their tax-exempt status within a 24-month period (April 2008–March 2010).

California Employment Development Department, Labor Market In-formation 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 Los Angeles County by sector for the period between October 2008 and September 2009. 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, because 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.

The employment figure 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 Federal Employer Identification Numbers (FEINs) for all LA County nonprofits in the IRS Nonprofit BMFs from 1995 to 2010. The FEINs from the BMFs were then used to flag re-cords 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, and 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 non-profit that did not match with 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 3, produces the most comprehensive list of nonprofit organizations, but because of 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 were based on the Category 1 method.

APPENDIX 2: 2010 LOS ANGELES NONPROFIT SURVEY QUESTIONNAIRE

SERVICES AND ACTIVITIES

1. Over the past year, have demands for your organization's programs or services:

Increased substantially   Increased moderately   Stayed the same
Decreased moderately   Decreased substantially

REVENUE, EXPENDITURES, AND COST-SAVING STRATEGIES

2. Overall, in the past year, have your total revenues:

Increased substantially   Increased moderately   Stayed the same
Decreased moderately   Decreased substantially

2a. Increased or decreased by what percentage? _________%

COST-SAVING STRATEGIES

3. Has your organization undertaken or experienced any of the following cost-saving strategies in the past year?

a. Discontinued existing program(s) ☐

b.Scaled back programs ☐

c. Served fewer clients ☐

d. Laid off staff ☐

e. Hiring freeze ☐

f. Salary freeze ☐

g. Salary reduction ☐

h. Reducing staff hours ☐

i. Reduction in employee benefits ☐

j. Reduction in hours of operation ☐

k. Cut administrative or overhead costs ☐

l. Collaborated with other nonprofits to reduce overheard ☐

m. Merged with another organization ☐

n. Received additional or extended lines of credit ☐

o. Engaged in deficit spending ☐

EXPENDITURES

4. Over the past year, how have your organization's total expenditures changed?

Increased substantially   Increased moderately   Stayed the same
Decreased moderately   Decreased substantially

5. How do you think total expenditures will change over the next year?

Increased substantially   Increased moderately   Stayed the same
Decreased moderately   Decreased substantially

FUNDRAISING

6. Has your organization relied on any of the following fundraising strategies in the past year?

a. Added a special event ☐

b. Increased attention to major individual donors ☐

c. Increased direct mail ☐

d. Increased web communication with individual donors ☐

e. Increased board member giving ☐

f. Increased foundation grant applications ☐

g. Raised or implemented program service fees ☐

h. Used reserves or endowment money to fund operations ☐

i. Implemented or expanded marketing efforts ☐

j. Applied for new or additional government grants ☐

SOCIAL ENTERPRISE AND PROFIT-MAKING VENTURE

7. Do you operate a business enterprise to generate revenues?   Yes or No

7a. [If yes], what percentage of your total revenues does it represent? _________%

7b. [If no], are you considering starting a business enterprise?   Yes or No

GOVERNMENT FUNDING

8. If you received government funding in the past year, has your organization experienced any of the following?

→ **If no government funding, skip to #9**

a. Discontinued government grants or contracts? ☐

b. Decreased reimbursement rates? ☐

c. Longer reimbursement delays ☐

d. Increased reporting requirements ☐

e. Increased requirements to collaborate ☐

9. Over the last year, how much competition from other organizations have you faced in obtaining funds? Would you say:

A Great Deal   Some   Little   None

REVENUE BREAKDOWN

10. To the best of your knowledge, please indicate what percent (approximately) of your organization's revenue came from each of the following sources during your most recently **completed fiscal** year and indicate how revenue from this source: a) has changed over the past year and b) is expected to change over the next year.

a. Government sources (grants, contracts, and/or reimbursements from City, County, State, and/or Federal) [If percentage for government provided], which of the following is the major source of government funding? [circle two boxes if 50–50 split]

City *County* *State* *Federal* % of Total Revenue _________

- Change over the last fiscal year *Increased* *Same* *Decreased*

- Expected change over the next fiscal year *Increase* *Same* *Decrease*

b. Grants from foundations (private, community, United Way, corporate)

% of Total Revenue _________

- Change over the last fiscal year *Increased* *Same* *Decreased*

- Expected change over the next fiscal year *Increase* *Same* *Decrease*

c. Private donations from individuals and households (including special event

income and other private fundraising) % of Total Revenue _________

- Change over the last fiscal year *Increased* *Same* *Decreased*

- Expected change over the next fiscal year *Increase* *Same* *Decrease*

d. Fees, sales, dues, and other earned income % of Total Revenue _________

- Change over the last fiscal year *Increased* *Same* *Decreased*

- Expected change over the next fiscal year *Increase* *Same* *Decrease*

e. Other types of revenue (specify________________________)

% of Total Revenue _________

Change over the last fiscal year *Increased* *Same* *Decreased*

Expected change over the next fiscal year *Increase* *Same* *Decrease*

11. What financial results did you have at the end of the last fiscal year?

Operating deficit *Operating surplus* *Break-even results*

12. What financial results do you expect at the end of the current fiscal year?

Operating deficit *Operating surplus* *Break-even results*
Unable to predict

13. How much money in unrestricted operating reserves does your organization currently have set aside?

None *Less than 30 days* *1–3 months* *More than 3 months*

EXTERNAL EVALUATION

14. To the best of your knowledge, about what percentage of your organization's budget is devoted to meeting external accountability and reporting requirements?

_________% ☐ Don't know [Skip to #15]

14a. Does this percentage reflect an *Increase* *Decrease* *No Change*
from the previous year?

15. Over the past year, have reporting requirements from funders:

Increased substantially *Increased moderately* *Stayed the same*
Decreased moderately *Decreased substantially*

N/A (no external funders)

EMPLOYMENT AND VOLUNTEERS

16. How many full-time employees does your organization currently have? _________

17. How many part-time employees does your organization have? _________

18. Approximately how many volunteers (including interns), other than those that serve on the board of directors, does your organization have? _________ [If zero/none, skip to #20)

19. How were volunteers (including interns, but not including board members) used during the past year?

a. Fundraising support **Yes or No**

b. Core service delivery **Yes or No**

c. Clerical work **Yes or No**

d. Other (please specify): ________________________

20. Over the past year, has your organization increased or decreased any of the following (and by how much):

a. Number of full time employees: *Increased* *Decreased*
How many (#) Inc/Dec _________ *Stayed the same*

b. Number of part time employees: *Increased* *Decreased*
How many (#) Inc/Dec _________ *Stayed the same*

c. Number of volunteers: *Increased* *Decreased*
How many (#) Inc/Dec _________ *Stayed the same*

COLLABORATION

21. Over the past year, has your organization been involved with collaborative efforts for any of the following activities?

a. Collaboration to obtain funding for your programs **Yes or No**

(IF YES, was there an) *Increase* *Decrease* *No Change*

b. Sharing staff with another organization **Yes or No**

Increase *Decrease* *No Change*

c. Sharing space with another organization **Yes or No**

Increase *Decrease* *No Change*

d. Collaboration to advocate on behalf of your clients **Yes or No**

Increase *Decrease* *No Change*

e. Collaboration to reduce administrative expenses **Yes or No**

Increase *Decrease* *No Change*

f. Collaboration to reduce program expenses **Yes or No**

Increase *Decrease* *No Change*

g. Group purchasing or cost savings programs **Yes or No**

Increase *Decrease* *No Change*

ADVOCACY

22. As state and local governments are cutting funding for services, has your organization tried to influence policy makers on behalf of your clients? **Yes or No**

23. In the past year, did your organization:

a. Provide testimony on public policy issues? **Yes or No**

b. Participate in government commissions or committees? **Yes or No**

c. Meet with public officials or their staff (either elected or appointed)? **Yes or No**

d. Participate in development or revision of regulations related to public policy? **Yes or No**

e. Participate in coalitions with other organizations for the purpose of influencing public policy? **Yes or No**

f. Participate in a demonstration or boycott? **Yes or No**

g. Lobby for or against specific legislation? **Yes or No**

h. Pay dues to an association or belong to a coalition that advocated or lobbied on your behalf? **Yes or No**

i. Provide public education on policy issues? **Yes or No**

j. Advocate in some other way? **Yes or No**

(If yes), please describe: ________________________

24. Has your organization made a 501(h) election?

Yes No I don't know what a 501(h) election is.
I don't know if we have made a 501 (h) election.

LOOKING AHEAD

25. Where do you see your organization in:

a. 1 year:

Substantial Growth Moderate Growth No Change
Moderate Decline Substantial Decline Doors Closed

b. 3 years:

Substantial Growth Moderate Growth No Change
Moderate Decline Substantial Decline Doors Closed

c. 5 years:

Substantial Growth Moderate Growth No Change
Moderate Decline Substantial Decline Doors Closed

26. Does your organization provide services to individuals/groups? **[If YES, go to Question 27; If NO, skip final questions]**

For the following question, we realize you may not have exact data. However, please try to estimate the following to the best of your ability.

27. Of the people served during your most recently completed fiscal year, approximately

what percent were:

a. Low income _________ % b. Moderate or high income _________ %

[Should add up to 100%]

c. Children and youth <18? _________% d. Adults, age 18 to 64? _________ %

e. Seniors (65 or older)? _________ %

[Should add up to 100%]

f. African-American? ________% h. Asian? ________% i. Latino (Hispanic)? ________%

j. White? ________%

k. Other (please specify)? ________________________%

NOTES

[1] Because the 2010 survey did not include environmental nonprofits, all comparative analyses between last year's and this year's survey exclude responses from environmental organizations.

[2] In previous reports, we used the Business Master File (BMF) from the National Center for Charitable Statistics without modification to measure the number of 501c(3)s in Los Angeles County. Despite its comprehensiveness, the previous BMF data set had some gaps, such as the existence of inactive, very small size nonprofit organizations whose gross receipts are less than $25,000. However, through the passage of the Pension Protection Act in 2006, which required very small 501(c)(3) registered organizations to report their status annually starting in 2008 (990-N), the recent BMF files now include information on very small size nonprofit organizations' annual status. With this additional new information, we can now more precisely estimate the number of 501(c)3 registered public charities.

[3] We defined active public charities as nonprofits that submitted a 990 form within a 24-month period.

[4] Churches (including synagogues, temples, and mosques), integrated auxiliaries of a church, and public charities whose gross receipts are less than $5,000 do not have to report either Forms 1023 or 990. Therefore, the total number of all public charities in Los Angeles County may be greater than 18,622 because, of those organizations, only organizations that voluntarily reported their status are included in the IRS database.

[5] Totals in figures may not add up to 100 due to rounding.

[6] In 2009, 57 percent of nonprofits reported an increase and 12 percent experienced a decrease in service demands. No statistically significant difference was identified between this year's response and last year's response ($t = 0.084$, $p = .933$).

[7] An analysis shows that the share of low-income clients is positively correlated with demand increase (Pearson's $r = .225$, $p = .023$).

[8] These 2009 and 2010 groups of respondents are statistically marginally different ($t = -1.926$, $p = .0548$).

[9] These two groups are statistically significantly different ($t = -4.368$, $p = .000$).

[10] The observations related to small-sized organizations should also take into account that these organizations have very small budgets with little room for fluctuation. Small-sized organizations that experienced declines in revenue might have closed their doors and therefore were unable to participate in the survey.

[11] Government revenue includes grants, contracts, reimbursements, or all of these. Donative revenue includes gifts from individuals, private and community foundations, United Way, corporate donors, and special events. Fees include charges, sales, dues, and other earned income.

[12] There is no statistical difference between this year's response and the previous year's response ($t = -1.138$, $p = .256$).

[13] Correlation analyses show that expenditure change is positively significantly correlated with both revenue change (Pearson's r= .374, p =.000) and demand change (Pearson's r=.176, p =.004).

[14] The term profit here refers only to a year-end funding surplus. Nonprofits can invest surplus dollars into operations or an endowment, but by law cannot distribute profits to staff, board members, or other stakeholders. This nondistribution constraint acts as on one of the key delineations between nonprofits and for-profits.

[15] Revenue change and financial result are statistically significantly related to each other, and it can be said that a nonprofit that experienced revenue decrease over the past year also ran at a deficit at the end of their fiscal year (Spearman's *rho*= -.351, p = .000).

[16] Deficit spending is the amount by which a public or private organization's or individual's spending exceeds its income over a particular period of time.

[17] The analysis shows a strong statistical correlation (Pearson's r=.433, p =.000).

[18] This result is reflected in the statistical relationship between the number of cost-saving strategies and the amount of unrestricted operating reserves a nonprofit organization has(Pearson's r= -.289, p =.000).

[19] Correlation analyses found revenue change is also statistically significantly correlated with both discontinued existing programs (point-biserial correlation=.230, p =.000) and scaled back programs (point-biserial correlation=.288, p =.000).

[20] There is a statistically significant negative relationship between change in number of full-time employees and change in number of volunteers (Spearman's *rho*=.126, p = .042).

[21] A nonprofit organization that experienced a higher revenue decrease tended to lay off its staff (point-biserial correlation=.291, p = .000) and to decrease both full-time employees (Pearson's r=.338, p=.000) and part-time employees (Pearson's r=.183, p =.003).

[22] Analysis reveals a significant positive relationship between the number of collaboration efforts and the share of government revenue (Pearson's r=.202, p =.001) and between competition in obtaining funding and the number of collaboration efforts (Pearson's r=.283, p =.000).

[23] Correlation between government revenue share and number of advocacy activities found (Pearson's r=0.354, P=.000).

[24] Nonprofit organizations that experienced more competition for funding tended to participate in more advocacy activities (Pearson's r=.192, p =.002).

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