

## Nonprofits Stay Resilient Despite Funding Struggles

Foundations, Donors And Governments Tighten Support While Demand Rises

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**A** steep drop in financial support from foundations and individual donors is still hitting nonprofit organizations hard, but many have shown a resilience to carry on programs and keep up with rising demands brought on by the recession.

The need for charity services, which many turn to in tough economic times, have overburdened nonprofits over the last few years while, at the same time, funding for such growing needs has diminished significantly, according to consultants and local charity organizations.

In Long Beach and Los Angeles County, where there continues to be high unemployment and an unstable housing market, more struggling families and individuals are seeking food donations, supplemental education and community services. However, state and federal governments have slashed grant programs, foundations have become more selective and recent disaster relief efforts have taken away a large portion of giving dollars.

Giving USA, the nation's top source for nonprofit sector statistics, reports charitable contributions across the country fell 3.6 percent in 2009, estimated as the biggest decline in current dollar terms since the agency began reporting in 1956.

In 2010, the amount of surveyed nonprofits in the Los Angeles County area that reported revenue declines has grown to more than 50 percent, with more than a third operating in a deficit, according to a recent study published by UCLA's Center for Civil Society. The same report states, while an increase in expenditures has somewhat "leveled off," demand for services has continued to increase, particularly in human services, where 60 percent of nonprofits reported an increase in demand over 2009.

While the outlook may appear grim, many nonprofits remain optimistic as foundations and the overall economy show

signs of improvement. Nonprofits weathering the storm are diversifying their revenue sources, while volunteers, strong leadership and collaboration continue to be valuable assets in times of need. Some have begun launching capital campaigns this year that were previously put on hold.

"I think there is recovery in sight to some degree," said Judy Ross, executive director of the Long Beach Nonprofit Partnership, a resource organization for more than 1,000 community-based groups in the Long Beach area. "Some foundations are back on their feet and are able to provide some funding that they haven't been able to provide in the last couple of years because of their portfolios being very depressed, and giving from the general population seems to be kind of holding steady, but it might be down a little bit still."

### Organizational Sustainability

Fundraising may always be a challenge for nonprofits that typically live year-to-year, but Ross added that succession planning to form a more sustainable organization is just as important. Many have to manage changes within an organization due to the economy, generational gaps in the workplace and longevity, as some founders are now retiring. "It's a changing world that we live in and how does an organization manage that change, both within the organization and addressed by the leader of the organization?"

It's a different premise than running a business, said Jeffrey Wilcox, CFRE, president and CEO of the consulting firm Third Sector Company in Long Beach. He said nonprofits – which are 501(c)(3) tax exempt and aren't beholden to stakeholders – today approach fundraising by measuring equity based on the people behind it rather than financial gains. "The dollars don't tell the whole fundraising story," Wilcox said. "The role of technology, the changing patterns of funding from government, they all affect fundraising, but the fact that you can't change is that you have to put people

first and dollars second."

In general, the nonprofit sector encompasses a broad range of services in many different industries – from healthcare to arts and culture – all of which carry their own set of standards and face their own individual challenges. However, much like the for-profit sector, nonprofits still have the strain of creating enough working capital for the next year to grow their service base, Wilcox added. "Their goal, at least in my opinion, is to help as many people who need their service as effectively and efficiently as possible, but part of the efficiency is creating enough working capital to sustain helping those people – and more," he said.

(For nearly three years, Wilcox has penned the popular "The Third Sector Report" column in the Business Journal, which has served as a resource for local nonprofits and as a sounding board on issues impacting the third sector. The columns led to the publishing of the book, "The Nonprofit Leader of the New Decade" – [www.thirdsectorcompany.com](http://www.thirdsectorcompany.com).)

### Addressing A Rising Need

Community organizations that offer services to the homeless and families in need are often the first place people turn to for help and support during a recession, which has put extra weight on such organizations, Wilcox said. "If you're unemployed, you're at risk of losing your house and you want to put food on the table, you're going to have to look at community resources to do that and it puts a tremendous burden on nonprofit organizations," he said.

Food Finders, based in Long Beach, for instance, takes left over food from hundreds of local grocery markets, bakeries and restaurants and delivers them to missions, shelters and domestic agencies. But, in 2009, the amount of contributions, grants and other revenues dropped by nearly \$2 million over the prior year.

The income, which totaled almost \$12 million, pays for overall expenses, including collecting and distributing an estimated 7.1

million pounds of food to qualified nonprofit organizations, such as missions, family shelters, children's homes, hospices, unwed mothers and battered women's shelters.

Patti Larson, marketing director for the organization, said in the last two to three years, demand has increased more than 12 percent and resources have been stretched thin. "We definitely have more places feeding more people, and have additional agencies needing to sign on with us," she said. "Obviously with the economy being as tight and as much of a struggle, people are coming in that wouldn't normally need food."

Coming up with creative ways to find money and resources continues to be the focus this year in order to make up for the slowdown in grants and donations, Larson said. "We're getting a lot of interested people trying to get the word out to do small things that don't involve a lot of out-pouring of cash because people are still a little tight, but we're still getting a lot of support," she said.

Christian Outreach in Action, a 30-year organization in Long Beach that provides about 106,000 hot meals per year, along with a clothing bank, a food bank, transitional housing programs and 12 step programs, has seen demand increase upwards of 40 percent, according to Executive Director Dixie Dohrmann. At the same time, donations have gone down. "We've been struggling," she said. "The irony for us is this is the time when our services are desperately needed . . . If we weren't here, the city would have to deal with this problem."

### **Coping With Budget Cuts**

Some nonprofits have been put in a compromising spot due to federal and state budget cuts. The sector affected the most in Los Angeles County includes human services, or those organizations that serve particularly vulnerable and impoverished populations. According to a 2002 UCLA study, such agencies in the county had received roughly 73 percent of its funding from government aid.

In Long Beach, federal community development block grants, which provide for a variety of purposes such as supporting neighborhoods and infrastructure, is expected to see a 16 percent reduction in funds in fiscal year 2011, according to Tom Modica, the city's government affairs director. He said starting in October the city would have approximately \$1.7 million less than it currently has for such programs. Although the reduction wasn't as severe as proposed earlier in the year, Modica said the cutback still remains significant.

Angela Reynolds, Long Beach Neighborhood Services Bureau, said this fiscal year the city offers a competitive



Judy Ross has served as the executive director of the Long Beach Nonprofit Partnership since its incorporation as a nonprofit in 2000. The group is a resource organization for more than 1,000 community-based nonprofits in the Long Beach area. (Photograph by the Business Journal's Thomas McConville)

grant of \$200,000 spread out among about 10 different agencies with each agency not allowed to receive more than \$15,000. The program, which once was administered by the city's health department, used to offer about twice as much funding, she added.

There is also federal funding of \$250,000 available through the Nonprofit Assistance Program, which funds nonprofit buildings. However, she added, "I'm not sure with the cuts we'll be able to maintain that level going forward. It's unknown at this time."

Meanwhile, the Internal Revenue Service (IRS), which allows organizations that provide a community service to maintain a special tax exempt status, are now taking a hard line on organizations that either fail to or inaccurately file tax income information. In many cases, smaller agencies that have been lax on filings or have taken advantage of the system, face the potential of losing their tax-exempt status, Wilcox said.

In fact, the IRS is currently looking at the nonprofit sector, particularly religious organizations, as a new revenue source to help fix the nation's budget shortfalls. According to the Tax Policy Center, the president proposes to increase taxes for taxpayers whose rate exceeds the 28 percent tax bracket, which could have wide implications for fundraising efforts.

Despite these factors, however, Jocelyn Guihama, managing editor of the recent nonprofit study by UCLA's school of public affairs, says nonprofits continue to stay surprisingly upbeat about projections

even though revenue streams remain bleak. "We don't understand why, but the nonprofits are extremely optimistic about the future," she said.

Also, smaller nonprofits have fared the downturn more than medium to large agencies that had a greater revenue change, she added. "Despite the cost saving strategies, the smaller organizations were able to continue their work," Guihama said.

Children Today, which operates two full-service child care centers in Long Beach at no cost to families and provides other family support services to those experiencing homelessness, has seen a drop in grants for education and child care programs from the State of California, according to the agency's executive director Dora Jacildo.

However, having a wide range of revenue sources has allowed the organization to survive, she added. "One of the things we really pride ourselves on is making sure our budget is diversified so that we're not relying solely on one source of funding to sustain the organization," Jacildo said.

The nonprofit, founded in 1997, has also relied on many of its boardmembers being instrumental pillars of the community, such as Councilmember Robert Garcia, increasing visibility over the years and bringing in new supporters.

### **Community Foundation Support**

Meanwhile, private foundations, which supply grants to nonprofits through corporate sponsors and endowments, have recently shifted funding to support general

operating costs, instead of typically funding specific projects or program services, Jacildo said. "Whatever an organization needs to spend the money on is acceptable for some foundations," she said. "They're responding to the fact that agencies need more flexibility than in the past and that's been very helpful."

Annette Kashiwabara, director of development for the Assistance League of Long Beach, agrees there's been a change in the general foundation community, where more foundations are reassessing their funding plans. "The foundations that have typically supported us in the past came through again during this past year," she said. "However, a lot of them went to fund mostly for basic needs, such as food, shelter, water, and healthcare and dental needs."

The organization, which recently celebrated its 70th anniversary in Long Beach, continues to expand its programs, such as providing uniforms for school children and orthopedic care, largely funded by corporate partners and philanthropy. "We have about 34 corporate partners and we're expected to grow that, several of those partners have reined for a second year," she said.

Jim Worsham, president and CEO of the Long Beach Community Foundation (LBCF), which manages trusts, endowments, estates and bequests to provide grants for local charities, said the goal of the foundation is to never dip into the principal, no matter how tough times are, but to remain "intelligently invested to provide above normal returns."

He said most nonprofits are starting to stabilize, but at a lower level than in previous years, and demands on foundation services has increased tremendously. However, he added, unlike some foundations in recent years, the LBCF still maintains its goal to fund innovative projects rather than "business as usual." "We rarely will fund an entity to fund just their current operations," he said.

The arts and cultural sector of nonprofits has seen a significant loss in revenue from foundation grants and government contributions, according to Craig Watson, executive director for the Arts Council for Long Beach, a nonprofit that receives funding from the city's general fund and then redistributes it to other organizations. The Art Council's funding from the city peaked at \$1.6 million nearly a decade ago, and as of last year its entire budget has been dwindled to roughly \$354,000, with a majority of funds going to support grants for nearly 26 organizations.

Watson added that the Arts Council isn't the city's only source of arts funding and



Jeffrey Wilcox, CFRE, is president and CEO of the consulting firm Third Sector Company in Long Beach. His popular column, "The Third Sector Report," has been running in the Business Journal for nearly three years. (Photograph by the Business Journal's Thomas McConville)

support in Long Beach also comes from such sources as the Long Beach Redevelopment Agency. However, funding new revenue can be tough. "There's no magic wand that we waive to create a new and different source of funding," he said.

The Long Beach Symphony Orchestra, which runs its own nonprofit and foundation, provides for on-stage performances as well as educational programs and concerts at local schools. The symphony's charities, however, hit a deficit situation in 2008, according to the latest filed tax returns. Bob Jones, the symphony's executive director, said the loss in revenues during the recession has been "significant," so much so the organization had to ask its musicians union for less guarantees, fewer services and reductions in hiring. The symphony didn't, however, have to reduce its established wage rate, he said.

The primary reduction was from the steep losses that foundation portfolio investments experienced at the start of the recession, Jones said. However, he added that heading into the final concerts of this year's season in June, "audiences are larger and very enthusiastic."

### **Volunteers, Collaboration**

Despite reports of people working past retirement age due to economic struggles, Wilcox said the nonprofit sector is heading into a new era of volunteerism where the baby boomer generation is now more willing to retire at a younger age and the so-

called Y generation, or those born from the early 1980s to early 2000s, are more community connected, better informed and have a tendency to advocate causes. "We have the greatest abundance and greatest potential of community volunteers we have ever seen," Wilcox said.

While volunteers are often looked at as "human capital" that for-profit businesses and government agencies can't tap into, some newer organizations are not only collaborating, but also making partnerships and relationships the building blocks to their entire nonprofit models.

Scott Jones, a Wilson High School graduate who founded the nonprofit We Love Long Beach, which collaborates with various organizations to promote education, neighborhoods and partnerships, said nonprofits need to focus more on creative ways to connect today's volunteers for the greater good of the city. "We definitely believe that we need to focus less on the competition and the agendas we can have as nonprofits and figure out how we can work for the common good of neighborhoods and the City of Long Beach as a whole," he said.

One way to connect people is through technology and the evolving popularity of social media. We Love Long Beach, for instance, is launching a new Web site at [www.welovelb.org/org](http://www.welovelb.org/org) that provides a map of the nine districts in Long Beach, highlighting events and ways to volunteer. "We kept hearing there was the gap between nonprofits and people that want to serve, and there hasn't necessarily been a strong bridge between the two," Jones said. The site is geared toward nonprofits, community groups, neighborhood associations, business associations, religious groups and civic leaders.

Eric Leocadio, who founded the Catalyst Network of Communities in 2006, said he formed his organization out of a need to change the way nonprofits and people connect with each other, offering a conduit for people with similar core values. "We need to approach each other differently, work cooperatively, find collaborative projects that we can do together and let's try to fund those projects so all of us can get funding," he said. "I don't hear anybody else talking about that." ■