

Holes in the Safety-net
Study of Funding Cutbacks and Safety-net Nonprofits
in California

Executive Summary

May 2004

Florence L. Green, *California Association of Nonprofits*
Thomas E. Backer, *Human Interaction Research Institute*

Supported by a grant from The California Endowment

Holes in the Safety-net
Study of Funding Cutbacks and Safety-net Nonprofits in California

EXECUTIVE SUMMARY

Florence Green, California Association of Nonprofits
Thomas E. Backer, Human Interaction Research Institute

The “Holes in the Safety-net” study was conducted in order to learn more about the extent and consequences of recent cutbacks in funding for safety-net nonprofits in California – and to identify some creative strategies by which nonprofits are coping with these cutbacks. The study involved an electronic survey of nonprofits across the state, interviews with thought leaders in the nonprofit sector, seven focus groups of nonprofit executives, and a limited review of similar studies. Eight-hundred thirty-five individuals participated in the study, which was conducted from February through March 2004.

Study participants represented a variety of safety-net organizations including health, human and social service providers. Respondents served a variety of constituents, such as infants and toddlers, the elderly, the poor and economically disadvantaged, families, people with disabilities, gays and lesbians, immigrants, offenders, ex-offenders, people with HIV/AIDS, holocaust survivors, the terminally ill, sexual violence survivors, runaway youth, domestic violence survivors, children of alcoholics and grandparents as parents.

The study’s major findings include:

- *For many safety-net nonprofits in California, total revenues are down, though some also have had funding increases.* For 40.7% of the responding organizations, revenues were down this year from last year, with an average decrease in funding of 22.5%. However, 26.9% of responding organizations had no change in revenues from last year to this, and 32.4% had an increase, with the average increase being 20.9%
- *The most common response to reduced funding was postponing new hires (50% of respondents), followed by salary freezes (42%) and layoffs (39%).* Reliance on volunteers (36%) and eliminating vacant positions (33%) were next in line. The least likely method for adjusting to funding cuts was to eliminate benefits (5%). For those nonprofits reporting staff cuts, the average number of FTE positions cut was 6.5. Over one quarter of all respondents reported layoffs of some kind, with substance abuse groups, crisis intervention, mental health, employment and empowerment organizations reporting the greatest number of layoffs. Only 3.9% of respondents indicated that staff had experienced salary cuts.
- *Not all types of safety-net nonprofits are affected equally.* Over half of the substance abuse, crisis intervention, counseling and shelter groups have frozen salaries for at least the last two years. Most salary freezes appear to be taken by top-level staff. More than half of health education, substance abuse, crisis intervention, mental health, housing,

employment, empowerment, counseling and shelter organizations have postponed new hires in the last two years.

- *Almost 50% of respondents have reduced or eliminated aspects of programs.* Approximately the same number (46%) have slowed program innovation, while 30% have reduced program hours, and 25% have eliminated outreach efforts. Only 10% reported no change to their services.
- *For virtually all types of safety-net groups, the number of people needing services has increased significantly.* Some of the most frequent changes include:
 - Increased number of homeless people, increasing the need for shelter.
 - More people with mental health problems.
 - Increased homelessness of families with two or three kids.
 - Two and three generations of one family becoming homeless.
 - More working poor families seeking services and food.
 - Increased requests for food, clothing and rent assistance.
 - Seniors unable to afford medications coming to shelters and food banks.
 - More children needing mental health services.
 - More clients with multiple physical and mental health and income problems.
- *Nonprofits are coping by using a number of traditional strategies for making up funding gaps.* Over 70% of respondents reported increased efforts to raise from individuals and foundations. About 32% reported that they are dipping into reserve or endowment funds, and 25% have increased fees for service. A few (15%) are borrowing, and 6% have launched or expanded a business venture.
- *Nonprofits are also employing nontraditional coping strategies, such as innovative methods for collaboration.* Innovative strategies identified by respondents included: collaborating with another nonprofit (63%), increased advocacy for funding (52%), increased advocacy for clients (42%), joined an advocacy coalition (28%), and rented out or shared space with others (25%).
- *Nonprofits want specific kinds of interventions from foundations in their areas.* They suggest that foundations do more to provide support for operating costs, develop easier application processes, fund groups already in existence rather than startups, fund more capacity building, convene discussions, understand that nonprofits have appropriate and growing operational costs, do more program-related investing, connect nonprofits to other funding sources, fund smaller groups, and tell other funders how and why it is important to support safety-net nonprofits in the community.
- *Nonprofits also want specific kinds of interventions from the California Association of Nonprofits (CAN®).* They want CAN to help safety-net groups advocate for themselves, provide low-cost skill building workshops, tell the general public about the value of nonprofits, provide trainings on fundraising and strategic planning, advocate for more funding with foundations, advocate for changes within the nonprofit sector, match

nonprofits to businesses to get in-kind donations, inform the field about best practices, give awards to funders that support safety-net groups, and continue advocacy and lobbying in Sacramento.

- *Overall, 50% of respondents see their greatest challenge as increasing or maintaining financial self-sufficiency.* Close behind is maintaining program quality, retaining quality staff and getting boards more involved in fundraising. Only 22% are worried about just staying in business.

Whether by design or happenstance, there are holes in the safety-net – holes that nonprofit organizations can no longer fix alone. Many respondents, interviewees and focus group participants view the current economic situation not as a temporary financial crisis, but as a new reality – and one that cannot be fixed as it has been fixed in the past. Examples of concerns include:

- Cuts in staffing and reductions in programs are arbitrarily determined more by an organization's ability to raise funds rather than a city, county or state-based assessment of need, measurement of performance, or commitment to achieving certain outcomes.
- Escalating reporting requirements and cumbersome restrictions on how programs can be delivered make it more and more onerous to be a provider of government-funded services.
- Changes in Medi-Cal make many of the working poor that come to safety-net groups for services no longer eligible for government-funded programs.
- Many of the safety-net organizations that are hardest hit by staffing and program cuts – crisis intervention, job training, mental health, substance abuse programs, shelters – are crucial to keeping human problems at a more manageable level. What happens when they are not able to play that role at the level our communities need?
- The troubling complexity of issues that families and individuals now bring to safety-net service providers is difficult to address with current levels of skills and resources.
- Many low-cost prevention and intervention programs are being cut despite evidence of success and/or cost-efficiency. People needing these services reach out to programs and institutions not prepared to take on this role: police, emergency services, juvenile justice, jails, etc. And most ironic, these efforts to cut costs will result in dramatic increases in costs as the groups above struggle to address increasing complex community needs.
- Increased operational costs like workers' compensation, insurance, rent, maintenance, and just trying to pay livable wages have wiped out any financial gain safety-net groups may have achieved in spite of government cuts.
- Safety-net organizations can no longer rely as much on volunteers, who have had to increase their paid work hours so they can make ends meet as well.
- Even those nonprofit organizations that have not yet experienced reductions in revenue are in an atmosphere that feels unstable and chaotic because the future is so uncertain.

Summary of Recommendations

Nonprofit Operations and Structure

1. Nonprofits need to aggressively adapt to the challenges of a constantly changing economy.
2. Government agencies must overhaul the government/nonprofit contracting process so that resources are used in a smarter, more efficient manner.
3. Through social policy as well as funder actions, we need to expand the methods by which safety-net organizations (and other nonprofits) are funded.

Improving Capacity

1. Funders need to invest in meaningful capacity building that meets the needs of safety-net organizations.
2. We need to strengthen the advocacy consciousness, confidence and competence of safety-net organizations.
3. We need to improve the availability and dissemination of research data and “storytelling” about the role and achievements of safety-net nonprofits in society.
4. Funders must make renewed efforts to compensate nonprofit organizations for the actual cost of delivering programs and services, as well as for reasonable administrative costs.

Policy and Values

1. If services must be rationed, access should be limited in ways that ensure the neediest receive priority rather than by simply creating artificial barriers – such as complicated administrative procedures – that, in effect, serve to reduce costs by preventing people from getting access to services.
2. As a community we must develop policies and strategies that attack the structural deficits that underlie the serious safety-net issues facing our state.
3. The economic realities may require nonprofits to reflect upon and evaluate their organizational relevance – even if it means considering the option of going out of business.
4. Government must not abandon its safety-net role.

In other words, this situation is not just about money; it is about the need for systems change as well. While there is much that safety-net groups can do, this study also reveals that already-overburdened nonprofits cannot be expected to fix the safety-net system on their own. Foundations and government agencies cannot walk away because the problem seems too daunting to them. They must work with nonprofits to figure out how we can: bring needed resources to this work; streamline a redundant and cumbersome monitoring and contracting system so that monies get used in a more efficient and effective manner; and better help the people needing community services today.

But all is not hopeless, even given this grim analysis. Some nonprofits and communities have developed creative, strategic activities and programs that are helping to repair holes in the safety-net, or at least stave off its further tattering. Some county governments are outsourcing their

services and programs to nonprofits so that current levels of community support can be maintained even though there are fewer dollars. Nonprofits are forming collaborations, sharing operating costs or merging with others as a way to do more with less. Especially where these innovative responses are in place, there is reason for guarded optimism about the future. Hopefully nonprofits and the people they serve can survive the current situation and prepare for the hoped-for next upturn in the cyclical economy that plagues California.