



Joint Hearing Assembly and Senate Select Committee on Nonprofit Sector

A Blueprint to Ensure Nonprofits are Supported and Thrive during Future Emergencies

BACKGROUND PAPER

Background

California is home to more than 110,500 organizations registered as 501(c)(3) nonprofits, with at least another 32,270 California nonprofits in other 501(c) categories. California nonprofits generate 15 percent of the state's Gross State Product and bring more than \$40 billion into the state annually from out-of-state sources. In addition to being key economic drivers, nonprofits are also key employers and service providers for communities across our state.

Who Do They Serve?

Nonprofits play a vital role in building healthy communities. They are especially important in supporting areas of high concentration of poverty, communities of color, and rural areas. California's most vulnerable communities including rural areas, and communities of color where homelessness rates are high. Nonprofit services such as homeless shelters, senior food programs, and health programs aim to meet the needs of less affluent communities.

Why Are They Important?

In addition to providing vital social services, nonprofits are also an integral component of California's economy. The nonprofit sector is the fourth largest industry by employment in the state, employing more than 1.2 million Californians.¹ The nonprofit sector's workforce is substantially more diverse in gender and race/ethnicity makeup than the for-profit workforce. For example, people of color make up 29 percent of nonprofit management compared to 12 percent across all industries. Nonprofits also have a significant impact in their communities because of their volunteer workforce, which contributes the equivalent of more than 331,000 full-time jobs each year.

California has a symbiotic relationship with their nonprofits. Nonprofits are the trusted messengers of communities and they are able to reach a population in need where the Government cannot not. Community members count nonprofits to not only provide essential services, but for them to be a voice for the communities they serve. Nonprofits help provide 32% of Medi-Cal services to California communities. They also provide culturally and linguistically competent services to underserved communities. Nonprofits rely on government funding for 30% of the sector's total

revenue. Neither the Government nor nonprofits can be effective without a relationship with each other.

Unfortunately the strong relationship between the community and nonprofits has been challenged with the COVID-19 pandemic.

Nonprofits in the COVID-19 Pandemic

From the beginning of the COVID-19 pandemic, nonprofit organizations have stepped up to meet the needs of our most vulnerable communities while adhering to safety guidelines that have changed day-to-day activities.

These guidelines came with their own challenges for nonprofits with many of them having to close sites such as, homeless shelters, leading to fewer people being served due to social-distancing mandates. Other nonprofits, such as museums and performance venues, had to reduce or close programs altogether, with corresponding losses in revenue.

Although nonprofits have been quick to pivot to ensure ongoing services where possible—moving on-site programs online, for example—they have also encountered challenges in government contracting and have been hampered by increased programmatic expenses to address COVID-related costs.

Many nonprofits that rely on volunteers, including food banks and other basic-needs programs, experienced a significant drop in volunteers willing to help on-site. The pandemic and other challenges, including ongoing underpayment on contracts, have also resulted in workforce shortages in certain parts of the sector.

At the same time, communities are turning to nonprofits more than ever for help with issues exacerbated by the pandemic, including unemployment, food insecurity, evictions, housing shortages, and healthcare and behavioral health challenges. Nationwide, at the worst of the pandemic, roughly 40 million people faced evictions, while roughly 42 percent of the workforce filed for unemployment.ⁱⁱ

Fundraising has also been a challenge for nonprofits, especially with the loss of in-person fundraising events that organizations have historically relied on in the past to secure donations from donors. Many foundations have adapted their grant-making practices and shifted project-based grants to general operating support, while others have focused exclusively on COVID-19 response. Government contracts and grants that support nonprofit programs and services are more important than ever.

With nonprofits facing staff shortages and loss of funding, nonprofits found it difficult to meet the needs of communities in the midst of a global pandemic, leading them to rely on funding through new temporary programs.

What Did the State Do to Help Alleviate the Burden of the Nonprofits?

State and federal relief programs helped many California nonprofits. Thousands of nonprofits received grants through the California Small Business COVID-19 Relief Grant Program, totaling

millions of dollars in awards. The program had a total of nine funding rounds throughout its lifespan, with the first six funding rounds alone awarding \$2,034,395,811 in grant funding to a total of 180,939 small businesses and nonprofits throughout the state.

Nonprofits are also included in the more than 450 performance venues that have been selected so far as awardees through the California Venues Grant Program. Many California nonprofits also benefited from the federal Paycheck Protection Program's forgivable loans. These relief programs are critically supports the nonprofit sector throughout the pandemic.

Government contracting challenges remain as key barriers for nonprofits providing needed services. Nonprofits need flexibility on government contracts during emergencies, prompt payments on submitted invoices, full reimbursement of indirect costs, and advances on contracts so they can avoid taking out loans to cover upfront program costs. Hiring and retaining the nonprofit workforce is also an ongoing concern, particularly in health and human services organizations. Government contracting practices affect the ability of nonprofits to hire and retain staff, as do other policy issues such as student loan debt.

Strong government-nonprofit partnerships are vital to ensure Californians have access to quality services and programs, to support the nonprofit sector as key employers in the state, and to bolster economic recovery, particularly in historically underserved communities.

Below are a few considerations that may help nonprofits in future crisis:

- Government agencies should continue to pay on contracts and grants with nonprofits if they are underperforming due to temporary site closures or suspension of services
- Expedited approval process for budget modifications that do not increase the contract total to move budget-line items to new priorities such as disinfecting sites.
- New emergency funds to address increased costs to nonprofits to support the uninterrupted delivery of essential services that affect public health.
- Waive certain certification procedures during state emergencies so that nonprofits may provide emergency and essential services as needed

ⁱ [California's nonprofits and COVID-19: Letter to Policymakers - CalNonprofits](#)

ⁱⁱ [Warning Signs About the Fragility of Nonprofits in the Pandemic Era | National Council of Nonprofits](#)