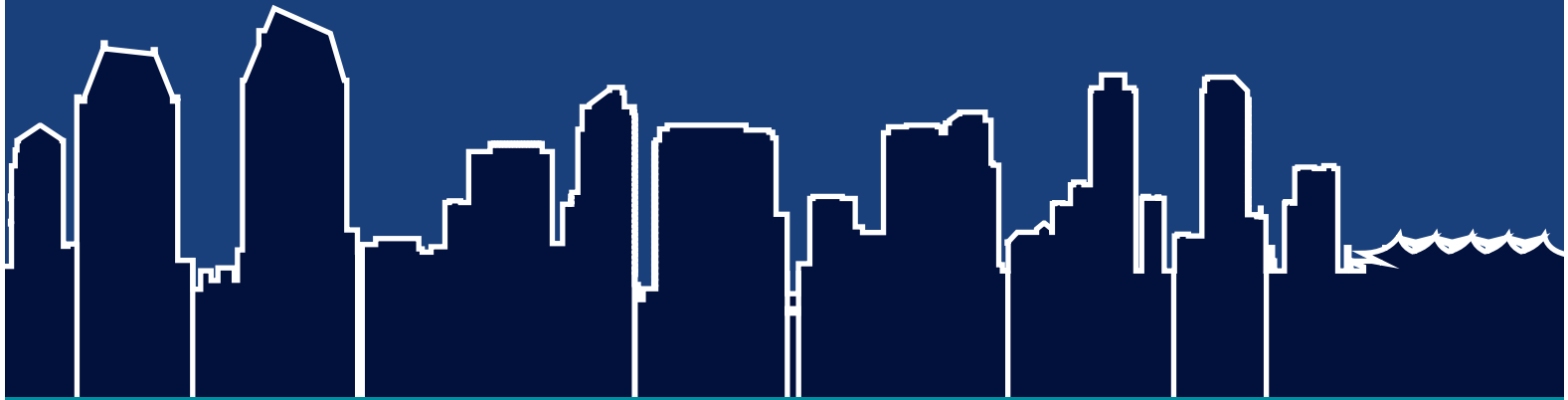


CASTER FAMILY CENTER FOR NONPROFIT AND PHILANTHROPIC RESEARCH



2016

ANNUAL REPORT

STATE OF NONPROFITS & PHILANTHROPY

IN SAN DIEGO



University of San Diego
**SCHOOL OF LEADERSHIP
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ABOUT THE CASTER CENTER:

Housed within the Institute for Nonprofit Education and Research at the School of Leadership and Education Sciences at the University of San Diego, the Caster Family Center for Nonprofit and Philanthropic Research studies issues of strategic importance to the nonprofit sector, with the goal of identifying and advancing best practices in nonprofit research and evaluation metrics. The Caster Center offers resources and products that are grounded in systematic research and have direct applicability to the field. We work in collaboration, and under contract, with nonprofits and philanthropic organizations on a wide range of projects, including needs assessment, program evaluation, theory of change or logic model development, grantmaking impact reports, and board development. We regularly analyze funding, public policy, and environmental trends affecting the nonprofit sector, and publish data about public charities and foundations in California. The Caster Center also serves as an important training facility that enables doctoral students to engage in a variety of nonprofit sector research projects.

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2016 State of Nonprofits Quarterly Index and Annual Report

OVERVIEW

The 2016 State of Nonprofits and Philanthropy report analyzes the health of San Diego's nonprofit sector, identifies important trends, and reports on leadership perspectives.

In addition to an annual summary of the Caster Center's State of Nonprofits Quarterly Index (SONP Index) this report draws on the most recently available data about nonprofits from the Internal Revenue Service (IRS) and the California Employment Development Department (EDD). These data are synthesized with feedback from Trend Reporters¹ along with the 2016 Nonprofit Leader Survey sent to executive level management in San Diego County to provide the most comprehensive picture of San Diego's nonprofit and philanthropic sector available (See Appendix A for more information about data sources).

STATE OF NONPROFITS QUARTERLY INDEX-ANNUAL SUMMARY

In 2011, the Caster Center pioneered the first index of its kind to monitor the economic health of nonprofits: the SONP Index. Published quarterly, the SONP Index tracks seven distinct indicators important to the vitality of the San Diego nonprofit sector: public confidence, individual giving, volunteerism, demand for services, nonprofit job postings, overall San Diego County unemployment, and Trend Reporter surveys. The data provided here represent the average of four quarters in 2015 and constitute the building blocks for this annual report. For additional information about the data collection methods used and the overall SONP Index, please visit the SONP Index website at bit.ly/usdstateofnonprofits.



PUBLIC CONFIDENCE

87% of San Diegans Express Overall Confidence in Local Nonprofits

Public confidence in the nonprofit sector is vital to the sector's existence and sustainability.² The SONP Index consistently finds that at least eight out of ten San Diegans say they have overall confidence in local nonprofits. Additionally, the public expressed a higher level of confidence in San Diego nonprofits to deliver quality services (88%) compared to the government (56%) and the private corporate sector (77%).



INDIVIDUAL GIVING

51% of Households Gave Monetary Donations to a San Diego Nonprofit in 2015

\$183 Average Quarterly Donation Given Per Household in 2015

In 2015, 51 percent of San Diego households gave monetary donations to a local nonprofit. There was an increase throughout the last three quarters of 2015, however the quarterly average dollars given per household decreased 9.4 percent from \$202 in 2014 to \$183 in 2015.

¹ Trend Reporters are participants in a panel of San Diego nonprofit executive directors and CEOs who are called upon to respond to surveys throughout the year.

² Light, P.C. (April, 2008). How Americans view charities: A report on charitable confidence, 2008. *Issues in Governance Studies*, 13, 1-9.



VOLUNTEERISM

37% of Households Volunteered in 2015

26 Average Quarterly Volunteer Hours Per Household in 2015

The percentage of San Diego households that volunteered for a local nonprofit remained steady from 2014 to 2015. The average number of hours that households volunteered per week increased from 23 average hours per quarter to 26 average hours per quarter.



DEMAND FOR SERVICES

Change in Average Quarterly Calls to 2-1-1 San Diego for Basic Needs Services in 2015 vs. 2014³

↑7% Housing/Shelter

↓9% Food

↓18% Income Support and Employment

The SONP Index utilizes data from 2-1-1 San Diego (a local nonprofit that connects people with community, health, and disaster services) to track the demand for vital human services throughout the county. The average number of daily calls for food fluctuated throughout 2015 ending the year slightly higher than it began, while income support and employment services decreased in 2015. This decline is likely related to the steady reduction in overall unemployment in San Diego County, making it possible for more people to meet their most basic needs. Average calls to 2-1-1 San Diego for housing increased in the first three quarters of 2015, followed by a decrease in the fourth quarter.



EMPLOYMENT/NONPROFIT JOB POSTINGS

30% Increase in Nonprofit Job Postings in 2015 vs. 2014

Since the inception of the SONP Index, the nonprofit sector has been leading the economy in terms of job growth, both locally and nationally.⁴ According to NPWorks⁵, San Diego's only website dedicated specifically to nonprofit job postings, there were a total of 3,399 paid positions posted in 2015, up from 2,470 in 2014. There were an additional 466 unpaid positions posted that included skilled volunteering positions and internships, which were down slightly from 472 in 2014.

³ Calculations are an average of the daily calls per month per quarter.

⁴ See "Holding the Fort: Nonprofit Employment During a Decade of Turmoil," Nonprofit Economic Data Bulletin #39. Johns Hopkins Center for Civil Society, 2012.

⁵ See npworks.org

Introduction

In 2006, the Caster Family Center for Nonprofit and Philanthropic Research released its first ever research report titled *A Spotlight on San Diego’s Third Sector*. The report described a vibrant and growing region of nonprofit organizations. Ten years later, this remains an apt description. However, as the data in the report show, the sector has evolved, remaining viable through the Great Recession and transforming itself to meet the changing and complex needs of San Diegans.

Summary of Key Findings

The 2016 State of Nonprofits and Philanthropy annual report analyzes critical aspects of San Diego’s complex nonprofit sector, identifies and tracks important trends, and reports on the perspectives of leaders in the field. This report is organized around three major themes that emerged from the research: growth, stability, and leadership.

In terms of growth, the number of nonprofit organizations is rebounding to pre-recession levels, while revenues and nonprofit employment continue on an upward trend. Nonprofits remain a significant contributor to the local economy. San Diego’s 10,196 registered 501(c)(3) public charities accounted for nine percent of the County’s employment, generated \$14.9B in revenue, \$23.8B in assets, and \$5.6B in total wages.

Financial indicators, patterns of household giving, and volunteering point to a more stable nonprofit sector compared to the previous year. However, the data also show that, on average, San Diego nonprofits have about 1.69 months liquid operating funds on hand, limiting their ability to withstand an unexpected revenue shortfall.

Nonprofit leaders report an increase in demand for their organization’s services and are confronting workforce development issues resulting from changes to the minimum wage and the retirement of many seasoned leaders. These challenges emerge alongside increasing demands from donors for greater efficiency, results-focused reporting, and more collaboration as a means to leveraging limited resources.

SAN DIEGO NONPROFIT SECTOR
AT A GLANCE

10,196
501(c)(3) Public Charities

Total Revenue Total Assets
\$14.9B \$23.8B

Nonprofit Type	% of Total
Arts & Culture	11.5%
Education, Other	21.0%
Environment & Animal	5.7%
Health, Other	10.4%
Higher Education	.5%
Hospitals	.4%
Human Services	33.6%
International	3.5%
Mutual, Public & Societal Benefit	13.4%

Foundations
743 Private Foundations
Assets \$3B
11 Community Foundations
Assets \$964M

Nonprofit Employment =
9% of Total
San Diego Employment
7% of Total San Diego Wages

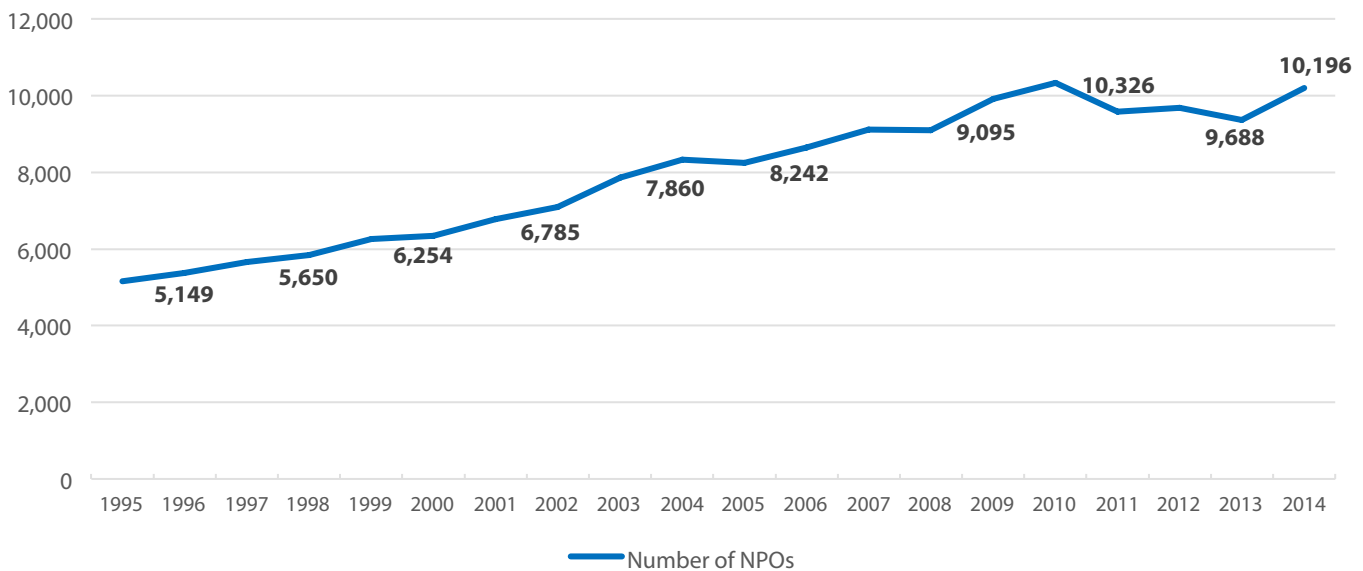
GROWTH

An Expanding Nonprofit Sector

After a three-year decline, the IRS reported 10,196 registered nonprofits in 2014, a noteworthy growth compared to 2013. Figure 1 illustrates the positive trajectory of growth in the number of nonprofit organizations in San Diego since 1995. Additionally, Figure 2 shows that San Diego nonprofits have experienced a similar pattern of growth in total nonprofit assets, revenue, and expenses since 2002.⁶

Figure 1

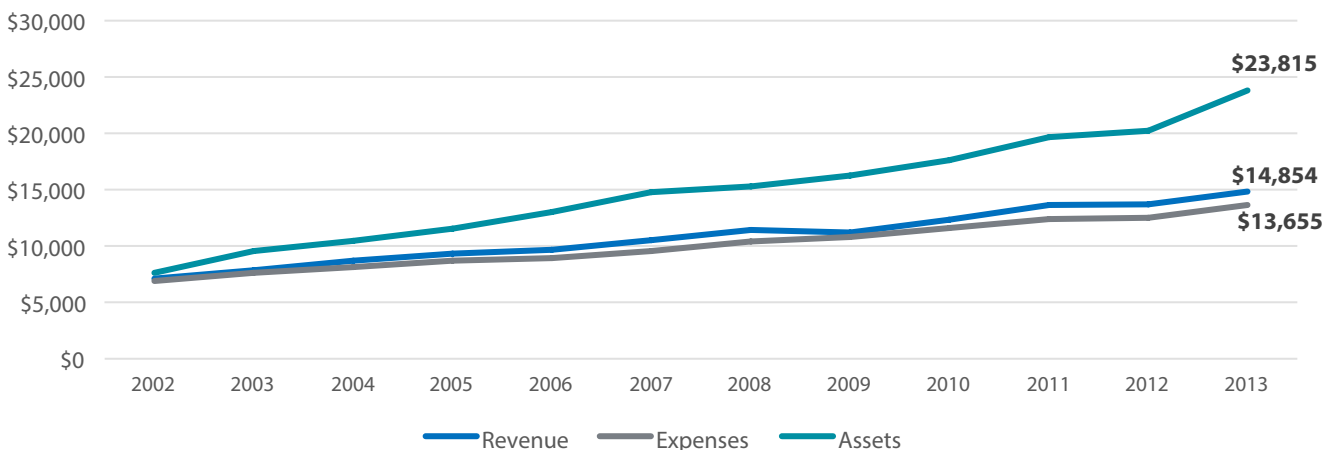
Growth of San Diego Registered 501(c)(3) Public Charities 1995-2014



Data Source: National Center for Charitable Statistics, Urban Institute, Business Master Files, May 2015

Figure 2

Nonprofit Assets, Revenue, and Expenses 2002-2013 (in Billions)



Data Source: National Center for Charitable Statistics, Urban Institute, 501(c)(3) Public Charities Filing IRS Forms 990 and 990-EZ (circa 2013)

⁶ Although the number of registered charities is traced back to 1995 in Figure 1, reliable data about nonprofit assets, revenue, and expenses prior to 2002 were not available for analysis in Figure 2.

Growth in Nonprofit Employment

Nonprofit employment continues to be an important part of San Diego's overall economy comprising nine percent of average quarterly employment and seven percent of total wages in San Diego County in 2014 (the most recent complete year of data available). Continuous growth of nonprofit employment has been well documented in San Diego County and in the United States.⁷ Unlike other major sectors of employment, San Diego's nonprofit employers experienced uninterrupted job growth throughout the Great Recession.⁸ As Table 1 shows, this positive trend continued in 2014 with 2,404 nonprofits reporting paid employees to the California Employment Development Department (EDD), which represents an increase of 11 percent when compared to 2010.⁹ Furthermore, each subsector experienced positive job growth over the same time period, with the Higher Education, Education, Hospitals, Health, and Human Services categories reporting double digit increases in average quarterly employment.

Table 1

Average Nonprofit Employment and Wages in 2014 compared to 2010 by Subsector

	# of NPOs	% of Total	% Change vs. 2010	Avg. Quarterly Employment	% of Total	% Change vs. 2010	Total Wages*	% of Total	% Change vs. 2010
Arts, Culture, & Humanities	161	7%	7%	2,684	2%	7%	\$89M	2%	15%
Higher Education	105	4%	34%	30,675	27%	-8%	\$2.1B	37%	20%
Education, Other	272	11%	21%	12,150	11%	24%	\$438M	8%	24%
Hospitals	71	3%	42%	19,780	18%	12%	\$1.3B	24%	20%
Environment & Animals	76	3%	13%	3,341	3%	5%	\$127M	2%	16%
Health, Other	453	19%	4%	13,050	12%	3%	\$609M	11%	13%
Human Services	817	34%	6%	23,124	21%	13%	\$622M	11%	13%
International	36	2%	7%	300	0%	21%	\$16M	0%	24%
Public & Societal Benefit	175	7%	4%	3,690	3%	3%	\$205M	4%	11%
Religion	238	10%	16%	3,589	3%	-2%	\$113M	2%	12%
Total	2,404	100%	11%	112,381	100%	6%	\$5.6B	100%	18%

Data Source: Labor Market Information Division, California Economic Development Department, 2014

* B=Billions; M=Millions. Numbers have been rounded.

⁷ Deitrick, L., Durnford, J., Masaoka, J., & Woelslegl, K. (2014). Causes Count: The economic impact of California's nonprofit sector. Technical Report, CalNonprofits, San Francisco, CA.

⁸ Ibid

⁹ Labor Market Information Division, California Economic Development Department, 2014. Limitations: No data were provided for categories with less than three employer accounts.

Hiring Trends Point to Additional Job Growth

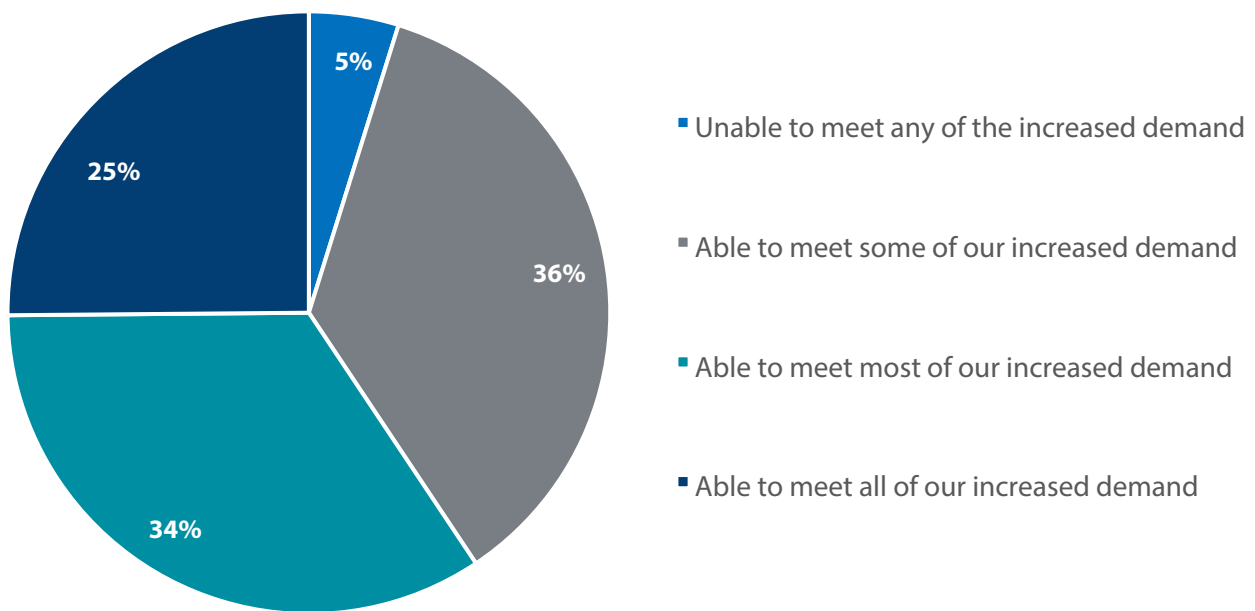
The Caster Center has been tracking nonprofit job postings since 2010 as a component of the SONP Quarterly Index. Aligning with the findings of the SONP Index, survey respondents expressed that 58 percent intended to hire someone to fill at least one newly created position in 2016 while only 20 percent planned to eliminate at least one paid position in 2016. Three-quarters of the organizations that reported intending to create new positions were not planning to downsize. Unless a major economic downturn occurs, according to local leaders, the nonprofit sector is likely to add more jobs in the near future.

Increasing Demand for Nonprofit Services

Despite a decrease in calls to 2-1-1 San Diego for basic need services as reported in the SONP Index, 86 percent of survey respondents reported that demand for their organization's services has increased in the last 12 months. As Figure 3 shows, 70 percent of respondents indicated that some portion of demand went unmet, while 25 percent reported that they were able to meet all of the increased demand. Unmet demand for services could contribute to continued growth in the sector.

Figure 3

Nonprofit Leaders' responses when asked: "To what extent has your organization been able to meet reported increased demands for your services?"



Data Source: Caster Center for Nonprofit and Philanthropic Research 2016: Nonprofit Leader Survey

STABILITY

Financial Outlook

Data gathered for this report indicate that San Diego's nonprofit sector is operating in a more stable environment than in previous years. Sixty percent of nonprofit leaders described their general financial health as "somewhat strong" or "very strong," representing a seven percent increase over the last 12 months.¹⁰ Furthermore, 92 percent of nonprofit leaders believe that their fundraising outlook and the overall financial health of their organization will be about the same or better in 2017.

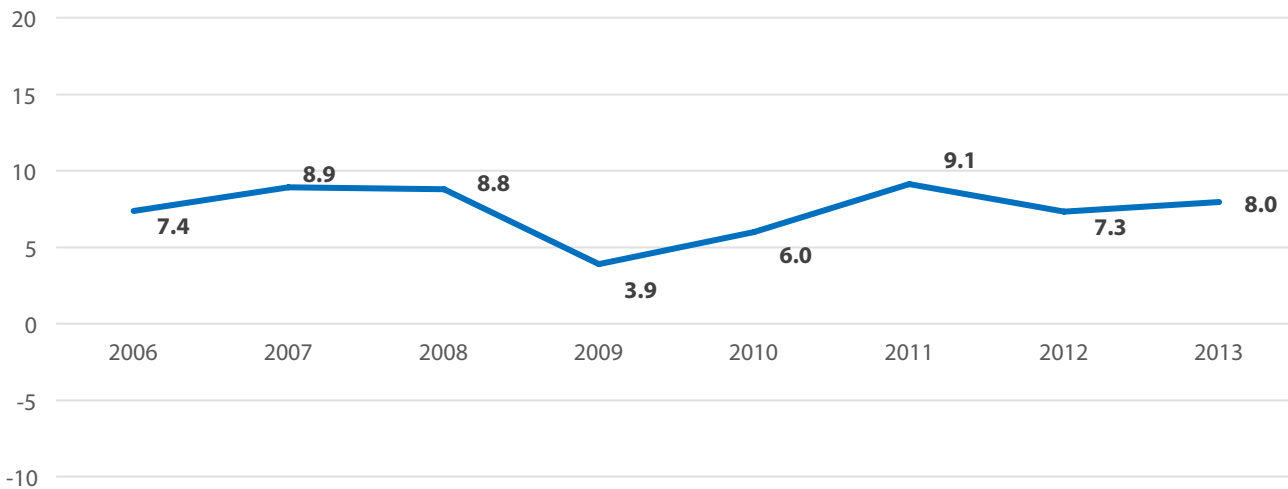
92% percent of nonprofit leaders believe their fundraising outlook and the overall financial health of their organization will be ***about the same or better*** in 2017.

Financial Surpluses

To supplement survey findings, financial metrics for the sector were analyzed using data provided to the IRS by nonprofits. The first financial metric is the operating margin also known as the profit margin. This is an important measure because it measures the extent to which an organization's annual revenue exceeds its expenses. The operating margin is calculated by taking net income (revenue less expenses) and dividing by total revenue and answers the question, "What percentage of total revenue is profit?" A consistently negative value indicates that the organization is not covering its operating expenses. Figure 4 indicates that, collectively, the San Diego nonprofit sector's operating margin is returning to pre-recession levels with an eight percent margin in 2013, double the low point of 3.9 percent in 2009.

Figure 4

San Diego Nonprofit Average Surplus Margin Ratio 2006-2013



Data Source: National Center for Charitable Statistics, Urban Institute, 501(c)(3) Public Charities Filing IRS Forms 990 (circa 2002- 2013)

¹⁰ Deitrick, L., Schumann, M.J., Bukalova, D., Hunt, K., & Trull, C. (2015). Annual Report: State of Nonprofits and Philanthropy in San Diego. San Diego, CA: Caster Family Center for Nonprofit and Philanthropic Research, University of San Diego.

Financial Position

An additional financial indicator that measures a nonprofit’s short-term financial health was analyzed. In general, short-term measures speak to the ability of a nonprofit to pay its current bills. The short-term measure introduced in this report, the “Liquid Funds Indicator” (LFI) is a measure of how many months a nonprofit can cover its operating costs given its current level of unrestricted liquid net assets and assuming no additional revenue inflows. In other words, the LFI answers the question, “How many months can a nonprofit operate if there is a disruption in its revenue streams and it is no longer able to generate income?” As Table 2 shows, on average, nonprofits in San Diego County can operate for about 1.69 months if no additional income is generated. This is comparable to the state median LFI value of 1.74.

Table 2
Liquid Funds Indicator (LFI) San Diego County Compared to California

Liquid Funds Indicator (LFI) Median for All Organizations (Excluding Higher Education and Hospitals)	Months of Cash on Hand
San Diego	1.69
California	1.74

Data Source: National Center for Charitable Statistics, Urban Institute, 501(c)(3) Public Charities Filing IRS Forms 990 (circa 2013)

As a reference, Charity Navigator rates an organization as being moderately healthy if it has a working capital ratio of three to six months. While there are some differences in the “working capital” ratio used by Charity Navigator and the LFI used in this report, the two measures address the same question, “How long can an organization sustain its programs without generating new revenue?” (See Appendix B).

An LFI of 1.69 demonstrates a level of fragility of nonprofits not just in San Diego but also for the state. Nonprofits appear to operate “hand to mouth” with enough liquidity to operate for less than two months if any disruption in revenue occurs. This suggests the need for nonprofits to consider how they may begin to build their reserves for emergency needs.

LIQUID FUNDS INDICATOR

In the for-profit sector, one can simply examine the organization’s cash position to determine its liquidity because all excess profits (e.g., revenue minus expenses) and net assets (i.e., assets minus liabilities) are unrestricted and thus can be used for whatever purposes the company chooses. For nonprofits, on the other hand, one cannot simply examine its cash position as a measure of liquidity because some of this cash may be restricted. Therefore differentiating between excess net assets that are restricted (temporarily or permanently) and unrestricted is necessary. Restricted assets are generally used for specific programmatic purposes (i.e., scholarship or endowment) and cannot be used for normal operations (e.g., rent or salaries). Only the unrestricted portion of net assets can be used for operations or other general purposes. Therefore, unlike the for-profit sector, to determine a nonprofit organization’s true liquidity, one must differentiate between unrestricted and restricted net assets. The liquid funds indicator (LFI) does just that; it is an important measure of nonprofit liquidity as it only considers unrestricted net assets (Please see Appendix B) for a more detailed discussion of this measure.

LEADERSHIP

Several notable trends emerged from the analysis of nonprofit leaders' responses to the 2016 Nonprofit Leader Survey that directly impact the leadership of San Diego nonprofits. The majority of the issues identified by San Diego nonprofit leaders involve their relationships with donors, especially institutional funders such as government, corporations, and foundations. Nonprofit leaders discussed the positive and negative aspects associated with increased donor involvement, a growing sense of competition between organizations, feeling pressure for more collaboration that may be rooted in shifting donor perspectives, a growing awareness about the need to understand and support operating costs, a greater focus on data and impact measurement, and workforce development challenges.

Nonprofits and Funders

Nonprofit leaders noted a greater level of donor involvement in every-day operations and they discussed some of the advantages and challenges. One survey respondent said, *"One of the biggest trends I have been seeing is funders' engagement into the process and programming. It seems funders want to be engaged and work with the nonprofits."*

Increased donor involvement can create improved relationships between a funder and nonprofit if it leads to greater mutual understanding and trust on both sides. One survey respondent observed that these types of beneficial partnerships are occurring and stated, *"Donors are more involved in program work both tactically and in planning, nonprofit professionals move back and forth to the funding side of the table as well. I think that the more fluid these designations can become, the better."*

Some nonprofit leaders expressed some uneasiness about greater donor involvement particularly when funders exhibit a top-down approach in imposing their mindsets. One nonprofit leader noted, *"there is increasing involvement of private funders in setting policy and program direction/design [without input from] community leaders."* Several survey respondents raised concerns regarding the relative power funders have compared to their grantees and the communities served. However, a different respondent noted an increased willingness among nonprofit leaders to take issue with *"the dominance of big donors who expect to control and dictate to their grantees."* Ultimately, the resolution of these issues must be rooted in an ongoing and honest dialogue between nonprofits and the entities from whom they receive support.

DONOR INVOLVEMENT

"As the current senior generation of philanthropists and family foundations move along, what can be expected from the boomers and the millennials? How are they going to carry community benefit interests and support forward? How well are current NFP's preparing for the shift in 'I trust your organization - here's a check' to 'I only have a small check but want to be involved big in helping run your organization'."

San Diego Nonprofit Leader

Competition and Collaboration

San Diego’s nonprofit leaders described an increasingly competitive environment, driven in part by the growing number of new, small nonprofits. Similar to the national nonprofit sector, Table 3 shows San Diego’s sector is comprised primarily of small organizations with revenues less than \$50,000 and 82 percent of the sector reporting annual revenues at or below \$250,000. Many of these small organizations are neighborhood-based groups established to address specific issues and causes important to local communities, and in many instances, they are run solely by volunteers. These organizations often provide to local communities the types of services not available from government agencies or the business sector. However, the small size also comes with challenges, including limited resources and capacities to fully address the needs of the community.

Table 3
Percent of San Diego Nonprofits by Annual Reported Revenue

Total Revenue	% of Nonprofit Organizations
\$50,000 and Below	62%
\$50,000 to \$250,000	20%
\$250,000 to \$1million	9%
\$1M to \$5 million	5%
\$5M to \$10 million	1%
Above \$10 million	2%

Data Source: National Center for Charitable Statistics, Urban Institute, 501(c)(3) Public Charities Filing IRS Forms 990, 990-EZ, and 990-N (circa 2013)

One solution to the challenge created by the growing abundance of nonprofits is greater collaboration across organizations, a desire regularly expressed by funders and captured by the SONP Index and other Caster Center studies.¹¹

Expressing the important role that funders play in successful collaboration, one nonprofit leader said, “The philanthropic sector is helping increase collaboration and service coordination among nonprofits which is crucial to better and more efficiently serve San Diego residents.” Despite this positive acknowledgement, responses from the Nonprofit Leader Survey suggest that a better understanding is needed of the true costs associated with collaboration given that many funders require collaborative programming. One survey respondent reflected this idea observing, “A greater appetite for collaboration among community-based organizations exists, but there remains a lack of investment by the philanthropic community in the infrastructure and costs of collaboration and backbone organizations.”

COMPETITION

“The imminent increase in the minimum wage (cost of labor) along with tight state budgets and increased competition for the donated dollar will require this sector to create efficiencies including reduction of some programs. Some will weather the storm with only minor bruises, others will feel severe effects in year three or four, and yet others may disappear completely.”

San Diego Nonprofit Leader

¹¹ Deitrick, L., Schumann, M.J., Bukalova, D., Hunt, K., & Trull, C. (2015). Annual Report: State of Nonprofits and Philanthropy in San Diego. San Diego, CA: Caster Family Center for Nonprofit and Philanthropic Research, University of San Diego; and Schumann, M.J., Jones, J.A., Hunt, K., Mitchell, C., Krasynska, S., and Deitrick, L. (2014). Annual Report: State of Nonprofits in San Diego. San Diego, CA: Caster Family Center for Nonprofit and Philanthropic Research, University of San Diego.

Operating Costs

Publications such as *The Nonprofit Starvation Cycle*¹², *The Overhead Myth*¹³, and initiatives such as the Real Cost Project¹⁴ and the Nonprofit Overhead Project¹⁵ are driving an important discussion about nonprofit overhead¹⁶ as a widely accepted, but arguably inadequate, measure of organizational performance. One nonprofit leader observed that, “the subject of overhead and indirect costs often eclipses more important conversations about services, outcomes, and overall impact.” Reflecting on the issue of overhead, another nonprofit leader said, “Discussions regarding overhead costs is critical for organizations to continue to provide services.”

As reported in Table 4, despite a growing awareness about the misconceptions associated with nonprofit overhead,¹⁷ 81 percent of survey respondents reported that they agree that San Diego nonprofit organizations feel pressure to conform to both funders’ and the public’s expectations for low overhead.

DIALOGUE ABOUT COSTS

“I think that there needs to be communication about the importance of investing in employees and management. There is a bias that organizational operational expenses should be low, yet we are demanded to provide quality, well managed services and outcomes. I think there should be an emphasis for donors to invest in personnel and operational support.”

San Diego Nonprofit Leader

Table 4

Nonprofit Leader Survey Responses When Asked: Please indicate your level of agreement with the following statements: San Diego nonprofits...

	Strongly Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Strongly Agree
Feel pressure to conform to funders' expectations for low overhead	6%	4%	8%	33%	49%
Feel pressure to conform to the public's expectations for low overhead	6%	4%	8%	33%	49%
Skew funding toward programmatic activities to appear "leaner"	13%	10%	18%	45%	14%
Skew funding reporting toward programmatic activities to meet guidelines of charity rating organizations (e.g. Charity Navigator, Guidestar, Better Business Bureau)	15%	9%	19%	43%	14%

Data Source: Caster Center for Nonprofit and Philanthropic Research 2016: Nonprofit Leader Survey

¹² Goggins, A. and Howard D. (Fall 2009). *The Nonprofit Starvation Cycle*. *Stanford Social Innovation Review*.

¹³ Overhead Myth. (2016). *The Overhead Myth: Moving Toward an Overhead Solution*. Retrieved from <http://overheadmyth.com/>

¹⁴ Northern California Grantmakers. (2016) *The Real Cost Project: Real Costs – Real Outcomes*. Retrieved from <http://realcostproject.org/about/real-cost/>

¹⁵ CalNonprofits. (2016). *Nonprofit Overhead Project*. Retrieved from <http://calnonprofits.org/programs/overhead>.

¹⁶ Note: There are numerous working definitions of nonprofit overhead. As used in this report, the term overhead is meant to generally capture administrative and fundraising costs. See: <http://overheadmyth.com/faqs/#q1> and <http://blueavocado.org/content/board-members-guide-nonprofit-overhead>.

¹⁷ Wing, K. and Hager, M. (2004). *Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness*. Washington, D.C.: Nonprofit Overhead Cost Project/Urban Institute.

What is not so obvious is how these perceived pressures to conform actually influence management behavior in nonprofit organizations. As Table 4 indicates, nearly six out of ten respondents agreed that nonprofit organizations skew funding toward programmatic activities to appear leaner (59%) or to meet charity rating guidelines established by third party watch dog and accreditation organizations (57%). When

MANAGING DATA

"For me personally, it feels like the problem is information overload. I'm overwhelmed by the continually-shifting horizon of newly-compiled information that can and should affect our decisions. If I only had the time and capacity to absorb and apply it at the local level."

San Diego Nonprofit Leader

asked if San Diego nonprofit organizations under-report costs, survey respondents agreed that this occurs with administrative and overhead costs on tax forms (38%) and with fundraising costs (37%). As these data indicate, nonprofit overhead remains an important topic for the sector, particularly as the nonprofit workforce becomes more professionalized and the need to retain and recruit qualified talent increases.

Data and Impact Measurement

The discussion of outcomes and impact measurement continues to be a trend in San Diego's nonprofit sector. As one survey respondent said, *"The landscape is changing - the communication is shifting. It's about impact. What your program(s) or organization is doing to move the needle in whatever area you are focused."* Despite a general agreement between leaders about the importance of measuring success, the capacity to document tangible outcomes remains elusive for some nonprofits. For example, when asked about building their organization's capacity, survey respondents identified *"assessing outcomes and impact"* as their top program capacity challenge.

Evaluating outcomes and collecting meaningful data is costly and many nonprofits struggle not only with the additional expenses, but also with the effective use of what one respondent described as an *"overwhelming"* amount of data to shape future programmatic decisions. This was articulated by another nonprofit leader who conveyed, *"Our increasing embrace of technology and social media is particularly striking to me, specifically, our wealth of new databases, information-sharing, and online outreach options. It's striking to me because, having taken numerous trainings and connecting to multiple data sources, mapping applications, etc., I don't feel particularly better informed or equipped."*

The need to articulate a clear program theory and demonstrate outcomes creates tensions for nonprofits about how to appropriately collect and analyze data. Nonprofits, ideally in partnership with their funders, need to establish effective procedures to proactively and strategically decide what data to collect, how to analyze it, and how to turn the evidence into lessons for improving program activities across the organization.

MEASURING SUCCESS

"I believe donors want to see the specific outcome that their donations have on an organization. Mission support is important, but more specifically where are the dollars being directed to and what measurable impact are they having. Future support is contingent on being able to demonstrate this."

San Diego Nonprofit Leader

POLICY CHANGES

Many nonprofit leaders expressed concern about workforce policy changes that have the potential to impact the management of San Diego nonprofits in the future.

"I support the regular adjustment of minimum wage, however, with each year of increase and no concomitant rate adjustment, nonprofit corporations will see a declining ability to absorb the costs without closing services."

"California wage law has, and will continue to, severely impact the nonprofit sector. Without additional funds from local, state and federal government sources, services will be greatly impacted."

"The impact of what appears to be innocuous laws, turn into financial burdens for the smaller nonprofit. This may have direct relevance to philanthropic endeavors as most funders are not overly joyed to grant money for operations."

"With new sick leave hours for part timers that impact our organization... higher minimum wage [and] potential higher exempt wages... trends in this area need to be addressed in a large scale manner."

San Diego Nonprofit Leaders

Workforce Development

Staffing nonprofit organizations with highly qualified individuals in leadership, early management, and entry-level positions was identified as a growing challenge. Leaders viewed the staffing challenge among lower-level positions as coming from a dearth of talent in the nonprofit sector. One survey respondent commented, *"Being able to find suitably qualified employees committed to the mission is an ongoing challenge. There are many nonprofits vying in a limited pool of talent which tends to favor the larger nonprofits who are able to offer more comprehensive package of benefits."* Another respondent noted a *"difficulty retaining entry level and early management due to higher wages [being paid] at the County or at private providers."*

Leadership Transitions

Leadership transitions represent an increasingly important issue affecting the San Diego nonprofit sector. The long predicted exodus of seasoned baby boomer leaders is coming to fruition fueling turnover at many of San Diego's established nonprofits. Such leadership transitions pose both a challenge in terms of being able to recruit talent capable of navigating many of the external pressures described previously, but also afford new opportunities for nonprofits to innovate and evolve as organizations and a major sector of the San Diego economy.

A key challenge faced by many nonprofits locally and nationally is how to replace leadership positions and where to recruit such talent. Research shows a growing gap between demand for nonprofit senior personnel and supply generated within the sector.¹⁸ Furthermore, boards of directors appear to be recruiting new leadership from outside of the nonprofit sector. *"Nonprofit executive directors who are retiring are being replaced by 'establishment' people from the government, business and civic sectors rather than from [the existing pool of] trained nonprofit professionals with experience and training,"* explained one nonprofit leader. Dubbed as "sector-switchers", successful leaders from government and the corporate sector sometimes struggle with the many

competing demands and nuanced management issues associated with leading a nonprofit organization, a trend that points to a need for more leadership development within the nonprofit sector.

¹⁸ Tierney, T., (2006). The Nonprofit Sector's Leadership Deficit. The Bridgespan Group.

Conclusions

Collectively, the data presented in this report paint a mixed picture of opportunities and challenges for San Diego's nonprofits and their leaders, much of which has been fueled by a growing sector. In addition to charitable donations, nonprofits are competing against each other, the government, and for-profit sectors for talented and qualified staff, as well as for clients. Moreover, the inability of nonprofits to fully meet **increased demand services will likely drive additional growth in the number of nonprofits** in the future.

Responding to the competitive environment, funders are seeking meaningful measures to assess nonprofit performance in order to guide their funding decisions. Funders are recognized as a key driver of the growing emphasis on demonstrating impact.¹⁹ However, to meet funder requirements for efficacy, nonprofit organizations must be able to allocate sufficient resources (money and staff time) to provide quality services *and* to measure success. If donors remain the main driver of a focus on outcomes and impact, this agenda may remain shallow and nonprofits may continue to view it as something imposed on them by external actors. Nonprofits, therefore, should internalize the focus on outcomes as a condition for continued learning and improved program delivery. Furthermore, nonprofits that successfully measure and report on outcomes will be better positioned to thrive in a competitive environment. Accordingly, **leaders of San Diego nonprofits should engage in meaningful dialogue with their funders about performance outcomes** to ensure measures are valid and are not expected to conform to a "one size fits all" approach.

One recognized solution for meeting increased demand for services and addressing systemic social problems is greater collaboration amongst individual nonprofits as well as with the government and for-profit sectors. Working collaboratively is something of a paradox for nonprofits given the competitive operating environment. However, when collaboration is mutually beneficial, it can create opportunities to improve the quality of services provided. When collaboration is forced, it can create challenges related to the resource demands that collaborations require. Therefore, **effective models for collaboration are needed and the true costs of collaboration must be identified** and included in the budget of any collaborative effort.

Workforce and leadership development in the sector is a critical but often overlooked component to nonprofit success. Attracting, developing, and retaining qualified candidates remains a concern for nonprofit leaders. **Ongoing professional development is needed** to ensure a pool of qualified candidates to fill leadership positions at San Diego nonprofits in the future. Additionally, nonprofit leaders and their boards need to **strategically plan for the impact of the increased minimum wage and work with policymakers to mitigate any negative repercussions** from this and other workforce policy changes.

While this report highlights several challenges, it also supplies evidence that sector leaders are responding accordingly. Perhaps most importantly, it appears that there are honest conversations underway that could lead to productive solutions and, ultimately, an even stronger and more vibrant San Diego nonprofit sector.

¹⁹ Major, Dara and Kathy Brennan 2011. How Do We Build the Capacity of Nonprofits to Evaluate, Learn and Improve? Washington, DC: Grantmakers for Effective Organizations.

Appendix A: Description of Data Sources

Internal Revenue Service (IRS) Forms 990

This report utilized data from 501(c)(3) public charities filing IRS Forms 990, 990-EZ, and 990-N derived from state and national archived datasets from The Urban Institute's National Center for Charitable Statistics (NCCS) and the IRS. This included all IRS Form 990 returns filed by San Diego nonprofits and processed by the IRS as of December 2014. The data represented the latest fiscal year that information was available; a small portion of the returns were from FY 2012, therefore, these data were referenced as "circa 2013." The study also utilized the following NCCS databases made available through a subscription to the NCCS DataWeb (<http://nccsdataweb.urban.org>). They included:

- IRS Business Master File (BMF) Exempt Organization extracts (2011-2013)
- NCCS Core Public Charity Files (Form 990 and 990-EZ Returns, c. 2004 through c. 2013)
- NCCS IRS 2013 Revenue Transaction File (RTF) extract of Forms 990 and 990-EZ (c. 2013)
- NCCS IRS 990-N archives (c. 2013)

Unless otherwise noted, the data used for the report were limited to 501(c)(3) public charities. While churches and other religious organizations are recognized as part of the nonprofit landscape, their numbers and activities are largely underrepresented in IRS data because most are exempt from IRS registration and annual filing requirements. Although some religious organizations do elect to file with the IRS, many do not; therefore, religious organizations are excluded from the IRS and NCCS databases. Because of this undercounting and the potential for misrepresentation inherent in IRS nonprofit data, religious organizations identified by NTEE as classification code 'X' were not included in the report, unless otherwise noted. In addition, foreign-based organizations that operate within California and a small number of large California public charities that operate almost exclusively outside of California were also not included in the study.

The California Employment Development Department (EDD)

The California EDD supplied the nonprofit employment and wage data, as well as information about employment in select California industries. These data were derived from the 2010 and 2014 U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW) (<http://www.bls.gov/data/#wages>). QCEW data are developed through a cooperative program between the individual states and the U.S. Bureau of Labor Statistics. EDD data are subject to confidentiality restrictions. Specifically, the EDD does not release the names of individual employers and, to further promote confidentiality and representativeness, no single employer can account for 80 percent or more of the total employment in any of the data provided.

Annual Nonprofit Leader Survey

The Caster Family Center for Nonprofit and Philanthropic Research invited nonprofit leaders throughout San Diego County to complete the Nonprofit Leader Survey in March 2016. A total of 262 nonprofit leaders representing more than 185 nonprofits and foundations across all subsectors responded to the survey. The majority of the respondents were white (81%) and female (63%) and had worked in the nonprofit sector for an average of 17.3 years. The survey consisted of 30 questions asking leaders about 1) their perspectives on trends in the sector and 2) their organization's economic health, demand for services, staffing, and capacity building needs.

Caster Center Giving and Volunteering Survey

Administered quarterly by Luth Research, a San Diego market research firm, the Caster Center Giving and Volunteering Survey monitors key indicators such as volunteerism, individual giving, and confidence. An average of 500 unique San Diego residents respond to the survey each quarter. The survey sample is representative of San Diego's population.

Appendix B: Liquid Funds Indicator

The “working capital” ratio used by Charity Navigator includes temporarily restricted net assets, whereas the LFI measure in this report excludes temporarily restricted net assets. The “working capital” ratio also uses a three-year average for expenses while the LFI only uses one year of expenses. Finally, Charity Navigator also differentiates “working capital” ratios based on the “causes” that nonprofits are engaged (i.e., environmental, food banks, etc.). The comparison made in this report is against the working capital ratios for “general” nonprofits as defined by Charity Navigator. For further details on Charity Navigator’s metrics, see (<http://www.charitynavigator.org/index.cfm?bay=content.view&cpid=35#PerformanceMetricSix>) and (<http://www.charitynavigator.org/index.cfm?bay=content.view&cpid=48#Rationale>)