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Facts & Fallacies 2001

Setting the Record Straight on California's Nonprofit Community

By Florence L. Green and Kathy Crabb

Published by The Nonprofit Policy Council
The independent public policy advisors to the California Association of Nonprofits

California Association of Nonprofits

Mission Statement: The California Association of Nonprofits (CAN), a statewide membership organization of over 1,750 diverse nonprofits, works to expand and strengthen the influence, professionalism and effectiveness of nonprofit organizations in a manner that builds their capacity to accomplish their missions and preserve the idealism and value of nonprofit organizations in California.

CAN believes that broad nonprofit involvement in the development and implementation of public policies is at the heart of building a healthy and robust civil society. To that end, CAN formed the Nonprofit Policy Council (NPC), a group of 35 nonprofit leaders representing the nonprofit sector, who serve as an independent advisory body providing direction and focus to CAN's public policy work. Working in partnership with the NPC is a network of Regional Partners located throughout California that act as a bridge from the NPC to thousands of local nonprofit organizations.

Nonprofit Policy Council

Statement of Purpose: The mission of the Nonprofit Policy Council is to shape public policy for the benefit of nonprofit organizations and the communities they serve. Primary areas of concern are to:

- Protect the special role of nonprofits in society.
- Support the principle of community-centered problem solving and programming. Those solutions, whether for economic, political or public benefit, must be accountable to the community and its citizens.
- Promote increased incentives for public donations and charitable contributions to nonprofit organizations, and adequate reimbursement for nonprofit program, administrative and indirect costs.
- Ensure that nonprofit representatives are included in public discussion and decision-making that affect the nonprofit sector and their constituents.
- Oppose initiatives that silence the sector and/or limit lobbying.
- Reject any unnecessary restrictions on nonprofit efforts to deliver services and respond to individual, community and/or state needs.

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Revised & Updated!

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Facts & Fallacies was truly a group effort, one that we hope will stimulate further group efforts between the nonprofit sector, government agencies, private businesses, the media and others with the goal of building a better future for our state.

—Florence L. Green and Kathy Crabb
Co-Authors, *Facts & Fallacies 2001*

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A Short History of the Nonprofit Sector

Without government funding, healing experiences for children with disabilities will be less available.

The nonprofit sector today is bigger, more diverse, more organized and more controversial than ever. Its leaders are more professional, more confident, more involved in public policy and more assertive than in previous decades. Nonprofits have always been part of the American commercial market-driven economy, but today they are more commercial than ever before.

Donors now give in record amounts – $190.16 billion in 1999 – yet individual giving remains around two percent of income, as it has since 1973. Giving has almost doubled over the last ten years with 93 percent growth. The nation's recent prosperity has doubled the number of foundations since 1989 to more than 47,000 today.

Growth of the nonprofit sector has not come easy. The civil rights movement, President Johnson's Great Society, President Nixon's New Federalism, and now devolution have greatly shaped how the nonprofit sector looks today. Our growth may have been inevitable. But it might not be permanent.

Four-Hundredth Birthday: The year 1601 marks the passage of the Statute of Charitable Uses, in which the British government outlined for what purposes private monies – that is, monies not being channeled through the government via taxation – could be used for the public good. Until that time, it was rare to direct money, upon death, to any other purpose than the benefit of one's heirs.

To this day, the statute echoes in current United States laws that define the boundaries of the nonprofit sector: that is, in the Internal Revenue Code, which details 21 different types of nonprofit organizations. But the nonprofit sector we know today is the result of far more than a single statute passed in a single year. If the Statute of Charitable Uses is the nonprofit sector's legal forerunner, then the British Charter of Rights (1688) and the US Bill of Rights (1791) are its philosophical forerunners, promulgating the freedoms that paved the way for the nonprofit sector.

Freedom of religion: The search for religious freedom is an oft-cited catalyst for the birth of the United States. Soon to follow religious freedom was the principle of separation between church and state. "The First Amendment," claims Michael O'Neill, former director of the Institute for Nonprofit Organization Management, University of San Francisco, "excludes from government control a large and powerful area of organizational activity because of its intrinsic closeness to the human spirit."[1]

Religious convictions have long been a springboard for nonprofit activities. The religious community has also had a deep impact on education, health care, human services, arts and advocacy. Religious organizations have driven conversations about issues like the teaching of evolution, institutionalized racism, environmental degradation and nuclear disarmament. Religious freedom has prompted the creation of a vast network of Catholic and other faith-based schools, hospitals and human services groups.[2] The religious resurgence of the mid-twentieth century spawned the civil rights movement, which was grounded in African-American churches, as well as the fundamentalist Christian movement. Even today, faith-based organizations are increasingly recognized as key providers of services, especially in the wake of welfare reform.

Freedom of expression, assembly and petitioning government: The work of the nonprofit sector does not please everyone. We promote diversity, freedom of expression and the rights of individuals to form associations. We reflect popular forces that are not easily reversed. We have at times served the wealthy and we also serve the poor, people of color, women and gay people. During the civil rights movement, nonprofits persuaded federal courts to end a practice that denied many people the right to form nonprofits, hence the First Amendment right to assembly, petition, publish and act on one's beliefs became more universally applied.

Concerned about more than religious freedom, America's young nonprofit sector also began to cast an ever-wider net over social issues including the anti-slavery movement, women's rights, workers' rights and environmental protection. Nonprofit activities to preserve and promote freedom of expression branched into every aspect of our lives. Educational and arts and culture organizations continue to be places of hot controversy over how much freedom of expression should be allowed. And with nonprofits committed to such varied principles as the right to life, the right to choice, the right to bear arms and gun control, we are a very diverse sector.

Today, 83 percent of Americans donate to charities.

While these freedoms have helped to define and nurture the nonprofit sector, the sector has, in return, helped to define and nurture those same freedoms. It was a nonprofit organization that created the country's first women's college, Mount Holyoke Seminary (now Mount Holyoke College), in 1837.[3] A New Orleans nonprofit girls' school was racially integrated as early as 1727.[4] It was a nonprofit that forged the first mental health care model to reject imprisonment and support compassionate, one-on-one counseling.[5] Early priests in the western territories fought against the enslavement and other cruel treatment of Native Americans.[6] Nonprofit universities like Johns Hopkins and MIT pioneered educational models that were forerunners to the research, science and technological methods we take for granted today.[7]

Charitable Giving: The year 1913 brought Americans the income tax, and in 1917 Congress passed a bill that allowed people to take an income tax deduction for gifts to charity. There was not much impact at first because Americans did not have much income. But after World War II, US wages increased dramatically and suddenly millions were paying income taxes – and beginning to take advantage of the charitable deduction write-off. Today, 83 percent of Americans donate to charities.[8]

After World War II, nonprofits began to contract with the federal government for scientific, defense-related and medical research. In the late 1960s, federal money became as important as philanthropy. President Lyndon Johnson's Great Society fundamentally altered the size, scope and funding of nonprofits. Government funding began to rival charitable donations. By the late 1970s, government funding was larger than private giving. Today it makes up one-third of total nonprofit budgets while private giving is just one-tenth of our total revenue.

In 1960, nonprofits comprised just three percent of the economy – up from one percent 150 years earlier. Forty years later, nonprofits made up nearly nine percent of the economy. Half of this growth is due to federal spending for nonprofit services. Now, reduced government funding challenges nonprofits' ability to provide services.

Fueled by economic growth in the 1950s and 1960s, nonprofits began to use professional fundraisers, and the National Society of Fundraising Executives (NSFRE), now called the Association of Fundraising Professionals, was founded. The boom in fundraising led to abuses. In 1950, New York broke ground by regulating professional

fundraisers through requirements to register and report on their activities annually. By 1964, more than two dozen states had followed suit.

As private giving grew, so did corporate giving. The courts and Congress widened corporate support of nonprofits to the $9 billion it is today. High income and estate taxes of the 1940s and 1950s led to the increasing establishment of foundations. Again, abuses led to the overhaul of nonprofit tax laws with the Tax Reform Act of 1969, which requires a minimum distribution of assets and payment of an annual excise tax.

Creating a Sector: Alexis de Tocqueville, the most famous observer of the early American nonprofits, noted that "Americans of all ages, all stations in life, and all types of disposition are forever forming associations…" Associations are necessary, he argued, for the stability of a democracy in which all citizens are equally independent and cannot rely on a powerful central government to dictate values or dispense charity. "He further noted that just as an energetic business community is necessary to keep government out of commerce, so vigorous 'intellectual and moral associations' are necessary to prevent government domination of 'opinions and sentiments.'"[9]

In the 1970s, the Filer Commission helped to create the first body of information about the American nonprofit sector. Grantmakers and grantseekers also realized the value of partnership. And for the first time, nonprofit leaders began to think of themselves as a sector. Out of the Filer Commission came a new national organization called the Independent Sector. New academic centers on nonprofit studies, degree programs and management assistance centers popped up around the country.

Defining the Debate

Nonprofits' bold moves and models were not forged without tension. The sector can be seen to exist at the midpoint between church, state and business; between the public and private spheres; and between the individual and the collective. Alternately, nonprofits can be seen to embrace all these seemingly contradictory elements. Consider that:

Nonprofits can be seen to embrace seemingly contradictory elements.

- Nonprofits are major advancers of individual rights, but they frequently act on a democratic, grassroots level.
- There is often tension between the interests of people served by nonprofits and the interests of the public at large.
- Nonprofits are privately run but, to a large degree, publicly funded. Even private citizens and corporations get a public benefit – a tax deduction – when they make a charitable contribution.
- Though we think of them as private institutions, most nonprofits are considered public benefit corporations and must demonstrate that they advance the public good.

These contradictions illuminate the reasons that the nonprofit sector is often misunderstood. The nonprofit sector is a constantly evolving mix of broad historic trends that embrace a mind-boggling range of ideology, function and form. Though ambiguous and ever-changing through its 400 years, nonprofit organizations are more important now to the well-being of our citizens and this state than ever before in its history.

Facts & Fallacies

Fallacy 1: Nonprofit means no profit.

Fact 1: *Although the name is confusing, in fact, nonprofits can make profits.*

When a person or group of people wants to set up a corporation in California, they must choose whether it will be a "profit" or "nonprofit" corporation. The decision is largely based on the goal of the corporation. If the goal is profit-making for the founder or investors, the business will be established as a for-profit corporation. But if the goal is to provide some kind of community benefit or service – for example helping young people find employment, preventing drug use by pregnant moms or providing exhibit space for California artists – the tendency is to establish a nonprofit corporation.

The word "nonprofit" is a legal term that emphasizes that nonprofits do not exist to generate profits for their owners. However, nonprofit organizations can earn profits. That is, they can generate more revenues than they spend in a given year: they can have money in the bank. But nonprofits must use their income for the charitable purposes for which they were formed. If they do not, they risk losing their nonprofit status.

Nonprofits must use their income for charitable purposes.

In truth, the word "nonprofit" does not adequately describe what we call nonprofit corporations. Many public figures, particularly the legislature, use the term "community-based organizations," referring to the fact that many nonprofits are set up to serve a specific community or group of people. This term does not work well because many organizations are statewide, national or international in scope. National organizations like the Independent Sector refer to nonprofits as "charitable organizations." This phrase emphasizes the support nonprofits receive from private charitable contributions. However, this term does not work well because charitable contributions represent only a small portion of nonprofit income.

Nonprofits have built thousands of homes for low-income Californians.

Some people use the term "voluntary sector," which refers to the significant involvement of volunteers in nonprofit organizations. Again, this name does not work well because the vast majority of nonprofit activities are carried out by paid staff, not volunteers. A new term is gaining popularity: the "civil society." This term emphasizes the citizen base of many nonprofits, but implies a membership structure; and not all nonprofits are membership organizations.[1] Unfortunately, none of these terms is either descriptive enough or clear enough to make the successful transition into common parlance.

There is growing use of "public benefit corporation" which emphasizes that nonprofits benefit all parts of society. "Public benefit corporation" seems best to describe the majority of organizations that come to mind when we say "nonprofit." This term might also eliminate the misunderstanding that nonprofits cannot make a profit, and it makes a direct connection between the corporation's existence and its mission to benefit the public.

Whatever we call nonprofit corporations, it is important to remember that they can make a profit.

Fallacy 2: Nonprofits are basically all the same.

Fact 2: *There is great diversity in the nonprofit sector.*

What comes to mind when you think *nonprofit?* Maybe you think of a soup kitchen, a Little League team, a domestic violence shelter, a public radio station or a large hospital or university. The nonprofit sector encompasses all these types of organizations – and many more. The effort to understand the 501(c)(3) nonprofit sector is complicated by its great diversity. There is a staggering array of missions, activities and structures that span a wide range of size, income and organizational type.

Diversity of Mission: The most deeply felt values, beliefs, artistic expression, personal responsibilities and individual rights are played out in the nonprofit sector. Nonprofits play prominent social, economic and policy roles in society as service providers, advocates, educators and employers. They play an increasingly recognized role in fostering community engagement and civic participation, enhancing the quality of life, and promoting and preserving civic and religious values. They provide environmental protection, conflict resolution, economic development and religious activities.

They also encompass virtually the entire range of thought and purpose that characterizes Americans and their country: Right-to-life and right-to-choice organizations, gun control groups and the National Rifle Association, progressive faith communities and the Christian Coalition, the local Little League and world-famous opera companies, historic preservation societies and advocates for new development, inner-city free clinics and world-class hospitals, well-known research institutions and booster clubs for the local high school. Philanthropy is a commonly overlooked part of the nonprofit sector that spans similar ranges of thought and purpose – and that supports other nonprofits to achieve their diverse missions.

Diversity of Activities: Big Bird and Barney teach preschoolers. Our children are kept safe and entertained by programs like the Boys and Girls Clubs. Many of us become swimmers at the YMCA or the Red Cross. Local soccer leagues teach our children competitive spirit, and their bruises and scrapes are often treated by a doctor at a local nonprofit hospital or clinic. Many of our children are educated in California nonprofit elementary schools, and hundreds of thousands receive their higher education at nonprofit California colleges and universities.

Types of Nonprofits

There are 21 types of tax-exempt organizations under US law. All are exempt from federal income tax, however only contributions to the 501(c)(3) organizations can be claimed for tax deduction. 501(c)(3) nonprofits:

1. Must be organized for scientific, literary or educational purposes that benefit the public, or for charitable purposes, and not to benefit a particular person.
2. Are exempt from paying federal corporate income taxes.
3. Can be taken to court by the Attorney General to make sure they comply with the law.
4. Have self-dealing rules that are more stringent than those applicable to other nonprofits.
5. Fall under a regulation that the majority of the Board of Directors cannot be paid or related to other persons who are paid by the corporation.
6. Are not allowed to offer shares of stock or to pay dividends to members or investors (except for the rare "hybrid" organization, such as a consumer cooperative).
7. Must disburse any assets that remain upon dissolution to a similar nonprofit organization.

This last provision is significant because it means that nonprofit assets are not owned in the same sense that assets of a profit corporation are owned. Nonprofit assets are owned by the citizens of the state in which is it is incorporated.

As adults, our commutes are enlivened by public radio. Our work is influenced by statistical reports and studies prepared by nonprofits. Our health is affected every day by medical discoveries and environmental regulations pioneered by nonprofits. Our evening's entertainment might come from public television, a live stage or music performance, or a classic film preserved by yet another nonprofit.

Hiking in the mountains, swimming in the ocean or enjoying a museum are experiences sometimes provided, and often protected, by nonprofit organizations. Even the houseplants at the local arboretum sale come from a nonprofit. So do the healing spiritual messages we receive every week from the hundreds of churches, synagogues and temples throughout California. And when an earthquake, disease or poverty strikes, nonprofit organizations stand ready to help us rebuild our homes, our health and our lives.

Nonprofits represent a healthy mix of operating styles.

Diversity of Structure: Nonprofits represent a healthy mix of operating styles including grassroots, volunteer-based, professional, public benefit, membership, and faith-based. More than 50 percent of the nonprofits in California are entirely volunteer-based, meaning they do not have a single paid employee. These organizations include art clubs, beautification and community improvement groups, team sports for youth, booster clubs and housing associations.

Nonprofits can be small, with one- or two-person staffs supported by dozens of volunteers. They can have hundreds of employees and no volunteers. Many have a national office with separately incorporated chapters in each state, while others have a state office with chapters throughout the state operating as one corporation. Nonprofits are not required to incorporate, so many – usually civic groups formed to improve a neighborhood or a downtown area – do not. Some nonprofits have been around for more than 100 years; others form to accomplish a single purpose and then disband when it is achieved.

Sub-Sector Type	Revenue, 1998	Number of Organizations, 1998	Number of Employees, 1995
Health	$35 billion	3,333	300,000
Education	$13 billion	5,078	110,000
Social/Human Services	$9 billion	8,730	140,000
Religion/Faith Based	Unknown	26,000 (estimated)	76,000
Philanthropy/Grantmaking	$7 billion	5,101	6,000 (estimated)
Arts, Culture and Recreation	$2.6 billion	4,968	17,770
Business Support and Management Support Organizations	$1.6 billion	451	17,000
Social Justice, Environment and Advocacy	$2.4 billion	2,321	2,500

Sources: Number of organizations and total sub-sector revenue data provided by the National Center for Charitable Statistics and the California Secretary of State and edited by the California Association of Nonprofits. Number of employees provided by University of San Francisco: San Francisco, *California Nonprofit Organizations 1995.* Based on data from U.S. Department of Commerce, Bureau of the Census, 1987 Census of Service Industries, State of California Office of Statewide Planning and Development, the National Endowment for the Arts and G*uide to U.S. Foundations 1997,* published by the Foundation Center.

Fallacy 3: Most nonprofit income comes from charitable contributions.

Fact 3: *Nonprofits increasingly earn much of their income.*

According to the American Association of Fund-Raising Counsel (AAFRC), individual donations to nonprofits across the United States amounted to $143.71 billion in 1999 – or 75.6 percent of all private giving that year.[2] A study published by the University of San Francisco's Institute for Nonprofit Organization Management claims that 90 percent of California households give an average of three percent of their household incomes to charity each year – as opposed to 70 percent and two percent, respectively, nationwide. Even more compelling, when statistical controls are considered for income, education and immigration status, differences in donating behavior among different ethnic and racial groups virtually disappear. And people in different regions of California give at comparable levels to one another.[3]

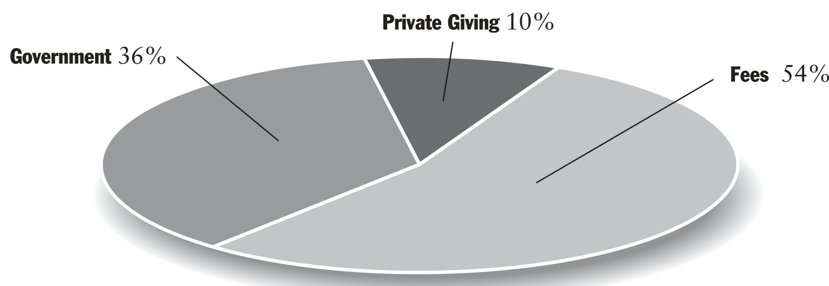
Although Americans and Californians can be proud of their charitable giving record, the truth is that nonprofit revenues are a complex mixture of income raised in a variety of fashions. In general, over the last few decades, the proportion of private donations decreased (from 26 percent in 1977 to 10 percent in 1996) and government funding increased – but is now on the decline. The most dramatic change in funding for nonprofits over the past two decades has been the increase in fees for service. Today the major sources of support for nonprofits in the United States are fees, service charges and other commercial income, such as college tuition payments; charges for hospital care not funded by government; insurance; direct payments for services; sales; and income from investments. This earned income accounts for 54 percent of all nonprofit income.

Defining Characteristics of Nonprofit Organizations

1. **Organization:** Nonprofits are institutionalized to some extent. Although it is not necessary under US law for an organization to be formally incorporated or even to secure formal recognition by the Internal Revenue Service in order to function as a nonprofit organization, the vast majority secure legal standing as corporations chartered under state laws.
2. **Private:** Nonprofits are not part of government. They are fundamentally private institutions.
3. **Do not distribute profits:** Nonprofits may accumulate profits, but those profits must be returned to the mission of the organization, not distributed to funders or individuals.
4. **Self-governing:** Nonprofits have their own internal procedure for governance and are not controlled by outside entities.
5. **Volunteers:** In addition to a voluntary board of directors, nonprofits can use volunteers to conduct their activities and manage their affairs.
6. **Public benefit:** Nonprofits serve some public purpose and contribute to the public good.

Source: Salamon, Lester M., *America's Nonprofit Sector*. New York: Foundation Center, 1999. Pages 10-11.

NONPROFIT INCOME, 1996



Source: Salamon, Lester M., *America's Nonprofit Sector*. New York: The Foundation Center, 1999. Pages 36-37.

NONPROFIT FINANCES BY TOTAL EXPENSE, 1996

Annual Income	Percent of Nonprofit Sector	Assets	Public Financial Support
Greater than $10 million	3.8 %	75.5% of total	49.4% of total public support
$5 million to $9.9 million	2.9 %	6.2%	12%
$100,000 to $499,000	31%	3.6%	8%
under $100,000	40.8%	1.8%	2.9%

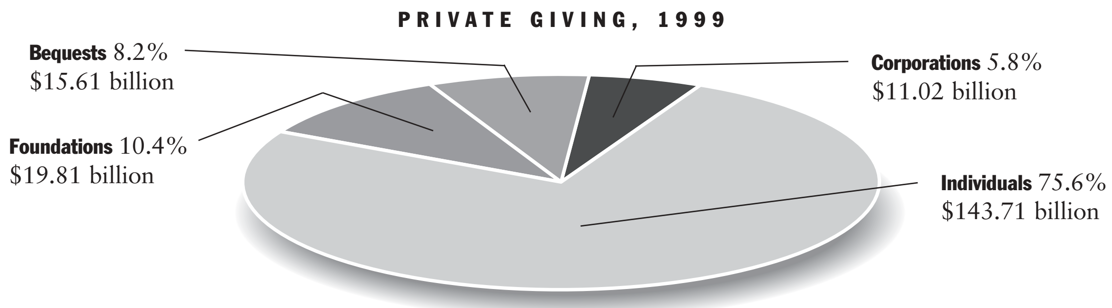
Numbers do not add up to 100 percent because (1) a large proportion of the nonprofit sector does not file Form 990 and (2) the table includes data for 501(c)(3) organizations only. Source: US Internal Revenue Service Return Transaction File, 1997, as adjusted by the National Center for Charitable Statistics.

The second most important source of income for the US nonprofit public-benefit sector is government. Government grants, contracts and reimbursement account for 36 percent of nonprofit service-organization income. This represents the long-term partnership shared by government and the nonprofit sector in carrying out public purposes, from the delivery of health care to the provision of child care, from county art museums to youth recreation programs, from building low-cost housing to planting trees.

Nonprofit revenues are a complex mixture of income raised in a variety of fashions.

The ten percent nonprofits receive from private giving makes it the third largest source of income. Although most of it comes from individuals, individual giving has been flat over the last several years while foundation giving has risen steadily – from $1.94 billion in 1975 to more than 19 billion in 1999, or over 1,000 percent.[4] Still, though private giving represents a relatively small portion of nonprofit income, it is crucial because of foundations' and individuals' ability to be flexible and responsive when nonprofits have particular funding needs.

PRIVATE GIVING, 1999



Source: American Association of Fund-Raising Counsel, *Giving USA: The Annual Report on Philanthropy for the Year 1999.* AAFRC Trust for Philanthropy. 2000.

Fallacy 4: Online fundraising has generated large increases in income for nonprofit organizations.

Fact 4: *Online fundraising is not the panacea many thought it would be.*

Like business, government and individuals, the nonprofit sector has benefited greatly from the technology boom of the last 15 years. The Internet has made it easier to provide – and to access – more information, in less time, for less money. E-mail increases the efficiency of communicating with donors, constituents, volunteers and staff. Nonprofits

are using computers and other information-age technology in innovative and exciting ways: to support their services, recruit volunteers, participate in online training and track donor relationships.

When the Red Cross used its Web site to generate over $1 million in donations for Kosovo refugees in 1999, online fundraising suddenly seemed to be the hottest new income opportunity for nonprofits. But on the whole, nonprofits have not increased their revenues by a significant amount through online fundraising.

Few charities have made significant money from online charity shopping malls.

While there are exceptions, most nonprofits lack the resources to support a large-scale Web site for online contributions. So, understandably, they look for alternatives. Many dot-com businesses act as conduits for electronic commerce, channeling consumers to online retailers. In exchange, the "charity mall" either gets a small percentage of each consumer's purchase or retailers pay mall owners a fee for each customer. The malls, in turn, give a percentage of their receipts – at most 50 percent and, more commonly, five percent – to a nonprofit. Usually, the consumer designates the recipient organization.

Returns are small. As of this printing, few charities have made significant money from online charity shopping malls. For example, over a three-year period, Igive.com distributed $750,000 to nearly 8,000 nonprofit groups. The most successful group took in $15,000, leaving the rest with an average donation of $91.87, or $30.62 a year. Most nonprofits would not view $30.62 a year as successful fundraising.

There is an old saying in the fundraising field: "Don't write if you can call; don't call if you can visit." Fundraising online is not a panacea for limited funding or overworked staff. It is not a sure-fire way to attract and keep ever more donors. Even younger, Internet-savvy donors want interaction with the organizations they support – a tacit acknowledgment that, despite its electronic face, even the "new philanthropy" is rooted in old-style relationships.

Why Online Charity Malls May Never Be Large

1. **Gifts made through online charity malls are not eligible for a charitable deduction –** a piece of information rarely shared by online malls themselves.

2. **Malls are largely unregulated.** Most online charity shopping malls do not disclose how much shopping occurs on their sites or how much money has been donated to nonprofits.

3. **Donor information is not provided to the nonprofit.** When contributions arrive from online malls, they do not include the name of the donor because malls feel obligated to protect their consumers' privacy. Without a name, address or telephone number, a nonprofit cannot develop a relationship with a donor.

4. **"Extras" are things nonprofits already do – and do well.** Online charity shopping malls sometimes offer "valued-added services" to nonprofits – services like electronic donor acquisition, retention, and relationship building; Web site design and hosting; ticket sales for fundraising events; partnership programs, copy writing; and vastly reduced direct mail costs. But many of these "extras" are things most nonprofits already do for themselves.

5. **Getting people to donate to a specific organization takes effort on the part of the nonprofit.** Raising even a small amount requires that the nonprofit advertise the mall on its own Web site, devote part of its e-mail and other newsletters to promoting the mall, and have a constituency willing to purchase through an online mall.

Fallacy 5: Nonprofits provide mostly band-aid solutions.

Fact 5: *Many of the most profound social changes in American history have been led by nonprofit organizations.*

ROBERT PACHECO

By painting out graffiti, these volunteers help revitalize their neighborhood.

Although they vary greatly in mission, origin, structure, size and financial means, charitable nonprofit organizations stand as the embodiment of a fundamental national value that emphasizes individual initiative to serve the public good. Through the flexible mechanism of a nonprofit organization, individuals concerned about a social, cultural or economic problem can come together and take action immediately without requiring or waiting for government to respond.

Americans use nonprofit organizations to mobilize broad public attention to societal problems and needs. Through nonprofits we merge individual voices into a common cause, making them more effective. We conserve and protect the values of the groups we cherish. Nonprofit organizations are a vital and important alternative to, and monitor of, government and business. Nonprofits play a less visible, but increasingly recognized, role of fostering community engagement and civic participation, enhancing the quality of life, and promoting and preserving civic and religious values.

Nonprofits are significant actors in the area of environmental protection, human rights, conflict resolution, disaster relief, economic development and religious activities. They play prominent social, economic and political roles as service providers, advocates, educators, and employers.

Scholars are beginning to document the central role both large and small nonprofits play in creating the "glue" that holds communities together – in being the social capital that allows democratic societies to function effectively.

Although there is a dearth of information on the direct and indirect contributions of nonprofit organizations to society, nonprofit organizations have led some of the most profound and important changes in our society:

- Development of the polio vaccine funded by the March of Dimes.
- Transference of high-yield seeds to developing countries by the Rockefeller Foundation.
- The civil rights movement based in the southern black churches and resulting equal rights legislation.
- Growth of regional and off-Broadway theatre.
- The American Red Cross's pioneering work in blood banking and its management of half of the nation's blood supply.
- Relief efforts to starving people by Save the Children and other international relief organizations.
- The anti-smoking campaign that made California a smoke-free state by the Heart, Lung and Cancer Associations.
- Environmental initiatives and programs by the Sierra Club, the Nature Conservancy and similar groups.
- Social welfare assistance provided by thousands of nonprofits to elderly people, boys and girls, people with AIDS, abused children, unemployed workers, people with disabilities, latch-key kids and low-income families.

- The campaign by Mothers Against Drunk Driving that resulted in dramatically reduced rates of alcohol-related auto accidents and nearly universal awareness of the dangers of drunk driving.
- People with disabilities' increased accessibility to the public sphere through the Americans with Disabilities Act.
- National discussions mobilized by both the right-to-choice and right-to-life movements.
- Increased access for women to equal pay for equal work through the women's movement.

Fallacy 6: Nonprofit organizations are forbidden by law to lobby.

Fact 6: *Nonprofits can – and should – lobby.*

Many nonprofit organizations do not engage in educational and informational activities because they mistakenly believe those activities are lobbying. And far too many nonprofits also believe that they are not allowed to lobby. In fact, charitable nonprofits can lobby – and both Congress and the IRS have set up specific rules that outline what nonprofits can and cannot do. For example, 501(c)(3) organizations may not:

- Intervene in any political campaign on behalf of or in opposition to any candidate for public office.
- Endorse candidates for public office.
- Make contributions to political parties or individual candidates.
- Register people to vote with the intention of encouraging voting for or against a particular candidate.
- Exclude or rate any candidates in nonprofit-sponsored candidate forums and voter guides.

In addition, people may not participate in political campaigns as a representative of a nonprofit. In short, nonpartisanship is a key element of a 501(c)(3) organization's tax status: if a nonprofit engages in partisan activity, the organization risks losing its tax-exempt status. However, staff, board members, volunteers, clients and others associated with a nonprofit may legally work on campaigns, endorse candidates and

What Can You Spend to Lobby?

Total Exempt-Purpose Expenditures	Total Direct Lobbying Expenditures Allowable	Total Grassroots Lobbying Expenditures Allowable
Up to $500,000	20% of exempt-purpose expenditures	One-quarter of amount permitted for direct lobbying
$500,000-$1 million	$100,000 + 15% of excess over $500,000	$25,000 + 3.75% of excess over $500,000
$1 million-$1.5 million	$175,000 + 10% of excess over $1 million	$43,750 + 2.5% of excess over $1 million
$1.5 million-$17 million	$225,000 + 5% of excess over $1.5 million	$56,250 + 1.25% of excess over $1.5 million
Over $17 million	$1 million	$250,000

even run for political office provided they are acting as individuals and not as a representatives of their organizations.

There are other activities – some considered lobbying and some not – in which nonprofits are legally allowed to engage. In fact, Congress has stated that influencing legislation is an appropriate activity for 501(c)(3) organizations, and the IRS has outlined different types of lobbying – direct lobbying and grassroots lobbying – that affect how much a nonprofit is allowed to spend on different lobbying activities.

The IRS defines lobbying as an attempt to influence legislation through direct contact with public officials at the local, state and federal levels (direct lobbying) or through appeals to officials through the general public (grassroots lobbying).

More specifically, direct lobbying is communication referring to a specific piece of legislation and expressing a position about it via phone, fax, e-mail, mail or in person to any government employee who may aid in the production of such legislation. For example, the executive director of a nonprofit sends an e-mail on behalf

To Lobby or Not To Lobby?

Nonprofits are allowed to lobby within certain restrictions and to conduct – without limitation – activities often mistaken for lobbying.

Lobbying:	Not Lobbying:
Communicating your view on a specific legislative proposal to a legislator, staff member or other government employee who may help develop legislation.	Providing information to legislators if it is broad information – it can be as negative or as positive as you like – that does not refer to specific legislation or encourage legislators to vote in specific ways.
Trying to influence the public to express a particular point of view to their legislators about a specific piece of legislation, if you provide legislators' names and phone numbers to the public alongside this encouragement.	Writing a letter to the editor that takes an editorial stance and urges others to contact public officials.
Identifying legislators who are opposed, undecided or supportive of a bill.	Identifying the bill's sponsor.
Asking a legislator to take an action that would require legislation.	Providing technical advice on pending legislation in response to written requests from a legislative body.
Asking your organizational members to lobby for a bill. (People are considered members if they contribute money or time that is more than "nominal.")	Telling people about a specific piece of legislation, even if you declare your position on the legislation, as long as you do not also ask them to contact their legislator.
Campaigning for or against a particular candidate for office.	Holding voter registration drives; acting as a polling place; providing factual information to the public and constituents about candidates.

In addition the following activities are not considered lobbying and can be conducted without limitation:

- Self-defense communication – that is, contacting legislators on matters affecting the organization's existence, powers, tax exempt status, or similar matters.
- Making the results of nonpartisan analysis, study or research available on a legislative issue as long as it presents a full and fair exposition of the facts that enables the audience to form their own opinions: it need not be neutral or objective. The material must be generally available and must not include a call to action.
- Discussion of broad policy issues needing legislation, even if related legislation is pending, as long as the discussion does not address the merits of specific legislation.

Foundation Funds Can Sometimes Be Use for Lobbying

The following is an excerpt regarding the Expenditure Test from the Alliance for Justice's publication *Worry-Free Lobbying For Nonprofits: How to Use the 501(h) Election to Maximize Effectiveness.*

The final regulations issued by the Internal Revenue Service in 1990 concerning the lobbying activities of electing charities clearly reaffirm that it is legally permissible for private foundations to make grants to 501(c)(3) organizations that lobby. The traditionally cautious attitude of private foundations toward nonprofits that do advocacy work is probably the result of the Internal Revenue Code's general rule that a private foundation's expenditures for lobbying activities are subject to a penalty tax and such expenditures could conceivably include certain grants to lobbying nonprofits.

The regulations provide considerable guidance both to grant-seeking charities and private foundations as to when a foundation's grant to a lobbying nonprofit is and is not a lobbying expenditure by the foundation. Three principal points to keep in mind are:

1. **Private foundations must not earmark (designate) or direct a grant to a public charity (nonprofit) for lobbying.** A foundation's knowledge that a grantee engages in lobbying does not mean that a grant is earmarked for lobbying.
2. **Private foundations may make general support grants to nonprofits** whether or not the nonprofits are currently lobbying, have lobbied in the past, have made the 501(h) election, or even use the grant for lobbying purposes. The grants will not be taxable expenditures by the foundation as long as they are not earmarked for lobbying. The regulations do not require a private foundation to seek information about a nonprofit's lobbying budget when the charity applies for a general support grant.
3. **Private foundations can give specific project grants to fund projects that include lobbying,** so long as an individual foundation's total grants for the same project and year do not exceed the amount the grantee has budgeted for the non-lobbying portion of the project. In making this determination, foundations may rely upon the budgets provided by grantees.

of his or her organization to all of the California legislators urging them to vote yes on legislation X. Direct lobbying includes:

- Statements to senators or representatives regarding legislation.
- Letters and/or phone calls to legislators regarding legislation.
- Statements to committee members and other public officials regarding legislation or administrative action (on the state level).

Too many nonprofits believe they are not allowed to lobby.

Grassroots lobbying is an effort by a nonprofit to encourage the public to influence legislators or other decision-makers regarding specific legislation or issues. This type of lobbying does not include communications with organizational members unless you specifically ask them to urge members of the public to lobby a legislator to take a specific action. This type of activity is called a call to action or an action alert, and contact information is usually provided to help the public contact the lawmaker. It is also grassroots lobbying when there is a direct request asking someone to contact a legislator about an issue. For example: a nonprofit organization pays for an advertisement in a town newspaper asking city residents to call their legislators and oppose legislation X.

IRS regulations provide two options by which nonprofits can report their lobbying activities. Under the first option, the Insubstantial Part Test, a nonprofit must prove that its lobbying activities do not constitute a substantial part of the organization's total activities and expenditures. However, many experts in the field of nonprofit lobbying consider this test to be vague because the law does not clearly define what a

substantial amount is or how that substantial amount will be calculated.

For most nonprofits, the second option, the Expenditure Test, is a simple non-limiting choice of reporting. The Expenditure Test measures an organization's lobbying activity through the amount of money spent on lobbying. A nonprofit wishing to be measured by the Expenditure Test must file IRS Form 5768, a one-page notice. Otherwise, the nonprofit will automatically be measured by the Insubstantial Test. Once Form 5768 is filed, an organization will report lobbying expenditures on Schedule A of their annual IRS Form 990.

Moreover, although 501(c)(3) organizations are prohibited from political campaigning, 501(c)(4) nonprofits are not. According to the IRS, 501(c)(3) nonprofits may create 501(c)(4) nonprofits that are allowed unlimited lobbying activities and campaigning as a secondary activity. 501(c)(4) nonprofits are exempt from most federal taxes, but donations made to the nonprofit are not tax deductible. Also, if a 501(c)(4) wishes to make contributions to a political campaign, it may create a political action committee (PAC). For example, the National Organization for Women (NOW) has a 501(c)(3) organization, a 501(c)(4) and PAC.

Though it is true there are some limitations on nonprofit lobbying, lobbying by charitable nonprofits is an essential part of the governmental process.

Fallacy 7: Because nonprofits do not meet business-like standards, they are ineffective, inefficient and mysterious.

Fact 7: *Nonprofits must meet different standards and outcomes than business – but that does not mean they are less efficient or effective.*

Nonprofits are different from business. Their bottom-line, decision-making, operations and structure often do not lend themselves to business standards. But nonprofits are very effective for the kinds of outcomes they must achieve. The efficient for-profit business model is seen as a well-oiled machine that turns out thousands of widgets per day, takes them to market, and makes a profit. In the nonprofit sector, the bottom line can be a wide variety of outcomes that are not necessarily related to business-like values or measurements of profit. Applying business values and methodology to the nonprofit sector might have some benefit to some nonprofits, but it probably does not to most.

Nonprofits often include multiple players in decision-making. In addition to a primary drive to fulfill a mission, nonprofits usually involve multiple players in various decision-making processes – board members, clients, staff, volunteers, government agencies, other nonprofits and local businesses. This inclusive "civil society" method runs counter to the business model, in which a single owner or manager is often able to make quick decisions in response to market forces or other factors. Being inclusive certainly can slow the decision-making process, but it does not mean it is inefficient or ineffective.

Nonprofits must often meet "multiple bottom-lines." In addition to paying the bills, keeping financial records and not spending more than they take in, nonprofits must often meet multiple bottom lines. Being collaborative, mobilizing community participation, bringing specific groups into a program, building stable funding and implementing new programs are just some of the outcomes nonprofits often must achieve. Nonprofits must achieve a mission as well as financial outcomes.

Business-like activities are often used to prepare clients for employment, not necessarily to make profits. Finding ways to combine community oversight with appropriate for-profit practices makes sense for some nonprofit activities. For example, museums' gift shops or social entrepreneurial organizations that use business activities to provide work opportunities for clients may need to apply business standards and measurements. However, unlike most for-profit businesses, nonprofits most often engage in business ventures to train and prepare program participants for employment outside of the nonprofit. To keep the client employed, nonprofits also frequently provide expensive, time-intensive services as well – services not usually provided by, or expected of, for-profit companies. As David Barringer, a spokesman for Goodwill Industries International, said in *The Chronicle of Philanthropy,* "When [for-profit businesses] get someone who requires supportive services to remain employed, the business is usually at a real loss for how to do it because it doesn't make economic sense."

Nonprofits must meet complex reporting standards set by funding sources and government. Nonprofits receiving government grants are constantly monitored and audited and lose contracts if they do not achieve the outcomes identified by the government funding agency. Foundations, too, require regular program and financial reporting, and funding can be withdrawn if nonprofits do not meet the criteria of funders. These financial and accountability measures dictated by government and by funders help to ensure that nonprofit organizations are not wasteful. For example:

BOB WALKOR

Nonprofits have saved many unspoiled California vistas for future generations.

- Funders often restrict overhead expenditures, and sometimes no allowance is made for such needs.
- Many organizations conduct independent audits each year to ensure their finances are in order.
- The Internal Revenue Service recently expanded its Tax Exempt division to enforce compliance with nonprofit tax regulations.
- The legal requirements set up for nonprofits' financial compliance are generally much more restrictive than those for commercial enterprises.

Nonprofits must make their tax return available to anyone who asks to see it. Though they are tax-exempt, nonprofit organizations with incomes over $25,000 are required to file tax returns. Regulations went into effect in June 2000 that require nonprofits to make a copy of their last three Form 990 tax returns available to anyone who requests it – meaning that nonprofits are more exposed than ever to public scrutiny and must be more vigilant than ever about their financial information.

Resources are almost always limited, so nonprofits are very skilled at trimming the fat from any activity and adding value for clients by reaching out to other community resources. Most nonprofits do not have the level of resources – either personnel or income – they truly need, so they must cut corners on an almost daily basis. Moreover, although the public image might be that nonprofits do not pay adequate attention to financial concerns, in fact nonprofits are usually very good at "trimming the fat" because that is what they must do constantly in order to comply with many funders' low overhead cost requirements and to meet growing demand for their services.

At the same time, nonprofits are increasingly engaging in for-profit activities, and government is beginning to award contracts to for-profit businesses that have tradi-

tionally gone to nonprofits. This crossover does justify some "borrowing" of values and standards between historically separate sectors. However, as society continues to pressure nonprofits to be more businesslike, we must continue to question the harms or benefits that might come to the individuals and communities being served when business values are applied to public benefit activities.

Fallacy 8: Nonprofits contribute only marginally to the economy.

Fact 8: *Nonprofits contribute significantly to the economy.*

Most people think of nonprofits as operating on the margins of society, unable to contribute to the economic well-being of our country in any meaningful way. But the statistics prove otherwise.

If the annual budgets of our nation's million-plus nonprofits were combined, it would total $700 billion dollars. This is a sector that is making an exceptional contribution to the American economy. Further statistics flesh out the story:

- Nonprofits contribute 8.8 percent of the nation's gross domestic product.
- Nonprofits employ 10.9 million people as full- or part-time workers. That is about seven percent of the country's workforce.
- 109 million volunteers contribute the equivalent of 6.3 million full-time employees to the nonprofit workforce annually, bringing the nonprofit workforce up to 11 percent of the country's total.
- The average monetary contribution of a volunteering household is $1,124; it is $626 for a non-volunteering household.

California nonprofits receive and spend $108 billion per year.

California is the sixth largest economy in the world, with a workforce of 15 million. According to the California Secretary of State, California has more than 135,000 nonprofits. These organizations receive $108 billion per year – and spend almost all of it within California, on activities that improve the quality of life in our state. Health-related nonprofits control 52 percent of all California nonprofit incomes; education holds 20 percent, human service controls 13 percent, and arts and culture hold four percent. Furthermore, California nonprofits employ 750,000 people (five percent of the state's workforce); and benefit from the donated time and talents of 10 million volunteers.[5]

When we talk about nonprofits' contributions to the economy, we must also consider the preventive role nonprofits play. An extremely important impact of nonprofit work is that the sector actually serves to "depressurize" potentially explosive situations – situations that could otherwise erupt into economically disastrous circumstances. For example, the American Red Cross shelters earthquake victims, gang prevention programs help keep crime rates down, and arts organizations give people constructive outlets for emotional expression.

California nonprofit organizations play an increasingly important role as service providers, employers, consumers and mediators. If the nonprofit sector were to disappear overnight, hundreds of thousands of jobs would go with it. California nonprofits are a critical part of the social and economic fabric of our state.

California's Nonprofit Sector Today

"Government operations tend to be everywhere alike. With individuals and voluntary associations, on the contrary, there are varied experiments, and endless diversity of experience."

—*John Stuart Mill,* On Liberty

Why Nonprofits Exist

In the United States, as well as in many other countries, communities formed before government structures were in place to help deal with common concerns. People had to tackle problems on their own and often found it helpful to join with others in voluntary organizations to do so.[1] Guided by values of charity, neighborliness and philanthropy, early charitable activities fell into two broad categories: civic advancement and assistance to the frail or indigent. These later developed into the streams of the nonprofit movement, first codified in English law in the Statute of Charitable Uses of 1601 and later adopted by the American colonies.

By the nineteenth century, the sector had expanded in the United States into the following groups: mutual aid societies, reform movements, social service organizations, educational and cultural institutions, and philanthropic endowments. Aided by the philanthropy of individuals and foundations and by growing government support, nonprofit organizations became – and remain – critical providers of arts and culture, education, human and social services, health care, environmental protection, scientific research and advocacy on behalf of basic rights and freedoms.

The existence of a nonprofit sector is not peculiar to American society, but there is no denying that nonprofits have come to play a particularly important role in our country. Nonprofit organizations are a critical component of community life, a convenient and fulfilling way to meet community needs, and a crucial prerequisite of a true "civil society."[2]

Summary of All California Nonprofit Groups

Category	# of Orgs	Assets	Expenses	Income
501(c)(3) public charities	26,272	$107,666,925,357	$60,736,981,973	$66,726,338,653
501(c)(3) private foundations	5,101	$40,216,205,766	$3,619,518,626	$7,038,670,118
501(c)(3) non-reporting	53,716	$14,196,452,929	Not Available	$2,756,464,986
Total 501(c)(3)	85,089	$162,079,584,052	$64,356,500,599	$76,521,473,757
Other tax-exempt orgs	39,622	$58,580,843,275	Not Available	$31,480,836,420
Total tax-exempt orgs	124,711	$220,660,427,327	$64,356,500,599	$108,002,310,177

Source: US Internal Revenue Service Return Transaction File, 1999 as adjusted by the National Center for Charitable Statistics with further adjustments by the California Association of Nonprofits.

California's Nonprofit Sector

There are currently more than 1.6 million nonprofit organizations nationally with a combined revenue of $700 million, seven percent of the nation's work force and 109 million volunteers that boost nonprofit full-time volunteer and paid employees to 17.2 million.[3]

Nonprofit organizations are a critical component of community life.

According to the California Secretary of State, there are 135,479 nonprofits in California including 59,110 public benefit organizations, 26,796 religious organizations and 45,681 mutual benefit organizations.[4] As of 1998, 26,272 California public benefit organizations filed Form 990, the nonprofit tax return required of nonprofits earning $25,000 a year or more. In 1998 California nonprofits employed 750,000 people (about five percent of the state's work force), had assets of $107.7 billion, expenses of $60.7 billion and a combined income of $66.7 billion.[5]

Distribution of California Nonprofits by County

County	Total Exempt Organizations (EOs)[6]	Percentage of EOs in State	Reporting Public Charities[7]	Reporting Private Foundations[8]	Other 501(c)(3) Organizations[9]	Other Exempt Organizations[10]
Alameda	6,759	5.4	1,678	156	3,016	1,909
Alpine	12	0.0	3	0	5	4
Amador	199	0.2	23	3	65	108
Butte	979	0.8	158	6	411	404
Calaveras	220	0.2	33	1	91	95
Colusa	87	0.1	5	0	22	60
Contra Costa	3,654	2.9	787	117	1,496	1,254
Del Norte	131	0.1	20	1	55	55
El Dorado	595	0.5	116	3	242	234
Fresno	2,413	1.9	457	41	1,003	912
Glenn	128	0.1	10	0	55	63
Humboldt	858	0.7	173	12	325	348
Imperial	382	0.3	61	2	129	190
Inyo	155	0.1	30	3	59	63
Kern	2,078	1.7	296	38	881	863
Kings	294	0.2	37	1	111	145
Lake	298	0.2	37	5	112	144
Lassen	160	0.1	20	1	65	74
Los Angeles	31,862	25.4	6,612	1,885	15,529	7,836
Madera	367	0.3	53	2	155	157
Marin	1,994	1.6	609	127	775	483
Mariposa	119	0.1	19	3	51	46
Mendocino	653	0.5	143	15	271	224
Merced	624	0.5	89	7	219	309
Modoc	69	0.1	9	1	18	41
Mono	67	0.1	14	0	35	18
Monterey	1,744	1.4	370	62	680	632
Napa	658	0.5	164	27	232	235
Nevada	531	0.4	118	4	217	192
Orange	8,771	7.0	1,886	344	4,007	2,534

California Nonprofits By Sub-Sector

Health Services

Number of organizations: 3,333 **Assets: $47,468,806,659**

Expenses: $33,698,301,099 **Income: $35,033,328,723**[11]

Nonprofit health organizations dominate the nonprofit sector. They account for nearly half the state's nonprofit revenue and 40 percent of its nonprofit employees.[12] Health organizations include hospitals, nursing and personal care organizations, medical clinics, dental clinics, health-based associations and other services. Although the public sector and for-profit businesses play a major role in the nation's health care system, nonprofits provide more than half of all hospital care, 45 percent of outpatient clinic care and nearly 30 percent of nursing home care. About half of all hospital expenditures are financed with public funds, and nursing home care is more than 60 percent publicly funded.[13]

County	Total Exempt Organizations (EOs)[6]	Percentage of EOs in State	Reporting Public Charities[7]	Reporting Private Foundations[8]	Other 501(c)(3) Organizations[9]	Other Exempt Organizations[10]
Placer	1,012	0.8	193	16	387	416
Plumas	174	0.1	23	3	76	72
Riverside	3,799	3.0	681	92	1,869	1,157
Sacramento	5,247	4.2	999	63	1,978	2,207
San Benito	168	0.1	27	3	76	62
San Bernardino	4,422	3.5	784	53	2,108	1,477
San Diego	9,341	7.4	1,985	406	4,191	2,759
San Francisco	6,442	5.1	1,786	654	2,308	1,694
San Joaquin	1,941	1.5	295	36	766	844
San Luis Obispo	1,343	1.1	262	41	533	507
San Mateo	3,088	2.5	683	201	1,172	1,032
Santa Barbara	2,246	1.8	546	154	846	700
Santa Clara	6,365	5.1	1,371	245	2,331	2,418
Santa Cruz	1,258	1.0	352	28	528	350
Shasta	777	0.6	149	14	329	285
Sierra	44	0.0	6 0	15	23	–
Siskiyou	385	0.3	46	4	151	184
Solano	1,207	1.0	201	19	509	478
Sonoma	2,258	1.8	491	44	932	791
Stanislaus	1,337	1.1	227	24	535	551
Sutter	301	0.2	42	2	129	128
Tehama	249	0.2	25	2	106	116
Trinity	115	0.1	18	3	50	44
Tulare	1,175	0.9	196	19	447	513
Tuolumne	292	0.2	39	2	121	130
Ventura	2,473	2.0	469	74	1,137	793
Yolo	776	0.6	163	16	304	293
Yuba	229	0.2	26	2	105	96
(unknown)	222	0.2	52	4	97	69
Total California	125,547	100.0	26,167	5,091	54,468	39,821

Source: National Center for Charitable Statistics 1999 Databases. Data are circa 1998, with further adjustments by the California Association of Nonprofits to eliminate double-counting.

Health Services Profile

Community Health Corporation *and* Riverside Community Health Foundation

When many of California's nonprofit hospitals converted to for-profit in the late 1990s, Riverside Community Hospital weighed its options. The board knew the 100-year-old, 369-bed hospital could not survive shrinking reimbursement rates. Still, they were determined to continue services to Riverside's low-income and uninsured populations. They also wanted to launch preventive health programs not then offered by the hospital.

Deciding against the 100 percent-sale model offered by other hospitals, the board approved a transfer of 75 percent of the hospital's assets to Columbia/HCA Health Care Corporation, a nationwide for-profit hospital operating corporation. The other 25 percent was retained by the nonprofit, Community Health Corporation (CHC). CHC would also manage the endowment generated by the sale and gave $885,000 in grants to other local nonprofits in 2000. The boards for each entity overlap in order to foster continuity, boost communication, and assure provision of health services to uninsured people.

Riverside's Community Health Corporation partnered with another nonprofit to provide the community's only dental care for uninsured people.

A third entity, the Riverside Community Health Foundation (RCHF), was also created from the old hospital foundation to raise funds for the nonprofit and to support projects that build the health care infrastructure of Riverside. "We're a huge collaborator," says CHC President and CEO Mark Williams. "We do almost everything with somebody else." With a population of 300,000, an uninsured rate of up to 50 percent in some neighborhoods, and only one public clinic in the entire city, this strategy has proved prudent and effective.

The organization forged a partnership early on with the County Health Services Agency in order to fill a major gap in services on the city's eastside. The Eastside Health Center opened in 2000 and saw 9,000 patients its first year, including about 15 patients a day who come for the only low-income dental care access in Riverside. In addition, the Eastside Health Center houses a full complement of county services including Women, Infants and Children and case management.

"We've saved a lot of lives with that project."

But CHC found that, while the Eastside Health Center increased local access to primary care in Riverside, there were still a lot of people left out. Again they partnered with the county to provide a public health nurse at the local homeless shelter. And with RCHF, they launched the Mobile Health project in conjunction with Riverside's other medical center, the still-nonprofit Parkview Community Hospital. The mobile clinic sees about 6,000 patients a year, 3,600 of whom receive immunizations. "That van is *always* mobbed," says Williams. In addition, RCHF has a full program of health education.

But it is not just uninsured people who get involved in CHC/RCHF's mission. Well over 300 local businesspeople belong to the organization's Executive 2000 Council, paying yearly dues in exchange for business seminars conducted by the foundation. The council recently helped RCHF to purchase automatic external defibrillators for every emergency fire vehicle in the city. "We've saved a lot of lives with that project," says Williams.

Community Health Corporation • Riverside Community Health Foundation
4445-A Magnolia Avenue, Riverside, California 92501
(909) 788-3471 • www.rchf.org

Education Services

Number of organizations: 5,078 **Assets: $29,485,245,469**

Expenses: $10,854,850,569 **Income: $13,170,911,813**

Nonprofit educational institutions account for one-fifth of all nonprofit expenditures. Nonprofit institutions play important roles in all four major segments of the educational system: higher education, elementary and secondary education, vocational education and library services. They make up almost half of higher education institutions. Nonprofit schools, most of which have religious affiliations, represent nine percent of California's K-12 enrollment, while nonprofit colleges and universities account for about 12 percent of the state's higher education enrollment.[14]

Education Services Profile

Early Childhood Center

The Early Childhood Center's educational programs train childcare workers to prevent, recognize and intervene in mental health problems in children's earliest years.

For more than a year, therapist Julie Silverton tried everything to ease three-year-old Brenda's temper tantrums.* But traditional interventions didn't work. Then Julie enrolled in the Early Childhood Center's Infant Mental Health Specialists Training Program (IMHSTP). Armed with new knowledge, Julie decided to try a new intervention with Brenda: swinging the child in a hammock. The exercise worked. Within 30 seconds of settling into the hammock, Brenda was calm; within 60 seconds, she was asleep. When her mother woke her to leave, Brenda happily put on her shoes and trotted down the hall. When she returned the following week, the child immediately asked for the hammock.

The IMHSTP provides educational programs that train people who work with infants, toddlers and very young children in the interdisciplinary processes of development that are so intense in children's earliest years. Faculty members are from the fields of psychoneurobiology, psychiatry, biology, genetics, pediatrics, nursing, speech and language, anthropology and more. All classes are team-taught to preserve the interdisciplinary focus and to demonstrate how teams of professionals sharing information can increase their effectiveness in preventing and addressing early childhood disorders.

Over 24 months, 60 students participate in weekly classes and nine weekend intensives. The 60 students, in turn, teach the new information to their 1,000 coworkers with support from the IMHSTP. The students work with more than 6,500 parents and caregivers, helping them understand the developmental processes of young children. By working with all the parents and caregivers, the training program ensures that these children are nurtured not only when they come to childcare, the doctor or the therapist, but also at home. The 60 "core" students receive continuing education credit when they graduate from the program.

Before enrolling in the IMHSTP last year, Tricia Moore, a licensed clinical social worker who works with at-risk children in a childcare setting, was baffled by five-year-old Ricardo, who was both overactive and shy. He was sensitive to noise and touch, had trouble following directions, and never looked people in the eye. He could not sit still during storytime or go to sleep at naptime.

All classes are team-taught to preserve the interdisciplinary focus.

"I knew there was a biological component to Ricardo's behaviors, but I didn't know how to help him," says Tricia. "The [IMHSTP's] classes on neurobiology and sensory integration helped me see how Ricardo is bombarded daily with sensory stimuli. His overly sensitive nervous system makes it difficult for him to take in information, make sense of it and retain it.

"After taking the classes, [the preschool staff], instead of seeing him as a wild, mischievous child, thinks of him more empathetically as a child whose body does not function in a way that helps him to relate to and participate in traditional activities. This new way of thinking benefits Ricardo – but it has also given the staff new tools to use in the classroom with other children."

** Names have been changed.*

Early Childhood Center
8730 Alden Drive #E-103, Los Angeles, California 90048
(310) 423-3576

Social/Human Services

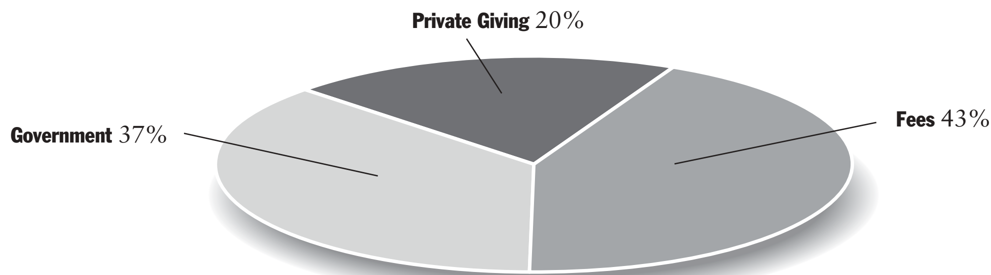
Number of organizations: 8,730 **Assets: $14,079,507,360**

Expenses: $8,676,735,155 **Income: $9,336,833,628**

Though there are more social and human service organizations than any other type of nonprofit organization, most people do not have a clear understanding of what constitutes social and human services. These organizations primarily assist individuals and families through services such as day-care, adoption programs, family counseling, residential care of elderly people and persons with disabilities, refugee and immigration services, food assistance, substance abuse and many more. Nonprofit organizations make up 82 percent of family and individual service organizations. They provide 71 percent of job training and vocational rehabilitation, 68 percent of residential care and 33 percent of day-care centers.[15]

Yet for all its diversity and impact on the lives of Californians, social services receive only two percent of government spending in the nonprofit community.[16] From 1982 to 1992, the number of California nonprofit organizations providing individual and family social services increased by 63 percent. As government funding has dwindled, most social and human service income has come from service fees.[17] Although nonprofits have traditionally dominated this field, increasingly they face vigorous competition from the for-profit sector. It is unclear how this will affect both the vulnerable populations being served and the role of human and social service nonprofit organizations.

SOURCES OF NONPROFIT SOCIAL AND HUMAN SERVICE INCOME



Source: Salamon, Lester M. *America's Nonprofit Sector.* New York: Foundation Center. 1999. Page 115.

Social/Human Services Profile

Little Tokyo Service Center focuses on building neighborhood structures and helping its neighbors lead healthier, more stable lives.

Little Tokyo Service Center

Launched on a shoestring in the late 1970s, Little Tokyo Service Center (LTSC) has grown its services over 20-plus years while maintaining a constant focus on its singular mission: to be a comprehensive multi-purpose social service center that can serve the Japanese-American community on a broad basis.

Executive Director Bill Watanabe sees LTSC as working on three different levels: individuals, small sub-populations and the community as a whole. “We started with social services,” he says, “things like counseling, referrals, advocacy and outreach that would help people on a one-to-one basis.”

Today, LTSC’s social services division offers family counseling; consumer education; two hotlines; special support groups; a bilingual/bicultural emergency caregivers program; transitional housing for battered women; and transportation to medical appointments for older adults. The organization has also established a bone marrow donor recruitment program that feeds into the national donor database, has registered 65,000 potential donors since 1991 and has increased the number of Asian-American donor-recipient matches from only one – *ever* – to an average of three per month.

Says Watanabe, “We have decided which services would become priorities by responding to what the community asked for.”

Increasingly, the community asked for more than traditional human services. In 1986, an out-of-town corporation began buying up single room occupancy hotels in and around Little Tokyo. Most of the low-income residents left to find other housing, but about 20 – most of whom were elderly Japanese-Americans – did not. “They didn’t actually believe they would be evicted,” says Watanabe. “But there was no other affordable housing in the neighborhood at that time.” So LTSC converted a local, city-owned building to affordable housing.

Increasingly, the community asked for more than traditional human services.

The Board of Directors soon realized that an effective human services agency and an effective infrastructure builder required very different temperaments, talents and strategies. So they established the Little Tokyo Service Center-Community Development Corporation (LTSC-CDC) in 1994 – and two years later moved into a new building, which also includes 100 affordable housing units.

Since then, LTSC-CDC has opened an additional 130 affordable housing units and turned a local historic building – which had been slated for demolition – into Union Center for the Arts. They opened Union Center Café next door as a job training site and purchased the Far East Building, with plans for reopening an historic neighborhood restaurant and installing housing upstairs. LTSC still offers its full menu of human services to about 4,000 people each year.

Watanabe is philosophical about the relationship between community development and human services. He muses, “Is childcare human services? What about housing that provides family counseling? What about assistance with small business development? All these things are interdependent.” Indeed, Little Tokyo Service

Center seems to have set the trend years ago for a practice now commonly accepted as effective: ensuring the strength of a community by working at all different levels – just the way a community does.

Little Tokyo Service Center
231 East Third Street, Suite G104, Los Angeles, California 90013
(213) 473-1602 • www.ltsc.org

Religion

	Reporting	*Estimated in California*
Number of organizations:	**1,436**	**26,000**
Assets:	**$1,323,190,960**	**Not Available**
Expenses:	**$645,931,858**	**Not Available**
Income:	**$769,233,488**	**Not Available**

When compared to other nonprofits, religious institutions hold a privileged position in American law because the First Amendment forbids Congress from passing any statute that might have the effect of establishing or advancing one or more religions or impeding the "free exercise" of religion. One consequence of that right is that religious organizations are not required to apply for nonprofit status from the Internal Revenue Service: They are automatically assumed to be exempt and eligible for tax-deductible gifts. As a consequence, only a fraction of religious organizations file with the IRS.[18]

Nevertheless, the IRS code is explicit in identifying the practice of religion as one of the purposes that entitles organizations to apply for income tax exemption, and virtually all churches and related religious institutions in the US are nonprofit in form. They receive nearly half of all private charitable contributions and account for a greater share of volunteers than any other nonprofit field.

Eighty-three percent of Californians identify themselves with some religion, and California's religious organizations encompass a wide range of beliefs and practices. In addition, religious organizations in California and across the country provide support, financial and otherwise, to other nonprofits. Many of the groups already mentioned – health, education and social services – are developed and managed by religious organizations.[19]

Religious organizations are assumed to be exempt, so only a fraction file with the IRS.

Religion Profile

Sacramento Valley Organizing Community

"What keeps you up at night?" Elder James Daggs asks parishioners from churches all over the Sacramento area, taking cerebral public policy concepts into real people's lives.

Daggs works for the Sacramento Valley Organizing Community (SVOC), a multi-ethnic and multi-denominational coalition of 40 member religious institutions, affiliated with the Industrial Areas Foundation (IAF), which was started by Saul Alinsky in the late 1930s to rebuild the democratic system based on the passions and dreams of ordinary people.

"Two guiding principles inform our work," says organizer Uli Schmitt. "First is the Iron Rule: 'Never do for others what they can do for themselves. Never.'" Second, SVOC organizers believe that people affected by problems are the real experts in defining and creating solutions.

"People have to know that their life experiences give them the potential to be leaders."

Before she met up with SVOC, Carmen Mirazo was shy and scared of public speaking. But SVOC got her thinking: The local public housing project was dilapidated and drug-ridden. SVOC encouraged Carmen to pursue public funding to renovate the complex. One local official was indignant. "How can you think about applying for our monies when you can't even afford a lawn mower?" he chided her.

The Sacramento Valley Organizing Community encourages community members to take problems into their own hands.

Carmen organized a press conference to demand the city take the neighborhood seriously. When the official who had scolded her showed up at the press conference, the community unveiled 50 lawnmowers running on full power in a dramatic display of resourcefulness. Today, the housing complex is remodeled and virtually crime-free.

SVOC could have used its resources to persuade the city to funnel funding into the project. But "people have to know that their life experiences give them the potential to be leaders," says Pastor Oddis Maxwell. Adds Schmitt, "The way you build a leader is not so much by sending them off to a class as by encouraging them to do actions. You let them know it's okay to make mistakes."

Welfare-to-work has provided many opportunities for developing leaders in the context of SVOC's member parishes. Daggs says, "The county basically told [welfare recipients] what they had to do to meet Work First requirements … Our organizers went into parishes and asked welfare recipients what *they* wanted." The answers were not surprising: living wages, benefits, a career ladder, and moral support. In partnership with welfare recipients, SVOC proposed a four-week curriculum that included training in leadership, communication, relationship building and problem solving in addition to the standard résumé writing and job searching.

At first the county resisted, but when they saw the overwhelming response of welfare recipients, they relented. SVOC also negotiated hiring agreements with medical institutions that would put qualified graduates to work in career-track jobs. They paired mentors from each parish with training participants to provide moral support, rides to job interviews and other crucial assistance. The program has graduated 300 people since 1998.

Daggs concludes, "Our work *has* to be fueled by the people. It's got to have their passion stamped all over it. That's the only way it flies."

Sacramento Valley Organizing Community
3263 First Avenue, Sacramento, California 95817
(916) 457-0245

Grantmaking and Grantmaking Services

Number of organizations: 5,101 **Assets: $40,216,205,766**

Expenses: $3,619,518,626 **Income: $7,038,670,118**

Grantmaking institutions exist to fund other nonprofits and help them better serve the needs of their communities. This field includes independent foundations like The James Irvine Foundation, corporate foundations like the Levi Strauss Foundation, community foundations like the California Community Foundation, and United Ways and other federated giving programs like Earth Share of California and the United National Fund.

Nonprofits thrive in California because our state has some of the most generous foundations in the nation:

- $1.28 billion was given away in 1997 by California's foundations.
- Private California foundations exceed the five percent payout required by federal law. They actually give away an aggregate of 6.1 percent of assets – which means an extra $300 million in grants for nonprofits statewide.

Foundations by Assets and Giving

Ten of the largest and most generous foundations in the US reside in California:

Foundation	Assets	Total Giving
J. Paul Getty Trust	$6,464,964,495	$11,880,900
David and Lucile Packard Foundation	13,144,241,646	391,568,231
The Annenberg Foundation	1,387,238,383	112,996,033
The William and Flora Hewlett Foundation	1,379,220,267	39,802,302
W.M. Keck Foundation	1,044,818,606	34,293,000
The California Wellness Foundation	914,265,307	37,003,535
The James Irvine Foundation	832,679,081	32,434,146
Marin Coummunity Foundation	620,118,000	32,562,000
The Ahmanson Foundation	609,977,055	27,196,888
Weingart Foundation	542,009,793	28,395,177

Source: *The Foundation Directory,* 1997 Edition. Published by The Foundation Center.

- Nonprofits in California receive $81 million more in grants from foundations outside our state than California foundations award in out-of-state grants.

By making such generous annual bequests, California foundations have made themselves an integral part of the valuable work performed by thousands of nonprofits across the state.

Grantmaking Profile #1

The Atlas Family Foundation

"Most foundations make grants for only a single year. If you're an investor, that kind of turnover is a serious obstacle."

In 1992, Richard Atlas telephoned a fellow Harvard Business School alumnus to solicit a major gift in honor of their 25th reunion. When the alumnus named a figure, Atlas was disappointed. "How did you arrive at that number?" he asked, knowing the man could afford more. The response turned the phone call into a wakeup call for Atlas.

"My major support goes to groups," the man said, "who have no natural constituencies of support – underprivileged children, people with mental illness."

Atlas reflected on the giving of the Atlas Family Foundation, which he had established following his election as a partner in Goldman Sachs in 1985: "We gave to organizations we had a stake in," he says. "Our alma maters, arts organizations we patronized, requests our friends made. We had no strategy or goals."

Atlas trained his investor's mind on a new strategy. "Investors diversify to protect what they have," he says. "More focus is riskier – but if it's done right, it also creates wealth. In charitable giving, diversification weakens your focus. Now we focus on early childhood years."

Another investment strategy Atlas adopted is an emphasis on "relationships and trust. Investment advisors must know their clients intimately. If they don't, they're liable to give wrong information."

The investment model of grantmaking led The Atlas Family Foundation to invest in early childhood funding.

Thus, says foundation consultant Janis Minton, "We might do a year of due diligence before we ask for a proposal." That includes meeting with board and staff members and sitting on floors of childcare classrooms. "But when we ask for a proposal, we pretty much know we're going to fund you – probably for several years."

"Long-term sustainable change takes time," Atlas asserts. "But most foundations make grants for only a single year. If you're an investor, that kind of turnover is a serious obstacle." Adds Minton, "Intentionality is a cornerstone of this style of grantmaking. You have to have a constant awareness of your focus and strategy. You have to ask grantees what they need."

Recently, the Atlas Family Foundation did just that. They gathered grantees for a dialogue geared at increasing long-term effectiveness. Atlas asked attendees what they needed to succeed. "Because The Atlas Family Foundation is invested in us," says St. Joseph Center Executive Director Rhonda Meister, "we know we don't have to worry about coming up with something new every time we submit a request.

We can work with them to take our program in the direction we really need to go."

Atlas believes that this openness, trust and long-term commitment makes his "investment model" of grantmaking work. "It's a two-way street," Meister reflects. Beyond giving funding, Atlas and Minton "ask crucial questions that have helped us think about next steps. And because they really want to know how we're doing, even when the best-laid plans go awry, we are able to talk with them about restructuring or re-strategizing.

"It's an opportunity to say what isn't working, and why – and then to make it work."

The Atlas Family Foundation
2121 Avenue of the Stars, Suite 2600
Los Angeles, California 90067-5050

Grantmaking Profile #2

David and Lucile Packard Foundation

California's Central Valley houses essential habitat for 70 percent of migratory birds that depend on the Pacific Flyway. The Sierra Nevadas provide 70 percent of the state's water. The Central Coast sustains some of our greatest biological diversity. But California's Department of Finance predicts the state's population will increase by 69 percent by the year 2040 – and by well over 100 percent in these three environmentally important regions.

© ROB BUELTMAN, MONTARA, CA

The David and Lucile Packard Foundation's conservation initiative preserved 327,000 acres of California land between 1998 and 2000.

"What will be the impacts [of population growth] on the resources that help provide clean air and water, recreational opportunities, or the solace of open space?" asks Los Altos-based philanthropic giant The David and Lucile Packard Foundation.

The foundation launched the Conserving California Landscapes Initiative (CCLI) in spring 1998 to protect 250,000 acres of sustainable natural systems and significant agricultural and rangelands by 2003. Part of the plan was to attract more than $175 million in leveraged funds. One national media outlet described the 250,000-acre goal as "staggering."

By autumn of 2000, the foundation had preserved 327,000 acres and attracted well over $244 million in leveraged funds. The foundation is quick to point out that CCLI funding is only part of the puzzle – that the initiative's accomplishments are the result of much collaboration.

One such collaborative effort is a 7,000-acre swath of the Central Coast. Owned by the Coast Dairies and Land Company, the region was slated for subdivision and 139 luxury homes by a Nevada development firm. A CCLI grant to the Save-the-Redwoods League forestalled the threat through a purchase of the development company's option on the property. CCLI then helped the Trust for Public Land to secure and exercise the development rights, ensuring its future as a 7,000-acre preserve.

The Trust for Public Land worked closely with other entities to secure the property and create an innovative management plan. The California Coastal

Conservancy contributed $6 million to the effort. And a management plan that will assure public access is being funded in part by the William and Flora Hewlett Foundation and the State Coastal Conservancy.

Most recently, the Packard Foundation announced an $11 million grant to the University of California to acquire more than 7,000 acres in Merced County that will create a 5,000-acre preserve of sensitive vernal pool habitat, facilitate the creation of a 750-acre UC natural reserve for scientific study, build a new 2,000-acre UC campus and give increased UC access to San Joaquin Valley residents, who currently enroll at less than half the statewide rate. The gift also triggered the release of $15 million from the state to acquire habitat conservation funds.

By autumn of 2000, the foundation had preserved 327,000 acres and attracted well over $244 million in leveraged funds.

Collaboration and leveraged funds are key to CCLI's success and have emboldened The Packard Foundation to expand its 250,000-acre goal to 500,000 acres within their original five-year timeframe. As the foundation observes in its mid-term report on the project, "Success and momentum breed success and momentum."

The David and Lucile Packard Foundation
300 Second Street, Suite 200, Los Altos, California 94022
(650) 948-7658 • www.packfound.org

Arts, Culture and Recreation Services

Number of organizations: 4,968 **Assets: $4,472,255,799**

Expenses: $2,191,634,209 **Income: $2,656,313,879**

This category includes a wide variety of performing and visual arts, zoos and museums, as well as film production training and various recreational activities. Amateur sports competitions make up the largest segment of recreation. Symphony orchestras, opera companies and chamber music represent the largest percentage of arts and culture, followed by museums and art galleries. The majority of botanical and zoological gardens are also nonprofits.

Although arts, culture, entertainment and recreation services make up only eight percent of the entire nonprofit sector and two percent of employment, most of the serious cultural and artistic activity of the nation is organized by nonprofit organizations as well as a significant share of the nation's recreation services. However, in 1995 the vast majority (93 percent) of staff in this category were employed in sports, recreation and entertainment. Only seven percent were employed in what is termed "arts and culture."[20]

Nonprofit organizations play a major role in the arts, culture and recreation, and private philanthropy plays a larger part in financing this field than it does any other. Even so, private philanthropy is not the dominant source of income. Private giving accounts for 41 percent of income for arts and culture organizations, with 45 percent raised through fees and charges, and 14 percent through government. The value of donated works of art might make private giving seem like a larger contribution than it is, since gifts of art are not available to support an organization's operations. Orchestras and theater and dance companies earn 60 percent of their income through ticket sales, endowment earnings and related business activities.[21]

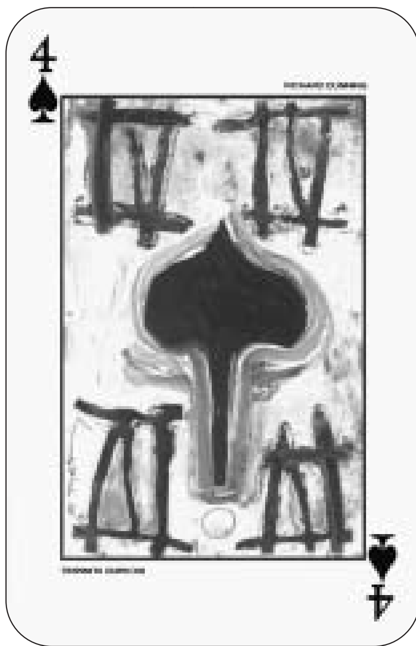
Arts, Culture and Recreation Profile

The Ink People Center for the Arts

In 1979, seven graduates of Humboldt State University's printmaking program were looking for life beyond the university. They figured it started with their own etching press: a vehicle for living as artists rather than as cooks or factory workers or receptionists who squeezed art into evenings and weekends. It wasn't long before they realized other moonlighters had the same dream: space and resources for living life as artists.

"When people make art together, it creates connections between people."

"It took five years to get the etching press," recalls Libby Maynard. In those first lean years, the group met in each other's kitchens to swap stories, plan exhibits and share materials and information. Finally, they were able to move into a space of their own. But by that time, public arts funding had dwindled; landlords kept raising the group's rent, forcing them to move; and the IRS had declined their 501(c)(3) application. "We were too avant-garde."



The Ink People Center for the Arts recruited 52 local artists to create a stunning deck of cards, the sale of which helps finance the group's operations.

They still are. Long since a certified 501(c)(3), The Ink People Center for the Arts embraces all forms of art – printmaking, photography, playwriting, videography, painting, weaving, poetry, even gardening – by providing members with the tools, space and support they need to make art. And though the organization has a small gallery space, Humboldt County residents are much more likely to see The Ink People members' artwork in their so-called Alternative Galleries – more than 100 restaurants, offices and other public spaces around town that have helped The Ink People bring art to the public.

But The Ink People's reach goes beyond individual artists. The founders' own experience with setting up a nonprofit gave them empathy for other fledgling arts organizations, which they often saw burn out with administrative work that left few resources for their creativity. Because The Ink People now had their own building and staff, it was a natural extension of their mission to be an incubator for new groups.

Plays in Progress/World Premiere Theater started this way more than a decade ago. The Ink People provided administrative and technical support, as well as performance space, for three years while two young playwrights grew their organization. They moved into their own space and became their own 501(c)(3) in 1991 and have produced a four- to five-show season every year since.

"What we're really about," reflects Maynard, "is social change." She recounts the local violence that has been visited upon Native Americans, Chinese Americans and African Americans for 150 years. She points to the rise in violence nationwide, the increasing struggles children have in school, the overall sense of the loss of community – and the steady drop in arts funding over the last 30 years.

"The arts are a tremendous community tool," she says. "When people make art together, it creates connections between people. Without those connections, we fall apart. Neighborhoods fall apart. Other people become big zeroes and that makes it easier to hurt them.

"When we are separated from art, we are separated from our spirit."

The Ink People Center for the Arts
411 Twelfth Street, Eureka, California 95501
(707) 442-8413 • www.inkpeople.org

Business Support Services

Number of organizations: 451 **Assets: $1,854,747,317**

Expenses: $1,606,391,881 **Income: $1,668,223,812**

Eighty percent of nonprofit business support organizations are research institutions. This category includes research, development and testing groups like the Electric Power Research Institute in Palto Alto and Rand in Santa Monica, as well as 136 organizations that provide technical assistance, management support services and public relations for both for-profit and nonprofit organizations. Historically, the business sector has dominated this field, and currently nonprofits account for five percent of these organizations in California. Included in this group are volunteer centers, management support centers and the Convention and Visitors Bureaus.

Business Support Services Profile

CompassPoint Nonprofit Services

"When you know where you want to go," says Jan Masaoka, "you use a compass to help you get there."

Masaoka is Executive Director of CompassPoint Nonprofit Services, a business support organization with offices in San José and San Francisco. She sees CompassPoint and other such organizations as the "virtual training department for the nonprofit sector." CompassPoint offers consulting services and workshops, conducts studies about key nonprofit issues, publishes newsletters for nonprofit executives and board members, and creates the nonprofit cartoon *Planet 501c3,* which pokes lighthearted fun at the nonprofit world.

CompassPoint Nonprofit Services publishes Planet 501c3, which pokes lighthearted fun at the nonprofit world.

The organization begins with an assumption that nonprofits have a bevy of strengths on which to build. "There's an old-fashioned view of technical assistance as being a doctor helping a sick person," muses Masaoka. "A better way to think about it is that smart athletes use coaches. So you can be the best basketball player in the world, but you're still going to work with a coach."

One of CompassPoint's proudest accomplishments is a partnership with the Hewlett-Packard Corporation, the Packard Family Foundation and 120 nonprofit childcare agencies that serve low-income families from Seattle to San Diego. Hewlett-Packard provided each childcare agency with a computer, fax machine/laser printer, color printer, scanner and digital camera. The Packard Foundation funded CompassPoint's technology staff to install the equipment, train each agency's staff members in its use and care, and provide technical support for one year.

Says Masaoka, "Once you put technology in the hands of people, they come up with a million creative ways to use it. We designed a prototype project for them, which was to take pictures of kids and put them into a calendar template. But they immediately started doing things like taking pictures of who's authorized to pick up kids, taking pictures of kids' activities for developmental studies and printing kids' artwork for fundraising and newsletters."

Masaoka sees CompassPoint as the "virtual training department for the nonprofit sector."

CompassPoint also conducts studies on "hot issues" such as executive director tenure, office space and the nonprofit workforce. While some studies are commissioned or won through a competitive application process, other topics are studied simply "to help us and our clients do our jobs better." The study on executive director tenure, for example, highlighted ways that nonprofits could better support their executive directors and manage CEO change.

The study led directly to a push toward convincing foundations to fund associate directors in order to support executive directors and to nurture a group people to be "on deck" for executive positions. "We have seen a big change lately in who comes to CompassPoint's Associate Directors workshop," says Masaoka. "Many new positions have been created."

"Nonprofits are a marketplace of ideas," says Masaoka. "The most powerful ideas for social change, and many of the most powerful ideas for management, come from the nonprofit sector. Nonprofits are agents for prosperous, democratic communities, and CompassPoint's job is to increase the effectiveness and impact of people working and volunteering in the nonprofit sector."

CompassPoint Nonprofit Services
706 Mission Street, Fifth Floor, San Francisco, California 94103-3113
(415) 541-9000 • www.compasspoint.org

Community Service: Social Justice, Environment and Advocacy

Number of organizations: 2,321 **Assets: $3,439,736,866**

Expenses: $2,054,522,776 **Income: $2,401,532,520**

Community service organizations provide services to the public at large. One distinguishing feature of this group is that the majority are 501(c)(4) organizations, a designation that severely limits the tax deductibility of donations to these groups.

Community Service groups engage in one of the most fundamental roles of nonprofit organizations: civic advocacy. Through their involvement in advocacy, nonprofits embody one of the most cherished values in society – the right to associate and give voice to common concerns. This right has received particular attention in recent decades as nonprofits have worked to empower the poor, consumers, women, racial and ethnic minorities, people with disabilities and numerous other segments of the population. The advocacy role of nonprofits may be their most important function.[22]

Types of community service groups include:

- Advocacy and social justice organizations like Choice in Education, Women's Health Leadership, and Mexican American Legal Defense and Education Fund.
- Environmental groups that work to preserve and protect the environment like the Sierra Club Foundation, the Redwood League and Heal the Bay.
- Animal welfare groups like the Humane Society and the Society for the Prevention of Cruelty to Animals.
- Civic leagues and social welfare groups such as the Rotary, Kiwanis, Lions, Optimist and Soroptimist service clubs.

Social Justice Profile

Women's Health Leadership

The Women's Health Leadership gives a diverse group of women the opportunity to build leadership skills and help their communities.

Women have known for generations that their ways of working together can be radically different than traditional models. For the last eight years, Women's Health Leadership (WHL) has supported women across California to utilize their natural talents for the betterment of their communities. WHL brings together groups of up to 50 women to network, explore their talents, build and practice skills, and plan and implement projects for their communities.

"The process helps broaden the definition and issue of 'women's health,'" notes Belma González, the project's Alumni Network Coordinator and a WHL graduate herself. "The women begin looking at health issues from a perspective that goes beyond the traditional model. It allows each woman to realize she already has within herself what she needs to be a leader."

Alumnae are being tapped as resources by legislators and advocacy groups.

Participants are primarily women of color, including many immigrants and second-generation Americans. When they are accepted into the program, each commits to doing a project, which usually extends beyond their 12 months of program participation. By addressing issues like isolation among elderly Afghanis and the leadership skills of Spanish-speaking domestic violence survivors, alumnae projects reflect the women's diversity as well as an encompassing model of health.

WHL mobilizes women who might not otherwise meet to act collaboratively. Several Humboldt County alumnae collaborated on a *doula* (childbirth coach) training program. Encouraged by their WHL experiences and WHL staff, the group secured funding, developed a curriculum and harnessed other needed resources with which they trained 40 community women in their first year. The following year, WHL enrolled participants from the Hoopa Indian Reservation in eastern Humboldt County, who connected with the original doula group. The Hoopa group redesigned the curriculum to ensure cultural competency and trained several Hoopa women to be doulas. Eventually, one of the original Humboldt women moved to Santa Clara County and adapted the curriculum once more – this time to be linguistically and culturally appropriate for Latina migrant farmworkers.

About 300 women have now graduated from WHL. Alumnae are being tapped as resources by legislators and advocacy groups. They are doing policy and advocacy work including writing letters, going to the Capitol and running for city council. A large percentage are promoted within their home organizations after going through WHL.

The network of women who can speak on behalf of women's health has increased, and the communication system for networking and peer learning has been improved – processes that will ultimately improve health conditions at the community level. Says Lourie Campos, a year 2000 WHL graduate, "WHL encourages personal and professional growth as well as teaching women to be advocates for themselves and other women in their community."

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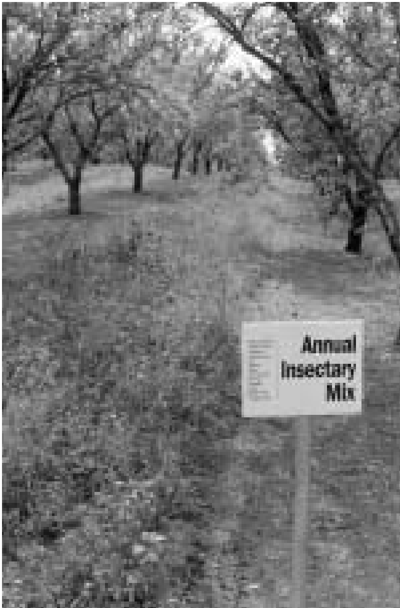
Environment



The Community Alliance with Family Farmers helps farmers minimize pesticide use while keeping food production high.

Environment Profile

Community Alliance with Family Farmers

California has long been portrayed as an abundant Eden that provides a variety of food, calming open space and a diverse state economy. But the Community Alliance with Family Farmers (CAFF) believes that recent developments – especially urban growth and pesticide use – threaten California's ability to feed itself and degrade our natural resources. The Davis-based organization, which has chapters statewide, supports biologically sound farms and healthy rural communities. "If we cannot keep small family farmers on the land," says CAFF Executive Director Jim Tischer, "the land will be lost permanently."

In the early 1990s, CAFF discovered that some Central Valley farmers were working in local teams that included growers, farm advisors and pest control advisors who shared information, resources and experiences to minimize chemical use and maximize crop quality and production. CAFF adopted the model, Biologically Integrated Orchard Systems (BIOS), in 1993 and piloted it with 26 Merced County almond growers. CAFF provided assistance with planning, program management, training, monitoring and assessment. But it is the growers who truly implemented BIOS through their collaborative information and resource sharing.

In BIOS's first year, one almond grower reported he reduced his synthetic nitrogen use by 75 percent on two-thirds of his acres and sprayed no organophosphate pesticides. He harvested a respectable 2,300 pounds per acre and reduced production costs by 25 percent. BIOS has proved so successful that CAFF has added six counties to the program, and organophosphate use has gone down significantly in at least five BIOS counties since 1992.

"If we cannot keep small family farmers on the land, the land will be lost permanently."

As its name implies, CAFF works vigilantly to deepen the connection between growers and residents of urban areas. The rationale is that if city-dwellers value their connection with California's farms, they will support public policy efforts that benefit farms, farmers and themselves.

CAFF helps forge these ties in the city by supporting Community Supported Agriculture groups (CSAs). CSA members pay a "share" of a local farmer's operating costs up front, and in return they receive delivery of a varied selection of fresh seasonal produce. "The produce is generally harvested no more than a day before delivery," says Tischer, "so it's fresher and more nutritious than what you would buy in a supermarket." The grower's locality helps decrease the anonymity that characterizes much of today's food shopping.

CAFF has also created a farm tour program to extend these connections. On a recent trip, tourist Christine Bebee said, "I would gladly pay an extra 50 cents per basket to ensure that farmworkers receive a fair wage and that their children have access to health care and a decent education."

Tischer predicts that "connections like these will make the difference to small farmers – and to the environment – in the long run."

Community Alliance with Family Farmers
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Advocacy

Advocacy Profile

Californians for Pesticide Reform

In the 1970s, local poison control groups handed out "Mr. Yuck" stickers – green frowning faces that warned children away from household poisons. San Francisco-based Californians for Pesticide Reform (CPR) has taken the idea to a statewide, institutional level, pushing for reforms that inform people about poisons in schools.

"Most people think of pesticides as removed from their own lives," says David Chatfield, Executive Director of CPR. "But there are many pathways through which pesticides reach us and our families regularly."

A recent school survey, conducted by California Public Interest Research Group (CALPIRG) and published by CPR, found that 13 of our 15 largest school districts used at least one of the most toxic pesticides – those that cause cancer, reproductive harm and/or nervous system damage – and that 12 of those districts used seven or more. An earlier CALPIRG/CPR survey found that 87 percent of surveyed districts used at least one pesticide known to be toxic to humans.

Californians for Pesticide Reform spearheaded the effort to pass the Healthy Schools Act.

"In many cases," reports Chatfield, "there's not a direct pest problem."

Launched in 1997, CPR grew from a loose collection of organizations that had worked together for many years. Today it is a statewide coalition of 142 nonprofits, governed by eight member representatives, whose program work is done through all its members.

The 700,000 Los Angeles Unified School District students are some of CPR's beneficiaries. The district was using 30 poisonous substances to rid buildings of pests, scour weeds from playgrounds, even burn lines on football fields. CPR supported local groups to create a movement against pesticide use by the LAUSD – which in 1999 passed a regulation to reduce chemical applications in favor of healthier alternatives.

The LAUSD's move bolstered CPR's position in taking its case to the state. The coalition rallied to pass the Healthy Schools Act in 1999, which would have phased out the use of more than 100 hazardous pesticides. Though the bill made it through the state Assembly, it was vetoed as "too expensive."

So in 2000, CPR fortified its coalition with professional medical organizations, large health care nonprofits and other organizations like the Mexican-American Legal Defense and Education Fund, Parent-Teacher Associations and labor groups. Some of the health care organizations assembled a report that documented hundreds of studies associating pesticides with human health impacts. Member agency representatives negotiated with school boards, superintendents and agribusinesses to create a new Healthy Schools Act. The final version requires schools to notify parents of planned pesticide use at the beginning of each school year; to offer parents the option of signing up on a registry for subsequent notifications about planned applications; and to maintain detailed records of pesticide use on school sites.

CPR made sure the governor would sign the bill this time by involving the

constituencies that were important to him. A budget provision within the state Department of Pesticide Regulation (DPR) will distribute training manuals on alternate pest control to districts statewide. CPR is working with DPR to create an effective manual.

A study found that 13 of our 15 largest school districts used at least one of the most toxic pesticides – those that cause cancer, reproductive harm and/or nervous system damage.

Not only did the governor sign the Healthy Schools Act into law in September 2000, he created a press conference around the bill signing, saying, "Kids should not be exposed to dangerous and toxic materials when they go to school … This bill is another step forward to providing a safe and healthy learning environment."

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Nonprofits: Responding and Evolving

The role of the nonprofit sector in the US and California extends far beyond these facts and figures, ultimately serving as a mechanism for preserving and promoting important values that have long defined American society. As individuals have become increasingly isolated from one another, and from the powers that shape their everyday lives, the nonprofit sector continues to provide a forum for active citizenship; for freedom of religion, expression and association; for raising our voices in collective cries for justice, health and livable communities.

The Challenges Ahead

"If there is one hallmark that has distinguished our society from all others, it is the existence of a dynamic nonprofit sector. Fueled by private and institutional philanthropy, it has…served as a spawning ground for leadership and been a significant instrument for social and economic change. Nonprofits have kept alive the American tradition of public interest and volunteering. Our nonprofit sector is the envy of countries throughout the world that are trying to build civil societies. That is why it is so important to examine the crisis confronting our sector today."

—Pablo Eisenberg, 1997

The value of the nonprofit sector is enormous, pervasive and incalculable. Though there have been embarrassing blunders (and, in some cases, even unlawful behavior), overall the nonprofit sector has greatly improved the health, safety and well-being of our communities. However, historic developments and current trends present serious challenges to the sector – challenges we must attend to in order to adapt successfully.

Major challenges of our time include:

Nonprofit childcare organizations face tremendous financial challenges.

#1 *The Finance Challenge*

The prosperity of the past several years has not trickled down to most nonprofit organizations, for which resources continue to decline.

- **Government funding is down.** Starting with the fiscal retrenchment of government in the 1980s and continuing through the Clinton administration, government funding for nonprofits (not including health) was 25 percent less in 1999 than in the early 1980s. By 2003, there will be an additional cumulative loss of $13 billion in public funding for nonprofit organizations.[1]
- **Charitable giving has fallen off.** Charitable giving has not grown fast enough to offset government funding cuts or to allow the sector to respond to the needs of its constituents. Recent studies show that the share of household income devoted to charitable giving has declined – from an average 1.86 percent of household income during the 1970s to 1.72 percent in the 1990s. And despite growing populations and a strong economy, private giving has actually lost ground: It fell from 15 percent of total nonprofit revenue in the 1970s to 10 percent in 1999. Although there was some increase in the late 1990s, stock market volatility suggests the gain will not be permanent.[2]
- **Corporate philanthropy has declined.** The percentage of pretax income donated by for-profit corporations to the nonprofit sector declined from 1.5 percent in 1988 to 1 percent in 1998. While that official statistic is not reliable – since many corporations provide support to nonprofits that is not counted in tabulations of tax-deductible gifts – there is still cause for great concern about corporate grantmaking. And the pace of corporate mergers and acquisitions accelerated

(from about 1,500 in 1991 to more than 4,700 in 1998), draining the pool of corporate giving to local community nonprofits.[3]

- **More foundation monies are going to staff projects.** For some foundations, an increasing proportion of their grantmaking is being directed to staff-initiated and sometimes staff-directed projects. Out of frustration with seemingly intractable social problems, some foundations – particularly the new "venture philanthropy" foundations – are substituting their own activities for those traditionally rendered by nonprofits. Foundation self-funding diminishes the ability of nonprofits to raise adequate funds to do their work.

While these trends have spawned slowly over many years, other developments threaten to impact the sector sharply and set unprepared nonprofits into a fiscal tailspin.

- **Proposed repeal of the estate tax.** Planned gifts and bequests comprise more than 80 percent of all private giving in the United States, and charitable bequests provide 10 percent of all charitable giving. With charitable contributions now the principal alternative to paying an estate tax rate of up to 59 percent, the threat of eliminating the estate tax could have a profound impact on charitable giving.[4] In 1998, the richest one percent of Americans accounted for three out of every four bequests to charities and universities. The US Treasury Department estimates that the estate tax repeal would cause charitable giving to decrease by up to $6 billion a year.[5,6] Though proposed as a phase-in repeal, the legislation would have a devastating impact on charities, foundations, universities and other philanthropic efforts.

Nonprofits have not been included in the 340-plus energy bills being considered by the legislature and the governor.

- **The California energy crisis.** Although the nonprofit sector accounts for eight percent of the economy of California – spending and receiving more than $8 billion a year – nonprofit organizations have not been included in the 340-plus energy bills being considered by the legislature and the governor. Businesses and homeowners have been included. Even low-income families and elderly people – groups that are served and assisted by nonprofits – have been included. But California's nonprofits themselves have been left out.

  Tax exemptions and tax credits are some of the most common benefits and incentives proposed for businesses and households that experience energy rate hikes and implement efficiency and conservation measures. But these proposed policies cause energy cost increases to fall more heavily on nonprofits than on for-profit businesses: the latter can deduct increased costs before calculating taxes, effectively passing a portion of the increase on to government, while nonprofits cannot deduct increased costs because they do not pay income taxes.

- **Skyrocketing Rents.** Doubling and tripling rents are making it difficult for many nonprofits to stay where their clients exist. While this problem currently plagues Bay Area organizations most, nonprofits throughout California will soon be so affected. Some organizations, whether they own or rent, need building improvements, but often grant or contract monies do not include such expenses.

And some old familiar challenges continue to plague nonprofits and even compromise their ability to deliver the most effective services possible:

- **Arcane contracting procedures.** Government monies do not come to nonprofits *carte blanche*. Regulations such as ceilings on reimbursement for rent, salaries, maintenance and other administrative costs keep nonprofits in poverty. Equally difficult is

that government contracts are often renewed year after year with no increase in funding – even though the basic cost of providing services has increased. Foundations and government have a long-term interest in nonprofits' capacity to deliver services, however there is frequently no concern about basic internal infrastructure.

- **Inability to pay competitive salaries.** Money is never the reason people enter the nonprofit sector, but it is often cited as the reason people leave. The nonprofit workforce is more educated than the overall US labor pool – but paid poorly in comparison to other sectors. The result is that, while nonprofits strive for a just and humane life for the people they serve, the same organizations are forced to pay their employees poverty-level wages, sometimes making their own staff members eligible for food stamps. Ten California cities and counties, including Los Angeles and San Francisco, have adopted livable wage ordinances. But rather than increasing contract fees so that nonprofits can pay these wages, cities and counties exempt nonprofits from paying livable wages and create another barrier for nonprofits who want to pay competitive salaries to get the best people for their jobs.

#2 *The Accountability Challenge*

Nearly one in three Americans distrusts nonprofits to use their money wisely.

Questions about nonprofit accountability continue to plague the sector.

Nonprofit organizations have always lacked meaningful ways to demonstrate the value of what they do. Although there is no current scandal about nonprofit abuses, the percentage of Americans who believe that charities are wasteful in their use of funds remains high: The number rose from 26 percent of Americans in 1990 to a high of 38 percent in 1994. Though it fell to 32 percent in 1999, the fact remains that nearly one in three Americans distrusts nonprofits to use their money wisely.[7] Public authorities have also been calling for a more formalized mechanism to hold nonprofits accountable.[8]

Clearly, the actions of a few have harmed all nonprofits and created an environment in which many people believe there should be more regulation of the nonprofit sector. Despite all the regulations we endure, for the most part, there is little meaningful oversight of our sector – causing many to think that no one is minding the store.

#3 *The Advocacy Challenge*

Since the Istook Amendment was defeated in 1997, legislation to limit nonprofit lobbying or require disclosure of donors by advocacy groups has increased. Proposals to limit the lobbying rights of nonprofits have been attached to appropriations bills, authorization bills, federal campaign finance reform bills and so-called "paycheck protection" bills, as well as to internal funding bills at both the state and federal levels.

Other limitations on nonprofit operations and work is characterized by:

- The City of Long Beach recently approved an ordinance that limits the expansion and establishment of social service organizations in specific areas of the city.
- Sponsors of the 1998 San Francisco Open Meeting Ordinance threaten to bring the original disclosure requirements back for a new vote.
- There is a marked escalation in federal, state and local government challenges to nonprofit property and income tax exemptions and disclosure requirements.

Although IRS regulations and federal laws permit limited lobbying, most nonprofits do not understand their lobbying rights. For a variety of reasons, many nonprofits have

distanced themselves from political debate and decision-making. Instead of contributing their hands-on knowledge and expertise to the development of public policies, legislation and regulations, most nonprofits, although very concerned, are passive when it comes to public policy activism.

#4 *The Competition Challenge*

Although nonprofits are accustomed to for-profit hospitals and day care centers, major corporate players in the new welfare-to-work arena have been a startling development. The entry of for-profits into social services delivery has raised fundamental questions about the future of nonprofits as they struggle to fulfill their mission while competing with the business community for contracts that have traditionally gone to nonprofits.

The issue of for-profit competition is whether nonprofits can compete without compromising their missions.

According to the *Chronicle of Philanthropy,* aerospace giant Lockheed Martin now does business in 38 states and localities, including California, which includes providing welfare services, tracking down non-custodial parents and enforcing child support rulings.[9] In addition, federal law has recently been changed to allow for-profit groups to be reimbursed for foster care and group homes for persons with disabilities – the kinds of services government has for years contracted with nonprofits to provide.

The issue of for-profit competition with nonprofits is not whether nonprofits can compete, but whether nonprofits can adapt to this competition without compromising their missions and the qualities that distinguish the nonprofit sector from the for-profit sector. The resulting competition has put a squeeze on the mission-related activities that make nonprofits distinct: advocacy for clients, free services, individualized programs, additional supportive services. And although more than half of all government spending already goes toward purchasing goods and services in the private marketplace, little is really known about the benefits or costs of outsourcing.

#5 *The Legitimacy Challenge*

Nonprofits' success in adjusting to the last few decades of change could be costing nonprofits their credibility. As nonprofits become more professional and earn more and more of their income, popular concepts of what nonprofits should be increasingly diverge from the reality of what nonprofits are. Nonprofits are still seen by many as their 19th century image: voluntary and altruistic. But in place of philanthropy, for example, nonprofits now earn most of their income through fees for service. And how can the nonprofit sector call itself independent when a large percentage of its income is from government agencies? Responding to public needs sometimes makes nonprofits look as if they are advocating for their own self-interest by trying to influence government spending, budgets and programming.

Recent surveys show a distressing loss of confidence in nonprofit organizations. These questions make it easier for government to challenge lobbying rights, to pass "not in my backyard" ordinances that limit social services in certain parts of cities, and to fuel discussion about who should be a nonprofit.

Indeed, the most profound crisis for the nonprofit sector might be the very questioning of the concept of the nonprofit sector.

A Call To Action, A Time For Renewal

ROBERT PACHECO

Nonprofit health care organizations are threatened by low reimbursement rates.

The past two decades have witnessed a remarkable upsurge of interest in the nonprofit sector. At the same time, important questions have been raised about the role and character of nonprofits.

Though people are deeply committed to the nonprofit sector, there have been profound changes on many fronts over the last several decades – changes that put the sector under serious duress – and nonprofit organizations are largely doing business as they always have. A focused and deliberate effort to champion the role of nonprofit organizations and to renew their structure, governance, management, ethical practices, fundraising and service delivery will support the sector to adapt to the new realities of our time. New outlooks, actions and policies are needed if we are to address the challenges the sector faces.

Action Recommendations

#1 *Increase funding and incentives for giving.*[1]

This is a rough time for nonprofits: More is expected and fewer dollars are available. The financial struggle most nonprofits face is certainly not new. However, expanded resources are essential if nonprofits are going to meet the needs of their constituents in the coming years. So instead of simply accepting poverty as an inherent characteristic of the nonprofit sector, we must join together with each other – philanthropy, nonprofits, government, business – and figure out how we will expand the sector's resources. Several solutions are needed:

- **Foundations and government must adequately fund general operating costs – the most urgent need of nonprofit organizations.** Despite rhetoric about the need to build and strengthen nonprofits, foundation core operating grants for all nonprofits have declined over the years and now account for only 13.7 percent of grants. Investment in operations and internal infrastructure must increase.

  With the kind of investment growth foundations have had in recent years, many could give more than the required five percent without reducing their principal. Nonprofits must take the lead in encouraging corporations and individuals to increase their giving – corporations should be encouraged to pledge two percent of corporate income to charitable purposes. Government must fund the real cost to nonprofits for the work done on behalf of government.

  The emerging energy crisis highlights the urgent need for core support. Direct expenditure programs that provide both rebates and financial assistance are needed for nonprofits that will have difficulty paying their energy bills. Both low-cost loans and grants can be used as incentives to encourage nonprofits to

decrease energy use through the installation of conservation measures and efficiencies. Low-cost loans and grants coupled with technical assistance should be offered to help larger nonprofits establish distributive generation and other renewable energy programs.

With strong investments from all funding sectors, nonprofits can strengthen their operations and internal infrastructures.

Nonprofits must have the courage to stop taking money that is not adequate to do the work.

- **Nonprofits must demand that the true cost of their work be reimbursed.** Contracting with government and others should be simplified, and appropriate reimbursement must be provided for administrative and other indirect costs. In counties where there is a livable wage requirement, grants and contracts must be increased to a level that permits nonprofits to comply rather than exempting nonprofits and keeping employee salaries non-competitive.

  Nonprofits must have the courage to stop taking money that is not adequate to do the work and begin looking to each other, to government and to business as strategic partners.

- **Make charitable giving less expensive and tax-friendlier.** Most policy makers agree that giving to nonprofit charities is a good idea and acknowledge that tax breaks can provide effective incentives for charitable giving. These incentives can encourage gifts from annual income, retirement accounts and estates. Several avenues for stimulating charitable giving exist:

  1. Currently, cash gifts may be deducted up to 50 percent of adjusted gross income (AGI) if the recipient is a nonprofit charity but only 30 percent if the recipient is a private foundation. Gifts of capital gains property are deductible up to 30 percent of AGI when contributed to a public charity but only 20 percent when donated to private foundations. Corporations may deduct contributions of up to ten percent of their taxable income. We need to increase the deductibility of cash donations to private foundations from 30 percent to 50 percent, AGI limits on appreciated property from to private foundations from 20 percent to 30 percent and corporate limits to 15 percent.
  2. A bill under consideration in the US Congress would extend charitable deductions to non-itemizers, stimulating a significant increase in new charitable giving each year. This bill should be passed and signed into law.
  3. Making charitable donations from IRAs could be simplified by permitting individuals over 50 to contribute IRA funds to charities tax-free.
  4. According to the *New York Times,* President Bush's proposal would cause the gradual elimination of the estate tax to result in an annual loss of $50 billion a year after full repeal. Eliminating the tax would reduce or eliminate a financial incentive to make charitable bequests. Rather than repeal the tax, exemptions could be increased from $2.6 million to $5 million upon the death of a surviving spouse who owns a farm or business to protect smaller estates while still providing an incentive for contributions from the most wealthy.
  5. Currently the net investment income of a private foundation is subject to an excise tax of two percent – or one percent to those foundations whose pay-outs exceed their average pay-out rate for the previous five years. This structure discourages significant increases in distribution for fear that, in subsequent years, it will be harder for the foundation to qualify for a lower tax rate. The two-tier system should be replaced with a flat 1.25 percent tax rate.

6. States could create a nonrefundable tax credit of 50 to 90 percent against state income taxes (or, for states with no income tax, a comparable tax) for individuals who donate to nonprofits. This benefit should be available for contributions to all charitable nonprofits.
7. Charitable or other organizations that have the primary purpose of operating donor-designated funds should be required to distribute funds only to private operating foundations and public charities and should meet the private foundation requirement of distributing at least five percent of assets.

The projected transfer of intergenerational wealth is an unprecedented opportunity for every nonprofit.

The projected transfer of intergenerational wealth over the next 55 years is an unprecedented opportunity for every nonprofit organization. Even a modest three percent real growth in charitable giving over the next 20 years will mean that annual giving by the highest income and wealth families (.08 percent of all families) will increase from approximately $30 billion in 1998 to $57 billion in 2017 (1998 dollars). With three percent inflation, the number increases to $91 billion. Without any change in behavior or additional families of wealth, families with $1 million in wealth and income in 1995 dollars will contribute approximately $800 billion over the next 20 years (1998 dollars) – or $1.1 trillion in 2017.

Moreover, researchers have discovered that the area of charitable giving most positively related to wealth is charitable bequests, which hover around ten percent of all charitable giving. It is projected that bequests will grow from approximately $15 billion per year in 1998 to $57 billion per year in ten years to $252 billion per year in 20 years – for a 20 year total of $1.1 trillion (all 1998 dollars).[2]

Certainly the stock market volatility could change these predictions, however with so much money changing hands, there are substantial opportunities for nonprofit organizations. We must protect these opportunities by preserving and expanding tax incentives for charitable giving and making such giving as user-friendly as possible.

#2 *Demonstrate accountability and ethical behavior.*

Accountability is a process of public disclosure about how an organization contributes to the public good – a safer, healthier and fairer society – through its programs and services. Accountability is about the consequences of our actions (or lack thereof). And we must not only be concerned about the accountability of our own organization but of the sector as a whole.

- Nonprofits must conduct their business with the highest possible degree of transparency, openness and inclusiveness, scrupulously avoiding becoming mechanisms through which private interest masquerades as public purpose.
- Nonprofits must more effectively demonstrate that they are managed with integrity and commitment to maintaining the trust that has been placed in their hands.
- Nonprofits must continually reflect on their relevance to society in light of changing conditions – even when it means considering going out of business.
- Nonprofits must evaluate programs, measure results and communicate consequences of their work as an ongoing process, not as a single event.

- Nonprofit leaders should engage in vigorous efforts to monitor themselves, their colleagues and the work of the sector, identifying and correcting abuses and calling for appropriate governmental action when necessary.
- When using public funds to provide services, nonprofits must distinguish themselves from, and improve upon, what government might offer by understanding and responding better to constituencies; intelligently governing themselves; and maintaining a superior, frontline knowledge of the community.
- Nonprofit leaders should comply not just with the letter of laws but with the full spirit and intent of them.

More loss of the public trust would be catastrophic for the nonprofit sector. If we do not respond as a sector to the questions raised about accountability at all levels – national, statewide and local – we may jeopardize that trust even more.

#3 *Be at the table.*

The nonprofit sector will not be able to meet the challenges of the future without strong political leadership. The more nonprofit organizations are involved in the decision-making process at the state and local level, the less likely it is that our legislators will develop policies that undermine the work of the sector. There is no reason that nonprofits should be prevented from advocating for the constituencies they serve or for the nonprofit sector. We must not continue to be government's silent partner.

Nonprofits will not be able to meet the challenges of the future without strong political leadership.

It is true that nonprofits are *limited in* – but not *prevented from* – lobbying government because of their tax-exempt status. But most of the individuals and institutions that lobby also receive tax breaks and government contracts. Why should corporations be allowed easy access to government to protect and negotiate their tax breaks and contracts, while nonprofit organizations are discouraged and criticized for exercising their limited right to speak out? Nonprofit organizations cannot adequately improve their ability to meet future challenges without strong political leadership and an ongoing presence at the table.

- Nonprofit organization leaders should regard it as their responsibility to vigorously defend the right to influence and engage in the development of public policy, legislation, regulations and ballot measures that strengthen their ability to address human and community needs.
- Undue regulation should not be placed upon nonprofits' ability to respond quickly, flexibly and independently to issues, people and communities.
- The Filer Commission and others have called for representation of the nonprofit sector within the federal government in the form of a special office, an assistant to the President, a Congressional subcommittee or all of these. CAN is currently negotiating the establishment of such a position in the Governor's and/or Speaker's office.
- Nonprofit agencies must stay abreast of measures that would hurt or help them – and make their voices heard when such legislation comes up for debate. We can no longer depend on politicians to take care of us.
- The best way to reclaim the legitimacy of the nonprofit sector is to have our own people in office. We must run our own for public office – now.
- We must continue to resist any decisions that seek to limit our right to lobby.

#4 *Become Learning Organizations.*

Research findings tell us that successful community programs and other sources of innovation have impact only by changing the way things are – that is, "by stimulating creation of new or improved programs, policies or practices."[3] In his book *Self-Renewal,* John Gardener argues that, "Unless we attend to the requirements of renewal, aging institutions and organizations will bring our society to moldering ruin."

Now more than ever, it is time for nonprofits to seek a new consensus, a new definition concerning what we do, how we do it, and how we will work with business and government. We must rigorously examine our deeply held beliefs, habits, and assumptions about how nonprofits should be and face counterproductive practices that keep us from understanding how best to respond to the new reality and what is required for effective action. We must understand and act on the knowledge that problems cannot be solved or the future addressed independently from how our organizations are and how our sector behaves. Designing alternatives will require experimentation and learning.

Designing alternatives will require experimentation and learning.

Where independence has been a cherished value of the nonprofit sector, close collaborative partnerships with business and government are now essential. Arms-length philanthropy must give way to joint problem-solving involving a wide range of nonprofits and foundations working together for the public good. Staff and managers will need to build new skills and create fundamental activities that will lead to the new vision. We must look beyond outcomes to consequences.

Being a Learning Organization is about being able to remove or redesign systems within organizations, and within the nonprofit sector, in a way that responds to the changing environment with creative and effective approaches. It does not assume the same theory or practice will be equally effective over time or space. Although it involves every staff and board member in the process, it does not assume that everyone can or should exert equal leverage in changing the organization. Being a learning organization is not about examples you can copy; it is not about best practices. Each organization must build its own learning.*

Conclusion

The skills that are essential for improving and strengthening the nonprofit sector already exist – and they exist largely within the sector itself. One central feature of the nonprofit sector is that we stay with, build on, and develop in a context of attachment and affiliation with each other. Our methodology is very much organized around being able to make, and then to maintain, affiliation and relationships. It is through this "connection of caring" that we can build a sector in which nonprofits are powerful and effective, in which the essential needs of all people are met, and in which society is enriched by the sector's very existence.

* *Editor's Note: CAN has published a paper, called* Ten Things Nonprofits Must Do in the 21st Century, *which provides a more comprehensive outline of these and other calls to action. Contact CAN at (213) 347-2070 for a copy of the paper or for a presentation of the "Ten Things" to your group.*

About CAN and the NPC

KEN FRIEDMAN

CAN recognizes community leaders who have made significant contributions to the nonprofit sector.

About the California Association of Nonprofits

The California Association of Nonprofits (CAN), a statewide membership organization of over 1,750 diverse nonprofits, is dedicated to protecting, strengthening and promoting nonprofit organizations in our state. CAN works to promote, strengthen and advance the influence, professionalism, accountability and effectiveness of nonprofit organizations in a manner that builds their capacity to accomplish their missions and preserves the idealism and value of nonprofit organizations in California.

Formed in 1983, CAN's core services include:

- Discounts on products and services regularly used by nonprofits.
- Educational and capacity building programs including an annual conference, Manager's Helpline, bimonthly journal, management support, and book store.
- Quality Reporting Project to improve the quality, and reduce the costs, of nonprofit financial reporting.
- CAN Insurance Services (CIS), providing highly trained and experienced brokers with a special understanding of nonprofit insurance needs.
- California Ethics and Accountability Project to help nonprofits, decision-makers and the general public understand ethical standards for nonprofits and provide training in principled decision-making.
- Public policy advocacy for the broad nonprofit sector.

About the Nonprofit Policy Council

CAN strongly believes that broad nonprofit involvement in the development and implementation of public policy is at the heart of building a healthy and robust civil society. To that end, in June 1995, CAN formed the Nonprofit Policy Council (NPC), a group of 35 nonprofit leaders representing most of the nonprofit sector, which serves as an independent advisory body providing direction and focus to CAN's public policy work. Working in partnership with the NPC are a network of nine Regional Partners from throughout California that act as a bridge from the NPC to thousands of local nonprofit organizations.

In the six years since forming the NPC, CAN has established a statewide public policy infrastructure that connects it to at least 30,000 501(c)(3) nonprofits in the state. Legislators increasingly look to the NPC to review or help develop legislation affecting nonprofit organizations. Other nonprofit advocacy groups look to CAN for leadership on issues affecting the sector as a whole so that they can concentrate on subsector issues and bills that affect their constituencies. As one statewide nonprofit advocate said, "We depend on CAN to watch our backs."

The CAN/NPC public policy infrastructure includes:

- A 35-person independent advisory body called the Nonprofit Policy Council (NPC) that provides uncensored direction, focus, wisdom and access to CAN's public policy work.

- Nine Regional Partners – nonprofit coalitions located around the state – that operate in partnership with CAN to address state policy issues and the growing number of local policy initiatives affecting nonprofits. The long-term goal is to have Regional Partners throughout the state.
- Hundreds of local nonprofits that respond to our electronic and broadcast fax requests for action.
- Close working relationships with several foundation leaders and the regional association of grantmakers on issues of mutual concern.
- A growing partnership with about 30 statewide associations and coalitions that periodically join CAN in addressing critical policy issues affecting the broad nonprofit sector.

The NPC mission is to shape public policy for the benefit of nonprofits and their communities.

- Collaborative relationships with national groups – like the National Council of Nonprofit Associations, Independent Sector, Charity Lobbying in the Public Interest, OMB Watch, the Alliance for Justice and others – to address national issues.

The mission of the Nonprofit Policy Council is to shape public policy for the benefit of nonprofit organizations and the communities they serve. The NPC has identified the following priorities as the major focus of its public policy efforts:

- Protect the special role of nonprofits in society.
- Support the principle of community-centered problem solving and programming. Those solutions, whether economic, political or public benefit, must be accountable to the community and its citizens.
- Promote increased incentives for public donations and charitable contributions to nonprofit organizations and adequate reimbursement for nonprofit program, administrative and indirect costs.
- Ensure that nonprofit representatives are included in public discussion and decision-making that affect the nonprofit sector and their constituents.
- Oppose initiatives that silence the sector and/or limit lobbying.
- Reject any unnecessary restrictions on nonprofit efforts to deliver services and respond to individual, community and/or state needs.

With direction from the NPC, CAN monitors and responds to legislation, convenes the annual Celebrating California Nonprofits and Philanthropy Week events, gives the Public Policy Excellence Awards, develops white papers and research, and seeks to expand the CAN/NPC infrastructure and presence in Sacramento. In January 2000, the NPC adopted the following goals:

- Be a finely tuned advocate for the nonprofit and philanthropic sector and their right to influence public policies, legislation, regulations and public opinion.
- Be a strong and effective statewide public policy infrastructure that is rooted in, and speaks for and about, the needs and interests of nonprofit organizations and philanthropy and the communities and citizens they serve.
- Position and mobilize targeted nonprofit organizations and coalitions as effective advocates for their constituencies and communities and for the California nonprofit and philanthropic sector.
- Champion self-regulation and compliance with legal and regulatory requirements, improved accountability and ethical behavior by California nonprofits and philanthropy.

NPC Members

Michael Alexander
Legislative Chair, California Arts Advocates; Executive Director, Grand Performances

Scott Anderson
Executive Director, California Council of Churches

Dom Betro
President and CEO, Family Service Association of Western Riverside County

Susan R. Clark
Executive Director, Columbia Foundation

Ned Cooney*
Executive Director, Resource Center for Nonprofit Management

Michael Cortés
Director, Institute for Nonprofit Organization Management, University of San Francisco

Florence L. Green
Executive Director, California Association of Nonprofits

Kacey Herbst
Chief Executive Officer, Community Health Charities

Roccie Hill, NPC Chair
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Leslie Hine-Rabichow*
Executive Director, The San Diego Association of Nonprofits

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Ken Larsen
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Julie Meenan*
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Y. Armando Nieto
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Suzie Pollak*
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Constance Rice, Esq.
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Bruce Sievers
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Executive Director, Nonprofit Resource Center

Carol Stone*
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Keith Umemoto
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Joseph Valentine*
Executive Director, The Morris Stulsaft Foundation

Paul Vandeventer
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Executive Director, Little Tokyo Service Center

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Stephen A. Stein
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Humboldt Senior Resource Center, Northern California Association of Nonprofits
(707) 443-9747

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Long Beach Nonprofit Partnership
(562) 437-2882

Los Angeles
Los Angeles Nonprofit Policy Council
(213) 623-7080

Marin
Marin Council of Agencies
(415) 479-5710

Orange
Volunteer Center Orange County/Nonprofit Resource Center
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Riverside
The Resource Center for Nonprofit Management
(909) 686-4402

San Francisco
The Morris Stulsaft Foundation
(415) 986-9117

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Nonprofit Resource Center
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5 National Center for Charitable Statistics, 2001 data.

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7 Reporting public charities are those who were required to file IRS form 990 or 990-EZ and did so within the last three years.

8 Reporting public foundations are those that were required to file IRS form 990-PF and did so within the last three years.

9 Other 501(c)(3) organizations include exempt organizations not required to file by reason of having income less than $25,000, those registered as churches or religious organizations, and other organizations exempt under this subsection of the Internal Revenue Code (public charities).

10 Other exempt organizations include those with exemptions under other subsections of section 501 of the Code.

11 Data about number of organizations, assets, expenses and income is taken from US Internal Revenue Service Return Transaction File, 1999 as adjusted by the National Center for Charitable Statistics, with further adjustments by the California Association of Nonprofits; Lester M. Salamon's *America's Nonprofit Sector* (Foundation Center: New York, 1999) and *California Nonprofit Organizations 1995* (Institute for Nonprofit Organization Management, University of San Francisco: San Francisco, 1997). Please note that, taken together, numbers listed under each sub-sector will not add up to the total because all sub-sectors and types of nonprofits are not listed.

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—Leslie Hine-Rabichow, Director
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