Introduction and Context

Southern California is home to over 17,000 nonprofit organizations working to make our communities better places to live and prosper. Since 1951, the Weingart Foundation has granted more than $1 billion and supported thousands of organizations across the region. Committed to advancing racial, social and economic justice in Southern California, the foundation helps to strengthen organizations focused on human services, health, education, and community power building and helps to build their capacity through unrestricted funds and program and other related mission investments.

Nonprofit Finance Fund (NFF) partnered with the Weingart Foundation to study the financial and operational opportunities and challenges of the nonprofit sector in Southern California and to assess the extent to which the foundation’s current strategies are suited to the needs of the sector. Information in this report integrates insights from NFF’s 2018 National State of the Sector Survey, NFF’s work as consultants and lenders to nonprofits in the region, data from the Weingart Foundation’s 2017 year in review, and reports commissioned by the foundation from the Center for Effective Philanthropy and Harder+Company.

Key Findings on the Opportunities and Challenges of the Southern California Nonprofit Sector

Reporting greater diversity in clients served and leadership than nationally

Southern California nonprofits are far from monolithic, covering a vast array of missions and services, working in rural and urban communities, serving inland and coastal geographies, operating entirely with volunteers and with annual budgets in the hundreds of millions of dollars. Despite this lack of homogeneity, Southern California nonprofits stand out from peers at the state and national levels as it relates to engagement with communities with limited access to resources and opportunity.

According to NFF’s 2018 State of the Sector Survey, Southern California nonprofit respondents are more likely to serve primarily or exclusively low-income communities, more likely to serve a client population that is majority of Asian descent, and/or more likely to serve a majority of clients who identify as Hispanic or Latinx. Seventy-eight percent of Southern California nonprofits reported that federal policy and positions have made the challenges their clients face more difficult in recent years (versus 67% nationally), potentially indicating that a higher proportion of nonprofits in the region serve immigrant communities or engage in advocacy around progressive policies.

---

Additionally, more Southern California nonprofits are led and operated by people of color – with one in three respondents in the region led by executive directors and governed by majority boards of color, and nearly half reporting having majority senior leadership teams of color.

Gaps in service remain in the region. Just 2% of local respondents serve majority African American clients (versus 13% nationally and 4% statewide). According to a 2014 study by CalNonprofits, the Inland Region contains just 6% of California nonprofits despite being home to 11% of the state’s population. Within Los Angeles County, leaders of the Southeast Los Angeles (SELA) Collaborative note a “lack of nonprofit infrastructure” and “a limited number of community-based organizations directly serving the area.”

---

Southern California Funders should help address the region’s racial and geographic inequities to accessing impactful nonprofits and services.

**Familiar financial challenges: achieving long-term sustainability, raising funds that cover full cost, and generating unrestricted revenue**

Nearly half of Southern California respondents to NFF’s State of the Sector survey generated a deficit or broke even in 2017. These financial results are not surprising: the majority of nonprofits reported their grants and contracts often being underfunded. **Government contracts in particular**—with onerous reporting requirements, insufficient indirect rates and late payment schedules—significantly impede organizations’ ability to manage toward financial health year over year.

Through our consulting work, NFF has observed that advocacy organizations working in communities of color navigate particularly difficult business model dynamics. Their work almost always makes them ineligible for government funding, they are rarely granted access to high net worth individuals. Often funded by small-dollars donations and foundation grants tied to specific projects, advocacy organizations tend to see their operations move through cyclical expansions and contractions with changing campaigns.

### Greatest Operational/Financial Challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Southern CA (n=194)</th>
<th>Southern CA Advocacy (n=18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieving long-term financial sustainability</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>Raising funds that cover full costs</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>Raising unrestricted revenue</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Having regular, reliable cash flow</td>
<td>20%</td>
<td></td>
</tr>
</tbody>
</table>

Over half of Southern California nonprofits report operating with limited liquidity equivalent to just three or fewer months of cash on hand. Advocacy organizations, in particular, cited regular, reliable cash flow as a primary financial concern (54% versus 24% for Southern California nonprofits). An established executive director and woman of color reflects, “Because we’re not a direct service organization but a coalition and policy shop, it’s hard to raise funds and hard to show impact… Some organizations do well financially, and others don’t. We get a lot of government grants and very small grants, but they pay for nothing.”

Insufficient working capital not only makes it challenging for nonprofit leaders to manage day-to-day operations, but also constrains their ability to plan long-term and make the infrastructure investments necessary to expand, innovate, and adapt. As one Los Angeles homeless services provider (race and gender unknown) put it: “as our government contracts have grown and pay slowly, we have a tremendous amount of capital tied up in receivables which impairs our ability to..."
manage our agency in a healthy way. If we were not constrained in this way, it would change our entire operations.”

Southern California nonprofits, in particular, grassroots advocacy groups, need flexible dollars to close budget gaps, build their liquidity position, and invest in their future.

Struggling to hire and retain staff

Nonprofits across the region contend with challenges related to finding, fairly compensating, and retaining qualified staff. Over two-thirds of survey respondents in the region cited employing enough individuals to do the work as a top staffing concern.

For Los Angeles County homeless services agencies scaling programs in response to the influx of funding from Measure H, filling hundreds of open positions across the County has proven to be an ongoing and formidable challenge. The work is poorly compensated at the entry- and mid-levels and emotionally draining (staff must cope with the reality that individuals who have experienced chronic homelessness are at a higher risk of premature death, even after they have found permanent housing). Most open positions require high levels of education and/or experience to be filled successfully. A limited pipeline of qualified candidates entering the market has left a standing gap of open positions in the field.

Similarly, Los Angeles behavioral health providers have shared that constraints on the compensation they are able to offer highly sought after clinicians has limited their ability to attract and retain staff qualified and linguistically and culturally competent to deliver quality and specialized services needed by the community, including for youth struggling with substance use disorders and other highly vulnerable groups.

Grassroots advocacy organizations require strong social capital to maintain a pulse on the needs of their community and to mobilize their community effectively. Yet the cyclical and restrictive nature of funding received by most advocacy organizations makes it difficult to continue paying the salaries of staff, and retain the knowledge and relationships they have built, once a specific campaign ends. This funding approach traps advocacy organizations in a pattern of investing significant time to hire and train new staff when a campaign launches, only to lose the investment in that person when the campaign comes to a close. More grassroots advocacy organizations reported that they reduced staff and froze compensation in the last year than other nonprofits in the region.

The instability of revenue streams creates another barrier to retaining high performing staff. For LA Justice Fund funded organizations providing removal defense for immigrants, the influx of local government and philanthropic dollars allowed them to hire more attorneys, provide them with specialized training in immigrant removal defense, and open shared work space near Adelante Detention Facility so attorneys can continue to work while waiting (often for hours) to meet with their clients. However, LA Justice Fund grants are relatively short-term and there is uncertainty about the renewal of the fund. As a result, the attorneys who have been hired and trained under this fund have good reason to accept more stable positions elsewhere. Even more concerning than the loss of individual attorneys from individual organizations is that the attorneys often accept positions outside of immigrant defense, meaning the investments LA Justice Fund has made to build expertise in this underserved type of legal defense is in jeopardy of being lost.

Even at organizations that are able to employ a sufficient number of staff, nonprofits grapple with the implications of paying below-market wages. As one early childhood education provider put it: “teachers subsidize this industry by working sub-standard wages and working without the necessary supports in the classrooms.” Early childhood educators in the region, whose average compensation
of $21,000⁴ falls below the 2017 federal poverty threshold for a family of four,⁵ are predominantly women of color and immigrants,⁶ meaning under-funded government contracts for childcare perpetuate wage gaps by race and sex.

Preserving and strengthening individual Southern California nonprofits and the safety net infrastructure they collectively comprise requires contracts and grants that allow them to keep high performing staff through fair compensation.

Key Findings on the Weingart Foundation’s Strategy

To assess the responsiveness of the Weingart Foundation’s strategy to the specific challenges and needs of Southern California nonprofits, NFF examined three key aspects of grantmaking: the sectors and organizations funded, the structure of support, and the work beyond the grant itself.

Grantees

In 2016, the foundation made a formal and long-term commitment to base all program and policy decisions on achieving the goal of advancing fairness, inclusion and opportunity for all Southern Californians.⁷ The over 300 Weingart grantees surveyed in 2018 by the Center for Effective Philanthropy placed the foundation in the top 15% of funders for its understanding of their beneficiaries’ needs and the extent to which the foundation’s funding priorities reflect those needs. While demographic data on grantees is not readily available, the same report showed that between 2015 and 2018 the demographics of the respondents to the survey (mostly Executive Directors and other senior staff) shifted from 80% white to 67% white, indicating the foundation has increased its rate of grantmaking to leaders of color. Weingart has focused 2019 and 2020 on a range of issues that advance racial, social, and economic justice – areas of greater emphasis include housing for homeless and low-income individuals, youth organizing, advocacy, policy and organizing, and immigrant rights and integration – issues identified by respondents to NFF’s State of the Sector survey as top community needs.

Structure of support

For nearly 40 years, NFF has made the case that the most effective funding is flexible, multi-year, enterprise-level support that covers the full cost of operating an effective nonprofit. This kind of Unrestricted Operating Support (UOS) funding transfers power to those closer to the problem by putting decision-making authority about spending into the hands of nonprofit leaders. In addition, UOS reduces the risk that the nonprofit will be weighed down by unfunded expenses and reduces administrative burdens for both the nonprofit and the foundation. In interviews conducted by Harder+Company, Weingart grantees shared that multi-year UOS from the foundation has been a “game changer” for their organizations. Nonprofits were able to more freely exercise agency over how best to align funding with organizational needs – utilizing UOS to re-imagine their organizational structures, explore new and innovative approaches to their work, and address the aforementioned challenges in talent management. By granting most of its funding as multi-year, unrestricted operating support (UOS),⁸ Weingart is providing the most effective form of funding,

---

reducing risk, and living its commitment to equity by ceding authority to nonprofit leaders. Weingart’s UOS strategy makes it a local and national leader among foundations.

**Beyond the grant**

Philanthropy can serve many functions in the social sector, including funder, partner, risk-taker and advocate, among others. Weingart has embraced its role as a sector leader and is recognized by partners as a **champion for improved grantmaking policies and practices that strengthen the nonprofit sector**. Southern California has a unique culture of philanthropy marked by the willingness of funders to partner with and learn from one another. Weingart’s influence on that culture can be seen in the higher prevalence of flexible funding in the region, the elevation of the sector-wide conversation on and advancement of practices around full cost, and the plethora of funder partnerships in which Weingart participates or leads. Grantees describe Weingart’s “incredibly powerful” impact on philanthropy by bringing attention to equity and the importance of general operating support.  

Government grants and contracts represent the bulk of funding for social services and often underpay. Weingart’s work to move Los Angeles County agencies to pay more reasonable indirect rates in their contracts with nonprofits has the potential to strengthen service delivery across the county. This is particularly pertinent for organizations disconnected from the private wealth typically needed to subsidize government contracts that underpay.

Harder+Company also found that supports Weingart provided beyond UOS, such as program related investments, technical assistance grants and thought partnership were “integral to grantees’ ability to grow their organizational capacity.”

**Recommendations**

As Weingart considers way to build upon its fundamentally strong and responsive grantmaking practices to advance equity, NFF offers the following considerations:

**Make large, transformational investments into effective organizations building power in their communities**

If we consider the fact that most of our neighborhoods and networks are segregated by race alongside the fact that wealth has been (and continues to be) extracted from communities of color to enrich white communities, we find a reality where organizations of color face structural barriers to accessing the financial wealth needed to fairly fund their work. Policies commonly seen in foundations tie the size of a grant to the size of an organizational budget, maintaining the unacceptable status quo where large organizations (often white) are kept large with large grants, and small organizations (often of color) are kept small with small grants. Foundations typically shy away from making a large grant to a small organization because it carries the very real risk of destabilizing, or even collapsing, the organization. How, then, can we address this structural barrier? Weingart has worked to address this by intentionally shifting its approach so that small organizations are not automatically funneled into a small grant program. There is also opportunity to go farther. As Fred Ali of the Weingart Foundation and Claire Knowlton and Trella Walker of NFF wrote, “leaders of color are doing heroic work while operating within the constraints of a system that

---


was never designed to support them. Imagine the change we could unleash if key groups were fully capitalized and free of the traditional constraints tied to philanthropic dollars.”11

With due care, the Weingart Foundation can provide significant financial infusions to organizations with historically limited access to capital to catalyze their growth. It requires a truly honest and transparent partnership with visionary leaders in an organization ready to grow, and meaningful planning from the organization to ensure the infusion of capital is sized correctly, will work as intended, and does not cause harm. The Comprehensive Organizational Health Initiative, funded by the Andrew W. Mellon Foundation and designed and led by NFF and partnered networks since 2015, provides one model for this type of investment, whereby large multi-year grants to organizations facing structural barriers (including structural racism and ruralism) are paired with network peers and planning support so nonprofit leaders can redesign their business models to build their revenue streams, fairly compensate staff, and expand impactful work. To date, this initiative has reached 18 small and mid-sized organizations of color and geographically isolated organizations, the smallest of which had a budget of approximately $100,000. Total capital deployed to these organizations is nearing $9 million and an additional $3-4 million capital deployment is anticipated in the next year. See the appendix for stories about use and impact of these investments.

Similar approaches can be used for organizations in need of stabilization or repositioning caused by a history of underinvestment. In select cases where conditions are appropriate, the Weingart Foundation can use this strategy to build the capacity and impact of existing nonprofits who are active in Southern California communities that currently have gaps in service.

**Continue and expand advocacy for fair government contracting practices**

NFF’s lending and advisory work with human services and housing organizations in the region revealed a host of challenges related to funding from the public sector, and an opportunity for Weingart to expand its advocacy beyond increases to indirect rates. Other aspects of contracts that pose significant challenges to nonprofits include late payments, short contract terms, reimbursement-based invoicing, and large bureaucracies that are difficult and time consuming to navigate when seeking basic information such as the status of an invoice or pending contract. Department of Health Services for Los Angeles County is often cited by our clients as having the least burdensome practices. Some of their approaches may be potential models for other agencies, including the use of contract advances, simple contract renewal processes, fixed-fee invoicing, and a single point-person assigned to each nonprofit to reduce confusion and bureaucracy. As NFF has deepened our work with the county, we have come to understand that many government contracting challenges stem from underfunded and understaffed agencies, which may be best addressed by advancing fair tax policies.

**More frequently complement grantmaking with capacity-building**

According to the Center for Effective Philanthropy, grantees receiving non-monetary assistance such as capacity-building from Weingart highly valued the support, yet a lower percentage of Weingart grantees receive these resources than from the typical funder. Grantees expressed strong interest in more of these non-monetary supports and NFF recommends aligning capacity-building assistance to needs commonly voiced by nonprofits in the region: evaluation, collaboration and convening with other grantees, fund development, and financial management.

Weingart has rightly been cautious when extending capacity-building invitations, which can be perceived by nonprofits as quasi-requirements that would damage the funding relationship if declined. To respect the autonomy of nonprofit partners, the foundation can share opportunities

---

available in a way that requires a clear “opt-in” from the nonprofit. For example, a letter accompanying each grant award could state “The foundation may have capacity building opportunities available. Please reach out to your program officer if you would like to learn more or to discuss your current needs.” Alternately, the foundation could include capacity-building opportunities on its website or in its newsletter with obvious disclaimer language that participation has no impact on the foundation’s funding decisions or relationship with participants.

The Weingart Foundation has recently started extending more opportunities for capacity-building to its nonprofit partners. This includes board training in diversity, equity, and inclusion and access to Catchafire, which is a platform that connects nonprofits to interested capacity-building-volunteers based on requests for support that nonprofits post.

**Innovate ways to fund the work of collaboration**

It is increasingly recognized that “moving the needle” on our communities’ most pressing social challenges will require collaborative, cross-sector approaches. Seventy percent of Southern California respondents to NFF’s State of the Sector survey said that they partner in some fashion with other organizations. Yet NFF’s learnings from partnerships at the intersection of health and human services and from Pay For Success show that substantial time (which is often underestimated and underreported) must be spent to cultivate and sustain meaningful partnerships and the costs associated are rarely covered in full (if at all). Weingart has been actively funding collaboratives through back-bone organizations and directly to collaborative members. We recommend structuring collaborative funding for the long-term (5-10 years) in recognition of the multiple years of upfront planning and relationship-building required. Look for opportunities to be an active but deferential participant in the collaborative by being physically present for meetings to strengthen your relationships, learn, observe, answer questions, or make connections to other resources, where appropriate. Share your learnings with the field.

**Align all foundation assets with mission**

The foundation has examined its asset investment strategy with the intent to divest from companies working against its mission and investment in companies whose activities appear neutral or actively advance the foundation’s mission. It has been a struggle to find suitable investments for the foundation’s entire investment portfolio, with only one-third of assets currently aligned with mission. We encourage the foundation to continue seeking investment opportunities outside traditional markets, such as investments in social entrepreneurs in the communities you support.

**Explore implications of becoming a spend down foundation to move money into communities faster**

Social problems compound over time, and so can their remedies. The challenges facing our region today may have looked different if movements for fair housing policy, for protection from pollution, or for reform to our justice system had been better funded in decades past. We offer the following questions to consider:

- What are the benefits of existing as a foundation in perpetuity?
- Does “building power in community” look different for a spend down foundation?
- How might larger investments to address today’s challenges compound over time?
- If the foundation had a timeline for spending down (e.g. 20 years), how would our priorities and sense of urgency be impacted?
- What do the communities we serve think is the more impactful strategy?

---

Appendix

About NFF’s 2018 State of the Sector Survey
NFF’s Survey raises voices from the nonprofits that support and enrich millions of lives across America. Results reflect responses by nearly 3,400 nonprofit leaders whose organizations work in 20+ focus areas and all 50 states, and range in size from $50K to $20M+. 589 respondents were based in California and 194 based within Weingart’s six-county service area. Data was collected online in January and February. This Survey, NFF’s eighth, asked about nonprofits’ financial and operational health, and also introduced questions to capture the impact of real-time developments and concerns. For example, in a year when events tore open the country’s racial divides, we asked about nonprofits’ leadership diversity and their focus on racial inequity. NFF is deeply grateful to the thousands of people and organizations who helped to build this critically needed dataset, and shares both data and analyses widely to support the nonprofit sector. Visit nff.org/survey for historical data or other analyses.

Stories from the Comprehensive Organizational Health Initiative
The Comprehensive Organizational Health Initiative (COHI) was designed to make change at the individual organization level and at the sector level. For individual nonprofits, it helps them survive and thrive despite structural barriers to their success, including structural racism and ruralism. By pairing patient capital with thought-partnership, organizational leaders finally have the conditions to design and implement values-aligned organizational strategies and new business models. For the sector, it provides examples of new operating models and a method for making very significant investments into small organizations more safely and successfully (very large infusions of cash can potentially collapse an organization if not paired with proper planning). The work of COHI is best understood through stories. We offer two anonymized stories below with permission from the organizations:
**Addressing the past to enter the future**

In the South, a cultural organization was born out of the 1960’s civil rights movement in the United States. Its founder is a documented civil rights leader who created and spread many of the freedom songs, story-telling practices, and theater that sustained the hope and galvanized the will needed to persist through the violent struggles for equal rights. Two dedicated women of color, who he mentored, carry on the legacy of the organization as its co-directors by creating and support artistic works that question and confront inequitable conditions that have historically impacted the African American community. After his retirement but before the co-directors were hired into their roles, the organization fell into deep financial distress. The co-directors spent tireless years rescuing the organization from the brink of collapse. Under their skillful leadership, the organization was regaining its footing. It was clear the organization was going to survive. But as they emerged from worst of the crisis, there was one debt that remained unpaid. The board had approved emeritus pay for the founder at his retirement, recognizing he was paid a subsistence salary without benefits for his entire career. The emeritus pay was meant to go to him in two lump sums over two years, but the organization hadn’t had the money to pay any of it.

When the organization became part of COHI, it was clear that planning for the future required they first address the past. The emeritus pay debt was not only a moral obligation to the founder, it was also an emotional burden for the co-directors and board, a source of anger for the community, and a representation of betrayal for the founder’s family, especially as his health and memory declined. This debt threatened the very relationships and networks the organization needs to carry out its mission and plan for its next phase. With an early deployment of capital (to be followed by once the organization had developed its plans for change), COHI covered the emeritus pay and other immediate needs of the organization. The co-directors and board invited the community to a celebration honoring the founder. The organization publicly presented him with his emeritus pay. It was a profound moment of healing and transition for the organization, the founder, and the community. The founder and co-directors stayed close for the remaining time. In the months following the celebration, the founder’s memory declined to where he no longer recognized co-directors when they came to visit. A year later, he joined the ancestors.

**Remaining unapologetically Black**

A Black organization in a quickly gentrifying city has to make a choice: leave to try to take programming to a scattered community, or claim their space as a center for Black ideas and culture in a neighborhood built by Black people? They choose to remain. Their popular programming, a vibrant combination of challenging ideas and warm hospitality, thrives in part because they intentionally act as a training ground and launching pad for rising Black artists. Their Executive Artistic Director holds advanced degrees, is a talented spoken word artist, directs, advises, and serves on the boards of local universities and museums. Often the only Black women in these spaces, she finds opportunity to create cultural exchange, bringing programs designed by and for Black people into traditionally white spaces. As a mentor to many throughout the city, she leverages her social capital to advance the work of the organization in absence of financial resources. Behind the scenes, the organization is in peril. With the Executive Artistic Director as the only member of staff, essential functions like grant writing and bookkeeping take a back seat to hosting programs, especially when gun violence tears through the community and the organization becomes the gathering space for processing and resistance. With a budget of $150,000, back pay owed to the Executive Artistic Director, and loans from board members that have been outstanding for year, there are no financial resources to reposition. The Executive Artistic Director sought and received permission from the foundation to close the organization if need be.

Through COHI, the organization received $700,000 to implement its vision, resolving outstanding debts and investing in its infrastructure to continue into the future. Using a mix of contractors and staff, the organization now has bookkeeping, marketing, and development functions in place. Fair compensation for all was of top priority, and the full team is equitably paid based on their skills,
education, and cost of living for the region. Competitive salaries helped the organization attract a skilled and committed development director who had been working for the opera. A former mentee of the Executive Artistic Director and eager to support artistic work by and for her own community, the new development director has secured meaningful grants and individual gifts to meet the organization’s higher revenue targets. This summer, the organization celebrated securing a $500,000 general operating support grant from a foundation who previously had not funded the organization. They have launched their largest season of programming yet, with sold out shows that say to the city: we are here, we are welcoming, we are unapologetically Black.