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Operating in Uncertain Times: How Economic Conditions Have Affected San Diego County's Nonprofit and Philanthropic Sectors

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UNIVERSITY OF SAN DIEGO

School of Leadership and Education Sciences
Caster Family Center for Nonprofit Research

OPERATING IN UNCERTAIN TIMES

How Economic Conditions Have Affected San Diego County's
Nonprofit and Philanthropic Sectors

January 2010

Caster Family Center
for Nonprofit Research



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How Economic Conditions Have Affected San Diego County's Nonprofit and Philanthropic Sectors

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About the Caster Family Center for Nonprofit Research:

The mission of the Caster Family Center for Nonprofit Research is to provide research, evaluation, and consulting services that build the leadership and strategic- and evaluative-thinking capacity of local nonprofits as well as to be the leading source of information, data, and research on the local nonprofit sector.

Additional information about the University of San Diego's Caster Family Center for Nonprofit Research is available online at www.sandiego.edu/npresearch.

Dear Reader,

According to a *Guidestar* report released in October 2009, fifty-one percent of nonprofit charitable organizations in the U.S. reported a decrease in donations during the first nine months of that year. This decline in financial support undoubtedly reflects the general decline in the financial stability of everyday Americans. As ordinary citizens struggle to hold on to their jobs, their homes, and their pride, nonprofit organizations are increasingly being called upon to fill the gap between public need and public ability.

At the same time, many nonprofits are looking to foundations to provide the resources to meet this increased demand and to cover the inevitable shortfalls in funding from individual donations. Unfortunately, though, foundation assets have also declined as a result of recent economic conditions.

As a whole, these circumstances have left most nonprofits financially and functionally stressed.

Therefore, as leaders of three local community foundations, we believed that it was important to collaboratively fund the following report: ***Operating in Uncertain Times***. The data in this report is intended to help nonprofits, policymakers, and the public better understand the economic situation in San Diego. The findings are based on the responses from 125 of San Diego's largest regional nonprofits and philanthropic foundations. Although the findings describe some nonprofits that are riding out the storm, it is clear that the vast majority of nonprofits have been adversely affected by the economy in many ways.

Though the news from many of our largest and most relied upon organizations is not good, Americans, and in particular San Diegans, are resilient—and neighbors help neighbors. As community foundations, we are philanthropic partners to our donors and to nonprofits in the region. We encourage you to work together—and with us—to use the information provided here to transform challenging times into opportunities that can strengthen our community.

Finally, we would like to say THANK YOU to our local nonprofits, those of you who care for the hungry, sick, and homeless; entertain our region; protect our environment; and educate our residents despite the challenges. We look forward to continuing our work with you and wish you much success in 2010.



Introduction

San Diego is home to more than 9,000 nonprofit organizations that undeniably play a vital role in the health and well being of our entire community. Since 2005, it has been a primary objective of the University of San Diego's Caster Family Center for Nonprofit Research to conduct studies that help to define and describe San Diego's nonprofit sector and to quantify its impact on the region.

This report is designed to carry forward that work by informing nonprofit and philanthropic leaders, policymakers, and other key stakeholders about the effects of the current *great recession* on the region's charitable nonprofits and philanthropic foundations.

The report portrays a nonprofit sector that has been severely stretched in order to meet increased demand for services, while at the same time, a sector that is realizing decreased revenue for operations. In addition, many of our nonprofit organizations have been adversely affected by an ongoing state budget crisis.

Despite all this, the nonprofits that participated in this study *are* finding ways to keep up in these challenging times. Most are simply doing more with less. Some nonprofits are using resources in new and innovative ways.

Overall, the findings from this report demonstrate that San Diego's nonprofit sector—on the whole—remains in a fragile position that demands attention.

Structure of Report

The data in this report were gathered through a survey, conducted in December 2009, of executives at San Diego's largest charitable 501(c)(3) nonprofits and philanthropic foundations. Although foundations are classified as nonprofit organizations, because of their unique role and organizational structure, foundation leaders were sent a slightly different version of the survey. Therefore, the findings from this research are presented in two distinct sections. The first section of the report focuses on nonprofit organizations, and the second section focuses on foundations.

Summary of Key Findings

- Eighty-nine percent of charitable 501(c)(3) nonprofits and 100 percent of foundations that participated in the study felt that the recession had a negative impact on their organization.
- As a result of changing economic conditions, 58 percent of nonprofits reported an increase in demand for services.
- Two-thirds of nonprofits reported decreases in revenue of up to 30 percent.
- Primary tactics for offsetting decreased revenue for nonprofits include staff layoffs, hiring and pay freezes, and cuts to pay and benefits.
- Forty-two percent of responding nonprofits reported using reserves to cover budget shortfalls.
- Only one-third of nonprofits have more than six months worth of operating reserves set aside.
- The ongoing state budget crisis has impeded nonprofits from providing services.
- On average, foundations reported decreased assets ranging from 10-30 percent.

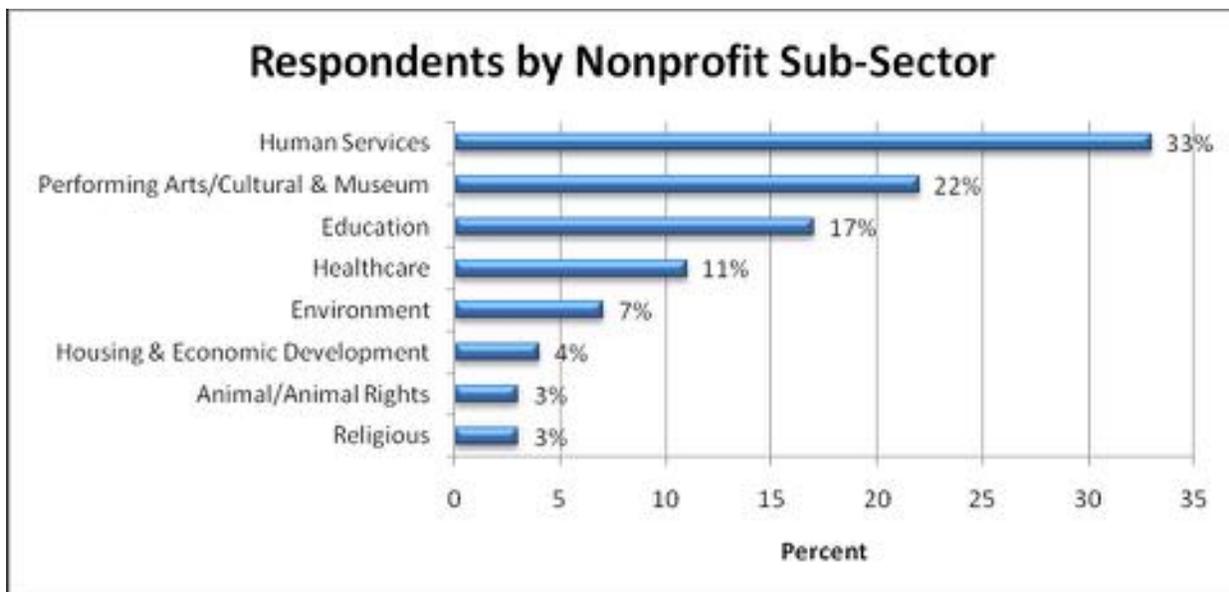
Section 1: Nonprofits

Profile of Nonprofit Survey Respondents

As Figure 1 demonstrates, the nonprofit charitable organizations that participated in this component of the study represent many of the sub-sector areas that are present in the National Taxonomy of Exempt Entity (NTEE) classifications. (These include, but are not limited to, organizations representing the arts, the environment, education, and human services.)

Of the responding organizations, the average annual operating budget was \$7,052,126 with a median annual operating budget of \$2 million. The average value of net assets of the responding organizations was \$11,486,353 with a median net asset value of \$2.2 million.^{1, 2}

Figure 1: Responses when asked to "Please indicate the nonprofit sub-sector that best represents the purpose of your organization."



Note: This distribution is an approximate representation of the distribution of nonprofit subsector types in San Diego County.

¹ Asset value was obtained from the most recent version of the organization's IRS form 990.

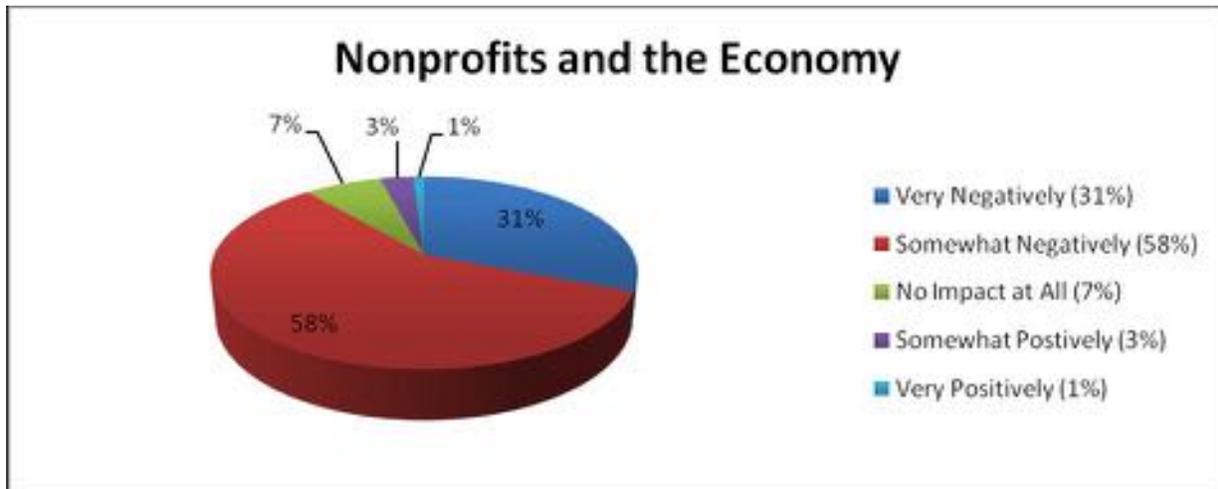
² As a measure of central tendency, the mean of any range of data is more sensitive to outliers than the median. As can be seen from the large difference between the mean and median values for both the net asset and annual operating budget of these organizations, there are outliers in this data (skewed positively toward higher values). Therefore, the median is a more reasonable measure of central tendency than the mean.

Impact of Economic Conditions on San Diego’s Nonprofit Organizations

The Conundrum of Nonprofit Supply and Demand

Not surprisingly, the recession has had a negative effect on San Diego’s nonprofit organizations. When asked to describe the overall impact of recent economic conditions, 58 percent of nonprofit leaders believed that the economy had affected their organizations somewhat negatively while 31 percent believed the economy had affected their organization very negatively (see Figure 2).

Figure 2: Responses when asked, “In the past 12 months, please tell us how you believe that the economy has affected your organization.”

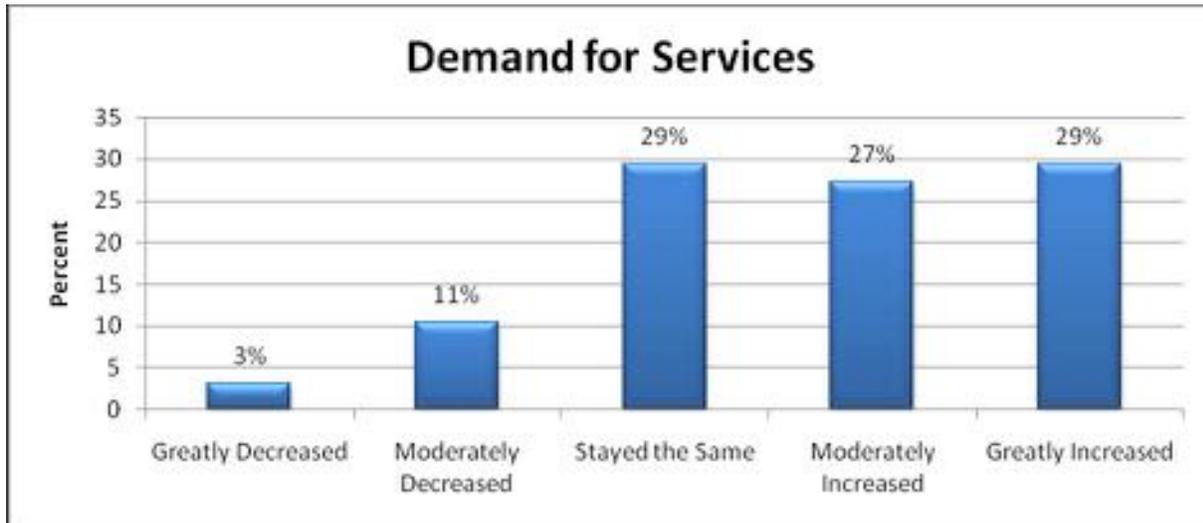


Nearly 60 percent of nonprofit leaders reported experiencing an increase in overall demand for the services provided by their organization (see Figure 3). Unfortunately, though, only 22 percent of responding organizations indicated that they had been able to meet this increased demand.

At the same time, a significant share of nonprofits (two-thirds) reported a decrease in revenue over the past 12 months (ranging on average from 11 to 30 percent).

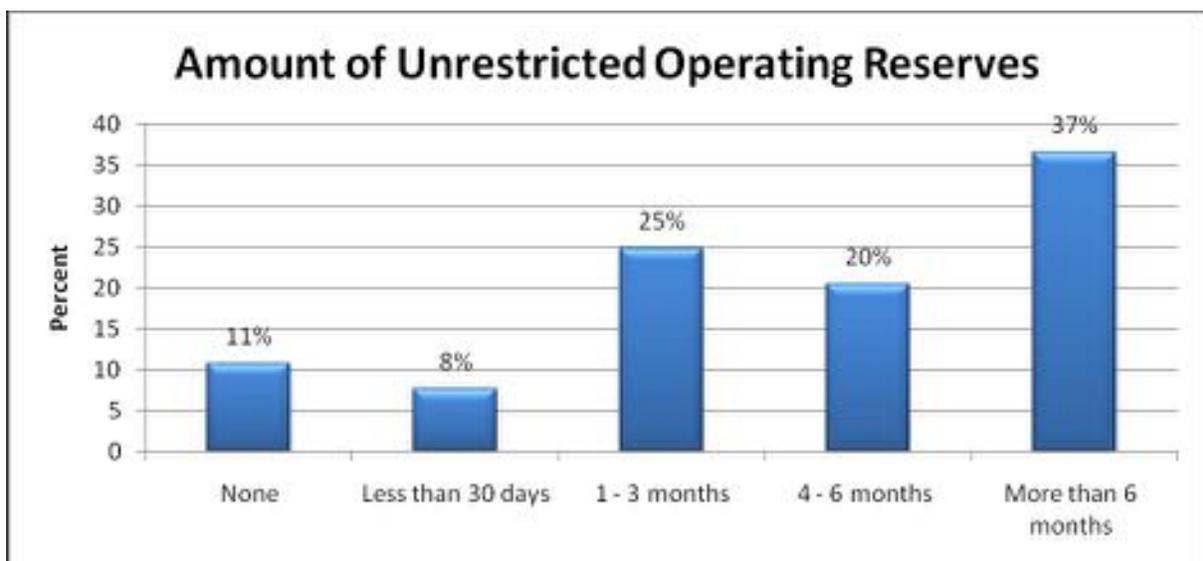
“In 2009, our organization saw a 44 percent increase in the number of clients seeking services, primarily emergency assistance, employment seekers, youth counseling and diversion programs. With the same amount of staff we increased our contacts with the community by 22 percent.”

Figure 3: Responses when asked, "In the past 12 months, has there been any changes in the demand for your organization's services?"



Although service demand appears to have increased for many nonprofit organizations in the county, Figure 4 shows that just over one-third of the respondents reported having more than six months of operating reserves set aside, and 25 percent reported having only one to three months of reserves available.

Figure 4: Responses when asked, "How much, if any, in unrestricted operating reserves does your organization currently have set aside?"



Shifting Funding Sources

In most instances nonprofit organizations rely on donations from several key funding sources in order to carry out their missions. As Table 1 shows, the majority of respondents reported declines in donations and funding across the board. Of particular note is the reported drop in individual donations—historically, individuals have made up more than 75 percent of total giving to nonprofits.³

Corporate and foundation giving also reportedly fell over the last 12 months. More than 50 percent of respondents indicated that revenue from these sources had decreased; however, previous research conducted by the Caster Family Center for Nonprofit Research found that these two sources of revenue represent a relatively modest (albeit important) percentage of contributions to San Diego nonprofits.

A similar percentage of organizations reported a decrease in state and local government funding. However it is likely the reported decreases in these funding sources had a greater organizational impact as there are generally more funds available from government sources. The one exception in Table 1 is funding from the federal government, which has remained about the same for nearly half of the organizational respondents.⁴ This is likely due, in part, to the economic stimulus efforts at the federal level.

Table 1: Responses when asked “To what extent has income from the following funding sources changed for your organization over the last 12 months?”

| Funding Sources | % of Organizations Reporting Funding Decreased | % of Organizations Reporting Funding Stayed the Same | % of Organizations Reporting Funding Increased |
|---------------------------|--|--|--|
| Individuals | 65 | 22 | 13 |
| Corporations | 65 | 20 | 15 |
| Foundations | 54 | 28 | 18 |
| Federal Government | 27 | 46 | 27 |
| State Government | 50 | 34 | 16 |
| Local Government | 54 | 30 | 16 |

³ Source Giving USA, 2009.

⁴ Not all nonprofits received income from each of the sources presented. The percentages reported reflect the answers given by the nonprofits that indicated that they *did* receive funding from a particular source.

Standard mechanisms for generating income have also been affected by the economic downturn. In this area, the survey results are a bit mixed. As shown in Table 2, most notable is the percentage of organizations that reported a decrease in investment and endowment income (72 percent). This trend is likely related to declines in financial markets. Thus, recovering losses in investment accounts and endowment funds may take some time.

It appears, though, that some organizations are having success in raising money through a variety of approaches, such as special events (34 percent), fees for services (27 percent), and related and unrelated business income (27 percent).³ However, across all categories the percentage of organizations that reported decreases still outnumbered those that reported increased funding.

Table 2: Responses when asked “To what extent has income from the following funding sources changed for your organization over the last 12 months?”

| Funding Sources | % of Organizations Reporting Funding Decreased | % of Organizations Reporting Funding Stayed the Same | % of Organizations Reporting Funding Increased |
|---|--|--|--|
| Fees for Services | 32 | 41 | 27 |
| Investment/Endowment Income | 72 | 22 | 6 |
| Bequests | 26 | 51 | 23 |
| Special Events | 43 | 23 | 34 |
| Earned Income (Related or Unrelated Ventures) | 34 | 39 | 27 |

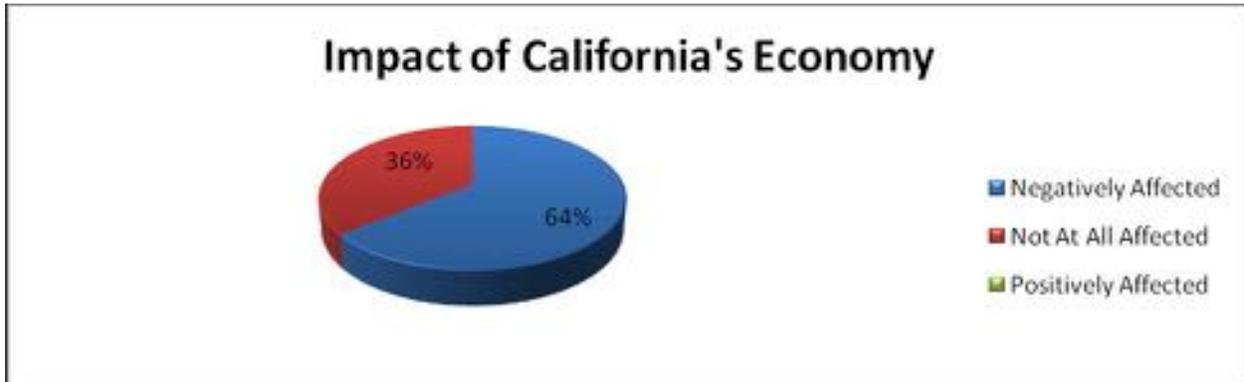
Government Funding

Many San Diego nonprofits rely on government funds to carry out the work of their organization. Likewise, the government often relies heavily upon nonprofits for social service provision. For that reason, survey respondents were asked to comment on the impact of recent state and federal funding on their organization.

One-third of respondents indicated that they receive funding from the state. As Figure 5 shows, sixty-four percent of those organizations reported that their ability to deliver programs and services has been negatively affected by the state’s budget crisis.

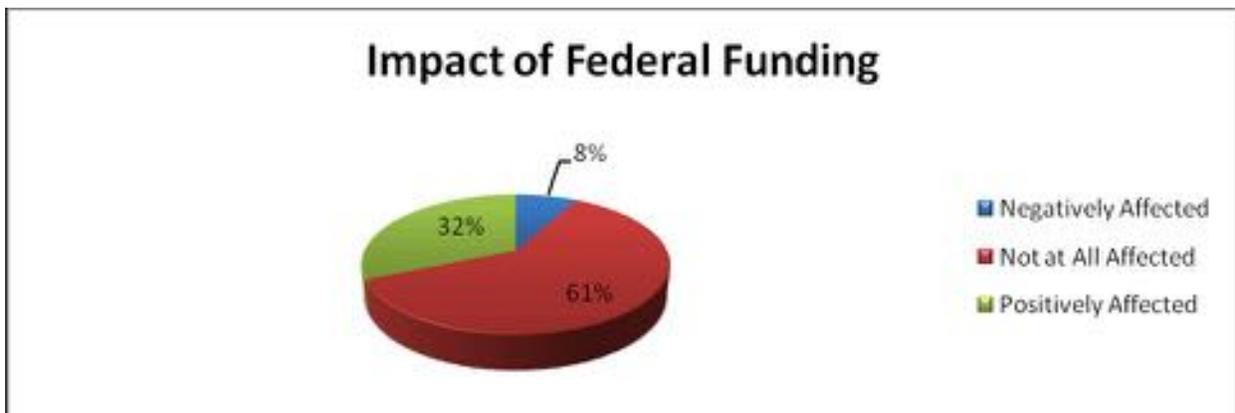
“Allies that form a key part of the civic and human rights safety net have been cut.”

Figure 5: Responses when asked, *“In the past 12 months please indicate how if at all the California state budget crisis has affected the ability of your organization to deliver programs or services.”*



When asked about the impact of federal stimulus dollars, organizations that reported receiving federal monies (40 percent of the total respondent organizations) reported mixed organizational impact. In general, most nonprofits (61 percent) believed that stimulus efforts had no effect on their organization’s ability to deliver programs and services, while 8 percent believed that their organization had been negatively impacted. Yet, another 32 percent believed that their organization had been positively impacted by federal stimulus efforts (see Figure 6). It should be noted, however, that many respondents acknowledged the one time, and short term nature, of this funding source.

Figure 6: Responses when asked, *“In the past 12 months please indicate how if at all federal stimulus attempts have affected the ability of your organization to deliver programs or services.”*



“We received over \$3 million for services and capital. This will offset short term losses from the state. It will not help in the long term.”

Managing Through the Economic Crisis

Doing More with Less

Nonprofit professionals are undertaking a variety of strategies for handling the effects of the recession. These approaches include a combination of administrative, operational, and fiscal actions. The following provides a look at the strategies nonprofit organizations in San Diego County are taking.

Administrative Actions

Figure 7 describes the administrative actions taken by San Diego nonprofits over the last year in order to achieve a balanced budget. Over two-thirds of respondents reported that their nonprofits had implemented salary freezes, 48 percent reported instituting hiring freezes, and 43 percent reported having laid off staff.

Additionally, 59 percent reported cutting back on amenity expenses (such as professional development) and 53 percent indicated that they had focused more staff time on fundraising. Forty-six percent of respondents also reported that they had collaborated with other organizations for administrative purposes (e.g., sharing human resource functions).

Operational Actions

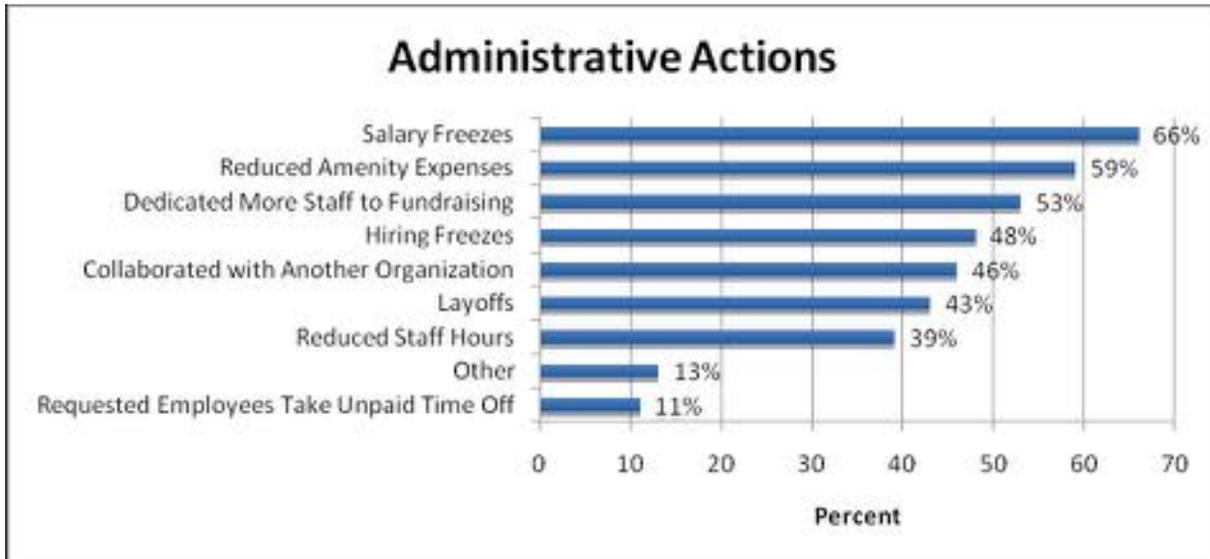
With regard to operational activity, very few respondents (12 percent) reduced their hours of operation (see Figure 8). This is not surprising in light of the reported increased demand for services.

In an attempt to improve overall efficiency, though, just over one-third of respondents reported purchasing new technology or upgrading their existing technology (such as telephone systems, Internet capacity, and computer software). Additionally, 41 percent of nonprofits reported collaborating at the operational level. (This could include things such as sharing office space and/or equipment.)

Interestingly, four organizations reported having merged with another nonprofit organization within the past year.

“We anticipate receiving some stimulus funds to be allocated through the county on a one-time basis.”

Figure 7: Responses to the question, “In the past 12 months, has your nonprofit taken any of the following ADMINISTRATIVE actions in order to achieve a balanced budget?”



* Percentages may not add up to 100. Multiple responses were permitted.

Figure 8: Responses to the question, “In the past 12 months, has your organization taken any of the following OPERATIONAL actions in order to achieve a balanced budget?”



* Percentages may not add up to 100. Multiple responses were permitted.

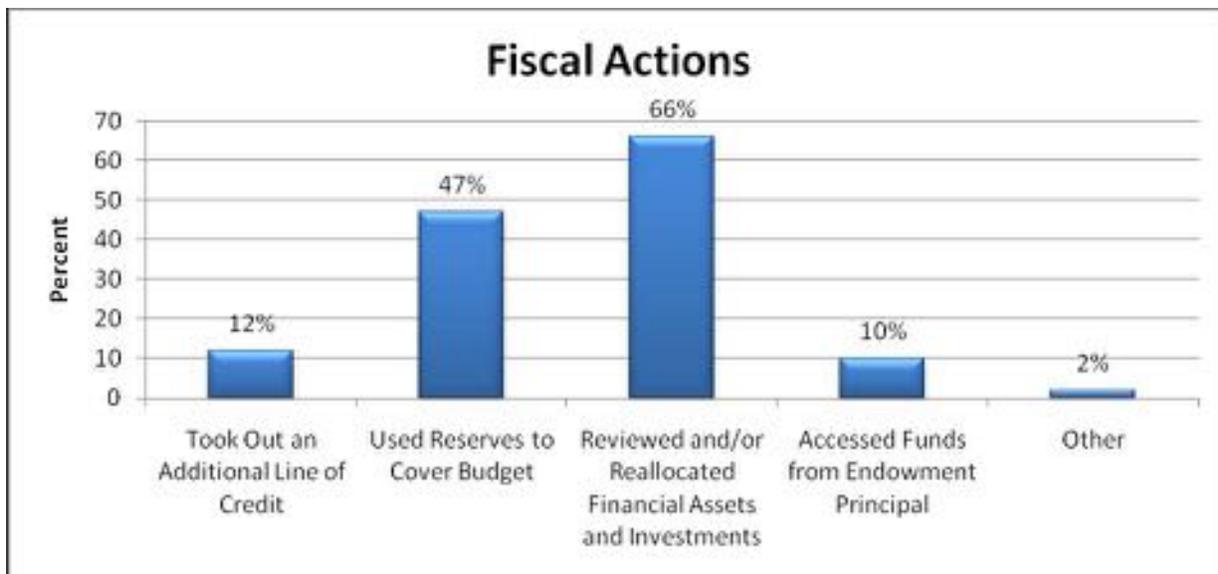
“We are cutting all unnecessary costs, cut staff, brought storage internal, and have leaned heavily on long-term partnerships and supporters.”

Fiscal Actions

The primary fiscal strategies reported being used by nonprofits in order to offset negative economic conditions included reviewing and/or reallocating financial assets and investments (66 percent). As shown in Figure 9, forty-seven percent of all respondents indicated that they had used reserve funds to cover operations.

However, using reserves is a short term solution that is unsustainable in light of the relatively low levels of operating reserves reported. Additional strategies used to a lesser extent included seeking additional lines of credit (12 percent) and accessing funds from endowment principle (10 percent).

Figure 9: Responses to the question, “In the past 12 months, has your organization taken any of the following FISCAL actions in order to achieve a balanced budget?”



**Percentages may not add up to 100. Multiple responses were permitted.*

Changes in Volunteering

The majority of organizations surveyed (82 percent), overwhelmingly, stated that they rely heavily on the use of a volunteer work force. For the majority of these (53 percent), volunteer work hours increased within the past year, nearly similar to the percentage of organizations (54 percent) that noted an increase in the number of volunteers the organizations used. Moreover, volunteer recruitment, according to nearly one-third of the respondents, proved easier during the last 12 months (see figures 10 – 13).

Figure 10: Responses when asked, "Does your organization rely on volunteers in order to achieve its mission?"

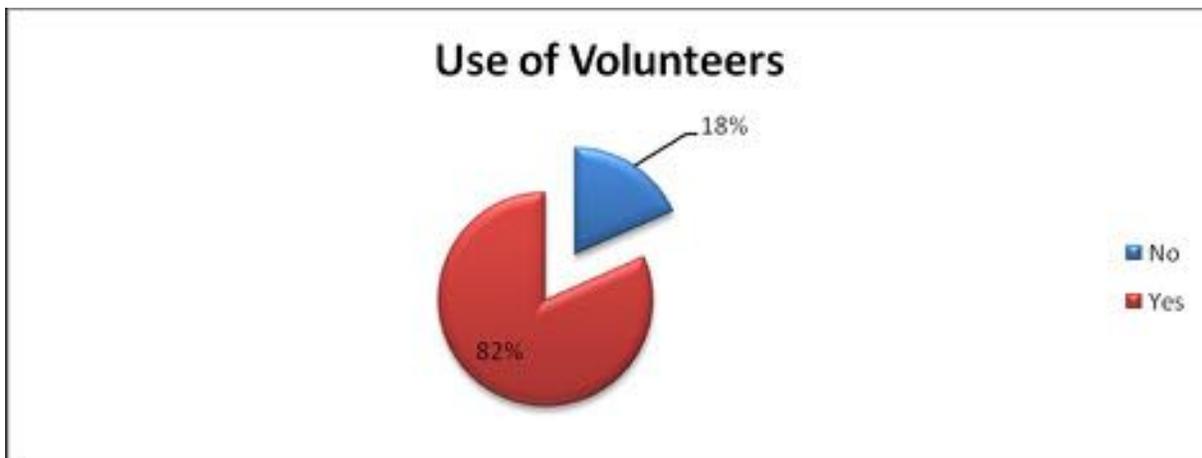


Figure 11: Responses when asked, "For your organization, how have total VOLUNTEER HOURS changed over the past 12 months?"

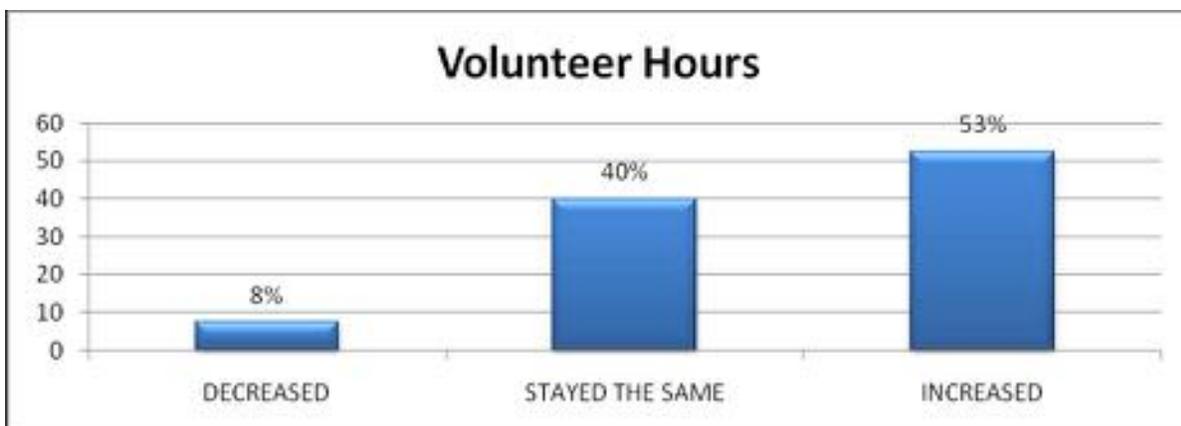


Figure 12: Responses when asked, "For your organization, how has the total NUMBER OF VOLUNTEERS changed over the past 12 months?"

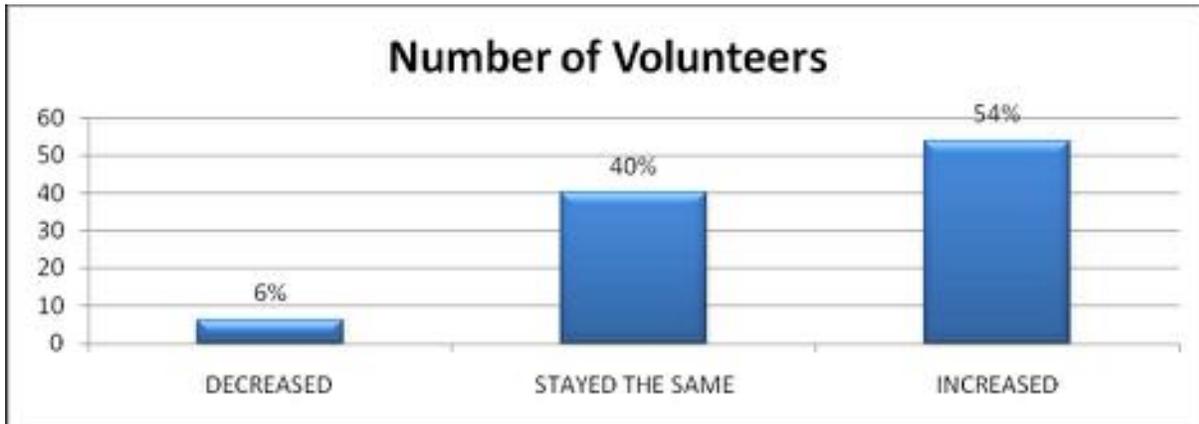
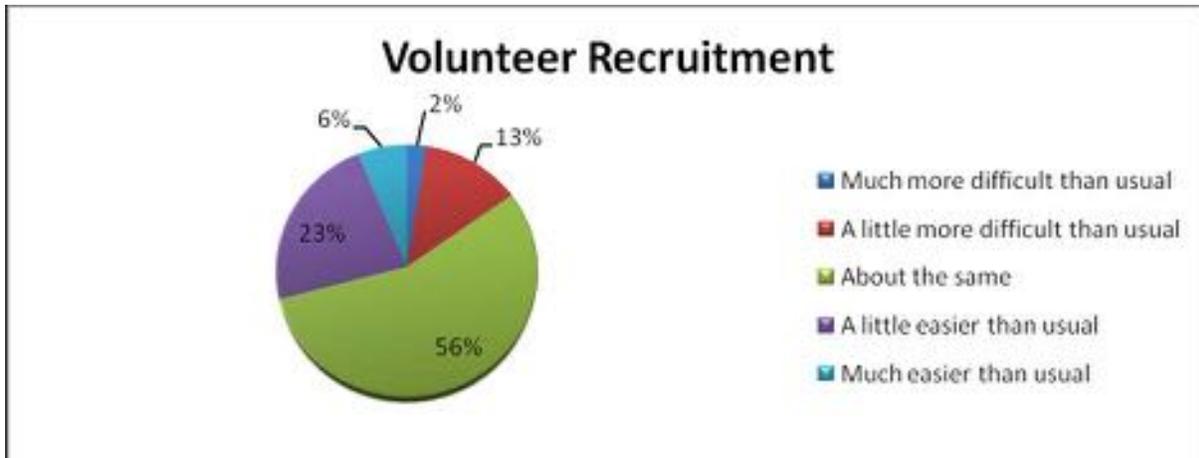


Figure 13: Responses when asked, "In general, would you say that volunteer recruitment over the last 12 months has been _____:"



Section 2: Foundations

As uncertainty about the economy continues to grow, foundations and other grantmaking organizations have adopted a variety of strategies in order to withstand the market's instability and to meet the needs of their grantees. Indeed, just as nonprofits have been greatly affected by the recession, philanthropic organizations have also experienced significant changes in their funding ability and organizational capacity.

Profile of Foundation Respondents

Twenty-five of San Diego's leading philanthropic organizations responded to the foundation version of the survey regarding the impact of recent economic conditions on their organization as well as on their grantmaking activities.

These institutions included a variety of local grantmakers. Twenty-eight percent of responding organizations were private independent foundations, 24 percent were private family foundations, 20 percent were community foundations, and the remaining 28 percent included a mix of public foundations, private operating foundations, corporate foundations, and other giving programs.

Fifty-nine percent of respondents reported a net asset value for their organization in excess of \$10 million. The average value of net assets was \$177,068,296 with a median net asset value of \$12,400,000.⁵ Of the foundations reporting an annual operating budget, 28 percent reported an operating budget of \$1 million or more.

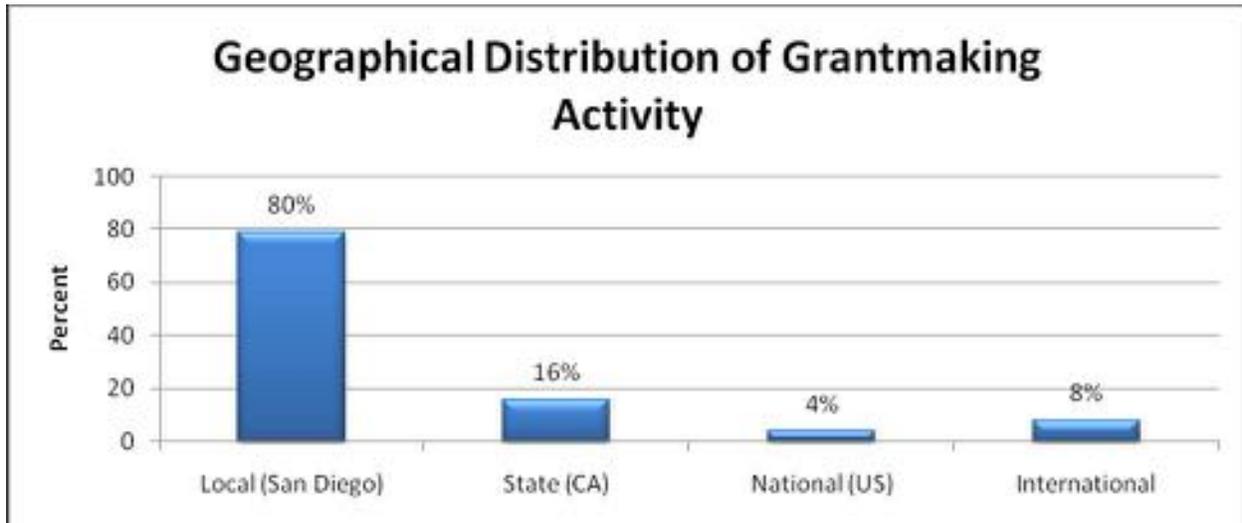
The average annual operating budget was \$9,856,013 with a median annual operating budget of \$250,000.⁶ Although some of these organizations reported employing a variety of full-time, part-time, and temporary staff persons, 73 percent of responding organizations employed only 0 – 3 full-time staff members.

A majority of survey respondents (80 percent) were local grantmakers. Figure 14 shows the distribution of grantmaking activity by the respondent organizations.

⁵ Three organizations in the sample did not provide the value of their net assets or a unique identifier (e.g., organizational identity). As such, the net asset value for these organizations could not be analyzed.

⁶ The annual operating budget of three organizations could not be obtained.

Figure 14: Responses when asked, “Geographically, where does your foundation allot the MAJORITY of its grantmaking efforts?”



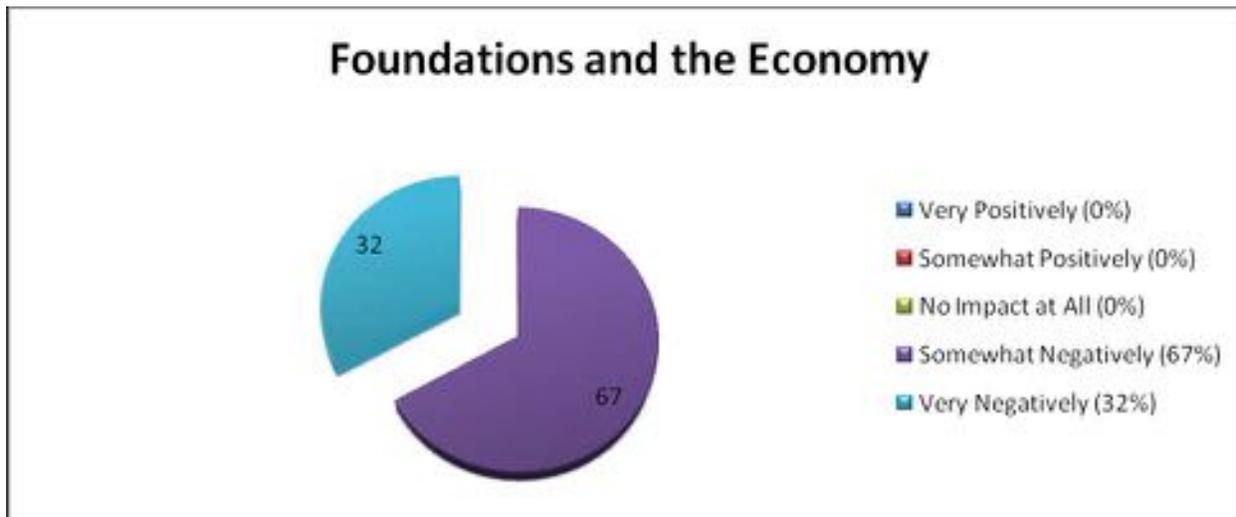
* Percentages may not add up to 100. Multiple responses were permitted.

Impact of Economic Conditions on San Diego Foundations

Overall, when asked how the economy had affected their organization during the past 12 months, all of the grantmaking organizations that responded indicated that the economy has had a negative impact on their organization. Sixty-seven percent believed that the economy had affected their organization somewhat negatively while 32 percent believed that the economy had affected their organization very negatively. Figure 15 presents an overview of these responses. None of the respondents believed that the economy has had either a positive impact or a neutral impact on their organization.

In general, smaller grantmaking institutions reported being more negatively affected by recent economic conditions than larger grantmaking institutions. Indeed, funding organizations with a net asset value of less than \$10 million were more likely to report that their organization had been very negatively affected by the economy (56 percent of smaller grantmakers compared to only 17 percent of larger grantmakers). Funding organizations with a net asset value of greater than \$10 million were more likely to report that their organization had only been somewhat negatively affected by the economy (83 percent of larger grantmakers compared to only 44 percent of smaller grantmakers).

Figure 15: Responses when asked, “In the past 12 months, please tell us how you believe that the economy has affected your foundation.”



* Percentages may not add up to 100 due to rounding error.

When asked how recent economic conditions had affected the value of their assets during the past 12 months, 78 percent of the foundations that responded indicated that the value of their assets had decreased in some way. In particular, 26 percent reported that the value of their assets had greatly decreased, while 52 percent reported that the value of their assets had only moderately decreased (see Figure 16).

However not all funding organizations reported a decline in asset value. In fact, 21 percent of the organizations that responded indicated that the value of their assets had either stayed the same or moderately increased—which may not be entirely surprising since this survey was fielded at the end of the year; therefore, some organizations may have begun to realize gains from a recovery in the financial markets.⁷

Of the organizations indicating a decline in asset value, the majority (41 percent) noted that the value of their assets had declined by approximately 11-20 percent (see Figure 17). This overall decline in the value of foundation assets mirrors the decline that grantmakers in other regions across the country have reported.^{8,9,10} Nationally, foundations assets have declined on average by 22 percent.¹¹

⁷ Private independent foundations and private family foundations were both more likely to report that they had experienced either no change in the value of their assets or a moderate increase in the value of their assets.

⁸ See *How is the economy affecting philanthropy in our region?* Report prepared by the Washington Regional Association of Grantmakers, 2008.

⁹ See *How is the economy affecting philanthropy in our state?* Report prepared by the Connecticut Council for Philanthropy, 2008.

Typically, the bulk of foundation assets are invested in the stock market. It is not surprising, then, that many grantmakers noted that changes in the market were the cause for declining assets. Indeed, the majority of organizations (74 percent) that saw a decline in asset value indicated that the reason for the decline was a decrease in the total amount of investment, endowment, and/or revenue for their organization (see Figure 18).

Figure 16: Responses when asked, “In the past 12 months, would you say that the value of your foundation’s assets has _____:”

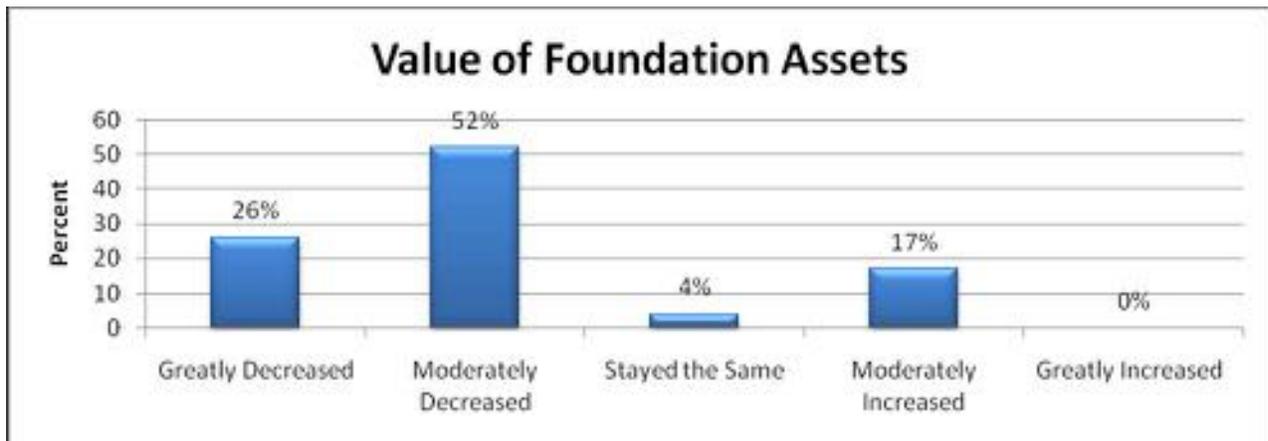
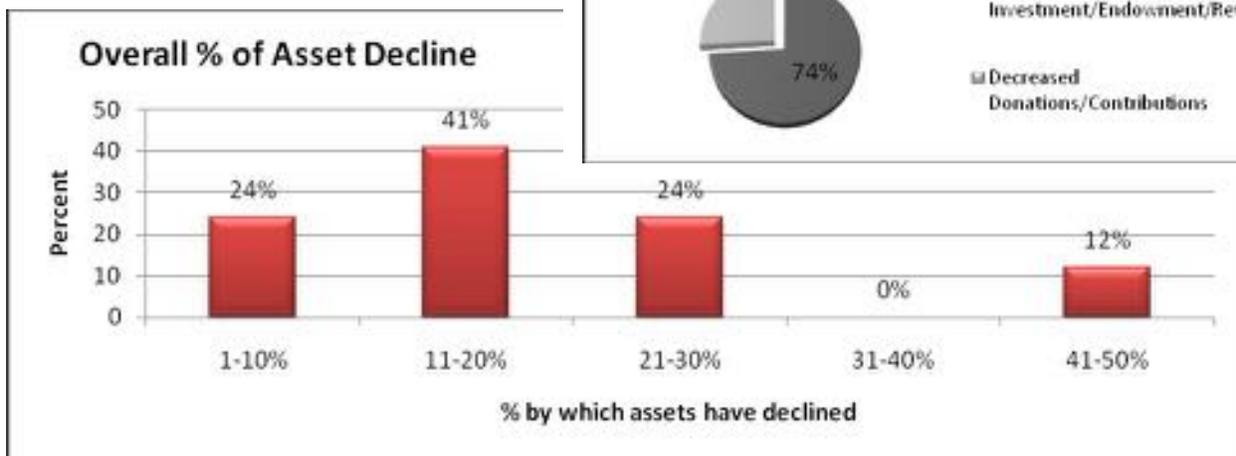


Figure 18: Responses when asked to “Briefly describe the primary reason you believe your foundation’s assets have changed.”

Figure 17: Responses when asked, “Would you say that your foundation’s assets have decreased by _____:”



¹⁰ See *Challenges ahead: Upstate NY philanthropy & the economy*. Report prepared by the Grantmakers Forum of New York, November, 2008.

¹¹ See Lawrence, S. (2009). *Foundations’ year-end outlook for giving & the sector*. Report prepared by The Foundation Center, November, 2009.

Although asset values have declined for many grantmaking organizations, more than half of foundations reported that their annual operating budget during the past 12 months had remained steady. In particular, 57 percent of foundations indicated that their annual operating budget had remained the same, while only 38 percent reported their annual operating budget had decreased in some way (e.g., 9 percent reported their annual operating budget had greatly decreased, and 29 percent reported that their annual operating budget had moderately decreased) (see Figures 19 – 21).

Figure 19: Responses when asked, “In the past 12 months, would you say that the operating budget for your foundation has _____:”

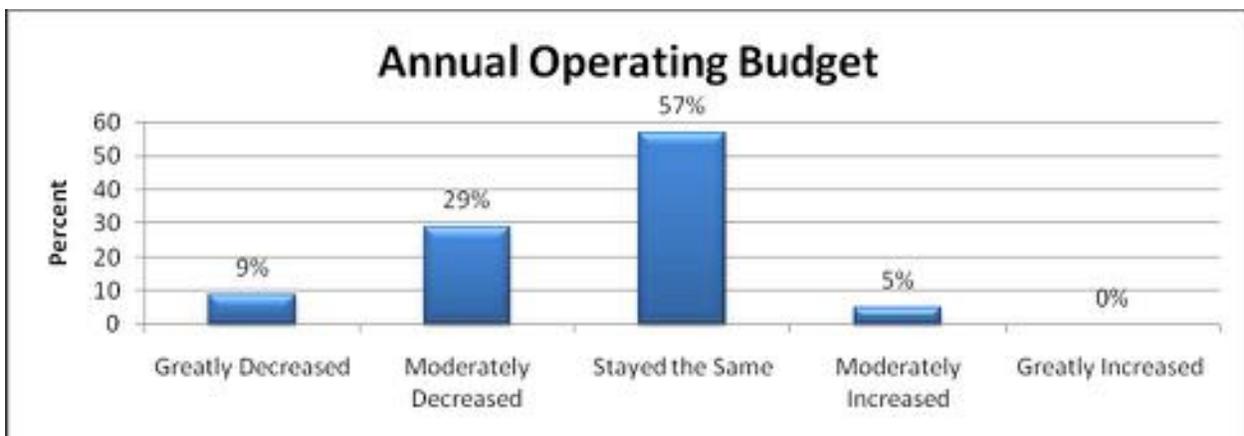


Figure 20: Responses when asked, “Would you say that your foundation’s annual operating budget has decreased by _____:”

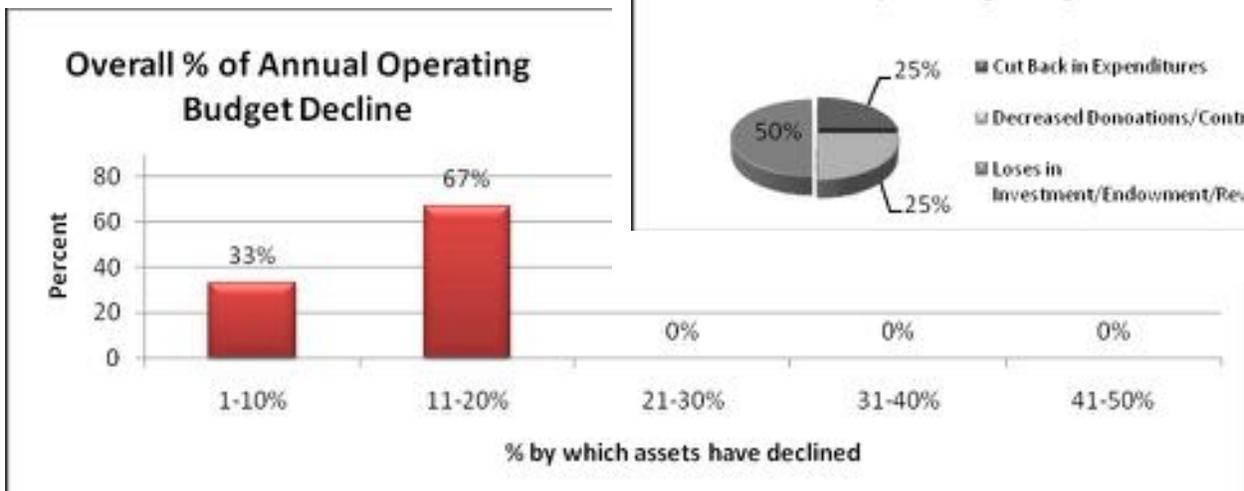
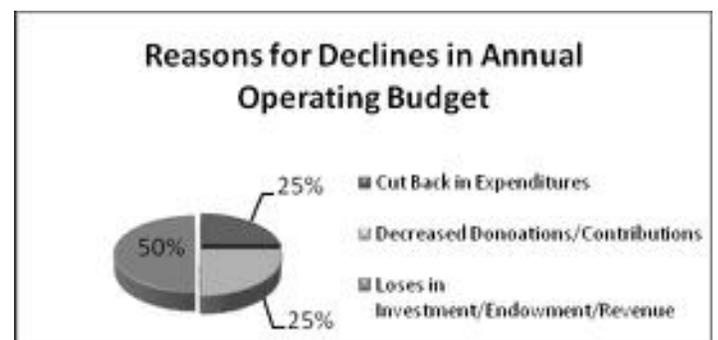
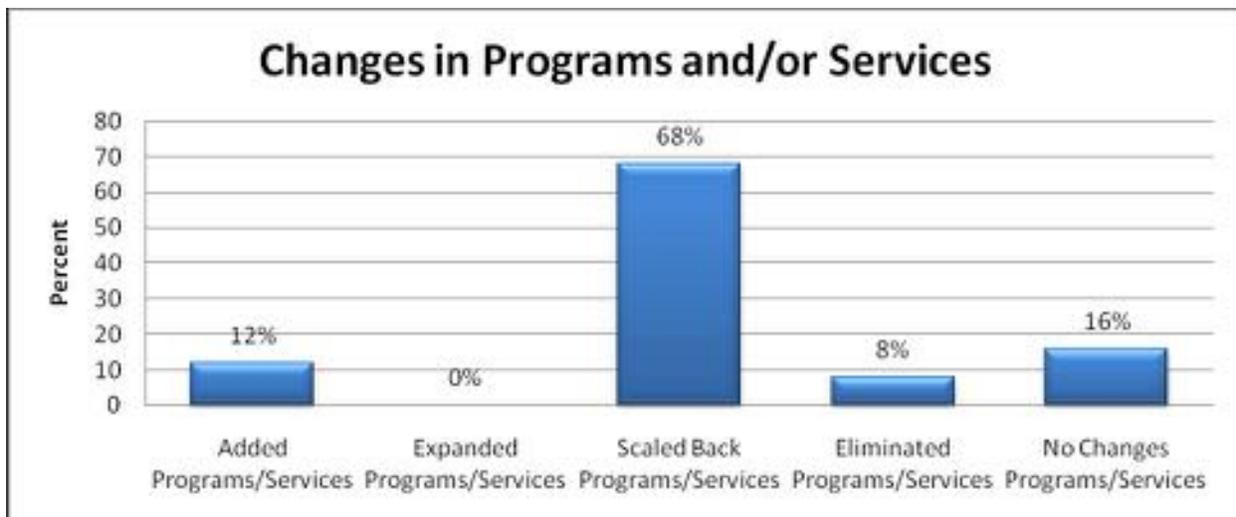


Figure 21: Responses when asked to “Briefly describe the primary reason you believe your foundation’s assets have changed.”



In order to survive these changing economic times, similar to the nonprofits presented in the previous section of this report, San Diego philanthropic organizations have also undertaken a variety of strategies for handling the negative effects of the economy. In particular, the vast majority (67 percent) of foundations indicated that they had scaled back many of their existing programs and/or services directly in response to recent economic conditions. Twelve percent of foundations indicated that they had added programs and/or services; however, 8 percent of foundations indicated that they had actually eliminated programs and/or services (see Figure 22).

Figure 22: Responses when asked to “Describe any changes that have been made to your foundation’s programs and/or services that you believe have occurred as a result of recent economic conditions.”



* Percentages may not add up to 100. Multiple responses were permitted.

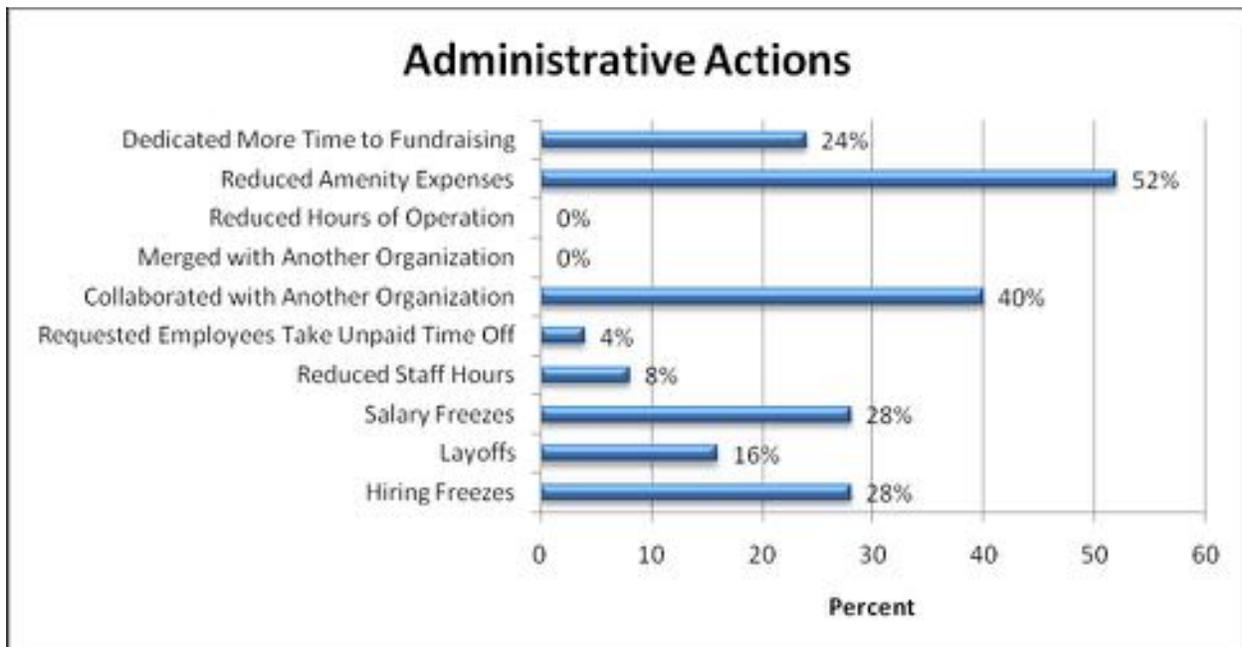
Administrative Actions

With regard to administrative actions taken by local grantmakers in response to recent economic conditions, 40 percent of respondents indicated that they had collaborated with another organization (see Figure 23).

More than half (52 percent) of respondents indicated that they had reduced the level of amenity expenses available for their employees (such as travel and professional development related expenses)—a trend that philanthropic organizations in other regional sectors across the nation have also

reported.¹² None of the respondents indicated that they had reduced their hours of operation or merged with another organization.

Figure 23: Responses to the question, “In the past 12 months, has your foundation taken any of the following ADMINISTRATIVE actions in order to achieve a balanced budget?”



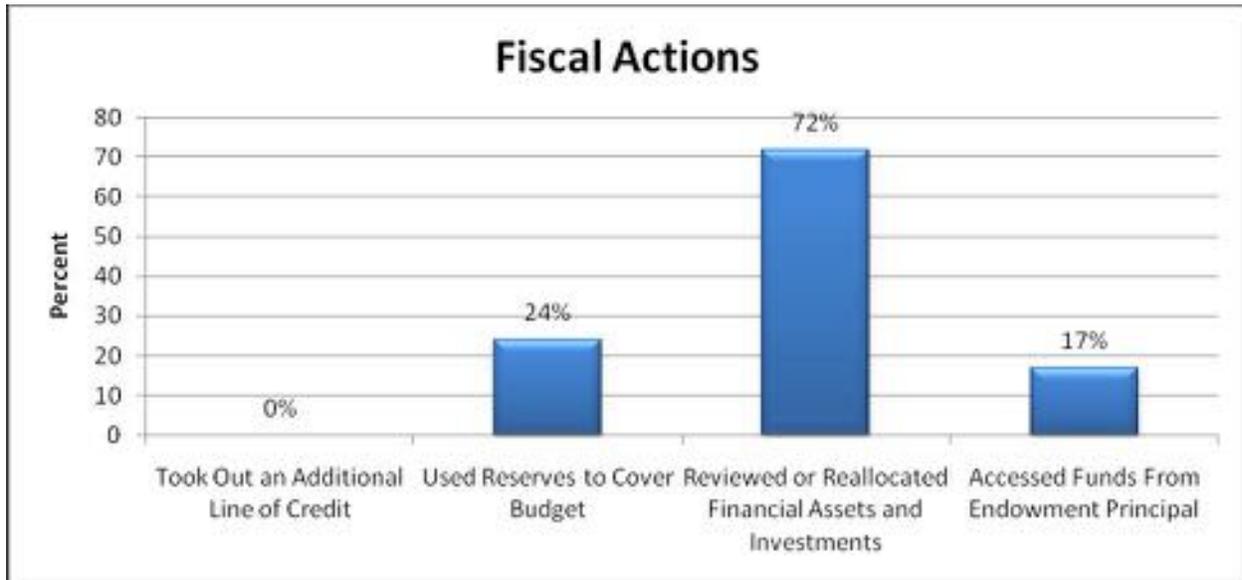
* Percentages may not add up to 100. Multiple responses were permitted.

Fiscal Actions

With regard to fiscal actions taken, not surprisingly, 72 percent of foundations reported that they had reviewed and/or reallocated their financial assets and investments. However, none of the grantmakers reported taking out an additional line of credit, and only one-quarter of respondents indicated that they used reserves to cover their operating budget; furthermore, less than 20 percent of responding foundations indicated that they accessed funds from their endowment principal (see Figure 24).

¹² See Lawrence, S. (2009). *Foundations' year-end outlook for giving and the sector*. Report prepared by The Foundation Center, November, 2009.

Figure 24: Responses when asked, “In the past 12 months, has your foundation taken any of the following FISCAL actions in order to achieve a balanced budget?”



* Percentages may not add up to 100. Multiple responses were permitted.

How Will Grantmaking Priorities Change in the Coming Year?

Surveys conducted in other regional areas have consistently shown that many foundations expect to decrease their level of grantmaking considerably.^{13,14,15} Few, if any, however, have examined in which sub-sector areas these decreases can be expected. As such, philanthropic organizations in this survey were asked to identify the areas their organization would likely increase, decrease, and maintain funding levels over the next two years.

Overall, funders projected to significantly decrease grantmaking in some areas while they projected grantmaking in other areas to either remain steady or increase. Table 3 provides a complete breakdown of all responses.

Specifically, half of the grantmakers that supported religious causes indicated that they expected to decrease their level of grantmaking activity in this area over the next two years, 67 percent of the grantmakers that supported environmental causes indicated that they expected to decrease

¹³ See *How is the economy affecting philanthropy in our region?* Report prepared by the Washington Regional Association of Grantmakers, 2008.

¹⁴ See *How is the economy affecting philanthropy in our state?* Report prepared by the Connecticut Council for Philanthropy, 2008.

¹⁵ See *Challenges ahead: Upstate NY philanthropy and the economy.* Report prepared by the Grantmakers Forum of New York, November, 2008.

grantmaking activities in this area, and all of the foundations that supported scientific research indicated that they expected to decrease their level of grantmaking activity in this area.

Even though funders project a decrease in grantmaking to some areas over the next couple of years, other areas are likely to see an increase in philanthropic support. For example, 42 percent of the foundations that supported children and youth related causes and one-third of the foundations that supported community development/improvement related causes indicated that they expected to increase their level of grantmaking in these areas.

Table 3: Responses when asked, “In which areas do you expect your foundation’s level of grant making will change (if at all) over the next two years?”

| Grantmakers that Support the Following Issue Areas: | % Expecting to DECREASE Funding Levels | % Expecting to MAINTAIN Funding Levels | % Expecting to INCREASE Funding Levels | <i>n</i> |
|--|---|---|---|-----------------|
| Animals | 33 | 67 | 0 | 3 |
| Philanthropy & Volunteerism | 20 | 80 | 0 | 5 |
| Religious/Faith Based | 50 | 50 | 0 | 2 |
| Scientific Research | 100 | 0 | 0 | 2 |
| Arts, Culture, & Humanities | 36 | 55 | 9 | 11 |
| k-12 Education | 44 | 44 | 11 | 9 |
| Environment | 67 | 17 | 17 | 6 |
| Higher Education | 30 | 50 | 20 | 10 |
| Health | 23 | 54 | 23 | 13 |
| Human Services | 14 | 57 | 29 | 14 |
| Community Improvement/Development | 20 | 47 | 33 | 15 |
| Children & Youth | 17 | 42 | 42 | 12 |

As for projections for 2010, all the foundations indicated that they expect the total number of grant requests they receive to either remain the same or increase in some way (e.g., 65 percent project that the total number of grant requests will moderately increase while only 10 percent project that the total number of grant requests will greatly increase). None of the foundations expect for the total number of grant requests to decrease this year (see Figure 25).

With regard to the total dollar amount of grant requests, again, all of the foundations indicated that they expect grant requests to either remain the same or in some way increase (e.g., 70 percent project that the total amount of grant requests will moderately increase while 10 percent project that the total number of grant requests will greatly increase) (see Figure 26).

Figure 25: Responses when asked, “Looking forward to NEXT YEAR, 2010, do you believe that the TOTAL NUMBER of grant requests for funding that will be made to your foundation will likely _____:”

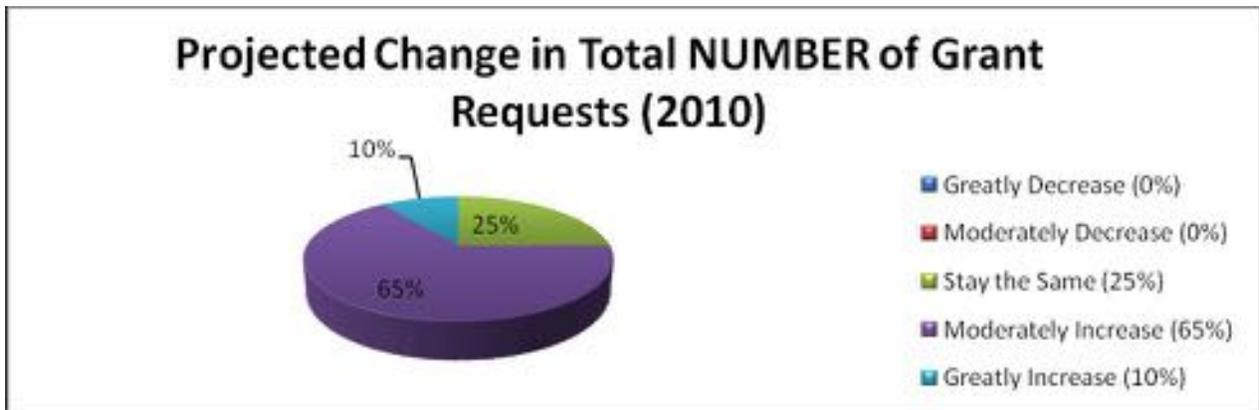
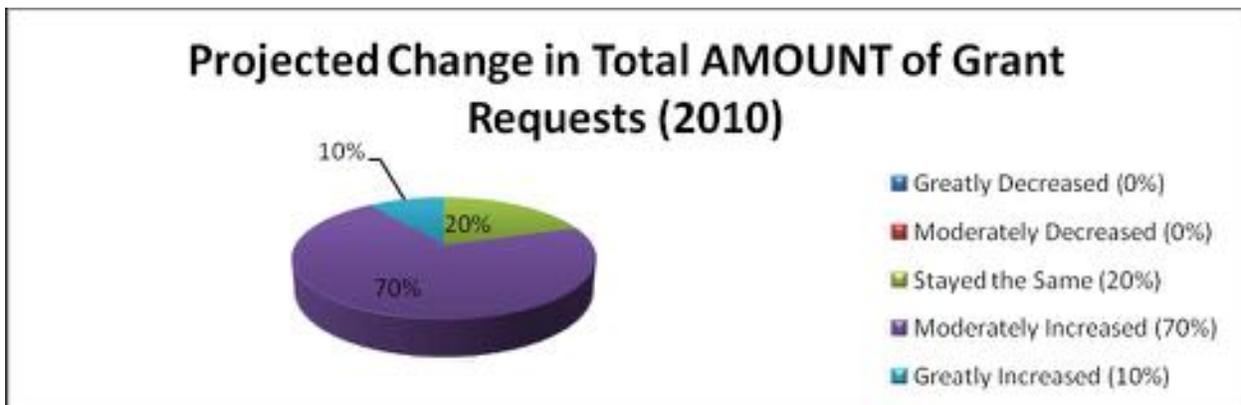


Figure 26: Responses when asked, “Looking forward to NEXT YEAR, 2010, do you believe that the TOTAL DOLLAR AMOUNT of grant requests for funding that will be made to your foundation will likely _____:”



Conclusion

The data in this report are intended to inform nonprofit leaders, policy makers, and other stakeholders about the current state of San Diego's charitable nonprofits and philanthropic foundations. Although there are some success stories in this report, there are several alarming trends worthy of further consideration.

San Diego nonprofits are stretched almost to the breaking point

An increase in demand for nonprofit services coupled with declining revenues and a shortage of cash reserves leaves San Diego's nonprofit sector poised for disaster. A lingering state budget crisis only makes matters worse in a region where the county relies heavily on nonprofits to deliver services that in other places are provided by government.

A workforce at risk

Over the last decade there has been an increased focus on professionalization in the nonprofit sector specifically aimed at developing a skilled workforce and increasing leadership capacity in the sector. Unfortunately, the recent actions taken by nonprofits to achieve balanced budgets, which include reducing or freezing salaries and benefits, staff layoffs, asking staff to work additional hours without additional pay, and a reduction in funds for professional development, may offset any recent gains made in this area. Furthermore it calls into question the long-term viability of the nonprofit workforce.

Shifting funding priorities at San Diego foundations

Many of the respondents to the foundation portion of this survey report that they intend to become more focused in their grantmaking in the coming year. This coupled with the fact that several of San Diego's largest philanthropic foundations have already narrowed their funding priorities to focus on specific issues and/or geographic area reduces the opportunity for nonprofits to seek foundation funding from local partners.

Looking ahead

The economy is beginning to show signs of recovery. The recovery to the nonprofit sector, however, may lag behind other sectors as organizations work to rebuild reserves and organizational assets to pre-recession levels. This is especially true for nonprofits that provide services to the unemployed as employment typically is one of the last areas to recover in a recession. Furthermore, any economic recovery at the national level may be tempered in California by the effects of the ongoing state budget crisis.

The San Diego nonprofit sector has worked diligently over the past decade to operate more strategically. To be sure, the recession has forced many to turn to short-term tactics to ensure that demands are met. As the economy begins to turn around, however, the sector needs to make a concerted effort to shift its focus back to the long term.

Finally, despite the negative effects of the economy, nonprofit leaders remain hopeful. Sixty-two percent reported having some level of optimism for the coming year. Noted nonprofit scholar Lester Salamon refers to the nonprofit sector as the “resilient sector.” This sentiment is clearly reflected in this report.