



Joint Hearing of the California Senate and Assembly Select Committees on the Nonprofit Sector

August 19, 2025

Advancing Institutional Support of Nonprofits to Address Unprecedented Challenges and Threats Facing the Sector

BACKGROUND

California's nonprofits encompass a broad range of organizations, including educational institutions, hospitals, social welfare groups, religious organizations, and charities focused on disaster relief, civil rights, environmental advocacy, and the arts. These organizations are essential partners for state and local governments, delivering vital, culturally competent, and cost-effective services to communities across California. They play a critical role in addressing diverse needs, from sheltering the unhoused and feeding seniors to tackling climate change and providing mental health services.

California's nonprofit sector is also a major economic force and a crucial employer, employing over 1.7 million people – or 10% of the state's workforce. The workforce of the sector is notably more diverse in gender and race/ethnicity compared to the state's overall workforce.

Stronger collaboration between the state and nonprofits improves outcomes for Californians by expanding access to quality services and programs. These partnerships also support nonprofits as key employers and contribute to economic recovery, particularly in historically underserved communities, areas with high concentrations of poverty, communities of color, and rural regions. Across human services, education, environmental work, and more, partnering with nonprofits is a core strategy at every level of government.

As California faces uncertainty at the federal level, the state will increasingly rely on nonprofits to keep communities safe, healthy, and vibrant. Developing collaborative public-private partnerships is key to enabling nonprofits to effectively partner with the state, provide needed services, strengthen California's economy, and address challenges facing under-resourced and vulnerable communities during a period in which rising costs and increasing demands are clashing with a shrinking supply of available funding.

UNPRECEDENTED CHALLENGES AND THREATS FACING THE SECTOR IN 2025

On July 4, 2025, President Trump signed H.R. 1, the "One Big Beautiful Bill Act," into law. This legislation enacts trillions of dollars in tax cuts, primarily benefiting high-income, high-wealth households and the largest, most profitable corporations. These tax cuts are partially offset by

significant cuts to essential programs, profoundly impacting California's healthcare services and food assistance. Consequently, demand for nonprofit services and programs will only increase.

The proposed federal budget includes a \$1 trillion cut to Medicaid, which is projected to strip approximately 3 million Californians of their health insurance coverage. The federal budget also proposes a nearly \$300 billion cut to the Supplemental Nutrition Assistance Program (SNAP), impacting hundreds of thousands of Californians. The financial strains imposed by this tax bill will likely exacerbate the growing needs of the nonprofit sector, which often fills critical service gaps left by the government and the private sector. These reductions in services will shift unsustainable costs and burdens onto states, local governments, and charitable food networks, all of which are already stretched thin.

The newly passed law also introduces substantial changes to the federal tax code, including new rules impacting colleges, universities, foundations, and other tax-exempt organizations. According to the Congressional Joint Committee on Taxation, these sweeping changes are projected to reduce resources available to nonprofit organizations by at least \$81 billion over the next 10 years. Additionally, several provisions within the bill disincentive charitable giving. At a time when nonprofit organizations are already facing immense financial challenges from federal funding cuts and freezes imposed earlier in the year, these changes threaten to further harm the sector and the communities they serve.

Recent executive orders and federal funding cuts from the Federal Administration have cast a pall of uncertainty over nonprofit organizations nationwide. Many are already seeing their federal grants and contracts paused or outright canceled, while others are left in limbo regarding current funding and future prospects due to ongoing legal challenges.

The Impact of Federal Funding Cuts and New Tax Policy on California Nonprofits

Many nonprofits depend on federal funding to operate crucial programs that address critical needs like housing, healthcare, education, and social services. Funding freezes from the Federal Administration have halted these vital programs, leaving vulnerable populations without essential support.

When longstanding, accessible funding sources are disrupted, nonprofits are forced to scramble to not only replace those resources, but also urgently develop a new funding strategy. At least 30% of nonprofits nationally rely on government grants. And more than 35,000 nonprofits—about a third of government grantees—rely on these grants for more than 50% of their total revenue nationwide, according to Candid. Nonprofits relying on government grants typically lack the substantial operating reserves needed to absorb a sudden cut in funding. A prolonged pause or complete loss of these government funds will continue to cause major disruptions, forcing a reduction in essential programs and services for Californians and leading to job losses within the sector.

Funding freezes and cuts in government funding directly threaten the financial stability for nonprofits, leading to several critical impacts:

- **Reduced Revenue:** Nonprofits heavily reliant on government grants will experience an immediate and significant drop in their funding stream.
- **Program Cuts:** Many organizations will be forced to scale back or entirely eliminate programs, particularly those supported by grants, directly impacting the vital services they provide to communities.
- **Layoffs and Furloughs:** To cope with reduced funding, nonprofits may have to cut staff through layoffs or furloughs, further diminishing their capacity to deliver services.
- **Operational Difficulties:** Even a short-term funding freeze creates uncertainty and disrupts operations, making effective planning and execution challenging for organizations.
- **Return of Funds:** In some cases, organizations might even be required to return previously allocated but unused funds, exacerbating their financial strain.

The loss of funds also harms the vulnerable populations who depend on nonprofits for essential services like food, housing, and healthcare. This uncertainty and disruption can also erode trust in the sector, as nonprofit services will be unable to keep up with demand for services amidst funding reductions.

The state can help nonprofits navigate these challenges with state-funded grants, emergency relief funds, targeted support for vulnerable communities, contract and grant management improvements, advocacy for federal funding, and support of the nonprofit workforce, among other solutions. California has a critical opportunity to bolster its nonprofit sector. By providing support, the state can help these organizations withstand funding freezes, ensuring they can continue their vital work and contribute significantly to the well-being of communities statewide.

Wildfire Recovery: Supporting the Role of Nonprofits in Disaster and Emergency Mitigation

Some of California's most devastating wildfires have taken place within the last decade, with unprecedented extremes of destruction. Longer fire seasons, hotter temperatures, and drier conditions have created faster-moving, more intense fires that threaten property, communities and lives.

Amid the devastation, numerous nonprofit organizations stepped in to provide crucial support. This included offering shelter to displaced families, distributing food and medical aid, supporting animal rescues, and assisting with wildfire recovery efforts. Nonprofit work has been vital to helping affected communities recover and rebuild in the wake of these ongoing crises.

Following the numerous fires that impacted the state in recent years, it is even more apparent that nonprofits play a crucial role in supporting California wildfire recovery by providing direct relief, long-term recovery assistance, and resources for affected communities. The state must continue to explore partnerships with the nonprofit sector to support hazard mitigation planning and projects, fire management assistance, and community-based wildfire preparedness initiatives. Various grants and programs from the state can enhance disaster preparedness through community-based organizations, particularly when it comes to helping vulnerable communities that are often disproportionately impacted by natural disasters.

This hearing will explore how the state can better rely on and support nonprofits when it comes to disaster and emergency mitigation, including building up an effective community response network to prepare for disasters like wildfires, extreme heat, drought, flooding and landslides. Establishing these partnerships prior to disasters allows for stronger resource sharing, coordinated responses, and leveraging each organization's unique strengths.

ADVANCING SOLUTIONS AND NEW INSTITUTIONAL SUPPORT FOR NONPROFITS

Government and nonprofits are interdependent, and successful partnership is critical for meeting the needs of Californians. This hearing will focus on understanding potential solutions to support a thriving nonprofit sector, including the establishment of new institutional support for the sector.

Establishing a Voice of, by, and for Nonprofits in State Government: Office of Nonprofit Empowerment

Dozens of agencies and departments across California's state government rely on partnerships with nonprofits to execute their missions. For the nonprofit sector, navigating the complexities of state government partnerships often can be overwhelming. There is currently no institutionalized and consistent support for nonprofits to navigate government, untangle procurement and grant-making processes, get appropriately compensated for the full cost of their work, and receive timely payment. This is a fundamental issue that impedes the effectiveness that will be needed (and has been needed) to advance and maintain shared priorities in the coming years and beyond for the State of California.

While various agencies and departments across state government have implemented innovative department-level practices, there is no centralized state governing body to encourage innovation, systematic coordination, and alignment across state entities that have regular touchpoints with nonprofits (in the way that there is for small businesses, for example). In turn, this has resulted in a fragmented and disconnected ecosystem for nonprofits and has also led to challenges in institutionalizing or advancing precise solutions and system-wide best practices.

The State of California should consider establishing a centralized hub and a strong voice for nonprofits within state government that would serve as a formal bridge between government and the nonprofit sector, fostering opportunities for nonprofits to expand crucial initiatives. The entity can provide technical assistance to nonprofit institutions in navigating state policies and offer recommendations to continually reduce barriers and complexity in nonprofit contracts and grants.

The functions of a centralized office could also include policy research and development, interagency coordination, and training and education for state entities. Other sectors are more strongly supported across government functions and agencies via established offices, such as the Governor's Office of Business and Economic Development, or GO-Biz. However, such an entity is lacking for the nonprofit sector—despite its strong economic contributions to California, as more than 1.7 million employees work for nonprofits in the state, according to the Employment Development Department.

State-nonprofit partnerships will continue to be heavily relied upon to keep Californians healthy and safe and to guard against risks and threats, particularly from the federal level. However, for nonprofits to remain robust, and approach state-level coordinated response quickly and expeditiously, there is a need for more nonprofit and community-responsive infrastructure within state government. While nonprofits are the backbone of California communities, there is a glaring lack of representation in state government.

Furthermore, widely endorsed legislative efforts to support the sector in recent years have not been signed into law despite unanimous approval by the legislature. This speaks to the need for a culture change in governance. By giving a voice to nonprofits in government, we can better represent the voices of a diverse sector that is advancing mission-based work to serve vulnerable Californians every day.

Equity in Contracting: Reforms to Support Accessing and Managing State Resources

Contracting and administrative challenges remain a barrier for nonprofits to access and manage state resources. Nonprofits continue to encounter numerous hurdles when seeking and managing state grants and contracts:

- **Reimbursement-based funding:** Nonprofits often have to front the money for services before being reimbursed, straining their finances or even forcing them to incur debt from high-interest loans to initiate programs.
- **Delayed payments:** There are frequently long waits for grant payments, further exacerbating cash flow problems.
- **Insufficient indirect cost coverage:** The provided funding often does not fully cover the actual costs of delivering services.

- **Onerous application requirements:** The application process itself is often overly complex and time-consuming when accessing state resources.

These challenges disproportionately affect smaller nonprofits and those operating in or serving disadvantaged communities, making it harder for them to access crucial state funding.

Legislative solutions can play a crucial role in improving government contracting with nonprofits. While these organizations have faced contracting challenges for decades, well-crafted laws can help strengthen these vital partnerships, such as mandating advance pay, improving indirect cost coverage, and addressing a loophole in the state's Prompt Payment Act (see AB 1039 (Hart); AB 880 (Bennett)).

A [new report](#) from the Little Hoover Commission highlights the need to improve nonprofit contracting practices in the state. The Commission is the independent state oversight agency, tasked with investigating state government operations and policy and making recommendations to the Governor and Legislature to promote economy, efficiency and improved service in state operations. According to the Commission's findings, 40 percent of nonprofits said they had never received an upfront payment, despite recent legislation authorizing advance payment of state awards. In addition, nearly 60 percent of nonprofits reported that they do not receive sufficient funding for indirect costs, which includes expenses such as rent or utilities. Nearly one-quarter also waited over three months to be paid by the state. Among the nonprofits receiving late payments, around 72 percent were moderately to severely impacted by delays. To cover shortfalls, nonprofits rely most frequently on reserve funds (64 percent).

Contracts, policies, and processes should maximize nonprofit effectiveness and clearly outline shared goals and working relationships, ultimately driving better results for everyone.

SUPPORTING A THRIVING NONPROFIT SECTOR FOR A STRONGER CALIFORNIA

Neither nonprofits nor the government can effectively serve Californians without a strong, thriving relationship. Nonprofits are powerful drivers of equity, making the improvement of institutional support and state government contracts with them a direct question of fairness for both our most vulnerable communities and the organizations that serve them. Policy solutions prioritizing fairness, efficiency, and stability will further strengthen this essential partnership, ensuring mutual efforts to deliver the highest quality services to the people of California.