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

August 5, 2026

Harnessing the Power of Purpose: Aligning Nonprofit Economic Impact with Modernized State Partnerships

BACKGROUND

Nonprofits are indispensable to California communities, securing the health, safety, and vibrancy of every zip code across the state. The sector employs more than 1.5 million Californians and delivers vital, culturally competent, and cost-effective services that form the backbone of the state's social safety net for millions of residents. Nonprofits shelter the unhoused, provide food assistance, tackle climate-related disasters, help animals in need, expand health access, and answer the calls of their community that the private sector will not and the public sector cannot do alone. Their impact and scale make nonprofits essential partners of strategic importance to the state.

However, nonprofits face mounting barriers across shifting federal, state, and local policies. Federally, the sector is operating in an increasingly contentious political climate, marked by executive orders and federal funding cuts. Shifting priorities, funding disruptions, and heightened scrutiny have destabilized critical safety-net programs and nonprofit operations, increasing nationwide demand for nonprofit services while constraining their capacity to respond. At the state level, inconsistent contracting and grant processes, fragmented and burdensome administrative practices that lead to payment delays, workforce shortages, and insufficient funding to cover the true costs of service delivery further stretch nonprofits already operating at capacity, and prevent others from accessing state resources.

The consequences of federal actions like H.R. 1 (i.e., the "One Big Beautiful Bill Act") are particularly severe for state and local governments, nonprofits, and vulnerable communities alike. Major reductions to Medicaid and the Supplemental Nutrition Assistance Program (SNAP) stripped tens of billions of dollars from California's Medi-Cal and $2.3 to $5.1 billion annually from CalFresh programs. This may result in two million Californians losing their health coverage and more than three million households at risk of losing their food assistance. As the cost of living continues to outpace wage growth, these cuts destabilize California's health care and food assistance programs, worsen health outcomes, exacerbate food insecurity, and increase reliance on nonprofit services, programs, and support. Nonprofits will be called upon to fill widening service gaps, aiding a growing uninsured population and a strained safety-net that supports millions of Californians, including children, older adults, and people with disabilities.

Compounding these pressures, California's nonprofits face critical headwinds from proposed federal administrative changes and other emerging threats. In June 2026, the Office of Management and Budget (OMB) proposed restructuring federal grantmaking rules with many changes penalizing or defunding programs focused on DEI and gender-affirming care. Characterized as regulatory oversight and compliance enforcement, the proposed rules would codify political reviews for discretionary grants and grant federal agencies broad authority to cancel active contracts. This regulatory environment exposes progressive and social service nonprofits—especially those supporting immigrant and LGBTQ+ populations—to sudden federal funding withdrawals, potentially shifting the financial burden of these essential services directly back onto the State of California.

A recently-signed Executive Order, 'Establishing The Task Force to Eliminate Fraud,' explicitly targets non-governmental organizations as potential exploiters of federal benefits, mandating a government-wide strategy that includes pausing funding streams and tightening eligibility controls under the guise of anti-fraud measures. Exacerbating these pressures is a new joint initiative between the FBI and the IRS designed to investigate nonprofits for alleged support of 'political violence' or 'domestic terrorism'—terms that have been dangerously broadened by recent National Security Policy Memos.

Sudden cuts or disruptions in longstanding funding sources force organizations to scramble to replace resources and urgently develop a new funding strategy. Some nonprofits could be forced to spend an enormous amount of staff time and resources defending themselves in audits, investigations, and court. Such destabilization means nonprofits may opt out of federal funding entirely and take out expensive loans to cover payroll and other expenses, forcing them to cut back on services, reduce staff, or even close their doors altogether.

Federal actions have weakened the infrastructure and funding streams that nonprofits rely on to effectively deliver congressionally mandated programs. This landscape highlights an urgency to fortify California's own cross-sector partnerships, so nonprofits not only stay afloat but also flourish. Without a modernized state infrastructure, the sector cannot sustainably meet rising demand and the state cannot unlock the full potential of the sector. This hearing will explore how harnessing the power of purpose requires aligning the sector's economic impact and social benefits with state systems capable of supporting it.

ECONOMIC ENGINES, ESSENTIAL PARTNERS: UNDERSTANDING STATE-NONPROFIT RELATIONS
California's nonprofit sector is more than a network of small, mission-driven organizations but a statewide economic engine and apparatus of social good that the state relies on every day. To harness the sector's impact requires a critical review of the status of state-nonprofit relations. This panel will examine barriers that limit nonprofits' ability to deliver for Californians and why a coordinated state-nonprofit partnership is crucial for unlocking the full strength of the sector's social and economic contributions across the state.

The Economic Power of California Nonprofits
California's nonprofit sector is a major economic force that has a deep and expanding reach, accounting for 15% of the state's Gross State Product with $766.5 billion in assets as of 2024.

With approximately 110,000 registered 501(c)(3) public charities across the state, the sector has grown by 22 percent since 2014, making California home to the largest nonprofit sector in the nation. It also stands as one of California's largest industries, ranking as the third-largest private employer by number of jobs among key California industries. In fact, one of every twelve private jobs is in a nonprofit, and the nonprofit workforce is also more diverse in gender and race/ethnicity compared to the state's overall workforce. As the data shows, nonprofits are not background actors but essential partners advancing economic opportunity for Californians.

The sector's robust economic footprint underscores the urgent need for coordinated state support to meet rising demand and counteract growing operational instability. According to CalNonprofits' most recent California Residency Survey, 87 percent of respondents reported having benefited from a nonprofit service in the last 12 months. This demonstrates how nonprofits show up across every district in the state, delivering services for California's most vulnerable residents. At the same time, 82 percent of respondents are concerned about cuts to funding for nonprofit services, reflecting similar concerns nonprofits are experiencing in light of growing financial, legal, and political pressures. Most notably, 94 percent of respondents believe nonprofits are important to their communities. The data is clear: California's nonprofit sector is an instrumental contributor to advancing social and economic opportunities for all Californians.

Unlocking Public Good: Independent, Nonpartisan Recommendations for State-Nonprofit Partnerships

The state has a critical opportunity to bolster its nonprofit sector by modernizing how it partners with the organizations it relies upon daily. Achieving this requires dismantling longstanding state administrative barriers that impede nonprofit service delivery and impose financial burdens that leave nonprofits subsidizing state services. This panel explores the Little Hoover Commission's (LHC) recommendations to strengthen these partnerships, ensuring the sector can reliably deliver vital services on behalf of the state.

As California's independent oversight agency, LHC issued 12 urgent policy recommendations to reform the state's grantmaking and contracting processes in a report released in early 2026, *"Shared Priorities, Strained Systems: Modernizing State Grants and Contracts with Nonprofits,"* which emphasizes the urgent need for a more responsive government-nonprofit infrastructure. LHC found that current state processes actively hinder the delivery of services to California's most vulnerable populations by burdening nonprofits with structural barriers that make partnerships unsustainable. The proposed recommendations aim to resolve these pervasive, state-wide challenges by establishing administrative consistency and correcting systemic inefficiencies.

LHC conducted a comprehensive statewide survey of nonprofits to pinpoint the exact structural barriers crippling their partnerships with the state. The results paint a stark picture: chronic cash flow instability, delayed state reimbursements, insufficient overhead funding, and redundant administrative hurdles are actively undermining the sector. Key findings from the LHC survey reveal critical, systemic failures:

- **Inaccessible Advance Payments**: Despite the passage of Assembly Bill 590 (Hart, 2023) to allow advance payments, 40 percent of surveyed nonprofits have never received upfront funding, highlighting uneven implementation across state agencies
- **Underfunded Essentials:** Nearly 60 percent do not receive sufficient funding for indirect costs, forcing them to absorb the cost of basic operational essentials like rent and utilities.
- **Chronic Reimbursement Delays:** Nearly 25 percent of respondents must wait over three months for the state to reimburse them for services already delivered.
- **Disruptive Operational Impacts:** Among nonprofits facing late state payments, nearly 75 percent report moderate to severe damage to their daily operations.
- **Depleted Reserves:** To survive these state-induced funding gaps, 64 percent of respondents have been forced to drain their own reserve funds.

These systemic challenges force nonprofits to subsidize the delivery of state services as they wait to be paid or struggle to pay costs not covered by grants or contracts. Many spend excessive amounts of time and resources meeting unnecessary requirements or navigating duplicative and slow administrative systems. These challenges undermine the sustainability of California's nonprofits to deliver timely, effective services. Consequently, the repercussions extend directly to the communities nonprofits serve. LHC found that following unsuccessful applications, 76 percent of nonprofits reported delaying new initiatives, while 53 percent were forced to eliminate or reduce programs or services.

Solutions outlined in LHC's report include mandating advance pay, ensuring prompt payment, establishing a nonprofit liaison/office within state government, standardizing emergency amendments, improving and streamlining funding application and reporting processes, and facilitating better collaboration among state agencies and nonprofits. These recommendations call for a reimagining of state systems to build effective state-nonprofit partnerships that unlock public good and improve the state's ability to serve Californians.

OPTIMIZING STATE SYSTEMS FOR EFFECTIVE NONPROFIT PARTNERSHIPS

Government and nonprofits are interdependent, and successful partnership is critical for meeting the needs of Californians. This hearing will focus on efforts to reconceptualize and modernize state systems and processes that support a thriving nonprofit sector through effective partnerships.

New Efficiencies in Regulatory Oversight: A Modernized Registry of Charities and Fundraisers

This panel will explore the California Department of Justice's (DOJ) progress toward modernizing the California's Registry of Charities and Fundraisers (Registry) and how updates are expected to improve nonprofit compliance, strengthen sector oversight, and streamline previously outdated processes. It will also cover the full rollout and implementation of their modernized system, which is expected to release in late Summer 2026.

Under current state law, all nonprofit charities must be in good standing with the Registry to operate or solicit for charitable purposes in California. A registrant that is delinquent, suspended or revoked loses "good standing" status and may not engage in activities requiring registration, including charitable solicitation (e.g., fundraising). The Registry's outdated system often makes it difficult for nonprofits to comply and maintain good standing. Nonprofits frequently do not receive notifications about delinquent statuses, and delinquencies can only be cured via snail mail, leading to long wait times of up to 90 days for the Registry to manually process, as the current system lacks automated features. Administrative backlogs and minor clerical errors force nonprofits to divert mission-critical resources toward resolving "good standing" issues. Online charitable fundraising platforms and state/local agencies are routinely caught in the middle of these regulatory inefficiencies.

California has lagged behind national best practices in registry modernization, so the DOJ's efforts to upgrade its systems will eliminate some manual, paper-heavy document-management tasks as a step toward a more efficient regulatory environment. This better supports nonprofit compliance and will confer benefits on nonprofit registrants without additional cost or burden. When operational, the new Registry will catch clerical errors at the point of submission, and include capabilities for electronic payments and mechanisms to address filing deficiencies electronically. These improvements represent meaningful progress toward optimization. The modernization project was supposed to roll out to users in summer 2025, but was available only to new registrants as of Spring 2026. The Registry expects to complete the full project by late Summer 2026.

Modernizing the Registry operations is a top priority for California's nonprofit sector. To ensure a smooth transition and high compliance rates under the new system, it will be necessary for the DOJ to collaborate closely with sector leaders and proactively educate nonprofit registrants. Also, to successfully support compliance, technological upgrades must be paired with due-process protections and accessible administrative remedies. Modernization should leverage technology to help nonprofits resolve minor clerical errors cooperatively, emphasizing correction over punishment to prevent disproportionate administrative penalties. The DOJ's efforts to modernize the Registry illustrate how state-nonprofit collaboration is needed to match the needs of the state and comprehensively address nonprofit barriers.

Partnership in Practice: Lessons from OCPSC and MONS for Future Institutional Support of Nonprofits

California agencies and departments rely on nonprofit partners to deliver essential public services, yet these organizations must navigate highly fragmented and inconsistent state procurement and grantmaking processes. Currently, California lacks a centralized entity to coordinate across its 236 agencies and offices, forcing individual departments to independently manage nonprofit engagement. This decentralized approach leads to redundant administrative efforts, inconsistent contracting/grantmaking standards, and inefficient use of state resources. The Little Hoover Commission recommends establishing a centralized state office dedicated to nonprofits. By operationalizing commission-recommended reforms and coordinating across agencies, a centralized hub would reduce the administrative burden on state staff, eliminate redundant agency operations, and elevate nonprofit partnerships.

Recognizing the importance of coordinated, institutional support, this panel will examine proven models like California's Office of Community Partnerships and Strategic Communications (OCPSC) and New York City's Mayor's Office of Nonprofit Services (MONS), as both agencies demonstrate practices that breed innovation, streamline coordination, and strengthen alignment with nonprofits.

In California, there currently is no institutional support within state government to help nonprofits navigate systems they rely on to carry out their work. In stark comparison, the private business sector receives robust support through the Governor's Office of Business and Economic Development (GO-Biz). The agency manages a $572.5 million budget and 194.3 positions when including all its programs, such as the Small Business Advocate and Infrastructure Finance, and nearly 60 positions are dedicated to investing in the success of businesses. Nonprofits do not have a consistent place for guidance, policy coordination, or timely information on funding, requirements, or payments. There is currently pending legislation to address this structural gap, with the goal of institutionalizing nonprofit partnership within state government, becoming the first state in the nation to formalize a bridge between government and the sector.

- **Office of Community Partnerships and Strategic Communications (OCPSC)**

The Governor's Office of Community Partnerships and Strategic Communications (OCPSC) was created to bridge state government and community based-organizations (CBOs), ensuring vital state information, programs, and resources reach all Californians. The OCPSC operationalized the investment and infrastructure of the California Census 2020 and Vaccinate ALL 58 campaigns to reach communities facing the greatest social and health inequities. Through established coordination between CBOs, constituents, funders, and state agencies, the office developed a statewide engagement apparatus grounded in CBOs as trusted messengers, ethnic media partnerships, community consolidation, and data-informed decision-making. Over three years, OCPSC invested more than $107 million in CBOs, partnered with 371 nonprofits, hosted regional convenings, and reached 28 million Californians.

OCPSC's impact demonstrates how coordinated alignment between the state agencies and organizations with deep community relationships can reduce disparities and reach populations with the greatest needs. Its model shows how government and CBOs can work transparently and cohesively when anchoring the organizations and their constituents at the center of planning and decision making. State agencies contributed data, resources, and policymaking authority, while nonprofits provided the cultural competency, grassroots knowledge, and trusted relationships. Although OCPSC concluded operations in July 2026, its infrastructure and impact remain a valuable example of how California can support the sector.

- **New York City's Mayor's Office of Nonprofit Services (MONS)**

New York City, home to more than 58,000 registered nonprofits and nearly half of all nonprofit jobs in their state, established the Mayor's Office of Nonprofit Services (MONS) in 2021. MONS was created to strengthen the city's nonprofit sector by coordinating city systems, improving state accountability, and ensuring nonprofits can deliver essential services without administrative barriers. As a centralized office, MONS has significantly streamlined contracting, accelerated payments, and delivered coordinated support for nonprofits. Their efforts reshaped the nonprofit experience when engaging with government systems and agencies.

Just as California's Little Hoover Commission provided a 12-point recommendation blueprint for reform, New York City convened a joint task force that produced 19 recommendations for better contracting in the city. MONS plays a central role in operationalizing these recommendations across government. Major milestones include reducing the city's contract backlog from $11 billion to under $3 billion, registering 88 percent of service contracts on time, doubling advance payment standards from 25 percent to 50 percent (totaling to $5 billion in FY26), and cutting discretionary processing time by 90%, eliminating months of delay. MONS also hosts training for nonprofits and agency staff on contracting with the city, offers technical assistance and responds to hundreds of inquiries a year on topics like payment and procurement. As the liaison for nonprofit services, MONS has a proactive role in facilitating communication between agency staff and providers; in their most recent Provider Sentiment Survey, staff at agencies registered a strong improvement in empathy for nonprofit providers, growing from 40% to 69%, which supports customer service delivery.

While California has nearly double the nonprofits at about 110,000, MONS shows that a small, dedicated team can drive large-scale operational reform and advance innovative best practices across government.

CONCLUSION

Strong state-nonprofit partnership expands access to quality services and programs, improving outcomes for Californians, especially vulnerable populations. Effective and efficient collaboration with the state transforms nonprofit purpose into statewide power. These partnerships also sustain nonprofits as major employers and contributors to economic recovery in historically underserved communities, areas with high concentrations of poverty, communities of color, and rural regions. Across human services, education, environmental work, and more, nonprofits are essential partners in delivering meaningful public impact.

For the state to uplift the sector's impact, partnering with nonprofits must function as a core governmental strategy rather than an ad hoc practice. A durable relationship requires modern systems that support nonprofits rather than constrain them, especially when already facing capacity pressures. Nonprofits are powerful drivers of equity; updating the state infrastructure they rely on is a matter of fairness for both vulnerable communities and the organizations that serve them. Ultimately, modernizing state-nonprofit partnership is not just an operational necessity but how California ensures its systems match the scale, purpose, and impact of the nonprofits serving its communities.