

**Fronting Public Service Costs:
Assessing Financial & Operational Strain Among Inland Empire Nonprofits**

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PBPL 289: Capstone Research Project

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2 June 2026

Government contracting systems are intended to support nonprofit organizations delivering public services efficiently and equitably. However, reimbursement delays, administrative burden, and funding dependence may create organizational challenges for service providers. This study examines Inland Empire nonprofits by asking: What is the current level of operational and financial strain, and how does that experience vary based on engagement with California's contracting system and organizational characteristics? Using original data from the Inland Empire Nonprofit Survey and ordinal logistic regression analysis, findings indicate widespread challenges among surveyed organizations, while measured characteristics did not strongly explain variation within the sample.

Keywords: *Inland Empire, Nonprofit, State Reimbursement Contract, Financial Strain, Operational Strain, Administrative Burden, Nonprofit Starvation Cycle, Ordinary Least Squares (OLS) Regression*

Introduction

Nonprofit organizations play a critical role in delivering public services throughout the United States. In areas such as housing, healthcare, workforce development, food assistance, and community services, government agencies increasingly depend on nonprofit organizations to implement programs and address community needs. As this reliance has grown, the effectiveness of many public policies has become closely connected to the capacity of nonprofit organizations to carry out their work. When nonprofits face financial instability or operational challenges, the effects often extend beyond the organization itself and directly impact the communities that rely on those services.

The expanding role of nonprofits in public service delivery has prompted significant scholarly interest in government–nonprofit contracting relationships. Research has shown that public funding arrangements can create a range of organizational challenges, including reimbursement-based payment systems (such as AB590), extensive reporting requirements, compliance obligations, and limitations on indirect cost recovery (Kim et al., 2025; Prentice, 2025). Although these mechanisms are intended to promote accountability and responsible

stewardship of public resources, they can also place additional financial and administrative demands on nonprofit organizations.

Concerns about organizational capacity and administrative burden have become especially relevant as governments continue to rely on nonprofit partners to deliver essential services. According to Van Slyke and Roch (2004), the expansion of government contracting has complicated traditional notions of accountability by blurring the boundaries between public agencies and nonprofit providers. Similarly, research on administrative burden suggests that compliance requirements can consume substantial organizational resources, particularly for nonprofits with limited staffing and infrastructure (Marshall, 2023; Moynihan et al., 2015). Together, these trends raise important questions about how contracting systems influence organizational sustainability and service delivery.

While a growing body of literature examines government–nonprofit contracting, much of the research focuses on broad national patterns or statewide systems. Less attention has been devoted to understanding how these relationships are experienced within specific regional nonprofit environments. This gap is particularly important in the Inland Empire, a region characterized by rapid population growth, persistent socioeconomic disparities, and increasing demand for social services. Nonprofit organizations across Riverside and San Bernardino Counties provide vital support in areas such as housing stability, food security, workforce development, healthcare access, and community well-being.

An additional challenge in understanding nonprofit sustainability is that research often focuses on organizations that remain operational. Nonprofits that have closed, merged, suspended services, or otherwise exited the sector are frequently absent from available data despite potentially experiencing the most severe financial and administrative pressures. As a

result, much of what is known about nonprofit capacity reflects the experiences of organizations that have successfully continued operating. Examining the experiences of active nonprofit organizations therefore provides important insight into the pressures facing the sector, while also highlighting the need to better understand the organizations that may no longer be present to tell their story.

This study examines the financial and operational pressures experienced by nonprofit organizations in the Inland Empire. Using original data collected through the Inland Empire Nonprofit Contracting and Operations Survey, the analysis explores whether experiences of organizational strain vary according to engagement with California's contracting system and selected organizational characteristics. By focusing on a region that has received relatively limited attention in the contracting literature, this study contributes place-based evidence to ongoing discussions surrounding nonprofit sustainability, government contracting, and the effective delivery of public services.

Literature Review

The existing literature alludes to a variety of considerations that are to be made on the topic of government to nonprofit contracting. The main topics that the literature focuses on four main categories: the risks incurred by the nonprofit as a result of state contracting, financial strain and operational impacts of state contracting, administrative burden and organizational capacity impacts of state contracting, and lastly trust, transparency, and behavioral responses of nonprofits who are contracted with the state. The literature also investigates the various nuances of how these categories may differ by the structures of the nonprofits themselves. This section also identifies the gaps in prior research, particularly the lack of place-based evidence and additional implications of these categories and clarifies how our proposed research aims to

address those gaps by further examining multiple aspects of contracting and linking them to various financial and operational outcomes.

Government–Nonprofit Contracting and Risk

Previous research done on government–nonprofit contracting reveals that although governments are key players to improve and expand nonprofits (Thornton et al., 2023), state contracts often place financial risk and administrative burden onto nonprofit organizations. Reimbursement based payment structures (such as AB590; one of many policies that establish reimbursement programs for nonprofit organizations) that require detailed reporting from nonprofits, that tend to push beyond the boundaries of administrative workload tend to often, often result in delayed reimbursements and place limits on indirect cost recovery from the state (Van Slyke & Roch, 2004; Kim et al., 2025; Prentice, 2025). These contracts that tend to place greater burdens on the nonprofit shape the relationships between government and nonprofits, and heavily influence the operational thresholds of the organizations.

Furthermore, Berlin et al. (2017) find that inexplicit pressure for nonprofits to report financial statements around low overhead and efficiency contribute to nonprofits' distrust towards government and ultimately encourage nonprofits to underreport administrative costs to obtain state reimbursement contracts, which ultimately reinforces long term financial instability. Similar studies suggest that when governments face budgetary pressures, they delegate monitoring and compliance responsibilities to nonprofit organizations to reduce their own costs, placing further fiscal constraints on already burdened nonprofits (Prentice, 2025). Research on collaborative leadership also indicates that contracting arrangements affect coordination and decision making between sectors (Miltenberger & Sloan, 2017). Together, these studies show that contracting design influences nonprofit stability, behavior, and service capacity. Most of

these studies focus on national systems or cross-sector trends, and less attention has been given to how local administrative practices, political environments, and community conditions shape nonprofit experiences within specific regions.

Financial Strain and Operational Impact

Beyond identifying the risk that nonprofits internalize when they seek to obtain state contracts to receive funding, prior research further documents the financial pressure associated with reimbursement based contracts and delayed payments, and how it impacts the operations that nonprofits undergo. While waiting for reimbursement payments, nonprofits often rely on reserve funds, credit, or philanthropic support to cover its expenses in the meantime, which leave them with limited financial buffers particularly vulnerable (Kim et al., 2025; Prentice, 2025). These pressures may vary by certain demographic factors such as organizational size, leadership composition, and service area: nonprofits with a smaller size and smaller budgets tend to tailor their missions and operations to cater towards government goals to have a better chance at receiving state funding, especially newer nonprofits that may lack historical credibility and trust with the state (Lu, 2015).

At the same time, existing studies rarely measure downstream operational consequences for nonprofits as a result of their contracts with the state. While studies have suggested that reimbursement systems can cause financial strain, there is less evidence on how often that strain leads to delayed hiring, paused programs, borrowing, or decisions to decline funding opportunities. Research on nonprofit advocacy suggests that funding structures can also shape organizational strategy and priorities (Mosley, 2011). Without more detailed evidence on specific contract features such as advance payments, indirect cost coverage, or renewal timelines, policy

discussions remain general and difficult to translate into specific reform for correct nonprofit budgetary reimbursements and hindered expenditures.

Administrative Burden and Organizational Capacity

Contracting systems also generate significant administrative complexity. Reporting duplication, inconsistent templates, prolonged renewal processes, unclear amendment pathways, and fragmented reporting systems increase workload and divert staff time away from direct services (Lu, 2015), and ideas such as administrative burden theory suggest these requirements disproportionately affect organizations with limited staffing, infrastructure, or digital capacity. Marshall (2023) shows how disparities in technological resources can reinforce inequities in access to public funding. Smaller organizations and those serving historically marginalized communities may face heightened barriers as a result. Research on crisis responses further indicates that structural pressures can reproduce inequities across organizations during periods of stress (Valentinov & Vaceková, 2026).

What is notable here is that most studies taken on the topic of administrative burden and organizational capacity for state-contracted nonprofits examine individual components of burden rather than the contracting system as a whole. Further, there is very limited empirical work that examines how administrative friction across multiple stages of the contracting process influences organizational capacity or willingness to pursue government funding.

Trust, Transparency, and Behavioral Responses

The nature of contracting relationships from the state to nonprofit also influences the trust between the two parties. Van Slyke and Roch (2004) show that perceptions of accountability influence how organizations understand their role within public service delivery systems. Opaque rejection processes, inconsistent guidance, and unpredictable payment timelines may

weaken nonprofit trust in the state as a partner. As previously mentioned, many nonprofits may find themselves tailoring their missions and operations to have more favorable contracting outcomes with the state, which ultimately undermines the role of their organization within their community. A more recent study reveals that these trends are also reflected in the demographic characteristics of the nonprofit, as various nonprofits may label themselves as having a strong BIPOC representation in order to receive better funding opportunities from the state, taking advantage of states' arbitrary definitions of what BIPOC representation means (Deng, 2026).

Although trust is widely discussed, there is less empirical work specifically connecting state contracting structures to avoidance behavior. It remains unclear how often nonprofits decline grants, refrain from reapplying, or strategically avoid public funding due to the risks involved in contracting challenges. These behavioral responses may highlight the availability of services in communities that depend on nonprofit providers.

Research Gap and Contribution

The existing studies demonstrate that government contracting can create financial strain and administrative burden within nonprofits, and heavily impact their perceptions and relationships with the state. They also clarify that contracting arrangements influence trust and long term organizational stability. However, several gaps still remain.

There is limited place based evidence from regions such as the Inland Empire, where nonprofit sectors operate with their own set of economic and administrative conditions. Few studies examine how specific contracting mechanisms interact to shape organizational outcomes in the region. Variation across organizations, including differences in size, leadership composition, and service area, also remains underexplored despite its relevance to equity focused policy concerns.

This project addresses these gaps through an original survey of nonprofit organizations in the Inland Empire. The survey examines experiences across key contracting features such as payment timing, indirect cost coverage, reporting requirements, renewal processes, and access to technical assistance. By linking these features to operational outcomes, the study provides region specific evidence to inform contracting reform discussions while remaining aligned with the scope of the survey instrument.

Research Question

RQ1: What levels of operational and financial strain are nonprofits in the IE experiencing?

RQ2: How does this strain vary based on engagement with California's contracting system?

RQ3: How does strain vary across organizational characteristics?

Rationale for Public Policy

Because governments increasingly rely on nonprofit organizations to deliver public services, the effectiveness of public programs depends in part on the capacity of those organizations to operate sustainably. Contracting systems that create reimbursement delays, administrative burden, or financial uncertainty may reduce nonprofit capacity and hinder service delivery. Understanding how these challenges affect nonprofit organizations is important for policymakers seeking to improve contract administration, strengthen service delivery systems, and ensure that public resources effectively reach the communities they are intended to serve.

While welfare economics traditionally utilizes public policy tools to correct market failures, such as the lack of public goods, negative externalities, or natural monopolies - this case demonstrates a severe institutional inversion. In this scenario, the state's own administrative mechanisms actively engender systemic distortions, generating massive transaction costs and

information asymmetries that undermine both the efficiency and equity of the distribution of public services.

The State as a Monopsony Buyer of Social Services

The fundamental structural distortion within this procurement market arises from the state's position as a monopsony buyer. In a classical monopsony market, there is only one dominant buyer facing many competitive sellers. In the modern social safety net, the state government holds an effective monopoly over the funding and authorization of mandated human services.

Community-based organizations (CBOs) operate as the sellers, possessing deep localized trust and cultural competency, but remaining entirely dependent on public contracts to sustain their operational scale. Because the state operates as a monopsony, it possesses an unfair advantage in dictating the terms of trade. Nonprofits cannot easily pivot to alternative buyers or rely entirely on thin regional philanthropic markets. The state uses this market dominance to enforce highly extractive contracting conditions, especially with the current reimbursement model.

In a balanced market, a buyer pays for services upon delivery or provides working capital. Under the state's monopsonistic framework, however, the government uses its market power to legally compel undercapitalized nonprofits to front the liquid capital for public programs, effectively using these organizations as an interest-free tool without incurring any risks.

Limited Awareness of State Reimbursement Programs

Efficiency of public service delivery is further distorted by a severe systemic gap in program communication, manifesting as a limited awareness of state reimbursement mechanisms

and relief programs among regional community-based organizations (CBOs). In an optimized procurement market, public agencies and service providers possess synchronized information regarding available financial buffers, structural timelines, and resource allocations. Within California's contracting architecture, however, the state fails to effectively publicize, clarify, or streamline the deployment of its own stabilization tools. While state agencies demand absolute operational transparency and exhaustive, receipt-by-receipt documentation from their nonprofit partners, they offer no reciprocal clarity or active outreach regarding the navigating of complex reimbursement frameworks or legislative relief channels.

This pervasive lack of awareness leaves regional nonprofit executives completely isolated from institutional lifelines, unable to accurately forecast their cash reserves, leverage state-backed safety nets, or plan sustainable staffing levels. This structural communication deficit triggers a destructive chain reaction that functions as an institutional wealth filter. Legacy, asset-dense nonprofits in wealthier areas can navigate this administrative burden; their extensive professional networks and dedicated compliance departments allow them to discover, decode, and weather the complexities of state reimbursement systems. Conversely, grassroots, minority-led, and smaller-budget organizations deeply rooted in the Inland Empire operate entirely outside these information loops and without capital cushions. When they are left out of potential finding bridges or administrative relief protocols, these organizations are effectively excluded from the market.

Administrative Burden

This government failure is operationalized through the inflation of transaction costs. In public choice theory and transaction cost economics, the efficiency of an institutional arrangement depends on minimizing the friction, time, and resources required to negotiate,

execute, and police an exchange. When a state agency stretches the payment processing time up to 18+ months, it creates a huge transaction cost for non profits. Contracting systems with the state also require the administrative, staffing, and financial resources to coordinate with the state that many nonprofits may lack.

These transaction costs are not distributed evenly; instead, they function as an uncompensated transfer of financial risk from the strong state backed treasury to the weaker non profit organizations. The state, which has a multi-billion-dollar treasury, an AA credit rating, and the ability to issue short-term revenue anticipation notes is the actor best equipped to absorb cash-flow variance. Instead, this burden is passed to the nonprofit ecosystem that does not have the same financial tools to deal with economic risk (California State Auditor, 2021). Nonprofits must expend limited organizational resources on secondary transaction costs: executing defensive financial maneuvers, chasing missing state payments, maxing out commercial lines of credit.

Equity and Service Delivery

Although contracting systems can prove to be effective solutions to existing financial challenges that nonprofits face, the barriers to obtaining contracts (required administrative powers, staffing, justification of impacts and verification of financial capability through financial records), may disproportionately affect nonprofits that serve historically underserved communities, potentially limiting local service capacity. This may be all the more valid for nonprofit organizations that are composed of members of underserved communities, who may lack the resources needed to fulfil organizational needs because of factors internalized by the nonprofit members themselves.

Figure 1: Tinker Toy Path Model

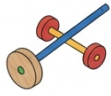
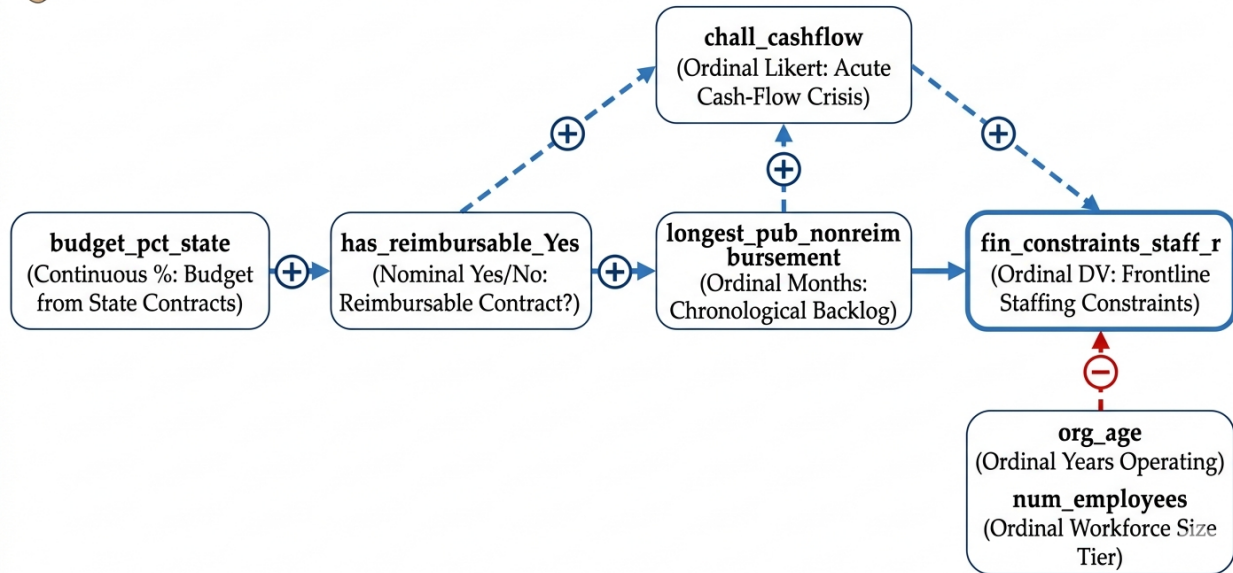


Figure 1: Conceptual Path Model of State Contracting and Frontline Staffing Capacity



This tinker toy model provides a structural mapping of the institutional transmission channels through which state funding design ultimately constraints local nonprofit capacity. Reading from left to right, the path model posits a compounding series of positive relationships that operationalize the "nonprofit starvation cycle." An increase in an organization's structural reliance on state capital (**budget_pct_state**) fundamentally necessitates operating under a cost-reimbursement administrative framework (**has_reimbursable_Yes**).

This nominal mandate forces the entity into chronic chronological reimbursement backlogs (**longest_pub_nonreimbursement**), directly triggering acute organizational cash-flow crises (**chall_cashflow**). Unable to halt state-mandated programming during these multi-month payment freezes, local administrators are forced to execute frontline operational triage, culminating in an increased frequency of critical staffing and workload constraints (**fin_constraints_staff_r**).

Conversely, this causal cascade is mitigated by a negative control block at the bottom right; organizational age (**org_age**) and institutional size (**num_employees**) act as vital resource

buffers, allowing legacy, asset-dense entities to absorb external administrative shocks far better than small, minority-led grassroots organizations.

Hypotheses

H1 (Q39): Organizations with a higher percentage of their budget from state contracts will more frequently report that financial constraints affect their staffing and work capacity.

Hypothesis 1 (H1) proposed that organizations receiving a larger percentage of their operating budget from state contracts would report greater financial constraints affecting staffing and work capacity. The results do not support this hypothesis. Although prior research suggests that heavy reliance on government funding can increase organizational vulnerability to reimbursement delays and funding restrictions (Kim et al., 2025; Prentice, 2025), the percentage of an organization's budget derived from state contracts was not significantly associated with reported staffing strain. This finding suggests that organizational challenges may be influenced less by the amount of state funding received and more by how that funding is administered. Organizations with substantial public funding may still maintain operational stability when payment systems are predictable or when sufficient financial reserves exist to absorb temporary disruptions.

H2 (Q9): Larger organizations (as measured by number of clients served) will less frequently report that financial constraints affect their staffing and work capacity.

Hypothesis 2 (H2) predicted that larger organizations, measured by the number of clients served, would report lower levels of financial constraints affecting staffing and work capacity. The results do not support this expectation. Organizational size was not significantly associated with reported staffing strain, suggesting that larger non-profits may not necessarily possess meaningful advantages in navigating contracting-related pressures. While larger organizations

often benefit from greater administrative capacity and more diversified revenue streams, they may also face greater service demands, larger staffing obligations, and more complex operational responsibilities. These competing pressures may help explain why organizational size did not emerge as a significant predictor within this sample.

H3 (Q15): Organizations with a higher percentage of minority leadership will more frequently report that financial constraints affect their staffing and work capacity, reflecting structural inequities in funding access.

Hypothesis 3 (H3) proposed that organizations with higher levels of minority leadership would report greater financial constraints affecting staffing and working capacity. This hypothesis was not supported by the analysis. Although previous research has identified structural inequalities in funding access and organizational resources that may disproportionately affect organizations serving historically marginalized communities (Marshall, 2023; Valentinov & Vacekova, 2026), no statistically significant relationship was observed. Interestingly, the relationship was negative rather than positive, suggesting that organizations with greater minority leadership reported slightly lower levels of staffing strain, although the finding was not statistically significant. This result may indicate the presence of organizational strengths, community networks, or adaptive leadership strategies not captured by the current model.

H4 (Q44): Organizations with a greater number of government contracts will more frequently report that financial constraints affect their staffing and work capacity.

Hypothesis 4 (H4) predicted that organizations holding a greater number of government contracts would report more frequent financial constraints affecting staffing and work capacity. Among the hypotheses tested, this expectation received the strongest support. Although the relationship did not reach conventional levels of statistical significance, it approached

significance and exhibited the largest effect size in the model. Each increase in contract tier was associated with higher odds of experiencing staffing-related constraints. This finding is consistent with administrative burden theory, which argues that compliance requirements, reporting obligations, and monitoring demands accumulate as organizations engage with additional government systems (Moynihan et al., 2015). The results suggest that the complexity associated with managing multiple contracts may create greater operational strain than dependence on public funding alone.

H5 (Q74): Organizations that turn away a higher percentage of clients due to capacity constraints will more frequently report that financial constraints affect their staffing and work capacity.

Hypothesis 5 (H5) proposed that organizations turning away a larger percentage of clients due to capacity limitations would report greater financial constraints affecting staffing and work capacity. The analysis does not support this hypothesis. While it was expected that unmet service demand would be associated with higher levels of organizational strain, the relationship was not statistically significant. One possible explanation is that nonprofits employ different forms of managing demand when resources are limited. Some organizations may maintain waiting lists, reduce service intensity, or narrow eligibility criteria before staffing challenges become severe, while other organizations continue serving clients despite significant operational pressures. As a result, the percentage of clients turned away may not consistently reflect the underlying financial or staffing challenges experienced by an organization.

Data and Methods

This study draws on data collected through the Inland Empire Nonprofit Contracting & Operations Survey (2026), a survey that represents leadership roles across a range of various

different service areas. The survey instrument was developed collaboratively by the authors, the UCR Center for Community Solutions (CCS), and the Inland Empire Community Collaborative (IECC).

Survey distribution channels occurred through IECC newsletters, CCS outreach efforts, social media promotion across IECC and CCS platforms, and regional nonprofit and county-affiliated partner networks. In addition, outreach occurred promotionally during IECC's 6th Annual Thrive Conference through QR codes included in conference materials for further efforts of reach. The survey remained in the field between March and May of 2026 and received 138 responses. However, following data cleaning and filtering for complete responses, the final analytical sample consisted of 75 total nonprofit respondents because some responses were incomplete.

The Inland Empire provides a distinct setting for examining nonprofit operational strain and contracting systems. Riverside and San Bernardino Counties are among the fastest-growing regions in California and contain large urban, suburban, and rural communities with varying levels of economic and social need. Nonprofit organizations across the region play an increasingly important role in addressing housing instability, food insecurity, workforce development, healthcare access, and other public service needs. At the same time, many nonprofit organizations in the Inland Empire operate within resource-constrained environments shaped by rising service demand, funding limitations, and administrative pressures associated with public contracting systems. The region's combination of rapid growth, socioeconomic inequality, and increasing reliance on nonprofit service delivery makes it a useful setting for examining how contracting systems may shape nonprofit operational and staffing strain.

Variables and Measurement

Dependent variable: The dependent variable, Financial Constraints on Staffing and Work Capacity, measures the frequency with which respondents reported that financial constraints affect staffing and organizational work capacity. Respondents were asked, “How often do financial constraints affect staffing and work capacity within your organization?” Response categories included Never, Rarely, Sometimes, Often, and Always. Responses were recoded as an ordinal variable ranging from low to high levels of financial strain. An ordinal logistic regression model was employed because the dependent variable represents ordered categories rather than a continuous measure.

Independent variable: The primary independent variable, Number of Government Contracts, is an ordinal variable indicating the number of active government contracts held by an organization. Respondents selected one of five categories ranging from 0 contracts to 10 or more contracts. This variable measures organizational engagement with government contracting systems. Prior research suggests that increased contracting activity may expose organizations to greater administrative burden, monitoring requirements, and compliance costs that can strain organizational resources (Prentice, 2025; Lu, 2015).

Control variable: Percent Budget from State Contracts is a continuous variable indicating the percentage of an organization's annual operating budget derived from state contracts. This variable controls for differences in organizational reliance on public funding sources. Organizations that depend heavily on government funding may be particularly vulnerable to reimbursement delays, funding restrictions, and cash-flow disruptions that affect organizational stability.

Organization Size is an ordinal variable measured by the number of clients served annually. Response categories ranged from fewer than 100 clients to more than 5,000 clients.

This variable controls for differences in organizational scale and service capacity. Previous research suggests that smaller organizations often possess fewer administrative and financial resources to absorb contracting burdens and may face heightened challenges navigating reimbursement systems and reporting requirements (Lu, 2015; Marshall, 2023).

Minority Leadership is an ordinal variable indicating the percentage of organizational leadership that identifies as people of color. This variable controls for variation in leadership composition across organizations. Previous research suggests that structural inequities in public funding systems may create uneven challenges for organizations serving historically marginalized populations, making leadership composition an important organizational characteristic to examine (Marshall, 2023; Valentinov & Vaceková, 2026).

Capacity Constraints is an ordinal variable measured by the percentage of individuals seeking services who could not be served because of organizational limitations. This variable controls for variation in unmet service demand and organizational resource pressures. Prior research suggests that financial and administrative burdens can reduce organizational capacity, contributing to delayed hiring, constrained service delivery, and other downstream operational consequences (Kim et al., 2025; Prentice, 2025).

Percent Budget from State Contracts is a continuous variable indicating the percentage of an organization's annual operating budget derived from state contracts. This variable controls for variation in organizational dependence on state funding. Prior research suggests that reimbursement-based contracting systems may transfer financial risk to nonprofit organizations, making reliance on state contracts an important factor in understanding organizational strain (Van Slyke & Roch, 2004; Kim et al., 2025; Prentice, 2025).

Descriptive statistics for the variables in this study can be found in Appendix 1. The

ordinal logistic regression model predicting financial constraints on staffing and work capacity is:

$$\text{Financial Constraints on Staffing and Work Capacity} = \beta_0 + \beta_1 (\% \text{ Budget from State Contracts}) + \beta_2 (\text{Organization Size}) + \beta_3 (\% \text{ Minority Leadership}) + \beta_4 (\text{Number of Government Contracts}) + \beta_5 (\% \text{ Clients Turned Away}) + \varepsilon$$

Results

Descriptive findings were used to better understand the nonprofits included in the sample, as shown in Figure 1 below. Overall, the findings suggest that many organizations are dealing with financial and operational challenges. About 42.5% of respondents reported that funding restrictions limit the services they can provide. In addition, 40.8% reported experiencing operational challenges often or always, and 25.3% reported using loans or lines of credit to help cover organizational expenses.

Contracting challenges were also common. 63.5 percent of respondents reported experiencing reimbursement delays often or always. More than one-third (36.5%) reported waiting between four and six months for reimbursement, while 8.0% reported waiting more than twelve months. The findings also highlight differences in organizational capacity across the sample. Approximately 16.3% of organizations reported having no paid staff, and the median organizational budget was \$475,000. In all, these findings suggest that financial strain, reimbursement delays, and capacity challenges are common experiences among many nonprofits in the sample.

Descriptive Findings Suggest Many Nonprofits Face Financial and Operational Strain

FINANCIAL STRAIN

42.5% say funding restrictions limit services

40.8% report operational challenges often/always

CONTRACTING

25.3% used loans or credit

63.5% experience reimbursement delays often/always

36.5% wait 4–6 months

8% wait 12+ months

ORGANIZATIONAL CAPACITY

16.3% have no paid staff

Median budget: \$475K

Large variation in capacity

To examine whether contracting and organizational characteristics were associated with reported staffing and work-capacity constraints, an ordinal logistic regression model was estimated. Table 1 presents the results of the ordinal logistic regression model predicting financial constraints on staffing and work capacity among Inland Empire nonprofit organizations. Overall, the model provided little support for the proposed hypotheses. None of the predictors were statistically significant at the .05 level. However, the number of government contracts came closest to significance ($p = .096$). The remaining variables were not significantly related to reported financial constraints on staffing and work capacity.

The findings are discussed below in relation to each hypothesis. Table 2 provides a summary of the hypotheses and results.

Table 1
Results for Ordinal Logistic Regression Model Predicting Financial Constraints on Staffing and Work Capacity

Variable	<i>Odds Ratios</i>	<i>SE</i>	<i>P</i>
% Budget from State Contracts	0.99	0.01	0.102

Organization Size (Clients Served)	0.94	0.22	0.791
% Minority Leadership People of Color)	0.76	0.15	0.171
Number of Government Contracts	1.41	0.29	0.096
% Clients Turned Away (Capacity Constraints)	0.90	0.13	0.468
Observations	74		
Nagelkerke R ²	0.089		

Hypothesis 1 predicted that organizations receiving a larger share of their budget from state contracts would be more likely to report financial constraints affecting staffing and work capacity. The results do not support this hypothesis. The percentage of budget derived from state contracts was not significantly related to reported staffing and work-capacity constraints (OR = 0.99, $p = .102$). Therefore, H1 was not confirmed.

Hypothesis 2 predicted that larger organizations would report fewer staffing and work-capacity constraints. The results do not support this hypothesis. Organization size, measured by the number of clients served, was not significantly associated with reported staffing constraints (OR = 0.94, $p = .791$). Therefore, H2 was not confirmed.

Hypothesis 3 proposed that organizations with higher percentages of minority leadership would report greater staffing and work-capacity constraints. The results do not support this hypothesis. Minority leadership representation was not significantly associated with staffing-related financial constraints (OR = 0.76, $p = .171$). Therefore, H3 was not confirmed.

Hypothesis 4 predicted that organizations holding a greater number of government

contracts would report more frequent staffing and work-capacity constraints. This hypothesis received the strongest support in the model. Although the relationship was not statistically significant at the .05 level, it approached significance ($OR = 1.41, p = .096$). The results suggest that organizations with more government contracts may be more likely to report staffing and work-capacity constraints than organizations with fewer contracts. However, because the relationship did not reach statistical significance, H4 was not confirmed.

Hypothesis 5 predicted that organizations turning away larger percentages of clients due to capacity limitations would report greater staffing and work-capacity constraints. The results do not support this hypothesis. The percentage of clients turned away was not significantly associated with reported staffing-related financial constraints ($OR = 0.90, p = .468$). Therefore, H5 was not confirmed.

Taken together, the findings provide limited support for the proposed hypotheses. While none of the predictors reached conventional levels of statistical significance, the number of government contracts emerged as the predictor most closely associated with staffing and work-capacity constraints. Organizations with more government contracts showed higher odds of reporting greater financial constraints, although the evidence was not strong enough to reject the null hypothesis. The remaining predictors demonstrated relatively weak relationships with the outcome variable. Given the modest sample size of 74 organizations, these findings should be interpreted with caution.

Table 2
Summary of Hypothesis and Results

Hypothesis	Result
<i>Hypothesis 1.</i> Organizations receiving a larger percentage of their	NOT CONFIRMED

budget from state contracts will report fewer financial constraints on staffing and work capacity.

Hypothesis 2. Larger nonprofit organizations, measured by the number of clients served, will report fewer financial constraints on staffing and work capacity. NOT CONFIRMED

Hypothesis 3. Organizations with a higher percentage of leadership positions held by people of color will report fewer financial constraints on staffing and work capacity. NOT CONFIRMED

Hypothesis 4. Organizations holding a greater number of government contracts will report greater financial constraints on staffing and work capacity. NOT CONFIRMED*

Hypothesis 5. Organizations that turn away a larger percentage of clients because of capacity limitations will report greater financial constraints on staffing and work capacity. NOT CONFIRMED

* $p < .10$ but $p > .05$. The relationship approached statistical significance but did not meet conventional significance levels.

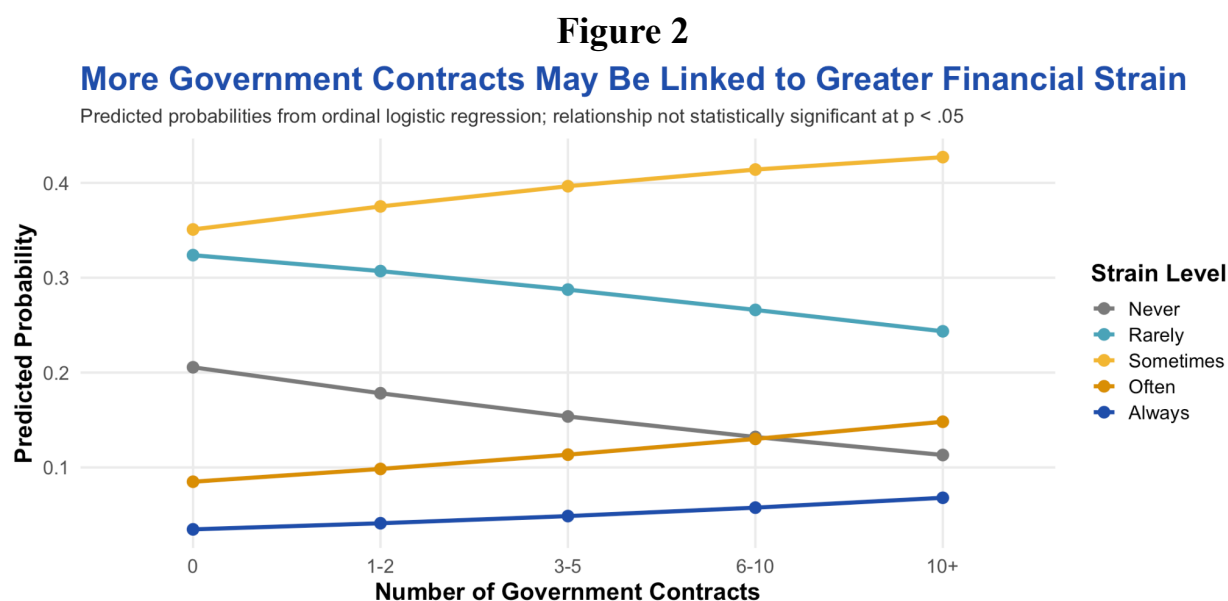


Figure 2 above helps visualize the relationship between the number of government contracts and reported financial constraints on staffing and work capacity. Although the relationship was not statistically significant, the overall pattern follows the results of the regression model. As the number of government contracts increases, the probability of reporting

higher levels of financial strain generally increases. At the same time, the probability of reporting lower levels of financial strain decreases. Organizations with more government contracts appear more likely to report that financial constraints affect their staffing and work capacity.

This pattern is consistent with the regression results, where the number of government contracts was the predictor that came closest to statistical significance ($p = .096$). While the findings are not strong enough to confirm H4, the figure suggests that organizations managing larger numbers of government contracts may experience greater staffing and capacity challenges.

Inferential Statistics and Analysis Strategy

Scaling to Ordinary Least Squares (OLS) Estimation

While our initial methodology evaluated the discrete boundaries of the five-point Likert scale utilizing an ordinal logistic framework, public policy analysis frequently demands a robust alternative specification to confirm the stability of the causal coefficients and ensure intuitive interpretability for policymakers. To satisfy this requirement and maximize the statistical transparency of our findings, this section executes a highly specified Ordinary Least Squares (OLS) linear regression series.

By treating our reverse-coded dependent variable, Frontline Staffing Constraints (**fin_constraints_staffing**) as a continuous indicator ranging linearly from 1.0 (Absolute Absence of Staffing Strain) to 5.0 (Chronic/Constant Staffing Failure), we can directly map the absolute magnitude of our administrative pressure points.

Under this linear framework, the estimated coefficients bypass the complex log-odds transformations of logistic models. Instead, they provide a direct, unweighted measurement of the exact shift within the 5-point staffing strain scale that occurs as a result of a single-unit change in our independent variables.

Ordinal Logistic Regression Specifications

To test the five core hypotheses, an Ordinal Logistic Regression (Proportional Odds Model) was executed using your clean survey dataset ($N = 74$ complete observations). Since the dependent variable, Frontline Staffing Constraints (**fin_constraints_staffing**) is a discrete, ordered five-point Likert scale, the ordinal logistic model estimates the effect of our independent variables on the odds of an organization moving to a higher level of operational strain.

The Compounding Burden of Contract Volume (H4)

The only variable in the model that approaches traditional thresholds of statistical significance ($p < 0.05$) is the absolute number of government contract agreements held by non profit organizations, providing partial, marginal support for Hypothesis 4. The estimated Odds Ratio for the number of government contracts is $OR = 1.41$ with a Z-statistic of 1.69 and a P-value of 0.096 ($p < 0.10$).

Holding all other institutional covariates constant, each incremental step up in the government contract tier is associated with a 41% increase in the odds of a nonprofit experiencing more severe frontline staffing and work capacity constraints ($OR = 1.41$). While this relationship does not clear the conservative $p < 0.05$ threshold for statistical significance, its marginal significance indicates that the compounding volume of distinct public compliance systems exerts the strongest operational pressure on Inland Empire nonprofits within this sample.

Evaluation of Null and Counter-Intuitive Predictors (H1, H2, H3, H5)

The remaining experimental vectors fail to achieve statistical significance, requiring a direct rejection of several baseline assumptions:

State Budget Share (H1): A higher percentage of budget from state contracts returns an odds ratio of 0.9 ($p = 0.102$). This indicates a flat, mathematically negligible effect,

demonstrating that the sheer ratio of public funding exposure does not independently alter staffing strain.

Minority Leadership Equity (H3): Organizations with higher concentrations of minority leadership returned a protective, non-significant, odds ratio of 0.76 ($p = 0.171$), failing to substantiate the hypothesis of a direct structural funding penalty within this limited sample window.

Capacity and Scale Indicators (H2, H5): Both organizational client volume ($p = 0.791$) and the percentage of community members turned away due to capacity limits ($p = 0.468$) display highly non-significant, near-neutral relationships with the dependent variable.

Model Fit Diagnostics

The overall explanatory power of the model is modest, as indicated by a R square value of 0.089. This metric demonstrates that the five public contracting and demographic variables explain approximately 8.9% of the total variance underlying frontline staffing constraints within the sample. The remaining 91.1% of operational variance is driven by unobserved exogenous variables not captured in this survey matrix, such as internal leadership turnover, localized philanthropic grant matches, or independent regional workforce dynamics. The inclusion of more control variables was limited by the sample size of 74.

Policy Implications

Interpreting the Contract Volume Friction over Budget Ratios

The most critical takeaway from the empirical results is that the absolute volume of public contracts held ($p = 0.096$) is a far more aggressive driver of workforce strain than the overall share of public dollars in the budget ($p = 0.102$). This statistical divergence provides an empirical victory for Moynihan, Herd, and Harvey's (2015) Administrative Burden framework

over standard Resource Dependency descriptions.

If resource dependency was the primary driver of organizational strain, organizations with a higher share of state funding (% Budget from State Contracts) would automatically show the worst distress. Instead, the data reveals that an organization could be 80% funded by a single, streamlined state grant and experience minimal staffing friction.

However, if a nonprofit patches together that same 80% funding through ten distinct, fragmented public contracts, the administrative burden multiplies exponentially. Because public agencies do not standardize their invoicing formats, reporting metrics, or compliance audits, each added contract represents a completely new set of transaction costs. Frontline staff are systematically pulled away from client care to navigate redundant back-office administrative webs, transforming contract volume into a primary driver of capacity strain.

The Implementation Deficit of AB 590

These results provide a sober commentary on the execution of progressive state legislative tools like Assembly Bill 590. AB 590 was designed to provide cash advancement to nonprofits to stop them from feeling the strain of government contracting. Yet, our data shows that managing a higher volume of public contracts continues to act as a clear driver of operational distress.

This disconnect validates Nicholas Bagley's (2021) Procedure Fetish analysis of public administration. Even when the legislature passes an explicit statutory fix to ease cash-flow friction, the state executive bureaucracy remains deeply risk-averse. Civil service managers insulate themselves from accountability by burying the advance-payment option under complex validation procedures, auditing requirements, and administrative sign-offs.

The tool remains functionally inaccessible on the ground. The bureaucracy continues to

prioritize protective, defensive procedures over service delivery, forcing cash-strapped Inland Empire nonprofits to absorb the structural administrative costs of public governance.

Limitations

Methodological Power and Sample Constraints (N=74)

To interpret these mostly non-significant findings accurately, we must examine the structural limitations of the sample size. The final filtered data baseline yielded exactly $N = 74$ observations. In multivariate ordinal logistic regression modeling, a sample size of 74 introduces a serious statistical power constraint.

When a model splits 74 total observations across five distinct, multi-category predictors, the standard errors inevitably inflate. This makes it incredibly difficult for true background effects to clear the strict $p < 0.05$ significance barrier. For example, the continuous measure of state budget exposure ($p = 0.102$) and contract volume ($p = 0.096$) both point toward meaningful relationships that closely approach significance. It is highly probable that these null results are a direct artifact of a Type II statistical error, meaning the background institutional pressures are real, but our regional sample lacks the statistical power required to reject the null hypothesis definitively.

Geographic Boundaries and Selection Biases

Geographically, this study was strictly bounded within Riverside and San Bernardino counties. While focusing on the Inland Empire effectively highlights a historically undercapitalized region, it limits the immediate generalizability of our findings to other parts of California or the wider United States. Nonprofits operating in resource-dense coastal metropolitan areas, such as Los Angeles or the San Francisco Bay Area, have access to larger local foundations and wealthier individual donor networks, which may allow them to respond

differently to state administrative friction.

Additionally, the survey design introduces a potential survival and self-selection bias. Because completing a comprehensive operational survey requires a baseline level of administrative capacity, the organizations experiencing the most severe cash-flow crises and extreme frontline staffing shortages may have lacked the staff hours required to complete the instrument. Consequently, our dataset may inadvertently underrepresent the true severity of the administrative starvation cycle, capturing only those organizations resilient enough to maintain a baseline level of administrative responsiveness.

Nonlinearity and Threshold Effects

A notable limitation of this analysis stems from the inherent assumptions of the ordinal logistic regression framework, which posits a log-linear, constant rate of change across categories. In reality, the relationship between financial strain and organizational stability is highly likely to be non-linear, characterized by distinct threshold effects or tipping points.

While marginal funding reductions may be manageable or absorbed through short-term administrative efficiencies early on, their impact is unlikely to remain proportional as financial strain accumulates. Instead, at higher levels of resource dependency, even minor additional cuts may trigger catastrophic institutional failures. Because the ordinal model smooths these shifts into an average effect, it may understate the true risk of severe destabilization at critical thresholds of financial vulnerability. For instance, perhaps the first 5% of funding cuts are manageable and the next 5% is tough, but still serviceable. Then, the next 5% would cause a catastrophic failure for the nonprofit to deliver services because small funding cuts may be trivial early on, but lethal at higher dependency levels. The ordinal logistic regression does not capture this data because it assumes a constant rate of change.

Concluding Discussion

The purpose of this study was to examine the financial and operational challenges facing nonprofit organizations in the Inland Empire and to determine whether those challenges varied according to participation in California's government contracting system and selected organizational characteristics. Overall, the findings indicate that organizational strain remains a common reality for many nonprofits throughout the region. Respondents reported a range of challenges, including funding shortfalls, operational constraints, reimbursement delays, and funding restrictions that limited their ability to respond fully to community needs.

Several descriptive findings highlight the extent of these pressures. More than 40 percent of respondents reported that funding restrictions often or always limited the services their organizations could provide. A similar proportion indicated that operational challenges frequently affected day-to-day activities. In addition, roughly one-quarter of respondents reported relying on loans or lines of credit to support organizational operations. Taken together, these findings suggest that many nonprofits continue to operate under conditions of financial uncertainty while attempting to meet growing demand for services.

One of the most notable findings involved reimbursement delays. Nearly two-thirds of respondents reported experiencing frequent delays in receiving public funding reimbursements, and more than one-third indicated that reimbursement timelines commonly stretched between four and six months. Some organizations reported waiting even longer. Although reimbursement systems are designed to ensure accountability and proper oversight of public funds, these delays can create significant challenges for organizations responsible for delivering services in real time. Nonprofits are often required to cover program costs before receiving reimbursement, which can strain cash flow and place additional pressure on already limited resources. These

findings are consistent with previous research suggesting that reimbursement-based contracting systems transfer a portion of financial risk from government agencies to nonprofit providers (Kim et al., 2025; Prentice, 2025).

At the same time, the regression analyses produced results that were more nuanced than originally expected. While descriptive findings revealed widespread experiences of strain, most of the organizational characteristics included in the models did not consistently explain differences in reported challenges. Aside from limited evidence related to the number of government contracts held by an organization, the hypothesized relationships generally failed to reach conventional levels of statistical significance. Rather than indicating that organizational characteristics are irrelevant, these findings may suggest that contracting-related pressures are broadly distributed across the nonprofit sector. Challenges associated with reimbursement delays, administrative requirements, and funding restrictions appear to affect organizations of different sizes, missions, and client populations.

The findings also reinforce broader themes within the government–nonprofit contracting literature. Previous research has argued that contracting systems shape organizational behavior through mechanisms that extend beyond the amount of funding received (Van Slyke & Roch, 2004; Mosley, 2011). The experiences reported by respondents support this perspective. Access to funding and access to timely, flexible funding may represent two distinct dimensions of organizational capacity. Even when organizations successfully secure government contracts, reimbursement delays and administrative obligations can create barriers that affect staffing, planning, and service delivery.

Several limitations should be considered when interpreting these results. First, the study relies on cross-sectional survey data, capturing organizational experiences at a single point in

time. As a result, it cannot determine whether the reported challenges reflect temporary conditions or longer-term structural issues. Second, the sample is limited to organizations that chose to participate in the survey, which may exclude nonprofits operating under different circumstances or facing different challenges. Finally, the survey was designed to capture a broad range of organizational experiences and therefore could not fully address other dimensions of strain, including leadership turnover, employee burnout, program quality, or long-term organizational sustainability.

An additional limitation is that the organizations represented in this study were active and operating at the time the survey was conducted. Consequently, the findings reflect the experiences of nonprofits that have remained in operation despite the challenges they face. Organizations that closed, merged, suspended services, or otherwise exited the sector are absent from the analysis. This distinction is important because the pressures documented in this study may underestimate the full impact of contracting-related challenges on nonprofit sustainability. In many respects, the findings presented here represent the experiences of organizational survivors rather than the experiences of organizations that were unable to continue operating under similar conditions.

Despite these limitations, the study contributes to a growing body of research examining how administrative systems influence nonprofit capacity. The findings suggest that conversations about nonprofit sustainability should extend beyond the availability of funding alone. How funding is administered, including reimbursement timelines, reporting expectations, and indirect cost policies, may be just as important in shaping organizational stability and effectiveness. As nonprofit organizations continue to serve as essential partners in public service delivery, the design and administration of government contracting systems will remain closely connected to

their ability to sustain operations and meet community needs. At the same time, the challenges reported by organizations that remain active raise an important question for future research and policymaking: if surviving organizations continue to experience significant strain, what might these same conditions mean for organizations that no longer exist to report their experiences?

Future Research

The findings from this study point to several opportunities for future research. First, longitudinal studies would provide a deeper understanding of how financial and operational strain develops over time. Because the present analysis relies on cross-sectional survey data, it cannot determine whether the challenges reported by respondents represent short-term disruptions or more persistent structural conditions. Following organizations across multiple years would allow researchers to examine how changes in funding environments influence organizational capacity, staffing decisions, service delivery outcomes, and long-term organizational sustainability.

Future research would benefit from incorporating qualitative methods. Survey data are valuable for identifying trends and measuring the prevalence of organizational challenges, but they provide limited insight into how nonprofit leaders experience and manage those challenges in practice. Interviews with nonprofit executives, program managers, grant administrators, and public officials could provide a richer understanding of how reimbursement delays, funding restrictions, staffing shortages, and compliance requirements affect organizational decision-making and daily operations. Qualitative approaches could also help identify strategies organizations use to remain operational despite ongoing financial and administrative pressures. Additional place-based research would further strengthen understanding of nonprofit contracting systems. The Inland Empire possesses demographic, economic, and institutional characteristics

that may shape nonprofit experiences differently than in other parts of California. Comparative studies involving regions such as Los Angeles, the Bay Area, and the Central Valley could help determine whether the challenges identified in this study reflect broader features of California's contracting environment or are influenced by local conditions.

An equally important direction for future research involves examining nonprofit organizations that are no longer operating. The findings presented in this study reflect the experiences of organizations that remained active and were able to participate in the survey. As a result, the analysis captures the perspectives of organizations that have survived within the current funding and contracting environment. Missing from this narrative are the experiences of nonprofits that closed, merged with other organizations, suspended operations, or significantly reduced services because of financial or administrative pressures. Organizations facing the most severe challenges may no longer exist to report their experiences, creating an important gap in our understanding of nonprofit sustainability.

Understanding why organizations fail may be just as important as understanding why they survive. Future research should seek to document the experiences of shuttered organizations through interviews with former nonprofit leaders, archival analysis, case studies, and longitudinal examinations of organizational closures. Such research could provide valuable insight into the cumulative effects of reimbursement delays, funding instability, administrative burden, workforce shortages, and other challenges that may contribute to organizational decline. Examining both organizational resilience and organizational failure would provide a more complete picture of how government contracting systems influence nonprofit capacity over time.

Finally, future studies should explore additional indicators of organizational strain that were beyond the scope of the present research. Factors such as employee retention, leadership

turnover, organizational resilience, program effectiveness, and community-level service outcomes may provide a more comprehensive picture of how contracting systems influence nonprofit sustainability. Examining a wider range of outcomes would contribute to a more complete understanding of the relationship between administrative systems and organizational capacity.

Collectively, these approaches would build upon the findings of the present study and deepen understanding of how government contracting systems shape nonprofit capacity, organizational stability, and the delivery of public services. As nonprofit organizations continue to play a central role in addressing community needs, understanding both the organizations that remain standing and those that do not will be essential to developing policies that support a healthy and sustainable nonprofit sector.

Appendix 1

Descriptive Statistics

Dependent Variable

Financial Constraints on Staffing and Work Capacity: The dependent variable of interest is the frequency with which financial constraints affect staffing and organizational work capacity. Respondents were asked the following questionnaire item: "*How often do financial constraints affect staffing and work capacity within your organization?*" Response categories ranged from Never to Always. Mean = 2.46; standard deviation = 1.01; minimum = 1; maximum = 5; N = 74.

Independent Variable

Percent of Budget from State Contracts: Mean = 26.53; standard deviation = 34.04; minimum = 0; maximum = 100; N = 74.

Number of Government Contracts: Mean = 2.57; standard deviation = 1.43; minimum = 1; maximum = 5; N = 74. Approximately 32.0% of organizations reported no government contracts, 20.0% reported 1–2 contracts, 22.7% reported 3–5 contracts, 9.3% reported 6–10 contracts, and 16.0% reported 10 or more contracts.

Control Variables

Organization Size (Clients Served): Mean = 2.43; standard deviation = 1.22; minimum = 1; maximum = 5; N = 74.

Minority Leadership (People of Color): Mean = 2.58; standard deviation = 1.17; minimum = 1; maximum = 4; N = 74.

Clients Turned Away Due to Capacity Constraints: Mean = 2.43; standard deviation = 1.53; minimum = 1; maximum = 6; N = 74.

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