Fronting Public Service Costs

Assessing Financial & Operational Strain Among Inland Empire Nonprofits

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Impacting Lives Together

Abstract: Government contracting systems are intended to support nonprofit organizations delivering public services efficiently and equitably. However, reimbursement delays, administrative burden, and reliance on state funds may create organizational challenges for service providers. This study examines nonprofits in the Inland Empire to address the questions: 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, our findings indicate considerable financial and organizational challenges among surveyed organizations, while measured characteristics did not strongly explain variation within the sample.

Introduction / Literature

Introduction:

Nonprofit organizations play a critical role to their local communities by delivering essential public services, however many find themselves facing various financial and operational challenges that threaten their stability. Government reimbursement contracts through more recent policies such as AB590 are important ways in which nonprofits receive funding (Lu, 2023), however frequent delays in state reimbursements create cash flow constraints and an increase in administrative workload for nonprofits with state contracts (Kim et al., 2025; Prentice, 2025). Financial constraints result in administrative burdens, limited staffing capacities, and depleted organizational resources (Thornton, 2023), reducing nonprofits' abilities to effectively meet community needs (Van Slyke and Roch, 2004). Understanding these constraints is critical for evaluating how public contracting systems impact nonprofit operations and service delivery.

Research Question(s):

- **What is the current level of operational and financial strain among Inland Empire nonprofits?**
- **How does organizational and financial strain vary based on engagement with the California contracting system and organizational characteristics?**

Rationale for Policy:

Limited Awareness of State Reimbursement Programs

- Some nonprofits may lack awareness of advance payment programs like AB590 or how to access them.

Administrative Burden

- Contracting systems with the state require administrative, staffing, and financial resources to coordinate with the state that many smaller nonprofits lack

Equity and Service Delivery

- Contracting barriers may disproportionately affect nonprofits serving historically underserved communities, potentially limiting local service capacity.

Hypotheses

Hypothesis 1	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 2	Larger organizations (as measured by number of clients served) will less frequently report that financial constraints affect their staffing and work capacity.
Hypothesis 3	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 4	Organizations with a greater number of government contracts will more frequently report that financial constraints affect their staffing and work capacity.
Hypothesis 5	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.

Data and Methods

Data

- **Source:** Inland Empire Nonprofit Survey (original survey data)
- **Study Area:** Riverside and San Bernardino Counties
- **Field Period:** March 2026 – May 2026
- **Responses:** N = 138
- **Analytic Sample:** N = 74 complete responses
- **Unit of Analysis:** Inland Empire Nonprofit Organizations

Methods

- **Descriptive Statistics –** Used to assess the current level of operational and financial strain
- **Ordinal Logistic Regression -** Used to examine how strain varies based on engagement with CA's contracting system and organization characteristics.
- **Independent Variable -** % of organizational budget from state contracts
- **Dependent Variable -** Frequency that financial constraints affect organizational Staffing or work capacity
- **Control Variable(s) -** Organization size, Minority-led status, Number of government contracts, % of Clients turned away

Results

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
- 25.3% used loans or credit

CONTRACTING

- 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

Ordinal Logistic Regression: Predictors of Financial Constraints on Staffing and Work Capacity

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Predictors	*Odds Ratios*	*std. Error*	*CI*	*Statistic*	*p*
% Budget from State Contracts	0.99	0.01	0.97 – 1.00	-1.66	0.102
Organization Size (Clients Served)	0.94	0.22	0.60 – 1.48	-0.27	0.791
% Minority Leadership (People of Color)	0.76	0.15	0.51 – 1.12	-1.38	0.171
Number of Government Contracts	1.41	0.29	0.95 – 2.12	1.69	0.096
% Clients Turned Away (Capacity Constraints)	0.90	0.13	0.68 – 1.19	-0.73	0.468
Observations	74				
R^2 Nagelkerke	0.089				

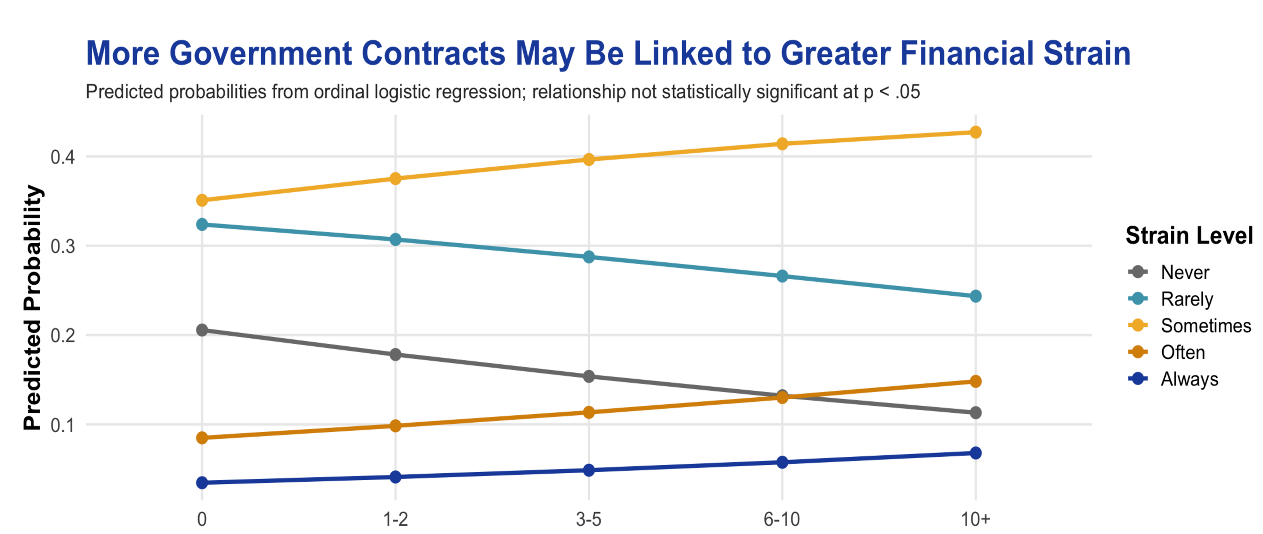
Predicted Probability Chart (below)

There is a pattern, but not definitive proof.

The graph below suggests that as the number of government contracts increases:

- The probability of reporting "Never" or "Rarely" decreases.
- The probability of reporting "Often" or "Always" increases.

However, because p = .096, the evidence is suggestive rather than conclusive.



Key Takeaway:
Financial strain is widespread, yet measured organizational characteristics do not fully explain variation across nonprofits.

Discussion / Limitations

DISCUSSION:

Ordinal Logistic Regression: Predictors of Financial Constraints on Staffing

Predictor	Hypothesis	Odds Ratio	p-value	Result
% Budget from State Contracts	H1	0.99	0.102	Not confirmed
Organization Size (Clients Served)	H2	0.94	0.791	Not confirmed
% Minority Leadership (People of Color)	H3	0.76	0.171	Not confirmed
Number of Government Contracts	H4	1.41	0.096	Not confirmed*
% Clients Turned Away (Capacity Constraints)	H5	0.90	0.468	Not confirmed

LIMITATIONS:

Sample Size & Power Constraints

The clean data sample yields an N = 74. This restricted baseline expands standard errors, limiting the statistical power required for localized parameters to clear conservative significance barriers ($p < 0.05$).

Omitted Variable Bias

The model's R2 of 0.089 indicates that 91.1% of the background operational variance is unexplained. Other attributes such as internal leadership stability, local county matching infrastructures, and broader economic cycles are not captured.

Structural & Non-Linear Biases

Geographic Boundaries & Selection Bias

The sample explicitly targets Riverside and San Bernardino counties, limiting generalizability to asset-dense coastal metros. Survival and self-selection bias may also exist; organizations under acute financial distress likely did not fill out the survey instrument.

Non-Linear Threshold Effects

The regression model assumes a constant rate of change. Nonprofits may absorb initial reimbursement delays , but quickly hit structural tipping points where marginal contract latency yields sudden operational failure.

Future Research

- **Expand the study statewide:** Determine whether contracting challenges experienced by Inland Empire nonprofits are representative of broader trends across California.
- **Conduct longitudinal research:** Examine how contracting experiences affect nonprofit financial stability, staffing capacity, and service delivery over time.
- **Evaluate the impact of policy reforms**, including AB 590 and advance payment initiatives, to assess whether these changes reduce administrative burdens and improve organizational outcomes.

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