



# The Impact of Decreased State Funding on Delaware Nonprofits

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Delaware Alliance for Nonprofit Advancement

1/12/2018

## Executive Summary

The Delaware nonprofit sector is a vital partner in delivering services on behalf of state government. Significant funding cuts to the Delaware nonprofit community were realized in the FY 2018 state budget and grant-in-aid bill. It is estimated that collectively across state grants, contracts and grant-in-aid over \$25 million was reduced for community services.

DANA, the Delaware Alliance for Nonprofit Advancement, conducted a study to investigate the short-term and long-term implications of this reduced funding. The survey to nonprofits asked about increases and decreases in all aspects of state funding, and the corresponding actions the agencies took as a result. Of the seventy-nine who completed the survey, fifty-two agencies received funding from state government. For those with state funding, 81% experienced some funding reduction. Three-quarters of the agencies who realized a funding reduction reported a collective loss of over \$2 million in state support. This shortfall has translated to workforce reduction, with 40 people losing their jobs from this small sample. The survey respondents reported over 2,700 people were impacted through reduced or lost services and increased wait times. With over 300 nonprofit organizations affected by lost government funding, the implications for Delawareans are considerable.

When asked what actions they would take to offset this reduced funding, the majority of organizations indicated they would seek other sources of funds. This direction will prove challenging, as many agencies also stated they lost funding from other sources such as corporations, foundations, and the federal government.

Recognizing that funding from government at the state level may not rebound until state revenue streams increase, agencies were asked about their long-term solutions. Most expect to rely on enhancing their fundraising capacity. Many anticipated operational changes such as establishing strategic alliances, jettisoning non-core programs, or restructuring. Some even indicated they may consider closure. With federal tax reform underway, nonprofits may find that other sources of funding may be impacted by policy changes. Consideration should be given to looking at both funding diversification and operational shifts to adapt to a new funding climate in Delaware.

This snapshot into a small slice of the Delaware nonprofit sector shows how funding levels directly impact services, and more importantly people's jobs.

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## Study Methodology and Limitations

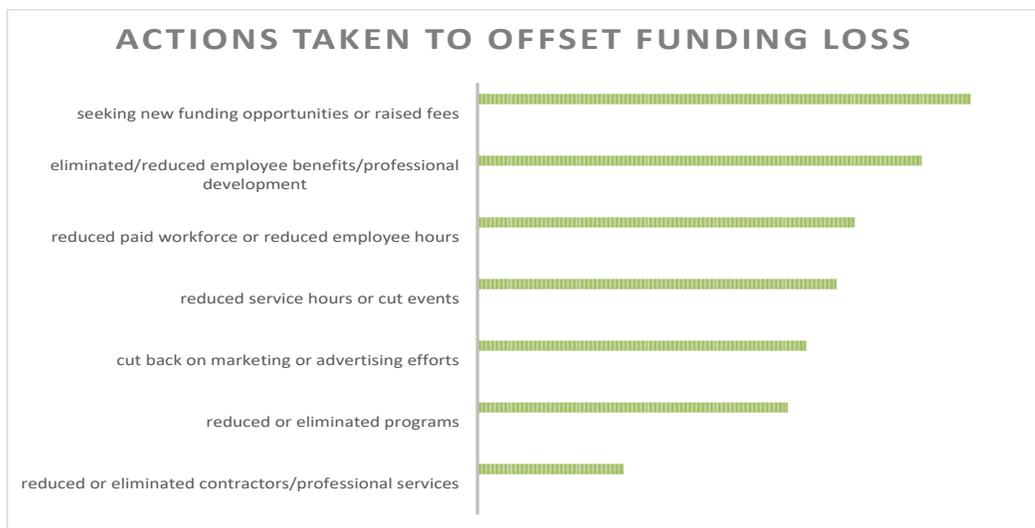
This survey was sent via email to DANA members in late September 2017. Additional outreach for response was sent to subsector coalitions to share the survey with their members. It should be noted that the responses are self-reporting and were anonymous. The small sample cannot be judged as projectable to the whole Delaware subsector. Therefore, the results should be considered qualitative and directional in nature. Finally, the responses were taken in a moment in time. Future events may have resulted in planned actions or revenues gained or lost to change.

## Section 1: Funding Loss and Impact

The survey asked respondents to indicate if they realized a funding increase or decrease. Eighty-one percent noted they lost funding and for 15%, funding remained the same. A small group (4%) saw an increase, mainly for service expansion.

Collectively, the 31 nonprofits who reported a funding decline from the state government lost over \$2 million in the FY 2018 budget. Half of that loss was from grant-in aid. A little over \$700,000 was reduced from state grants and the balance of \$238,000 was reduced in state contracts.

Survey participants were asked to identify what actions they planned to take or had taken to offset the funding loss. Respondents could identify more than one action. The majority (81%) planned to seek additional funding from other sources, including raising service fees. Employees were impacted by the cuts with 73% of the organizations reducing or eliminating benefits (including professional development) or reducing work hours or laying works off (62%). Independent contractors were also impacted with 9% of the agencies reducing this resource.



**Thirteen agencies collectively reduced their workforce by 40 people to offset the reduced funding, of which 28 were employed full-time.** Employees who remained were also impacted by the funding cuts by having to pick up the work of those let go, or experienced less pay as service hours were cut due to a smaller workforce.

More than 2,700 clients were impacted by impaired services because of these funding cuts. Some of these services included reduced hours for crisis hotlines, transportation cuts, and increased wait times.

## Section 3: Funding from other Sources

Most responding nonprofits planned to seek additional funding. The survey asked whether the agencies received funding from other sources and whether there had been an increase or decrease with those funding sources. 88% indicated they did receive funding from other sources, with most of the funding coming from individual donors (90%), foundations (86%) and corporations (65%). A little over half had realized a funding increase (52%). **Twelve agencies collectively reported \$1.4 million in reduced funding from these other sources.**

## Section 4: Strategic Actions

Though policymakers are seeking solutions to grow revenue to offset rising costs, those solutions may take several years to result in increased funding opportunities. Survey participants were asked what strategic actions they are planning to pursue to sustain their nonprofit organization over the next several years. Like the near-term actions, expanding fund development and events were the top two responses.

<b>Longterm Strategies to Address reduced government funding</b>	
Expand Fund Development to attract new donors	70%
Add new fundraising events	54%
Consider strategic partnerships	54%
Restructure the Organization	43%
Focus on programs we do the best, exit the rest	41%
Draw on Investment reserves	22%
Consider Consolidation or Closure	20%
No plans to make any changes to our activities	6%
Reduce costs further	4%

N = 52

Operational shifts were the next biggest category of options -- from considering strategic partnerships to restructuring. Twenty percent of the agencies were considering closure.

## Section 5: Implications

The respondent pool was small in comparison to the total number of nonprofits that receive state funding in Delaware. And so one cannot scientifically project the results to the whole sector. But with over 300 agencies impacted (Grant-in-Aid alone supports over 300), one can imagine the ripple effect across the state in layoffs and reduced services is considerable.

What is compelling are the plans for the future. With the majority of nonprofits interested in expanding fundraising, the demand for government and private dollars will increase exponentially. Foundations, donors and government may raise the bar in selection criteria. Nonprofits would benefit from enhancing their case for support and strengthening their outcome metrics.

## Section 6: About the Participants

All of the respondents were senior executives within their firm. Most identified themselves as the Executive Director or CEO of the organization. The majority of responding nonprofits classified themselves as working in health and human services, which is consistent with government funding, as the Department of Health and Social Services is by far the largest state funding partner to Delaware nonprofits. These organizations are well-established in the community, many providing services for several decades.

In addition, they have a long funding relationship with state government. Two thirds (66%) of those that receive state grants have received them for more than 5 years. Over half (56%) of the agencies which partner with the State through contracts have been doing so for over five years, and three quarters (76%) have had continuous grant-in-aid funding.

## About DANA

DANA, the Delaware Alliance for Nonprofit Advancement is a nonprofit whose mission is to strengthen, enhance and advance nonprofits and the sector in Delaware through advocacy, training, capacity building, and research. Member nonprofits receive access to many resources to help them deliver their mission more effectively and efficiently. To learn more about DANA and its programs visit [delawarenonprofit.org](http://delawarenonprofit.org).