Foundation Leaders Address the State Budget Crises

The winding down of federal stimulus funding in response to the economic crisis, persistent high unemployment, and depressed real estate values are leaving many states with severe revenue shortfalls. To balance their budgets, these states are being forced to cut social services, lay off teachers, and scale back numerous other public services. These reductions are directly affecting the many thousands of nonprofit organizations that count on state government grants for part or most of their funding.

To determine the extent to which foundations see their nonprofit grantees being affected by the state budget crises, the Foundation Center conducted a March 2011 survey of its 220-member Grantmaker Leadership Panel. The leaders of these foundations were also asked whether their foundations are responding directly to the crisis. Overall, 75 foundation leaders completed surveys, for a response rate of 34 percent. (See page 4 for more details on the Panel.)

Grantmaker Perceptions of the Crisis

The impact of the current state budget crises is far reaching. The vast majority of foundation leaders (95 percent) indicated that at least some of their grantees have been affected by the cuts. Well over half (58 percent) said that “all” or “most” of their grantees have been touched by state government funding reductions.

Most foundation leaders (89 percent) also reported that at least some of their grantees have been severely affected by the cuts. One-quarter said that some of their grantees had been forced to suspend operations, either temporarily or permanently, as a result of state budget cuts.

Among the areas that the responding foundation leaders identified as being most vulnerable to state cuts were human services and education. Following these were health, the arts, and environmental protection.

Reflecting the sluggish state of the economic recovery, foundation leaders expressed little optimism that the state budget crises will end anytime soon. Four out of five respondents (81 percent) said they expect the budget challenges facing many states to continue through 2013 or beyond.
The Grantmaker Response to the Crisis

The scale of state government funding reductions dwarfs the resources of the U.S. foundation community. Yet, many foundations have stepped up to help their grantees in the wake of this crisis. Among the foundation leaders responding to this survey, almost half (47 percent) indicated that they have awarded grants or provided other kinds of assistance in direct response to funding cuts resulting from the current state fiscal crises. In fact, one-third of surveyed foundations (33 percent) reported that the fiscal crises affecting state governments had influenced how their 2011 grants budget was set and/or how their funding was allocated.

Other ways that foundations expect to support organizations affected by the state funding cuts include increasing the number of direct charitable activities provided for affected organizations (e.g., facilitating convenings, providing technical assistance, etc.), seeking out opportunities to partner with state governments to address the crisis, and increasing support for public policy-related activities to inform budget debates. Among the various types of grantmakers surveyed, community foundations were notably more likely to report engaging in these types of activities.

Finally, beyond responding to the needs of organizations directly affected by the crisis, more than two-thirds (69 percent) of foundation leaders expect to increase funding for organizations serving vulnerable populations, such as the economically disadvantaged.

Advice for Colleagues Responding to the Crisis

Foundation leaders were asked to consider what they and their colleagues might do to address the current fiscal crisis affecting state governments. Several were clear up front that foundations should not be expected to replace state government dollars. As one funder stated, “Foundations cannot backfill what are appropriate public sector functions.” Still, this same grantmaker added that, “We can be partners in working with public entities to be sure we are each strategic in dealing with the need.” Another responded that, “As the public sector is increasingly unable to meet funding needs, foundations will be called upon to respond to the gaps. We must be leaders, conveners, and collaborators!”

Following are examples of some of the ways that respondents suggested either they or other grantmakers can respond to the state budget crises:

Public Policy and Advocacy

◆◆ “Fund advocacy and community organizing to ensure that those constituencies most adversely impacted by cuts are heard and not marginalized.”
◆◆ “Pay for budget analyses to identify effective programs that should be held harmless from further cuts.”
◆◆ “Underwrite policy analysis on revenue sources and tax policies that can improve state budgets.”
◆◆ “Lobby to prevent cuts in essential services and prevention programs.”

Nonprofit Restructuring

◆◆ “Help nonprofits to understand the likely duration of the financial challenge. Support options for restructuring to preserve essential services and programs.”
◆◆ “We are open to helping groups evaluate their work, look at which programs might be curtailed, consider mergers or other strategic alliances, and otherwise help organizations deal with their challenges.”
◆◆ “We are trying to raise the issue of sustainability with our grantees, encouraging serious consideration of collaboration between grantees (mergers are still seemingly an anathema) and infrastructure development to beef up internal fund raising abilities as over-reliance on government funding has proved to be disastrous for nonprofits.”

Grantmaking Strategies

◆◆ “Focus funding on the most needy populations.”
◆◆ “Offer general operating grants and multiyear grants where appropriate.”
◆◆ “Consider providing program-related investments (PRIs) to financial intermediaries like the Nonprofit Finance Fund. This will get financial support via lines of credit or bridge loans to groups that can fully utilize them and maintain appropriate levels of service.”

### Foundations’ Responses to State Budget Cuts

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<tr>
<th>Response</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Increase funding for organizations serving vulnerable populations</td>
<td>70%</td>
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<tr>
<td>Increase the number of direct charitable activities provided for affected organizations</td>
<td>50%</td>
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<tr>
<td>Identify opportunities to partner with state governments to address the fiscal situation</td>
<td>40%</td>
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<td>Increase support for public policy-related efforts aimed at informing the budget debate</td>
<td>30%</td>
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<tr>
<td>Provide bridge support for organizations facing the loss of/delay in payment of state funds</td>
<td>20%</td>
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Source: The Foundation Center, 2011. Figures based on the responses of 73 members of the Foundation Center’s Grantmaker Leadership Panel.
Reassuring is not a word we hear often in this deeply difficult time for much of the nonprofit sector. Yet it is reassuring to see the level of foundation response and engagement with the current crisis in public funding, which affects 44 of the 50 states. The Foundation Center’s new survey suggests that the foundation community understands the depth of the problems confronting our grantees—the day-to-day managers of the social safety net in the United States.

As we and our grantees cope with this new reality, I would like to amplify four key needs identified in the survey findings:

1. More general operating support. In a time of seriously constrained resources, our grantees need as much flexibility as possible to manage their programs and finances. The dollars that help the most and go the farthest in this environment are general operating support funds.

2. More capacity building support. In the aftermath of reduced public support, nonprofits need to rethink, reassess, and restructure their business models. Underwriting capacity building, which tends to be relatively low-cost, can yield high returns. Having access to resources for capacity building can provide nonprofits with the ability to succeed in the “new normal.”

3. More working capital. Reduced public support means nonprofit cash flow will be squeezed and operating margins thin. Banks are leery of extending bridge loans or lines of credit when government contracts become unreliable. Foundations need to increase the ability of community development finance institutions (CDFIs) to provide short-term financing to nonprofits. CDFIs, such as the Nonprofit Finance Fund, understand the operating models of nonprofits and have more patience around delayed government contracts or grants. But CDFIs need capital to do this. For their part, foundations can use program-related investments (PRIs) to provide the needed capital, without affecting their grants budgets.

4. More advocacy. Sadly, the budget battles of 2011 are not the last ones we will see at the federal, state, and local levels. In some states, the coming years will bring even larger budget gaps. The sector must develop a stronger advocacy effort to ensure that critical initiatives and the most vulnerable do not suffer disproportionately. The rules and regulations on advocacy are clear; we know exactly what we can and cannot do. But our support for advocacy must become broader and deeper, both internally and financially. The staff time, research, dissemination, and related work needed to mount successful advocacy campaigns cost money.

We are in the nascent stages of a profoundly new era for most of the nonprofit sector. Old and/or current operational models will not likely work. Having foundations seriously address these four needs will help our grantees begin to cope with, and better understand, the new era. The big question, however, is will foundations step up?
About the Grantmaker Leadership Panel

The Foundation Center’s Grantmaker Leadership Panel draws upon the expertise of chief executives at leading U.S. private and public foundations on critical issues of interest to the sector. The Panel serves to facilitate the rapid exchange of information among foundation leaders and with the broader sector to further important conversations in the field. Currently 220 foundation leaders participate, providing a regionally representative sample of the largest 400 independent and 200 community foundations in the country. Panel members hold assets totaling over $100 billion and make grants totaling more than $7 billion annually.

About the Foundation Center

Established in 1956 and today supported by close to 550 foundations, the Foundation Center is the leading source of information about philanthropy worldwide. Through data, analysis, and training, it connects people who want to change the world to the resources they need to succeed. The Center maintains the most comprehensive database on U.S. and, increasingly, global grantmakers and their grants — a robust, accessible knowledge bank for the sector. It also operates research, education, and training programs designed to advance knowledge of philanthropy at every level. Thousands of people visit the Center’s web site each day and are served in its five regional library/learning centers and its network of 450 funding information centers located in public libraries, community foundations, and educational institutions nationwide and beyond. For more information, please visit foundationcenter.org or call (212) 620-4230.

Source for all data:
The Foundation Center

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