

# RESPONSE TO FINANCIAL CHALLENGES

## Funder — Nonprofit Survey

May 2019

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### Executive Summary

With the nonprofit sector facing numerous challenges in Connecticut – as a result of state budget cuts and the new federal tax law – the Connecticut Council for Philanthropy and the CT Community Nonprofit Alliance surveyed their members in an effort to learn how nonprofits and funders were experiencing and responding to these challenges. The survey was circulated in January and February of this year and garnered responses from 39 foundations and 110 nonprofits. Respondents represented a variety of nonprofit and foundation types working in various parts of the state (see appendix for more detail).

A majority of nonprofits (60%) reported that they have been impacted by the state fiscal crisis and over 40% reported that they have been or expect to be impacted by the new federal tax law. In response, they are employing a variety of strategies to reduce costs and increase revenues.

Most funders (72%) reported that they are hearing from their grantees that they are experiencing financial challenges, and many are responding with increased offers of financial or technical support, engaging in advocacy, supporting merger conversations, or hosting convenings. In addition, funders are staying informed and engaging in meetings, conversations, or public forums.

There are significant financial challenges for the nonprofit sector in Connecticut, and clear opportunities for the philanthropic community and others to support it. Recommendations to support the nonprofit community include: engaging in advocacy, investing in communications, increasing financial support and opportunities, rethinking funding processes, supporting nonprofit fundraising, and continuing to monitor these important challenges.

### Background

Over the past several years the state of Connecticut has faced a budget deficit that has forced it to make funding cuts, affecting an array of industries. These cuts, coupled with a slow economy, have resulted in reductions or terminations of contracts for nonprofit partners. This year is no different. During the 2019 legislative session, nonprofits are fighting strongly for the restoration of budget cuts and adequate funding for community services. At the same time, they are arguing against proposals to levy new municipal fees on nonprofits.

Alongside these state-based challenges is a new challenge – the new 2017 federal tax law. Implemented in 2018, this new tax law is projected to reduce charitable giving nationally by 12 to 19 billion dollars. On top of that, the law made changes to the unrelated business income tax which has increased the amount nonprofits pay in federal taxes.

Data on charitable giving relies on public access to tax documents which are generally not available for 1-2 years after they have been filed. This creates a problem for organizations who want to understand how nonprofit constituents are faring in times like this. To better understand the nonprofit sector, the Connecticut Council for Philanthropy (CCP) and the CT Community Nonprofit Alliance (The Alliance) launched a survey project to gather data from the state's nonprofits and funders.

# State Fiscal Crisis

## The impact of the state's fiscal crisis on nonprofits is widespread.

Over 60% of nonprofits have been negatively impacted by the state budget crisis. While the size of financial cuts ranged from \$25,000 to \$3 million, the cuts across reporting organizations totaled \$11.9 million, with an average cut of \$661,000. While not all nonprofits have experienced contract cuts, some have not received cost of living increases for several years, and others have had funding delayed, requiring organizations to use emergency reserves if available.

Nonprofits are responding with a variety of strategies, the most popular being increasing fundraising efforts. Unfortunately, fundraising is not always enough to cover state budget cuts, and organizations are being forced to also consider other strategies, like reducing staff hours, reducing service hours, reducing facility space, capping programs, laying off staff, pursuing lines of credit, and using cash reserves if available.

### Nonprofit Responses to Fiscal Challenges



## Funder Response

### Funders are hearing from their grantees about the negative impact of budget cuts.

Most funders (72%) reported that they are hearing from grantees who are being affected by the state budget. This year, 33% of funders are responding to the impacts of the state budget crisis, which is up from a 2017 CCP survey in which 25% of funders indicated they were responding to state cuts. Although at the time another 44% planned on responding.

Like nonprofits, funders are also engaging in a variety of strategies to support their grantees. These strategies include offering learning programs, providing additional grant support, and collaborating with other funders. Additional responses include supporting nonprofit merger conversations, increasing advocacy and lobbying, and convening local and regional leaders for conversations about the needs of the area's nonprofits. In addition to these responses, funders also are working to stay on top of this issue by engaging in discussions with grantee partners, government leaders, and other funders.

**33%**  
of funders  
are responding  
to the  
impacts of the  
State budget.

## New Federal Tax Law

### Due to the 2018 implementation of the new federal tax law, 43% of nonprofits reported that they have seen or expect to see a decrease in donor support this year.

The most popular strategy to combat the loss of donations is investing more in marketing, communications, and fundraising to increase nonprofit visibility and increase donations.

Apart from investing more in marketing and communications to attract donor support, some nonprofits indicated plans to identify corporate and foundation donations as a new source of revenue; still others are investing in new strategic or business plans to actively address their organizations' financial sustainability. One nonprofit leader noted an increased cautiousness to expand or grow much-needed programs without the financial resources in house to support them. Another leader noted that their organization will reduce program staff and increase fundraising staff to combat funding shortages. While there are organizations working to lessen the impact of the new federal tax law, others are struggling to determine the best next steps, keeping an eye on their donations and organizational expenses.

**43%**  
of nonprofits  
reported seeing  
or expecting  
to see a decrease  
in donor  
support this year.

## Funder Response

### Funders have not heard much from their nonprofit partners about the new tax law.

Most funders (61%) reported that they have not heard from their grantees about the impact the new federal tax law is having on them. This delayed response may be due to organizations needing more time to evaluate donation data.

Still, over 63% of funders reported concern that the new federal tax law will result in decreased donations for nonprofits partners. With fewer nonprofits reporting this as a current problem, there is not yet a robust response to this issue. Many funders are encouraging grantees to review their business and strategic plans, to explore opportunities to increase efficiency and partner with other nonprofits, and others are asking grantees to capture information about donor behavior. Still others are thinking about offering learning programs or technical expertise to their grantees to support their marketing and fundraising efforts.

**63%**  
of funders  
reported concern  
about decreased  
donations.

**Some foundations were impacted by the tax law too**, as public foundations, like community foundations and United Ways, also engage in fundraising. We asked these types of organizations if they had been impacted by the new tax federal law. About 20% noted that they had been and 60% reported that they were not sure. These organizations reported that they too are boosting their fundraising efforts and encouraging their donors to bundle their donations (giving multiple years' gifts in one year) in order to maximize the tax benefit of charitable giving.

We can also report anecdotally that the new federal tax law resulted in some foundations, namely corporate foundations, increasing their giving in 2018.

## Recommendations

Moving forward, organizations had advice for the philanthropic community, CCP, and The Alliance. Recommendations included a variety of strategies related to increasing financial opportunities, reducing administrative burdens, supporting legislative advocacy, and bolstering communications in support of the nonprofit community.



**Engage in advocacy.** Nonprofits encouraged the philanthropic community to engage in complementary advocacy at the State Capitol – speaking from the philanthropic perspective, affirming the voices and value of nonprofits. They urged The Alliance to continue their lobbying and advocacy on behalf of the nonprofit community.



**Invest in communications.** Nonprofits agreed that the philanthropic community – and The Alliance – could bolster their work with investments in communications. In particular, there were recommendations to raise the visibility and value of nonprofits among state decision makers, donors, funders, and the general public.



**Increase financial opportunities for nonprofits.** Given the financial realities that nonprofits are facing, many recommended that the philanthropic community consider increasing opportunities – open up grant opportunities to more nonprofits, consider new grantees, increase grant sizes, consider offering emergency funding, and consider offering lines of credit at low interest rates.



**Rethink funding approaches and processes.** There were a variety of recommendations for funders that had to do with their funding approaches and processes. Some suggested that funders consider streamlining their processes to reduce the administrative burden on nonprofits, like using existing information nonprofits have produced versus asking for new applications to be completed. Some suggested that funders offer more general operating support, provide multi-year support, or increase flexibility in the ways nonprofits can use grants. Another asked that funders consider adding a percentage to all project grants to cover core operations. One respondent suggested that funders pay grants in full versus incrementally.



**Support nonprofit fundraising.** Several respondents recommended that funders support their fundraising efforts through research, encouraging donor support, or by making connections with new potential funders.



**Understand the landscape.** There was agreement that it's important for funders and donors to understand the environment in which nonprofits are working. There were recommendations to funders and The Alliance to help raise the visibility of this reality to state decision makers, donors, funders, and the general public.



**Continue research, monitoring, and updates.** There was agreement that the research and updates that The Alliance produces are highly valuable and important to continue. Some new projects that could be beneficial to the nonprofit sector include: relevant case studies to help nonprofits rethink their current strategies; fundraising research or revenue alternatives; exploring and reporting on regional disparities of state funding.

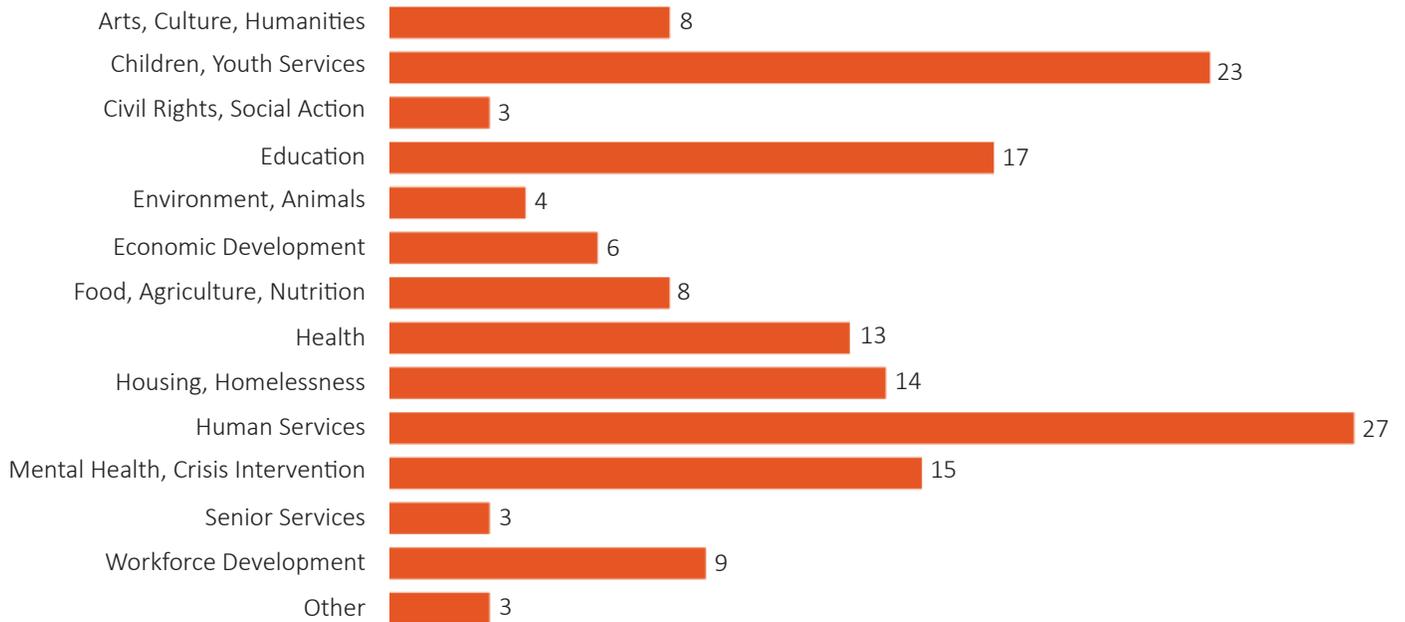
## Next Steps

CCP and The Alliance will continue to monitor and report on this issue and others as they arise. They'll consider the recommendations provided through this survey and will share the results broadly.

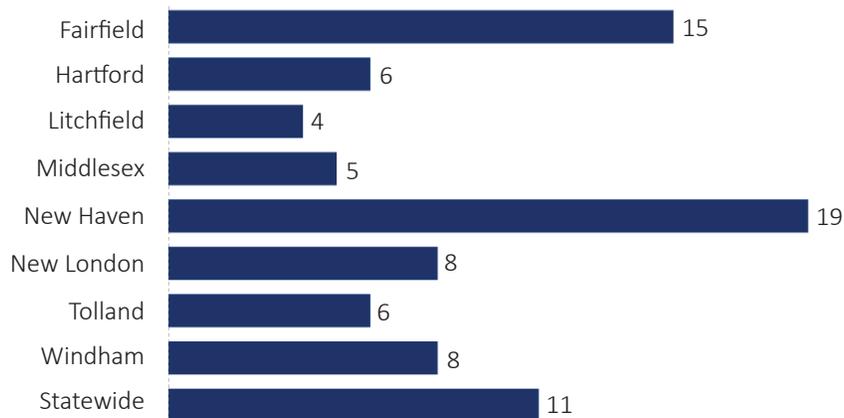
# Appendix

## Demographics of 110 Nonprofits Responding to Survey

### My organization provides services or programs in the following areas:



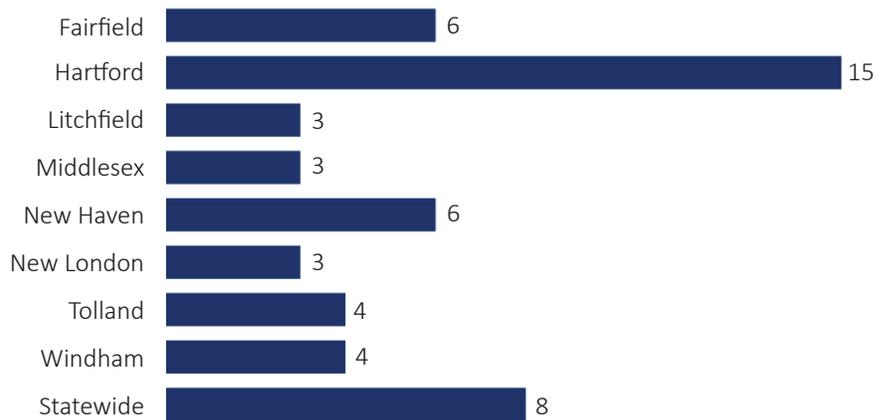
### My organization provides services or programs in the following County or Counties:



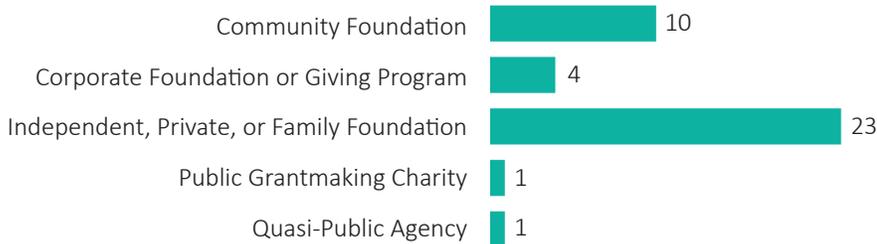
*\*It should be noted that 50% of nonprofit organizations skipped these two questions.*

## Demographics of 39 Funders Responding to Survey

### My organization provides services or programs in the following County or Counties:



### Foundation type:



75 Charter Oak Avenue, Suite 1-205, Hartford CT 06106  
860-525-5585 | [CTphilanthropy.org](http://CTphilanthropy.org)

The Connecticut Council for Philanthropy, the state's association of grantmakers, promotes and supports effective philanthropy for the public good. In 2019, CCP is celebrating 50 years of philanthropic leadership. CCP membership is comprised by foundations, business and corporate giving programs, individual philanthropists, and those serving the philanthropic sector.

The CCP is committed to being a leader and catalyst for philanthropic action in response to community and statewide issues. We facilitate the regular exchange of ideas, experiences, information, and expertise among Connecticut grantmakers. We provide knowledge and education about philanthropy for CT's grantmakers, decision makers, and the general public.

We accomplish our work by: connecting and networking philanthropic professionals; supporting learning and professional development; understanding, analyzing, and informing grantmaking in Connecticut; and, advocating on behalf of the philanthropic community.



75 Charter Oak Avenue, Suite 1-100, Hartford CT 06106  
860-525-5080 | [CTnonprofitalliance.org](http://CTnonprofitalliance.org)

The Alliance is the statewide advocacy organization representing hundreds of nonprofits in Connecticut across all categories, from Health and Human Services to Arts and Culture. Our mission is to advance excellence in community-based nonprofits through advocacy and capacity building.

We share the passion and purpose behind each and every one of our member's mission and channel that purpose into a powerful, unified voice.

We lead from a position of strength, presenting a united front before the Connecticut Legislature, state agencies, other advocacy organizations, the public and the media. As a collective voice, we develop strategies and public policies that make it possible for nonprofits to thrive.

Together, we are much more powerful and influential than we can be as individual agencies.