Nonprofits Experienced at Surviving Funding Cuts Share Their Strategies

By Eden Stiffman

As the Trump administration pushes for big cuts in federal spending, nonprofits that rely on government grants are anxiously grappling with how to do more with less.

In lean times, charities can find ways to rethink their revenue streams to become more stable and reinvent their work to become more collaborative and efficient.

Experts like Kristin Giantris, managing director of consulting with the Nonprofit Finance Fund, urge organizations to make strategic choices while they’re in positions of strength. Nonprofits must have a thorough understanding of what drives program costs, whom they are serving, and the level of demand, she says.

"Oftentimes organizations are running so fast and piecing together their revenue in a lot of different ways, so they don’t necessarily have the time to stop and have that conversation about long-term strategy," Ms. Giantris says. By the time cuts become a reality, "you’re making short-term survival choices."

Charities that have suffered financial shocks in recent years — or are already planning for that possibility — can offer important lessons on how to prepare for the loss of government support and other revenue.

Cut Unnecessary Services

Safehome supports survivors of domestic violence in the Kansas City area through its 60-bed shelter, counseling, and legal advocacy. In the past, it has tried to do much more — too much, if you ask Janee’ Hanzlick, the nonprofit’s chief executive.

For years Safehome ran an annual Christmas store where its clients could "shop" for free clothes and gifts. But the effort was costly and a big drain on staff resources, Ms. Hanzlick says. When she saw one of the staff therapists folding clothes, she realized something needed to change. "I said no, this is not a good use of her time, especially when we have a waiting list for our counseling services."

So the charity formed a partnership with the Johnson County Christmas Bureau, another local nonprofit that provided a similar seasonal service. Safehome clients can now take part in the program, and the organization no longer runs its own holiday store.
"We have an outstanding professional therapy program, an outstanding advocacy program, a top-notch shelter staff," she says. "Those are the things it’s our job to be good at. We’ve stopped trying to be everything to everybody."

Letting some things go has allowed Safehome to build stronger partnerships with the five other area agencies supporting domestic-violence survivors.

That kind of thinking is critical for the group, which receives about 42 percent of its $3.5 million budget from government sources. The organization got good news when the Kansas state budget that passed in mid-June included an increase in funding for domestic-violence prevention grants in the 2018 and 2019 fiscal years. Ms. Hanzlick estimates that around 28 percent more will be available for grantees than last year. But what happens beyond that is unclear, so the group still feels the need to plan for cuts.

"We don’t have any guarantees from year to year that we’ll get it," she says.

She has challenged other groups to more closely define their basic services and ask themselves, "If your agency wasn’t here tomorrow, what would the community miss?"

**Expand Programs That Bring in Money**

About three years ago, the African Services Committee realized it had to generate an additional $300,000 to $400,000 more per year in unrestricted money to pay rent and staff salaries. Among other hits to its finance: A two-year, $180,000 New York State block grant for Superstorm Sandy relief, used to provide legal and housing services in Staten Island, had just ended.

"That was a big infusion of cash, and then it was gone," says Kim Nichols, co-executive director of the organization.

The charity, which provides a variety of services for immigrants as well as AIDS treatment in New York City and Ethiopia, relies heavily on government support. It has also faced cash-flow problems due to delayed payments from the state and city.

"We felt like we were tightening purse strings not only in how much we were spending but in what we were spending it on," says Ms. Nichols. "Some of those items were really necessary to support the programs."

The group worked with the Nonprofit Finance Fund to evaluate each of its five program areas and determined that its legal-services work was growing the fastest — and it brought in some revenue through the nominal fee it charges. So the organization expanded its legal clinic.

"We knew that was the area we had the best chance at generating more unrestricted income," says Ms. Nichols.

With two full-time lawyers, two paralegals, and a part-time staff member who handles payment collections and bookkeeping, the clinic sees up to 60 clients a month.

It currently generates a little over $200,000 annually, and though it has yet to turn a profit, Ms. Nichols says it’s clearly on that trajectory. Next year, she anticipates the program will be about $100,000 in the black. The charity is now looking for small grants to help cover the clinic’s operating costs, she says. "That mixed model is probably the way to go."

**Start a Fundraising Program From Scratch**

Central City Integrated Health provides a health-care and human-service safety net for vulnerable Detroit residents. However, the organization doesn’t have much of a safety net of its own; it relies almost entirely on government funding.
About 53 percent of its revenue is billed and includes reimbursements from Medicare and Medicaid. Another 44 percent is made up of grants, most of which come from state and federal sources. Only 1 percent of its $11.5 million in revenue last year came from fundraising.

Ryan Lepper, who was hired as CEO in 2016, decided the organization desperately needed to diversify its revenue stream. He quickly hired Shelly Watts to be the organization’s development director — and its sole employee devoted to fundraising.

"Knowing that we are largely funded by the federal government and having an understanding that can change and can really shift our ability to provide services definitely makes us take a closer look at things," says Ms. Watts.

Starting a fundraising program from scratch takes time. You have to develop a donor database and create fundraising policies and procedures.

Ms. Watts also is working to foster stronger corporate and public partnerships, improve foundation relations, and work with Central City’s board to help build relationships with donors. The goal is eventually to raise 10 percent of the organization’s budget through these efforts.

**Reset the Mission to Draw Supporters**

Heading into its third year without a state spending plan, Illinois is in the grip of perhaps the worst budget crisis in the nation. Funding to nonprofits has withered, and foundations have adjusted their priorities, taking money away from some groups to make up for gaps in more urgent services.

That’s meant a double whammy for groups like Lumity, a technology nonprofit in Chicago. In addition to seeing its government support dry up, it has watched its grant-maker support shift toward social-service groups addressing the most immediate needs. "That’s had a major ripple effect on organizations like ours that are not social-service agencies but are still providing a needed service," says executive director Kara Kennedy.

Until recent years, Lumity thrived with a focus on providing computer hardware, software, consulting and training, accounting, finance services, and other support to nonprofits. A 2003 grant from the Elizabeth Morris Genius Charitable Trust helped it establish 22 community technology centers. A 2011 grant from the Chicago Department of Innovation and Technology provided about $435,000 over two years to work with 70 community technology centers, including some of those original 22. And for nearly 10 years the state kicked in another $75,000 or so annually for those organizations.

That changed abruptly two years ago as the state budget process fell into crisis. Today, Lumity receives no government support.
Worried about the future of its grant-maker support as well, the organization turned sharply toward providing STEM-focused education services for underserved youths.

Lumity had dabbled previously in providing basic training in technology for work-force-development organizations and realized it was on to something: The employment and retention rates of its programs were better than those of many other programs in the area.

The nonprofit closed the IT-capacity side of its programming, seeing less demand. "It ran its course, and it was time to kiss it goodbye," says Ms. Kennedy. The finance business is being transitioned to Forefront, the state association of nonprofits, and to grant makers and public agencies.

Some board members committed to the old mission walked away. But the focus on educating and training people for careers, rather than providing technology and back-office services to nonprofit staff, resonated with donors — both individuals and foundations. Individual donations at Lumity’s annual dinner increased 72 percent in 2017, and the nonprofit recently won new grants from the Wells Fargo Foundation and the Bank of America Charitable Foundation.

"It has been a lot easier to bring in revenue based on our current mission," says Ms. Kennedy, adding that it "resonates more with the general public."

Band Together to Reduce Costs

The budget fight in Illinois is also drawing nonprofits to the Back Office Cooperative. Seventy-eight human-service charities, primarily in the Chicago area, have joined the umbrella group to cut back on office and management costs.

Membership in the cooperative gives nonprofits access to group buying plans, saving them an average of 20 percent in areas like accounting, energy, cleaning and office supplies, and health insurance. Members pay an annual fee of $350 to $2,500, depending on the organization’s size.

"We have found that the state budget situation has, in fact, prompted many more nonprofit organizations in Illinois to seek out opportunities to assess what they’re spending and find ways to save more money," says Linda Zager, the cooperative’s executive director.

Very few Back Office Cooperative members have had to resort to shutting down programs or laying off staff, says Ms. Zager. But many are trying creative fundraising approaches and being more careful as the state’s budget impasse drags on.