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Hawaii nonprofits hit hard by funding cuts

Many groups are forced to lay off workers, slash programs for those in need

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State funding cuts are battering the nonprofit sector, which has laid off scores of people over the last 12 months and is preparing for more bad news as state departments scrutinize their contracts looking for more savings.

During the first half of this year, human services nonprofits have seen drastic state spending cuts to services for the mentally ill and the developmentally disabled.

Specific programs also have been hit, including Healthy Start, a child-abuse prevention initiative whose funding was cut from an initial appropriation of \$10 million last year to about \$1.5 million this year.

"There is great uncertainty in the private nonprofit area," said Alex Santiago, executive director of PHOCUSED, a consortium of human services nonprofits. "I think the word 'uncertainty' is quickly turning to fear. We know it's going to get worse."

The cuts have left some nonprofits struggling to survive. Larger nonprofits — many of which rely on state money for at least 40 percent of their budgets — have been forced to lay off employees, whittle away at programs and search for new money.

And nonprofits say the reductions aren't just hurting their budgets, but the services that target society's most vulnerable, including the severely mentally ill, at-risk families and children, and the elderly. These programs — considered core services — are seeing unprecedented reductions, they say, that could take years to restore.

The cuts, others point out, could also have a real effect on the economy: The nonprofit sector made up about 7.6 percent of the state's gross domestic product in 2002, according to the latest figures available, and employed about 41,000 people.

Howard Garval, president and CEO of Child and Family Service, said most concerning is that there doesn't seem to be an end in sight to the state funding cuts.

"What's a worry to me and probably other nonprofit CEOs ... is the cumulative effect of month-to-month, a new funding cut comes down," said Garval, who laid off about 20 percent of his staff — or some 93 people — in the fiscal year that just ended because of state funding reductions.

"It's emotionally depleting," Garval said.

Five more CFS workers will be laid off this month because of Healthy Start cuts. And another 47 people have seen their hours reduced.

His nonprofit alone has seen its state funding drop by about \$2.5 million. About 81 percent of the nonprofit's \$32 million budget comes from the state.

The state cuts come as nonprofits are also seeing their private funding — from individuals and endowments — drop, and as the need for services has soared. Across the sector, from free food pantries to domestic violence shelters, nonprofits are getting more requests for help. In some cases, people are being turned away.

"In the nonprofit world, you get a double whammy when the economy suffers because our demand goes up and our revenue goes down," said Brian Schatz, CEO of Helping Hands Hawaii. "We are struggling to provide more help ... with fewer dollars."

The nonprofit had to lay off 20 of its 130 employees late last year, following scalebacks to mental health services that translated into an \$850,000 reduction to Helping Hands.

The nonprofit's total bud-get is about \$6 million.

core services hit

Nonprofit experts say the cuts are all the more distressing given that most core state-funded services are offered by nonprofits through contracts. State departments handle the oversight of these programs, though some also offer direct services.

That wasn't always the case. Kelvin Taketa, president and CEO of the Hawai'i Community Foundation, said the trend to outsource services to nonprofits started 40 years ago, but picked up considerably in the 1990s. The state has "taken programs that were the province of the government and contracted those services," he said.

Now, Taketa and others say, with the state facing a budget crisis, services are being cut to an extent they likely wouldn't have felt if still offered within state offices.

"When you cut funding to nonprofits," Santiago said, "these core services suffer."

A tally of how much funding to health and human services contracts has been reduced was not available, since departments are still finalizing contracts and waiting for the results of ongoing collective bargaining negotiations to see whether more cuts are needed. But many nonprofits report taking big hits — and they are bracing for more.

The Salvation Army has already closed two programs on O'ahu because contracts — worth about \$1 million together — were cut. One of the programs served pregnant women and mothers with young children, helping them with substance abuse counseling, HIV/AIDS testing, domestic violence resources and other assistance. The other provided day treatment for children up to age 12 who have behavioral disorders.

The two programs, both of which closed earlier this year, employed 12 people.

The Salvation Army also reduced its hours last month at two Kaua'i soup kitchens. The kitchens were funded with a \$90,000 grant-in-aid from the state Legislature that didn't come through this year. The kitchens, which serve lunches, will be reduced to two days a week. They were serving meals up to six days a week, said Salvation Army Maj. Eloisa P. Martin, secretary for business at the divisional headquarters.

About 42 percent of Salvation Army Hawai'i's budget comes from government funding — most of which is state dollars. Martin said the nonprofit hopes to make up lost state dollars by reaching out to the community and to private endowments.

"We are hopeful that we'll get increased public support," she said.

Advocates say the funding crunch comes after a long spate of growth for nonprofits — in part because of more state spending. State spending on mental health services, for example, skyrocketed following a 1991 Justice Department lawsuit over conditions at the Hawai'i State Hospital. The suit kicked off 15 years of federal oversight of the state's delivery of mental health services and treatment.

Spending on services for the developmentally disabled also grew following two lawsuits. In the past six years alone, the number of developmentally disabled people getting state services has increased by more than 1,000 people — to 2,532.

awaiting more cuts

Services for the mentally ill and the developmentally disabled have both absorbed significant cutbacks this year, however. In January, the Adult Mental Health Division capped its reimbursable case management hours per client at 3.5 hours a month (from three hours a day). Several programs have also been eliminated or reduced drastically.

Meanwhile, the state Development Disabilities Division scaled back services to more than 2,500 children and adults by 15 percent in February. The division initially hoped to restore the cuts in the new fiscal year but wasn't able to given subsequent funding reductions. Wayn-ette Cabral, executive director of the state Council on Developmental Disabilities, said the cuts have hit nonprofits and their clients.

Now, she said, "we're all waiting" for more cuts.

The state Department of Human Services added to the fiscal worries for some nonprofits this month when it issued three- to six-month contracts in some cases, in place of one-year ones. DHS says the shortened contracts were aimed at reviewing the services provided to see if they're cost-effective and meeting expectations.

Officials stressed the shortened contracts don't necessarily translate into cuts.

In a statement, state human services Director Lillian Koller said her department is "reworking many of its contracts to include performance measures." The agency said 32 contracts, valued at \$8.2 million, were issued for shortened periods of three to nine months.

Koller added that the "safety net in Hawai'i is wider and stronger than in just about any other state. Through contracts with more than 200 nonprofit agencies, DHS pays for a wide range of important services, such as child abuse and neglect diversion, domestic violence shelters ... (and) after-school activities for at-risk youth."

One of the bright spots in the sector is Mental Health Kokua, which has actually expanded its programs. Last week, the nonprofit announced it was opening three new counseling centers (one each on O'ahu, Maui and the Big Island) to meet the growing need for psychiatric services, especially as people grapple with the tough economy.

The centers, which do not rely on a state contract, will cater to children and adults who need outpatient services for dealing with issues such as stress and emotional trauma. Most clients will have private

insurance, so Mental Health Kokua expects the centers to break even or even make a little money to help pay for other programs.

The centers represent a shift for the nonprofit, whose normal clients are adults with severe and persistent mental illness. Mental Health Kokua CEO Greg Payton said the centers required little in the way of startup costs: They are housed in the nonprofit's existing offices and are largely being serviced by existing staff.

"Out of every crisis," Payton said, "there's a place for opportunity."
