The Vulnerability of Hawaiʻi's Nonprofit Sector to Cuts in Federal Funding

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Executive Summary

Hawaiʻi's nonprofit sector is facing budget cuts and program changes that could disrupt essential services statewide. A new analysis by UHERO and the Hawaiʻi Community Foundation provides an early warning system to identify grants, organizations, and subsectors at risk, allowing local leaders to prepare responses in advance. Key findings include:

- **Political Risk**: 74 federal grants to 59 Hawaiʻi nonprofits—worth **$126 million in unpaid balances**—are politically vulnerable. More than half of this risk is concentrated in **healthcare programs**, with significant exposure also in **human services, environment, and education**. Programs serving **Native Hawaiians** account for more than half of the state's politically vulnerable funds.

- **Financial Risk**: Roughly **1 in 3 federally funded nonprofits** depend on Washington for more than 20% of their revenue. Human Services nonprofits are among the most financially exposed: federal direct grants provide 36% of all dollars spent in the subsector and make up 28% of the average recipient's revenue. The environment, healthcare, and education subsectors also show high levels of exposure.

- **Structural Risk**: Highly concentrated fields, like science & technology and employment assistance, rely heavily on a few anchor organizations, while fragmented fields, like youth development and sports, depend on hundreds of micro-organizations operating on shoestring budgets. While these traits are not in themselves negative, they reveal that the results of cuts in federal funding may vary by subsector, requiring tailored policy responses.

Although only a small share of Hawaiʻi's nonprofits receive direct federal funds, the analysis reveals pockets of heightened vulnerability. Cuts in healthcare, housing, and education would also compound strains from reductions in Medicaid, SNAP, and other safety net programs.

Federal cuts are unpredictable, but their impact in Hawaiʻi can be mitigated. Potential strategies include rapid response funding, diversification of revenue streams, capacity-building, coordination, and contingency planning. By acting together, leaders in government, nonprofit organizations, philanthropy and business can ensure that Hawaiʻi's nonprofits remain resilient and continue to provide critical services to the state's most vulnerable residents.

Introduction

The federal government plays a major role in our state economy. Its contributions take many forms: salaries for federal employees, contracts with local businesses, grants to nonprofit and educational organizations, program subsidies to state and local governments, direct assistance to vulnerable populations, and more. With support from majorities in both chambers of Congress, the current administration has diverged sharply from conventional policy with a flurry of reorganizations, layoffs, freezes, cuts, and tariffs. Adding to the confusion, some executive actions have been announced but not implemented. Others have been alternately paused and unpaused as legal challenges advance through the courts. Meanwhile, the One Big Beautiful Bill Act, which became law in July, revises numerous budget provisions relating to social spending programs, tax credits and deductions, and federal law enforcement. Ongoing budget negotiations for Fiscal Year 2026 complicate the situation even further.

Quantifying the economic impact of federal policy changes in real time is a herculean task. At the national level, think tanks such as the Brookings Institution, KFF, FFIS, and Yale Budget Lab have analyzed actions and provisions that align with their specialties. At the state level, UHERO has been tracking and incorporating major decisions into its quarterly economic forecasts, and improving public understanding through blog posts. Reporting by local news outlets has also been invaluable in highlighting the impacts of policy changes on specific organizations and populations.

All of these sources, however, are fundamentally reactive; they estimate what will happen after a cut is announced. By then, organizations and the communities they serve are already under stress. This research shifts that dynamic from reactive to proactive. With support from the Hawaiʻi Community Foundation, we assembled an early warning system for Hawaiʻi's leaders that identifies: which grants are politically vulnerable, which of Hawaiʻi's nonprofits depend on federal support, and which recent decisions will place new stresses on the social sector. With this information in hand, business, nonprofit, and government leaders can ensure that Hawaiʻi continues to support its most vulnerable residents despite the uncertainty of federal aid.

The purpose of this analysis is to:

1. Map and compare federal spending in Hawaiʻi over time, highlighting grants to nonprofit organizations with the potential to be frozen, cancelled, or otherwise discontinued.
2. Identify additional at-risk nonprofit organizations based on the share of revenue that comes from federal sources.
3. Provide descriptive statistics on Hawaiʻi's nonprofit landscape, investigating policy and service categories for evidence of fragmentation or duplication.

We focus on 3 types of risk, which we analyze at the individual grant, nonprofit, and nonprofit subsector levels, respectively:

- **Political risk**: the potential for federal cuts based on policy intentions and priorities.
- **Financial risk**: the potential for organizations to shrink or close if federal funds are cut.
- **Structural risk**: the potential to be overwhelmed by need in the event of federal cuts.

Importantly, this framing addresses both the direct effects of federal funds paid to nonprofits and the potential indirect effects on nonprofits of funding cuts elsewhere, such as Medicaid and SNAP. Together, these three lenses provide a clear overall picture of nonprofit vulnerability that will help state and local leaders understand where risks are concentrated and how to mitigate potential disruptions in social services.

Methods

We combine primary analysis of federal administrative data with secondary analysis of reports by journalists and scholars inside and outside of Hawaiʻi. Results are aggregated to the organization and subsector level. To group nonprofit organizations into subsectors, we use the industry standard National Taxonomy of Exempt Entities at the 1-character level (NTEE1). For example, any organization with a mission concerning housing or shelter has an NTEE1 of "L". The more granular 3-character level (NTEE3) from IRS filings was determined to be too unreliable for analysis.

To map federal spending in Hawaiʻi, we rely on the official open data source: USASpending.gov. The USASpending dataset (USAS) includes all non-classified federal payments (outlays) or promises of payment (obligations) to any recipient anywhere in the world since 2008, with detailed information about the agency, award, program, purpose, and recipient. We narrow our focus to contracts, grants, subcontracts, and subgrants to recipients with a 501(c) nonprofit designation from the Internal Revenue Service (IRS) with a place of performance in Hawaiʻi. Those unfamiliar with the process and terminology of federal spending are encouraged to consult the appendix: *a primer on federal funds*.

To identify **political risk**, USAS awards are first cross-referenced with databases maintained by Federal Funds Information for States (FFIS) and the Center for American Progress (CAP) that identify programs and awards that have been affected by executive actions. Next, we analyze the text of award descriptions, flagging any that contain words or phrases that have been the target of executive actions, such as diversity, gender, and renewable energy. We also flag grants associated with programs that uniquely serve Native Hawaiians, which lack nationwide political backing.

To assess **financial risk**, we link USAS award data with payment period data from the U.S. Treasury and IRS information about the structure, activities, and financials of all tax-exempt organizations in the state. Together, these datasets reveal the share of every nonprofit organization's annual revenue, income, and assets that come directly from federal sources. Nonprofit organizations with single-year obligations or payments totaling more than 20% of their revenues or assets are counted as experiencing financial risk. Missing from the federal administrative data are "pass-through" payments, such as a block grant disbursed to local nonprofit organizations through state or local governments.

Finally, **structural risk** emerges at the sector level with significant concentration, fragmentation, or overall dependence on federal funds. We flag subsectors where >50% of all revenues accrue to the largest organization or >75% accrue to the top 3 as heavily concentrated, and subsectors where >80% of organizations have <$100,000 in annual revenues as heavily fragmented. Sectors where more than 10% of all revenues come from federal funds are also flagged.

Findings

Summary Table: Top Nonprofit Subsectors by Risk Category

Rank	Political Risk	Financial Risk	Structural Risk
1	Healthcare	Healthcare	Social Science
2	Arts, Culture and Humanities	Environment	Employment Assistance
3	Environment	Human Services	Science & Technology
4	Human Services	Arts, Culture and Humanities	
5	Education	Community Improvement & Capacity Building	

Political risk

IRS records show about 8,200 501c(3) nonprofit organizations active in the state. Of these, only 201 (less than 3%) received direct federal grants in fiscal year 2025. Some 74 grants to 59 nonprofits have political risk based on award descriptions or documented executive actions. As of September 2025, these at-risk grants had a total unpaid balance of $126M, which could be withdrawn or withheld in the future. Over half of these dollars are committed to healthcare organizations, as illustrated by the table below. Other nonprofit subsectors with significant exposure include international affairs, human services, and environment.

Major Nonprofit Grants with Political Risk Aggregated by Subsector

Subsector (NTEE)	Orgs.	FTEs	Obligations ($M)	Outlays ($M)	Unpaid ($M)	Unpaid (%)
Health Care (E)	12	7,942	158	94	**64**	40
International Affairs & National Security (Q)	3	231	16	2	**14**	85
Human Services (P)	5	1,453	30	19	**11**	33
Environment (C)	8	93	12	3	**9**	72
Arts, Culture and Humanities (A)	10	321	7	2	**5**	73
Education (B)	5	357	5	1	**4**	73

Another way of segmenting political risk is by service population. Programs that primarily serve Native Hawaiians, which include several of the largest awards to nonprofits statewide, show concentrated risk. Their unpaid obligations of $66M are more than half of the total. Of these, over 80% is for health programs, with most of the remainder in human services. Any cuts in nonprofit healthcare programs would compound the loss of healthcare access resulting from Medicaid cuts contained in the OBBBA, as discussed in our 25Q3 forecast.

Financial Risk

Among nonprofit organizations receiving federal funds directly, financial risk is narrowly concentrated. One in three (68) receive more than 20% of their revenues from federal sources. These organizations collectively manage $204M in revenues, $175M in assets, and roughly 2,000 employees. They await $232M in unpaid federal obligations. On average, their federal grants represent nearly 60% of their annual revenue. Twenty-one organizations reported no other significant revenues on their latest publicly available tax filing.

Human Services nonprofits are among the most financially exposed: federal direct grants provide 36% of all dollars spent in the subsector and make up 28% of the average recipient's revenue. Healthcare nonprofits have a lower proportional dependence (21% of average revenues) but represent the largest sector by far, with $3.9 billion in annual revenue and $563 million in federal obligations, meaning that even moderate cuts in percentage terms could ripple widely through employment and service delivery.

Nonprofit Organizations with Financial Risk Aggregated by Subsector

Subsector (NTEE)	Orgs at Risk	Sector Annual Rev. ($M)	Obligations ($M)	Sector Fed Funds Share (%)	Average Org. Fed Funds Share (%)
Health Care (E)	14	3,983	**563**	14	21
Human Services (P)	9	544	**197**	36	28
Environment (C)	14	172	**29**	17	36
Arts, Culture and Humanities (A)	7	322	**14**	4	21
Education (B)	5	1,598	**13**	1	32
Housing & Shelter (L)	5	163	**12**	8	40

Financial risk reflects a different kind of vulnerability than political risk. Even when programs remain politically stable, organizations that rely heavily on federal dollars may face operational challenges if budgets are reduced or held constant in an inflationary environment, or even payments are delayed. In the event of further cuts, federal dependence may cause service challenges in subsectors such as healthcare, human services, education, and environment. Worryingly, these are many of the same areas flagged for political risk, suggesting that some of the same organizations most vulnerable to cuts are also those most likely to experience them. Community leaders can support organizations facing financial risk by helping them to make contingency plans and find new revenue sources.

Structural risk

Beyond financial and political exposure, some nonprofit subsectors face structural risk: the vulnerabilities that arise when resources are concentrated in a few organizations, fragmented across many very small organizations, or heavily reliant on federal funds at the subsector level. Concentration or fragmentation are not necessarily negative. Larger organizations may benefit from economies of scale, serving more people for less cost per person. Smaller organizations, on the other hand, may be well-suited to serving particular populations or complex cases. These structural attributes merely highlight the different ways in which subsectors may be stressed by cuts in federal funding.

Revenue concentration is most visible in science & technology and employment assistance nonprofits, where the top three organizations receive over three-fourths of subsector revenues. This suggests that other nonprofits in the subsector would struggle to fill the gaps caused by just 1 or 2 large organizations facing disruption. Fragmentation is acute in the religious, sports & recreation, and youth development subsectors, where over 80% of organizations operate on budgets under $100,000. Because micro-organizations tend to serve a small geographic area, service "deserts" could arise if these organizations dissolve.

Structural risks operate at the system level rather than the level of individual organizations. Highly concentrated subsectors risk over-reliance on a few anchor institutions, while heavily fragmented subsectors may lack the capacity to coordinate a response to new crises. Where federal funds make up more than 10% of revenues, subsectors are especially vulnerable to changes in federal policy. For decisionmakers, these patterns underscore that stability strategies and responses may differ by subsector: capacity-building in fragmented fields, diversification in concentrated ones, and contingency planning where federal support is systemic.

Discussion

In sum, the vulnerability of Hawaiʻi's nonprofit sector to cuts in federal funds is uneven, concentrated in a relatively small subset of grants, organizations, and subsectors. Nonprofit grants are a relatively small share of overall federal social spending. Few nonprofits in Hawaiʻi receive federal awards directly, and fewer still receive a substantial portion of their overall revenues. Even so, quantitative analysis reveals significant pockets of risk in a wide array of subsectors, including healthcare, human services, education, environment, and arts & culture. Nonprofit, government, and business leaders can use this information to prepare a coordinated, targeted response to future shifts in federal policy.

As outlined here, political risk highlights where federal programs may be (or have been) targeted by executive or budget actions; financial risk shows which organizations would struggle most if their funds were reduced or delayed; and structural risk identifies subsectors with collective vulnerability to funding shocks. Each of these varieties of risk will require different strategies to increase nonprofit resilience.

As recent history has shown, funding freezes or cuts to grants facing political risk can occur with little warning. Recipients may therefore require a rapid disbursement of stabilizing funds from other sources to avoid layoffs and service interruptions, such as the $50M set aside by the state government in Act 310. Speed will be an important factor: less than 14 days from federal action would ensure that the organizations can still make their next payroll. Administrators of the Act 310 fund, as well as similar philanthropic efforts, could use the data collected for this study to pre-register organizations at risk and ensure timely payment.

Community leaders could also support nonprofit organizations facing financial risk with grantwriting, fundraising campaigns, and financial planning to diversify revenue streams, build reserves, and reduce reliance on federal funds. Individual organizations are not named here to avoid adding to their difficulties; interested parties may contact the Hawaiʻi Community Foundation for advice on where best to direct their efforts. Shoring up structural risk may be a longer-term endeavor. The philanthropic community can play a catalytic role by convening nonprofit leaders in vulnerable subsectors to discuss shared needs, coordinate service delivery, and engage in strategic and contingency planning.

Federal cuts are a risk that can be mitigated. By working together, leaders in the nonprofit, government, and business communities can ensure the sustainability of local nonprofits and continuity of the critical services they provide. This research can inform the development of a data-driven action plan on nonprofit vulnerability, so that the fate of Hawaiʻi's nonprofits–and the important services they provide–will hinge on decisions made at home rather than in Washington.

Future work

This research relies on data available from tax year 2023 and fiscal year 2025, the latest available at publication. Findings include all current obligations (including those to be paid in future fiscal years), but new obligations happen all the time. Therefore, active monitoring of federal appropriations and executive actions is recommended. Ideally, ongoing support could be found to refresh this analysis on a quarterly basis, and to refine and extend it as follows.

Verification of NTEE codes would allow for more detailed subsector analysis at the three-digit level, capturing finer distinctions among nonprofit activities. Incorporating state and county budget and procurement records would enable a fuller picture of financial risk, including the role of federal pass-through funds administered locally. Geographic analysis using nonprofit address data could reveal county-level disparities, while benchmarking measures of concentration, fragmentation, and per capita spending against other states would place Hawaiʻi's nonprofit sector in comparative perspective. Finally, modeling induced demand for nonprofit services in response to federal cuts to state and local government funding would allow researchers to estimate the additional burden likely to fall on nonprofits when public benefits are reduced, such as Medicaid and SNAP.

Together, these refinements would help transform this analysis from a first map of federal risk exposure into an ongoing observatory of nonprofit resilience, one capable of capturing not just the direct fiscal consequences of federal retrenchment but also the ripple effects that shape Hawai‘i’s broader civic and social fabric.

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Appendix: a primer on federal funds

Obligations vs. Outlays

Federal spending moves through two key stages:

- **Obligation**: A legally binding promise to pay, such as when a grant is awarded or a contract is signed.
- **Outlay**: The actual payment, recorded when money is disbursed.

Obligations and outlays are published monthly on **USASpending.gov**. Outlays always follow obligations, but not all obligations are fully paid out, and payments may lag months behind commitments.

Mandatory vs. Discretionary

- **Mandatory (Entitlement) Programs**: Examples include Social Security, Medicare, and Medicaid. Anyone who qualifies is legally entitled to benefits. Spending changes mainly through eligibility rules or enrollment processes.
- **Discretionary Programs**: Funded annually through appropriations. Levels can vary significantly depending on policy priorities.

Assistance vs. Contracts

Federal spending generally takes two forms:

- **Assistance**:
    - *Direct Assistance*: Payments directly to individuals, such as Pell Grants or SNAP benefits.
    - *Grants*: Awards to organizations (e.g., nonprofits, universities, local governments) to carry out activities aligned with federal program goals. These funds may flow through multiple layers of recipients.
- **Contracts**: Payments to businesses or organizations to provide goods or services to the government (e.g., IT services, construction, program evaluation). Contracts are procurement tools, not aid.

Prime Awards vs. Subawards

- **Prime Award**: The initial obligation from a federal agency to a recipient (e.g., a nonprofit or state government).
- **Subaward**: A portion of that award passed down to another entity. For example, a national nonprofit may receive a prime award for community health and then subaward funds to local nonprofits.

Subawards can be critical for nonprofits, but they are less visible in federal data and often lag even further in reporting.

Fiscal Years and Timing

The federal fiscal year runs **October 1 to September 30** (e.g., FY25 = Oct 2024–Sept 2025). Because accounting lags, the absence of an outlay in real-time data does not mean funds were canceled—it may simply reflect delays in payment or reporting.

Interpreting the Data

- **Obligations can span years**: A multi-year grant may be fully "obligated" upfront, but payments (outlays) occur gradually.
- **Obligation ≠ spending:** Obligations represent the maximum allowed, not the final amount spent. Some funds are "deobligated" (reduced or canceled) before they are spent.
- **Annual estimates**: The government does not provide official single-year obligation figures. Analysts (like at UHERO) often approximate them by distributing the obligation across the award's payment schedule.

Implication for Readers: For nonprofits, the most relevant dollars often come through *assistance spending* in the form of grants (prime or sub). Federal contracts operate differently and rarely flow to community-based organizations. Real-time data on obligations signals federal commitment, but actual cash flow (outlays) can lag—especially when subawards are involved. Therefore, Federal funding levels seen in real-time data should be interpreted with caution. The UHERO financial risk analysis is based on calculations of expected single-year outlays to avoid this pitfall.