Abstract:

The 2026 midterm elections have given nonprofit leaders an opening to seek restored federal funding, but scrutiny of the sector is expected to continue.[1][2] Near-term pressures include a December 11, 2026, federal funding deadline that falls before the new Congress is seated.[8][9][11] Longer-term issues include shifting congressional oversight and continued executive-branch and state-level scrutiny.[1][2] This article reviews these implications and outlines steps advisors recommend, such as funding scenario planning and liquidity stress tests.[4]

What The 2026 Midterm Elections Mean For Nonprofits: Near-Term And Longer-Term Implications

From Nonprofit Management Navigator, a dba of PMG46, LLC

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Executive Summary

Nonprofit leaders see the 2026 midterm results as a chance to restore lost federal funding, but legal advisors expect scrutiny of the sector to continue.[1][2] Near-term pressure centers on a December 11, 2026, federal funding deadline and an unresolved federal grants rule.[8][9] Longer-term pressure centers on congressional oversight and executive-branch and state enforcement.[2] RSM's recommendations include modeling funding scenarios, stress-testing liquidity, mapping grant exposure, and documenting compliance.[4]

Introduction

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Nonprofit leaders hope the 2026 midterm results will let them normalize their relationship with the federal government after years of strain, restore lost funding, and see Congress reclaim spending power they say it ceded to the executive branch.[1] Legal advisors at WilmerHale, however, expect scrutiny from the executive branch, Congress, and Republican state attorneys general to continue, even as its focus changes.[2]

In the near term, the issues are money and deadlines. An Urban Institute report found that 49% of nonprofits receiving government funding experienced a disruption in 2025.[3] The current stopgap spending law expires December 11, 2026, and a temporary bar on the federal government's proposed grants overhaul ends the same day.[8][9] One philanthropy leader reports that many foundations paused grantmaking after the 2024 election.[5]

Over the longer term, congressional oversight is expected to change direction rather than end, and executive-branch and state enforcement are expected to persist.[1][2] One workforce risk has receded: a federal court vacated the administration's Public Service Loan Forgiveness (PSLF) employer rule.[6] RSM calls federal funding volatility the single issue most likely to affect nonprofits and urges organizations to stress-test liquidity and map their exposure to funding disruptions.[4]

Near-Term Implications

Federal Funding Is The Immediate Priority

The Urban Institute found that 49% of nonprofits receiving any government funding experienced a disruption in 2025, equivalent to 35% of nonprofits overall.[3] A companion Urban Institute report found that about 30% of disrupted staffed nonprofits reduced their number of employees in 2025, compared with about 20% of all staffed nonprofits.[7]

A Deadline Arrives Before The New Congress

The current stopgap spending law expires December 11, 2026.[9] The outgoing Congress, in its lame-duck session since November 9, must pass another funding bill before then; the new Congress starts its term January 3, 2027.[11] As of November 18, congressional leaders had not agreed on how to extend funding past December 11.[9]

Federal Grant Rules Remain Unsettled

Section 157 of the same law, P.L. 119-103, bars the Office of Management and Budget (OMB) from finalizing its proposed Uniform Grants Regulation, or a substantially similar rule, on or before December 11, 2026; it does not affect OMB's ability to finalize the rule afterward.[8] According to the Congressional Research Service, the proposal would turn OMB's grants guidance into a regulation and could give OMB a more direct role in grants policy.[8] The National Council of Nonprofits organized a November 10 Day of Action urging Congress to include language in the next stopgap bill permanently blocking the rule.[10]

Funders May Hesitate

According to one philanthropy leader, after the 2024 election many foundations paused grantmaking, launched strategic planning, or postponed conversations with grantees, and decisions did not resume in earnest until early summer 2025.[5] The author reports that some grantees, unsure of future support, slowed their work or scaled back their ambitions, and urges funders not to pull back after the 2026 midterms.[5]

Longer-Term Implications

Congressional Oversight Is Likely To Shift, Not End

Rep. Richard Neal, reported by The Chronicle of Philanthropy as the presumptive incoming chair of the House Ways and Means Committee, is expected by one lobbyist to focus on Trump-aligned nonprofit groups and donors.[1] WilmerHale expects oversight hearings involving the IRS and Treasury over alleged targeting of the tax-exempt sector, and scrutiny of groups tied to the administration, such as Freedom 250 and the anticipated presidential library.[2] The firm also expects the new minority to continue its own oversight and identifies bipartisan concerns including foreign funding, engagement in China, perceived political activity, and donor-advised fund transparency.[2]

Executive-Branch Scrutiny Continues

A lobbyist quoted by The Chronicle of Philanthropy expects the administration to use executive agencies to examine nonprofits' role in the election, including partisan activity by 501(c)(4) groups.[1] WilmerHale anticipates sustained executive-branch activity, possible criminal cases from the Justice Department, and a possible return of Foreign Agents Registration Act enforcement.[2] The firm also cites reports that a national security presidential memorandum, NSPM-7, could lead to terrorist designations or revocation of tax-exempt status, and notes a proposed rule on private schools with race-conscious policies and a Treasury initiative to expand Form 990 reporting.[2]

State-Level Enforcement

In February 2026, a coalition of 19 Republican attorneys general recommended foreign-agent investigations into 150 climate organizations.[2] Florida enacted a law in April 2026 allowing state officials to designate domestic terrorist organizations, and the Florida

chapter of the Council on American-Islamic Relations announced it would cease operations in the state after a federal judge allowed its designation to take effect.[2] WilmerHale expects Republican members of Congress to coordinate with Republican state officials on messaging and enforcement.[2]

Workforce And Funding Stability

A federal court vacated the administration's PSLF employer-eligibility rule hours before its July 1, 2026, effective date, finding that it exceeded the administration's statutory authority and violated the First Amendment.[6] On October 21, 2026, the administration moved to dismiss two of its three appeals; the American Association of Colleges of Osteopathic Medicine reports that it is expected to drop the third and that the court's findings limit any new rulemaking.[6]

RSM points to a July 2026 federal court decision that reinstated 1,180 active grants worth roughly $5.4 billion across 23 states.[4]

Potential Nonprofit Actions

The steps below are drawn from RSM's published recommendations, WilmerHale's advice, and the Council on Foundations.[1][2][4]

Near term

1. **Model funding scenarios** that include delayed appropriations, award terminations, lower reimbursement or indirect-cost recovery, and changes in state pass-through funding.[4]
2. **Stress-test liquidity and covenant capacity** against payment delays and higher demand for subsidized services.[4]
3. **Map exposure** by agency, program, award term, and state, including renewal dates, termination clauses, compliance conditions, and concentration by funding source.[4]

Longer term

1. **Document** grant compliance, indirect-cost support, and mission alignment.[4]
2. **Anticipate continued scrutiny**, as WilmerHale advises, in the areas it identifies: foreign funding, donor-advised funds, perceived political activity, and the government grants, contracts, and fiscal sponsorship arrangements covered by Treasury's Form 990 initiative.[2]
3. **Assign owners** to monitor appropriations, agency rules, litigation, and state implementation.[4]
4. **Build relationships with members of both parties**, as the Council on Foundations has urged.[1]

Summary

The midterms give nonprofits an opening to press for restored federal funding.[1] Near-term risks include the December 11 funding deadline, the unresolved OMB grants rule, and possible funder hesitation.[5][8][9] Over the longer term, WilmerHale expects continued scrutiny from Congress, the executive branch, and Republican state attorneys general, even as its focus shifts.[2]

Notes

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