

# **State Budget Crises: Ripping the Safety Net Held by Nonprofits**

March 16, 2010



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## *Special Report*

# **State Budget Crises: Ripping the Safety Net Held by Nonprofits**

The Great Recession and its aftermath have imposed massive burdens on nonprofits and the communities they serve. In our earlier Special Report, *A Respectful Warning Call to Our Partners in Government*, we highlighted national and state-specific studies documenting why many nonprofits are struggling to survive: Individuals in local communities hurt by the nation's economic slump are seeking increased services from nonprofits at the same time that charitable giving has dropped.<sup>1</sup> These forces have pushed many nonprofits to the brink, threatening the social safety net nonprofits hold for their communities.

This dangerous situation is being aggravated by actions taken by many state and local governments. These harmful actions include:

- States cutting funds for essential human services, shifting cost burdens to nonprofits
- Government agencies withholding payments they contractually owe nonprofits for delivering services, essentially forcing nonprofits to bankroll public programs
- State and local governments extracting money from nonprofits by imposing new fees and circumventing constitutionally-protected exemptions from various taxes

Nonprofits recognize that our government partners face difficult fiscal challenges. Like nonprofits, governments are committed to serving the public good and are struggling to adopt the least damaging among many unpalatable options. But many state and local policymakers appear to be making decisions detrimental to nonprofits based on two faulty assumptions. First, charitable nonprofits cannot simply turn to foundations and other private donors to fill the huge voids created when governments renege on their legal commitments or impose new costs. Charitable contributions have plunged over the last two years, and foundations lost about \$150 billion in 2008 alone.<sup>2</sup> Second, nonprofits are not insignificant to the economy; rather, they fuel millions of jobs and serve as vital partners for the delivery of publicly-funded services. As a recent Congressional Research Service report explained, nonprofits employ more than the construction, finance, and insurance industries *combined*, and governments rely heavily on nonprofits to deliver services – government agencies now account for 29% of nonprofit funding – so they have a vested interest in the health of the nonprofit sector.<sup>3</sup>

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This Special Report examines the alarming condition of state budget deficits and three resulting threats to nonprofits: (1) governments slashing funds for programs they expect nonprofits to deliver; (2) governments withholding payments from nonprofits for contracted services already delivered; and (3) governments seeking revenue from nonprofits through new fees and taxes. This Report explains how these troubling trends impact all nonprofits – not just those with government contracts – and produce a ripple effect hurting communities, charities, foundations, and, paradoxically, government itself.

This Report concludes with a call to action, urging community leaders – at governments, foundations, and nonprofits – to work together to meet the enormous needs of the people they jointly serve. Policymakers have tough decisions to make, but they should make them with a deeper understanding of how certain actions are placing unreasonable burdens on nonprofits and, consequently, creating gaping new holes in the social safety net our communities desperately need right now.

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## THE STATES' BUDGET DEFICITS

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*New Jersey Governor Declares Fiscal Emergency*  
*Hawai'i May Delay Payments to Low-Income Health Providers*  
*Kansas Lawmakers Look to Nonprofits to Plug Budget Hole*

Sadly, headlines like these are proliferating as states grapple with plummeting tax revenues and the worst budget outlook in decades. The cumulative state budget gap for 2009-2012 has been pegged at a startling \$460 billion.<sup>4</sup> This fiscal nightmare threatens all nonprofits and those they serve, even nonprofits that receive no direct payments from government agencies. Here's a look at the harsh reality:

States have slashed programs left and right to deal with an estimated \$194 billion shortfall in 2010 fiscal year budgets, according to the Center on Budget and Policy Priorities.<sup>5</sup> As severe as these cuts are, they likely will be deeper next year because several mitigating factors will not be available to help with the 2011 budgets:

- 2010 budgets were built on only 6-8 negative tax revenue months, as opposed to 10-12 negative months for the upcoming cycle
- Many states have tapped and depleted their contingency or "rainy-day" funds
- Federal stimulus dollars partially rescued state budgets in 2010, but these funds won't be as much help in fiscal 2011 because half of the stimulus funding has already gone to the states and the other half is spread out over the next couple of years
- Last year, states resorted to what have been called one-time "accounting gimmicks" and "stupid budget tricks," such as selling the state capitol, court buildings, prisons, and leasing them back<sup>6</sup>

The short-term value of these tricks has evaporated. Legislators now have less than 4 months to balance their 2009-2010 books by June 30, before the new 2011 fiscal year begins in most states, meaning even more drastic cuts must be made to close the current fiscal year.

Unfortunately, the situation will not improve anytime soon. The National Conference of State Legislatures (NCSL) reports that 35 states also face budget gaps totaling more than \$55 billion for the 2011 fiscal year and 23 states already project shortfalls totaling \$69 billion for the 2012 fiscal year.<sup>7</sup> NCSL warns that "the state fiscal situation is rapidly deteriorating...from sobering to distressing."

A recent assessment by the National Governors Association (NGA) sounded an even more ominous tone: "The bottom line is that states will not fully recover from this recession until late in [this] decade." NGA's Executive Director predicts that "states will continue to struggle over the next decade because of the combination of the length and depth of this economic downturn, the projected slow recovery and the overhang of unmet needs."<sup>8</sup>

*"We're all but ignoring a fiscal train wreck that is coming from states with budget crises big enough to boggle the mind."*

*-- Bob Herbert, The New York Times*

Consequently, the NGA forecasts that the recession and fiscal crisis may change the way many states do business: "The long climb toward recovery of state fiscal health has

not yet begun, and this has prompted urgent efforts to redesign and downsize government. In some instances, this has given states an opportunity to enact needed changes that have been avoided during prosperous times. But in other cases, it has prompted hard choices on the best way to 'cut to the bone' while doing the least harm to state competitiveness and quality of life."

*“So what does this bleak fiscal scenario for state governments mean for nonprofits?”*

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**THREAT #1:  
GOVERNMENTS ARE CUTTING FUNDS FOR ESSENTIAL PROGRAMS**

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When policymakers confront gaping budget deficits, they often find it easier to cut spending on programs than to raise taxes.

In a recent report on budget cuts in 45 states, the Center on Budget and Policy Priorities noted that 29 states cut funding for health-care programs, and 24 states plus the District of Columbia cut services for elderly and disabled persons.<sup>9</sup> Facing a \$12 billion shortfall, California’s Governor has proposed a 2010-2011 budget that would force 200,000 children off low-cost medical insurance, end in-home care for 350,000 seniors, and possibly dismantle the state’s welfare-to-work system.<sup>10</sup> These are not empty threats. On March 11, 2010, the Arizona Legislature slashed \$1.1 billion from its current year budget, eliminating Medicaid health care coverage for more than 47,000 children and 310,000 low-income adults, shutting down full-day kindergarten, and taking other drastic actions.<sup>11</sup>

Slashing funds for programs may help legislators address a short-term need to balance budgets, but they often create long-term costs for everyone, including legislators, taxpayers, and communities.

*“What happens when governments cut funding for programs the community needs?”*

When governments cut funding for human services, health care, and other essential programs, it hurts all nonprofits and the communities they serve. Nonprofits with government contracts often lose the revenues they need to maintain operations. Even nonprofits without government contracts lose, because the ongoing – and indeed, increasing – demand for services shifts to them as well.

This shift happens in two ways. First, when foundations and individuals see unmet human needs, they often redirect their planned donations away from arts, culture, education, research, and other important nonprofit groups to fill the gap, effectively shortchanging some while trying to rescue others. Second, when individuals needing services government had funded cannot get help from the usual providers, they turn elsewhere for assistance. An abused woman and her three children turned away by a closed domestic violence shelter the state no longer funds may turn up at a homeless shelter, a food bank, a church, or some other nonprofit that will do its best to help but may not be properly equipped to provide the services required.

Some legislators and government budget officers may assume that nonprofits can simply get additional grants from foundations to compensate for lost public funding, but that is not the case. Foundation assets plunged 22% in 2008, eliminating roughly \$150 billion in charitable resources in a single year, according to the Foundation Center.<sup>12</sup> The Center projects that foundation giving in 2009 fell by more than 10% from 2008, and the outlook for 2010 is no better.<sup>13</sup> Meanwhile, Giving USA reported that individual giving – usually the largest component of charitable contributions – fell by nearly 3% in 2008, and corporate giving declined by 4.5% that year.<sup>14</sup> Others report that individual giving dropped another 5% in 2009 and corporate contributions may have fallen by as much as 10% last year.<sup>15</sup>

Even if charitable giving rebounds in the years ahead, it won't be nearly enough to compensate for the losses nonprofits are experiencing due to government funding cuts. The Congressional Research Service reports that government payments (whether through contracts or grants for delivering services) account for more than a quarter (29%) of nonprofit funding, compared to just 12% from private contributions.<sup>16</sup> Nearly half (49%) of nonprofit funding comes from private payments for services, such as hospital stays, tickets to cultural events, and school tuition. So when government cuts funding, nonprofits cannot simply replace that lost money from other sources.

When governments cut funding for programs that historically nonprofits have delivered to the community on behalf of government, it hurts taxpayers, public officials, *and* the economy – suggesting that many government officials are unaware of the following ways that nonprofits provide financial lifelines to government and the broader community.

1. [Nonprofits protect taxpayers – and public officials](#)

Imagine the burden taxpayers would bear if government had to pay for all of the services nonprofits deliver in a community, such as this sampling of activities the federal government recognizes as deserving of tax-exempt status: “Relief of the poor, the distressed, or the underprivileged,” “prevention of cruelty to children and animals,” “advancement of education or science,” and “combating community deterioration and juvenile delinquency.”<sup>17</sup> If legislators and city council members realized that they would have to raise taxes to replace the community services that charitable nonprofits provide and pay the *full cost* of those services, would they make those cuts in the first place?

2. [Nonprofits lessen the burden on government](#)

Nonprofits benefit the public interest in countless other ways, such as providing child care, homes for the aged, health care and hospices, and volunteer fire companies. Now consider how much more it would cost taxpayers to provide those services if nonprofits disappeared and government officials had to step in and raise taxes to pay for those same services. Government – and taxes – would grow substantially.

3. [Nonprofits stimulate the economy by generating jobs and taxes](#)

Nonprofits operate as invisible yet indispensable economic engines by:

- Employing more people than industries that often are regarded as core bases of the economy. Nonprofits employ 13.5 million people – more than the 12.3 million employed by manufacturers in the United States and more than the 11.6 million employed by the construction, finance, and insurance industries combined.<sup>18</sup>
- Purchasing billions in goods and services annually, which spurs economic growth by creating and sustaining jobs in other industries.<sup>19</sup>
- Supporting productivity in the business and government sectors by, for example, providing child care, allowing single parents to work; providing homes for the aging, reducing job absenteeism by family members who otherwise would be providing care; and giving individuals valuable experience and job training through volunteer work.

Until now, nonprofits have been more concerned about delivering their services to local communities than advertising the many ways they spur economic growth and aid governments. However, these economic times mandate a new approach: Nonprofit leaders need to actively educate policymakers and the press – their partners in promoting the public good – about the full impact of the nonprofit sector that others are overlooking.

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## THREAT #2: GOVERNMENTS ARE WITHHOLDING PAYMENTS FROM NONPROFITS

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In addition to cutting funds, state governments sometimes try to pass along their burdens in less transparent ways. Reports across the country indicate that an increasing number of government agencies are balancing part of their budgets on the backs of nonprofits. One of the more popular methods: Delaying payments they owe to nonprofits for services delivered pursuant to legal contracts.

A November 2009 report by the Congressional Research Service (CRS) determined that “in addition to funding cuts, states apparently have been delaying payments for services they have contracted with nonprofits to provide.” The CRS report cited a national survey documenting that 35% of responding nonprofits reported declines in overall government support and more than a third reported delayed payments from the government. The CRS warned: “It appears that governments, particularly state governments, may be contributing to the financial difficulties of nonprofit organizations, even to the point of not paying for contracted services.”<sup>20</sup>

### *“What happens when governments withhold payments from nonprofits for services the nonprofits already delivered?”*

Failure by governments to pay their bills when they’re due amounts to an unreasonable taking – essentially forcing nonprofits to involuntarily bankroll the government services they provide. Some states owe individual nonprofits hundreds of thousands of dollars for contracted services already provided, and reports indicate that nonprofits are being forced to wait increasingly longer – sometimes a year or more – to receive payments from government agencies for services nonprofits have already provided.

In a recent survey, for example, the New York Council of Nonprofits found that 66% of nonprofits said they had been forced to take out a line of credit due to late payments from government agencies.<sup>21</sup> In Illinois, the Donors Forum reported that 75% of nonprofits experiencing delayed government payments indicated they are waiting longer this year than last, and virtually all of them faced cash flow problems.<sup>22</sup> Countless other nonprofits, from affordable housing providers in Louisiana to homeless shelters in Northern California, have been forced to trim their workforces, seek temporary “bridge loans” that carry high interest rates, or put off payments to their staff and vendors to cope with delayed reimbursement.

A recent *Wall Street Journal* story explained the situation in Illinois, where the state is running five months behind in payments to organizations like Springfield Arc, a nonprofit that provides foster care, job placement, and related services for the mentally ill. The state owes the nonprofit \$1.5 million in delayed payments, so Springfield Arc had to take out a large loan to meet its obligations due to the state’s failure. By June, Illinois may owe as much as \$6 billion to nonprofits and other contract providers.<sup>23</sup>

In many cases, the impact of the payment problems is so great that nonprofits have to make painful decisions to stay afloat. A homeless prevention program in Tennessee recently reported “a fairly large number” of local residents had been evicted from emergency housing due to delays processing federal grants.<sup>24</sup> A nonprofit that provides housing for low-income persons with HIV/AIDS in Louisiana recently sent letters to 43 families warning them that year-long delays in contract payments may force them to halt rent-support payments beginning in April.<sup>25</sup> In Hawai’i, the Department of Human Services recently warned that it may have to delay three month’s worth of payments for the state’s low-income health plan, a move that could leave insurers and nonprofit health providers to cope with \$300 million in unpaid medical bills.<sup>26</sup>

Unfortunately, delayed reimbursement is not the only government contracting problem plaguing nonprofits. Consider these additional strains being encountered more frequently:

- **Delayed contracts.** Last year, New York’s Comptroller investigated state agencies to see how promptly they were approving contracts. His report found that state agencies in New York are processing contracts late about 87% of the time, which then delays payments to nonprofits.<sup>27</sup>
- **Reduced payments.** Government changes to reimbursement amounts in Indiana and other states have led to lawsuits.<sup>28</sup>
- **Withholding of funds.** In North Carolina, a recent legislative report recommended withholding 2% of every grant to nonprofits to pay for “state oversight.” While the report notes that nonprofits receive only 4% of grants issued in North Carolina (local governments receive 88% and the University of North Carolina system gets 7%), it offers no rationale for taking away 2% from every nonprofit in the name of oversight but not withholding a penny from the \$15.3 billion in grants the state gives to governmental entities.<sup>29</sup>
- **Taking unauthorized loans.** By withholding payments to nonprofits, governments effectively are taking money owed to nonprofits and using it as free financing. This practice unfairly takes money from nonprofits, which are essentially strong-armed into involuntarily providing interest-free loans to government agencies. To add an ironic twist, nonprofits that do not receive payments on time from government often have to secure what are essentially “bridge loans” to fill the void until governments pay what they owe. But these nonprofits then get stuck with paying the interest – costs incurred because governments failed to honor their contracts.

None of the added burdens placed on nonprofits – the interest paid on “bridge loans” they have to take out, the loss of qualified employees who leave, the diversion of resources as nonprofit leaders scramble to find replacement funds, and the economic disruption to vendors and clients – appears to have been factored into decisions by governments to renege on their legal obligations to pay nonprofits on a timely basis. While it is understandable that state and local governments are searching for ways to save money, it is difficult to understand why government agencies take advantage of their nonprofit partners.

Consider the relationships governments maintain with for-profit contractors. Does the federal government require defense contractors to raise matching funds to pay for jet fighters to be built? Do state governments demand that their technology consultants accept only 90% of the actual costs incurred, or expect the road builder to continue paving long after the checks stop coming? Do local governments tell the construction company to front all of the costs to build the new school building but then wait 20 months before it will get paid? No, all of these would be unthinkable.

Governments need to understand the severe consequences their practices create for nonprofits. If nonprofits are constrained in their ability to serve their communities, the burden most certainly will shift back to governments and taxpayers.

### **Nonprofits: Please Send Us Your Stories**

The National Council of Nonprofits is working on a special project with the Center on Nonprofits and Philanthropy at the Urban Institute to document these growing government payment problems. We invite nonprofits to share your experiences – not only negative stories about problems but also any stories that demonstrate success in solving them – so we can help nonprofits spend their limited time and resources providing services to the community rather than fighting battles by themselves. Please visit [www.councilofnonprofits.org/share-your-story](http://www.councilofnonprofits.org/share-your-story) or contact Christopher Conkey, Policy Research & Public Affairs Specialist at the National Council of Nonprofits, at [cconkey@councilofnonprofits.org](mailto:cconkey@councilofnonprofits.org), or (202) 962-0322.

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**THREAT #3:  
GOVERNMENTS ARE TAKING NONPROFITS' MONEY VIA NEW FEES & TAXES**

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Beyond funding cuts and the withholding of payments, one of the most pernicious trends to arise from state budget crises is the growing number of government proposals to take money from nonprofits. Put simply, as policymakers scramble to come up with additional revenue, a growing number are targeting nonprofits with new fees and taxes.

In one of the more alarming developments, the *New York Times* reports that “an increasing number of states and localities are considering eliminating various tax exemptions for nonprofit groups.”<sup>30</sup> For example, some governments are trying to squeeze money from nonprofits through property taxes, even though many state constitutions expressly prohibit such taxation of charitable nonprofits. These constitutional provisions exempting nonprofits from property taxes often have been in place for more than 100 years. The exemptions were based on public policies that recognized that nonprofits provide vital services for the public good alongside or in place of local, county, and state governments.

- Despite the constitutional protections and the important role that tax exemptions have long played in allowing charitable nonprofits to serve local communities, policymakers in Indiana, Kansas, Pennsylvania, and other states are looking to raise funds by hitting nonprofits with new tax bills.
- Last year in Pennsylvania, the Allegheny County Commission voted unanimously to impose a property assessment on nonprofits. The County Executive vetoed the tax, saying it was unconstitutional. Although the Commission eventually relented, several commissioners reportedly vowed to search for other ways to extract money from nonprofits.<sup>31</sup>
- Similarly, efforts to reclassify nonprofit property as taxable have been rebuffed in Minnesota and Wisconsin, but that hasn't deterred officials in other states from trying to overturn precedent. City officials in Honolulu are considering proposals to close budget shortfall by imposing property taxes on nonprofits.<sup>32</sup>

We have not seen governments impose property taxes on city halls, fire stations, or public parks. Yet we do see proposals to circumvent constitutional protections to impose taxes on nonprofits such as food banks, homeless shelters, and the local YMCA.

Unfortunately, property taxes aren't the only traditional exemption under assault. Consider a few of the innovative schemes policymakers are concocting to take money from their nonprofit partners:

- **New Fees.** In Minneapolis last year, lawmakers adopted a “streetlight fee” on roughly 1,600 nonprofits. Jeannie Fox, Deputy Policy Director at the Minnesota Council of Nonprofits, protested that the streetlight fee and other new assessments are adding up to “death by a thousand cuts.”<sup>33</sup>
- **PILOTS.** In Pennsylvania, officials in Allegheny County and the City of Pittsburgh have been seeking “payments in lieu of taxes,” or PILOTS, from nonprofit schools and health institutions. Two dozen mayors in Pennsylvania recently lobbied the state house for authority to extract new revenue from sales taxes and reimbursements for tax-exempt properties.<sup>34</sup>
- **New Taxes.** In Kansas, lawmakers are trying to raise around \$182 million by making nonprofits subject to the state's 5.3% sales tax.<sup>35</sup> In Hawai'i, pending legislation would impose excise taxes on every dollar nonprofits receive to deliver critical services to fellow Hawaiians, excepting only donations and gifts.<sup>36</sup>



***“What happens when governments take money from nonprofits through new fees and taxes?”***

Individually, the movement by policymakers to raise revenue by taxing nonprofits means that nonprofits will have less money to meet their missions. To pay these new fees and taxes, nonprofits may have to choose: pay and then further reduce services and lay off more employees, or simply cease operations. Turning to grantmakers for money to pay new fees and taxes is not a viable option for practical and legal reasons. As a practical matter, anyone who does the math will see quickly that foundations cannot replace government funds. Legally, foundation mission statements and guidelines dictate what funds can be used for, so the notion of approaching a grantmaker for \$20,000 to pay for this year’s property tax bill, or an extra \$10,000 to pay for a new government licensing fee, is a nonstarter.

Taken together, the movement by policymakers to take money from nonprofits could fundamentally alter the longstanding compact between government and the nonprofit sector. Because citizens have long recognized the intrinsic value nonprofits bring to a democratic society – serving needy populations with no profit motive, enhancing life in their communities, and easing the burden on government in the process – they have granted through their constitutions and other laws certain tax exemptions to encourage nonprofit services. Reversing that partnership through a barrage of new taxes and fees would significantly burden nonprofits at a time when millions of Americans need nonprofits more than ever.

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**ACTION STEPS FOR COMMUNITY LEADERS**

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Nonprofits and governments serve the same constituents and same communities. In service to those communities, leaders in government, foundations, and nonprofits must recognize that we can accomplish more if we work together to develop creative solutions that advance the common good.

***“What can community leaders from governments, foundations, and nonprofits do?”***

**Government Officials – Elected, Hired, and Appointed**

As essential partners with state and local governments, many nonprofits leverage taxpayer dollars with private funds to expand service offerings in communities. This relationship has evolved over decades to the benefit of everyone involved, but the ongoing budget crisis appears to be straining it. To avoid further friction, the National Council of Nonprofits respectfully urges government officials – whether elected, hired, or appointed – to consider the following two steps.

**1. Learn more about nonprofits.**

Given the essential role that nonprofits play in providing services in their local communities, policymakers would benefit from having a more complete understanding of nonprofits. To illustrate with one basic example, imagine what would happen if all of the nonprofits engaging in after-school youth activities vanished. No more Boys & Girls Clubs, Boy Scouts, Girl Scouts, YMCA, YWCA, or hundreds of other programs. Suddenly fewer young hands would not be constructively occupied with educational, social, and recreation activities. The burden to occupy them would fall elsewhere, to parents, schools, and other groups lacking in time and resources. Inevitably, more youth could get caught up in negative activities such as vandalism, shoplifting, and illegal drugs. As a result, businesses and homeowners would want an enhanced police

presence requiring more officers, squad cars, gasoline and tires – not to mention additional resources for the juvenile justice system to cope with increased demand for rehabilitative services – all of which taxpayers must fund. In these and other countless ways, nonprofits play a sometimes invisible, yet vital, role in communities.

## 2. **Create a space for nonprofits at the policymaking table.**

Nationwide, nonprofits employ close to 10% of the civilian workforce. In some states they collectively are the second or third largest employer in the state. And nonprofits often are on the front lines addressing some of the most vexing social challenges that governments face, and therefore would be informed partners to help identify solutions. Yet time and again, our governments overlook and exclude nonprofits from the policymaking table.

Instead of excluding these vital partners, governments should create an institutional seat at the table to hear from nonprofits. In the executive branch of the federal and state governments, we have departments of agriculture, commerce, and transportation, as well as small business administrations, each with its own cabinet secretaries and directors that liaison between those industries and government. But there is not a single cabinet secretary focused on the nonprofit sector. While some commissions on volunteers, ‘service,’ and emergency response exist, they do not encompass the nonprofit sector as a whole. Similarly, in the legislative branch at the federal and state levels, the focus is on Commerce, Small Business, and similar committees, but no part of government focuses on the health and vitality of the nonprofit sector. Given the important role that nonprofits play in providing community services – and delivering government services – government needs to include nonprofits at the policymaking table.

### **Foundation Leaders – Board Members, Executives, and Program Officers**

When cutting funds for community programs based on the assumption that foundations will fill the void, government officials demonstrate a lack of understanding about foundations and grantmaking. Many foundations specifically will not – and legally cannot – fund projects that they perceive to be government’s role to support. Plus, expecting foundations to fill the void is unrealistic. Historically private foundations have provided only a fraction of the 12% of charitable contributions – while government has provided 29%. To expect foundations to suddenly turn over all of their assets to fill a gap left by government is completely unrealistic at a time when foundation assets have, on average, dropped by more than a quarter of their value in the last year. What can foundation leaders do?

#### 1. **Convene your community’s leaders.**

Foundations can sponsor educational programs that bring fellow grantmakers and grantees together to (a) understand what budget deficits will mean for government-funded programs; and (b) discuss the impact of government budget cuts on various human services and other programs in a state or region. The Council of New Jersey Grantmakers recently convened such a forum.<sup>37</sup>

Additionally, as respected neutral parties, foundations can shine the light on budget deficits and how a state’s actions hurt their grantees by helping tell the story of how budget cuts, late payments and new fees and taxes on nonprofits impact the critical services your foundation supports.

- Convene policy makers, grantees, and the media, and facilitate a dialogue to explore solutions
- Feature information on your websites about budget deficits and the impact on nonprofits and the broader community.

## 2. **Leverage your investments in nonprofits by supporting policy work.**

Recent research reveals two powerful findings that all foundation leaders need to know:

- Foundation giving that supports civic engagement and nonprofit advocacy yields tremendous returns, producing \$88 to \$157 in benefits for every dollar invested in advocacy. For more information, read the recent studies about foundation support for nonprofit advocacy in Los Angeles, Minnesota, New Mexico, and North Carolina conducted in 2009 and 2010 by the National Committee for Responsible Philanthropy.<sup>38</sup>
- Too many foundations still needlessly fear involvement in policy related work, according to research by Johns Hopkins University: “Many foundations take at best a ‘hands-off’ posture, and at times an actively negative one, toward policy involvement and civic engagement. This puts an unnecessary damper on what should be a major function of the nation’s nonprofit institutions – giving voice to the voiceless and raising unaddressed issues to national policy attention. ... Foundations need to re-think their hands-off position toward nonprofit advocacy and increase their financial support for this important function. ... As government policy has become increasingly central to the fiscal health of the sector and to the well-being of the people the sector is serving, foundations need to recognize the important role they must play in helping organizations participate in shaping this policy.”<sup>39</sup>

### **Nonprofit Leaders – Board and Staff**

In addition to budget cuts, withheld payments, and new taxes and fees, nonprofits must overcome another major challenge: Our own silence. Too few nonprofits realize they have a right – and duty – to advocate on policy issues that impact their ability to address the needs of their communities.

Now is the time for nonprofits to step forward and be heard. Nonprofits need to speak up, not only about the current fiscal year crises, but also to ensure that governments do not abandon essential services in the months and years ahead. The National Governors Association’s recent report discloses that efforts are underway to redesign government that will “likely lead to some profound changes in how state government operates and what services it provides.” The NGA report forecasts, “we may see dramatic changes in the size, structure, and responsibilities of state government over the next decade” as governments “return to questioning what are the core services of state government and how much are we willing to pay for them.”<sup>40</sup>

To help provide answers to governments’ questions about what communities regard as core services and how much people are willing to pay for them, nonprofit leaders should:

### **1. Embrace our special role in democracy.**

Our nation’s founders designed various checks and balances to keep government under the consent of those governed. One such check – the freedom of association – recognizes that a single voice may not be heard, but individuals can amplify their commonly shared views by gathering in groups. Nonprofits play that role in our democracy, allowing individuals concerned about the arts, children, hunger, and countless other issues to come together and amplify their voices.

Throughout our nation’s history, nonprofits have provided individuals a safe place to gather and express their voices collectively. Through the National American Woman Suffrage Association, we advocated to secure women’s right to vote in 1920. In the 1930s, we organized through Townsend Clubs to get Congress to pass the Social Security Act. In the 1960s, individuals mobilized through nonprofits to help pass the Civil Rights Act of 1964 and the Voting Rights Act of 1965. These noteworthy examples illustrate pivotal times when citizens spoke up through nonprofits, motivated by a sense of fairness. Today, when programs that help those among us

who traditionally have little voice – the homeless, the hungry, the impoverished – are threatened, nonprofits need to speak up and advocate for what they believe is just.

## 2. Recognize there is power in numbers – and unite.

Advocacy is strongest when people connect with each other and speak up collectively. Nonprofit advocacy is no exception. Nonprofits have formed statewide associations to amplify their voices in state capitals, engage with government agencies, and provide tools to help nonprofit organizations thrive. By engaging in advocacy efforts through their state associations of nonprofits, nonprofits have been able to successfully resolve some of the issues outlined throughout this report.

Consider these illustrations of how nonprofit advocacy can successfully address the challenges nonprofits face when governments cut funding, withhold payments, and extract new fees and taxes:

- Earlier this year, the Alliance of Arizona Nonprofits approached the state’s Department of Revenue about a policy change that was excluding a variety of nonprofits from qualifying for important tax credits. The outcome? Leaders from government and nonprofits met and recognized that swift clarification was needed and would meet their mutual interests.
- Through regular contact with the state’s Office of Policy Management and legislators, the Connecticut Association of Nonprofits has helped achieve a rewrite of several policies and laws affecting nonprofit contracts. By providing legislative testimony and engaging in other advocacy efforts, the Connecticut Association of Nonprofits is pressing for more timely contract payments and other protections for nonprofit service providers in Connecticut.<sup>41</sup>
- The Donors Forum of Illinois has developed *Fair and Accountable: Partnership Principles for a Sustainable Human Services System*, which “recommends practices that should be followed when the City of Chicago or State of Illinois contract with nonprofits to provide human services ... to help ensure that Illinois residents have access to high-quality human services that meet their needs.”<sup>42</sup>
- In Massachusetts, the Providers' Council has a “rapid response team,” composed of nonprofit CFOs, that addresses payment issues with state agencies as they arise. The Council has secured several important policy changes in recent years, including passage of a 2008 law that says rates should be fair to nonprofits and allow for cost-of-living adjustments. The Council’s current advocacy efforts include “People First,” an attempt to stave off budget cuts for essential services.<sup>43</sup>
- The Minnesota Council of Nonprofits launched a campaign to protect tax exemptions for nonprofits after a 2007 state Supreme Court ruling stoked concern that the imposition of property taxes would undermine the ability of nonprofits in the state to serve their communities. The result was enactment of a statute that preserves property tax exemptions for nonprofits.<sup>44</sup>

These examples are just a small sampling of the many ways state associations of nonprofits are lifting the collective voice of nonprofits and advocating for policies that support a strong nonprofit sector and the communities we serve. For information about state associations, visit the National Council’s website:

[www.councilofnonprofits.org](http://www.councilofnonprofits.org).

These examples also illustrate that “advocacy” does not necessarily mean being confrontational. Nonprofits need to recognize that policymakers frequently are willing to engage them in crafting solutions. Consider this recent development at the local level: When Tucson nonprofit leaders expressed concern about how proposed budget cuts would harm the people they serve, the City Manager asked the nonprofit community to suggest an alternative way for the city to consider human services funding in light of reduced revenues. Working together, community nonprofits and the city developed a three-tiered plan to prioritize resource allocation.<sup>45</sup>

Therefore, when stepping forward to amplify community voices, nonprofit leaders should avoid the temptation to vilify government officials when government withholds payments or proposes to extract money through new fees or taxes. Government officials don't take these actions because they dislike nonprofits. Rather, they're just trying to address their own budget gaps. Unfortunately, the economic freefall occurred so rapidly that policymakers have not had sufficient time to consider the ramifications of the actions they have been proposing and taking. Policymakers deserve and need feedback on their proposals to address their budget shortfalls. Providing that feedback is yet another way that nonprofits can serve their communities – and protect the social safety net.

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The National Council of Nonprofits is the nation's largest network of nonprofit organizations, with more than 22,000 member nonprofits across the country. By linking local nonprofit organizations across the nation through state nonprofit associations, the National Council helps community nonprofits manage and lead more effectively, collaborate and exchange solutions, engage in critical policy issues affecting the sector, and achieve greater impact in their communities. Visit our website at [www.councilofnonprofits.org](http://www.councilofnonprofits.org).

To comment on this report or share any government actions and policies that are affecting your nonprofit, positively or negatively, please contact Christopher Conkey, Policy Research & Public Affairs Specialist at the National Council of Nonprofits, at [cconkey@councilofnonprofits.org](mailto:cconkey@councilofnonprofits.org), or 202-962-0322.

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