

Strengthening State and Local Economies in Partnership with Nonprofits:

Principles, Recommendations, and Models for Investing Coronavirus State and Local Fiscal Recovery Funds

Recommendations for Designing and Managing Programs with Impact

Governments today can benefit from recent lessons learned about designing and managing relief and grant programs, based on experiences related to programs created and funded under the 2020 CARES Act. The following identifies several factors to consider and related recommendations for shaping future nonprofit relief and grant programs with impact.¹

- **Eligibility Criteria:** States had varying degrees of success in determining which organizations should be included for nonprofit relief funds and grant programs. Some states inadvertently left out large swaths of otherwise eligible and deserving organizations by imposing restrictive criteria that artificially excluded quality applicants and thus blocked residents from receiving needed services. Improper barriers to eligibility have included: number of employees (too many or not enough); budget size of organization (too high or too low); revenue losses (too much or too little, or without regard to increased costs that cancel out revenue gains); increased expenses; subsector (such as limiting to or leaving out arts and culture, health and human services, etc.); the impact of forced closures on operations, including reduction in volunteers; and more. Overall, requirements to show a decrease in revenue or increase in expenses in a given quarter or fiscal year was difficult for many nonprofits to document, especially without proper and clear definitions or flexibility needed in light of accounting standards nonprofits must follow that differ from those by other entities.

Recommendations: Clarify that all 501(c)(3) charitable nonprofits are included and eligible to apply. Provide “either/or” options to meet eligibility requirements, such as number of employees OR program area OR revenue losses OR increase in expenses.

- **Allowable Uses:** The broader the allowable use of funds, the more successful the relief funds and grant programs were for assisting communities. Ideally, the funds would provide general operating support for nonprofits. Governments that restricted use of funds in narrowly defined ways hurt nonprofits and the public by limiting programs and outcomes, imposing additional accounting and unnecessary costs, and ignoring urgent operational needs.

Recommendations: Permit nonprofits to use relief and grant funds for general operating support of the organization. At a minimum, clarify that allowable uses include, but are not limited to, replacement for lost revenue, payroll, wages, salaries, benefits, mortgage, rent, utility payments, and other direct and indirect expenses related to the organization’s programs, services, and operations.

¹ The networks of the National Council of Nonprofits contributed to these recommendations based on first-hand experiences with nonprofit relief funds and grant programs in different parts of the country. The Foraker Group (the state association of nonprofits in Alaska), in partnership with the Alaska Municipal League, Minnesota Council of Nonprofits, North Carolina Center for Nonprofits, and Washington Nonprofits developed specific suggestions for factors and insights that are reflected in this document.

- **Program Administration:** Having the right administrator of the funds is key to governments getting the money out to nonprofits quickly, efficiently, and effectively. States varied on whether they used a state agency or third-party intermediary, including state associations of nonprofits, United Ways, and community foundations. The least successful programs were those using administrators with no prior experiences with nonprofits; they had insufficient knowledge of how nonprofits operate, resulting often in unintended barriers and missed opportunities.

Recommendations: Appoint program administrators – whether a government agency or third-party intermediary – that have prior experience and strong relationships with nonprofits. Partner with nonprofits for technical assistance. Avoid multi-layered approaches where monies must be transferred to several agencies, departments, or regional entities, because every additional layer delays distribution of funds in communities.

- **Application Requirements:** When governments used the same application form for both for-profit businesses and nonprofit organizations, those forms too often required information unrelated or irrelevant to nonprofits, resulting in a bias favoring for-profits and a barrier excluding nonprofits. Other times, forms required so much documentation that it was not worth the time or effort for nonprofits to apply, particularly for the amount offered.

Recommendations: Use simple, clear, and easy to understand application forms online and in print. Minimize the required documentation at both the application and reporting stages to encourage the largest possible number of qualified applicants. Accept recent IRS filings and documentation for eligibility requirements when applicable. Work with grantmakers or community foundations that understand applications for and regularly administer funds to charitable organizations.

- **Prioritization:** States varied in deciding which types of organizations should receive the funds and in what order. Some awarded funds on a first come, first served basis. This method gives an unfair advantage to those with pre-existing relationships (often for-profit companies), while hurting smaller and newer nonprofits and others doing valuable work in local communities but without prior relationships with state agencies. Other states used tiers to approve certain groups based on size of organization, populations served, geographic location, or revenue amounts. Each of these priority labels generally left out large portions of nonprofits.

Recommendations: Be as inclusive as possible to expand the pool of applicants. Avoid “penalties” for being located in one geographic location. Avoid restricting applicants that received other funding (e.g., PPP loans, EIDL, other state grant programs) because any past support likely does not address current needs.

- **Grant Amounts:** Grant programs across the states provided grant award sizes ranging from less than a hundred dollars to a million dollars or more. Some states had tiers based on revenues of applicant, and almost all states imposed caps. However, if the amount was too low (e.g., \$1,000 or \$5,000) and the required documentation too onerous, most nonprofits were deterred from applying. One state association policy committee determined \$25,000 as the lowest amount of funds that would make a difference to nonprofits.

Recommendation: Make the award amount high enough to offset the often burdensome application requirements and back-end reporting burdens.

- **Budget Surpluses:** Many states unexpectedly experienced a budget surplus going into Fiscal Year 2021 and beyond, despite initial expectations for large deficits due to the pandemic. The fungibility of resources in state budgets gives lawmakers and budget officials flexibility to move monies to allow for additional funding where it is needed most, including supporting nonprofits serving local communities.

Recommendation: States can dedicate their budget surpluses to cover government costs while using Coronavirus State and Local Fiscal Recovery Funds for nonprofit priorities and projects as specifically allowed by the ARPA, including relief and grant programs created specifically for charitable nonprofits or in combination with small businesses.

- **Communicating Opportunities:** Many nonprofits are often left out of funding opportunities simply because they do not know about the programs. This lack of awareness ultimately hurts the people and communities those nonprofits serve. Marketing and outreach to nonprofits about nonprofit relief funds and grant programs would create a stronger and more diverse pool of applicants, allowing for each allocated dollar to secure the greatest impacts in the intended communities.

Recommendations: Ensure clear, regular, timely, and broadly distributed communications and education about nonprofit relief funds or grant programs, develop FAQs, and translate materials. Allocate resources for marketing and outreach. Be clear on goals, purpose, and communication channels for the funds. Assign a single point of contact for applicants and later for grantees.

These factors and recommendations are based on the experiences of governments, working in partnership with charitable nonprofits, to secure the greatest impact for funds made available to provide relief and recovery from the health and economic consequences of the pandemic. The recovery will be accelerated when these valuable lessons can be put into practice for the public good.