

Secret Code:

The Message to Nonprofits in the Federal Budget

by Rick Cohen

WHEN NAPOLEON BONAPARTE'S ARMY marched into Egypt in 1799, his military engineers discovered engravings that unlocked the meaning of ancient Egyptian hieroglyphs. Unfortunately, no comparable Rosetta Stone exists to interpret the deep meanings for nonprofits of language in the federal budget.

But nonprofits know that the language—the text and subtext of the federal budget proposals of the White House and congressional committees—is as important as the dollar figures recommended and approved for specific programs. Savvy nonprofit budget readers have to be attentive to semantic and contextual cues in the following dimensions of government program descriptions.

Here are the budgetary hieroglyphs to translate:

Direct funding. Since the mayors' uprising against the War on Poverty's establishment of independent community action agencies, the nonprofit struggle has concerned whether nonprofits can directly apply for and receive federal grants. Frequently, grant programs require a city or state government sign-off. Despite the notion

of "one big happy family," where governments and nonprofits work together, in many localities, that's hardly the case. Governmental jurisdictions often loathe the idea that funds might reach entities without city hall approval and de facto control.

In the fiscal year 2010 budget, the pushback against nonprofits is evident in various places. Consider the Senate Appropriations Committee language regarding the Department of Housing and Urban Development (HUD) Choice Neighborhoods program. Explicitly, the appropriators proposed setting aside a majority portion of the program for public-housing authorities, even though the program is designed to work explicitly with public-housing communities. It doesn't take much to see this as evidence of public-housing authorities saying to Congress, "Don't forget public-housing authorities [PHAs], and don't get carried away with nonprofits, many of which have often been at odds with the management of neighboring PHA developments.

But there are still some venues where nonprofits do get to operate like grown-ups that are no less responsible than state and local politicians. The widely admired Community Development



Financial Institutions fund at the Department of Treasury and the embattled-but-still effective Legal Services Corporation are two federal initiatives that other units of government might love to control but, at this point, only stand back and admire or carp on. Similarly, at the Department of Health and Human Services, the Community Economic Development program run by the Office of Community Services has been a medium-size long-standing program that allows nonprofit community development corporations to apply directly for funding.

Nonprofits as organizations. Spurred by the Serve America Act, the Obama budget proposal for the Corporation for National and Community Service (CNCS) places a strong emphasis on volunteers or, perhaps, below-living-wage stipended volunteers as the preferred mechanism for building and staffing nonprofits. Every federal contracting nonprofit knows that the federal government doesn't pay groups for the full cost of service delivery. Low-wage, temporary employees won't make up the cost shortfalls in federal contracting.

Community service is not a replacement for a nonprofit capable of paying decent salaries.

The CNCS budget provides two things: (1) a flood of stipended volunteers as the staffing message to nonprofits—or, better put—smaller nonprofits and (2) an absence of capacity-building money, since the White House attempted to delete the Nonprofit Capacity Building Initiative (NCBI) fund that was part of the Serve America Act. At the time of this writing, the Senate seems to have restored NCBI, but that does not undo the White House message. Community service is not a replacement for a well-funded nonprofit capable of paying its staff decent salaries. Decent pay, in turn, would prompt staff to consider nonprofits and others as a career path, not as a temporary waystation for interchangeable, untrained young people to hang their hats while they burnish their résumés. If the signal is that important jobs in the private sector warrant good salaries but nonprofit jobs can be filled by a merry-go-round of underpaid temps, it should be seen as a problem.

In fact, this federal budget has shifted some organizational capacity-building resources that previously were tucked away in various federal agency budgets. The “CHDO TA funds” (CHDO means Community Housing Development Organization, and TA stands for technical assistance) that constituted a significant resource for nonprofit affordable housing developers in the HOME program have been reconstituted under HUD Secretary Shaun Donovan to address foreclosure counseling, but not the technical and organizational capacity-building work that has long been the mainstay of this program. Asking nonprofits to be delivery tools for federal agencies is entirely appropriate, but it has to be done with quality organizational development as well as technical assistance and training. Otherwise only the big nonprofits get to participate, while the small nonprofits struggle and succumb.

For-profit loophole. In this era of blended nonprofit and for-profit structures, nonprofits have to be attuned to budget language that slips for-profit eligibility into what may be intended for nonprofit programs. In the \$34 million part of the Strengthening Communities Fund program, which was established in the stimulus legislation, the Department of Housing and Human Services request for proposal (RFP) invites for-profit organizations to apply for the million-dollar grants to be capacity-building technical assistance providers. It's not enough that the White House shaved a portion of the \$50 million appropriation to run through local and state governments rather than nonprofits, but the recruitment of for-profits as “lead” intermediaries is explicit in the RFP.

The RFP is an early hieroglyph for interpretation of the budget. The same goes for some of the administration's other decisions. HUD's August 26 announcement of \$50 million in technical assistance and training funds for communities and nonprofits acquiring and rehabilitating foreclosed homes was noteworthy. Despite a nation full of remarkable nonprofit housing developers and intermediaries, the largest awards—more than half of the national award total of \$44.5 million—went to for-profit technical assistance providers. This is despite the great track record of nonprofit-developed housing with lower delinquency and foreclosure rates than

for-profit developments and traditional and effective practices of pre- and postpurchase counseling.

Nonprofits shouldn't assume that they are the only potential providers. But when they aren't given their due or when programs open creaky doors to for-profits for less-than-compelling reasons, nonprofits should take notice.

Earmarks. Read not only those earmarks recommended by House and Senate appropriators but also those from the White House. What kinds of nonprofits get through the queue because of connections with powerful legislators? In this new era of some—albeit insufficient—transparency for earmarks, at least budget-savvy readers can get a handle on whether the earmark recipients are those with some legitimacy in their fields or, alternatively, are simply “You must be kidding” groups.

In addition, given the nation's tendency to equate size with effectiveness, determine whether the earmarks include room for smaller nonprofits. The importance of these organizations to their communities and to the democratic potential of the nonprofit sector should not be cavalierly dismissed. Running federal money only through big groups is a bad message to send to the 90 percent

of the sector with revenues and assets of less than \$1 million.

Equally important, nonprofits must ensure that programs that nonprofits typically advocate for and use—such as the Community Development Financial Institutions program, Community Development Block Grants, and others—do not find their long-sought budget increases given away as earmarks to insider recipients. When that happens, the results are pyrrhic budget victories and program increases that are given away to groups that have inside tracks when they should really be made available to the nonprofits that submit competent, competitive proposals.

There's more to look for in budgets that affect nonprofits. But one thing is clear. We have to look for more than dollars in the budget to understand the federal government's intentions for the nonprofit sector.

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