

The Impact of a Government Shut Down on Nonprofits

A government shut down can occur for different reasons, and it can happen at both the federal and state levels. Most recently, the federal government shut down, because Congress could not agree on a budget. In short, the Republican-controlled House passed a spending bill that did not provide funding to the Affordable Care Act, while the Democrat-controlled Senate refused to pass it. President Obama vowed to veto any bill that did not fund the new health care law, and because Congress could not reach an agreement by the start of the new fiscal year on October 1, the government shut down at midnight. A government shutdown means that all non-essential government staff are furloughed until the budget passes. But what does it mean for nonprofits who receive a substantial amount of their funding from the federal government?

As a side note, complicating the issue here is that by mid-October the government will need to raise the \$16.7 trillion debt cap by \$1 trillion. While not related,¹ some argue the politicking involved in each predicament could impact the effectiveness of attempts to resolve the other.

For those organizations that get funding from private foundations, individual donors, and membership dues, the government shutdown will have little direct impact.² But for those nonprofits that rely on direct government funding, the effects may be more severe. The Urban Institute reported that in 2009 government contracts with nonprofits amounted to over \$100 billion worth of contracts and grants.³ The government contracts primarily with nonprofits that provide social services, such as food and shelter. The hybrid approach of quasi-governmental,

¹ In a shutdown, the government does not have the legal authority to spend money on non-essential services. In a debt crisis, the government must spend money, but does not have the legal authority to borrow the money it needs.

² Most experts agree that a shutdown harms the economy overall, and this could have indirect effects on nonprofits.

³ *Nonprofits Fear More Government Cuts*, PHILANTHROPY JOURNAL (Jan. 30, 2012), <http://www.philanthropyjournal.org/news/top-stories/nonprofits-fear-more-government-cuts>.

quasi-nonprofit services allows the government agencies to take advantage of the entrepreneurial spirit and cost-effectiveness of a private entity.⁴ But, during a government shutdown, many nonprofits are left wondering whether they will have funding.

Of the organizations that have government contracts and grants, about 65% of their total revenue comes from government sources.⁵ If the shutdown lasts long enough, the revenue of those nonprofits that depend on federal funding would likely dry up.⁶ During the 1996 shutdown, some Catholic charities had to shut down without the federal funding.⁷ These negative effects may be immediate. A staff member of the Northwest Center for Alternatives to Pesticides (NCAP), a Eugene nonprofit, reported direct impacts following the shutdown.⁸ NCAP recently received a federal grant and was assigned a federal employee to act as their project administrator. They learned Tuesday morning that the project administrator had been furloughed and that they must suspend any grant activity until she returns. NCAP is left waiting.

While they wait, many nonprofits, especially those that provide social services, will likely see an increase in demand from clients being divested of federal programs.⁹ While the federal government assures us that essential services will remain in place, many are skeptical that services, such as Social Security checks, will continue without disruption at all.¹⁰

⁴ *Id.*

⁵ *Id.*

⁶ *Nonprofits Wait as Government Shutdown Looms*, PHILANTHROPY (Sept. 25, 2013), <http://philanthropy.com/article/Nonprofits-Wait-as-Government/141917/>.

⁷ *What a Government Shutdown Would Look Like*, FOX BUSINESS (Sept. 30, 2013), <http://www.foxbusiness.com/government/2013/09/19/what-happens-if-government-shuts-down/>

⁸ Interview with Josh Vincent, Campaigns Associate, Northwest Center for Alternatives to Pesticides, in Eugene, OR (Oct. 1, 2013).

⁹ PHILANTHROPY, *supra* note 6.

¹⁰ *Id.*

Furthermore, nonprofits leaders seem to agree that the high-level budget negotiations mean less of an opportunity for nonprofits to lobby for specific programs, putting their ability to raise future federal funds in danger as well.¹¹

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¹¹ *Id.*