National Council of Nonprofits

Champions for the public good

National Nonprofit Legislative Caucus

Legislative Priorities - 2024

Oct. 19, 2024

State legislators recognize communities rely heavily on charitable nonprofits to provide vital services, reduce burdens on government, and contribute to the economy.

Grant Simplification

Issue: Nationally, charitable nonprofits earned 31.8% of revenues from performing services pursuant to government grants and contracts prior to the pandemic. Accessible grant and contract opportunities for eligible nonprofits allow for better services provided to communities and stronger relationships between nonprofit and government partners.

Problem: Governments at all levels tend to pay nonprofits late, change contract terms mid-stream, and require increasing levels of burdensome complexity in applications and reporting requirements. Government grantmaking and contracting systems must be fixed so people receive services when they need them; taxpayers receive full value for the programs they fund; and communities are strengthened.

Recommendations:

- Streamline and reform flawed grants and contract systems through modernization
- Establish methods for reimbursement of direct and indirect costs
- Payment of full costs of delivering programs and services
- Up-front or advance payments
- Multi-year contracts
- Expedited renewals
- Retention of unspent funds by nonprofits
- Annual cost of living adjustments
- Preferred procurement status
- Creation of standard grant applications
- Clear application language
- Appointment of a nonprofit liaison/ombudsman

Examples:

- The **California** Nonprofit Equity Initiative (2023 - currently pending) consists of a government grants and contracts reform package of seven bills that seek to authorize advance payments (A.B. 590 –2023, enacted), simplify contract modification processes in emergencies, modernize processes, require equity in prompt payments and set discrepancy thresholds, streamline small grant programs, and establish methods for reimbursement of direct and indirect costs.
- **California Advance Payment** (A.B. 590– 2023, enacted) authorizes a state agency to provide advance payment of up to 25% of the total amount to eligible nonprofits and prioritizes recipients and projects serving disadvantaged, low-income, and under-resourced communities.
- The **Oregon Task Force on Modernizing Grant Funding and Contracting** (S.B. 606 – 2023, enacted) is examining how the state's granting and public procurement practices limit wages of nonprofit employees and will make recommendations on state procurement practices to support living wages of nonprofits, uniform applications, standard contracting language that permits flexibility, multi-year terms, sufficient reporting requirements, payment models that prioritize full cost recovery, and ongoing review.
- **Vermont** (H.B. 1099 – 2023, did not pass) would have required a standard grant application form, grant agreement, and reporting forms of reasonable length in accessible language for all state-funded grants and would have required a uniform formula and approval process for all nonprofits to use a higher indirect rate than the standard 10% *de minimis* rate.

Target States: All States. Often, legislators identify one area of red tape for nonprofit-government partnerships and streamline the process, remove application or reporting burdens, allow for flexibility, and require payment of the full costs of service.

Prompt Payment Parity

Issue: Nationally, charitable nonprofits earned 31.8% of revenues from performing services pursuant to government grants and contracts prior to the pandemic. Prompt payments and reimbursements are imperative to nonprofit operations to provide programs and services.

Problem: Governments routinely fail to pay nonprofit contractors on time for reimbursement of costs incurred for the contracted services.

Recommendation: Require prompt payments and reimbursements for state grants and contracts.

Examples:

- **California Prompt Payment Act** (S.B. 557 – 2023, vetoed) would allow for penalties to be paid to charitable nonprofits of all sizes for late payments to grants or contracts.
- **Maryland** (S.B. 112 / H.B. 328 – 2023, enacted) establishes invoicing and prompt payment requirements for specific state grants and requires grants to be paid within 37 days.

Target States: All States.

Charitable Giving Incentives

Issue: Most state tax laws encourage individuals and businesses to donate to the work of charitable organizations whose missions they support by providing an itemized deduction, tax credit, or other giving incentive.

Problem: State tax reform efforts in recent years have considered capping or eliminating charitable giving incentives, including state charitable deductions, which would have an adverse effect on charitable giving. Reduction or removal of charitable giving incentives threatens the ability of nonprofits to serve their communities.

Recommendation: Expand charitable giving incentives through above-the-line or nonitemizer deductions for all taxpayers, regardless of whether they itemize or take the standard deduction on their tax forms.

Examples: Donors in Arizona, Colorado, and Minnesota are able to take a non-itemizer deduction, with certain restrictions, even when they claim the standard deduction on their state tax returns.

Target States: All Other States.

Audit Thresholds

Issue: Many states require charitable nonprofits to submit a copy of audited financial statements during registration. Some state laws require nonprofits that receive a certain level of state funding to submit independent audits to a state agency that provided the funding or to other state agency.

Problem: Independent audits are costly, time-consuming, and resource intensive. For small nonprofits with limited funds and limited staff, diverting a large portion of operating funds to an outside accountant is wasteful and adversely affects their ability to perform missions.

Recommendation: Increase requirements for independent audits to apply only to nonprofits with revenues greater than $750,000. This often only requires a legislative text amendment to the dollar amount in state tax, auditing, or government contracting statute.

Examples: Six states have increased their audit thresholds in the past three years: Connecticut, Illinois, Mississippi, New Hampshire, New Jersey, New Mexico.

Target States with lower audit thresholds: Arkansas, Florida, Georgia, Hawaii, Kansas, Louisiana, Massachusetts, Michigan, North Carolina, Rhode Island, Tennessee, West Virginia, Wisconsin.

No audit requirements: Alabama, Arizona, Colorado, Delaware, District of Colorado, Idaho, Iowa, Kentucky, Missouri, Nebraska, Nevada, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, Texas, Utah, Vermont, Wyoming.