

State Funding for Most Nonprofits Small, Unpredictable

THE STATE PAID more than \$82 million in grants to nonprofits—known as 501(c)(3) groups in the tax code—in fiscal year 1994, according to data prepared by the State Auditor for the N.C. House Select Committee on Nonprofits in March 1996.¹ That *sounds* like a lot of state money going to nonprofits. But is it?

Upon closer examination, the Auditor's report has several weaknesses. First, the data include *federal* funds that pass through *state* coffers on the way to such nonprofits as private colleges or the fundraising arms of various Area Health Education Centers (AHEC). Second, the Auditor's study is about "private organizations" receiving state funds—thus it lumps nonprofits in with private businesses such as for-profit day-care centers and even some out-of-state companies, such as Oregon's Freightliner Corp. Finally, just 10 groups accounted for more than 83 percent of the total state funding for nonprofits in FY 1994. (See Table 7 on p. 84.) Of these top groups, at least two are state-created nonprofits, the Microelectronics Center of N.C. and the N.C. Biotechnology Center; two are private universities, Duke and Campbell; and another two are the fundraising foundations associated with AHECs.

A distinction also must be made between nonprofits that receive government funding as grants, with few strings attached, and those that receive money for services they provide on a contract basis with the state. For example, the Pub-

lic School Forum of North Carolina received \$420,000 from the state for FY 1997, but all of that money was earmarked for the "Teaching Fellows Commission" that the Raleigh-based group administers for the state. "This is one of the largest teacher scholarship programs in the nation," says the forum's executive director, John Dornan. The forum uses the state money to screen applicants, evaluate campus programs, conduct training and leadership conferences, and administer paperwork for the teaching program.

For most nonprofits, the amount of state funding is small and unpredictable. This is partly because they usually are not automatically included in the Base Budget the way state agencies are. Nonprofits typically receive their funds in the annual budget bill passed by the legislature, so they don't know what to expect in state funding from year to year. Depending on when a nonprofit's fiscal year begins, this can make budget planning a real guessing game. For example, the Center for Community Self-Help in Durham saw its state funding increase from \$2.5 million in FY 1994 to \$5 million in FY 1995, then decrease to \$1 million in FY 1996, and increase again to \$3 million in FY 1997. (See Table 8 on p. 87.)

Changes in the party control and power structure of the N.C. General Assembly that resulted from the 1994 elections have further complicated matters for nonprofits. Thus, com-

—continues on p. 88

nonprofit sector, held just six days after his inauguration in January 1993.⁴⁸ After that summit with 300 nonprofit leaders, Hunt appointed liaisons with the nonprofit sector in all nine departments under the governor's control and named nonprofit leaders to some state boards and commissions. In addition, Hunt's former legal counsel, Brad Wilson, briefed nonprofits on the governor's legislative package prior to the 1995 session of the General Assembly and asked for their input.

Finally, Hunt has moved to establish significant partnerships between government and nonprofits in at least four areas. These include the child-care initiative called Smart Start, the flagship program of the Hunt administration; Support Our Students, a crime prevention and school safety program; the Rural Initiative, an economic development effort in rural counties; and the state Information Highway, an effort to establish a statewide computer network.

State Funding, continued from p. 86

paring the year-to-year funding that nonprofits receive from the state can be like walking through the fun-house at the State Fair—up one minute, down the next, and then sideways to another chamber. The fortunes of some nonprofits rise while others fall.

Some nonprofits gained ground in the most recent state budget bill for FY 1997.² For example, Communities in Schools of North Carolina received \$700,000 in the new budget bill, up from \$200,000 in FY 1996. The N.C. Child Advocacy Institute received its first legislative appropriation ever, a one-time grant of \$250,000, in the FY 1997 budget bill—although the group previously has received state money through contracts with state agencies in the executive branch. Governor Jim Hunt's child-care initiative called Smart Start, inaugurated during his third term as governor (1993-97), received an additional \$10 million for *the last half of FY 1997*—much of which will go to local nonprofit child-care agencies. With these additions, Smart Start's annualized budget will total \$75.1 million and the program will fund agencies in 43 counties.³ Similarly, the governor's Support Our Students (SOS) after-school program received an additional \$1 million for FY 1997, most of which will go to local nonprofits.

Other nonprofits weren't so fortunate. Some groups took steep dives on the funding roller coaster in the state legislature's new era of split-party control, with Republicans holding a 68-52 majority in the House and Democrats holding a 26-24 majority in the Senate. A non-

profit with one of the largest declines in state funding was Legal Services of North Carolina, which had received funds through an appropriation to the N.C. State Bar. Legal Services got \$1 million from the state in both the 1996 and 1997 fiscal years, after receiving \$1.25 million in FY 1995. That cut was in addition to a \$2.5-million cut in federal funding, after the U.S. Congress reduced its support for the national Legal Services Corporation from \$410 million in 1995 to \$278 million in 1996. Similarly, UPLIFT—the forerunner of Smart Start and formerly directed by Robin Britt, Hunt's Secretary of Human Resources—saw its state support plunge from \$300,000 to \$100,000 over the same period. For nonprofits that seek state funding, it's good to remember Newton's law of physics: "What goes up, must come down."

—Ran Coble

FOOTNOTES

¹ The Office of the State Auditor released its 141-page "Report on Private Organizations Receiving State Funds," for the Fiscal Years Ended June 10, 1992 through 1994, on September 18, 1995. The legislature's Fiscal Research Division analyzed these raw data for the House Select Committee on Nonprofits in a memorandum from Richard Bostic dated March 7, 1996. Fiscal Research found that 946 organizations with 501(c)(3) nonprofit status received a total of \$82.3 million in state funds in FY 1993-94.

² Chapter 18 (House Bill 53) of the 1996 Session Laws (Second Extra Session 1996).

³ Personal communication with Bobby Woodard of the Governor's Office of State Budget and Management.

met twice monthly with a coalition of charities, including the Ohio Association of Nonprofit Organizations, United Way, Hunger Task Force, and Family Service Council. "They've been a wonderful resource, especially for bringing potential areas of concern to our attention," Baxendell says.⁴⁹

Some cities as well have taken initiatives to help nonprofits, by increasing the number of people served and helping organizations cut their costs. For example, New York City leaders have created a

Citywide Central Insurance Program (CCIP) to address the needs of more than 2,000 nonprofit vendors and their 62,000 employees. CCIP provides insurance coverage for almost 600 day care centers, 600 youth agency programs, and home health agencies that serve more than 32,000 homebound clients. Liability costs have been cut in half, despite an increase in the number of covered employees. A 1993 study by a private consultant concluded that New York City saves \$9.5 million a year by utilizing