



March 17, 2020

Via email

Governor Andy Beshear
Lt. Governor Jacqueline Coleman
The Honorable Robert Stivers
The Honorable Morgan McGarvey
The Honorable David Osborne
The Honorable Joni Jenkins

Dear Governor Beshear, Lt. Governor Coleman and Legislative Leaders:

Kentucky Nonprofit Network commends the administration and General Assembly leadership on your thoughtful response to the spread of the novel coronavirus within our state. Strong, unified leadership is needed now more than ever. Thank you.

Nonprofits touch the lives of every Kentuckian every day and play a vital role in the state's economy and provision of services. In response to COVID-19, Kentucky's nonprofits are stepping up without hesitation to serve their communities, to protect public health and to support their own employees.

But nonprofits need immediate contracting, budget, staffing and programming flexibility and timely resources from the state, local governments and philanthropy to be able to continue this work through the months ahead.

As you consider policy measures to best equip Kentucky to weather this pandemic, we urge you to keep the needs of Kentucky's nonprofit community in mind. Attached is a joint letter from 30 national nonprofits to Congress that highlights some concerns and solutions related to COVID-19 and possible economic stimulus packages at the federal level, all of which apply at the state level.

In addition, below are policy recommendations from Kentucky Nonprofit Network (KNN) based on direct feedback from some of our more than 750 members across the state. As you know, nonprofits provide valuable, often essential, services in communities, often in partnership with the public sector. Kentucky's nonprofit sector is also a vital employer, the fourth largest private sector employer, representing 10% of Kentucky's workforce. **It is in everyone's best interest to maintain a thriving nonprofit sector in the Commonwealth.**

What KNN is Hearing:

- Nonprofits, particularly service providers, are being called in to adapt quickly to new operating requirements, educate community members and support vulnerable community members without any new resources.

- Many nonprofits are already facing a spike in demand for services that will certainly continue in the coming weeks and months.
- Nonprofits tend to be under-resourced and under-staffed in the best of times. A drop-off in staff and volunteers due to illness, vulnerability to illness, children home from school, etc., will pose threats to program continuity.
- Many nonprofits are already suffering significant financial losses due to cancelled fundraising events, cancelled performances, cancelled conferences and other programs. Like small businesses, nonprofits will need help to recover economically.
- In some cases, several factors may combine to create difficult challenges. For example, food banks will be more needed than ever, yet they tend to rely heavily on volunteers, many of whom are senior citizens and may be unable to volunteer at this time for safety reasons.

KNN's Recommendations:

Extend Business Assistance to Nonprofits

- Kentucky's nonprofit sector generates over \$7.5 billion in annual wages and their expenditures pump \$24 billion into Kentucky's economy annually. Nonprofit payrolls exceed those of most other Kentucky industries – it's the fourth largest private sector industry in Kentucky.
- Any employment-focused relief or stimulus policies must expressly apply to employment at tax-exempt organizations by making tax credits and deductions applicable not just to corporate income taxes, but to the taxes nonprofit pay, such as unrelated business income taxes and payroll taxes. As noted in the attached national nonprofit letter, **any assistance to employers through a corporate/income tax mechanism will leave out nonprofit employers.**
- Any employer benefit should be available to nonprofit employers, either through a grant mechanism or by making the tax mechanism relate to the taxes nonprofit pay, again such as unrelated business income taxes and payroll taxes. **It is vital that Kentucky not leave out 10% of its workforce.**
- Similarly, it is important that any plans to provide loans (such as the recently applied for SBA loans), financial assistance, insurance protections or other relief for businesses are structured so that nonprofits are also covered or eligible.
- If there is uncertainty regarding how any assistance to business might also support nonprofits, KNN stands ready to assist.

Grants and Contracts

- Nonprofits are critical service providers to the Commonwealth. Significant disruptions in state grants and contracts could permanently shut down organizations providing health services, child-care, food assistance, senior care and many other essential services. **We urge you to issue an executive order requiring that, if a nonprofit is unable to deliver services in the manner outlined in a state contract due to circumstances related to the pandemic, then the contact will be based on intended deliverables without penalty.**

- For example, an expedited or automatic approval process for budget modifications that do not increase the contract total should be instituted to allow nonprofits the flexibility to move budget-line items associated with existing contracts to new priorities such as the cost of disinfecting facilities.
- Likewise, an expedited or automatic modification approval process should be instituted for contracts requiring face to face contacts that allow nonprofits the flexibility to comply with requirements using telemedicine, virtual home visits such as Facetime and/or other technology, telephone calls, etc. in a way that continues to meet vital needs and complies with guidance to keep Kentuckians safe.
- State agencies should be allowed, when appropriate, to waive certain certification procedures to let nonprofits provide emergency and essential services as needed.
- **In addition, we encourage all cabinets in the Commonwealth to consider following the lead of the federal Office of Management and Budget (OMB) in temporarily loosening grant and contract reporting, application, and renewal requirements ([link to OMB directive](#)).**

Unemployment Insurance

- Businesses and nonprofits throughout Kentucky are making (and will continue to make) difficult decisions in light of the economic challenges resulting from the public health response to the pandemic. **It is important to ensure nonprofit employees are eligible for Unemployment Insurance (UI) changes due to the pandemic response.**
- We support efforts to ensure that those COVID-19 related UI claims are not charged to the employer's experience rating. Since 501(c)(3) nonprofits also have the option to self-insure, we urge all steps necessary be taken to ensure that these reimbursing employers are to be treated just as those using the state UI system.

Encourage Charitable Giving

- Across the Commonwealth, charitable nonprofits are already in place serving the needs of residents. Every dollar granted, donated or earned goes back into the community immediately to address clear and present problems. **Nonprofits are our economy's shock absorber when crisis hits.** Dollars devoted to nonprofits – whether through new appropriations or expanded charitable giving incentives – will be spent immediately on solutions and recirculated in local communities.
- Kentucky nonprofits have seen a decline in the number of Kentuckians donating to charity over the past several years. Nonprofits are also complying with the Governor's guidance regarding gatherings. Widespread closures and cancellations of public and fundraising events have eliminated important sources of earned income revenue (tickets for performances, registration for educational conferences, special fundraising events, etc.) for the foreseeable future.
- **If the General Assembly is considering any tax changes to respond to the pandemic, we encourage solutions** that ensure communities are able to support their local nonprofits during this crisis and beyond **by enacting giving incentives** that enable ALL Kentuckians, regardless of whether they claim itemized deductions, to receive a tax incentive for giving to the work of charitable nonprofits responding to critical needs in Kentucky.

Immediate Assistance

- **New and immediate emergency funds should be available to address increased costs to nonprofits to support the uninterrupted delivery of essential services that affect public health, such as stepped-up sanitation, take-out meals for the homeless and pre-packaged food at food banks.**

Continue to Listen to Nonprofits

- Finally, we are seeing that some states are putting together task forces or commissions to help advise the state on their COVID-19 response and ultimately, recovery. If that is something being considered, please know that KNN is ready and able to participate, bringing the important concerns and knowledge of the nonprofit sector into the conversation.

Each person receiving this letter has demonstrated a commitment to supporting Kentucky's nonprofit sector. We urge you to remember the sometimes unique needs of the nonprofit community and consult with nonprofit leaders as Kentucky continues to address the crisis (if you are not certain who to contact, KNN can help). I look forward to working with you to help Kentuckians thrive again and appreciate your consideration of these recommendations. If I can provide clarity to any of the recommendations, answer any questions at all or connect you with key nonprofit leaders moving forward, please don't hesitate to contact me directly at 859-963-3203 x3 or email danielle@kynonprofits.org.

Respectfully,



Danielle Clore
Executive Director & CEO

Kentucky Nonprofit Network (KNN), a statewide association of more than 750 organizations connected with over 5000 organizations, is the voice for Kentucky's nonprofit community. Through our advocacy work and professional development investments in nonprofit leaders, we protect and enhance the ability of Kentucky's nonprofits to serve our Commonwealth, the nation and the world.



Why Nonprofits Must Be Included in a COVID-19 Relief and Economic Stimulus Package

Nonprofits Are Significant Employers

Nonprofits employ 12.3 million people (the third largest workforce – tied with manufacturingⁱ), with payrolls exceeding those of most other U.S. industries, including construction, transportation, and finance. A substantial portion of the nearly \$2 trillion nonprofits spend annually is the more than \$826 billion they spend on salaries, benefits, and payroll taxes every year.ⁱⁱ Yet, in multiple disaster relief laws in the past, Congress has ignored this core economic fact and approved employment-related tax credits that left nonprofit employers and employees out of the provisions.

Policy Solution: Any employment-focused relief or stimulus legislation must expressly apply to employment at tax-exempt organizations by making tax credits and deductions applicable not just to income taxes, but to the taxes nonprofit pay, such as unrelated business income taxes and payroll taxes.ⁱⁱⁱ

Most Nonprofits Are Small Businesses

Most nonprofits are relatively small: 97 percent of nonprofits have budgets of less than \$5 million annually, 92 percent operate with less than \$1 million a year, and 88 percent spend less than \$500,000 annually for their work. Thus, the “typical” nonprofit is community-based, serving local needs. Also, relatively few nonprofits have an endowment and most have limited reserves — about 50 percent have less than one month of cash reserves.^{iv}

Policy Solution: Nonprofits must be expressly included in tax and other relief targeted to small businesses.

Nonprofits Are on the Frontlines of Coronavirus Response

No one doubts that hospitals, community health centers, and senior living communities will continue to be hit hard by the coronavirus. Most of those organizations are charitable nonprofits. And many

other nonprofits are responding to the outbreak, such as local Meals on Wheels which are serving their normal community of elderly people and a growing number of individuals under quarantine. The list goes on to include nonprofit food banks, shelters, domestic violence services, houses of worship, early care and education centers, after-school facilities, and more that are being called on to feed, house, and care for people whose lives have been disrupted by closures, job loss, and sickness.

Policy Solution: Funds are needed to pay for the increased costs and demand for services arising because our economy and safety net was not built for a pandemic of this degree.

Nonprofits Are Experiencing Declining Economic Activities

Just as travel, restaurant business, and tourism have dropped off, so has the community engagement and related services of many nonprofits that promote and serve a vibrant economy. ASAE reports that meetings convened by all types of nonprofit associations in the United States annually attract more than 250 million attendees, contribute nearly half a trillion dollars to U.S. gross domestic product, and directly support 5.9 million jobs.^v Many of those jobs will likely disappear in the coming weeks. As will the jobs and revenues lost as a result of closed productions at concert halls and theaters large and small, curtailed training sessions and other educational programming, cancelled fundraising events where many nonprofits earn significant mission dollars through attendance and sponsorships, and diminished attendance at cultural, religious, and community events. All of these activities are essential to a healthy economy and deserving of stimulus.

Policy Solution: Any economic stimulus proposals aimed at helping adversely affected industries and geographic areas must recognize the impact of the coronavirus crisis on the nonprofit sector.

Nonprofits Are in Every Community Ready to Serve

Everywhere in America, charitable nonprofits are already in place serving the needs of residents. Every dollar granted, donated, or earned goes back into the community immediately to address clear and present problems. Nonprofits are our economy's shock absorber when crisis hits. Dollars devoted to nonprofits – whether through new appropriations or expanded charitable giving incentives – will be spent immediately on solutions and recirculated in local communities.

Policy Solution: Congress should ensure communities are able to support their local nonprofits during this crisis by enacting a **targeted, temporary giving incentive** that enables all residents, regardless of whether they claim itemize deductions, to receive a tax incentive for giving to the work of charitable nonprofits responding to, or suffering from, the coronavirus.^{vi}

ⁱ [The 2019 Nonprofit Employment Report](#), Johns Hopkins Center for Civil Society Studies, page 5.

ⁱⁱ [Nonprofit Impact Matters](#), National Council of Nonprofits, September 2019, page 12.

ⁱⁱⁱ [Letter to Senate Finance Committee Taskforce on Disaster Tax Relief](#), National Council of Nonprofits, June 13, 2019, proposal #2.

^{iv} IRS Business Master Files, Revenue Transaction Files, and Form 990/990-EZ/990-N returns processed for fiscal years ending circa 2016 (released June 2018), DataLake Nonprofit Research (datalake.net). For a full description of the data, see www.NonprofitImpactMatters.org.

^v [Letter from ASAE to National Economic Council](#), March 6, 2020.

^{vi} [Letter to Senate Finance Committee Taskforce on Disaster Tax Relief](#), National Council of Nonprofits, June 13, 2019, proposal #4.