It appears that nonprofits are again falling victim to the phrase: what the right hand giveth, the left hand taketh away. We are learning that the state and even some local governments are notifying nonprofits that they are cutting or withholding existing funding as a back door way to capture Paycheck Protection Program (PPP) dollars that the nonprofit employer has applied for and received. Such actions would not only be counter to the very goal of PPP - to curb the surge of unemployment and stabilize business operations during this pandemic by ensuring that employees remain on the job for an 8 week period - but also can be interpreted as reflecting a dismissive attitude toward the critical importance of nonprofits to the social and economic fabric of every community. The misguided rationale is that nonprofits are “double-dipping” i.e. taking money from one government source to support expenses that another source is already supporting.

Let’s set the record straight about what PPP is and what it is not. The purpose of the PPP is ensure employees remain on the job and that the employer has a better shot at remaining in operation during this pandemic and economic depression. The program has no relationship whatsoever to whether the nonprofit (or business) has the cash at hand or receivables to otherwise make payroll and eligible non-personnel expenses, nor what actual work the employee is doing. PPP was not intended to be a back door way of providing additional funding to state and local government by exploiting the financial needs of nonprofits struggling to stay open, keeping their employees on the payroll, and continuing to provide vital services to people suffering from a pandemic and the most severe economic downturn since the great depression.

Also, PPP is first and foremost a bank loan program where nonprofits apply to banks for a loan through their normal credit process. If deemed qualified, the banks submit the application loan to the federal Small Business Administration (SBA) for approval to be a guaranteed loan. The point cannot be emphasized enough that the money is being borrowed from a bank. There is nothing new about nonprofits borrowing money, especially to cover late government contracts, late payments, reimbursements made after expenditures, and the costs of doing business that government does not fully support. Add to this that it is not uncommon nowadays for banks to no longer consider government contracts as security for loans because history has proven that government may very well renege on their promises and contractual obligations, especially during bad economic times.

PPP has a forgiveness component, meaning that qualifying expenses under the loan could be converted to a grant by the feds at some point in the future. The forgiveness component is intended to bolster the financial condition of employers so they will have a better shot at weathering this storm after the 8-week period. It is important to understand that if there is any conversion of the loan to a grant, it would occur at a later time and not during the period that the alleged “double-dipping” is occurring. In order to convert the loan, employers need to request forgiveness after the period is over. This process is not easy to navigate as the complex federal rules and guidelines have been in constant flux. State threats of taking or withholding funds are complicating the financial planning of nonprofits further.

Employers do have the option of not requesting conversion and just keeping the loan. Given that most nonprofits that do business with the state are chronically cash strapped because of systemic late contracts and payments (see the 2019 Not-for-Profit Prompt Contracting Report by the State Comptroller), it is truly unfortunate that the best alternative for many is to keep the PPP money as a loan rather than those dollars being captured by the state. Doing so, of course, counters the very purpose and impact of PPP and ultimately weakens and hurts the viability of nonprofits and our workforce.

In this time of crisis, where the emphasis is that “we are all in this together,” it is imperative that state and local governments welcome, incentivize and be flexible with their nonprofit partners that successfully bring additional resources, PPP or otherwise, to the community and their business operations. A punitive approach during this time of crisis in uncalled for and will do immediate harm and harm our recovery efforts.