NONPROFITS SHOULD NOT BE PUNISHED FOR RECEIVING A PPP LOAN

Albany, NY (June 16, 2020) - 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 small 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 to 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 â€œdouble-dippingâ€; i.e. taking money from one government source to support expenses that another source is paying for.

Letâ€™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 or receivables to otherwise make covered payroll and non-personnel expenses. The funding is also not related in any way to what employees are actually doing, only that they are being paid.

PPP is first and foremost a bank loan program where nonprofits like small businesses apply to banks for a loan. Payroll is the underwriting criteria for the loan. If the nonprofit is deemed qualified, the banks submit the application to the federal Small Business Administration (SBA) for approval to be a guaranteed if the nonprofit defaults. The point cannot be emphasized enough that the nonprofit employer is borrowing the money from a bank. There is nothing new about nonprofits borrowing money to cover their cash flow shortfalls because the State of New York is notorious for financially abusing nonprofits through systemic late contracts and payments (see the 2019 Not-for-Profit Prompt Contracting Report by the State Comptroller). Given the state budget crisis, this problem will be getting much worse as evidenced after 911 and the 2008 recession.

PPP has a forgiveness component, meaning that qualifying payroll and other expenses under the loan could be converted to a grant by the feds at some point in the future. PPPâ€™s forgiveness component is intended to bolster the financial condition of employers so they will have a better shot at weathering this storm after the covered period of time. 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 â€œdouble-dippingâ€ is supposed to be occurring. In order to convert the loan, employers need to request forgiveness after the covered payroll period is over. This process is not easy to navigate as the complex federal rules and guidelines have been in constant flux since the start of the program. State threats of taking or withholding these funds are only complicating the financial planning and sustainability of nonprofit employers further.

Forgiveness is an option and employers can keep all or some of the money as a loan. Given that most nonprofits doing business with the state are chronically cash strapped, it may be in their business interest to keep the PPP money as a loan rather than having those dollars captured by the state.

In this time of crisis, where the emphasis is that â€œwe are all in this together,â€ it is imperative that state and local governments be as flexible as possible with their nonprofit partners. Nonprofits that successfully bring additional resources, PPP or otherwise, to the community and their business operations should be welcomed and incentivized. A punitive approach, especially one that looks to exploit and pick the pockets of small nonprofits struggling to remain open and providing services to people suffering during this time of crisis, is outrageous and not anyoneâ€™s interest. It will only serve
to exacerbate the crisis and harm our recovery efforts.

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About the New York Council of Nonprofits, Inc. (NYCON)

NYCON and its affiliates work to develop and promote an effective, vibrant charitable community in New York State. With close to 3,000 nonprofit members, NYCON strengthens the organizational capacity of nonprofits, acts as an advocate and unifying voice, helps to inform philanthropic giving, and conducts research to demonstrate the relevance and impact of nonprofits. NYCON provides practical solutions to nonprofit challenges of all kinds. We offer a complete continuum of services through NYCON, Governance Matters, Council Services Plus, and Innovative Charitable Initiatives. Visit www.nycon.org to learn more.

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