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The Nonprofit Sector and the Federal Budget: Fiscal Year 2006 and Beyond

By

Alan J. Abramson and Lester M. Salamon

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The Nonprofit Sector and the Federal Budget: Fiscal Year 2006 and Beyond

by

Alan J. Abramson and Lester M. Salamon

Overview

New five-year budget plans developed by President Bush and the Congress for fiscal year 2006 and beyond suggest that tough times may be ahead for many – although not all – of the nation’s private, nonprofit organizations.¹ In particular, our analysis of the most recent presidential and congressional budget proposals, which project federal spending for October 2005 and beyond, reveals that:

- The Bush Administration’s budget proposals for FY 2006 and beyond would reduce federal spending on programs of interest to nonprofits, outside of health and income assistance, by 12 percent below current (FY 2005) levels as of FY 2010;
- If the president’s proposals were enacted, nonprofits outside the health area would experience a 4 percent reduction in their federal support between FY 2005 and FY 2010;
- The impact of the president’s proposed spending plan on the nation’s nonprofit organizations would be more severe were it not for the projected continued growth in federal entitlement spending under the Medicaid and income assistance (TANF) programs, both of which deliver important assistance to nonprofit organizations outside of the health field. But significant pressures exist at the state level to reduce Medicaid spending. Excluding the increases attributable to Medicaid and TANF, nonprofits outside the health field would experience cuts of 21 percent by FY 2010 under the president’s budget;
- Congressional action so far on the president’s budget proposals would mitigate the proposed reductions, but only in part. In its first actions on the FY 2006 budget, Congress has proposed reducing the real, or inflation-adjusted, level of federal spending on programs of interest to nonprofit organizations, outside of health and income assistance, by 7 percent between FY 2005 and FY 2010. The Congressional proposals would lead to a rise in federal support to nonprofit organizations outside of the health field, but only by a modest 3 percent by FY 2010.

The balance of this report examines these findings in greater detail and puts them into context in terms of the recent history of federal spending and its impact on the country’s nonprofit organizations.

Background: Government and the Nonprofit Sector Prior to 2005

A History of Partnership

Government and the nonprofit sector are often viewed as alternative ways to respond to human needs. Throughout much of American history, however, government and the nonprofit sector have worked hand-in-hand to cope with the nation's problems. This was certainly the case in the 1960s, when the federal government assumed increased responsibility for dealing with poverty, inadequate education, ill-health, unemployment, and related problems. Instead of forging exclusively governmental solutions involving direct provision of health and human services by government agencies, our nation opted instead to rely heavily on private, nonprofit hospitals, health clinics, social service agencies, educational institutions, and many others. In the process, it helped stimulate a significant expansion of the country's nonprofit sector and made federal budget policy a matter of enormous importance to the viability of the nation's nonprofit organizations.

In fact, federal budget decisions affect nonprofit organizations in at least two ways: first, by determining the overall level of resources available to address public problems and hence the need, or demand, for nonprofit services; and second, by affecting the revenues that nonprofit organizations have available to respond to those needs. So far as the second of these is concerned, as of the late 1970s government had far outdistanced private philanthropy as a source of nonprofit revenues, thus enabling nonprofit organizations to expand their services in a number of crucial areas.

The 1980s Retrenchment

In the early and mid-1980s, President Reagan and Congress enacted significant reductions in federal spending on programs of interest to the nonprofit sector, at least outside of health and income assistance where entitlement programs made cuts difficult to enact. Thus while Medicare, Medicaid, and income assistance spending continued to grow, the real value of federal spending on a broad range of other social welfare programs declined, after adjusting for inflation, from \$119 billion in FY 1980 to \$73 billion in FY 1988.² Although such spending was partially restored in some of these fields in the late 1980s and 1990s, by FY 2000 federal spending on programs of concern to nonprofits, outside of health and income assistance, was still 8 percent below FY 1980 levels in real dollar terms (see Table 1).

Recovery in the New Millennium

Largely because of the welfare reform law passed in 1996 and the subsequent broadening of the federal-state Medicaid program, both of which channeled federal resources into service activities outside of health in which nonprofits were quite active, the new millennium brought the first real increases over FY 1980 levels in two decades in federal spending on programs of interest to nonprofit organizations outside of the health and income assistance fields. By FY 2005, therefore, the real value of federal spending on these programs was 48 percent above what it had been in FY 1980, though in at least one field—community and regional development—spending levels still lagged behind FY 1980 levels.

TABLE 1

FEDERAL OUTLAYS IN PROGRAM AREAS OF INTEREST TO NONPROFIT ORGANIZATIONS FY 1980, FY 2000, AND PROJECTED FY 2005 (in billions of constant FY 2005 dollars)						
Program Area	Outlays			Percentage Change		
	FY 1980	FY 2000	FY 2005	FY 2000 vs.1980	FY 2005 vs.2000	FY 2005 vs.1980
International Affairs	\$26.4	\$19.0	\$32.0	-28%	68%	21%
Community and Regional Development ^a	\$24.2	\$14.3	\$23.3	-41%	63%	-4%
Education, Training, Employment, and Social Services ^b	\$68.0	\$75.5	\$120.3	11%	59%	77%
Health ^c	\$232.9	\$448.7	\$575.9	93%	28%	147%
Income Security ^d	\$177.9	\$270.0	\$338.7	52%	25%	90%
TOTAL	\$529.4	\$827.5	\$1,090.2	56%	32%	106%
TOTAL, excluding Health and Income Security^e	\$118.6	\$108.8	\$175.5	-8%	61%	48%

SOURCE: U.S. Office of Management and Budget. 2005. *Budget of the United States Government: Fiscal Year 2006, Historical Tables*.

- a. Includes income security spending on housing activities.
- b. Includes Medicaid and income security spending on social service activities.
- c. Excludes Medicaid spending on social service activities.
- d. Excludes income security spending on housing and social service activities.
- e. Includes Medicaid and income security spending on housing and social service activities.

Implications for Nonprofit Revenues

Because of the partnership arrangements in existence between government and the nonprofit sector, these changing patterns of federal spending have had important implications for nonprofit revenues:

- Overall, as shown in Table 2, federal support for nonprofit organizations has grown substantially over the past 25 years, from \$122.6 billion in FY 1980 to \$288.8 billion in FY 2005;
- However, most of this growth was concentrated in the health field and accrued to health care providers, especially hospitals;
- Outside of the health field, federal support to nonprofit organizations declined, at least during the early part of the period, falling from \$23.5 billion in FY 1980 to 17 billion in FY 1988;
- In the 1990s, however, federal support to nonprofit organizations outside of the health field increased, largely due to changes in the Medicaid and welfare assistance programs that funneled support to nonprofit social service providers. By FY 2000, therefore, such support stood at \$32.7 billion, 39 percent higher than in FY 1980. By FY 2005, federal support reached \$50 billion, more than twice its FY 1980 level.

TABLE 2

**ESTIMATED NONPROFIT REVENUES FROM FEDERAL SOURCES
FY 1980, FY 2000, AND PROJECTED FY 2005
(in billions of constant FY 2005 dollars)**

Type of Organization	Outlays			Percentage Change		
	FY 1980	FY 2000	FY 2005	FY 2000 vs.1980	FY 2005 vs.2000	FY 2005 vs.1980
International Affairs	\$1.6	\$1.1	\$1.9	-28%	68%	21%
Community and Regional Development ^a	\$2.4	\$3.3	\$4.6	37%	37%	87%
Education, Training, Employment, and Social Services ^b	\$19.5	\$28.2	\$43.1	45%	53%	121%
Health ^c	\$99.1	\$187.9	\$239.2	90%	27%	141%
TOTAL	\$122.6	\$220.6	\$288.8	80%	31%	135%
TOTAL, excluding Health^d	\$23.5	\$32.7	\$49.6	39%	52%	111%
TOTAL, excluding Health as well as Medicaid and Income Security Support for Social Service and Community Development Agencies	\$21.1	\$18.0	\$29.3	-15%	63%	39%

SOURCE: U.S. Office of Management and Budget. 2005. *Budget of the United States Government: Fiscal Year 2006, Historical Tables* and authors estimates.

a. Includes income security spending on housing activities.

b. Includes Medicaid and income security spending on social service activities.

c. Excludes Medicaid spending on social service activities.

d. Includes Medicaid and income security spending on social service and housing activities.

President Bush's FY 2006 Budget Proposals

Overall Spending

The budget proposals for FY 2006 through FY 2010 put forward earlier this year by President Bush would put a clear halt to these recent increases in federal spending on programs of interest to nonprofit organizations, at least outside of health and income assistance. To be sure, overall federal spending in these fields is projected to grow between FY 2005 and FY 2010 under the president's plan, but this is almost entirely due to the expected growth in spending under the federal health programs, Medicare and Medicaid (see Table 3). Outside health and income assistance, real federal spending under the president's budget would decline by 12 percent between FY 2005 and FY 2010. In particular, after adjusting for inflation, the real value of federal outlays would fall by 39 percent for community and regional development programs; by 10 percent for education, training, and social service programs; and by 3 percent for international affairs programs. Overall, between FY 2006 and FY 2010, the president's budget would cut a cumulative total of \$71.5 billion from these programs compared to what would be spent if FY 2005 spending levels were maintained.

TABLE 3

**PROPOSED FEDERAL SPENDING IN FIELDS OF INTEREST TO NONPROFITS
UNDER PRESIDENT BUSH'S FY 2006 BUDGET AND FY 2006 CONGRESSIONAL
BUDGET RESOLUTION, FY 2010 VS. FY 2005
(in billions of constant FY 2005 dollars)**

Program Area	President Bush's FY 2006 Proposal			FY 2006 Congressional Budget Resolution		
	FY 2010 vs. FY 2005		Cumulative FY 2006-2010 vs. FY 2005	FY 2010 vs. FY 2005		Cumulative FY 2006-2010 vs. FY 2005
	Amount	Pct.		Amount	Pct.	
International Affairs	-\$0.9	-3%	\$10.4	-\$3.1	-10%	-\$7.3
Community and Regional Development ^a	-\$9.0	-39%	-\$28.8	-\$7.5	-31%	-\$26.9
Education, Training, Employment, and Social Services ^b	-\$11.6	-10%	-\$53.1	-\$1.3	-1%	-\$5.5
Health ^c	\$138.2	24%	\$503.9	\$131.7	23%	\$445.2
Income Security ^d	\$4.0	1%	\$6.1	\$8.4	3%	\$23.1
TOTAL	\$120.8	11%	\$438.5	\$128.3	12%	\$428.5
TOTAL, excluding Health and Income Security^e	-\$21.5	-12%	-\$71.5	-\$11.9	-7%	-\$39.7

SOURCE: U.S. Office of Management and Budget. 2005. *Budget of the United States Government: Fiscal Year 2006* and House Budget Committee. 2005. *Congressional Budget Resolution: Fiscal Year 2006*.

- a. Includes income security spending on housing activities.
- b. Includes Medicaid and income security spending on social service activities.
- c. Excludes Medicaid spending on social service activities.
- d. Excludes income security spending on housing and social service activities.
- e. Includes Medicaid and income security spending on housing and social service activities.

Implications for Nonprofit Revenues

While these proposed reductions in federal spending would increase the demand for nonprofit services, they would simultaneously reduce the revenues many nonprofits have available to meet even previous demands. Overall, federal support to nonprofit organizations would grow by 21 percent over current (FY 2005) levels by FY 2010 under the president's proposals, reaching \$340.8 billion (see Table 4). However, most of this increase would flow to health organizations, especially hospitals. Excluding nonprofit health institutions, federal support of nonprofit organizations as of FY 2010 would be \$1.8 billion, or 4 percent, below what it is in FY 2005. Over the entire FY 2006-2010 period, non-health nonprofit agencies stand to lose a cumulative total of \$10 billion in federal support under the Bush proposals. To put this into context, this is equal to almost half of all the grants made by U.S. private foundations in 2003.³

Not only does the President's budget project a decline in the *amount* of federal support to nonprofit organizations outside of health, but it also projects an accelerating shift in its basic *form*. As of the early 1980s, most federal support to nonprofit organizations outside of the health field came in the form of grants and contracts, which deliver assistance directly to the organizations. Since then, however, grant and contract programs have been cut back and increased reliance has been placed on voucher-type programs, such as

Medicaid, which deliver assistance to recipients instead and therefore require nonprofit organizations to compete for it in the market, often against for-profit firms. As of FY 2005, voucher-type assistance provided through Medicaid accounted for 16 percent of all non-health nonprofit receipts from the federal government. Under President Bush's FY 2006 budget, however, it would swell to 27 percent.

TABLE 4

**PROJECTED NONPROFIT REVENUES FROM FEDERAL SOURCES
UNDER PRESIDENT BUSH'S FY 2006 BUDGET AND THE FY 2006 CONGRESSIONAL
BUDGET RESOLUTION, FY 2010 VS. FY 2005
(in billions of constant FY 2005 dollars)**

Type of Organization	President Bush's FY 2006 Proposal			FY 2006 Congressional Budget Resolution		
	FY 2010 vs. FY 2005		Cumulative FY 2006-2010 vs. FY 2005	FY 2010 vs. FY 2005		Cumulative FY 2006-2010 vs. FY 2005
	Amount	Pct.		Amount	Pct.	
International Affairs	-\$0.1	-3%	\$0.6	-\$0.2	-10%	-\$0.4
Community and Regional Development ^a	-\$0.6	-13%	-\$2.0	-\$0.5	-10%	-\$1.7
Education, Training, Employment, and Social Services ^b	-\$1.2	-3%	-\$8.6	\$2.2	5%	\$6.3
Health ^c	\$61.4	26%	\$228.7	\$58.6	25%	\$202.1
TOTAL	\$59.6	21%	\$218.8	\$60.2	21%	\$206.2
TOTAL, excluding Health^d	-\$1.8	-4%	-\$9.9	\$1.5	3%	\$4.2
TOTAL, excluding Health as well as Medicaid and Income Security Support for Social Service and Community Development Agencies	-\$6.0	-21%	-\$22.2	-\$3.8	-13%	-\$12.1

SOURCE: U.S. Office of Management and Budget. 2005. *Budget of the United States Government: Fiscal Year 2006* and House Budget Committee. 2005. *Congressional Budget Resolution: Fiscal Year 2006*.

a. Includes income security support for housing activities.

b. Includes Medicaid and income security support for social service activities.

c. Excludes Medicaid support for social service activities.

d. Includes Medicaid and income security support for social service and housing activities.

This “marketization” of assistance is important because it makes the receipt of the projected resources far less certain for nonprofit providers. Coupled with the pressures for reductions in Medicaid spending at the state level, this shift raises questions about whether the projected growth in funding of non-health nonprofits through the Medicaid and welfare assistance programs will actually materialize. If it does not, non-health nonprofits would sustain not a 4 percent drop in their federal support as of FY 2010, but a 21 percent drop under the president’s budget. For many of the nation’s private, nonprofit organizations, therefore, President Bush’s FY 2006 budget plan marks a significant retreat from the supportive policies of late 1990s and early 2000s, and at least a partial return to the fiscal stringency of the 1980s and 1990s.

FY 2006 Congressional Budget Resolution

Compared to the president's budget proposals, Congress's latest budget blueprint is slightly less harsh on the nation's nonprofit organizations and those they serve, although it still contains sobering news for many nonprofits. As shown in Table 3, federal spending in program areas of concern to nonprofits would expand by 12 percent under the FY 2006 Congressional Budget Resolution. However, as in the president's proposal, most of this growth would be in the health field. By contrast, outside of health and income security, Federal spending under the Congressional budget plan would decline by 7 percent between FY 2005 and FY 2010, or by a cumulative total of \$40 billion compared to FY 2005 spending levels.

Congressional budget planners project less significant cuts than the president in spending on the education, training, employment, and social service programs that are especially important to nonprofit organizations and more substantial growth in support to non-health nonprofits through the federal Medicaid program. As a consequence, Federal support of nonprofits outside of health would increase by a modest 3 percent between FY 2005 and FY 2010 under the Congressional budget resolution, as shown in Table 4. However, if the projected Medicaid and income assistance support of non-health nonprofits does not materialize, then federal support of these agencies would fall by 13 percent under the Congressional plan between FY 2005 and FY 2010.

Can Private Charity Fill the Gap?

What is the likelihood that private charitable giving by individuals, foundations, and corporations can make up for the spending cuts outlined in President Bush's FY 2006 budget and the FY 2006 Congressional Budget Resolution?

Under the president's budget, federal spending on programs of interest to nonprofit organizations outside of health and income assistance will fall significantly below current levels for each of the next five years. As shown in Table 5, to make up for these reductions, inflation-adjusted private giving would have to grow by 3 to 8 percent each year *above* the 3 percent growth rate that has been more typical over the past two decades. In other words, the real growth rate of private giving would have to be twice or three times the average rate of increase in recent years.

While it is unlikely to be able to overcome the overall reductions in federal spending in fields where nonprofit organizations are active, the anticipated growth in giving over the FY 2006 – FY 2010 period could offset the reductions in federal support to nonprofit organizations proposed in the president's budget. To do so, however, more than one-third of the projected increases in giving would have to go towards offsetting these reductions, reducing the amount of private giving available to address new needs.

Even though the cuts proposed in federal spending on programs of interest to nonprofits outside of the health and income assistance fields under the FY 2006 Congressional Budget Resolution are more modest than those proposed by the president, projected increases in private giving would still fall short of offsetting the overall Congressional budget reductions, as shown in Table 6.

TABLE 5

**CHANGES IN PRIVATE GIVING NEEDED TO OFFSET PRESIDENT BUSH'S
PROPOSED CUTS IN FEDERAL SPENDING AND IN FEDERAL SUPPORT OF
NONPROFIT ORGANIZATIONS, FY 2006-2010**
(in billions of constant FY 2005 dollars)

Fiscal Year	Projected Increase in Private Giving ^a	Projected Cuts in Federal Spending vs. FY 2005 ^b	Percent Added Increase in Private Giving Needed to Offset Budget Cuts	Cuts in Nonprofit Revenues from Federal Sources vs. FY 2005	Percent Added Increase in Private Giving Needed to Offset Nonprofit Revenue Losses
2006	\$5.0	-\$3.2	0%	-\$1.3	0%
2007	\$5.1	-\$11.0	3%	-\$2.1	0%
2008	\$5.3	-\$15.4	6%	-\$2.3	0%
2009	\$5.4	-\$20.4	8%	-\$2.3	0%
2010	\$5.6	-\$21.5	8%	-\$1.8	0%

SOURCE: AAFRC Trust for Philanthropy. 2004. *Giving USA 2004*. and U.S. Office of Management and Budget. 2005. *Budget of the United States Government: Fiscal Year 2006, Historical Tables*.

a. Projected increases in private giving assume a real annual growth rate of 3 percent per year, starting from \$156.4 billion in FY 2003. The baseline FY 2003 estimate is derived from data in *Giving USA 2004* (Indianapolis: AAFRC Trust for Philanthropy, 2004), and excludes giving for sacramental religious purposes and health. Religious giving for social welfare purposes is included.

b. Federal spending figures exclude all health spending except Medicaid social service spending, which is included. Federal figures also exclude income security spending except spending for services, which is included.

TABLE 6

**CHANGES IN PRIVATE GIVING NEEDED TO OFFSET
PROPOSED CONGRESSIONAL CUTS IN FEDERAL SPENDING
AND IN FEDERAL SUPPORT OF NONPROFIT ORGANIZATIONS
FY 2006-2010**
(in billions of constant FY 2005 dollars)

Fiscal Year	Projected Increase in Private Giving ^a	Projected Cuts in Federal Spending vs. FY 2005 ^b	Percent Added Increase in Private Giving Needed to Offset Budget Cuts	Cuts in Nonprofit Revenues from Federal Sources vs. FY 2005	Percent Added Increase in Private Giving Needed to Offset Nonprofit Revenue Losses
2006	\$5.0	-\$2.3	0%	\$0.4	0%
2007	\$5.1	-\$5.3	0%	\$0.6	0%
2008	\$5.3	-\$9.2	2%	\$0.7	0%
2009	\$5.4	-\$11.1	3%	\$0.9	0%
2010	\$5.6	-\$11.9	3%	\$1.5	0%

SOURCE: AAFRC Trust for Philanthropy. 2004. *Giving USA 2004*. and House Budget Committee. 2005 and *Congressional Budget Resolution: Fiscal Year 2006*.

a. Projected increases in private giving assume a real annual growth rate of 3 percent per year, starting from \$156.4 billion in FY 2003. The baseline FY 2003 estimate is derived from data in *Giving USA 2004* (Indianapolis: AAFRC Trust for Philanthropy, 2004), and excludes giving for sacramental religious purposes and health. Religious giving for social welfare purposes is included.

b. Federal spending figures exclude all health spending except Medicaid social service spending, which is included. Federal figures also exclude income security spending except spending for services, which is included.

Conclusion

The FY 2006 Bush budget and the FY 2006 Congressional Budget Resolution portend a return to an era of fiscal constraint – like the 1980s and 1990s – for many of the nation’s nonprofit organizations. While federal spending continues to grow in the areas of health and income assistance, spending in other areas of interest to nonprofits would decline sharply in FY 2006 through FY 2010 under both President Bush’s and Congress’ budget plans. As a consequence, federal support of nonprofits would also fall significantly, at least outside of the health field.

The estimates outlined here, however, are based on budget projections contained in the president’s budget proposals and in the budget resolution passed by Congress in April 2005. Final decisions on the shape of the budget, and hence on the resources available to nonprofit organizations and those they serve, will be set in the appropriations bills now making their way through Congress, in potential changes in the coverage of the Medicaid program being pressed by states across the country, and in nonprofit success in competing for the Medicaid and income assistance funds that will be available. This makes nonprofit attention to these matters all the more important in the weeks and months to come.

Notes

¹ President Bush submitted his FY 2006 budget proposal to Congress on February 7, 2005. The House and Senate approved Congress’s FY 2006 Budget Resolution on April 28, 2005. Both plans project federal spending for FY 2006 - 2010. The federal fiscal year begins on October 1 and ends on September 30. Thus, FY 2006 runs from October 1, 2005 through September 30, 2006. The analysis in this report is based largely on budget proposals that are available only at the level of “budget functions” rather than individual programs. The six budget functions included in this analysis are: international affairs (function 150); community and regional development (450); education, training, employment, and social services (500); health (550), Medicare (570), and income security (600). Receipts from Medicare premiums are excluded from the analysis. The six functions in this report, out of the total of 20 functional areas in the budget, account for more than 40 percent of all federal spending and well over 90 percent of federal assistance to nonprofit organizations.

² All monetary values here are expressed in inflation-adjusted FY 2005 dollars.

³ Grants from independent, operating, and community foundations totaled \$26.3 billion as of 2003. *Giving USA: 2004* (New York: AAFRC Trust for Philanthropy, 2004), p. 218.

