MINNESOTA COUNCIL OF NONPROFITS

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May 7, 2022

Re: Very problematic nonprofit provisions in the Senate State Government omnibus bill

Dear Members of the State Government, Veterans, Transportation, and Pensions conference committee,

The Minnesota Council of Nonprofits urges you to **exclude from your conference report the provisions in the Senate's version of the bill related to state grants to nonprofit organizations.**

The nonprofit provisions, in Section 16 of the 1st Unofficial Engrossment, would affect nonprofits that receive 50% or more of their revenue from the state, with some exemptions. Nonprofits impacted range from small nonprofits working in rural areas helping older adults age in place, to domestic violence shelters helping women and families, to large human service nonprofits providing critical community services, and more.

These provisions would also affect many nonprofits and grantmaking intermediaries that step up during crises. The state relies on community-based organizations to respond to natural disasters, emergency refugee resettlement, rebuilding after unrest, and pandemic response. These organizations have also stepped up to support distribution of federal and state resources in response to COVID-19. These types of crisis response initiatives are above and beyond their usual business models and budgets, and this legislation would eliminate or disincentive their ability to partner with the state.

<u>The unintended consequences are numerous and harmful</u>

For these affected nonprofits, these provisions would:

- **Impose a salary cap on all employees**, making it more difficult for nonprofits to attract and retain the experienced and talented staff they need to manage what are complex community challenges. These organizations need to be able to compete appropriately in the labor market.
- **Prohibit state agency employees and others from serving on their boards**, unnecessarily excluding some of the most engaged and civically minded people in our state, and limiting the ability of people with certain lived experiences to serve on boards.
- **Mandate a two-year history of costly financial audits**, even for small nonprofits that are well below the $750,000 audit threshold currently required by law. This would limit state funding opportunities for small nonprofits and almost certainly force some to close or scale back services, disproportionately impacting those working in rural communities or with specific cultural groups.
- **Require background checks for all board members be submitted to the state for review, paid for by the nonprofit**

Ultimately, these provisions would hurt nonprofits, limiting the pool of leaders that can serve on their boards, exacerbating existing workforce and hiring challenges, imposing burdensome new administrative costs on nonprofits, and forcing some to close or stop partnering with the state. Many of these provisions would have a disproportional impact on rural communities and small nonprofits.

Disproportionate impact on small rural nonprofits
This legislation would be especially harmful to small nonprofits that receive state grants in the tens of thousands of dollars. A small investment from the state, coupled with the nonprofit's volunteers and fundraising activities, provide valuable support to communities where that nonprofit is the only way residents can access vital services like transportation to health care appointments, grocery and meal delivery.

Programs like these, often operating with a part-time staff person and volunteers, cannot afford a $10,000 - $15,000+ financial audit plus the one to two weeks of staff time required to do one. This legislation would force small, rural operations like these to decline state funding, and therefore reduce or eliminate these much-needed services.

The Office of the Legislative Auditor has begun its evaluation of Grants to Nonprofit Organizations. It would be prudent for the legislature to wait until it can review the OLA's findings and then consider thoughtful ways to repair any cracks in nonprofit oversight. This legislation's blanket approach would not provide additional information or safeguards against fraudulent activity, and the unintended consequences of this approach have not been fully considered. In addition, the lack of stakeholder engagement before this language was introduced and the many exemptions that have been added in along the way provide evidence that this proposal is not ready for prime time. Additional time, thoughtfulness, and engagement is needed, which the Legislative Auditor's report and timing offer.

We ask that you **exclude from your conference report the provisions in the Senate's version of the bill related to state grants to nonprofit organizations.** Please contact Marie Ellis, MCN's public policy director if you have any questions or would like more details about a particular provision and its impact on nonprofits: mellis@minnesotanonprofits.org; (612) 518-0612.

Sincerely,

Nonoko Sato
Executive Director

Marie Ellis
Public Policy Director