

---

---

# NONPROFIT SECTOR RESEARCH FUND

—— *Working Paper Series* ——

## **The Nonprofit Sector and the Federal Budget: Analysis of President Bush's FY 2007 Budget**

**by**

**Alan J. Abramson, Lester M. Salamon and John Russell**

**2006**



THE ASPEN INSTITUTE

---

---

*Nonprofit Sector Research Fund  
Working Paper Series*

*The Nonprofit Sector and the Federal Budget:  
Analysis of President Bush's FY 2007 Budget*

by

**Alan J. Abramson**

*Aspen Institute*

Alan.Abramson@aspeninstitute.org

**Lester M. Salamon**

*Johns Hopkins University*

LSalamon@jhu.edu

**John Russell**

*Aspen Institute*

John.Russell@aspeninstitute.org

**2006**

The opinions and conclusions expressed in this Working Paper are the authors' and not those of the Aspen Institute, the Nonprofit Sector Research Fund, or their funders.



All rights reserved  
Printed in the United States of America

## **Nonprofit Sector Research Fund**

The Nonprofit Sector Research Fund (NSRF) was established in 1991 to increase understanding of the nonprofit sector and philanthropy. Since its founding, the Fund has awarded a total of \$10 million to support over 400 research projects on a broad range of nonprofit topics. NSRF is currently focusing its work in three broad areas: public policy affecting nonprofits, social entrepreneurship, and foundation policy and practice. In each area, NSRF is identifying priority research topics, supporting research and dialogue on these topics, communicating research findings to appropriate audiences, and working with other organizations to facilitate the use of new knowledge to improve relevant practices and policies.

The Fund's programs are supported by the Atlantic Philanthropies, Carnegie Corporation of New York, Ford Foundation, Bill and Melinda Gates Foundation, William Randolph Hearst Foundation, Ewing Marion Kauffman Foundation, W.K. Kellogg Foundation, Charles Stewart Mott Foundation, The David and Lucile Packard Foundation, Skoll Foundation, and Surdna Foundation.

### **Publications**

The Nonprofit Sector Research Fund produces a variety of publications, including *Snapshots*, concise research briefings that highlight practical and policy-relevant findings reported by Fund grantees; the *Aspen Philanthropy Letter*, an e-newsletter on new developments in the field of philanthropy; books, such as *Building Wealth* and *Organizing Foundations for Maximum Impact*; and working papers that present findings of Fund-supported research.

A complete list of publications is available from the Fund by calling (202) 736-2500 or visiting our website at [www.nonprofitresearch.org](http://www.nonprofitresearch.org). Publications may be ordered through the Aspen Institute Fulfillment Office at (410) 820-5338.

### **Working Papers**

Working papers are not formally peer-reviewed. The Fund invites reader feedback on working papers and can convey reader comments to author(s).

A complete list of Working Papers is available from the Fund by calling (202) 736-2500 or visiting our website at [www.nonprofitresearch.org](http://www.nonprofitresearch.org). Individual copies may be ordered through the Aspen Institute Fulfillment Office at (410) 820-5338.

### **Nonprofit Sector Research Fund Council**

Audrey R. Alvarado  
Executive Director  
National Council of Nonprofit  
Associations

Elizabeth T. Boris  
Director  
Center on Nonprofits and Philanthropy  
The Urban Institute

Stacey Daniels-Young  
President  
Black Health Care Coalition

Virginia Hodgkinson, Chair  
Research Professor of Public Policy  
The Georgetown Public Policy Institute  
Georgetown University

Peter Reiling, Ex Officio  
Executive Vice President for  
International and Policy Programs  
The Aspen Institute

James Allen Smith  
Waldemar A. Nielsen Professor of  
Philanthropy  
Georgetown Public Policy Institute  
Georgetown University

Steven Rathgeb Smith  
Professor, Nonprofit Management  
Program  
University of Washington

Pat Willis  
Executive Director  
Voices for Georgia's Children

Julian Wolpert  
Professor of Geography, Public  
Affairs and Urban Planning  
Woodrow Wilson School of Public  
and International Affairs  
Princeton University

### **Nonprofit Sector Research Fund Staff**

Alan J. Abramson, Director  
Carrie Kovar, Program Assistant  
Winnifred Levy, Communications Manager  
Rachel Mosher-Williams, Project Director

Elizabeth Myrick, Senior Associate  
John Russell, Program Coordinator  
Cynthia H. Schuman, Associate Director

For further information on the Nonprofit Sector Research Fund, contact:

Nonprofit Sector Research Fund  
The Aspen Institute  
One Dupont Circle, NW  
Suite 700  
Washington, DC 20036  
(202) 736-2500 / (202) 293-0525 fax  
e-mail: [nsrf@aspeninstitute.org](mailto:nsrf@aspeninstitute.org)  
[www.nonprofitresearch.org](http://www.nonprofitresearch.org)

# **The Nonprofit Sector and the Federal Budget: Analysis of President Bush's FY 2007 Budget**

by

Alan J. Abramson, Lester M. Salamon, and John Russell

## **Overview**

The budget proposals that President Bush recently submitted to Congress, covering fiscal year 2007 and beyond, would put new demands on the nation's private, nonprofit organizations at the same time they would reduce the federal support going to these organizations to provide services.<sup>1</sup> In particular, our analysis of the president's FY 2007 budget indicates that:

- Over the five years, FY 2007-2011, the Bush Administration's latest budget proposals would reduce federal spending on programs of interest to nonprofits, outside of Medicare and Medicaid, by a cumulative total of \$78.6 billion below current FY 2006 levels, after adjusting for inflation.
- If the president's proposals were enacted, federal funding of nonprofits, excluding support of nonprofit health organizations through the Medicare and Medicaid programs, would decline during the five years, FY 2007-2011, by a cumulative total of \$14.3 billion below FY 2006 levels after adjusting for inflation.
- The impact of the president's proposed spending plan on the nation's nonprofit organizations would be even more severe were it not for the projected continued growth of the Medicaid program, which now delivers important assistance to nonprofit organizations outside of the health field. But significant pressures exist at the state level to reduce Medicaid spending. If Medicaid support of non-health organizations (e.g. social service organizations) is also excluded (along with Medicare and Medicaid support of health organizations), then during FY 2007-2011 federal support of non-health nonprofits would decline by a cumulative total of \$23.8 billion below FY 2006 levels under the president's budget.

---

<sup>1</sup> President Bush submitted his FY 2007 budget proposal to Congress on February 6, 2006. This plan projects federal spending for FY 2007 – 2011. The federal fiscal year begins on October 1 and ends on September 30. Thus, FY 2007 runs from October 1, 2006 through September 30, 2007. The analysis in this report is based largely on budget proposals that have been made at the level of "budget accounts." Budget account-level outlay figures for FY 1980 through FY 2007 are available from the U.S. Office of Management and Budget. The president's budget account-level projections for FY 2008-2011 are available in Kogan, Shapiro, and Richards, *The Hidden Cuts in Domestic Appropriations: OMB Data Reveal Deep Funding Cuts After 2007*. Washington, DC: Center on Budget and Policy Priorities, 2006.

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 changes and their impact on the country's nonprofit organizations.

### **How Federal Budget Decisions Affect Nonprofits: Two Kinds of Impacts**

The nonprofit sector and government are often viewed as operating independently of one another and as alternative ways to respond to human needs. In reality, however, nonprofits and government are deeply intertwined, with the two sectors working hand-in-hand to address many of the nation's social and economic problems. As a consequence, federal budget decisions affect nonprofit organizations in at least two important ways:

- *Demand on Nonprofits*: First, by determining the overall level of government resources available to address public problems and hence the need, or *demand*, for nonprofit services; and
- *Revenue of Nonprofits*: Second, by affecting the *revenues* that nonprofit organizations have available to respond to these needs since a significant portion of nonprofit revenues come from federal programs.

### **The President's FY 2007 Budget and Overall Federal Spending on Programs of Interest to Nonprofits**

In terms of the first of these impacts, President Bush's FY 2007 budget would increase overall federal outlays for programs in areas where nonprofit organizations are active by a cumulative total of \$195.5 billion from FY 2007 to FY 2011 as compared to FY 2006 levels, after adjusting for inflation. Even so, these increases would not keep up with the projected overall growth of the economy. As a result, by FY 2011 federal spending in these fields as a percentage of GDP would slip 2 percent below its FY 2006 level.

Moreover, the proposed increases in overall federal spending for programs of interest to nonprofits are heavily concentrated in a single program area: health finance. As shown in Table 1, the health finance program area, which includes Medicare and Medicaid, is by far the largest and fastest growing area of those examined here, and the only one that would expand as a share of GDP. Excluding Medicare and Medicaid, federal spending in the remaining areas of interest to nonprofits is projected to fall a cumulative total of \$78.6 billion over the five years, FY 2007-2011, ending up in FY 2011 with a 17 percent smaller share of GDP.

As shown in Table 1, these cuts affect nearly every program area of interest to nonprofits. While some program areas, like international aid and social services, would experience a cumulative increase during FY 2007-2011 in dollar terms, spending in all fields (except health) would drop between FY 2006 and FY 2011 as a percentage of GDP.

## Social Welfare

Spending on social welfare programs, including social services, employment and training, and community development activities, is projected to fall relative to FY 2006 funding levels by a cumulative total of \$13.6 billion during FY 2007-2011.

Within this broad area, Federal social service outlays under the President's budget will increase by a cumulative total of \$7.6 billion over the next five years. However, nearly all of this growth comes from increased social service-oriented spending through the Medicaid program. In contrast, the president's budget would cut many other major social service programs, including the Social Services Block Grant and Head Start. In addition, it would sharply reduce spending on community development.

**TABLE 1**  
Changes in Federal Spending in Program Areas Where Nonprofit Organizations are Active  
FY 2007-FY 2011 vs. FY 2006  
(In Billions of Constant FY 2006 Dollars)<sup>a</sup>

Program Area	FY 2006 Outlays	Change, FY 2011 vs. FY 2006		Cumulative Change, FY 2007-2011 vs. FY 2006 Level	Percent Change FY 2011 vs. FY 2006 as a Percent of GDF
		Amount	Percent		
<b>Social Welfare</b>	<b>\$63.4</b>	<b>\$0.0</b>	<b>0%</b>	<b>-\$13.6</b>	<b>-15%</b>
Social services <sup>c</sup>	46.6	3.9	8	7.6	-7
Employment and training <sup>c</sup>	5.9	-0.3	-5	-1.3	-19
Community development <sup>c</sup>	10.9	-3.6	-33	-19.9	-43
<b>Education and Research</b>	<b>91.2</b>	<b>-10.7</b>	<b>-12</b>	<b>-31.0</b>	<b>-25</b>
Elementary and secondary <sup>c</sup>	37.7	-5.5	-15	-15.5	-27
Higher education <sup>c</sup>	22.3	-2.9	-13	-9.0	-26
Research and development	31.2	-2.2	-7	-6.4	-21
<b>Health</b>	<b>615.9</b>	<b>83.9</b>	<b>14</b>	<b>267.7</b>	<b>7</b>
Health finance <sup>b</sup>	586.1	86.4	15	276.5	8
Health services	29.8	-2.5	-8	-8.8	-13
<b>Income Assistance</b>	<b>212.8</b>	<b>-5.8</b>	<b>-3</b>	<b>-27.2</b>	<b>-17</b>
Housing <sup>c</sup>	38.3	-7.1	-18	-18.7	-30
Cash	97.4	7.7	8	15.9	-8
Food <sup>c</sup>	55.3	-1.7	-3	-9.2	-17
Other	21.8	-4.7	-22	-15.3	-33
<b>International Aid</b>	<b>16.0</b>	<b>0.9</b>	<b>5</b>	<b>1.8</b>	<b>-10</b>
<b>Arts and Culture</b>	<b>1.9</b>	<b>-0.4</b>	<b>-22</b>	<b>-1.7</b>	<b>-34</b>
<b>Environment</b>	<b>0.3</b>	<b>-0.2</b>	<b>-55</b>	<b>-0.5</b>	<b>-61</b>
<b>Total<sup>c</sup></b>	<b>\$1,001.4</b>	<b>\$67.7</b>	<b>7%</b>	<b>\$195.5</b>	<b>-2%</b>
Total, Excluding Medicare and Medicaid	427.9	-18.4	-4	-78.6	-17
Total, Excluding all Health and Income Assistance	172.8	-10.4	-6	-45.0	-20

SOURCE: U.S. Office of Management and Budget. 2006. *Budget of the United States Government: Fiscal Year 2007* and additional OMB data published in Kogan, Shapiro, and Richards. *The Hidden Cuts in Domestic Appropriations: OMB Data Reveal Deep Funding Cuts After 2007*. Center on Budget and Policy Priorities. 2006.

a. Excludes federal credit programs.

b. Excludes Medicare premiums and collections.

c. Excludes outlays resulting from FY 2006 supplemental appropriations for hurricane relief and recovery.



## **Education and Research**

Federal spending on education and research would experience the largest cuts of any single program area considered here under President Bush's FY 2007 budget. Funding for elementary and secondary education, higher education, and research and development would fall by a cumulative total of \$31.0 billion from FY 2006 levels through FY 2011. Vocational and adult education programs would experience significant cuts as would the federal TRIO higher education programs that provide postsecondary support services for disadvantaged adults.

## **Health**

Federal spending on health would continue to increase substantially under the President's budget, with most of the increases concentrated in the federal Medicare and Medicaid programs. By contrast, spending in the smaller health services area, which includes programs like Community Health Centers and Mental Health and Substance Abuse Block Grants, will be reduced by a cumulative total of \$8.8 billion.

## **Income Assistance**

The income assistance program area would experience significant funding cuts under President Bush's FY 2007 budget. A total of \$27.2 billion would be cut from a wide array of housing, cash, and food assistance programs. The largest reductions in this area would occur in housing assistance where Section 8 housing vouchers are slated to lose \$11.5 billion through FY 2011 compared to their FY 2006 level. Some of the reductions would be offset in the area of cash assistance, where increases in Supplemental Security Income (SSI) and the health care tax credit would result in a \$15.9 billion increase in outlays over five years.

## **International Aid**

The President's FY 2007 budget increases funding for programs in the area of international aid by a cumulative total of \$1.8 billion over its FY 2006 level during the next five years. This increase reflects a change in priorities in this program area away from traditional aid funding through the U.S. Agency for International Development and toward the new Millennium Challenge Corporation. The MCC is slated to receive a cumulative increase of \$15 billion between FY 2007 and FY 2011, while all other international aid spending on programs of interest to nonprofits will fall by \$13.2 billion.

## **Arts and Culture and Environment**

The two smallest program areas of interest to nonprofits would experience cumulative funding reductions of \$1.7 billion and \$600 million respectively under the president's FY 2007 budget. Funding for the two largest programs in these areas, the Corporation for Public Broadcasting and the Smithsonian Institution, would fall by \$672 million and \$578 million, respectively.

## The President's FY 2007 Budget and Nonprofit Revenues from Federal Sources

While the proposed reductions in federal spending, by reducing the availability of public sector activity, would increase the need for a variety of nonprofit services, they would simultaneously reduce the revenues many nonprofits have available to meet even previous demands.

To be sure, overall nonprofit revenues from federal sources are estimated to increase over FY 2006 levels by a cumulative total of \$128.8 billion between FY 2007 and FY 2011 under the President's budget. However, as seen in Table 2, this is largely due to the anticipated growth in federal support of nonprofit health organizations through the federal Medicare and Medicaid programs. Excluding Medicare and Medicaid, other federal funding of nonprofits would decline by \$14.3 billion over the next five years.

**TABLE 2**  
Estimated Federal Support of Nonprofit Organizations by Type of Organization  
FY 2007-FY 2011 vs. FY 2006  
(In Billions of Constant FY 2006 Dollars)

Type of Organization	Outlays FY 2006	Change, FY 2011 vs. FY 2006		Cumulative Change, FY 2007-2011 vs. FY 2006 Level	Percent Change FY 2011 vs. FY 2006 as a Percent of GDF
		Amount	Percent		
<b>Social Services</b>	<b>\$4.3</b>	<b>\$0.1</b>	<b>3%</b>	<b>\$1.1</b>	<b>-12%</b>
<b>Community Development</b>	<b>3.5</b>	<b>-1.0</b>	<b>-28</b>	<b>-4.6</b>	<b>-39</b>
<b>Education and Research</b>	<b>23.3</b>	<b>-2.6</b>	<b>-11</b>	<b>-7.9</b>	<b>-24</b>
Elementary and secondary	2.5	-0.5	-20	-1.6	-31
Higher education	4.9	-0.9	-18	-2.8	-30
Research and development	16.0	-1.2	-8	-3.4	-21
<b>Health</b>	<b>297.5</b>	<b>43.6</b>	<b>15</b>	<b>140.9</b>	<b>8</b>
Health Finance	292.0	44.6	15	143.8	9
Health Services	5.4	-1.0	-18	-2.9	-23
<b>International Aid</b>	<b>3.0</b>	<b>-0.3</b>	<b>-10</b>	<b>-0.6</b>	<b>-23</b>
<b>Arts and Culture</b>	<b>0.9</b>	<b>-0.2</b>	<b>-27</b>	<b>-1.0</b>	<b>-38</b>
<b>TOTAL</b>	<b>\$332.5</b>	<b>\$39.7</b>	<b>12%</b>	<b>\$128.1</b>	<b>5%</b>
Total, Excluding Medicare and Medicaid <sup>a</sup>	42.2	-4.6	-11	-14.3	-22
Total, Excluding all Health	35.0	-4.0	-11	-12.8	-24

SOURCE: Authors' estimates based on U.S. Office of Management and Budget. 2006. *Budget of the United States Government: Fiscal Year 2007* and additional OMB data published in Kogan, Shapiro, and Richards. *The Hidden Cuts in Domestic Appropriations: OMB Data Reveal Deep Funding Cuts After 2007*. Center on Budget and Policy Priorities. 2006.  
a. Includes Medicaid support flowing to social service organizations.

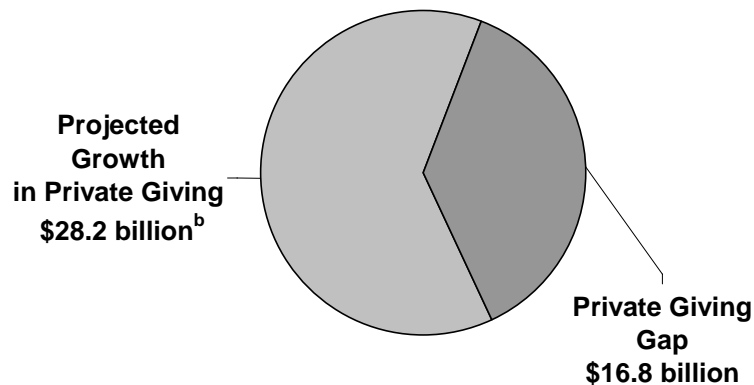
## Can Private Charity Fill the Gap Resulting from Federal Budget Cuts?

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 2007 budget?

Under the president's budget, overall federal spending on programs of interest to nonprofits, outside of health and income security, will fall by \$45 billion below FY 2006 levels over the next five years. During the same period, assuming that private giving for all but health and religious worship organizations continues to grow at the same rate as over the past 20 years, giving will grow by a cumulative total of \$28.2 billion. As shown in Figure 1, this would leave a gap of \$16.8 billion even if no other increases in need for private giving arose.

The projected \$28.2 billion growth in private giving would be sufficient, however, to offset the projected \$12.8 billion in cuts in nonprofit revenues from federal sources outside of Medicare, Medicaid, and other health programs over this five-year period. However, this, too, assumes that no other demands for these private resources exist and that the private giving finds its way to the types of organizations affected by the cuts, which is highly improbable.

**Figure 1**  
**Overall Cuts in Federal Spending in Areas of Interest to Nonprofits**  
**\$45 billion<sup>a</sup>**



Source: Authors' estimates of private giving are based on AAFRC Trust for Philanthropy. 2005. *Giving USA 2005*. New York: AAFRC Trust for Philanthropy.

a. Excludes outlays for Health and Income Assistance

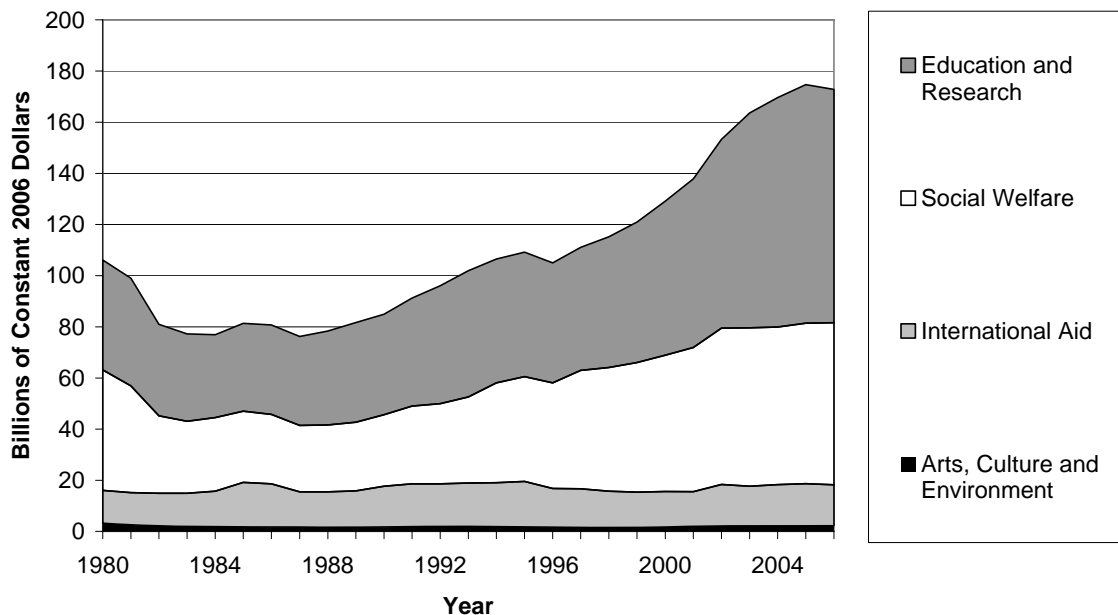
b. Excludes giving for health and sacramental religious purposes

## The Nonprofit Sector and the Federal Budget in Historical Perspective

The current climate of fiscal restraint in programs of interest to nonprofits is not unprecedented. 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 \$106.1 billion in FY 1980 to \$78.4 billion in FY 1988 (see Figure 2).

From the late 1990s onward, funding in the program areas of interest to nonprofits began to rise gradually, and the rate of increase accelerated substantially during the first half of the current decade. The proposals now on the table, however, would reverse this growth to a significant extent.

**Figure 2**  
**Total Federal Outlays in Program Areas of Interest to Nonprofit Organizations**  
**Excluding Health and Income Assistance:**  
**FY 1980-FY 2006**



## **Conclusion**

President Bush's FY 2007 budget portends 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 increase in the areas of health and income security, spending in other areas of interest to nonprofits would decline over the FY 2007 through FY 2011 period. As a consequence, federal support of nonprofits would also fall significantly, at least outside of the health field.

The estimates outlined here are based on budget projections contained in the president's FY 2007 budget proposals. Final decisions on the shape of the budget, and hence on the federal resources available to nonprofit organizations and those they serve, in FY 2007 and beyond will be made by the president and Congress in the weeks, months, and years to come. Hopefully, the information contained in this report will help alert policymakers to the implications of these decisions for the nation's nonprofit organizations and those they serve.

