

# More Nonprofit Woes from State Budget Troubles

07.28.16 | Linda J. Rosenthal, JD



We've reported before on nonprofits being caught in the financial crossfire from state (and local) budget impasses and cutbacks.

In *Local Governments Eager to Snag Revenue from Nonprofits*, we alerted you to the alarming trend of local governments trying to scoop up any revenue possible from the nonprofits in their communities. A favorite method, we reported, is the PILOT; that is, "payments in lieu of taxes." Another is renaming what are clearly "taxes" as "fees" so that local tax-exempt charities have no apparent shield from them.

In *Property Tax Exemptions: The New Battlefield*, we described two important lawsuits in New Jersey pitting local communities against their most important charitable institutions – for the purpose of yanking part or all of the property tax exemption from them. The two organizations featured in this post are Morristown Medical Center and Princeton University; although this story is from New Jersey, similar battles have, or are about to, erupt in other states.

## *Additional Attempts to Squeeze Nonprofits*

Here is just a small sampling from around the nation of additional recent efforts of state governments to cover shortfalls on the backs of nonprofits.

### **Connecticut**

Faced with severe budget shortfalls, Connecticut has made deep cuts in the current and upcoming fiscal years for services provided by nonprofits.

There have been legislative attempts as well to target certain categories of nonprofit institutions for more revenue. For instance, a bill pending in the Connecticut General Assembly seeks to require a

\$500K cap on nonprofit hospital administrator salaries; otherwise, the hospital would be required to pay property taxes to the local municipality. A bill in the Senate seeks to “tax the property of certain colleges where activities conducted thereon generate at least six thousand dollars in revenue in a taxable year.” And another Senate bill is aimed at “taxing certain endowment funds of institutions of higher education.”

### ***Illinois***

Illinois has had a budget stalemate for more than a year; the state’s nonprofits have been devastated. The state has demanded that nonprofits with government contracts keep providing services – without payment. Hundreds of millions of dollar are owed. There have been layoffs; many organizations have shuttered. And individuals in the state are not receiving needed services.

### ***Kentucky***

During the former Governor’s administration, a special tax reform commission was convened to address key fiscal problems including pension obligations. This Blue Ribbon Commission recommended caps on state itemized deductions including the charitable giving incentive, and there have been moves in that direction. Organizations representing the Commonwealth’s nonprofits have pointed to damaging results in other states when caps on the charitable deduction have been imposed. They have urged lawmakers to consider other ways to address the budget problems.

### ***Louisiana***

Louisiana narrowly missed the prize for “worst revenue decisions” when the new Governor, John Bel Edwards, called the Legislature backed into session recently to “clean up various unintended tax consequences created” in the last session. Lawmakers did, indeed, comply, and reversed these outrages.

What happened? Louisiana has a state constitutional mandate to end each June 30 fiscal year in the black. There was a huge budget shortfall, though, and in desperation, legislators decided to unleash the Girl Scouts, armed with their thin mints, as tax collectors. That is to say, they passed laws temporarily suspending hundreds of sales tax exemptions and exclusions. In addition to the Girl Scouts, other targets included food banks, homeless shelters, and school booster clubs.

It’s no surprise that the backlash was swift and effective.

## ***Conclusion***

We have no doubt, unfortunately, that there will be many more news items like these to report in upcoming weeks and months.

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