

APRIL 2021

Helping Those Who Help Others: Allocating COVID-19 Stimulus Funding to Nonprofits

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Any opinions expressed in this paper belong solely to the author; they do not necessarily reflect the views of the Kautz-Uible Economics Institute or the University of Cincinnati. No external funding was provided for the publication of this report.

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Helping Those Who Help Others: Allocating COVID-19 Stimulus Funding to Nonprofits

Within the \$1.9 trillion American Rescue Plan (ARP) Act, lawmakers allocated \$350 billion to state and local governments for COVID-19 economic relief. These funds will be sent to regional governments over a two-year period and must be spent by the end of 2024. To say that these funds are a once-in-a-generation windfall is an understatement; the city of Cincinnati will directly receive more than \$290 million.¹ To put this number in perspective, Cincinnati estimates that \$135 million will be sufficient to cover last year's budget deficit, projected operating budget deficits for the next two years, negotiated hazard pay, and public health expenditures for PPE, vaccine distribution, and COVID-19 testing.² After this money is spent, the City of Cincinnati will still have more than \$155 million left over.

All across the country, cities like Cincinnati must decide how to spend these additional funds. In many regions, governments have failed to sufficiently invest in transportation and utilities infrastructure. The City of Cincinnati estimates a capital deficit of \$103 million in the 2022 fiscal year.³ Even setting aside the question of whether federal taxes should be used to address local governments' own infrastructure deficits, more than \$50 million would remain at Cincinnati's disposal after its operating and infrastructure deficits are eliminated. Local communities should then ask themselves: "What is the best use of these remaining stimulus dollars?"

During the COVID-19 crisis, nonprofit organizations and governments were strong partners in providing relief to affected individuals and organizations. In Ohio, the Hamilton County government launched a website to redirect county residents, including those in Cincinnati, to nonprofits like the Freestore Foodbank.⁴ Many of these types of organizations were overwhelmed during COVID-19. By the end of 2020, the Freestore Foodbank had distributed over 24 million meals, a 46% increase from their usual numbers, and the Brighton Center saw a 300% increase in the number of families who accessed their emergency services.⁵ The strength of the nonprofit sector helped local governments weather the COVID-19 crisis.

Because of their established community presence, nonprofits can sometimes respond more quickly than local governments and identify populations in need that may be hidden or inaccessible. Nonprofits are also able to consolidate overhead costs across a larger volume of goods and services and pay much lower prices than an individual recipient would pay. The Center for High Impact Philanthropy found that food banks can usually pay the equivalent of 10 cents a pound for food that would cost \$2 at retail.⁶ A government that distributes funds to a local nonprofit may see a much greater return on its investment. Many organizations support not only individuals but also other nonprofits in their efforts. For example, Sweet Cheeks Diaper

¹ <https://www.bizjournals.com/cincinnati/news/2021/03/11/city-of-cincinnati-biden-stimulus.html>

² <https://www.cincinnati-oh.gov/noncms/cmgr/memo/index.cfm?action=public.viewpdf&name=41982.pdf>

³ <https://www.bizjournals.com/cincinnati/news/2021/03/11/city-of-cincinnati-biden-stimulus.html>

⁴ <https://513relief.org/>

⁵ <https://www.citybeat.com/arts-culture/blog/21146996/as-covid-continues-greater-cincinnati-nonprofits-need-your-help-more-than-ever-this-holiday-season>

⁶ <https://slate.com/business/2011/12/food-drives-charities-need-your-money-not-your-random-old-food.html>

Bank distributes millions of diapers every year to 55 partner agencies across the Cincinnati region. These partner agencies then provide diapers directly to individuals and families in need.

Nonprofits were not immune to COVID-19’s economic impact. The figure below shows that six months into the COVID-19 crisis, employment in Ohio’s nonprofit sector was still down 6 percent. However, the effects were not distributed equally. By September 2020, employment was 11 percent lower in the human services nonprofit sector and a devastating 37 percent lower in the arts.

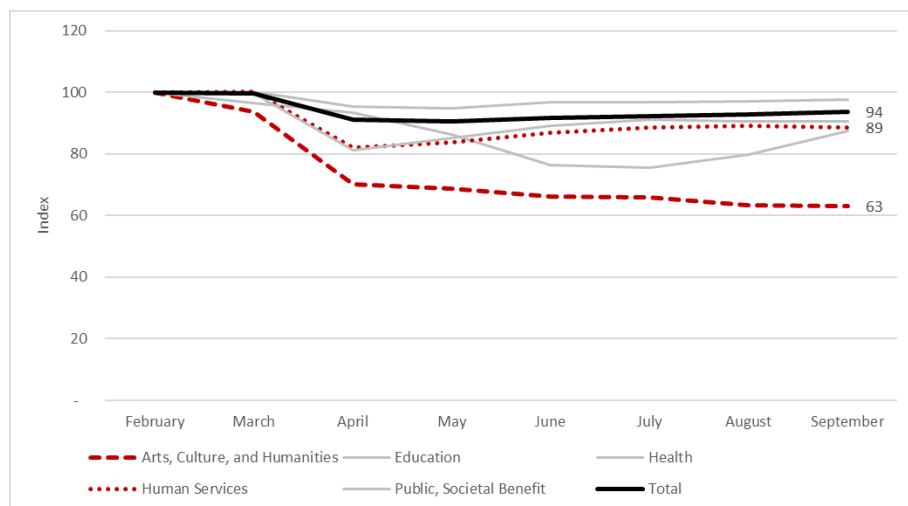


Figure 1: Index of Ohio Nonprofit Job Losses between March 2020 and September 2020
 Source: Ohio Department of Jobs and Family Services (ODJFS); sectors based on IRS / NTEE definitions.

As part of the first wave of federal relief in March 2020, the CARES Act provided \$178 billion to healthcare organizations⁷ while the ARP Act provided \$81 billion to education.⁸ Because health and education-related nonprofits would have access to these funds either directly or indirectly, the City of Cincinnati does not need to set aside additional funding for nonprofits in this sector.

However, while the percentage of nonprofit job losses was highest in the arts, the human services nonprofit sector actually lost a larger number of jobs due to its much larger size. In Ohio, more than eight times as many people work for human services nonprofits.

⁷ <https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/index.html>

⁸ <https://ohiocapitaljournal.com/2021/03/25/federal-funds-released-for-school-reopening-ohio-gets-3-billion/>

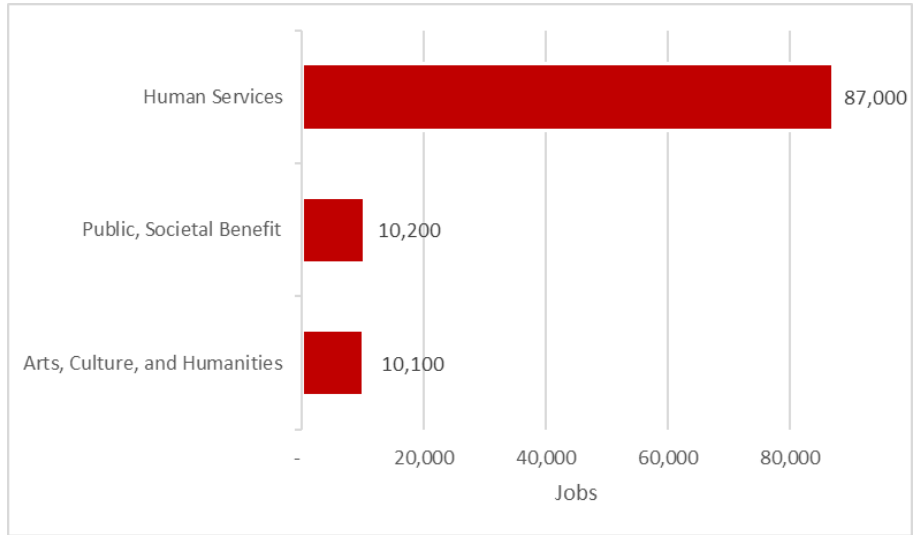


Figure 2: Ohio Nonprofit Employment, by Sector
 Source: Ohio Department of Jobs and Family Services (ODJFS), rounded to the nearest hundred

Across Ohio, there were 4,000 fewer jobs in arts nonprofits, but 10,000 fewer individuals working for human services nonprofits by the end of September. For Cincinnati human services nonprofits, job losses between February 2020 and September 2020 totaled 760.⁹ By allocating some of the remaining \$50 million in stimulus funds to human services, the City of Cincinnati will be better prepared to handle the next economic crisis. Currently, the City Manager at the City of Cincinnati proposes that \$3.1 million be set aside in a budget line item called “Social Services Operational Grants.” Given the size and impact of this nonprofit sector, the City should consider increasing this amount. There are 125 human services nonprofits that list Cincinnati as their mailing address. Collectively, they employ more than 15,000 employees with expenditures of nearly \$800 million in 2019—double the amount of Cincinnati’s 2021 general fund total operating budget.

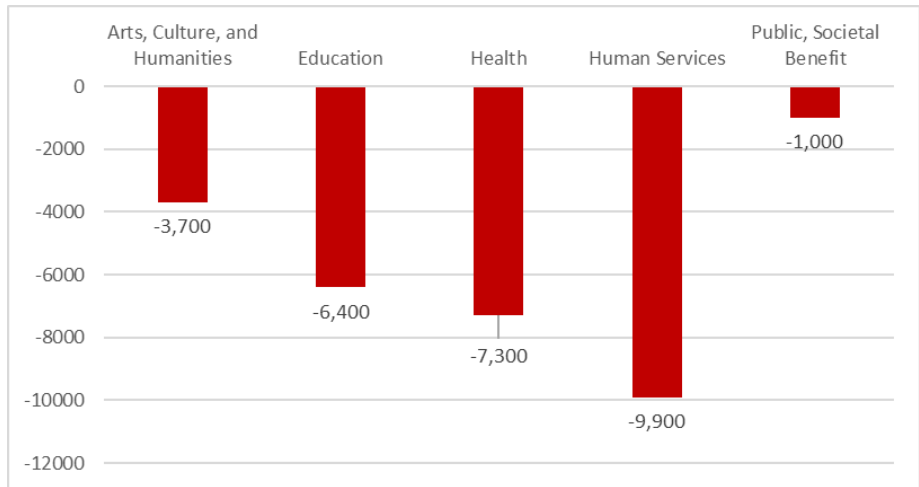


Figure 3: Ohio Nonprofit Job Losses between March 2020 and September 2020
 Source: Ohio Department of Jobs and Family Services (ODJFS), rounded to the nearest hundred

⁹ The job loss value is rounded to the nearest 10 and includes organizations with Cincinnati in their street address.

Furthermore, the City should introduce a system of checks and balances for allocating this stimulus funding. First, funds should only be made available to nonprofits that have demonstrated a sustained level of effectiveness. For example, organizations that annually receive more than \$50,000 a year are required to file a 990-EZ or a 990 with the IRS. These forms report detailed financial information to the public. In addition to the oversight provided by the IRS about the validity of the organization's mission, any nonprofit with annual revenues of at least \$50,000 may still be fairly small, but the sustainability of these nonprofits is more likely. Second, there should be a significant degree of community input on the decision of which nonprofits should receive the funding. Finally, just as the stimulus funding is distributed over a two-year period, these additional stimulus funds should be distributed in separate tranches and subject to audit. Some organizations that needed to lay off employees because of COVID-19 may recover more quickly than other organizations that are in need of additional funds. Because of the protections in place for nonprofits (e.g., funds can only be used to advance the mission of the organization and not for the private benefit of any one individual), these types of allocations may also be less controversial with either side of the political aisle. Setting aside funds for human services nonprofit organizations will encourage bottom-up, grassroots solutions and promote subsidiarity. Under subsidiarity, social challenges are more effectively addressed at the most local level possible.

While no sector of the economy was immune from the effects of the COVID-19 economic crisis, if local governments use their stimulus funds to strengthen and restore the human services nonprofit sector, they will be better prepared for future economic downturns.

Appendix: Publicly available data, based on 990 Form filing with the IRS in 2019

Largest 25 Human Services Nonprofits	Employees	Expenses
Council On Aging Of Southwestern Ohio	411	\$ 79,866,261
Talbert House	1,546	\$ 58,764,647
Freestore-Foodbank Inc	177	\$ 58,136,303
Maple Knoll Communities Inc	1,329	\$ 47,044,053
Episcopal Retirement Homes Inc	983	\$ 32,184,501
Lighthouse Youth Services Inc	640	\$ 28,342,019
Childrens Home Of Cincinnati Ohio Inc	431	\$ 27,298,888
Cincinnati-Hamilton County Community Action Agency	249	\$ 27,206,888
Strategies To End Homelessness Inc	31	\$ 24,107,571
Ena Incorporated	442	\$ 23,547,288
Sisters Of Charity Senior Care Corporation	456	\$ 22,060,178
Easter Seals Tristate	1,065	\$ 16,240,957
Child Focus Inc	493	\$ 16,009,646
Catholic Charities Southwestern Ohio	122	\$ 15,828,412
Beech Acres Parenting Center	224	\$ 14,243,965
Jewish Community Center	293	\$ 12,740,897
St Aloysius Orphanage	193	\$ 12,558,072
St Vincent Depaul Stores	527	\$ 10,950,421
Comprehensive Community Child Care Organization Inc	144	\$ 10,471,228
St Margaret Hall	289	\$ 10,312,584
Cincinnati Association For The Blind	215	\$ 10,213,473
Habitat For Humanity International Inc	107	\$ 9,163,643
Living Arrangements For The Developmentally Disabled Inc	196	\$ 9,159,873
The Resident Home Corporation	364	\$ 9,044,405
Clovernook Center For The Blind And Visually Impaired	129	\$ 8,776,084
Total Number of Human Services Nonprofits: 125	15,403	\$ 798,618,495

*Cincinnati Approved 2021 General Fund Operating Budget**

\$415,900,000

*<https://www.cincinnati.com/story/news/2020/06/24/all-details-cincinnati-all-the-details-about-the-cincinnati-2021-budget-2021-budget/3247399001/>

About the Kautz-Uible Economics Institute

The Kautz-Uible Economics Institute creates opportunities for enhanced learning and growth for students, faculty, and alumni of the University of Cincinnati's nationally ranked Department of Economics in the Carl H. Lindner College of Business. Established in 1982 as the Hewett-Kautz Fund, the institute's mission has steadily expanded and continues its transformational impact.

The institute currently supports the economics department through:

- The Kautz-Uible Fellowship Program, which offers scholarships and the Caroline M. Kautz book prize to outstanding economics students;
- An annual lecture series, presented by prominent economists;
- Annual domestic and international travel by undergraduate and graduate student groups;
- The Kautz-Uible Women in Economics Initiative, which provides scholarships and mentoring to economics students;
- The Kautz-Uible Research Initiative, which provides faculty-supervised research opportunities to undergraduate students;
- The Kautz-Uible International Scholar Program, which financially supports the economics department hosting a reputed international scholar for up to a year;
- Faculty recruitment and retention through the establishment of chair professorships.