

"Your 2025 Budget Is Already Wrong"

03.03.25 | Linda J. Rosenthal, JD



In a LinkedIn thread a few days ago, James Misner, a seasoned philanthropy consultant, warned his many readers who lead charitable nonprofits that their “... 2025 budget is already wrong.” He added: “Most organizations are waiting to see what happens next. This is a deadly mistake. The storm isn’t coming. It’s here.”

In the six weeks since Inauguration Day, the nation’s 501(c)(3) organizations have watched in horror as the federal government has disrupted or threatened to impair their financial lifelines in back-to-back executive orders and directives. In particular, the chaos caused by OMB Memorandum (M-25-13): Temporary Pause of Agency Grant, Loan, and Other Financial Assistance Programs (January 27, 2025) has been breathtaking. And, despite there now being in effect nationwide a preliminary injunction, compliance has been spotty.

Compounding this problem, there is a continual and alarming flow of more Orwellian edicts. See Chart of Executive Orders Affecting Charitable Nonprofits [updated frequently]. Many of them include back-door paths to “pause,” cut down, or stop payments.

Check out, for instance: Implementing the President’s ‘Department of Cost Efficiency’ Initiative (February 26, 2025) It “... commences a transformation in Federal spending on contracts, grants, and loans to ensure Government spending is transparent and Government employees are accountable to the American public.”

Under this new executive order, each Agency Head (with an overseer from the “Department of Cost Efficiency”) must “build a centralized technological system within the agency to seamlessly record every payment issued by the agency pursuant to each of the agency’s covered contracts and grants, along with a brief, written justification for each payment submitted by the agency employee who approved the payment. This system shall include a mechanism for the Agency Head to *pause and rapidly review any payment* for which the approving employee has not submitted a brief, written

justification within the technological system.” (*emph. added*)

This is cost-efficient ... exactly – how?

For analysis, see [*Trump’s Executive Order on DOGE Cost Efficiency: Key Takeaways for Government Contractors*](#) (February 27, 2025) Samuel S. Finnerty, Esq., et al, Client Alerts, [*pilieromazza.com*](#).

Payment-Spigot Prognosis

The outlook for a flow of federal funding in the long term is grim.

The conundrum for the charitable community is that money from the U.S. – either directly or indirectly by routing through state and local governments – is a major component of the traditional 501(c)(3) revenue plan.

Indeed, it’s an even *larger* percentage of the charitable-revenue pie than commonly known. And, for many lay people as well as some sector insiders, the precise mechanisms for getting \$\$\$ to the nonprofit grantees and contractors are mysteries.

See a sampling of articles, below, that explain the status quo prior to the new administration’s about-face, and the effect of the changes:

- [*Many Nonprofits Would Be Reeling If Trump Froze That Money*](#) (February 7, 2025) Dyana Mason and Mirae Kim, [*philanthropy.com*](#)

According to the Urban Institute, the nonprofit sector has relied on government funding for about 33% of its annual revenue, second only to earnings from “commercial activities.” There are partnerships with federal departments and agencies for delivery of social services to low-income families, including for child care, housing, and job training and placement help.

This can involve “complex arrangements” with state and local government conduits which “are often themselves funded indirectly” by the feds. That makes it “hard to track with absolute precision” the amount and flow of the money by an untrained observer.

- [*What Is the Financial Risk of Nonprofits Losing Government Grants?*](#) (February 21, 2025) [*The Urban Institute*](#)

“In every state, every congressional district, and more than 95 percent of counties in the United States, public charities receive government grants. Without these grants, most nonprofits would be unable to cover their expenses.”

Based on 2021 data from around the nation, “103,475 public charities reported receiving a total of over \$267 billion from government grants. The inflation-adjusted total of over \$300 billion represents almost three times the most recent estimates of [*foundation giving*](#).”

Without this government help, most organizations would struggle. “In all but two of the 437 congressional districts in the United States, the typical nonprofit could not cover its expenses without its government grants. And in every state, between 60 and 80 percent of nonprofits that receive government grants would be at risk of a financial shortfall.” This article includes an interactive map for users to understand the data broken down through many variables.

- [How reliant are nonprofits on government grants?](#) (February 6, 2025) Cathleen Clerkin, Ph.D, et al, blog.candid.org

The threat as well as the reality of funding freezes has prompted “calls for private foundations to step in and fill the potential gap.” The latest data shows that “private foundations award around \$107 billion annually to U.S. nonprofits. To make up for the loss of government grants, private foundations would have to increase their grantmaking by 282%.”

However, this is an opportunity in any event for “private foundations to send aid—ideally quickly and without restrictions.” (Some of the largest foundations are already stepping up to the plate.)

- [Government Funding Cuts Put Nonprofits at Risk across the Nation](#) (February 21, 2025) Laura Tomasko, *Urban Institute*

“Many nonprofits are facing a funding cliff. [Recent executive orders and actions](#) cutting federal funding have created a [state of uncertainty](#) for nonprofit organizations nationwide. Some are already seeing federal grants and contracts [paused](#) or [canceled](#), and others have been [left in the dark](#) about current grants and future prospects given pending legal challenges.”

There are difficult decisions ahead for some organizations “in this uncertain environment.” They may be considering “whether to close their doors; adjust staff size, services, and programs; or identify additional sources of revenue.”

Local Disruptions

The effect of the pauses or terminations of federal funding as well as other austere moves by the new administration are explained poignantly in local news media. The ripple effects throughout each region are devastating. See, for example, a report from poor, rural West Virginia and another from urban, wealthy San Francisco”

- [Federal funding freeze disrupts rural organizations supporting foster youth, job growth](#) (February 13, 2025, updated 9:04 pm) Leah Willingham, *AP*

The West Virginia story dramatically shows how, in the past, “[f]ederally funded programs provided both women with a social safety net and employment in one of the nation’s poorest states, where nonprofits play a vital role in providing basic services like health care, education and economic development.” It is a state that “...heavily relies on government funding...” although some locals don’t like to admit it.

The funding freezes are having a devastating effect on entire communities and their nonprofit organizations. It’s a terrible blow as well – emotional and financially -for the people who have been served in the past and can no longer count on this help.

- [‘We risk it all’: Bay Area nonprofits reel from Trump funding cuts and chaos](#) (February 10, 2025) Noah Baustin, *sfstandard.com*

“Nonprofit work is a keystone of the city’s economy, and many of those organizations rely heavily on federal funds. About 104,000 people work for 1,500 nonprofits based in the city,...” According to California Association of Nonprofits CEO Geoff Green, the city’s nonprofits are “a massive economic

force". They are ordinarily viewed as "nice people solving problems."

But "San Francisco's nonprofit sector, the largest per capita of any California county, is in crisis mode with federal dollars at risk...." The freezes have "left Bay Area nonprofits scrambling and confused, with executives' time consumed by tracking fast-moving news alerts to stay ahead of the president's next shot at the sector."

It is a devastating blow for the entire region.

Conclusion

"The storm is here."

We'll continue in the next post with advice from experts on how to confront and evaluate the crisis as it unfolds; first, with general observations and suggestions, then on, more particularly, to "scenario planning." For 2025, there are apparently some interesting new developments in the use of Artificial Intelligence in connection with scenario-planning modeling.

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