
08

GOVERNMENT FUNDING SIMPLIFIED

Connecting Public Resources with Community Needs

Government remains one of the largest sources of community investment.

TYLER J. BUTLER



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By Tyler J. Butler



\$1.1T

In federal grants to state and local governments in fiscal year 2024, an estimate¹

\$5B

In New Markets Tax Credit authority a year, now permanent, as reported by Novogradac^{2,3}

64%

Of corporate citizenship executives expected the new tax law to affect their 2026 giving budgets⁴

01

THE QUESTION FROM YOUR CFO

The budget review is Thursday. Your deck is ready: grants by focus area, volunteer hours, three partner stories. Then a note arrives from the CFO. Before we approve next year's community budget, has anyone looked at the tax credits? The housing partner you fund keeps mentioning something called New Markets. Facilities wants to know whether the company can buy solar credits. And the city has asked about a partnership on a workforce center. The conversation just moved from giving to investing, and you need to speak the language of public money.

Government is the largest source of community investment in the country. In fiscal year 2024, the federal government provided an estimated \$1.1 trillion in grants to state and local governments, equal to 16 percent of federal outlays and 3.9 percent of GDP. The Congressional Research Service

found 1,183 funded federal grant programs open to them in fiscal year 2025, a count it treats as illustrative.¹

Your company's community dollars land in places that public money already shapes, and the rules shifted in 2025. In a Conference Board survey of 70 corporate citizenship leaders, 64 percent expected the new tax law to affect their 2026 giving budgets.⁴ This guide explains how public money moves, the tax incentives that let companies invest alongside government, what your partners face when they take federal awards, and what to watch next.

IN THIS GUIDE

01	The question from your CFO	05	When your partners take federal money
02	How public money moves	06	Public-private partnerships
03	Tax credits for community investment	07	For your community partners
04	Clean energy credits after 2025	08	What to watch next

HOW PUBLIC MONEY MOVES

Federal funding reaches communities in two main ways. Some goes directly from a federal agency to the organization doing the work. Much of it flows through a state or other pass-through entity, which then makes subawards to local governments and nonprofits. Federal rules define a pass-through entity as a recipient or subrecipient that provides a subaward to carry out part of a federal program.⁵

HOW FEDERAL DOLLARS REACH THE COMMUNITIES YOU INVEST IN

Direct awards skip the middle layers. Most local money arrives through a state, tribe, or local government.

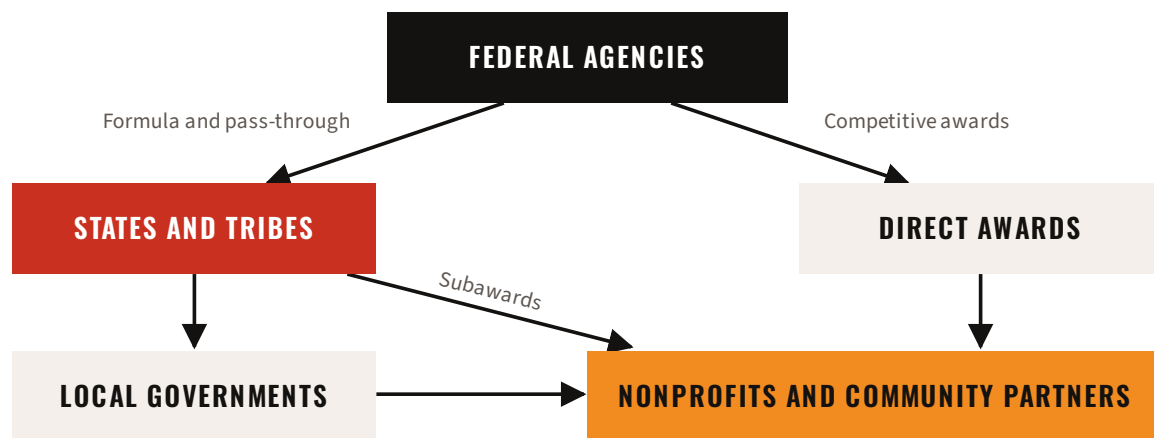


Figure 1. A simplified view of how federal funds reach communities. Programs vary; some state and local funds are raised and awarded independently.⁵

FORMULA VERSUS COMPETITIVE MONEY

Formula programs distribute money to eligible governments using set criteria such as population or need. Competitive programs award money through applications scored against published criteria. Formula dollars are usually decided at the state or local level. Competitive dollars are decided by the awarding agency. That tells you which public office to get to know in the places where your company operates.

One example: the Community Development Block Grant (CDBG) program, run by the U.S. Department of Housing and Urban Development, provides annual formula grants to states, cities, and counties. At least 70 percent of funds must benefit low- and moderate-income people. Entitlement communities, which receive CDBG money directly each year, include principal cities of metropolitan areas, other cities of at least 50,000 people, and urban counties of at least 200,000 people.⁶ For fiscal year 2026, the program was funded at about \$3.3 billion, level with the prior year, while the President's fiscal year 2027 budget request proposes eliminating it.^{7,8}

FROM THE RESEARCH

Salamon, Journal of Voluntary Action Research (now Nonprofit and Voluntary Sector Quarterly), 1987. Theory paper on government and nonprofit relations.⁹

"Government in the United States relies more heavily on nonprofit organizations than on its own instrumentalities." Salamon called this "third-party government," and argued that partnership between government and nonprofits is the expected arrangement, with each covering gaps the other cannot.

Why it matters. The partners you fund are often the delivery arm for public programs. Your grant sits on top of public money, so ask what it adds. This is a theory, not tested evidence.

WHAT THIS MEANS FOR YOU Before you set a grant, ask each major partner which public dollars it relies on and when they renew. A cut to a program like CDBG can change what your grant has to carry.

03

TAX CREDITS FOR COMMUNITY INVESTMENT

Grants are one way government invests in communities. Tax credits are another, and they are where companies most often invest alongside government at scale. Three federal incentives do most of that work in low-income places. The tax law enacted in July 2025 made New Markets and Opportunity Zones permanent and permanently expanded the housing credit.^{3,10}

INCENTIVE	WHAT CHANGED IN 2025	WHERE A COMPANY FITS
New Markets Tax Credit (NMTC)	Made permanent at \$5 billion in annual allocation authority, with no inflation indexing. ^{2,3}	Investors put money into Community Development Entities (CDEs), which place it in businesses and facilities in low-income areas.
Low-Income Housing Tax Credit (LIHTC)	A permanent 12 percent increase in 9 percent credit allocations (the competitive credits states award) starting in 2026, and a lower bond-financing test for 4 percent deals, which pair credits with tax-exempt bonds (25 percent of costs, down from 50 percent), as reported by Williams Mullen. ^{11,12}	Banks invest partly to meet Community Reinvestment Act goals. Other companies invest mainly for the tax benefits. ¹³

INCENTIVE	WHAT CHANGED IN 2025	WHERE A COMPANY FITS
Opportunity Zones (OZ)	Made permanent, with the map of eligible communities redrawn every 10 years. New designations take effect January 1, 2027, as reported by the Economic Innovation Group. ¹⁰	Companies and investors can place eligible capital gains in qualified funds that invest in designated low-income areas.

Summary only. The rules are detailed and change often. Consult tax counsel before your company commits to any credit investment.

NEW MARKETS: DEMAND FAR EXCEEDS SUPPLY

Treasury confirmed that the 2025 law made the NMTC program permanent.² In the most recent award, a combined 2024 and 2025 round announced in December 2025, 142 CDEs received \$10 billion in allocation authority. They were chosen from 216 applicants that requested \$19.2 billion, as reported by Novogradac.¹⁴ On September 15, 2026, Treasury opened the 2026 round with \$5 billion available, as reported by Area Development.¹⁵

NEW MARKETS TAX CREDIT: REQUESTED VERSUS AVAILABLE

Allocation authority, in billions of dollars

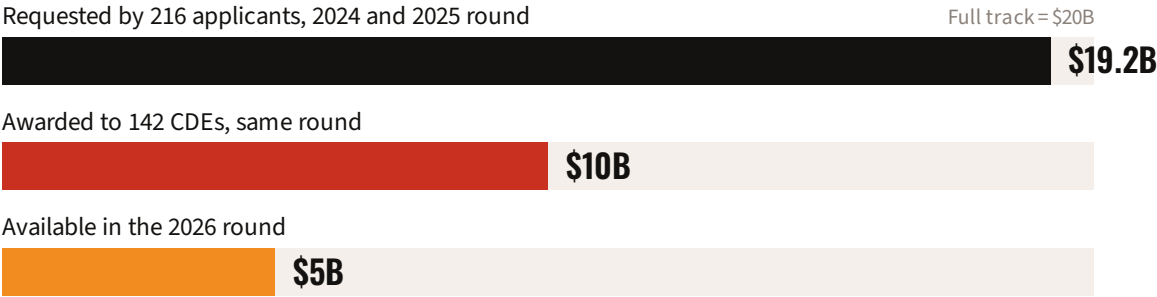


Figure 2. Bars drawn to scale. Sources: Novogradac (2024 and 2025 round); Area Development (2026 round); both secondary reports of Treasury announcements.^{14,15}

HOUSING CREDITS: TWO KINDS OF CORPORATE INVESTOR

LIHTC investors come in two kinds, according to the Affordable Housing Investors Council, a trade group. Banks invest partly to meet their goals under the Community Reinvestment Act (CRA). Many other investors are not financial institutions, have no CRA need, and invest mainly for the tax benefits; the industry calls them economic investors. The council credits the program with more than 2.5 million affordable multifamily units since 1986.¹³ The CRA, enacted in 1977, requires federal banking regulators to encourage banks to help meet the credit needs of the communities where they do business, and its rules are under revision.¹⁶

Opportunity Zones 2.0 also shifts toward rural places. Rural funds receive a 30 percent step-up in basis after five years, compared with the standard 10 percent, which means investors pay tax on a

smaller share of their original gain. The income test for eligible tracts tightens to 70 percent of median family income, down from 80 percent, and Treasury must publish annual public reports, as reported by the Economic Innovation Group.¹⁰

A NOTE ON YOUR CHARITABLE DEDUCTION

The same law changed the deduction for corporate giving. For tax years beginning after December 31, 2025, only contributions above 1 percent of taxable income are deductible in the current year, and the 10 percent cap remains.¹⁷ Researchers at the Indiana University Lilly Family School of Philanthropy estimate the floor will reduce corporate giving by about \$1.55 billion a year, or 3.5 percent.¹⁸ Consult tax counsel on how the floor interacts with your giving and any credit investments.

NEW MARKETS

Freedman, Journal of Public Economics, 2012. Study of NMTC investment in low-income neighborhoods.¹⁹

NMTC investment had modest positive effects, including lower poverty and unemployment. Household turnover rose slightly, and spillovers to nearby areas appeared small.

Gains are real but local. Set expectations to match.

HOUSING CREDITS

Baum-Snow and Marion, Journal of Public Economics, 2009. Study of neighborhoods near LIHTC developments.²⁰

LIHTC projects raised property values in declining neighborhoods. In gentrifying areas, they substantially crowded out new rental construction that would have happened anyway.

Where you invest shapes how much you add.

WHAT THIS MEANS FOR YOU Place-based credits work best where private capital would not go on its own. Ask your finance and tax teams whether your company already invests in credits, and bring your community knowledge to where those dollars go. Consult tax counsel before any commitment.

CLEAN ENERGY CREDITS AFTER 2025

If your company has a sustainability or climate goal, the energy credits matter to you. The tax law enacted July 4, 2025, set a begin-construction deadline of July 4, 2026, for wind and solar facilities. That deadline has passed. Facilities that did not begin construction by then lose the investment and production credits unless they are placed in service (up and running) by December 31, 2027. The law kept transferability under Section 6418, which lets a project owner sell eligible credits to an unrelated company for cash. The carbon capture credit (45Q) remains for facilities that begin construction before 2033, and the clean hydrogen credit (45V) ends for facilities that begin construction after 2027. These details are as reported by the law firm Kirkland & Ellis.²¹

Timing rules then moved in court. On June 6, 2026, the U.S. District Court for the District of Columbia vacated IRS Notice 2025-42, which had eliminated a safe harbor for showing when construction began. The court found the elimination arbitrary and capricious, which restores the Five Percent Safe Harbor for wind and solar: a project can show it began construction by paying or incurring at least 5 percent of its total cost, as reported by KPMG. KPMG also noted that the government could seek a stay.²² As of September 2026, we could not confirm whether the ruling has been appealed, so ask tax counsel for its current status.

DATES THAT SHAPE YOUR INCENTIVE PLANS

July 2025 to December 2028, spaced to scale by date

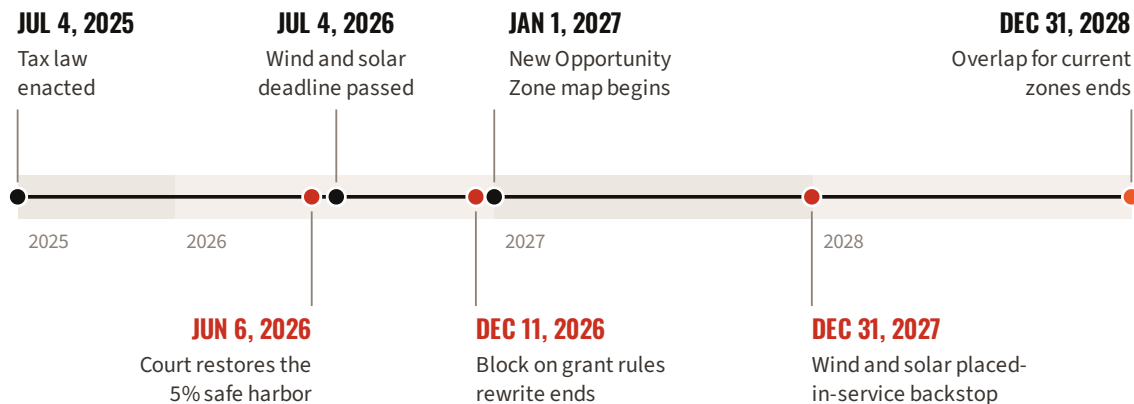


Figure 3. Sources: Kirkland & Ellis; KPMG; Congressional Research Service; Economic Innovation Group.^{10,21,22,23}

WHAT THIS MEANS FOR YOU If your company buys transferable credits or backs renewable projects to meet climate targets, ask which projects qualify under the construction deadlines and whether the court ruling affects them. Consult tax counsel before you buy, sell, or count any credit.

WHEN YOUR PARTNERS TAKE FEDERAL MONEY

Many of the nonprofits and local agencies your company funds also hold federal awards. Those awards come with the Uniform Guidance, the federal rulebook for spending, tracking, and reporting grant money (2 CFR 200). Its latest revisions took effect on October 1, 2024, and raised several thresholds.^{24,25}

UNIFORM GUIDANCE THRESHOLDS AT A GLANCE

What changed on October 1, 2024, for the partners you fund

RULE	BEFORE	NOW
Single audit (an annual audit of federal award spending) required when federal expenditures in a fiscal year reach	\$750,000	\$1,000,000
De minimis indirect cost rate (a flat overhead rate used without negotiating one)	10%	Up to 15%
Equipment, per unit cost at or above	\$5,000	\$10,000
Amount of each subaward counted in the indirect cost base	\$25,000	\$50,000

Sources: 2 CFR 200.501, 200.414, and 200.1; prior thresholds as reported by BDO.^{5,24,26,27}

Federal money also carries payment risk. In early 2025, one third of nonprofits reported at least one type of government funding disruption, including lost funding, delays, freezes, or stop-work orders.²⁸ On January 27, 2025, the Office of Management and Budget (OMB) directed agencies to temporarily pause federal financial assistance, then rescinded the memo two days later. Litigation over the pause ran into 2026. In August 2026, a federal appeals court vacated a lower court's preliminary injunction, finding the case likely moot because the memo had been rescinded.^{29,30}

The rules may change again. In May 2026, OMB proposed a broad revision of the Uniform Guidance, and Congress barred OMB from finalizing it before December 11, 2026, in the continuing appropriations law signed September 2, 2026.^{23,31,32}

Your partners feel these rules in cash and staff time. In a 2013 Urban Institute survey of 4,024 nonprofits with government contracts and grants, more than 70 percent found application and reporting processes complicated, 54 percent said payments did not cover full program costs, and 45 percent reported late payments beyond contract terms. A 2010 survey found similar problems.

The data are self-reported and more than a decade old, so read them as a warning sign, not a current rate.^{33,34}

WHAT THIS MEANS FOR YOU Reimbursement gaps and reporting load are where company money helps most. Before your next budget cycle, ask partners with federal awards about their cash timing and their compliance staffing, and consider flexible funds that cover both.

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PUBLIC-PRIVATE PARTNERSHIPS

The U.S. Department of Transportation defines them plainly: "Public private partnerships (P3s) are contractual agreements between a public agency and a private entity that allow for greater private participation in the delivery of projects." The private partner typically takes on added project risks such as design, construction, finance, and long-term operation.³⁵ The Build America Bureau works on transportation, but the logic carries over to community work: government brings scale and public accountability, and private partners bring flexibility and speed.

Blended finance follows the same idea. Community development financial institutions (CDFIs), lenders certified to serve low-income communities, draw more than \$8 in private capital for every \$1 in federal support, according to the CDFI Coalition, an advocacy group. It counted 1,383 certified CDFIs in 2025.³⁶

FROM THE RESEARCH

de Wit and Bekkers, Journal of Public Administration Research and Theory, 2017. Meta-analysis (a study that pools results of many earlier studies) of government support and private giving.³⁷

Does public money push private money away? About two-thirds of the estimates showed some crowding out. In experiments, each \$1 of added government support went with an average \$0.64 drop in private donations. In real-world data, the average effect was a small \$0.06 increase.

Why it matters. Public and private money can reinforce each other outside the lab, but only if each funder sees what its dollars add. Say clearly what your company's money does that the public award does not.

BRING THIS TO YOUR CFO List every place your company's grants, credit investments, and public programs touch the same community. Show how the pieces fit, and use each kind of money for what it does best. Volume Five covers how to structure those partnerships.

FOR YOUR COMMUNITY PARTNERS

Government grants hold up much of the community sector. In 2023, two-thirds of nonprofits in a nationally representative Urban Institute study received at least one government grant or contract.³⁸ More than 80,000 nonprofits reported government grants each year from 2021 to 2023, and in every state at least 60 percent of them would have operated at a loss without those grants.³⁹ When you fund these partners, you fund organizations that live with the rules above.

What they need from you: patience with reporting timelines, grants that cover real overhead, bridge funding for reimbursement gaps, and introductions to the public offices you know. What they can do to be ready:

- Keep SAM.gov registration active. It assigns a Unique Entity ID, the 12-character number the government uses to identify an organization, and must be renewed every 365 days.⁴⁰
- Register in Grants.gov well ahead of deadlines. Allow up to 10 business days for SAM registration to become active.⁴¹
- Track federal expenditures against the \$1,000,000 single audit threshold, and claim the indirect costs the rules allow.^{26,27}
- Keep a written plan for a pause or termination of any government award.

WHAT TO WATCH NEXT

The Congressional Budget Office projects that the part of the federal budget Congress sets each year will shrink as a share of the economy over the next decade, because GDP grows faster than discretionary funding. Federal debt held by the public rises from 101 percent of GDP in 2026 to 120 percent in 2036.⁴² CBO does not publish a separate projection for grants to states, so discretionary spending is the closest available indicator of room for the programs your partners rely on.

LESS ROOM IN THE ANNUAL BUDGET

Federal discretionary outlays as a percentage of GDP, CBO projection

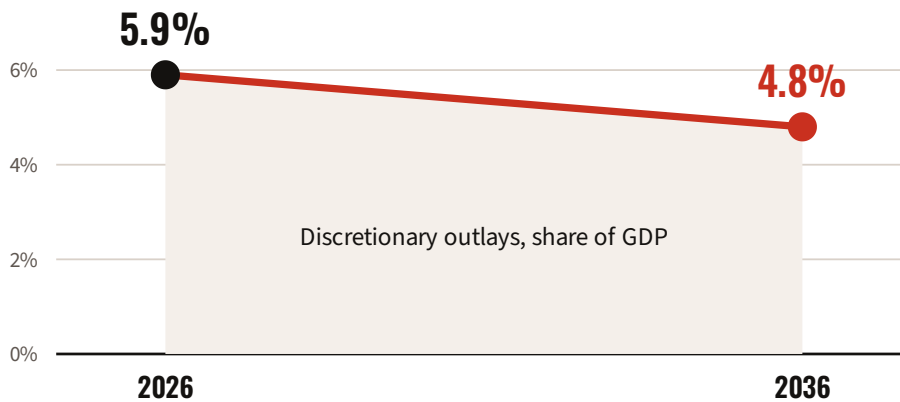


Figure 4. Drawn to scale from zero. These are CBO baseline projections under current law, not predictions of specific programs. Source: CBO, The Budget and Economic Outlook: 2026 to 2036, February 2026.⁴²

The grant rules are also in play. OMB received nearly 500,000 comments on its proposed Uniform Guidance rewrite, according to the National Association of Counties (NACo).⁴³ NACo reports that the proposal would expand agencies' authority to terminate awards, with exceptions for block, formula, and disaster grants.⁴⁴ What happens after December 11, 2026, is unresolved.²³ On the incentive side, Novogradac projects that the 2025 housing credit changes could finance an additional 1.22 million affordable rental homes from 2026 to 2035.³



ANNUAL FEDERAL BUDGET

Shrinking share

CBO projects discretionary outlays falling from 5.9 percent of GDP in 2026 to 4.8 percent in 2036.⁴²



HOUSING CREDITS

1.22M more homes

Novogradac's projection of added affordable rentals financed from 2026 to 2035 under the 2025 changes.³

→ NEW MARKETS

Flat at \$5B a year

Permanent, but with no inflation indexing, so its real value erodes over time, as reported by Area Development.^{3,15}

→ BLOCK GRANTS (CDBG)

Undecided for 2027

The President's request would eliminate CDBG. The House Appropriations Committee bill keeps it at \$3.3 billion. As of September 3, 2026, the Senate committee had not acted, and the stopgap law continues funding through December 11, 2026.^{32,45,46}

COLLABORATION FOR GOOD OUTLOOK

Expect the tax side of public investment to stay steadier than the grant side. The 2025 law made New Markets, the housing credit expansion, and Opportunity Zones permanent, so companies can plan around them for years, though New Markets' fixed \$5 billion buys less as prices rise. Grants that your partners depend on face more pressure: CBO projects less room in the annual budget, CDBG's future is still being decided, and the grant rules rewrite could return after December 11. Companies that pair credit investments with flexible grants, and that fund their partners' compliance capacity, are likely to get more durable results and fewer surprises. Mark January 1, 2027, when the new Opportunity Zone map takes effect, and review clean energy credit positions with tax counsel as the court ruling plays out.

Our analysis, based on the sources cited in this section. Not a prediction from any single source.

TALK IT THROUGH

1. Where do our community grants, credit investments, and public programs already touch the same neighborhoods, and does anyone see the whole picture?
2. Does our finance or tax team invest in NMTC, LIHTC, Opportunity Zone funds, or transferable energy credits, and does the community team have a voice in where?
3. Which of our key partners depend on federal or pass-through money, and what happens to our programs if it is paused for ninety days?
4. Do our grants cover the overhead and cash gaps that come with public awards, or do we expect partners to absorb them?

5. Which city, county, or state offices should know us before the next partnership opportunity arrives?

START THIS WEEK

- ☐ Ask your tax team for a list of any credit investments the company holds, and where they are located.
- ☐ Map your top ten partners by how much of their budget comes from government, and their renewal dates.
- ☐ Check whether any new Opportunity Zones in your operating regions take effect January 1, 2027.
- ☐ Before your next budget cycle, set aside flexible funds partners can use to bridge reimbursement gaps.
- ☐ Book a meeting with the local office that runs CDBG or economic development where you operate.
- ☐ Bring your CFO a one-page view of your grants, credits, and public partners in the same place.
- ☐ Line up tax counsel before committing to any credit investment or purchase.

Public funding rewards organizations that can show they manage money carefully and report honestly.

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This guide provides general information and is not legal, tax, or financial advice. Federal rules and funding change frequently; confirm current requirements with the awarding agency. Figures reflect sources available as of September 2026.

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