Abstract

The prolonged federal government shutdown and the Trump administration's NSPM-7 directive targeting nonprofits now dominate the operating environment for charitable organizations. Frozen reimbursements, halted grant reviews, furloughed federal partners, and rising service demand are creating immediate liquidity crises for nonprofits across sectors. At the same time, criminal investigations and domestic-terrorism framing under NSPM-7 are reshaping the legal and reputational risk landscape for advocacy organizations. This update equips nonprofit leaders with the intelligence needed to operate, comply, and defend organizational mission in this rapidly shifting environment.

October 27, 2025 Navigator News Update: Including Shutdown Fallout and NSPM-7 Targeting of Nonprofits — and More!

Introduction

You're managing in a dual-pressure environment: a shutdown that's freezing cash flow and slowing essential federal functions, paired with an investigative posture toward civil society that heightens legal and reputational exposure. This edition organizes the week's developments into Nonprofit News, Federal Regulatory, HR, IRS/Finance, and State Nonprofits—each with practical actions—to help you stabilize liquidity, protect compliance, and keep mission delivery on track while uncertainty persists.

Priority Legend

Priority indicators help nonprofit leaders quickly identify which developments require their most immediate attention based on urgency and operational impact.

🔴 Immediate Action 🟡 Requires Organizational Response 🟢 Monitor and Prepare

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NOTE: This edition contains an unusually high volume of shutdown-related content, reflecting the widespread impact of the federal government shutdown across all nonprofit sectors. The information contained in this edition was last updated October 26, 2025

Nonprofit News

📋 **Executive Summary:** Shutdown-related cash-flow interruptions, furloughed federal partners, suspended reimbursements, and NSPM-7-related investigative exposure are now the dominant drivers of nonprofit operating risk. Liquidity stress is rising at the same time demand and scrutiny are increasing, producing a widening execution gap between mission need and available capacity.

⚡ **Key Actions for This Section:** • Model cash exposure for 30–90 days of suspended federal payments -Document shutdown disruptions for recovery, advocacy, and audit trail • Brief boards on compounded risk from shutdown + NSPM-7 investigations • Freeze or plan out new spending and hiring until cash certainty returns • Stress-test non-federal revenue assumptions for donor fatigue and delay

🔴 **Federal Government Shutdown Remains The Top Nonprofit Concern** — The federal shutdown, which began October 1, continues with approximately 750,000 workers furloughed and 1.4 million essential workers continuing unpaid. Federal workers missed their first full paychecks October 17. The shutdown threatens nonprofit operations as grant payments, contract renewals, and federal program officer support remain suspended, forcing organizations to consider loans and service reductions.
Source:
https://www.cbsnews.com/live-updates/government-shutdown-latest-trump-to-meet-with-senate-republicans/

🔴 **Shutdown Causes Estimated $7 Billion Weekly Economic Damage** — Economic analysts estimate the federal shutdown is causing approximately $7 billion per week in economic damage, with total losses reaching $140 billion through Day 20. These losses include delayed contracts, reduced consumer spending by unpaid federal workers, and disrupted business operations dependent on federal services. Nonprofits face cascading economic impacts as communities experience reduced purchasing power and increased service demands during the protracted funding lapse.
Source:
https://en.wikipedia.org/wiki/Government_shutdowns_in_the_United_States

🔴 **Urban Institute Reports One-Third of Nonprofits Affected by Funding Disruptions** — New Urban Institute research reveals many nonprofits faced financial instability before the shutdown due to government funding disruptions earlier in 2025, limiting their ability to meet community demand. Two-thirds of nonprofits anticipated increased service demand in the next twelve months. With approximately 620,000 federal workers furloughed and missing paychecks, demand for nonprofit services continues rising while funding remains uncertain.
Source:
https://www.urban.org/urban-wire/federal-government-shutdown-could-compound-financial-insecurity-among-nonprofits

🟡 **Donor Fatigue & Shifting Philanthropy: A Growing Nonprofit Reality** — Nonprofits are navigating a donor environment shaped by economic uncertainty, crisis-driven exhaustion, and a

generational change in giving behavior. Traditional institutional fundraising is under pressure as younger donors redirect support to mutual aid and identity-driven causes. With more nonprofits competing for fewer unrestricted dollars, organizations must diversify revenue, redesign donor engagement around tangible impact, and reduce reliance on a shrinking pool of major donors.
Source:
https://givingusa.org/

🔴 **Johnson Amendment Guidance Prioritized After July IRS Settlement** — The 2025–2026 Priority Guidance Plan includes addressing the statutory prohibition in Section 501(c)(3) against political campaign participation following the July IRS settlement reinterpreting the Johnson Amendment. The settlement allows houses of worship to endorse candidates to congregants, raising concerns political actors may exploit tax-exempt religious structures to channel electioneering through nonprofit status.
Source:
https://www.grantthornton.com/insights/newsletters/tax/2025/hot-topics/oct-07/treasury-outlines-guidance-priorities-for-coming-year

🔴 **Priority Guidance Plan Signals Donor-Advised Fund Regulation Review** — The Treasury 2025–2026 Priority Guidance Plan includes reviewing DAF rules, signaling possible changes to payout requirements, prohibited benefits, and responsibilities of sponsoring organizations following sustained congressional scrutiny.
Source:
https://rsmus.com/insights/tax-alerts/2025/eo-exempt-organization-matters.html

🔴 **Trump Administration Issues National Security Presidential Memorandum-7** — NSPM-7 directs federal agencies to investigate organizations with "direct or indirect" connections to political violence and "anti-American" causes, raising constitutional concerns over vague designations and potential misuse against advocacy nonprofits.
Source:
https://www.aclu.org/news/national-security/how-nspm-7-seeks-to-use-domestic-terrorism-to-target-nonprofits-and-activists

🔴 **Over 3,000 Nonprofits Sign Open Letter Condemning NSPM-7** — More than 3,000 nonprofits across sectors issued a joint letter rejecting efforts to defund, discredit, or dismantle advocacy organizations under NSPM-7, warning that such targeting violates First Amendment protections and threatens civil society independence.
Source:
https://www.newsweek.com/what-is-nspm-7-over-3000-nonprofits-sound-alarm-on-new-trump-directive-10807321

🔴 **Nonprofits Form "NATO for Nonprofits" Alliance** — Nonprofit groups across missions are forming a coordinated defense alliance to support organizations targeted under NSPM-7 with legal aid, staff support, coordinated statements, and rapid response infrastructure.
Source:
https://www.nbcnews.com/politics/donald-trump/nato-nonprofits-groups-band-together-trump-rcna234954

🔴 **Social Security Administration Unable to Provide Benefit Verification Letters** — SSA staff report they cannot issue benefit verification letters due to the shutdown, blocking individuals from accessing housing, fuel aid, and nonprofit services requiring income proof.
Source:
https://www.npr.org/2025/10/22/g-s1-94389/government-shutdown

🔴 **National Park Sites Receive Emergency Funding from Nonprofits** — Local nonprofits and governments are using private dollars to keep select national parks open during the shutdown, a role reversal in which nonprofits temporarily prop up federal operations.
Source:
https://www.npr.org/2025/10/22/g-s1-94389/government-shutdown

🔴 **Department of Education Reverses Cuts to Dual Sensory Loss Programs** — Following advocacy pressure, the Education Department reversed its decision to eliminate funding for students with both hearing and vision loss, demonstrating the volatility of federal funding decisions during shutdown conditions.
Source:
https://en.wikipedia.org/wiki/2025_United_States_federal_government_shutdown

🔴 **Federal Program Officers Unavailable to Nonprofits During Shutdown** — Federal program officers and grants management staff remain furloughed and unable to answer questions, approve modifications, or provide technical assistance. Nonprofits must either delay adjustments or proceed without guidance, increasing compliance and program delivery risk until staffing resumes.
Source:
https://www.cbsnews.com/live-updates/government-shutdown-latest-trump-to-meet-with-senate-republicans/

🔴 **Automated Payment Systems for Reimbursements Suspended** — Automated federal reimbursement systems are paused due to furloughed oversight staff, halting payments on cost-reimbursement grants. Nonprofits are advancing funds without reimbursement, forcing use of bridge financing, delayed vendor payments, or reduced services.
Source:
https://www.urban.org/urban-wire/federal-government-shutdown-could-compound-financial-insecurity-among-nonprofits

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Nonprofit Federal Regulatory Developments

📋 **Executive Summary:** Major regulatory actions affecting nonprofit compliance, funding eligibility, and federal oversight are advancing even amid the shutdown. Treasury's Priority Guidance Plan signals significant changes to tax and grant rules. Executive directives are centralizing political review of grants and expanding enforcement exposure for advocacy organizations. Simultaneously, key regulatory reversals and implementation delays driven by the shutdown create uncertainty for operational planning.

⚡ **Key Actions for This Section:**
• Review exposure to pending guidance changes affecting grants and tax status
• Monitor implementation delays caused by furloughs when timing affects compliance
• Prepare for increased political oversight of discretionary grants and award terms
• Coordinate legal review of advocacy, speech, and funding-risk intersections before action
• Document regulatory impacts for future appeals, advocacy, and board briefing

🟡 **Treasury Issues 2025–2026 Priority Guidance Plan Addressing Nonprofits** — Treasury and IRS released the Priority Guidance Plan September 30 identifying 105 projects including Johnson Amendment enforcement, racial discrimination standards for private schools' tax status, excise taxes on college endowment income, and excess compensation rules.
Source:
https://www.axios.com/2025/10/02/russ-vought-omb-director-government-shutdown
Source:
https://www.mondaq.com/unitedstates/tax-authorities/1686870/irs-and-treasury-release-2025-2026-priority-guidance-plan

🔴 **Federal Grant Application Reviews Suspended During Shutdown** — Federal agencies suspended all grant application reviews during the shutdown, leaving pending applications in limbo regardless of submission deadlines. Review panels cannot convene, scores cannot be finalized, and award decisions remain on hold, affecting hundreds of billions in annual federal grant competitions across health, education, social services, arts, and community development.
Source:
https://www.cbsnews.com/live-updates/government-shutdown-latest-trump-to-meet-with-senate-republicans/

🔴 **Department of Education Officials Unable to Process Grant Modifications** — Furloughed Education Department officials cannot process grant modifications, budget amendments, or no-cost extensions during the shutdown. Nonprofits operating federal education programs face rigid adherence to original terms without approval options, creating compliance risk and operational constraints.
Source:
https://www.philanthropy.com/article/what-a-long-shutdown-could-mean-for-nonprofit-jobs-revenue

🔴 **Federal Grant Competitions Paused with Compressed Windows Expected** — Federal agencies paused scheduled grant competitions during the shutdown and are expected to reopen with compressed application windows to meet fiscal-year obligations. Shortened preparation periods may disadvantage smaller nonprofits and reduce overall proposal quality.
Source:
https://www.philanthropy.com/article/what-a-long-shutdown-could-mean-for-nonprofit-jobs-revenue

🟡 **Treasury Priority Plan Addresses Private School Racial Discrimination** — The Priority Guidance Plan signals forthcoming guidance on applying public-policy standards against racial discrimination to private schools' eligibility for 501(c)(3) status, potentially affecting admissions, scholarships, and operational policies.
Source:
https://rsmus.com/insights/tax-alerts/2025/eo-exempt-organization-matters.html

🟡 **Excess Compensation Guidance for Tax-Exempt Organizations Planned** — The Priority Guidance Plan includes addressing Section 4960 excess compensation rules, clarifying covered employees, compensation calculation, and what amounts qualify as taxable excess under the 21% excise tax.
Source:
https://www.mondaq.com/unitedstates/tax-authorities/1686870/irs-and-treasury-release-2025-2026-priority-guidance-plan

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Nonprofit Human Resources Developments

📋 **Executive Summary:** Shutdown-driven unpaid federal labor, stalled grant-funded positions, and halted agency operations compound a pre-existing workforce crisis. Inflation, burnout, and delayed reimbursements are forcing nonprofits to freeze hiring, reduce hours, and operate without full staffing while demand increases. Litigation, rulemaking, and benefit uncertainty add compliance and retention risk.

⚡ **Key Actions for This Section:**
• Reassess workforce plans against cash-flow stress and delayed reimbursements
• Prepare contingency agreements for unpaid placements (VISTA, fellows, etc.)
• Document shutdown HR effects for later reimbursement/advocacy
• Monitor litigation and rulemaking affecting public-service talent pipelines
• Brief boards on retention exposure and risk to mission delivery

🔴 **Workforce & Operational Strain Threaten Nonprofits** — Persistent wage gaps, inflation, and burnout from years of crisis response have triggered a talent crisis. Many nonprofits cannot recruit or retain staff while compliance and reporting burdens grow, leaving organizations in survival mode without capacity for innovation or systems improvement.
Source:
https://www.johnsoncenter.org/blog/the-nonprofit-workforce-is-in-crisis/

🔴 **Federal Workers Miss First Paycheck; AmeriCorps VISTA Volunteers Affected** — Federal workers missed their first full paycheck October 17; AmeriCorps VISTA volunteers face unpaid status. Hunger Free America is loaning money to its AmeriCorps members, but a prolonged shutdown threatens organizational cash flow already strained by delayed reimbursements.
Source:

https://www.philanthropy.com/article/what-a-long-shutdown-could-mean-for-nonprofit-jobs-revenue

🔴 **Federal Judge Temporarily Blocks Planned Mass Layoffs** — A federal judge temporarily blocked plans to fire ~4,100 probationary federal employees during the shutdown, ruling the terminations likely unlawful. Lawsuits argue the administration bypassed required procedures, signaling ongoing legal instability around federal workforce cuts.
Source:
https://en.wikipedia.org/wiki/Government_shutdowns_in_the_United_States

🟡 **Department of Education Negotiated Rulemaking on PSLF Program** — The Department of Education held hearings June 30 on PSLF changes. Nearly 10,000 comments urged preserving PSLF access for all 501(c)(3) employees. PSLF remains critical to nonprofit workforce recruitment and retention.
Source:
https://www.councilofnonprofits.org/pressreleases/government-shutdown-threatens-nonprofits-ability-serve-communities

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IRS, Accounting, and Finance Developments

📋 **Executive Summary:** IRS and Treasury signals on enforcement, excise taxation, and donor-advised funds intersect with a shutdown-driven liquidity shock. Delayed reimbursements and frozen grant decisions are forcing nonprofits to draw down reserves, borrow, or cut services while anticipating tightening of federal tax and reporting rules.

⚡ **Key Actions for This Section:**
• Model cash-flow under delayed reimbursements and frozen awards
• Brief finance committee on reserve draw protocols and borrowing triggers
• Monitor Treasury guidance developments affecting 501(c)(3) compliance
• Re-underwrite DAF-dependent revenue and major-gift assumptions
• Document finance impacts for later recovery and board disclosure

🔴 **Automated Federal Reimbursements Paused Under Shutdown** — Federal cost-reimbursement systems remain offline without oversight staff to authorize releases. Nonprofits are floating payroll and vendor costs without cash inflow, forcing use of credit, reserves, or program slowdown.
Source:
https://www.urban.org/urban-wire/federal-government-shutdown-could-compound-financial-insecurity-among-nonprofits

🟡 **Treasury Priority Plan Signals DAF Regulatory Review** — The 2025–2026 Priority Guidance Plan flags donor-advised funds for potential changes to payout rules, prohibited benefits, and fiduciary expectations of sponsors, following sustained congressional scrutiny of

warehoused philanthropic capital.
Source:
https://rsmus.com/insights/tax-alerts/2025/eo-exempt-organization-matters.html

🟡 **Excess Compensation Guidance for Tax-Exempt Organizations Forthcoming** — Treasury plans to clarify Section 4960 applicability, including covered employees, calculation methods, and amounts subject to the 21% excise tax, guiding board-level compensation governance.
Source:
https://www.mondaq.com/unitedstates/tax-authorities/1686870/irs-and-treasury-release-2025-2026-priority-guidance-plan

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State Nonprofit News Developments

📋 **Executive Summary:** States are attempting limited mitigation of shutdown fallout while pursuing unrelated regulatory and funding actions with indirect nonprofit effects. Most states lack fiscal or administrative capacity to backfill suspended federal payments, leaving nonprofits exposed as state-level rulemaking and funding shifts continue.

⚡ **Key Actions for This Section:**
• Monitor state-level interim funding or stopgap programs for eligibility
• Do not assume state backfill will replace federal funds—plan for none
• Track state regulatory changes affecting employment, grants, or compliance
• Adjust advocacy strategy to state forums while federal systems are frozen

🟡 **States Lack Capacity to Backfill Federal Funding During Shutdown** — State officials report they cannot replace federal reimbursements or grant flows paused by the shutdown, noting constitutional, cash, and statutory limits. Nonprofits should not expect state substitution of federal cash flow.
Source:
https://www.councilofnonprofits.org/pressreleases/government-shutdown-threatens-nonprofits-ability-serve-communities

🟢 **Select States Exploring Temporary Mitigation Measures** — A small number of states are exploring emergency contracts, bridge grants, or accelerated payments to stabilize critical service providers, though these measures are not system-wide and often time-limited.
Source:
https://www.philanthropy.com/article/what-a-long-shutdown-could-mean-for-nonprofit-jobs-revenue

🟡 **New York Updates Political Activity Rules for Nonprofits** — The New York Attorney General's Office updated guidance clarifying political activity and lobbying restrictions for tax-exempt organizations, emphasizing the absolute prohibition on campaign intervention while

detailing permissible advocacy. Organizations should review and update internal policies and staff training accordingly.
Source:
https://ag.ny.gov/guidance-for-tax-exempt-organizations-on-political-activity-and-lobbying

🟡 **Thirteen State Privacy Laws Now Govern Nonprofits** — With 2025 enactments in Delaware, Iowa, Nebraska, New Hampshire, and New Jersey, thirteen states now have comprehensive privacy laws. Treatment of nonprofits varies by state, creating a complex compliance map for data mapping, privacy notices, and consumer-rights fulfillment.
Source:
https://www.wiley.law/

🟡 **California, Illinois Pursue Grantmaking Improvements** — States are advancing legislation to require advance payments, improve indirect cost coverage, and remove prompt-payment exemptions for nonprofits, aiming to address chronic cash-flow problems that force borrowing or service cuts.
Source:
https://www.calnonprofits.org/

🟡 **Federal DEI Orders Create State-Level Uncertainty** — Federal executive orders targeting DEI programs are creating uncertainty for state nonprofits, particularly those serving immigrants and vulnerable populations. State-level legislative responses seek to protect funding access for mission-aligned work.
Source:
https://www.calnonprofits.org/

🟡 **Governments Alter Signed Contracts Mid-Performance** — Nearly half of nonprofits report mid-stream changes to executed agreements (payment cuts, new reporting, eligibility changes) without added compensation, undermining contract integrity and straining service delivery.
Source:
https://www.councilofnonprofits.org/

🟡 **States Modify SNAP Rules Affecting Food Banks** — Multiple states are adjusting SNAP eligibility and work requirements, increasing food bank demand and requiring rapid program adjustments and coordination.
Source:
https://stateline.org/

🟢 **Iowa Reviews Government Efficiency and Nonprofit Partnerships** — A state task force is examining shared services and local government efficiency, with potential implications for nonprofit-government partnerships, contract structures, and workforce policies.
Source:
https://iowacapitaldispatch.com/

🟢 **Foundations Reshape Strategies Impacting State Nonprofits** — Major foundations are adjusting grantmaking priorities and structures, creating both opportunities and challenges for local nonprofits. Organizations should align proposals with evolving priorities.
Source:
https://apnews.com/

🟢 **Regional Giving Days Mobilize Community Support** — Coordinated statewide and regional giving days leverage matching funds and social campaigns to drive donations and awareness, but require staff time for planning and donor stewardship.
Source:
https://www.bigrapidsnews.com/

🟢 **Governors Form Public Health Alliance for Emergencies** — A new multi-state alliance on public health preparedness creates partnership opportunities for nonprofits in emergency management, surveillance, and resource-sharing initiatives.
Source:
https://www.reuters.com/

Summary

The federal shutdown, parallel regulatory activity, and investigative posture toward nonprofits are reshaping financial, operational, and compliance conditions across the sector. While some policy shifts remain in development, the cash-flow, staffing, and timing effects are immediate. Nonprofits should stabilize liquidity, document shutdown impacts, review exposure to emerging guidance, and brief boards on near-term risks without assuming rapid federal resolution.

About Nonprofit Management Navigator

Nonprofit Management Navigator is a trade name of PMG46, LLC doing business as Nonprofit Management Navigator. Nonprofit Management Navigator provides this complimentary weekly subscription service designed for nonprofit leaders. This essential resource provides curated news updates on the legal, regulatory, and operational developments impacting organizations, saving executives time while keeping them informed about the important changes directly impacting their organizations. In addition to timely news, Nonprofit Management Navigator also offers in-depth reports and practical management guidance to help leaders navigate an increasingly unpredictable operating environment. What makes Nonprofit Management Navigator particularly valuable is its commitment to accessibility—the entire service is available as a complimentary subscription, ensuring critical operational intelligence reaches nonprofit leaders regardless of budget limitations during these chaotic regulatory times.

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