

# Human Service Nonprofits and Government Collaboration

Findings from the 2010 National Survey of Nonprofit Government Contracting and Grants

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Center on Nonprofits and Philanthropy

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# Executive Summary

**T**he recession crippled the budgets of many nonprofits just as demand for their services rose. On top of shrinking revenue from donations and fees, many organizations struggled with ongoing payment problems from one of their biggest funders—government agencies. As a result, many were forced to cut services and staff or close program sites, hurting the communities they serve. While pain from the recession may have been unavoidable, better government management of contracts and grants can at least avoid adding to nonprofits' financial stress.

Goodwill, Boys & Girls Clubs of America, the American Red Cross, homeless shelters, food banks, and child care centers—these are just a few examples of human service organizations that Americans count on every day. Although human service nonprofits are heavily funded by government, which extends their reach, little is known about the size and scale of these contracting relationships or how effective they are. This study aims to provide a comprehensive look at the scope of governments' contracts and grants with human service organizations in the United States and document the problems that arise. We also assess how these nonprofits were affected by the recession, how they responded to shrinking revenues, and how flaws in government contracting practices intensified their budget woes.

Based on our national survey of human service organizations it is estimated that

- government agencies have approximately 200,000 formal agreements (contracts and grants) with about 33,000 human service nonprofit organizations.
- the average is six contracts and grants per organization; the median is three.
- government funding accounts for over 65 percent of total revenue.
- 60 percent of organizations with government grants and contracts count those grants and contracts as their largest funding source.

Nonprofits reported numerous problems with government funding, some of which were made worse by the recession.

With the recession in full swing, 31 percent reported that their experience with government was worse in 2009 than in prior years, about 64 percent said it was the same, and just 5 percent said it was better.

- Sixty-eight percent reported that government not paying the full cost of contracted services was a problem (both a big and a small problem).
- Seventy-six percent indicated that the complexity and time required for reporting on contracts and grants was a problem.
- Seventy-five percent indicated that the application process was too complex and time consuming.
- Fifty-eight percent said that government changes to contracts and grants were a problem.
- Fifty-three percent said that late payments were a problem.

As the recession cut deeply into tax revenues, many state governments slashed nonprofit funding. Individual contributions also dropped, just as the need for human services was on the rise. More than half the nonprofits reported reduced revenues from state government agencies, donations, and investment income. Forty-two percent ended 2009 with a deficit. To stay afloat, nonprofits froze salaries and dipped into reserves, where available. Of more concern is the hollowing of organizational capacity that may take years to rebuild, if ever.

- Fifty percent of human service nonprofits froze or reduced employee salaries.



- Thirty-nine percent drew on reserves.
- Thirty-eight percent laid off employees.
- Twenty-three percent reduced health insurance, retirement contributions, and other staff benefits.
- Twenty-two percent borrowed funds or increased lines of credit.
- Twenty-one percent reduced programs or services.
- Seventeen percent served fewer people.

Nonprofits that had problems with government contracting were significantly more likely than nonprofits without problems to report cutbacks. For many, the ongoing problems with government contracting intensified their budget troubles during the recession.

- Forty-five percent of nonprofits that had a problem with insufficient payments had to draw on their reserves, compared with just 28 percent of nonprofits that did not have this problem.
- Forty-five percent of organizations that reported a problem with changes in government contracts had to

lay off employees, compared with only 31 percent of nonprofits that did not have this problem.

- Sixty percent of organizations that had late government payments froze or lowered salaries, compared with 43 percent of nonprofits that did not have this problem.

However, some states reported fewer problems than others, suggesting that policies in those states might provide clues to more effective practices. For example, just 37 percent of Montana nonprofits had problems with insufficient payments for contracted services and less than 20 percent of organizations in South Dakota stated that contract changes and late payments were a problem. Yet even in these states about one-third of nonprofits reported problems, a sobering statistic.

This study is the first effort to look broadly at government-nonprofit contracting relationships across the country and in individual states. The next step will be crafting and testing solutions for the problems raised in our survey and helping nonprofits and governments work together more effectively.



# Introduction

**T**he recession crippled the budgets of many nonprofits just as demand for their services rose. On top of shrinking revenue from donations and fees, many organizations struggled with ongoing payment problems from one of their biggest funders—government agencies. As a result, many were forced to cut services and staff or close program sites, hurting the communities they serve. While pain from the recession may have been unavoidable, better government management of contracts and grants can at least avoid adding to nonprofits’ financial stress.

Governments rely heavily on nonprofits to deliver a range of critical services, from homeless shelters to child care to job training, but little is known about the size and scale of these relationships—or how effective they are. This report offers a comprehensive look at the scope of government contracts and grants with human service nonprofits in the United States and documents the problems that arise. We also assess how these nonprofits were affected by the recession, how they responded to shrinking revenues, and how flaws in government contracting practices intensified their budget woes.

While donations and fees are crucial to human service nonprofits, many organizations rely heavily on revenues from government contracts and grants to expand their reach. Recent anecdotal press reports, regional studies, and small surveys describe a variety of problems related to government contracting:<sup>1</sup> problems that are not new, but, for many nonprofits, were exacerbated by the recession, forcing them to make severe cutbacks in their staff and operations.

The findings reported here are based on a national study of human service nonprofits. We surveyed a random sample of human service organizations with more than \$100,000 in expenses in eight human service program areas (table 1).<sup>2</sup> All estimates are weighted to represent the entire U.S. human service nonprofit sector that had government contracts and grants in 2009.<sup>3</sup> We explore the relationships between nonprofits and government contracting by program area, organization size, and level (federal, state, local) of government contracts. Context is important; policies and practices differ in each of these categories.

This study reveals how important government funding is to nonprofits, as well as how varied and often complex those relationships can be. We hope this information will help nonprofits and government agencies work together to solve the problems documented in this report and more effectively serve their communities.

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A summary brief, “Contracts and Grants between Human Service Nonprofits and Governments,” and a compendium of data by state are available on the Urban Institute web site (<http://www.urban.org/nonprofitcontracting.cfm>).

<sup>1</sup> Bureau of Contracts (2010); Deffley and Pratt (2009); DiNapoli (2010).

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<sup>2</sup> Human service organizations comprise one of the major categories of nonprofit organizations under the National Taxonomy of Exempt Entities. The recreation and sports category was excluded from the study. See methodology section for sampling information.

<sup>3</sup> The definitions of government contracts and grants often overlap and are not standard across jurisdictions. Both are payments for services that governments agree to underwrite.



# Background

**G**overnment contracting with human service nonprofits is widespread and has grown steadily over the years. The collaboration between government and the nonprofit sector goes back to the colonial period (Salamon 1987; Smith and Lipsky 1993). Schools and hospitals, such as Harvard University and the Massachusetts General Hospital, received public funding in their formative years (Smith 2006). However, it was not until the 1960s that government reliance on nonprofits started in earnest with extensive federal spending on many new social and health programs, including Medicare and Medicaid (Grønbjerg 2001; Smith 2006).

In 1960, public spending for services such as vocational rehabilitation, child nutrition and welfare, institutional care, and veterans' benefits accounted for less than \$1 billion, about 4.4 percent of all public social welfare spending.<sup>4</sup> A portion of this outlay went to nonprofits that rendered those types of services. Between 1960 and 1995, public spending for such services grew substantially, with government agencies increasingly using nonprofit organizations to provide desired services (Grønbjerg 2001).

As of 1997, an estimated 52 percent of federal, state, and local government funds for social services went to nonprofits (Salamon 2003). Direct grants and contracts and fees for service are among the most important government tools supporting nonprofit activities in communities (Smith 2006).<sup>5</sup>

Although the public often thinks that donations and volunteer work keep human service organizations afloat, as

a group the largest portion of their revenue comes from fees for services, whether through private dollars or contracts and grants from local, state, and federal governments. According to the National Center for Charitable Statistics, fee-for-service income was the largest source of revenue for human service nonprofits in 2008; about 25 percent of total revenue for human service nonprofits came from fees for service from private sources and 24 percent from government sources. Private contributions made up roughly 13 percent. Another 7 percent of revenue came from government grants.

State governments have long used nonprofits to deliver services. A considerable amount of money passes through state-administered programs that are financed entirely (e.g., Food Stamps) or largely by the federal government (e.g., Medicaid, TANF). In some states, counties and other local government entities act as agents of state and federal government in managing contracts and grants (Bowman and Fremont-Smith 2006).

In June 2009, New York State had nearly 31,000 active contracts, worth \$14.6 billion, with nonprofit organizations (Office of the State Comptroller 2010). In Delaware, nearly half the annual budget of the Department of Services to Children, Youth and Their Families was spent on contracting for services (Denhardt et al. 2008).

Some state agency representatives have said that if nonprofits were no longer willing or able to contract with governments to provide services, those services would stop or be

<sup>4</sup> Grønbjerg (2001) reclassifies components of traditional categories of public social welfare spending (social insurance, including Medicare; public aid, including Medicaid; health and medical; veterans' programs, including medical and education; education; housing; other) into functional spending fields: insurance cash payments (social insurance without medical benefits), all education spending, all medical spending (health and medical, medical benefits), means-tested income assistance, welfare/social services, and other.

<sup>5</sup> Smith (2006) points out that government financing of public services includes grants, contracts, and increasingly, tax credits, tax-exempt bonds, tax deductions, vouchers, and fees for services. This diversification tends to mask the extent of public funding of nonprofits and simultaneously, the increased centralization of government funding at the federal level in many areas, such as health and social services.



severely disrupted. In particular, 45 percent of Delaware state government managers said they would not be able to provide services if their current nonprofit providers stopped contracting with the state (Denhardt et al. 2008).

The nonprofit sector has undeniably become an indispensable partner of governments in providing services to individuals and communities. Nonprofits nationally contribute about 5 percent to the gross domestic product (GDP) (Wing, Pollak, and Blackwood 2008). They also contribute directly and indirectly to every state's economy. In Illinois, nonprofits employed more than 427,000 workers in 2007, almost as many as the three largest Fortune 500 companies in the state. These organizations pay their employees more than \$16.5 billion annually, two and a half times Illinois's state government payroll. The sector creates 9 percent of Illinois's gross state product, about the same amount as the finance and insurance industries combined (Donors Forum 2008). In New York, the Office of the State Comptroller (2010) notes that in 2006, the state's 24,000-plus nonprofits reported \$132.9 billion in revenue and provided nearly 1.2 million jobs, about 17 percent of the state's workforce.

## Human Service Organizations

Among the 1.5 million nonprofit organizations in the United States, human service organizations stand out as the quintessential expression of the nation's benevolent spirit. They are a diverse group that includes local direct service providers such as soup kitchens, child care, and youth mentoring organizations, as well as large national organizations like the YMCA and YWCA, Boys & Girls Clubs of America, and the American Red Cross.

In this study, we focus on eight categories of organizations as classified by the National Taxonomy of Exempt Entities classification system.<sup>6</sup> The categories break down by program area (figure 1):<sup>7</sup>

- crime and legal related (e.g., violence and abuse prevention, dispute resolution);
- employment and job related (e.g., job training, Goodwill, sheltered workshops);
- food, agriculture, and nutrition (e.g., Meals on Wheels, food banks and pantries);
- housing and shelter (e.g., homeless shelters and senior citizen centers);
- public safety and disaster preparedness (e.g., first aid);
- youth development (e.g., scouting, Big Brothers Big Sisters);
- human service multipurpose organizations (e.g., Catholic Charities and Lutheran Social Services, the Urban League, neighborhood centers, Volunteers of America); and
- community development organizations (e.g., neighborhood associations and community economic development organizations).

<sup>6</sup> The National Taxonomy of Exempt Entities is the classification system for nonprofit organizations developed by the National Center for Charitable Statistics at the Urban Institute and used by the Internal Revenue Service. It can be accessed at <http://nccs.urban.org/classification/index.cfm>.

<sup>7</sup> *Grants* and *contracts* are used interchangeably in this report. Definitions are not uniform and often nonprofits cannot differentiate between them. Both contracts and grants refer to formal agreements with governments to produce specified products for a certain amount.



FIGURE 1. Human Service Nonprofits with Government Contracts by Type of Organization and Size



Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).



# A Detailed Look at Government Contracts and Grants with Nonprofits

In 2009, local, state, and federal governments contracted with nearly 33,000 human service organizations. Their agreements extend from small grants (less than \$500) to multimillion-dollar contracts. More than half of these nonprofits are multi-purpose organizations that provide a range of programs and services for children, families, and the elderly. The second-largest category (18 percent) provides housing assistance and shelter.

While governments contract with many small- and medium-sized nonprofits, most contracts are awarded to larger organizations. Forty percent of nonprofits contracting with government have operating budgets of \$1 million or more (large), and 39 percent, between \$999,999 and \$250,000 (medium). Just 21 percent have budgets between \$249,999 and \$100,000 (small).

In 2009, the total number of contracts and grants awarded to human service nonprofits was nearly 200,000. On average, each organization had six contracts and grants but larger organizations averaged more than small or mid-sized organizations—large organizations averaged nine contracts and grants; mid-sized groups, four; and small ones, three. The mean and median number of contracts does not vary much by level of government or type of organization (table 1).

Nonprofits often work with multiple government agencies at the local, state, and national levels to deliver services. Over three-quarters have contracts and grants from two or more government agencies. Fifty percent of organizations have contracts at all three levels of government, while 19 percent only contract with agencies from one level of government (table 2).

In 2009, governments contracted with human service nonprofits for over \$100 billion worth of contracts and grants. For organizations with government contracts and grants, government funding accounts for 65 percent of total

revenue. The amount of government contracts and grants varies by nonprofit size and level of government. The median dollar value of local government contracts and grants (\$80,000) is smaller than state (\$200,000) or federal (\$208,000) contracts and grants. The bigger the organization, the higher the median value of its contracts at all levels of government (table 3).

TABLE 1. Human Service Nonprofits with Government Contracts and Grants

Type of organization	Number of Contracts and Grants					
	Number	Percent	Mean	Median	Total	Percent
Human service multipurpose	16,941	51.8	6	3	102,637	54.4
Housing and shelter	5,741	17.6	6	3	37,195	19.7
Crime and legal related	2,517	7.7	4	2	10,550	5.6
Community and economic development	2,401	7.3	6	3	14,637	7.8
Youth development	2,272	7.0	4	2	8,761	4.6
Employment	1,740	5.3	6	4	11,218	5.9
Food, agriculture, and nutrition	1,011	3.1	4	3	3,564	1.9
Public safety and disaster relief	70	0.2	2	2	158	0.1
Total	32,693	100.0	6	3	188,719	100.0

Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Note: Percentages may not sum to 100 because of rounding.



**TABLE 2. Organizations with Contracts, by Level of Government**

Level of government contract	Number	Percent
Federal, state, and local contracts	16,278	50
State and local contracts only	4,457	14
Federal and state contracts only	4,045	12
State contracts only	2,354	7
Federal contracts only	2,100	6
Local contracts only	1,881	6
Federal and local contracts only	1,578	5
<b>Total</b>	<b>32,693</b>	<b>100</b>

Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

**TABLE 3. Median Value of Government Contracts and Grants, by Size of Organization and Level of Government**

Expenditure size	Median Amount of Government Contracts and Grants (\$)		
	Local government	State government	Federal government
\$100,000 to \$249,999	30,000	60,000	79,500
\$250,000 to \$999,999	48,790	100,000	120,000
\$1 million or more	200,000	650,000	600,000
<b>Median</b>	<b>80,000</b>	<b>200,000</b>	<b>208,000</b>

Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Note: Missing or not applicable answers are excluded.

## Examples of Nonprofit Human Service Organizations

### Crime and legal related

- Child abuse prevention*
- Legal assistance*
- Dispute resolution*
- Domestic violence prevention*
- Juvenile delinquency prevention*
- Crime prevention*
- Rehabilitation for offenders*
- Ex-offender reentry*
- Community corrections*

### Employment

- Employment for disabled persons*
- Job training*
- Job placement assistance*
- Employment resource centers*
- Workforce investment*

### Food, agriculture, and nutrition

- Food banks*
- Food pantries*
- Meal vouchers*
- Meals on Wheels*
- Nutrition assistance and education*

### Housing and shelter

- Affordable housing*
- Senior citizens' housing*
- Subsidized housing*
- Low-income housing*
- Homeless shelters*
- Home improvement and repair*
- Transitional housing*
- Housing services*

### Public safety and disaster relief

- Search and rescue*
- Disaster relief*
- Disaster preparedness*
- Emergency response training*

### Youth development

- Scouting*
- Boys & Girls Clubs*
- Big Brothers Big Sisters*
- Junior Achievement*
- Leadership programs for youth*
- Youth service clubs*

### Human service multipurpose

- Adolescent pregnancy prevention*
- Adoption agencies*
- Child care centers*
- Foster care*
- Family counseling*
- Battered women's shelters*
- Group homes*
- Centers for the developmentally disabled*
- Senior citizen centers*
- Immigrant centers*
- Hospice care*
- The Urban League*
- YMCA/YWCA*

### Community development

- Urban planning*
- Rural development*
- Community action agencies*





**TABLE 4. Single Largest Source of Funding for Human Service Organizations**

Funding source	Number	Percent
Government (federal, state, or local contracts and grants)	19,657	60
Donations (individual, corporate, private foundations, federated giving)	6,124	19
Fees (public and private fees for service)	5,179	16
Other sources	1,663	5
Total	32,623	100

Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Notes: Seventy organizations did not have a largest single source of funding and are excluded from the figure. The “other sources” category includes investment income, royalties, and other revenue sources.

While human service nonprofits have a myriad of revenue sources, such as fees, donations, and investment income, government revenues are the largest single source of funding for three out of five nonprofits (table 4). That human service nonprofits with contracts and grants depend so heavily on government funding may have implications for their ability to meet goals and expectations,

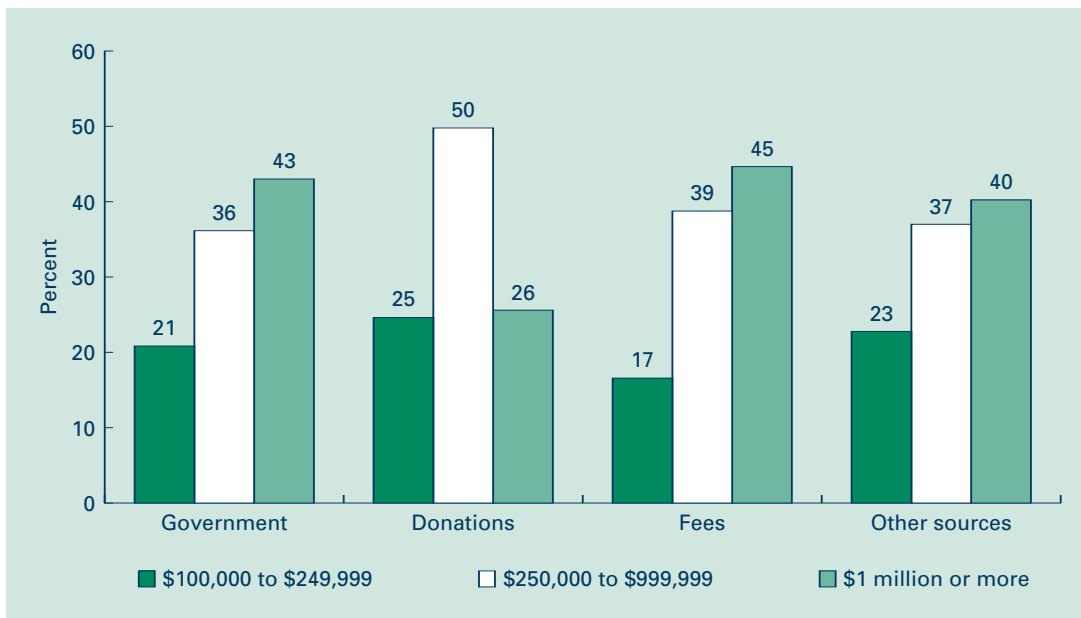
especially in times of financial turmoil and low government revenues.

Organizations that rely primarily on government contracts and grants for revenue are more likely to be large (with budgets of \$1 million or more). Of nonprofits that count on government as their single largest source of funding, twice as many are large (43 percent) as small (21 percent). Human service nonprofits that rely mostly on donations tend to be mid-sized organizations that operate on a budget of \$250,000 to just under \$1 million annually (figure 2).

In addition, nonprofits that receive most of their revenue from federal and state government contracts and grants are likely to be large, while those that receive their funds from local government are primarily mid-sized (figure 3).

Funding from state government is the single largest source of government funding for two in five organizations. Just over a third of organizations receive the majority of their government funding from the federal government and about a quarter rely most heavily on local government (figure 4). The origin of these resources, however, may be from federal block grants or other federal or

**FIGURE 2. Single Largest Source of Funding, by Expense Size**

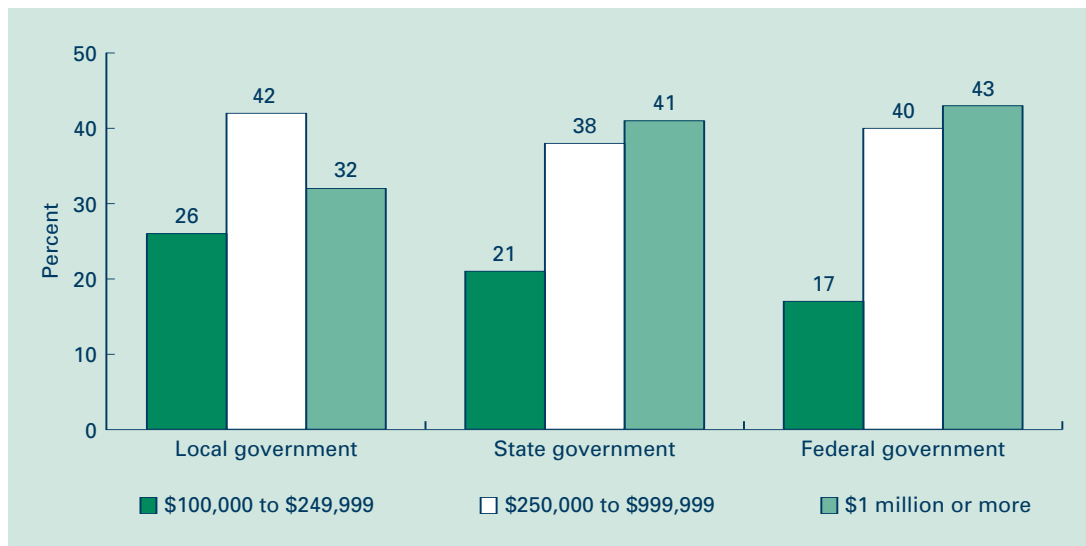


Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Notes: Seventy organizations did not have a largest single source of funding and are excluded from the figure. The “other sources” category includes investment income, royalties, and other revenue sources.



FIGURE 3. Single Largest Source of Government Funding, by Expense Size



Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Notes: Organizations with missing or not applicable answers are excluded. Also excluded are organizations that had equal funding from one or more government sources

state programs that flow through to states, counties, and local governments.<sup>8</sup> This is a highly devolved structure of government contracting for basic human services.

The number of government grants and contracts varies substantially by state, ranging from an average of 3 per organization in South Carolina to an average of 10 per organization in Arizona. These differences reflect states' diverse administrative, economic, and political environments. The resulting mix of government jurisdictions and agencies with different policies, procedures, and requirements can be difficult for nonprofits to navigate.

### Payment Methods

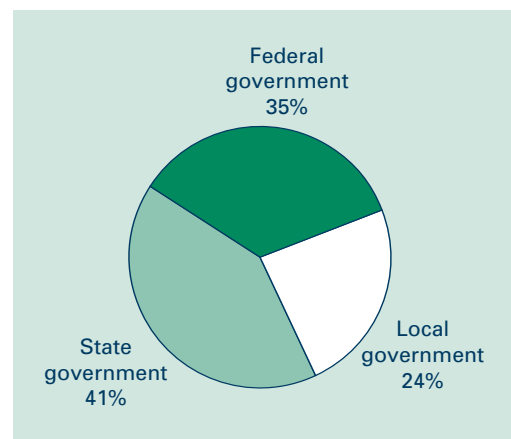
Federal, state, and local government agencies use a range of payment methods, matching requirements, reimbursement

<sup>8</sup> Examples of federal programs set up as large grants to state and local governments which are then passed through to nonprofits include the Child and Adult Care Food Program (Department of Agriculture), the Emergency Shelter Grants Program (Housing and Urban Development), Medicaid (Department of Health and Human Services), Social Services Block Grant (Department of Health and Human Services), Temporary Assistance for Needy Families (Department of Health and Human Services), and the Workforce Investment Act Youth Programs (Department of Labor)(U.S. Government Accountability Office 2009).

limitations, application processes, and reporting formats for their contracts and grants. The variety of practices by itself can divert significant resources from programs to administration, taking a toll on the ability of nonprofits to deliver services (figure 5).

While payment methods vary somewhat by type of organization and by state, about half of human service non-

FIGURE 4. Single Largest Source of Government Contracts and Grants

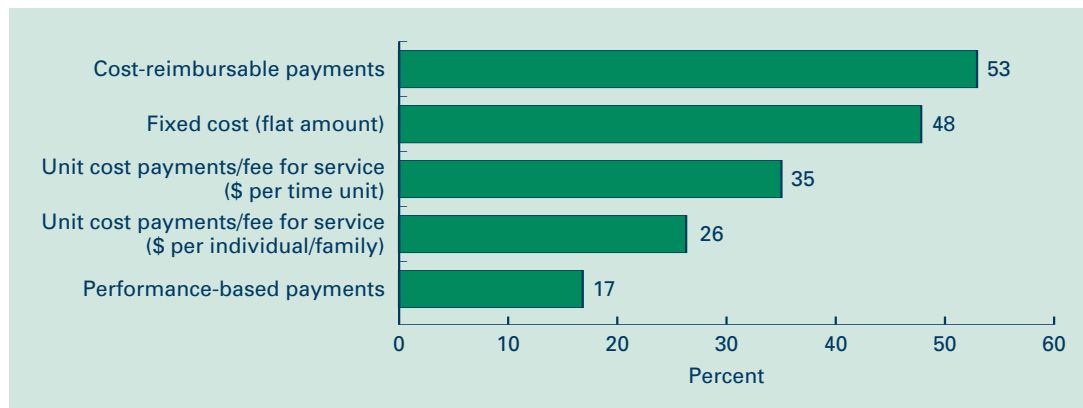


Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Note: Organizations that had equal funding from one or more government sources are excluded.



FIGURE 5. *Types of Payment Methods*



Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Note: Missing values were excluded.

profits reported that cost reimbursement (paying all allowed expenses up to a set limit) and fixed cost payments (paying a negotiated amount, regardless of expenses) were their primary sources of government funds. Only 17 percent had any performance-based contracts (specifying outcomes, not methods).

Payment methods differed considerably across states. Seventy-seven percent of nonprofits in Delaware reported fixed cost payments compared with 24 percent of organizations in Idaho. Sixty percent of organizations in Missouri said they had cost per time unit payments, while only 15 percent of nonprofits in Colorado did.

## Matching Requirements

Government contracts and grants often require or suggest that nonprofits match their support with donations or other funding, or otherwise explicitly share program costs. More than half of human service organizations reported that at least one of their government contracts and grants required them to match or share some costs. A third said that two or more contracts or grants had such requirements.

Among organizations that were required by their government contracts and grants to match or share some costs,

- 60 percent had to match, on average, a quarter or more of their contracts and grants.
- 27 percent had to match, on average, 50 percent or more.
- 84 percent of youth development nonprofits, 73 percent of housing and shelter organizations, and 71 percent of community and economic development groups had to

match, on average, a quarter or more of their contracts and grants.

- three out of four of the smallest groups (those with expenses between \$100,000 and \$249,999) had to match, on average, 25 percent or more of their contracts and grants.
- 33 percent of organizations in Maine, Arkansas, and New Hampshire were most likely to have one contract that required matching, 40 percent of nonprofits in Missouri were most likely to have two to three contracts that required matching, and 31 percent of West Virginia nonprofits were most likely to have four or more contracts that required matching.
- 63 percent of organizations in Arizona and 59 percent of those in Georgia, Oregon, Tennessee, Oklahoma, and the District of Columbia were least likely to be required to provide matching funds.

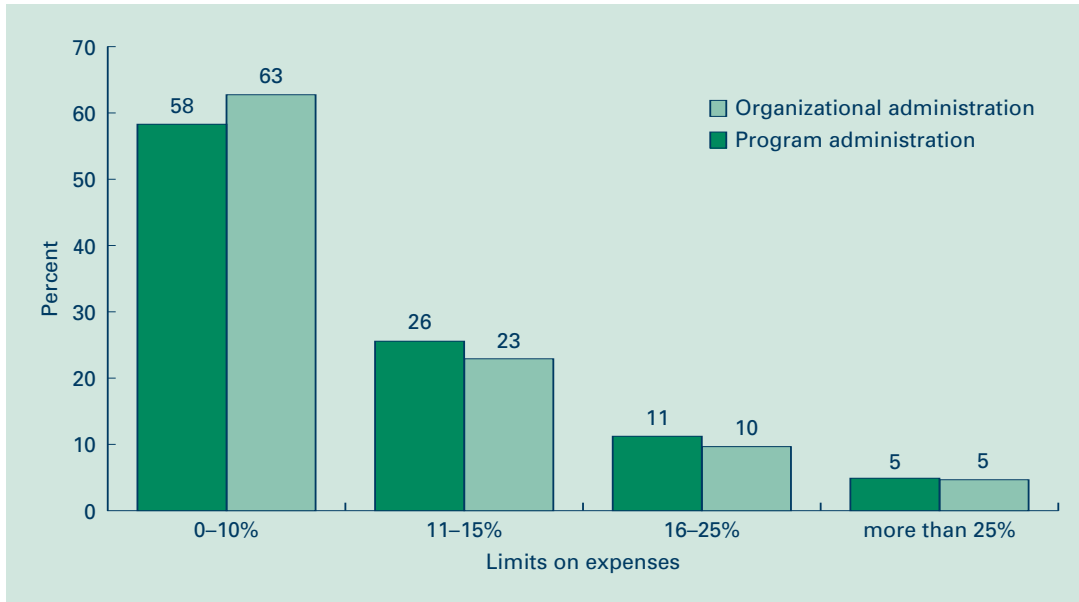
In this survey, it is not possible to identify whether there are distinctive characteristics of contracts and grants that require matching funds or if they are unique to nonprofit contractors, but matching requirements are a prevalent practice and should be studied further. The cost of raising matching funds would seem to limit such contracts to organizations with strong finances.

## Program and Organizational Administrative Expense Limitations

A majority of nonprofits reported that government contracts and grants would not pay or would only pay a small portion



**FIGURE 6.** Limits on Administrative Expense Recovery for Government Contracts and Grants to Human Service Organizations



Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Notes: Figures are based on organizations that reported limitations on expenses. Missing or unknown responses were excluded.

of administrative or overhead costs. For about 60 percent of these organizations, the limit was 10 percent or less (figure 6). Those costs include administrative costs directly related to programs and services (i.e., program administration) and overhead expenses for the whole organization (i.e., general administrative costs).

Program administrative costs might include computer use, copying, rent, and telephone use.<sup>9</sup> Management and general administrative expenses along with fundraising expenses make up a nonprofit’s overhead costs (Pollak and Rooney 2003) and cannot easily be allocated to individual programs. Such costs might include utilities and administrative staff (including finance, accounting, marketing, and contracting staff). Governments and nonprofits, however, are inconsistent in their definitions of administrative, indirect, and overhead costs and their relationships to each other, which has made it difficult for them to classify costs consistently. Indirect costs are usually defined as costs

incurred for common or joint objectives and are not easily assigned to cost objectives (e.g., to a particular program or award). Moreover, state and local governments differ in their reimbursement rates for indirect costs, if these costs are reimbursed at all. These differences largely depend on the policies and practices of the state and local governments that award federal funds to nonprofits (U.S. Government Accountability Office 2010).

Limits on administrative costs are a cause for concern because nonprofits must find ways to cover those costs. Trying

*Covering operating costs of our organization (e.g., finance, executive director, grant manager) is the most difficult, and government contractors only want to pay “their fair share” of these costs. However it is the government contracts that require the most time, data collection, and paperwork when compared to private funders and our individual donors. A fair share of our administrative, reporting, and data collection should be covered at a significant percentage by each government contract.*

—Survey Respondent

<sup>9</sup> According to Pollak and Rooney (2003), management and general expenses along with fundraising expenses constitute a nonprofit’s overhead costs.



to minimize overhead costs might lead nonprofits to offer low pay for administrative positions, making it difficult to recruit and retain skilled and experienced staff. Or they may forgo investments in technology, reducing productivity and effectiveness (Hager et al. 2005). To cover indirect costs that are not reimbursed, nonprofits may serve fewer people, cut back on services offered, or forgo or delay capacity-building and staffing needs (U.S. Government Accountability Office 2010).

Among human service organizations in the study, most were allowed to expense program administrative costs of 10 percent or less.

- Seventy-five percent of public safety and disaster relief nonprofits, 69 percent of youth development organizations, and 65 percent of housing and shelter groups were more likely to be permitted between 0 and 10 percent.
- Medium organizations (61 percent) were slightly more likely than small (57 percent) and large (57 percent) nonprofits to be allowed less than 10 percent.
- A majority of organizations with state government contracts (59 percent), local government contracts (57 percent), and federal contracts (60 percent) were allowed less than 10 percent.

Most nonprofits were also allowed organizational administrative costs of 10 percent or less.

- Seventy percent of housing and shelter nonprofits and 69 percent of youth development organizations were more likely to be permitted between 0 and 10 percent.
- Medium organizations (64 percent) were slightly more likely than small (61 percent) and large (62 percent) nonprofits to be allowed less than 10 percent.
- A majority of organizations with state and local government contracts (62 percent) and federal contracts (63 percent) were allowed less than 10 percent.

## Feedback to Government on Contracting

Most nonprofits are required to provide feedback to the government on results or outcomes of their funded services. Reporting includes preparing narratives of program accomplishments, reporting on outcomes and administrative data, and audits. Nonprofits were most likely to provide feedback on contracting issues and procedures during meetings with funding agencies (76 percent) and less likely to do so through official government feedback mechanisms (42 percent). Over half relied on indirect advocacy through affiliated organizations or coalitions of organizations.

Large organizations furnish feedback at higher rates than medium and small ones. Seventy-one percent of employment organizations and 63 percent of crime and legal-related and multipurpose human services organizations provide feedback to the government.



# Contracting Problems

**D**espite the importance of government contracting with nonprofits, we have little recent, comprehensive information on how well it works. Anecdotal press reports, regional studies, and small surveys, however, describe nonprofits' growing financial problems as a result of government grant and contract policies.

In 2009, New York State agencies reported that 82 percent of nonprofit contracts were approved late, forcing nonprofits to perform services without a contract in place, which resulted in late payments. Working without contracts and on-time payments has led to missed payrolls, reduction or elimination of services, and employee layoffs. In some cases, nonprofits have taken out loans or relied on credit to maintain operations (Bureau of Contracts 2010).

Louisiana nonprofits also reported financial troubles resulting from similar delays from state government contracts. They attributed contract delays to red tape, a lack of trained staff, and poor communication and compensated by deferring spending and cutting staff (Greene et al. 2009).

These problems are not isolated to a few states. A recent report notes that government agencies in at least 19 states are delaying payments promised under existing grants and contracts to nonprofits (Winder 2009).<sup>10</sup>

Contracting and grant problems are not new. In 2002, a survey of nonprofits showed that these organizations were burdened by the complexity of grants processes and the lack of uniformity in reporting requirements and definitions (OMB Watch 2002). This same concern was expressed more recently by Delaware nonprofits that reported being stressed by the volume of required paperwork to get state contracts and the lack of consistency among state agencies (Denhardt et al. 2008).

<sup>10</sup> The 19 states in which nonprofits reported late payments are Arizona, California, Connecticut, Florida, Georgia, Hawaii, Illinois, Indiana, Louisiana, Michigan, Minnesota, Nevada, New York, North Carolina, Oregon, Pennsylvania, Rhode Island, Texas, and Wisconsin.

The U.S. Government Accountability Office (2010) also found inconsistencies in what qualifies as indirect costs and administrative costs, making it difficult for governments and nonprofits to classify costs and for nonprofits to be paid adequately. When nonprofits are reimbursed for less than the actual costs incurred, they are sometimes forced to make up the difference with actions that hurt their underlying mission, such as cutting back on the number of people they serve, narrowing the scope of their services, or forgoing capacity development.

State government reimbursements to foster care nonprofit providers, for instance, do not cover the full costs of meeting the needs of children in their care. Although the Child Welfare Act requires states receiving federal foster care funding to cover necessary child care costs, states interpret this mandate in varied ways. Many states reimburse less than 80 percent of providers' approved costs (During 2010).

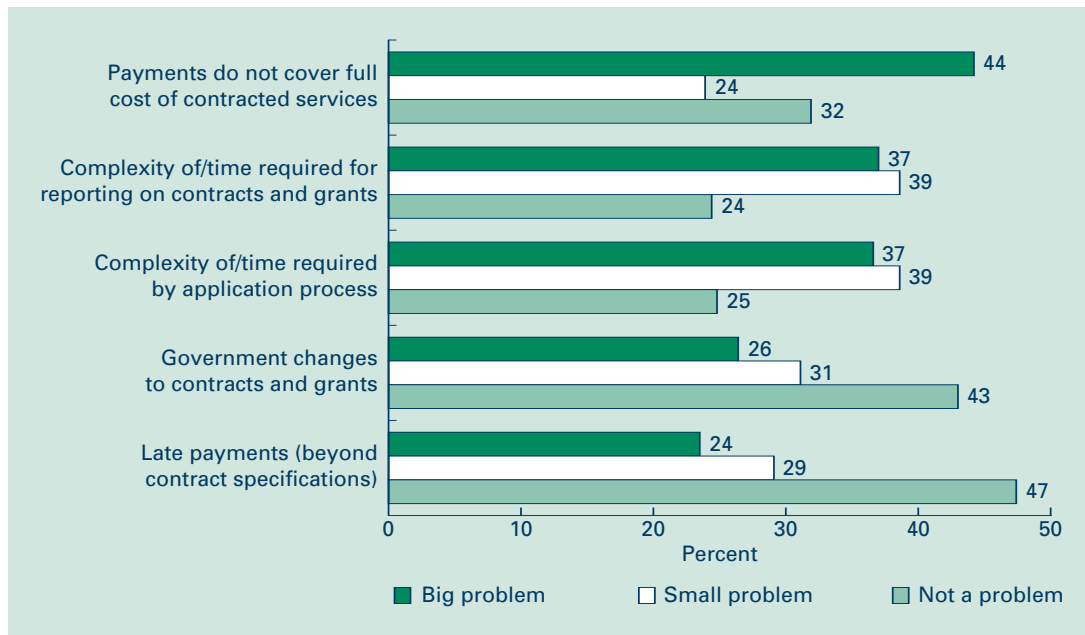
These sources suggest pervasive contracting problems across states. The goal of this study is to document the scope of these problems; identify the most affected organizations, states, and levels of government; and recommend possible solutions.

We identified five problem areas in government contracting based on the literature and media reports: payments that did not cover the full cost of contracted services, complex and time-consuming reporting requirements, complex and time-consuming application requirements, changes made to contracts and grants, and late payments.

The human service organizations were asked their perception of these five issues and were asked to rank them as "not a problem," a "small problem," a "big problem," or



FIGURE 7. Key Problems Reported for Government Contracts and Grants



Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Notes: Missing or not applicable answers are excluded from the figure. Percentages may not sum to 100 because of rounding.

“not applicable” to their organization. They were also allowed to describe other issues they faced. Nonprofits reported some degree of difficulty in all five areas (figure 7).

### Failure to Cover Full Program Costs

Nonprofits often struggle with meeting their budget requirements, a challenge that is exacerbated when government contracts and grants do not cover the full costs of providing a service. More than two-thirds of human service nonprofits reported problems with insufficient government payments (44 percent said it was a big problem and 24 percent said it was a small problem).

This problem, however, is not uniform across all types of organizations. While almost three-quarters of multipurpose human service nonprofits (73 percent) reported being underpaid for services, about half of youth development organizations (52 percent) experienced the same thing.

Seventy-seven percent of large nonprofits indicated that payments do not cover the full costs of contracted services. In contrast, 62 percent of medium and 59 percent of small organizations reported this as an issue.

Among states, Rhode Island had the highest percentage of nonprofits (84 percent) reporting insufficient payments for contracted services. Maine (82 percent) and Illinois (81 percent) came in second and third. New Hampshire, Iowa, Minnesota, Connecticut, Kentucky, Michigan, and Ohio round out the top 10 states where nonprofits had problems with inadequate payments.

### Complex and Time-Consuming Reporting and Application Requirements

Nonprofit and government contracting has grown at all levels of government and so has the expectation of nonprofit accountability. Contracts and grants are more performance oriented, often with agency reimbursement tied to meeting specific performance measures (Smith 2006). A majority of organizations (89 percent) had government contracts or grants that required them to report to funding agencies the results, outcomes, and impact of programs and services.

Eighty-one percent of nonprofits said that navigating different reporting formats was a problem, 76 percent said that inconsistent budget categories were a problem, and 75 percent struggled with different requirements for reporting on their outcomes.



*Reporting is a huge problem. For a small organization trying to serve special populations in rural areas, we often do not have the proper staff to report or even submit grants. However, we serve a population that needs the most help but we can't serve for the lack of administrative support. Many grants do not fund operations, only reimburse actual costs, and expect us to be self-sustaining. To be self-sustaining, we have to run our operation like a business and mark up our costs to pay the overhead. Many grants will not allow us to do that—just cost reimbursement. Many businesses across America would be out of business by that method.*

—Survey Respondent

*Multiple audits by various programs for the same activities is an ongoing (annual) waste of resources, both ours and the funding programs'.*

—Survey Respondent

While nonprofits welcome funding from government agencies, as from any other source, many find government contracting processes burdensome and costly. Over a third of nonprofits said the complexity of and time required for applications for government contracts and grants was a big problem; the same percentage had problems with the reporting requirements. Three-quarters of nonprofits said that the application process was complex and time consuming—a similar percentage for reporting processes, which were a problem reported across all practice areas. Youth development organizations had the highest percentage reporting this issue as a problem (76 percent).

Large organizations were slightly more likely to report that applications were complex and time consuming (79 percent) compared with small (71 percent) and medium nonprofits (73 percent).

The District of Columbia (92 percent) and Iowa (91 percent) had the most nonprofits reporting that this was a problem, while Arkansas (58 percent) had the least. Among the other top 10 states whose nonprofits found the contracting and grants process too complex and time consuming were Idaho, Vermont, Minnesota, Rhode Island, Alaska, Colorado, Maine, and Nevada.

## Changes to Contracts and Grants

Another problem many nonprofits faced was government changes to contracts and grants after they had been approved. Nonprofits said some government agencies cancelled or postponed their contracts or grants, cut payments, or made other costly changes.<sup>11</sup> About 58 percent of nonprofits regarded such changes as a problem; over a quarter characterized such changes as a big problem.

Sixty-six percent of employment organizations and 61 percent of human service multipurpose nonprofits reported that changes to contracts and grants were a problem. In contrast, changes were not a problem for 79 percent of public safety and disaster relief organizations.

Large nonprofits were more likely to indicate that this was a problem (66 percent), compared with medium (52 percent) and small (49 percent) organizations.

The states with the most nonprofits reporting difficulties with these changes are Maine, Rhode Island, Illinois, Nevada, Louisiana, Kansas, Indiana, Connecticut, Hawaii, and Michigan.

## Late Payments

Late government payments to service providers are frequently reported by nonprofits and government agencies alike. New York State's Office of the Comptroller found that the majority

<sup>11</sup> It is not clear whether these changes are due to the recession or a systematic change.

*The problems our agency has experienced with government grants relate more to the application process itself (time consuming, requires multiple letters of support and memoranda of understanding with collaborative partners, use of inefficient government web sites to submit applications, etc.) and to time-consuming and repetitive reporting requirements for which instructions are difficult to understand and lead time to accomplish is very short. In short, they are not considerate of time and staff limitations, particularly for small nonprofit organizations—specifically the ones that need the help the most in tight economic times.*

—Survey Respondent





**TABLE 5. Organizations with Late Payments, by Size**

Expense size	Percent
\$100,000 to \$249,999	34
\$250,000 to \$999,999	38
\$1 million or more	46

Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Note: Missing or not applicable answers were excluded.

of the state’s contracts with nonprofits did not meet prompt contracting time frames and that government agencies were late in paying nonprofits (Bureau of Contracts 2010; Office of the State Comptroller 2010). In New York City, delayed payments to nonprofit organizations and other contracting problems prompted the Bloomberg administration to propose an overhaul of the city’s contracting system, which awards \$4 billion in contracts every year.<sup>12</sup> The Connecticut Association of Nonprofits (Andrews 2009) reported that 42 percent of its members received late contract payments from the state, with 84 percent receiving Connecticut’s Department of Social Services payments 60 days late.

In this study, 41 percent of nonprofits reported that government agencies made late payments (beyond contract specifications) in 2009 but 53 percent of nonprofits indicated that late payments from government were a problem for their organization in general. There was substantial variation by level of government, organization size, program area, and the number of days payments were delayed. For those with late payment in 2009, almost half of large organizations experienced late payments—a higher rate than that of small and mid-sized organizations (table 5).

Furthermore, 44 percent of employment and multi-purpose human service nonprofits reported delayed payments, as did 46 percent of crime and legal-related organizations (table 6).

In general, more than half of human service nonprofits indicated that late payments were a problem, and almost one in four organizations considered it a big problem. Late payments affected different types of organizations with different intensity. More than half of human service multi-

<sup>12</sup> David W. Chen, “Nonprofit Groups Hopeful but Wary as City Aims to Cut Red Tape,” *New York Times*, April 18, 2010. Accessed on June 4, 2010 from <http://www.nytimes.com/2010/04/19/nyregion/19contracts.html>.

**TABLE 6. Organizations with Late Payments, by Type**

Type of organization	Percent
Crime and legal related	46
Employment	41
Food, agriculture, and nutrition	28
Housing and shelter	34
Public safety and disaster relief	12
Youth development	37
Human service multipurpose	44
Community and economic development	34

Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Note: Missing or not applicable answers were excluded.

purpose groups and employment organizations found late payments problematic.

Delayed reimbursement was more problematic for large organizations (59 percent), compared with small (46 percent) and medium (49 percent) nonprofits. Illinois had the highest percentage of nonprofits reporting that late payments were an issue (83 percent). Maine and Connecticut followed, with 80 and 73 percent of nonprofits indicating that delayed payments were a burden. More than 60 percent of organizations in the District of Columbia, Pennsylvania, Louisiana, Nevada, Indiana, New York, and Kentucky also reported late payments.

Federal, state, and local governments were not equally late in their payments to nonprofits. State governments were most likely to be more than 90 days late, a delay that may reflect states’ bleak financial situations during the recession. Federal government agencies were more likely than their state and local counterparts to make their late payments within 30 days (table 7).

**TABLE 7. Days Government Contract and Grant Payments Are Past Due, by Level**

Level of government	Days (%)				Total
	30	60	90	Over 90	
Local	24	30	16	31	100
State	22	26	16	36	100
Federal	28	30	18	25	100

Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Note: Figures are based on organizations that reported past due payments.



*TABLE 8. Average Amounts Governments Still Owe Nonprofits, by Level*

<b>Level of government</b>	<b>Average amount (\$)</b>
Local	38,937
State	117,679
Federal	97,635

*Source:* The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

*Note:* Figures are based on organizations that reported past due payments and the dollar amount still owed.

In 2009, not only were state governments most likely to be 90 days late in paying nonprofit contracts and grants, but they also had the largest past due amounts per organization (table 8).

Since some human service nonprofits cannot afford to cover late reimbursements, governments' delayed payments add a significant burden to their budgets and ability to provide services to the community.

*Slowness of getting funds has been the biggest of problems—that and the overhead costs to submit new applications or do new reporting.*

—Survey Respondent

*Nonprofits have severe cash flow issues when dealing with reimbursement grants, as the expense is already incurred and we are reimbursed at a later date.*

—Survey Respondent



# The Recession's Effect on Nonprofit Revenues

**T**he recession cut deeply into nonprofit revenues just as demand rose for many basic human services (Smith 2010). Payments from government agencies dropped, donations from individuals, corporations, and private foundations shrank, and investment returns and fee income fell.

At the state level, government spending declined in fiscal years 2009 and 2010. In fiscal year 2010, 40 states cut their general fund expenditures and 44 states estimated lower general fund expenditures than in the previous fiscal year. Fiscal year 2010 general fund expenditures are currently estimated to be \$612.9 billion compared with \$657.9 billion in fiscal year 2009, a 6.8 percent decline (Husch 2010).

Falling tax revenue squeezed state budgets, leading to cuts in all major service areas. Since 2008, at least 45 states and the District of Columbia cut health care (30 states), services for the elderly and disabled (25 states and D.C.), K–12 education (30 states and D.C.), and other areas (Johnson, Oliff, and Williams 2010).

Nonprofits have been documenting the twin challenges of reduced funding and higher demand for services in Arizona, Kansas, New Jersey, New York, Wisconsin, and other states (Alliance of Arizona Nonprofits 2010; The Center for Non-profits 2009; Office of the State Comptroller 2010; Putzer 2009; United Way of the Plains 2009). In Louisiana, nonprofits report that funding and charitable giving have dropped off, while operational costs and demand for services have risen, yet they are still “demonstrating their tenacity, resilience, and innovation . . . just as they did after the hurricane in 2005 and then again in 2008” (Greene et al. 2009). In Wisconsin, 41 percent of nonprofits said that despite financial challenges, they would expand key services in the coming years (Putzer 2009).

## Reduced Revenues

Our study documents the national scope and state variations in the recession's impact on nonprofits. We find that revenues from every source declined and that most human service nonprofits were affected (table 9).

## Government Funding

As tax revenues dropped during the recession, government contracts and grants to nonprofits shrank at every level. Fifty-six percent of organizations reported less revenue from state agencies, 49 percent lost local government funding, and 31 percent lost federal dollars. The larger the nonprofit, the more likely they were to report reduced funding from government agencies.

Overall, federal government funding declined at the same rate for most types of nonprofit organizations—however, dollars for housing and shelter organizations fell the least, with just 19 percent reporting declines. The same was true for local government funding. Youth development and employment organizations reported the largest decrease in revenue from state government agencies, 63 percent and 61 percent, respectively.

## Fee Income

Fee income was less likely to decline in 2009 than other types of revenue. Among respondents that collected fees from government as a third-party payer (e.g., Medicaid),



about a third received less revenue. Experiences differed greatly by program area. For example, 69 percent of youth development organizations reported that third-party fees decreased while just 17 percent of community and economic development groups said fee income declined.

Among nonprofits that collected fees from self-paying participants, 39 percent reported that collected fees decreased, while 40 percent said that collected fees remained about the same. Fifty-one percent of crime and legal-related nonprofits said fees from self-paying participants fell while 33 percent of employment groups reported no change.

## Donations

Nonprofit budgets were further squeezed as donations fell. While contributions from corporations, individuals, private foundations, and federated fundraising nonprofits (e.g., United Way) are a smaller share of total nonprofit revenue, they still play a crucial role in supporting operating revenues, innovation, and other needs. Individual giving can provide a critical margin of unrestricted revenues. Shrinking contributions can seriously set back capacity building.

Donations are the largest source of funding for about one in five human service nonprofits. Mid-sized organiza-

tions are much more dependent on donations than small or large nonprofits—in fact, half of all medium-sized organizations rely on donations as their single largest source of funding.

More than half of nonprofits reported declines in contributions from corporations (59 percent), individuals (50 percent), and private foundations (53 percent), and through federated giving (53 percent). With the exception of federated giving, smaller nonprofits experienced larger declines in donations than larger organizations.

## Investment Income

Reduced investment income was widely experienced during the recession—72 percent of organizations reported losses in 2009. Nonprofits of all sizes and program areas and in all regions saw their interest on bank accounts fall. Arizona nonprofits were hit the hardest, with 95 percent of nonprofits reporting a drop in such income. Investment income, however, accounts for only 4 percent of revenue for human service nonprofits. A third of nonprofits did not report any investment income revenue in 2009.

## Coping with Reduced Revenues

To cope with lost revenue, human service organizations cut expenses and services, borrowed money, and, in some cases, closed offices or program sites. In 2009, 82 percent of human service providers scaled back their operations, with most organizations resorting to two or more cutbacks. Half of organizations froze or reduced salaries, 39 percent drew on financial reserves, and 38 percent laid off employees (figure 8).

Larger organizations were more likely to cut salaries, reduce benefits, and downsize staff than smaller or mid-sized organizations. Three out of five crime and legal-related nonprofits and the same ratio of youth development groups froze or reduced salaries.

Three out of five human service organizations in Connecticut, Illinois, and Minnesota cut salaries, while only a quarter of nonprofits in North Dakota and Arkansas did. Organizations in Illinois were most likely to borrow funds or increase their lines of credit (42 percent), while groups in Montana were least likely to do so (3 percent).

**TABLE 9. Revenue Changes Reported by Human Service Nonprofits with Government Contracts and Grants in 2009**

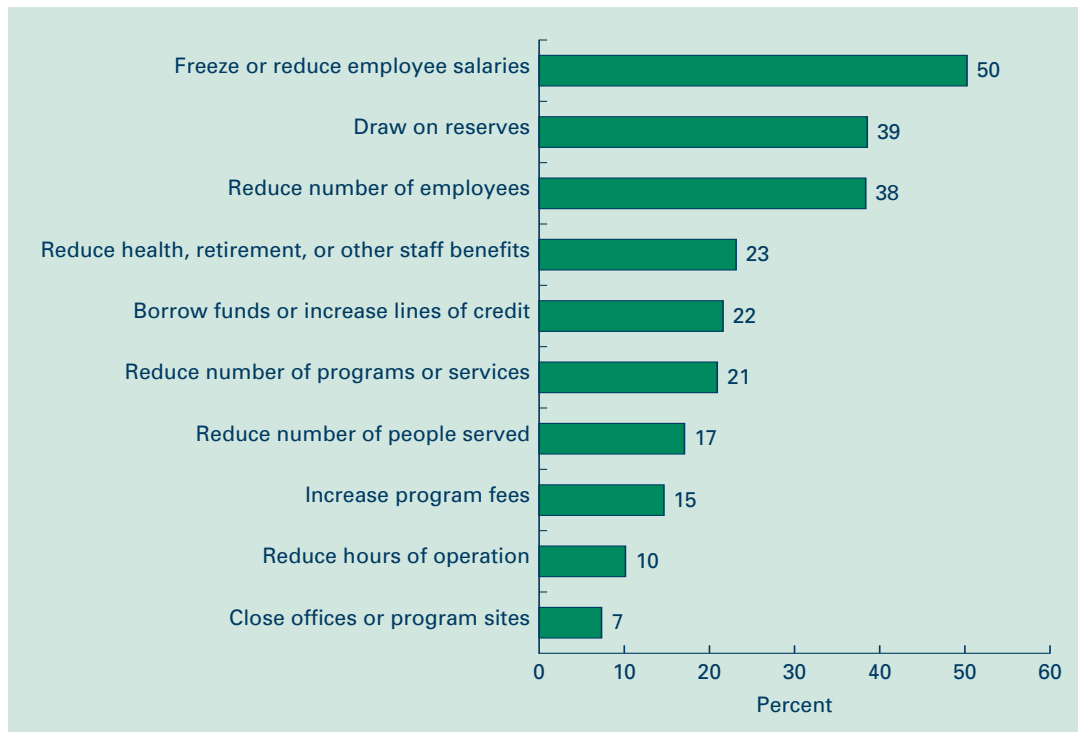
Source of revenue	Percent		
	Decrease	Remain the same	Increase
Investment income	72	18	10
Corporate donations	59	28	13
State government agencies	56	30	14
Federated giving (e.g., United Way)	53	38	9
Private foundations	53	31	17
Individual donations	50	29	21
Local government agencies	49	40	11
Fees from self-paying participants	39	40	20
Fees from government as third-party payer (e.g., Medicaid)	34	47	19
Federal government agencies	31	39	30
Other	52	24	24

Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Notes: Percentages for each source of revenue are based only on organizations that reported revenue from that source. The “other” category includes royalties, church/congregation donations, unspecified contracts and grants, and earned income from events.



FIGURE 8. *Cutbacks by Human Service Nonprofits in 2009*



Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Note: About 5,175 organizations or 16 percent of those with contracts and grants did not perform the above cutbacks; these nonprofits are included in the figure.

## Contracting Problems Intensified Reduced Revenues

During the recession, nonprofits that had previous problems with government contracts were much more likely to make cutbacks than organizations that did not report such problems. Late or inadequate payments, contracting changes, and the hassle of applying for and reporting on contracts and grants aggravated the financial stress of shrinking revenues and rising demand.

Looking at each of these problems individually, we found that nonprofits that were underpaid for contracted services were twice as likely to borrow funds or increase lines of credit (27 percent) as organizations without payment problems (12 percent). These inadequately paid organizations were also more likely to freeze or reduce employee salaries, reduce benefits, lay off staff, and draw on reserves (figure 9).

Human service organizations that reported problems with late government payments were more likely to freeze or

reduce salaries, lay off staff, and draw on reserves compared with organizations that did not have late payment problems (figure 10).

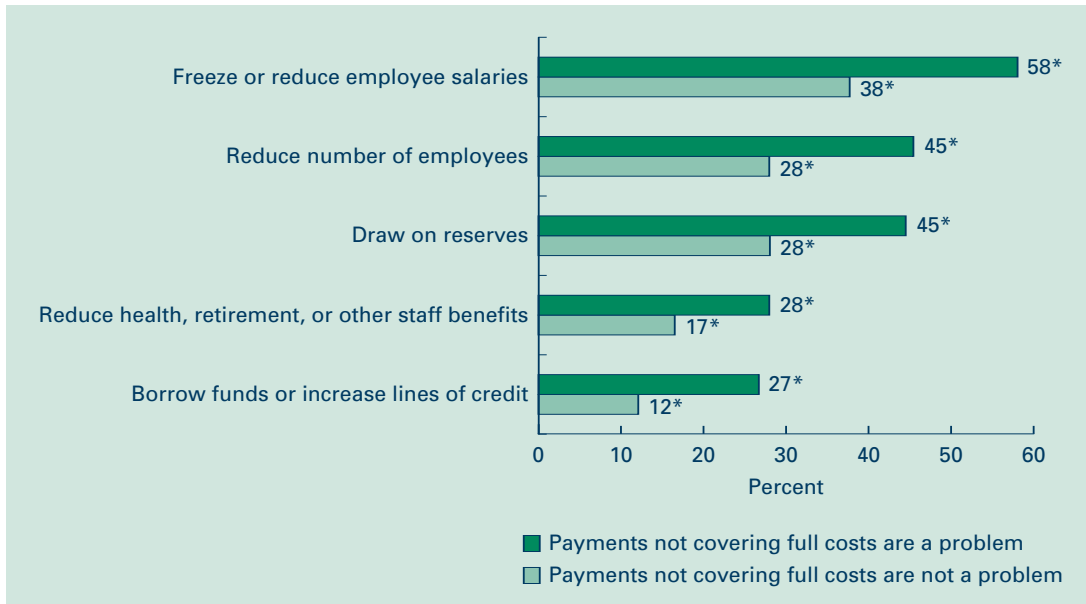
Nonprofits that said government changes to contracts were a problem were more likely to freeze or reduce salaries, reduce employee benefits, lay off staff, cut back on programs or services, draw on reserves, and borrow funds or increase lines of credit than nonprofits that did not say contract changes were a problem (figure 11).

Organizations that had a problem with the complexity of and time required in applying for contracts and grants were significantly more likely to freeze or reduce salaries, lay off staff, and borrow funds or increase lines of credit compared with nonprofits that did not report these application problems (figure 12).

Finally, nonprofits that found the reporting requirements complex and time consuming were more likely to freeze or reduce salaries and cut employee benefits compared with nonprofits that did not find the reporting requirements burdensome.



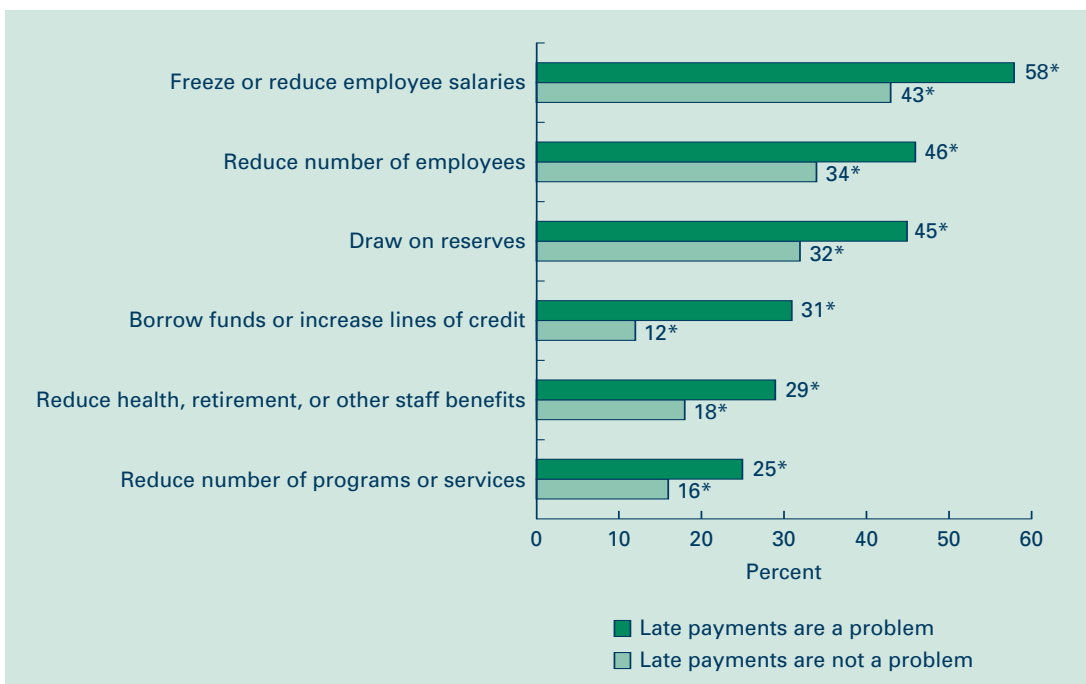
FIGURE 9. *Cutbacks by Human Service Nonprofits in 2009, by Payments Not Covering Full Cost of Contracted Services*



Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

\*Differences are significant at the 95 percent confidence level.

FIGURE 10. *Cutbacks by Human Service Nonprofits in 2009, by Late Payments*

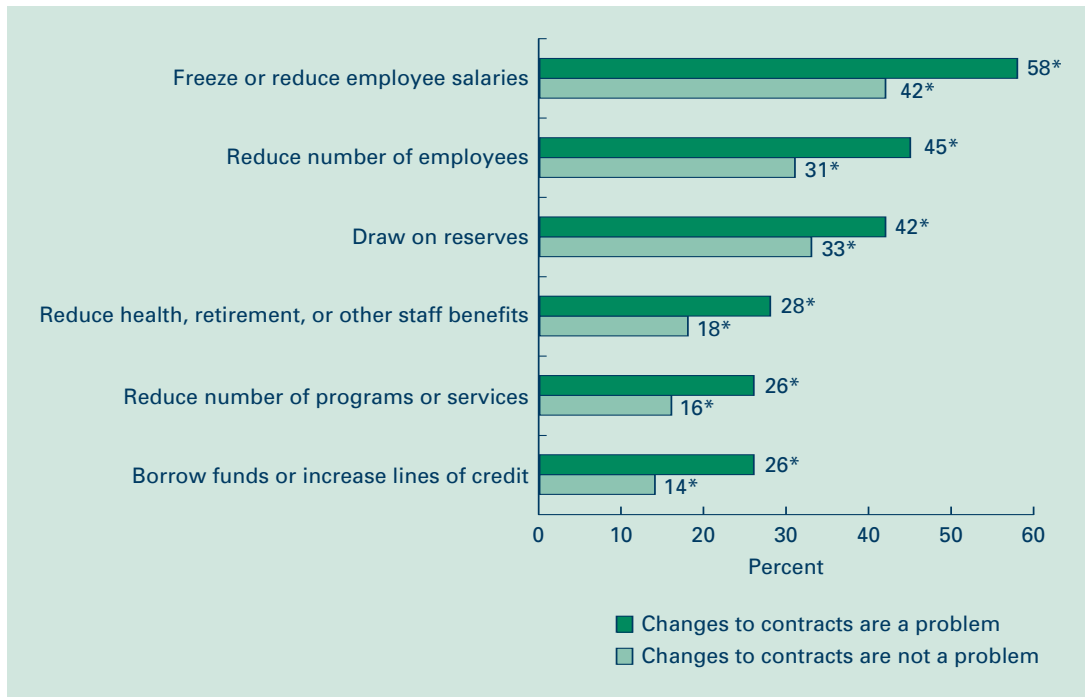


Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

\*Differences are significant at the 95 percent confidence level.



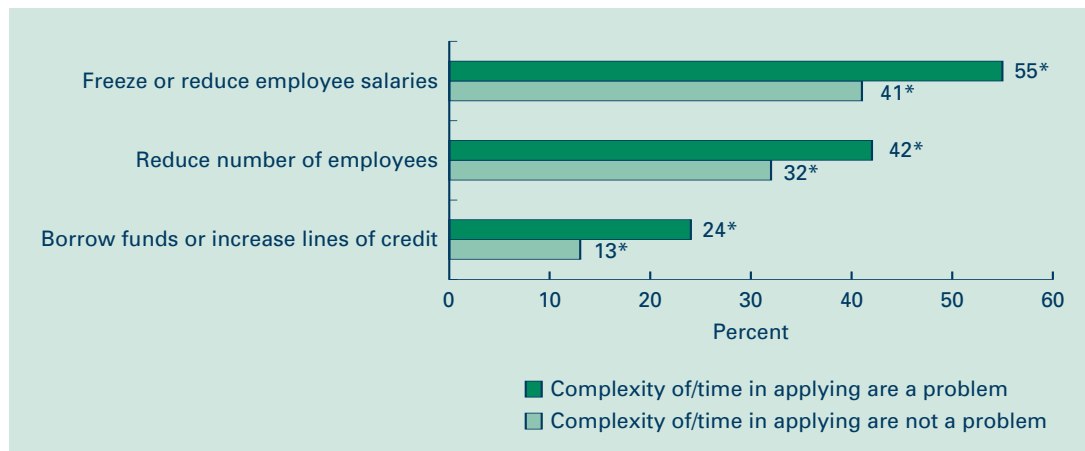
FIGURE 11. *Cutbacks by Human Service Nonprofits in 2009, by Changes to Contracts*



Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

\*Differences are significant at the 95 percent confidence level.

FIGURE 12. *Cutbacks by Human Service Nonprofits in 2009, by Complexity of Time in Applying for Contracts and Grants*

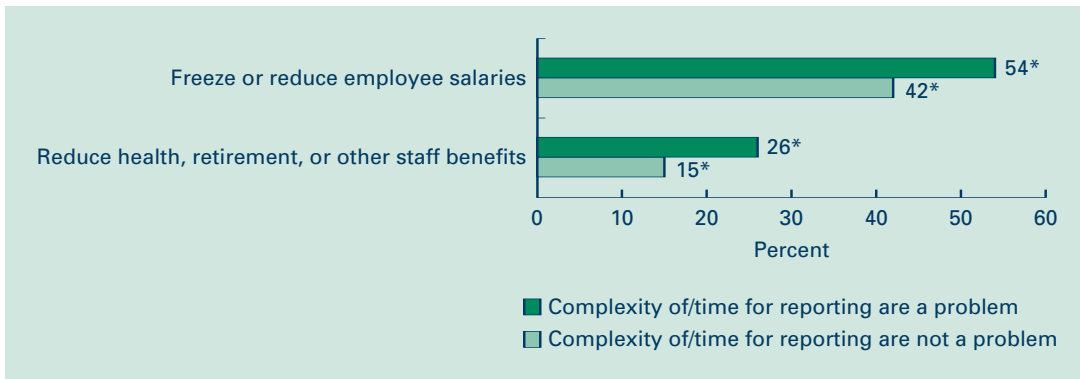


Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

\*Differences are significant at the 95 percent confidence level.



FIGURE 13. *Cutbacks by Human Service Nonprofits in 2009, by Complexity of Time for Reporting*



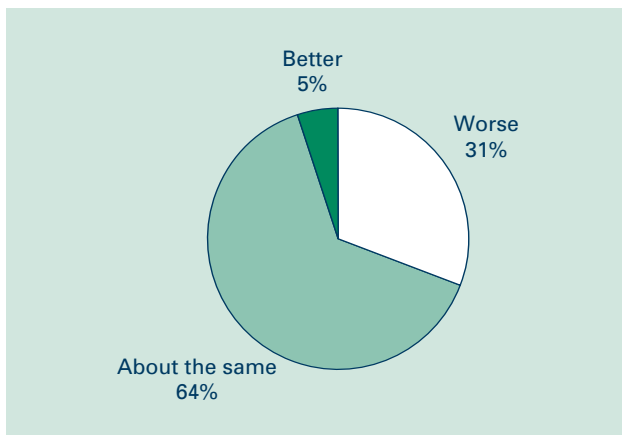
Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).  
 \*Differences are significant at the 95 percent confidence level.

## How Contracting Experiences Have Changed

In 2009, 64 percent of nonprofits reported having about the same experience with government contracting as in prior years, while 31 percent reported that their experience had gotten worse. Only 5 percent of organizations reported a better experience with government contracting in 2009 than in previous years (figure 14).

Large nonprofits were more likely to say that their experience was worse (36 percent) than small (29 percent) and medium (27 percent) organizations.

FIGURE 14. *2009 Government Contracting Experience Compared to Prior Year, National*



Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).  
 Note: Missing values are excluded.

Contracting experiences varied greatly by state. Fifty-seven percent of organizations in Illinois and 56 percent in Hawaii said that their experiences with government contracting were worse in 2009 than in prior years, but only 11 percent of organizations in North Dakota and 6 percent in Arkansas said their experiences had gotten worse.

*2009 was my eighth year as executive director here at our organization and I was the deputy director for the previous four years. This was without a doubt, THE most difficult year I've experienced, both internally and externally. Internally we laid people off, used furloughs, cut benefits, all challenging ways to treat my staff who are working harder as the demands for our services remained the same and often increased over the year. Externally, the political climate while our state is in crisis has created additional tensions between nonprofits that are forced to compete at increasing levels when we should be working together. All my time is being spent putting out fires, making it harder to search for new money and new inspiration for an exhausted and overtaxed workforce. They say 2010 will be worse? I am concerned for my agency as well as many others.*

—Survey Respondent





# Conclusions

**H**uman service nonprofits shoulder a tremendous responsibility for the nation's well-being. Individual donors and foundations expect them to operate efficiently and produce meaningful results, clients depend on them to provide necessary services, and governments hold them to task for delivering programs efficiently and according to specifications. Even in good times, many nonprofits struggle to raise funds to meet these expectations. In a recession, the job is even harder. Revenues fall just as demand rises, forcing many nonprofits to cut back on needed services. Flaws in the government contracting system can exacerbate this financial stress, placing additional pressure on stretched staff and resources.

The study results reported here document the cutbacks nonprofits made in 2009. While such a deep recession calls for everyone to tighten their belts, the implications for people served by these organizations, the lost nonprofit jobs and institutional capacity, and the diminished flexibility of these organizations are costs that have been ignored or accepted without analysis or debate.

Government policies and practices play a substantial role in the ability of nonprofits to carry out their missions. This study documents the sheer scale and variety of the 200,000 formal funding relationships that nonprofits have with governments. Fully half of the almost 33,000 nonprofit human service providers have contracts with all three levels of government—local, state, and national. Only 19 percent work with only one level of government. This devolved government contracting and grants system exacts a heavy toll on many nonprofit providers. Organizations must deal with government policies that differ from one agency to the next and often from contract to contract. The complexity of application processes and reporting requirements is not widely recognized, nor is the resulting need for professionally trained staff and administrative resources to support them.

Specifically, nonprofits have reported significant problems with government agencies making late or insufficient payments, requiring complex and time-consuming applications and reports, and changing contracts and grants after they have been approved. The recession highlighted these problems as many nonprofits struggled to stay afloat. Yet,

while there are serious and widespread problems, good practices do exist. Nonprofits in some states reported relatively few contracting problems and could be studied as models for improving nonprofit-government funding relationships.

In addition, this study has identified potential areas for reform. Governments need contracting practices that are more efficient and productive, including policies for improving proper and on-time payment to nonprofits, reasonable administrative costs for contracted programs, and standard financial and reporting formats. Matching requirements could be dropped or reduced, particularly during times of economic stress. These improvements could, in the long run, save nonprofits and government agencies countless dollars.

Since over half of human service organizations rely on government as their dominant funding source, a more basic question suggested by the findings is whether it is sound public policy to expect human service providers to provide the nation's social safety net and shoulder the recession's damaging effects without additional resources. The public is largely unaware of the reduction in government funding to nonprofits—basically shielding these government policies from public accountability. Nonprofits could argue that human services should be receiving more dollars, not fewer, because of the recession and the increased need for services that it has engendered.

While there are signs that the recession might be easing, state budget shortfalls are projected for fiscal years 2011 and 2012 and are estimated to reach \$300 billion (Husch 2010;



Johnson et al. 2010). If state and federal cutbacks continue and donations and investment income fail to recover in the next year or so, the strain on human service organizations is likely to reach a critical level. As the study findings indicate, 39 percent of these organizations have already drawn down their reserves and about 40 percent ended 2009 with deficits. The hollowing out of organizational infrastructure may take years, if ever, to rebuild, yet the effect on communities of a weakened nonprofit human services sector is not on the public policy agenda.

Nonprofits and government agencies at all levels must collaborate to identify and implement workable solutions to the problems documented here. This study marks the first step—understanding the dimensions of government-nonprofit contracting and grants, its major problems, the impact of the recession, and the types of nonprofits most affected.

The next steps will require concerted efforts to craft and test solutions and promote governments and nonprofits to adopt those solutions. Below are actions that governments and nonprofits could begin implementing.

## Recommendations

### Follow-up activities for governments

1. Standardize and simplify applications, financial reporting formats, and outcome reporting requirements across federal agencies with input from nonprofit agencies.
2. Implement prompt payment processing standards.
3. Create formal feedback mechanisms to obtain information on how well practices are working.
4. Collect and report data on contracting and grants practices and assess their effect on nonprofit organizations.

*If government grant reporting were simplified and standardized (across grant types—not across service organizations), a lot of money would be saved because the organizations providing the services could focus more on their missions and less on providing information in the format required by each grantor. [I] would think the grantors would save a lot in overhead/administrative costs too!*

—Survey Respondent

5. Work with nonprofits to agree on mutually beneficial accountability processes.

### Follow-up activities for nonprofit organizations

1. Help create formal feedback mechanisms for contracting issues.
2. Organize and participate in efforts to simplify and standardize government applications, financial reporting, and other reporting requirements.
3. Encourage foundations and other private funders to join such efforts and accept the resulting formats and standards in their own reporting requirements.
4. Develop organizational capacity to apply for and implement government grants and contracts.
  - i. Track staff time to measure and allocate program costs and accurately apportion administrative and overhead costs among programs and across the organization.
  - ii. Create data systems to track outcomes.
5. Educate the public and elected officials, directly and through associations, about the importance of government grants and contracts in providing community services.

Future research should include follow-up analysis of contracting trends over several years, deeper analyses of state policies<sup>13</sup> and federal grants and contracting requirements, and comparative studies of contracting requirements for nonprofits and for-profits. For example, businesses are not subject to the single-audit requirements of OMB circular 133. Nonprofits under the OMB circulars seem to be subject to greater accountability oversight. It would be useful to know how many businesses match or share costs in government contracts. Since government may give preference to organizations that match or share costs, does sharing costs work against nonprofits in competition with business providers? Does it work against smaller nonprofits or those without strong alternative funding streams? These and other questions are fodder for future research.

<sup>13</sup> The National Council of Nonprofits, a collaborator in this project, is collecting information on state contracting and grants policies, which will be useful for further analysis.



# Methodology

This survey was based on a national, randomly drawn sample of 501(c)(3) human service nonprofits<sup>14</sup> taken from the Urban Institute’s National Center for Charitable Statistics (NCCS)—the most comprehensive database on nonprofits in the United States. The sample was limited to organizations that are required to file a Form 990 (an annual financial statement) with the U.S. Internal Revenue Service and have more than \$100,000 in expenditures. The sample was pulled using the NCCS 2007 Core Files, which contain financial information from the Form 990. Because of lags in data processing, the 2007 file was the most complete listing of nonprofits at the time the sample was drawn. The NCCS database consisted of 55,785 direct human service nonprofits, encompassing a broad range of nonprofits. The nonprofit program areas included in this study were crime and legal-related, employment, food and nutrition, housing and shelter, public safety, youth development, multipurpose human service (children and family services, homeless shelters, etc.), and community and economic development. The random stratified sample for this survey contained 9,000 organizations from all 50 states and the District of Columbia. To ensure a representative sample, the list was stratified by region, type of nonprofit, and size of nonprofit prior to selection. Smaller states were oversampled to ensure adequate sample sizes when doing state-level analysis.

The Social and Economic Sciences Research Center at Washington State University collected the survey data for the Urban Institute. Sampled organizations could respond to the survey either by mailing back the paper questionnaire or filling out the survey online. The paper questionnaire was printed on 11" × 17" paper and folded in half to form a four-page booklet. The web version of the questionnaire contained 31 screens, which included an introduction page, an instruction page, and a survey submission page. Overall, about 60 percent of organizations com-

pleted the paper version and 40 percent completed the survey online.

To increase participation, multiple attempts were made to contact organizations, including a pre-notification letter, two separate questionnaire mailings, reminder postcards, reminder e-mails (for organizations for which we had e-mail addresses), and reminder phone calls. About 3,500 nonprofits contacted us with information about the survey, and 2,497 completed the survey, yielding a 36 percent response rate (table 10). The types and sizes of organizations that participated in the study were not noticeably different from organizations that did not participate. Hence, the potential of nonresponse bias for this study is rather small.

The analysis in this report is limited to the organizations that completed the survey and had government contracts. More than 1,000 organizations indicated at the outset of the questionnaire that they had no relationship or dealings with government and did not fill out the rest of the questions. They were excluded from our analysis and were not included on the analytical data file. In addition, 344 respondents completed the questionnaire, noting that they had no

<sup>14</sup> Human service organizations comprise one of the major categories of nonprofit organizations under the National Taxonomy of Exempt Entities. They include Crime and Legal-Related organizations (e.g., services to prisoners and families, prevention of abuse, legal services, etc.); Employment-Related (e.g., training, vocational counseling, etc.); Housing and Shelter (e.g., homeless shelters, home repair, etc.); Public Safety (e.g., disaster preparedness and relief, first aid training, etc.); Youth Development (e.g., Boys & Girls Clubs, Scouts, youth centers, etc.); Multipurpose Human Services (e.g., family services, Salvation Army, YMCA, Settlement Houses, etc.). Sports and recreation, homeowners associations, labor unions, benevolent associations (fire or police employee groups), farm bureaus, and other select groups were excluded from the study.



TABLE 10. *Weighted and Unweighted Counts, by Response Status*

Response status	Count	Weighted count
Responded to survey	About 3,500	n.a.
Completed questionnaire	2,497	38,101
Had government contracts and grants	2,153	32,693
Had no government contracts and grants	344	5,408

Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).  
n.a. = not applicable

government contracts or grants. Consequently, the analysis data file contains a total of 2,497 organizations that completed the questionnaire, 2,153 of which have government contracts and grants. Each of these organizations was assigned a survey weight to adjust for the disproportionate sampling done to increase the sample sizes in smaller states (table 10). All estimates in this report are appropriately weighted and therefore the estimates can be generalized to the sector as a whole.



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# Appendix A: State Rankings





State	Number of nonprofits with contracts		Number of contracts and grants		Percent with matching requirements		Percent with program admin/overhead limits	
	Rank	Number	Rank	Number	Rank	Percent	Rank	Percent
Alabama	26	423	32	1,372	12	63	26	61
Alaska	46	136	45	878	3	73	22	64
Arizona	30	355	18	3,467	51	37	6	73
Arkansas	32	309	41	1,068	38	48	46	45
California	1	3,196	1	22,489	15	59	19	65
Colorado	21	649	24	2,449	14	60	42	51
Connecticut	22	509	22	2,599	38	48	13	68
Delaware	49	120	46	745	34	50	10	70
District of Columbia	33	289	44	882	46	41	13	68
Florida	6	1,512	7	7,583	30	52	19	65
Georgia	19	675	19	3,269	46	41	3	75
Hawaii	44	161	34	1,220	28	53	24	62
Idaho	51	113	51	486	2	74	3	75
Illinois	7	1,385	6	7,625	7	66	15	67
Indiana	17	709	20	3,007	25	55	26	61
Iowa	25	468	21	2,690	28	53	11	69
Kansas	31	341	28	1,638	15	59	32	58
Kentucky	27	393	23	2,505	13	61	43	50
Louisiana	24	473	25	2,264	15	59	15	67
Maine	40	202	43	991	20	57	29	59
Maryland	16	717	12	4,617	11	64	6	73
Massachusetts	10	932	11	4,767	43	44	38	54
Michigan	8	997	5	8,578	31	51	2	76
Minnesota	11	854	14	4,383	34	50	44	48
Mississippi	37	242	33	1,226	34	50	34	56
Missouri	15	723	15	4,059	7	66	8	71
Montana	39	209	37	1,154	5	67	26	61
Nebraska	35	260	37	1,154	19	58	39	53
Nevada	45	142	48	637	25	55	3	75
New Hampshire	38	218	35	1,217	1	82	49	38
New Jersey	13	743	10	4,804	23	56	1	69
New Mexico	34	265	40	1,111	43	44	45	47
New York	2	2,758	2	18,101	38	48	18	66
North Carolina	9	972	16	3,886	15	59	29	59
North Dakota	47	128	47	658	10	65	51	29
Ohio	5	1,562	4	9,762	20	57	8	71
Oklahoma	29	359	30	1,587	46	41	49	38
Oregon	23	508	26	2,122	46	41	40	52
Pennsylvania	4	1,651	3	14,023	31	51	15	67
Rhode Island	41	192	31	1,562	5	67	32	58
South Carolina	28	373	39	1,133	38	48	47	44
South Dakota	48	127	49	609	43	44	34	56
Tennessee	20	661	27	2,108	46	41	23	63
Texas	3	1,706	9	6,776	42	46	34	56
Utah	42	182	36	1,194	25	55	1	78
Vermont	43	162	42	995	23	56	34	56
Virginia	18	700	13	4,405	20	57	40	52
Washington	12	823	8	7,167	34	50	24	62
West Virginia	36	257	29	1,630	4	69	29	59
Wisconsin	14	738	17	3,553	31	51	48	41
Wyoming	50	118	50	515	7	66	19	65

Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Note: For standard errors and confidence intervals, see National Survey of Nonprofit-Government Contracting and Grants: State Rankings (<http://www.urban.org/nonprofit-contracting.cfm>).



State	Percent with organization admin/overhead limits		Percent of nonprofits with late payments		Problems with payments not covering full costs		Problems with changes to contracts and grants	
	Rank	Percent	Rank	Percent	Rank	Percent	Rank	Percent
Alabama	34	52	15	43	43	54	24	55
Alaska	4	72	40	27	18	72	39	47
Arizona	6	71	35	31	20	71	17	63
Arkansas	46	42	51	12	49	42	50	26
California	15	64	8	49	8	76	22	58
Colorado	41	45	46	22	15	74	39	47
Connecticut	1	75	15	43	7	77	8	68
Delaware	28	57	26	37	25	67	43	43
District of Columbia	20	61	6	50	41	57	11	67
Florida	10	68	39	28	29	66	11	67
Georgia	2	74	5	55	42	56	44	42
Hawaii	10	68	6	50	20	71	8	68
Idaho	2	74	32	32	46	52	32	50
Illinois	13	67	1	72	3	81	3	73
Indiana	22	60	8	49	36	60	7	69
Iowa	26	58	28	35	5	78	18	62
Kansas	31	56	22	39	13	75	6	70
Kentucky	32	54	17	42	8	76	11	67
Louisiana	32	54	22	39	18	72	4	71
Maine	47	41	2	64	2	82	1	82
Maryland	4	72	12	44	33	63	26	54
Massachusetts	41	45	42	26	39	58	36	49
Michigan	15	64	12	44	8	76	8	68
Minnesota	48	36	32	32	5	78	26	54
Mississippi	34	52	22	39	50	38	46	38
Missouri	10	68	44	25	25	67	22	58
Montana	26	58	49	16	51	37	39	47
Nebraska	36	50	29	33	13	75	38	48
Nevada	15	64	10	48	25	67	4	71
New Hampshire	36	50	38	30	4	79	26	54
New Jersey	6	71	17	42	20	71	32	50
New Mexico	44	44	35	31	8	76	15	65
New York	20	61	10	48	20	71	11	67
North Carolina	40	46	17	42	32	64	19	61
North Dakota	51	28	26	37	44	53	49	37
Ohio	24	59	12	44	8	76	36	49
Oklahoma	50	34	25	38	33	63	19	61
Oregon	38	48	40	27	47	49	46	38
Pennsylvania	22	60	2	64	25	67	21	59
Rhode Island	13	67	4	61	1	84	2	80
South Carolina	48	36	46	22	39	58	32	50
South Dakota	38	48	50	13	24	69	51	16
Tennessee	19	62	21	40	35	61	30	52
Texas	28	57	45	24	38	59	30	52
Utah	9	70	35	31	48	43	39	47
Vermont	18	63	29	33	15	74	24	55
Virginia	41	45	32	32	30	65	44	42
Washington	28	57	48	21	30	65	15	65
West Virginia	24	59	20	41	36	60	32	50
Wisconsin	44	44	29	33	17	73	29	53
Wyoming	6	71	42	26	44	53	46	38

Source: The Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2010).

Note: For standard errors and confidence intervals, see National Survey of Nonprofit-Government Contracting and Grants: State Rankings ([http://www.urban.org/nonprofit\\_contracting.cfm](http://www.urban.org/nonprofit_contracting.cfm)).



# Appendix B: Survey Instrument



# Nonprofit-Government Contracting and Grants in Tough Times

The slow pace of the country's economic recovery continues to strain government budgets at all levels. We need your help to get a clearer picture of how your organization is faring and how the squeeze on government budgets is affecting your organization. In 2009, what was your organization's experience with government contracts and grants? Survey results will inform policymakers, funders, nonprofit leaders, and others about the realities of working with the government during tough times.

This questionnaire is designed to be as easy as possible to answer. Your organization's information and all your responses will be kept confidential. Organizations that complete and return this survey will be eligible for an unrestricted grant in the amount of \$500.00 determined through a random drawing of all participants held at the end of the study. All respondents will get a copy of the final report.

If you have any questions about the study or questionnaire, please contact us at 800-833-0867 or e-mail at [kjmiller@wsu.edu](mailto:kjmiller@wsu.edu). Thank you in advance for your contribution to this landmark study!

## Impact of the Recession on Your Organization

**Q1. In 2009, from each of these sources, how did your organization's funding change? (Circle your answers.)**

	Decreased ▼	Remained the same ▼	Increased ▼	Not applicable ▼
Local government agencies .....	1	2	3	4
State government agencies .....	1	2	3	4
Federal government agencies .....	1	2	3	4
Fees from self-paying participants .....	1	2	3	4
Fees from government as third-party payer (e.g., Medicaid) ...	1	2	3	4
Corporate donations .....	1	2	3	4
Individual donations .....	1	2	3	4
Private foundations .....	1	2	3	4
Federated giving (e.g., United Way).....	1	2	3	4
Investment income .....	1	2	3	4
Other (please specify): .....	1	2	3	4

**Q2. In 2009, did your organization have to do any of the following? (Circle all that applied.)**

- |  |   |
|--|---|
| 1 Freeze or reduce employee salaries                 | 7 Reduce number of programs or services       |
| 2 Reduce health, retirement, or other staff benefits | 8 Close offices or program sites              |
| 3 Reduce number of employees                         | 9 Draw on reserves                            |
| 4 Increase program fees                              | 10 Borrow funds or increase line(s) of credit |
| 5 Reduce hours of operation                          | 11 Other (please specify): _____              |
| 6 Reduce number of people served                     |   |

N None of the above

**Q3. In 2009, did local or state government impose new, or increase existing, fees, taxes, or other direct costs your organization had to pay?**

- 1 Yes → Please describe the new or increased fees, taxes, or other direct costs →
- 2 No



## About Government Funding and Contracting

**Q4. With how many government agencies does your organization have contracts/grants? (Include any government entity at the federal, state, or local level.) (Circle your answer.)**

- 1 None → **Skip to Q21**
- 2 1 government agency
- 3 2 to 3 government agencies
- 4 4 or more government agencies

**Q5. How many government contracts/grants does your organization have?**

\_\_\_\_\_ Total number of contracts/grants

**Q6. Which of the following payment methods apply to your organization's government contracts/grants? (Circle all that applied.)**

- 1 Unit cost payments/Fee for service (\$ per time unit)
- 2 Unit cost payments/Fee for service (\$ per individual/family)
- 3 Cost reimbursable payments
- 4 Fixed cost (flat amount)
- 5 Performance-based payments
- 6 Other (please specify): \_\_\_\_\_

**Q7. How many of your government contracts/grants require your organization to match or share some of the costs? (Circle your answer.)**

- 1 None → **Skip to Q9**
- 2 1 government contract/grant
- 3 2 to 3 government contracts/grants
- 4 4 or more contracts/grants

**Q8. What was the average percentage of the contract/grant amount that must be matched?**

\_\_\_\_\_ %

**Q9. Do any of your government contracts/grants exclude or specifically limit administrative/overhead costs directly related to funded programs and services (i.e., program administration)?**

- 1 Yes → **Please circle the typical percentage permitted:** 0–10% 11–15% 16–25% more than 25%
- 2 No

**Q10. Do any of your government contracts/grants exclude or specifically limit general administrative/overhead costs (i.e., organizational administration)?**

- 1 Yes → **Please circle the typical percentage permitted:** 0–10% 11–15% 16–25% more than 25%
- 2 No

**Q11. Do any of your government contracts/grants exclude the cost of any of the following? (Circle all that applied.)**

- 1 Accreditation expenses
- 2 Evaluation
- 3 Professional certification
- 4 Staff training
- 5 Technology
- 6 Other (please specify): \_\_\_\_\_

**Q12. In 2009, approximately how much money did your organization receive from each of these types of government agencies? (Enter 0 if no money was received)**

Approximate  
dollar (\$) amount  
▼

Local government agencies..... \$ \_\_\_\_\_  
 State government agencies..... \$ \_\_\_\_\_  
 Federal government agencies..... \$ \_\_\_\_\_



## Government Contracting Issues

**Q13. In 2009, did any government agencies alter already negotiated contracts/grants?**

- 1 Yes (Circle all that applied.) ↘
- 1 Canceled contracts/grants
  - 2 Decreased the payments on contracted services
  - 3 Indefinitely postponed contracts/grants
  - 4 Other (please specify): \_\_\_\_\_
- 2 No

**Q14. In 2009, were government agencies late (i.e., past due date) in paying your organization?**

- 1 No → Skip to Q16
- 2 Yes → By how many days were government agencies late in paying? (Circle your answers.) ↘

	30 days ▼	60 days ▼	90 days ▼	Over 90 days ▼	Don't know ▼	Not applicable ▼
Local government agencies.....	1	2	3	4	5	6
State government agencies.....	1	2	3	4	5	6
Federal government agencies.....	1	2	3	4	5	6

**Q15. What are the total amount government agencies still owe your organization? Only include past due amounts.**

	Total amount ▼
Local government agencies.....	\$ _____
State government agencies.....	\$ _____
Federal government agencies.....	\$ _____

**Q16. How much of a problem are the following contracting issues for your organization? (Circle your answers.)**

	Not a problem ▼	Small problem ▼	Big problem ▼	Not applicable ▼
Late payments (beyond contract specifications) .....	1	2	3	4
Payments do not cover full cost of contracted services .....	1	2	3	4
Complexity of/time required by application process.....	1	2	3	4
Government changes to contracts/grants .....	1	2	3	4
Complexity of/time required for reporting on grants/contracts .....	1	2	3	4
Other (please specify): _____ .....	1	2	3	4

**Q17. In 2009, was your organization's overall experience with government contracting...**

- 1 Worse than prior years
- 2 About the same as prior years
- 3 Better than prior years

## Accountability and Reporting Issues

**Q18. Do any of your government contracts/grants require your organization to report to the funding agencies results, outcomes, or impacts of programs and services provided?**

- 1 Yes (Circle all that apply.) ↘
- 1 Prepare narrative reports of program accomplishments
  - 2 Analyze administrative records and report data
  - 3 Survey clients and report information on outcomes
  - 4 Provide independent evaluations of outcomes
  - 5 Other (please specify): \_\_\_\_\_
- 2 No



**Q19. How much of a problem is it for your organization when government agencies have different reporting requirements? (Circle your answers.)**

	Not a problem ▼	Small problem ▼	Big problem ▼	Not applicable ▼
Different definitions of services .....	1	2	3	4
Different definitions of target populations .....	1	2	3	4
Different financial or budget categories .....	1	2	3	4
Different reporting formats .....	1	2	3	4
Different allowances for administrative expenses .....	1	2	3	4
Different outcome reporting requirements .....	1	2	3	4

**Q20. Does your organization provide feedback to government on contracting issues and procedures?**

- 1 Yes (Circle all that applied):
- 1 During meetings with funding agencies
  - 2 Through official governmental feedback mechanisms
  - 3 Through indirect advocacy (i.e., affiliated organizations or coalitions)
  - 4 Other (please specify): \_\_\_\_\_
- 2 No

### Finances

**Q21. In 2009, what was the approximate breakdown of your organization's revenue?**

Source	Approximate dollar (\$) amount ▼
Local government agencies.....	_____
State government agencies.....	_____
Federal government agencies.....	_____
Fees from self-paying participants.....	_____
Fees from government as third-party payer (e.g., Medicaid) .....	_____
Corporate donations.....	_____
Individual donations .....	_____
Private foundations .....	_____
Federated giving (e.g., United Way).....	_____
Investment income .....	_____
Other (please specify): .....	_____
Total dollar (\$) amount	_____

**Q22. In 2009, did your organization have...**

- 1 a deficit of more than 10%
- 2 a deficit of 10% or less
- 3 revenue and expenses about equal
- 4 a surplus of 10% or less
- 5 a surplus of more than 10%

**Thank you for your time and cooperation. If you have any additional comments or questions about this survey or about government contracting in general please write them below.**

Return your completed questionnaire in the envelope provided or to:

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