

# Nonprofit-Government Contracts and Grants: Findings from the 2013 National Survey

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with Carol J. De Vita and Saunji D. Fyffe



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## Executive Summary

Governments at all levels traditionally enter into agreements with nonprofit organizations to provide services to constituents. In 2011, one-third of revenue for 501(c)(3) public charities came from the government through formal contracts and grants (Pettijohn 2013a). Through a national survey of public charity nonprofits,<sup>1</sup> we assess the size and scope of government financing, administration of contracts and grants, and nonprofit perceptions of problems and improvements in these processes. We also report on the financial status of nonprofits at the end of the Great Recession.

This study is divided into two sections. The first section focuses on most types of nonprofit organizations (except for excluded types outlined in methodology section). We estimate that

- government agencies entered into approximately 350,000 contracts and grants with about 56,000 nonprofit organizations;
- on average, nonprofits have six contracts and/or grants per organization; the median is three; and
- governments paid \$137 billion to nonprofit organizations for services in 2012.

Nearly half of organizations reported that they experienced limitations on the percentage of government funds that could be used for program and organization administration costs.

Approximately one-quarter of organizations with a contract indicated that they had to share in the cost of the contract and one-half of grantees said they had a matching requirement associated with a grant.

During the examined period, government agencies at all levels were cutting funding as a result of the weak economy. Nearly 40 percent of organizations reported a decline in local and state government funding, while almost 50 percent experienced a decrease in federal government funds. Approximately one-third of nonprofits also had lower fee income from government sources, such as Medicare and Medicaid payments and other government fees. These decreases in government funding coincided with reduced resources from other sources. In this period, 40 percent of

organizations experienced decreased investment income and 35 percent had a decrease in federated giving.

With decreasing revenues, nonprofits had to make tough decisions to balance their budgets. More than 40 percent of respondents turned to their reserves to make ends meet and about 25 percent of nonprofits reduced the number of employees on their payroll. About 14 percent of organizations reduced the number of clients served and almost 11 percent cut programs.

However, all is not bleak. Almost 40 percent of organizations did not have to make a single cutback, and some were able to increase staff benefits, employee salaries, and build their reserves. Overall, 73 percent of nonprofits view their experience with government contracts and grants in 2012 the same as in 2011, compared with 21 percent that view their experience worse in 2012, and 6 percent that view their relationship better than the prior year.

The second section of this report focuses on human service nonprofits, which are more likely than other types of organizations to enter into contracts with governments to provide services. We compare results of this survey with those of the national survey of human service nonprofit organizations conducted in 2010. We examine how human service organizations have managed since the recession ended and how their relationships with government funding agencies have changed. We estimate that

- government agencies have approximately 200,000 contracts and grants with about 30,000 human service nonprofit organizations;
- on average, nonprofits have seven contracts and/or grants per human service organization; the median is three; and
- governments paid close to \$81 billion to human service nonprofit organizations for services through contracts and grants in 2012.

Significant<sup>2</sup> improvements were reported by human service nonprofits in 2009 compared with 2012. Human service nonprofits, in 2012, were more likely to see the relative percentage of funding from local and state governments and fees for service increase or remain the same, a significant improvement from 2009. Contract and grant revenue from federal government sources, however,

decreased for human service nonprofits. Overall, many human service nonprofits appear to have experienced improved financial health in 2012 compared with 2009.

As human service nonprofits completed FY 2012, they reported fewer cutbacks in 2012 compared with 2009. Significantly fewer human service nonprofits were forced to reduce staff benefits and reduce the number of people served. Significantly more human service organizations were forced to freeze or reduce employee salaries, draw on reserves, and close offices or programs sites in 2012 compared with 2009.

Human service nonprofits that reported a problem with government funders in 2012 were less likely to report a cutback compared with 2009. However, human service nonprofits that reported problems with government contracts and grants were more likely to draw down reserves in 2012 compared with 2009.

Along with governments, nonprofits shoulder a great responsibility for well-being in the United States. Governments meet their obligations by financing services carried out by nonprofits. Complex and burdensome contracting processes place additional pressures on both parties. Understanding the scope of government financial obligations to nonprofits and the implications of the contract and grant processes by which those funds reach nonprofits is a goal of this report.

# Nonprofits with Government Contracts and Grants

## Introduction

Federal, state, and local governments enter into agreements with nonprofit organizations to deliver services and have done so for most of our country's history. Government reliance on nonprofits to provide services has been increasing since the 1960s (Smith and Lipsky 1993), expanding the ability of nonprofits to achieve their missions and the ability of governments to serve their constituents. By 2011, contracts and grants from governments constituted one-third of the revenue of public charities, more than private donations (13 percent), and less than fees from private sources (47 percent) (Pettijohn 2013a).

In this second national study of government contracts and grants with nonprofit organizations, we focus on selected types of charitable nonprofits in 2012,<sup>3</sup> following up and expanding on the earlier baseline study, *Human Service Nonprofits and Government Collaboration: Findings from the 2010 National Survey of Nonprofit Government Contracting and Grants* (Boris et al. 2010).

The 2010 study documented the scope and variety of government funding with human service nonprofits at the national, state, and local levels as the height of the recession was winding down. That research revealed extensive federal, state, and local government contracts and grants with nonprofits, as well as inefficient processes that intensified the effects of the recession and government cutbacks for many nonprofits. Through the efforts of our partner, the National Council on Nonprofits, and its network of state associations of nonprofits, the results of the 2010 study were used by nonprofits in many states to promote more streamlined and efficient administration of contracts and grants. Joint government-nonprofit working groups in Connecticut, Hawaii, Illinois, Maine, Maryland, New Jersey, New York, and Texas are tackling issues, such as duplicative documents and audits and late payments, with the goal of improving government processes and the ability of nonprofits to win and successfully implement contract and grant requirements (National Council of Nonprofits 2013a).

In this second study, we move beyond human service nonprofits to assess the scope of government-nonprofit funding relationships across most types of charitable nonprofits, adding a



new dimension of knowledge. We also compare the funding relationships of human service nonprofits in 2009 and 2012 to assess changes that might have occurred in the aftermath of the recession.

By 2012, the effects of the recession were beginning to ease in some places. Unemployment was declining, foreclosures were waning, and the US economy showed signs of recovery. But the recovery remained fragile and financial strains were still evident as government stimulus funding came to an end. The financial situation varied from state to state and ranged from strong recoveries to dismal stagnation and worse.<sup>4</sup>

While the economy strengthened in some states between 2009 and 2012, the negative effects of the recession and subsequent government retrenchment continued to impact nonprofits. Expectations for nonprofits and governments to do more with less, to demonstrate effectiveness and be accountable for results continued despite lower funding. Importantly, governments at all levels continued to enter into written agreements with nonprofits to deliver a broad range of human services and other types of activities that enhance the quality of life in communities and meet a wide variety of community needs.

In this study of government-nonprofit relationships, our survey and findings focus on government funding of the following nonprofit organizations types: arts, culture, humanities; education; environment and animals; health; human services; international and foreign affairs; public and societal benefit; science and social science; and religion (excluding hospitals and higher education) (see table 1). We explore these funding relationships by program area, organizational size, geography, and level of government: federal, state, and local. As in the 2010 study, we asked nonprofit respondents about the types and intensity of problems encountered in their contractual relationships with government. In this study, we probe more deeply into administrative issues, such as the differences between contracts and grants.

The study results are based on a national, stratified, random survey of most types of charitable nonprofits that reported \$100,000 or more in expenses on IRS Form 990 in 2010. To ensure a representative sample, prior to selection, organizations were stratified by state, type of nonprofit, and size of nonprofit. Smaller states were oversampled to ensure adequate sample sizes for state-level analysis (Pettijohn, Boris, and Farrell Forthcoming). Results are weighted to represent

all US nonprofit charities (except as noted) that had contracts and grants with government agencies in 2012 (see Methodology section).

**Table 1. Examples of Nonprofit Organizations Included in Study**

<b>Arts, culture, and Humanities</b>	<b>Human service</b>	<b>International and foreign affairs</b>
Media and communication	Rehabilitation services for offenders	Promotion of international understanding
Arts education	Child abuse prevention	International development
Museums	Legal assistance	
Performing arts	Crime prevention	
Historical organizations	Community corrections	
<b>Education</b>	Job training	<b>Public, societal benefit</b>
Elementary and secondary schools	Workforce investment	Civil rights
Remedial reading and encouragement	Food banks	Voter education and registration
<b>Environment and animals</b>	Nutrition assistance and education	Civil liberties
Natural resources conservation and preservation	Homeless shelters	Community coalitions
Botanical, horticultural, and landscape services	Home improvement and repair	Economic development
Animal protection and welfares	Disaster relief	Community service clubs
Wildlife preservation and protection	Emergency response training	Military and veteran's groups
Zoos and aquariums	Boys & Girls Clubs	Interdisciplinary research
<b>Health</b>	Leadership programs for youth	Social science
Blood banks	Family counseling	
Nursing facilities	Immigrant centers	
Substance abuse prevention and treatment	Hospice care	
Hot lines and crisis intervention	Battered women's shelters	
Diseases of specific organs	Foster care	
Medical research	Urban planning	<b>Religion</b>
	Community action agencies	Religious media and communications
	Senior citizen centers	Worship programs
		Religious education

## Summary of 2010 Report

Findings of the first national study of government contracts and grants with human service nonprofits revealed the extent that governments contract with or make grants to nonprofits to perform services to help meet critical human needs in communities. The study also documented the problems nonprofits experienced in applying, reporting on, and complying with requirements of government contracts and grants. Such problems were exacerbated in 2009 by the deep recession and varied greatly depending on the size and program focus of organizations. Findings also varied by

state, a fact that encouraged some nonprofits to work with their state governments to identify and initiate reforms. Some of the highlights of the 2010 study findings are

- government agencies entered into about 200,000 contracts and grants valued at approximately \$100 billion with 33,000 human services organizations in 2009;
- government funding accounted for over 65 percent of revenue for human services organizations and was the largest funding source for 60 percent of organizations; and
- human service organizations reporting government contracts or grants in 2009 had an average of 6 such written agreements.

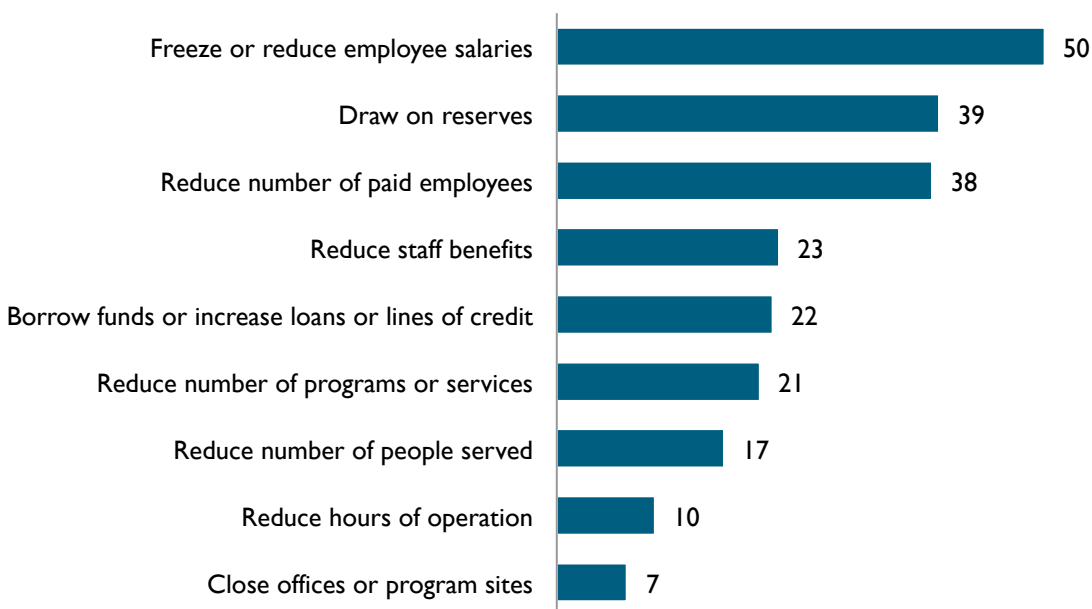
Governments' administration of contracts and grants was problematic for many nonprofits:

- About 68 percent of human service nonprofits reported problems with government not paying the full cost of services.
- For about 75 percent of respondents, the complexity and time required for applying and reporting on contracts and grants was a problem.
- For 58 percent, government changes to existing contracts and grants were a problem.
- For 53 percent, late payments for services already provided were a problem.

As a result of the recession, many nonprofits experienced reduced revenues from individuals, foundations, corporations, investments, and government sources, while many also had increased demand for their services. The resulting financial pressures led nonprofits to undertake a variety of strategies to stay afloat (figure 1). Nonprofits were most likely to cut their own capacity and less likely to reduce the number of people they served, cut services to clients, or reduce their hours of operation.

Nonprofits that experienced problems with government administration of contracts and grants were much more likely to make certain types of cuts, illustrating how governments administer contracts and grants can have real consequences for nonprofits and the people they serve. For example, nonprofits that experienced insufficient payments to cover costs of government grants and contracts were significantly more likely to reduce salaries, benefits, and jobs than those without that problem. The hollowing out of nonprofit capacity that these examples represent could be difficult to repair in a drawn out economic downturn.

**Figure 1. Cutbacks by Human Service Nonprofits in 2009**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2009).

Notes: Figures are based on human service nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

## Overview of the State of Nonprofits in 2013 Survey

The findings from the 2013 National Survey of Nonprofit Government Contracting and Grants present a mixed picture of the current state of nonprofits that perform services on behalf of governments under contracts and grants. Almost 40 percent of nonprofits reported that they continued to struggle and ended the year with a deficit. About 15 percent of nonprofits reported that they had deficits of 10 percent or more at the end of 2012, a sign that nonprofits continued to face financial difficulties after the recession officially ended. Almost half reported decreased government revenues from 2011 to 2012.

In 2012, we estimate that local, state, and federal governments worked with nearly 56,000 nonprofit organizations to provide support for organizations ranging from animal sanctuaries to preschools, from community improvement organizations to job training programs. Human service organizations secured the majority (53 percent) of those agreements (falling from 33,000 contracts in

2009 to 29,483 in 2012); arts, culture, and humanities (13 percent) and health (12 percent) were distant second and third with health receiving 27 percent of government dollars (table 2). The dollar value of contracts and grants ranged from \$1,000 to \$325 million.

**Table 2. Nonprofits with Government Contracts and Grants**

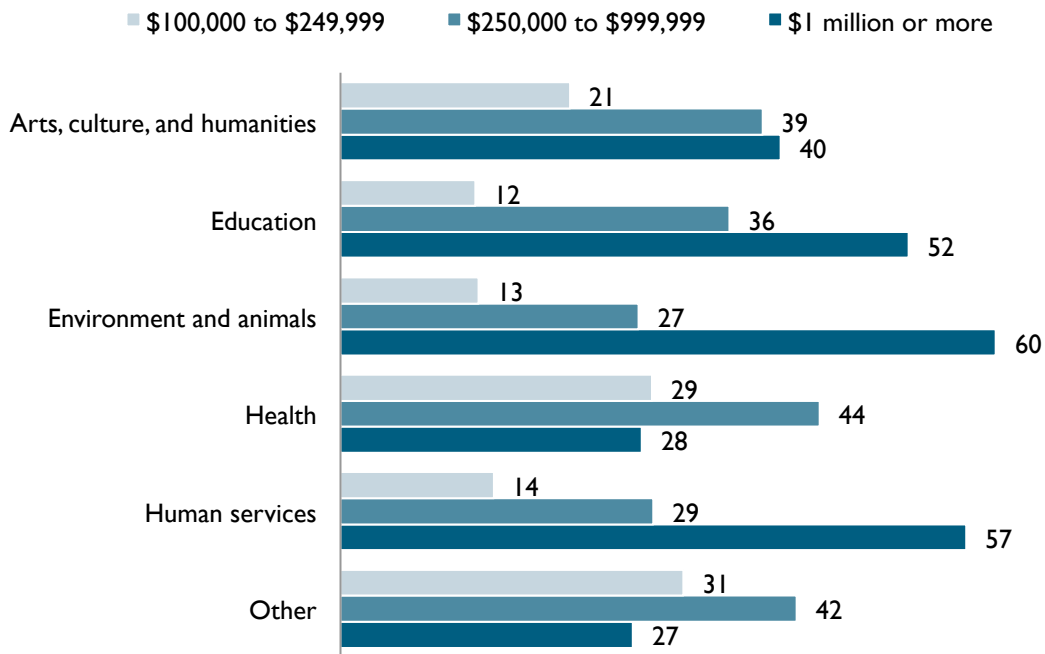
Type of Organization	Number	Percent	Dollar Amount of Contracts and Grants			
			Mean (\$)	Median (\$)	Total (\$ millions)	Percent
Arts, culture, and humanities	7,189	12.9	152,074	33,600	1,081	0.8
Education	3,828	6.9	1,392,814	157,034	5,223	3.8
Environment and animals	2,359	4.2	560,871	101,800	1,306	1.0
Health	6,729	12.1	5,586,483	545,082	36,448	26.5
Human services	29,483	52.9	2,826,338	387,732	80,565	58.6
Other	6,114	11.0	2,203,786	274,688	12,769	9.3
Overall	55,702	100.0	2,543,870	250,000	137,392	100.0

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

Governments use two primary funding mechanisms to fund nonprofits: contracts and grants.<sup>5</sup> Governments more frequently had agreements with large nonprofits. Of the nonprofits working with governments, 47 percent have operating budgets of \$1 million or more and 36 percent have budgets between \$250,000 and \$999,999. Only 17 percent of nonprofits with budgets of \$100,000 to \$249,999 have a government contract or grant. Figure 2 shows the breakdown of nonprofits with government contracts and grants by type and size. To put these numbers into perspective, table 3 compares the size of nonprofits with government contracts and grants with the total nonprofit sector.

**Figure 2. Nonprofits with Government Contracts and Grants (Percent)**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Other includes international, religion-related, and public and society benefit organizations. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

**Table 3. Size of Nonprofits with Government Contracts and Grants Compared with Total Nonprofit Sector**

	Percent of Reporting Public Nonprofits <sup>a</sup>	
	Government contracts and grants	Total
Less than \$100,000 <sup>b</sup>	—	40
\$100,000 to \$249,999	17	20
\$250,000 to \$999,999	36	21
\$1 million to \$4.99 million	31	12
\$5 million or more	16	7
Total	100	100

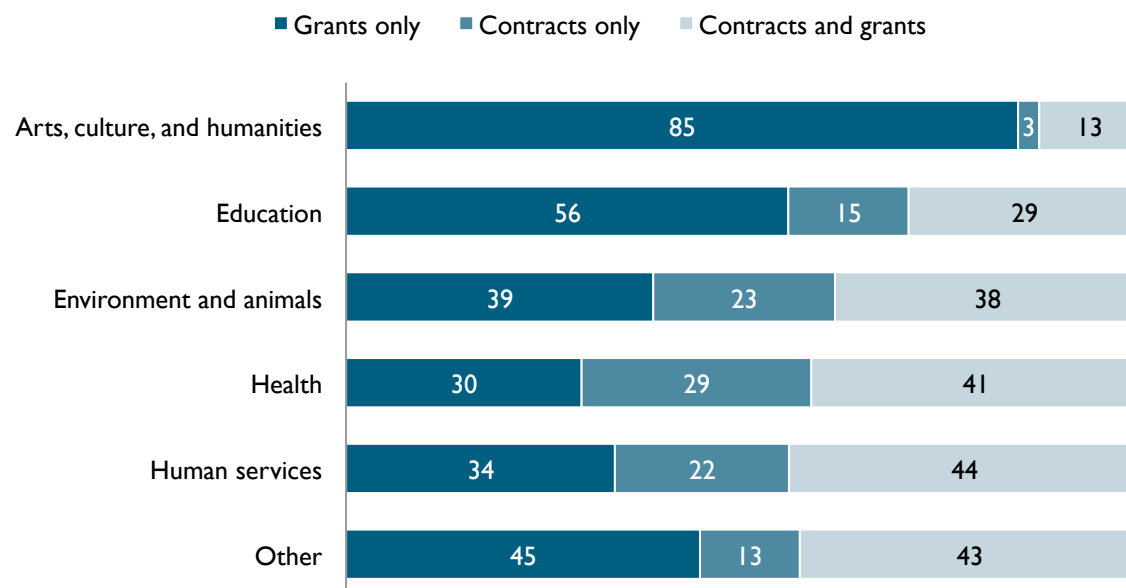
Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013) and National Center for Charitable Statistics, Core Files (Public Charities 2011).

<sup>a</sup> Reporting public charities include only organizations that file IRS Forms 990.

<sup>b</sup> Nonprofits under \$100,000 in size with government contracts and grants were excluded from the sampling frame.

About 43 percent of nonprofits reported that they only have grants compared with 19 percent that only have contracts. More than 38 percent have both contracts and grants. There are differences between those nonprofits that only have grants and those that have either contracts only or contracts and grants. It seems that once a nonprofit enters into a contract, its relationships with governments change and problems arise. This may have to do with the generally more demanding nature of contracts, designed to procure services, in contrast to grants that are structured to provide assistance for desirable activities (Pettijohn 2013b). Figure 3 displays the breakdown in contracts and grants by type of organization.

**Figure 3. Funding Mechanism Used, by Type of Organization (Percent)**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

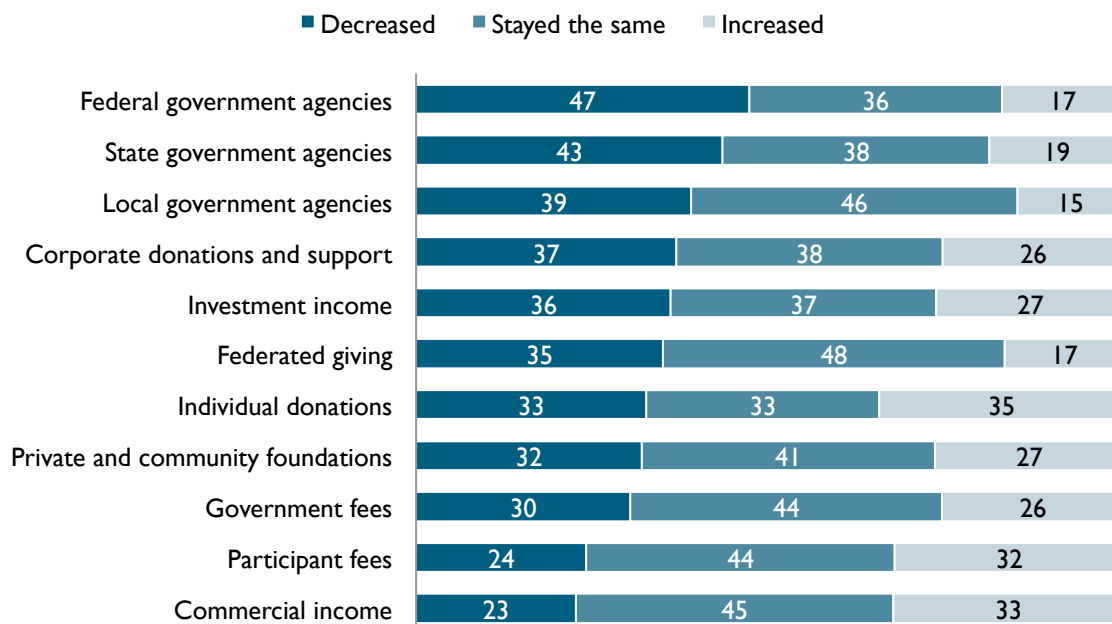
Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

## Financial Health of Nonprofits Entering Written Agreements with Governments

Nonprofit organizations have a number of potential revenue sources. We asked nonprofits to report changes in eleven categories of funding (figure 4). On average, respondents reported a decrease in two to three different types of funding sources between 2011 and 2012. Eighty-two percent of respondents reported a decrease in at least one type of funding source. Nonprofits most frequently reported less income from federal government agreements with 47 percent citing a decrease between

2011 and 2012. State and local government agency funding were the next highest categories with decreases of 43 percent and 39 percent, respectively. Nearly one-third of nonprofits reported less revenue from government fees for service, such as Medicaid and Medicare. Compared with other types of nonprofits, health and human service organizations were more likely to be affected by reductions in government funding.

**Figure 4. Changes in Organizational Funding (Percent)**



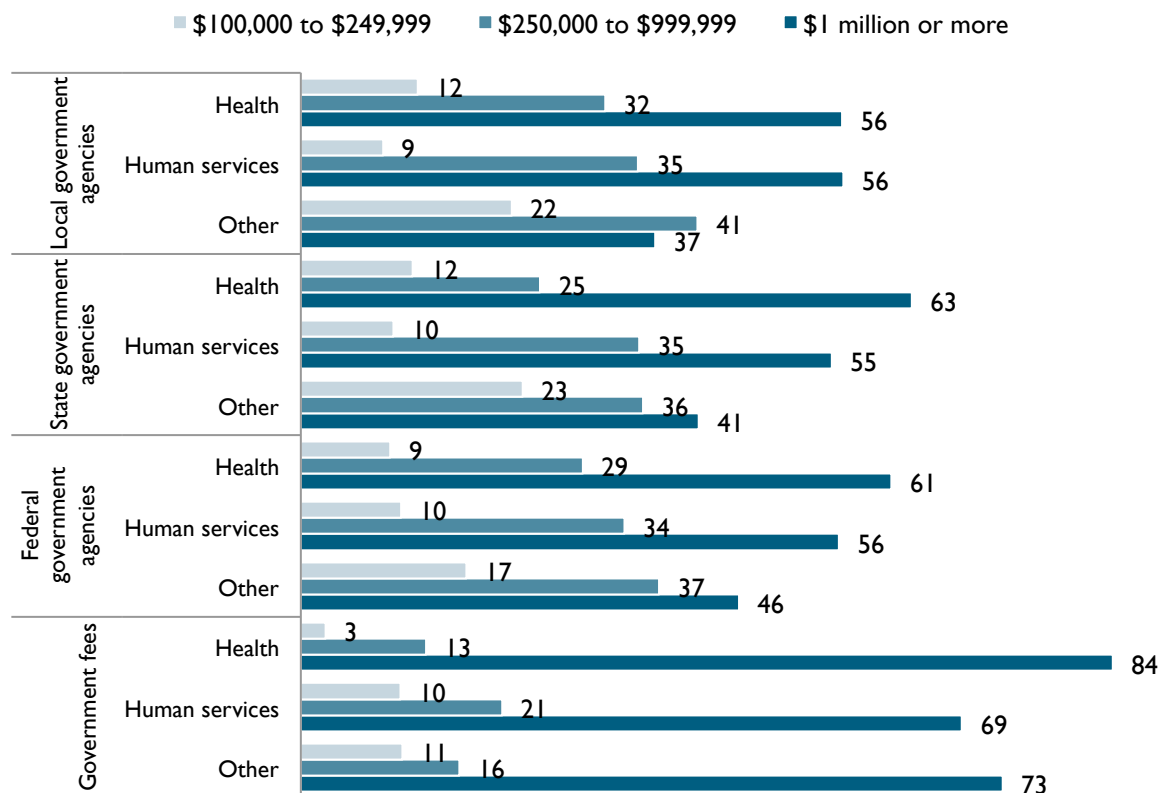
Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

Figure 5 displays decreases in government funding by organization size and type. Large organizations were most likely to report cuts at all levels of government funding. Additionally, large health organizations were most likely to experience a decline in fees for service paid by government. As one health organization explained, “The Medicaid rules have gotten more restrictive and interpretations of rules tighter at the state level,” which may help to explain the large decrease in revenue from fees for service.



**Figure 5. Decrease in Government Revenue by Type of Organizaton and Size**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Other organizations include arts, culture, and humanities, education, environment and animals, international and foreign affairs, religion, and public and societal benefit. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

Outside of government funding, 37 percent of organizations reported decreases from corporate donations, 36 percent from investment income, and about 30 percent from private giving. Commercial income and participant fees were the funding sources least likely to see a decrease in 2012.

To help offset losses in revenue, 42 percent of respondents reported tapping into their operating reserves and about 22 percent expanded their use of loans or increased their lines of credit. For organizations that increased loans or lines of credit, 56 percent received at least one-third of their budgets from government sources. Human service organizations were not alone in responding to reduced revenues by cutting into their own capacity, downsizing staff, freezing

employee salaries, and dipping into reserves, before resorting to reducing the number of people the organization served.

In spite of the reported decreases in funding, there is good news—some nonprofits may be seeing the beginnings of recovery. Seventy-one percent of nonprofits reported an increase in at least one funding source and, on average, nonprofits saw an increase in funding from two revenue streams. In particular, 35 percent of nonprofits reported that funding from individual donations increased in 2012. The second most frequently cited funding increase came from commercial income, such as rental and retail income, (33 percent), followed by participant fees, such as dues and subscriptions, (32 percent), and funding from private and community foundations (27 percent). Also encouraging is that 21 percent of organizations reported an increase in their reserves and about 16 percent were able to decrease loans or lines of credit.

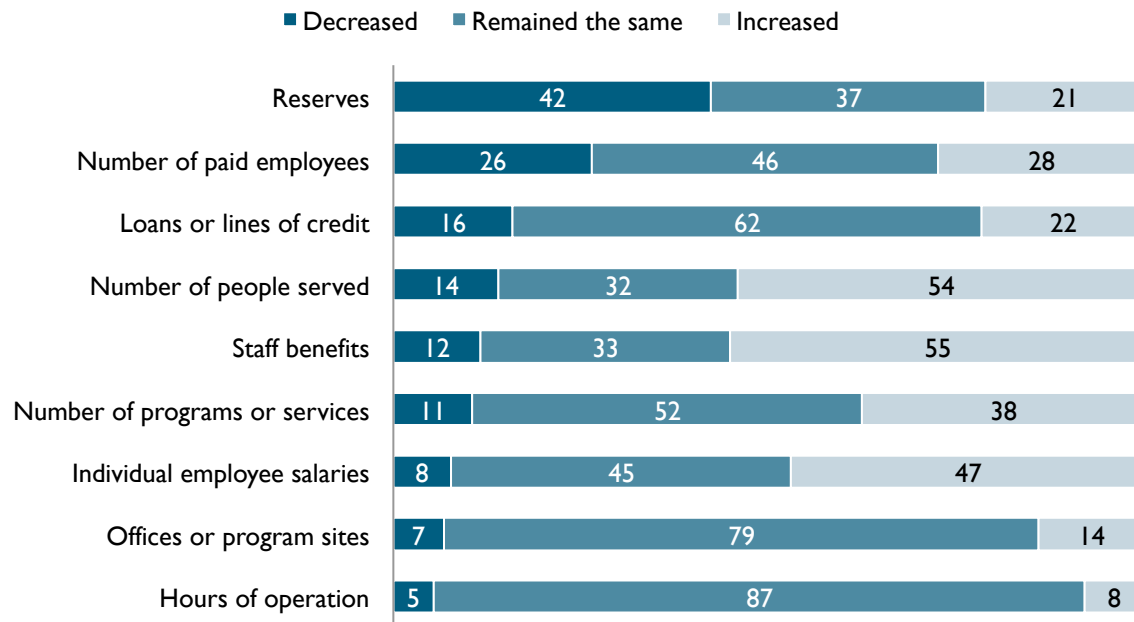
## **Changes in Organizational Activity**

In response to changing revenue, nonprofits had to make tough decisions about how to allocate their funds (figure 6). While some nonprofits were in recovery, many continued to struggle, especially those that rely on government for more than one-third of their budgets.

About one-half of nonprofits reported increasing employee salaries and benefits, which suggests that some nonprofits are showing signs of recovery. Although the number of paid staff remained the same for 46 percent of nonprofits, this number tended to increase for nonprofits that reported a surplus in 2012. More than one-half of nonprofits increased the number of people served (54 percent) and avoided changes to their hours of operation (87 percent), the number of offices or program sites (79 percent), and the amount of programs and services offered (52 percent).

Not all nonprofits perform government-related work to the same degree. We examined the percentage of revenue from government sources to the nonprofits total revenue to examine how dominant government funding is to the organization's budget (table 4).<sup>6</sup> Arts, culture, and humanities organizations are least likely to rely on government dollars as a percentage of their total revenues, while health and human service organizations are more likely to have a larger percentage of their budget from government sources.

**Figure 6. Changes in Organizational Activity from 2011 to 2012 (Percent)**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

**Table 4. Percent of Total Revenue from Government Sources**

	Less than 10 percent	10–34 percent	35–60 percent	More than 60 percent	Total
Arts, culture, and humanities	45	27	16	12	100
Education	26	32	19	24	100
Environment and animals	34	28	22	16	100
Health	25	22	20	33	100
Human services	21	25	24	30	100
Other	20	29	22	29	100
Overall	25	26	22	27	100

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

The level of government funding an organization received can lead to different problems and different actions taken by nonprofits during the examined period. As table 5 shows, nonprofits with more than 60 percent of their operating budgets from government sources were most likely to report a decrease in organizational activities, especially in reducing employee salaries and closing

offices or program sites. These same organizations, however, are less likely to decrease hours of operation or decrease their loans or lines of credit.

**Table 5. Decrease in Organizational Activity by Percentage of Revenue from Government Contracts and Grants**

Activity that decreased in 2012	Percent of nonprofits				Total
	Less than 10 percent	10 to 34 percent	35 to 60 percent	More than 60 percent	
Reduced employee salaries	22	22	25	31	100
Cut staff benefits	20	28	22	29	100
Reduced number of paid employees	24	25	23	29	100
Decreased hours of operation	24	30	25	21	100
Reduced number of people served	23	27	23	27	100
Cut number of programs or services	21	24	28	26	100
Closed offices or program sites	21	24	21	34	100
Drew on reserves	23	27	22	28	100
Reduced loans or lines of credit	27	26	25	23	100
Overall	25	26	22	27	100

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

## Administration of Written Agreements: Contracts and Grants

### Payment Methods

Federal, state, and local governments use various payment methods to compensate nonprofits for services provided under contracts or grants. The two most common payment methods are cost-reimbursement and fixed-price or flat payments. Cost-reimbursement agreements provide payment for allowable expenses up to a set limit. Fixed-price agreements pay a negotiated amount regardless of incurred expenses. Nearly two-thirds of nonprofits reported having cost-reimbursement contracts (63 percent) and grants (64 percent) with governments, while almost as many received fixed-cost contracts (55 percent) and grants (62 percent).

Nonprofits with multiple contracts and grants often have contracts and grants that use different payment methods. Approximately one-third of nonprofits reported only one type of

payment method for their contracts. Nonprofits, on average, are dealing with two or three types of payment methods for their contracts. Compare this with more than half of nonprofits with grants reporting one type of payment method; the average is between one and two types. This may be one more reason that contracts can be more challenging to manage. Table 6 shows the type of payment method by funding mechanism and organization size.

**Table 6. Type of Payment Method by Funding Mechanism and Organization Size**

Type of Payment Method	Percent of organizations by size		
	\$100,000 to \$249,999	\$250,000 to \$999,999	\$1 million or more
<b>Contracts</b>			
Fixed cost (flat amount)	52	51	58
Cost reimbursable payments	45	60	68
Unit cost payments/Fee for service (\$ per time unit)	36	39	58
Unit cost payments/Fee for service (\$ per individual/family)	27	33	42
Performance-based payments	9	20	22
Combination of unit cost payments/fee for service and performance-based	11	20	28
<b>Grants</b>			
Fixed cost (flat amount)	63	62	62
Cost reimbursable payments	55	62	69
Unit cost payments/Fee for service (\$ per time unit)	13	18	26
Unit cost payments/Fee for service (\$ per individual/family)	9	14	23
Performance-based payments	14	18	18
Combination of unit cost payments/fee for service and performance-based	9	12	16

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Respondents were allowed to provide multiple responses to the question related to the main services provided by their organization. Thus, survey responses will not total 100 percent.

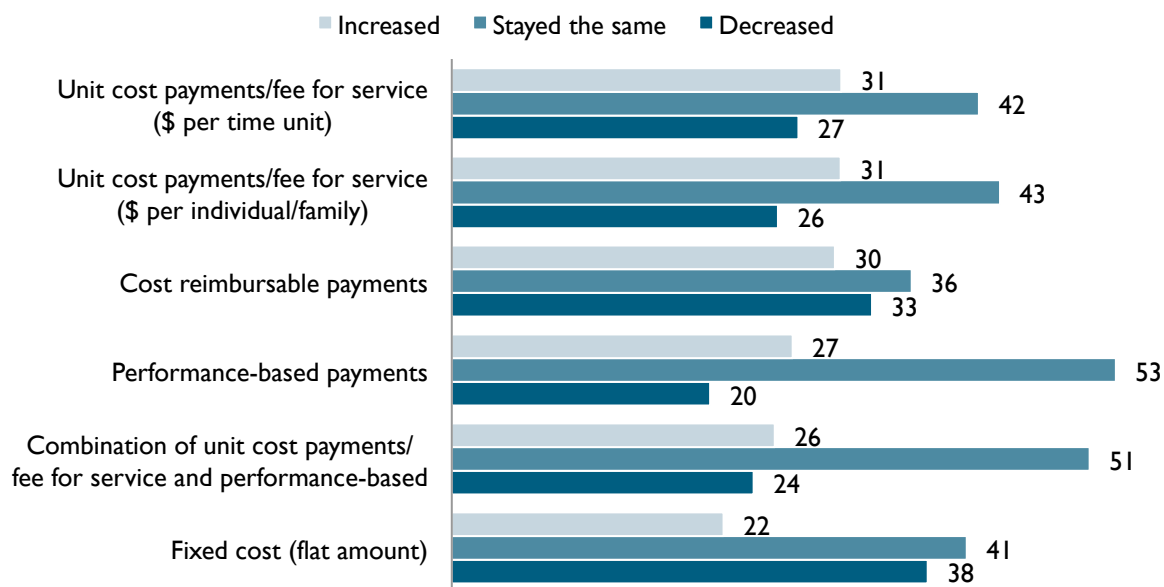
Other types of payment structures are prevalent among certain types of nonprofits. For example, about 50 percent of nonprofit health organizations and human service providers report receiving contracts based on a unit cost per time spent with a client, while between 35 and 45 percent of health, human service, and education nonprofits indicate that their contracts were based on a unit cost per individual or family served. These percentages are somewhat lower for organizations with grants.

Most nonprofits (63 percent) reported having no preference regarding the type of payment method governments use to purchase their services; however among those with a preference, the majority preferred fixed-price contracts and grants, which carry the largest risk for nonprofits but may be the easiest to manage and administer (Pettijohn 2013b). Arts, cultural, and humanities organizations and small nonprofits were particularly likely to prefer fixed-price payments.

The trend, however, has been a reduction in fixed-cost contracts. Nearly two in five nonprofits reported that, since 2008, they experienced a decline in the number of fixed-cost contracts. Health organizations were about twice as likely as environmental groups to report fewer fixed-price contracts. However, 40 percent of arts, culture, and humanities organizations and health nonprofits reported declines in cost-reimbursement contracts.

About one-third of nonprofits surveyed reported increases in three payment forms: cost reimbursement, unit cost per time unit, and unit cost per individual or family (figure 7). About one-quarter said they experienced an increase in the use of performance-based payment methods.

**Figure 7. Change in payment methods from 2008 to 2012 (Percent)**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

## **Cost-Sharing and Matching Requirements**

Government contracts and grants often require nonprofits to match or share a portion of their contracts or grants with donations or other types of funding.<sup>7</sup> In 2012, about half of nonprofits surveyed reported at least one government grant with a matching requirement, and one-quarter had a government contract that required cost-sharing, which suggests that government agencies expect nonprofits to leverage grants more than contracts.

Among organizations that were required by governments to match or share some costs, the reported average cost share for government contracts was 30 percent of the contract (the median was 25 percent) and 44 percent for a government grant (the median was 33 percent). Large organizations with expenses of \$1 million or more were twice as likely as small organizations (those with expenses of \$100,000 to \$249,999) to have contracts and grants that required cost sharing. Arts, culture, and humanities organizations, environmental groups, and human service providers were most likely to have government grants and contracts that required matching funds, while health organizations were least likely to have government grants and contracts that required matching funds.

The survey data does not identify whether there are 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 seems to limit such contracts to organizations with strong finances.

## **Limits on Program and Organizational Administrative Expense Reimbursements**

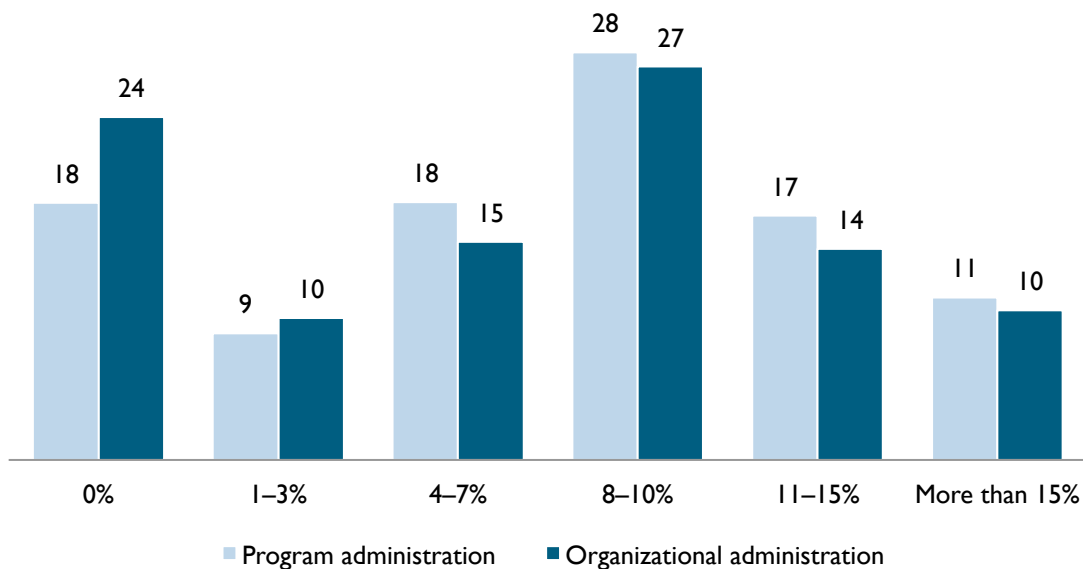
Half of nonprofits reported that government contracts and grants excluded or limited reimbursements for program and organizational administrative (overhead) costs.<sup>8</sup> One frustrated respondent said, “There is no government funding for administrative staff. The government reporting demands require massive amounts of unfunded administrative staff time.” Roughly 20 to 25 percent of survey respondents said government would pay no administrative expenses; nearly 75 percent said the limit was 10 percent or less (figure 8).<sup>9</sup>

Organizational overhead costs are most often targeted for restrictions. The majority of nonprofits in 34 states said they had contracts and grants that limited reimbursement for

organizational overhead and a majority of nonprofits in 27 states reported limits on program administration expenses. These restrictions affected large organizations much more often than small ones. About 60 percent of large nonprofits but only 37 percent of small ones had government contracts and grants that limited reimbursement for administrative expenses.

Type rather than size determines the level of impact on nonprofits. Half of health, human services, and education nonprofits reported limits on how much governments would pay for their administrative costs compared with about a third of arts, culture, and humanities organizations and environmental groups.

**Figure 8. Limits on Administrative Expense Recovery for Government Contracts and Grants to Nonprofit Organizations (Percent)**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

The practice of attaching such limits to government contracts and grants varies by state. In 2012, New York's Governor issued an Executive Order that placed a limit on state funds that can be used for administrative expenses. Beginning in 2013, New York will require service providers to use no more than 25 percent of state funds on organizational overhead and the percentage will decrease by 5 percent each year until it reaches 15 percent in 2015 (New York Exec Order 38 2012).



Limits on administrative costs are a cause for concern because nonprofits must find ways to cover these expenses. Trying 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 sacrifice investments in technology, reducing productivity and effectiveness (Hager et al. 2005). According to a federal government report, 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. This same report states that underfunding nonprofit indirect costs “potentially limit[s] the sector’s ability to effectively partner with the federal government, can lead to nonprofits providing fewer or lower-quality federal services, and, over the long term, could risk the viability of the sector.” (US Government Accountability Office 2010).

## **Accountability and Reporting Requirements**

Government agencies that award contracts and grants to nonprofits generally require reporting and accountability to ensure that organizations use the funds in the intended manner. If nonprofits want to continue to perform services on behalf of governments, they must adhere to reporting requirements and the demands for increased accountability. However, figuring out how to comply with government reporting requirements has its challenges and can prove to be stressful on organizations, especially during times of reduced funding opportunities. As one nonprofit respondent said, “The reporting requirements, which change constantly, have been a huge burden to the nonprofit sector. We have very limited funds to provide administrative support and this is one area where we are overburdened with requirements.”

The most common type of reporting requirement for nonprofits of all types was a narrative summary. Ninety-six percent of arts, culture, and humanities nonprofits provided narrative reports to their government funders. While there were no substantive differences by organization size, respondents with only government grants were most likely to prepare narrative reports on their program accomplishments compared with organizations with only contracts.

Expectations in the current reporting environment require nonprofits to use quantifiable data to tell their stories. Outside of narrative reports, nonprofits responded that their government contracts or grants required them to analyze administrative records and report data on persons

served, program outcomes, and services provided. Table 7 summarizes the key reporting requirements for nonprofits with government contracts or grants, by type of organization.

**Table 7. Percent of Nonprofits by Type of Required Report and Type of Organization**

Type of Organization	Narrative reports	Type of Reporting Requirement					
		Administrative data on persons served	Administrative data on services provided	Administrative data on program outcomes	Survey data on client outcomes	Survey data on client satisfaction	Results of independent evaluation
Arts, culture, and humanities	96	75	53	69	34	30	20
Education	84	70	65	69	54	49	39
Environment and animals	78	46	59	53	20	14	17
Health	84	79	75	76	58	61	36
Human services	82	86	78	76	58	55	30
Other	86	74	70	73	51	47	28

Nonprofits with different funding sources often have multiple reporting requirements. There is little to no consistency in format, and some reports are redundant and time consuming. Because these reporting requirements may be tied to funding, they are a heavy burden on program staff and can be a drain on already limited resources. Numerous reporting requirements and formats can lead to nonprofits having to develop and implement multiple reporting processes, which can be an added expense for some organizations. As one nonprofit reported, “Though I understand the need for increased accountability, duplication of reporting requirements and lack of human communication is confusing and alienating.”

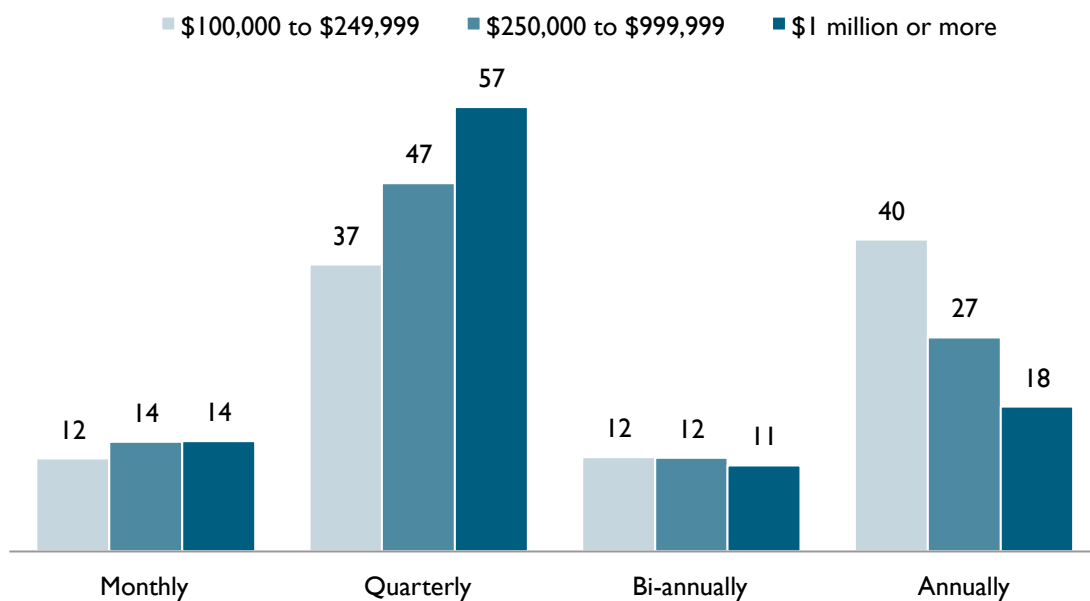
The largest reporting problems that respondents pointed to were the different reporting formats (71 percent) and the different allowances for administrative expenses and overhead (65 percent). Organizations that only received grants reported less intense problems with reporting requirements than those only receiving contracts and those that received both contracts and grants. Large organizations were more likely to state that different allowances for overhead were a problem (75 percent) compared with small nonprofits (63 percent).

Also among the challenges of reporting are different interpretations of terminology that can present obstacles to nonprofits and affect the accuracy of the data collected for reporting purposes.

About 30 percent of health organizations had a big problem reporting on the different financial and budget categories and complying with the different formats required to submit this information. Nearly one-third of the human service organizations said that different outcome reporting requirements were a big problem. However, organizations were least likely to say that reporting on the different definitions of target populations were a big problem (16 percent).

Some nonprofits report that the frequency of required reporting varies. Quarterly reporting was the most common for medium and large nonprofits, while small nonprofits were most likely to report annually (figure 9). Yet, the survey results showed that quarterly reporting requirements were most common among all types of nonprofits, with the exception of arts, culture, and humanities organizations, which were most likely to report annually.

**Figure 9. Frequency of Required Reporting by Size of Organization**

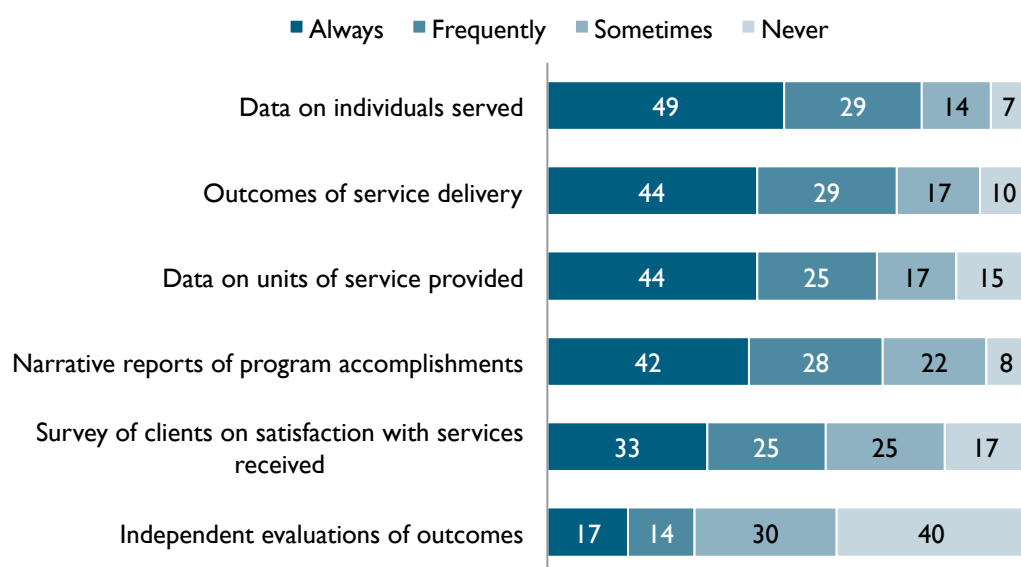


Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

Shifts in accountability and reporting requirements have heightened the pressure on nonprofits to demonstrate program benefits and how their programs address complex social issues. As a result, it is becoming more important for nonprofits to collect and analyze data for their reports and to learn what is or is not working so that they can make necessary improvements in the quality of their programs and service delivery. Additionally, nonprofits that received a government contract were more likely to use data to improve performance than if they only received grants. Figure 10 shows the data sources nonprofits used to improve their performance.

**Figure 10. Nonprofits' Use of Data to Improve Programs and Services**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

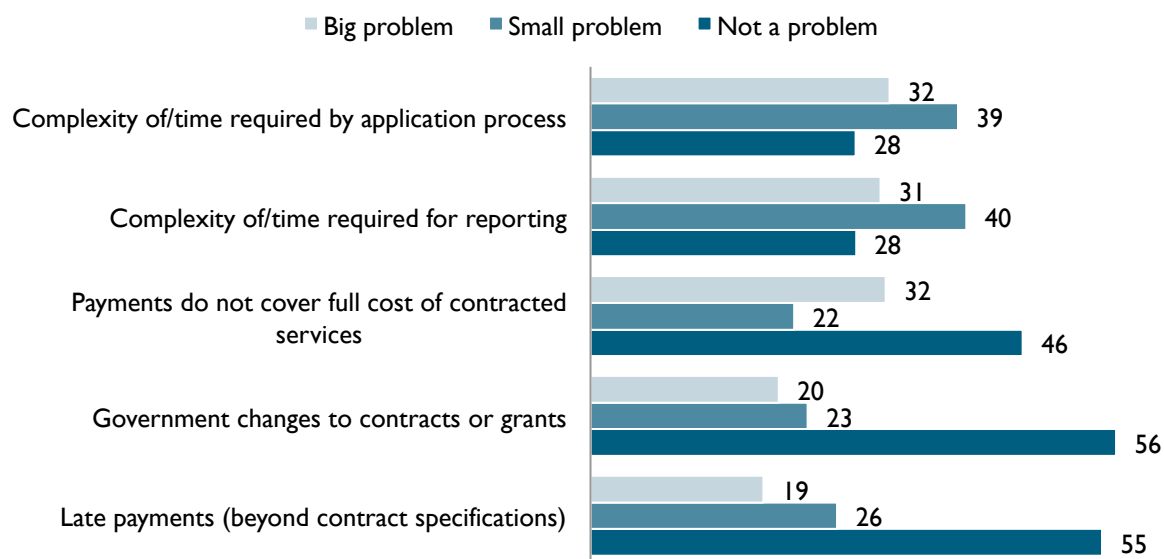
## Challenges with Contracts and Grants

Since governments are a critical source of revenue for many nonprofits, the administration of that funding has an effect on the efficiency and costs incurred by nonprofits. During the recession, media reports highlighted the negative effect of late payments from governments on the ability of nonprofits to serve their clients. To obtain systematic data on the issues with government funding, in the 2010 study of government contracts and grants, we asked human service nonprofits about five major issues identified in the literature and the media: government payments that did not cover the

full cost of providing agreed upon services; complex application requirements; time consuming reporting requirements; changes to already approved contracts and grants; and late payments for services rendered. We asked nonprofits to rate their experiences with these issues as “not a problem,” a “small problem,” a “big problem,” and “not applicable.” The scope and depth of the problems reported for the recessionary year of 2009, stunned many observers. The results pointed to systemic flaws in government administrative procedures that introduced inefficiencies and intensified the effects of the recession for many human services nonprofits (Boris et. al 2010).

All types and sizes of nonprofits reported some level of difficulty with the five areas. While organizations that received a higher proportion of their revenues from work funded by government contracts and grants were more likely to be affected, the problems cut across the nonprofit sector (figure 11). These are issues that not only plague human service organizations, but also reflect systemic problems in the government procurement and grants processes and the limited resources available to fund nonprofits in all program areas.

**Figure 11. Key Problems Reported about Government Contracts and Grants**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

Comments from respondents ranged from frustration with software and unresponsive government agencies to resignation about decreased funding levels and delays in payments that reflect the ongoing financial constraints of governments at every level. Respondents also acknowledged that potential improvements are underway and that some of the problems may have been with systems that were not ready to use when they were implemented. One person summarized the negative perspective: “Less funding available, increased (double) cost share and late payments caused crews to be laid off and put on unemployment, hinder[ed] budgeting, cash flow, and planning work.”

The picture was not all negative. Among the positive signs were government agencies that were providing training to prospective grantees and liaisons to help navigate through the government systems, improving processes for some respondents. As one person noted, “Government agencies provided recipient trainings and created resources that made the process easier. Agencies also dedicated staff to support the grant process steps, created grant documentation and provided assistance by phone.” Another respondent said, “They seem to be more focused and are listening to our issues more than ever before.” Table 8 provides a comprehensive look at the problems reported by size and type of organization. Then, we report on responses to each of the five issue areas in turn.

**Table 8. Nonprofits Reporting Problems with Government Funding**

	Percent of organizations		
	\$100,000 to \$249,999	\$250,000 to \$999,999	\$1 million or more
Total			
Complexity of/time required by application process	65	70	75
Complexity of/time required for reporting	62	68	77
Payments not covering full cost of contracted services	41	51	59
Government changes to contracts or grants midstream	33	41	48
Late payments (beyond contract specifications)	38	44	48
Arts, culture, and humanities			
Complexity of/time required by application process	73	64	67
Complexity of/time required for reporting	68	60	67
Payments not covering full cost of contracted services	30	38	23
Government changes to contracts or grants midstream	19	31	25
Late payments (beyond contract specifications)	22	34	18

**Table 8. Nonprofits Reporting Problems with Government Funding (continued)**

Education			
Complexity of/time required by application process	57	64	79
Complexity of/time required for reporting	64	57	79
Payments not covering full cost of contracted services	55	49	51
Government changes to contracts or grants midstream	26	24	29
Late payments (beyond contract specifications)	40	50	24
Environment and animals			
Complexity of/time required by application process	50	60	72
Complexity of/time required for reporting	31	60	65
Payments not covering full cost of contracted services	38	38	18
Government changes to contracts or grants midstream	23	16	23
Late payments (beyond contract specifications)	38	31	39
Health			
Complexity of/time required by application process	79	73	80
Complexity of/time required for reporting	75	74	84
Payments not covering full cost of contracted services	58	65	74
Government changes to contracts or grants midstream	50	46	60
Late payments (beyond contract specifications)	57	50	54
Human services			
Complexity of/time required by application process	62	73	74
Complexity of/time required for reporting	61	70	77
Payments not covering full cost of contracted services	42	52	60
Government changes to contracts or grants midstream	41	45	52
Late payments (beyond contract specifications)	46	46	53
Other			
Complexity of/time required by application process	63	72	74
Complexity of/time required for reporting	68	68	76
Payments not covering full cost of contracted services	40	53	57
Government changes to contracts or grants midstream	35	49	47
Late payments (beyond contract specifications)	26	42	56

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

Percentages may not sum to 100 because of rounding.

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

Complex application and reporting processes were the most widely experienced problems for all types and sizes of nonprofits (figure 11). Even nonprofits that relied on revenue earned from government contracts and grants for most of their resources, and presumably are more familiar with the processes required, reported that the time required was excessive and the complexity was difficult to navigate. Overall, more than 70 percent of nonprofits reported that complicated application and reporting processes were problematic. Comments included “additional paperwork requirements for decreased funding” and “more demands to provide more data/information with less turnaround time” were problematic and increased the burden placed on nonprofits during the application and reporting processes. In addition to the frequency of required reporting, different definitions and requirements from different government agencies contributes to the complexity of reporting.

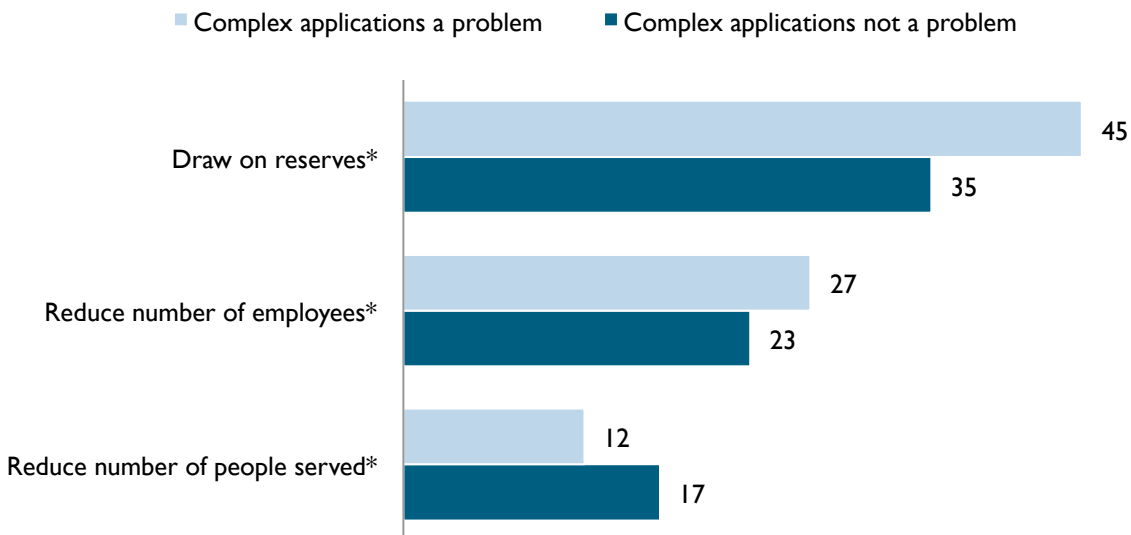
Streamlining the application and reporting processes could be helpful to both nonprofits and government agencies. In the short run, however, changes to reporting requirements may be perceived as problematic, even though they may lead to greater efficiencies in the future. For example, one respondent noted the time required by changes in processes: “More than half of the government agencies completely changed their process (application, fund distribution and payment system). This required numerous trainings, webinars, etc.”

Nonprofits that reported problems with complex and burdensome applications were significantly more likely to draw on reserves and reduce the number of employees compared with nonprofits that did not report this problem (figure 12).

Those reporting problems with time consuming reporting were also significantly more likely to draw on reserves and the reduce number of employees and the number of programs or services compared with their counterparts that did not report this problem (figure 13).



**Figure 12. Cutbacks by Nonprofits in 2012, by Complex Applications (Percent)**

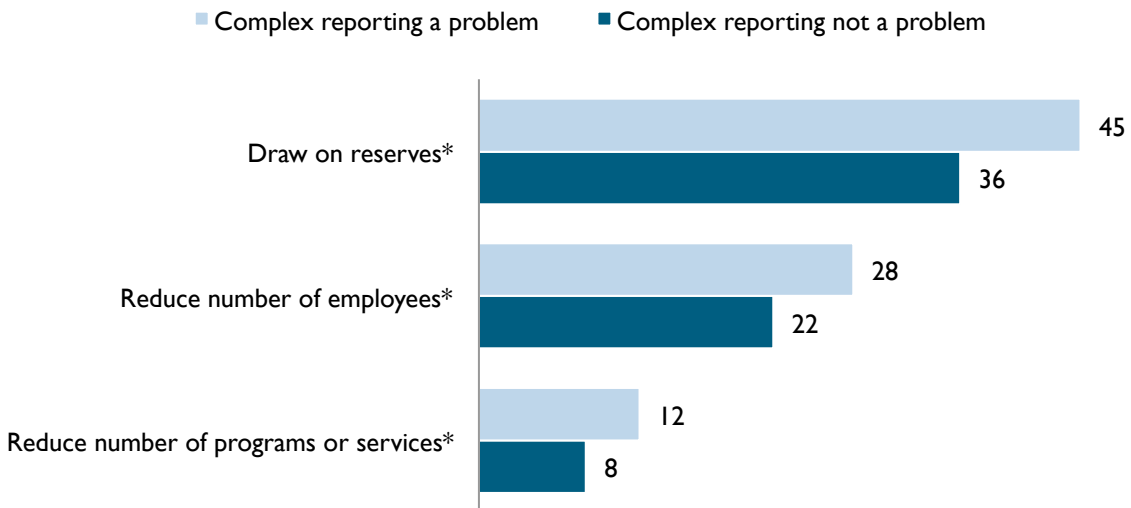


Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

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

**Figure 13. Cutbacks by Nonprofits in 2012, by Complex Reporting (Percent)**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

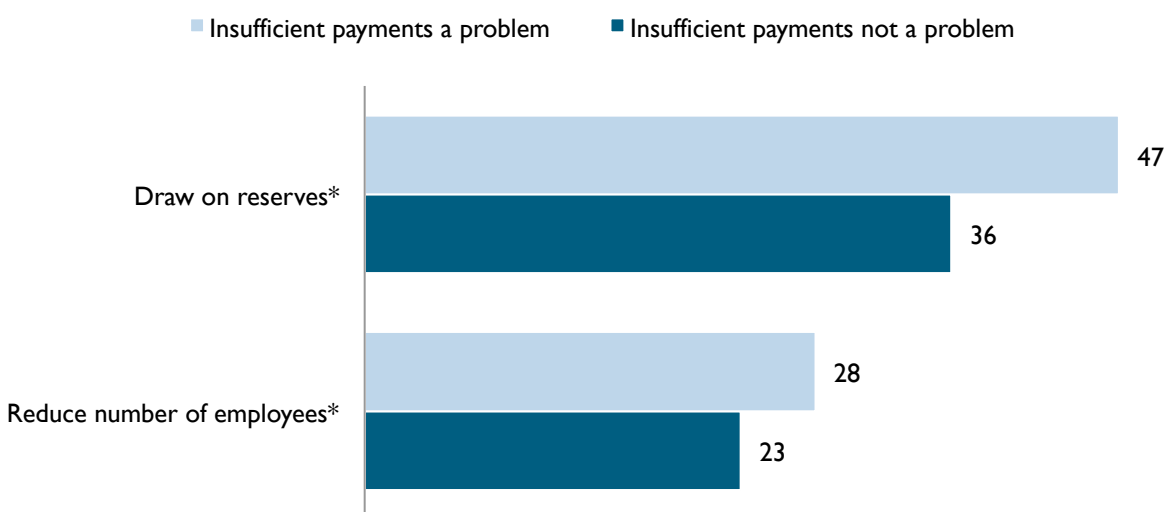
Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

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

## Failure to Cover the Full Program Costs

In 2012, over half of nonprofits (54 percent) reported that failure of government payments to cover full program costs was a problem. Inadequate reimbursements are problematic because organizations must somehow cover the costs of the services they provide. As reported earlier, many contracts and grants require cost-sharing or matching funds necessitating fundraising, which imposes additional costs for organizations, dipping into reserves, or diverting fee income or operating resources (National Council of Nonprofits 2013a). Nonprofits that reported problems with insufficient funding were significantly more likely to draw down reserves and reduce the number of employees than were nonprofits that did not perceive insufficient funding to be a problem (figure 14).

**Figure 14. Cutbacks by Nonprofits in 2012, by Payments Not Covering Full Cost of Contracted Services (Percent)**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

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

## Changes to Contracts and Grants

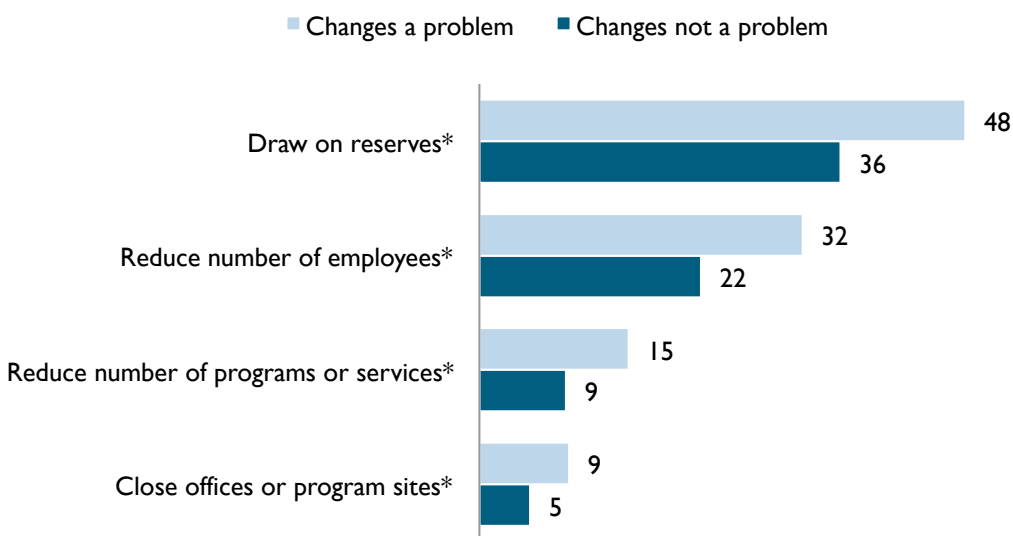
Approximately 52 percent of nonprofits reported changes to signed government agreements, both negative and positive. Forty-four percent of nonprofits reported problems created by governments changing the terms of such agreements. The most frequent changes involved governments increasing reporting requirements (35 percent), decreasing payments for services (23 percent), and

increasing service requirements (16 percent). Overall, large organizations and those in the health and human services fields were most likely to experience such changes, perhaps signaling the volatility of funding for safety-net services on the one hand, and the growing movement to ensure accountability and monitor performance on the other.

Not all changes were problematic. Among nonprofits reporting changes, 16 percent reported positive changes to their contracts, such as increased payments for services, reduced service requirements, and decreased reporting requirements. Those were outweighed by the approximately one-quarter of organizations that had at least one negative change, such as canceled contracts or grants, decreased payments, indefinitely postponed contracts or grants, increased service requirements, and increased reporting requirements. Many organizations had both types of changes.

Nonprofits that perceived changes to contracts and grants to be problematic were significantly more likely to draw on reserves, reduce number of employees, cut programs or services, and close offices or program sites compared with nonprofits that did not report a problem with changes to government contracts and grants (figure 15).

**Figure 15. Cutbacks by Nonprofits in 2012, by Changes to Government Contracts or Grants (percent)**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

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

## Late Payments

In 2012, 45 percent of nonprofits with government contracts or grants reported problems with governments making payments on their legal commitments later than the contract specifications. Large nonprofits were most likely to report problems caused by government payment delays that exceeded contract and grant specifications. Human service and health organizations reported late payments at double the rates of arts, culture, and humanities organizations, suggesting that payment delays vary greatly among government agencies and that direct services to individuals and families are particularly vulnerable. Of those that reported a late payment, nonprofits were more likely to report late payments at the state level (table 9) and incidences of late payment varied greatly by state (see Pettijohn, Boris, and Farrell forthcoming).

Table 9 also outlines the percent of nonprofits reporting payments that are one to 30 days late, 30 to 60 days late, 60 to 90 days late, and over 90 days late. The duration of delayed payments differed by level of government, type of organization, and size of nonprofit. Organizations involved in education experienced the shortest delays in payments from state, local, and federal agencies. At the local level, one-third of arts, culture, and humanities organizations experienced delays in payment of over 90 days, while no health organizations reported such a long delay.

**Table 9. Percent of Organizations Reporting Past Due Contract and Grant Payments are Past Due**

Level of Government	Percent of nonprofits reporting late payment	Number of days late			
		1-30	31-60	61-90	Over 90
Local	14	27	31	22	21
State	22	20	29	24	26
Federal	13	27	25	20	28

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percents may not sum to 100 because of rounding.

As a result of late government payments in 2012, governments at all levels owed nonprofits a considerable amount of money for work already completed (table 10). The amounts vary, but state governments are the largest debtors, owing nonprofits, on average, \$200,458, almost twice the amount that federal agencies owed.

**Table 10. Average Amount Governments Still Owe Nonprofits**

Level of Government	Average amount (\$)	Median (\$)
Local	84,899	30,000
State	200,458	40,000
Federal	108,500	26,808

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).  
Notes: Figures are based on nonprofit organizations included in the sampling frame.  
Missing or not applicable answers were excluded.

Almost half of medium and large nonprofits said late payments were a problem. Experiences varied by type of organizations with over half of health organizations reporting problems with late payments, compared with a quarter of arts, culture, and humanities organizations.

Problems with late payment varied by level of government. One person noted ongoing issues with federal agreements: “Budget was not approved in the Congress, which delayed distribution of an allocation. We have not received 2012 funding to date. This has happened for the past three years. [The] government cannot be counted on. [Funding] is reduced and delayed.”

Nonprofits that perceived late payments as a problem were significantly more likely to decrease the number of paid employees compared with nonprofits that did not report this problem. Nonprofits that stated late payments were problematic were significantly more likely to draw on reserves, increase lines of credit, reduce the number of programs, and close program offices or sites. (figure 16).

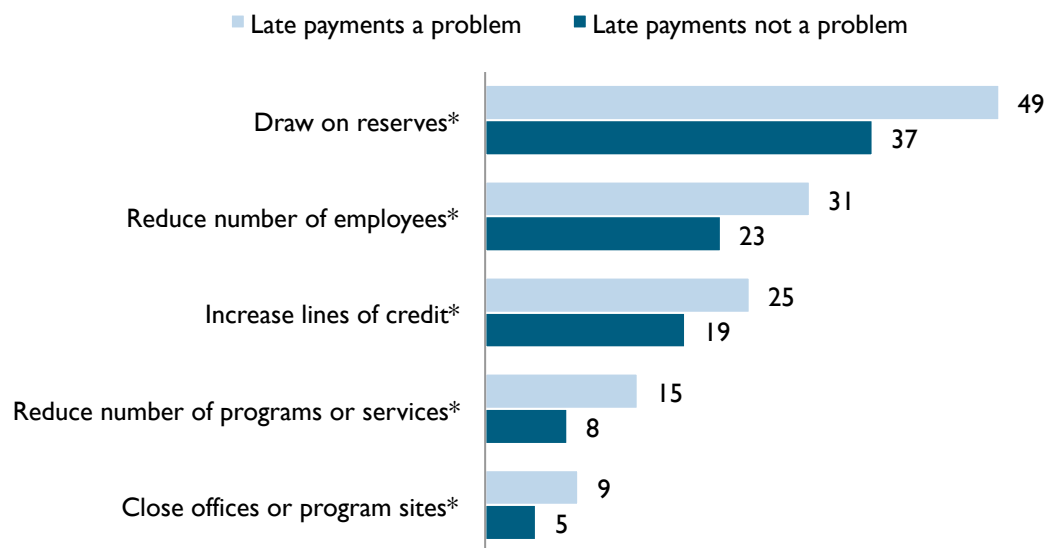
## Providing Feedback to Government Agencies

Most nonprofits are required to provide written reports to government funders at prescribed intervals. In this study, we asked nonprofits about other methods they might have used to provide feedback to their government funders on contract and grant processes and procedures. The results reveal formal and informal and direct and indirect interaction between nonprofits and their government funders through a variety of mechanisms. Most nonprofits communicated directly with government funders in meetings with agency officials and through informal contacts with government officials (60 percent). One organization summarized the importance of ongoing

interactions: “Our experience was better than in prior years because we have approached our contract as a partnership rather than simply as a contractor/vendor relationship. More informal channels of communication are open in addition to structured reporting.”

Nonprofits reported that they are dealing informally with issues as they arise in their relationships with government agencies. While nearly 40 percent of organizations reported that they engaged government officials in more formal ways, such as through indirect advocacy through affiliated organizations and coalitions; through official government feedback mechanisms; and through advisory or working groups, these actions may not generate the change needed to streamline and simplify the contract and grant process. This type of feedback may provide information to the contract or grant officer, but that individual is not in a position to create systematic change. Actions related to feedback that could lead to change were surprisingly low. One respondent noted: “There is never an opportunity for our agency to be part of the board processes or decision-making team.” There is a lack of mechanisms that allow nonprofits to provide feedback more directly to those who create policy and generate change.

**Figure 16. Cutbacks by Nonprofits in 2012, by Late Payment (Percent)**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

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

## **Comparative Analysis:**

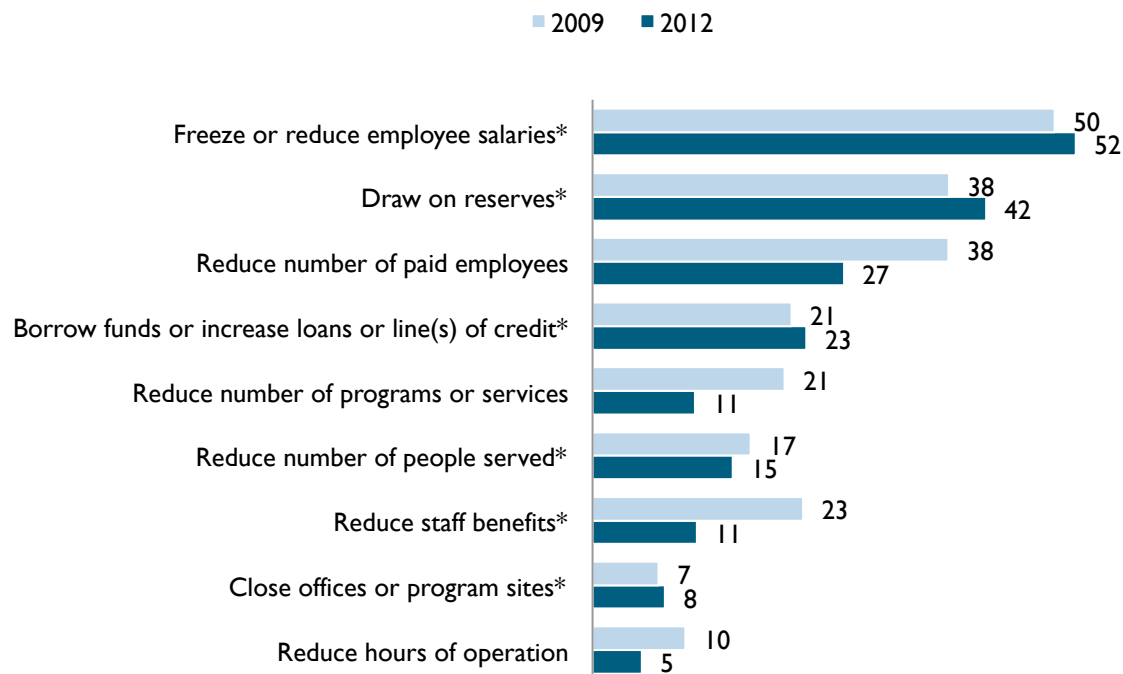
### **Human Service Nonprofits Then and Now**

Findings from the 2010 survey of human service nonprofits<sup>10</sup> revealed substantial problems in the relationship between government agencies and nonprofit organizations. This next section compares findings from the 2010 survey of human service nonprofits with the human service nonprofit organizations that responded to the 2013 survey. Some human service nonprofits that received government contracts and grants in these two time periods have seen improvement in both their financial health and their relationships with government, while others continue to struggle financially and experience problems with government contracts and grants. In 2012, almost 30,000 nonprofits reported close to \$81 billion in government contracts and grants.<sup>11</sup>

### **Financial Health of Human Service Organizations with Government Contracts and Grants**

In 2009, the United States slowly began coming out of one of the worst recessions in its history. The economic climate forced human service nonprofits to tighten their belts by reducing the number of paid employees, freezing staff benefits, decreasing hours of operation, and dipping into reserves. Three years later, some human service nonprofits still reported making cutbacks, but significantly fewer reported decreasing employee benefits and number of people served (figure 17). While it seems as if human service nonprofits are on the road to recovery, in 2012 significantly more human service nonprofits tapped into their reserves to make ends meet than in 2009. Additionally, significantly more nonprofits froze or reduced employee salaries and closed offices or program sites in 2012 compared with 2009. As human service nonprofits continue to recover from the Great Recession, they still face a tough economic climate. Four years after the National Bureau of Economic Research declared the Great Recession had ended, 37 states continued to have employment rates below their pre-recession levels in 2012 (see note 4).

**Figure 17. Cutbacks by Human Service Nonprofits, 2009 and 2012**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on human service nonprofit organizations. Missing or not applicable answers were excluded.

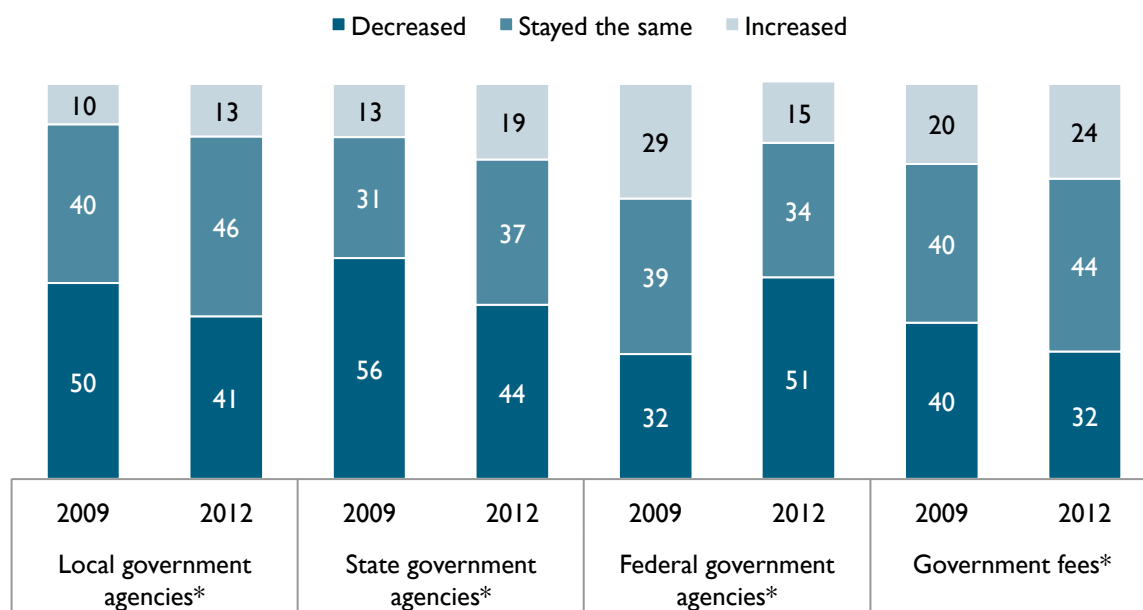
\* Differences are significant at the 95 percent confidence interval.

Cutbacks were necessary in 2009 as half of human service nonprofits faced decreased local and/or state government funding and nearly one-third experienced decreased federal funding. By 2012, significantly fewer human service nonprofits faced decreased local and/or state funding (figure 18). However, nearly 40 percent of human service nonprofits continued to experience decreased funding from local and state governments. Additionally, funds from the federal government did not follow the same trend and, in 2012, half of human service nonprofits reported less revenue from the federal government, a significant increase from 2009.

Fee revenue from government programs, such as Medicare and Medicaid, trended upward in 2012. Fewer human service nonprofits reported a decrease in this revenue stream than in 2009 and significantly more reported an increase in government fees. The opposite was true for fee revenue from individuals such as client fees, tuition, and ticket sales, which decreased in 2012.



**Figure 18. Changes in Government Funding of Human Service Nonprofits, 2009 to 2012**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on human service nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

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

Overall, some human service nonprofits appear to have experienced improved financial health in 2012 compared with 2009, while others continue to face tough times. Compared with 2009, nearly 22 percent fewer human service nonprofits had deficits of more than 10 percent in 2012, and almost 25 percent had a surplus of 10 percent or less compared with 19 percent in 2009.

## Government Contracts and Grants: An Overview

Human service nonprofits continued to work with numerous government agencies through multiple contracts and grants. In 2012, human service nonprofits, on average, had 7 contracts and grants with government agencies. This is not significantly different from the 6 contracts and grants reported in 2009. What has changed is the number of government agencies with which human service nonprofits are working. While about 25 percent of human service nonprofits continue to provide

services with funding from one government agency, 35 percent are working with four or more agencies, a significant increase of almost 13 percent from 2009.

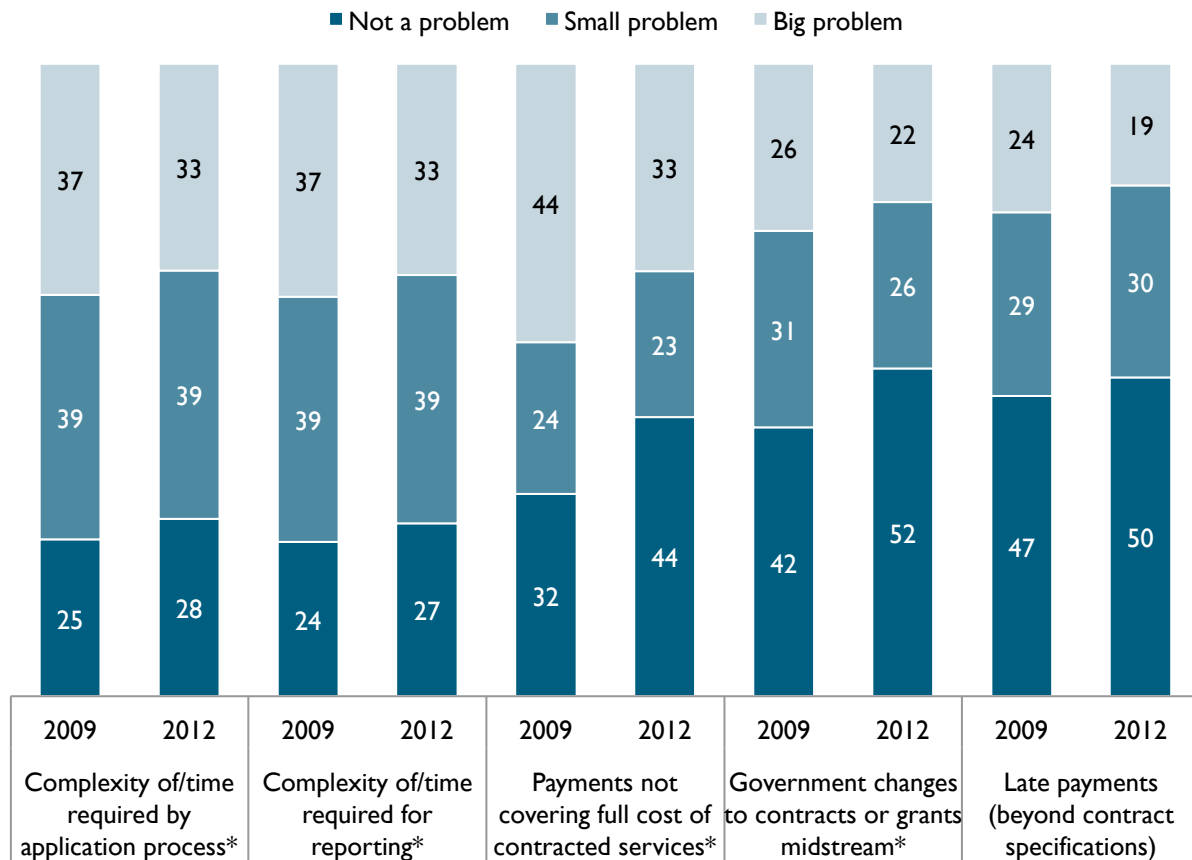
## **Government Contract and Grant Administration**

As discussed earlier, governments often limit the proportion of their contract and grant funds that may be used for nonprofit administrative or overhead purposes. In 2012, significantly fewer human service nonprofits than in 2009 reported constraints on general overhead costs; however, there are still more than 50 percent that have government contracts or grants with limits on general overhead expenses. Of those human service nonprofits that experienced limits, nearly three-quarters reported that no more than 10 percent of contract or grant dollars could be used to cover expenses, such as rent, computers, and supplies that are not directly related to service provision. Compared with 2009, human service nonprofits reported being more tightly constrained by stipulations placed on government funds in 2012.

## **Contracting Problems**

In 2012, human service nonprofits were again asked about five problem areas identified by literature and media reports: payments that did not cover the full cost of services, complex and time-consuming application requirements, complex and time-consuming reporting requirements, changes made to government contracts and grants, and late payments. While some improvement was reported in all areas, about half or more of human service nonprofits continued to report problems in all five areas. A feeling of resignation was expressed by one person: “Not much has changed. It feels like there is a cloud hanging over our heads and many are afraid to change anything until the economy improves, the budget passes, the sequestration ends and many other factors that the [United States] is facing.” Figure 19 displays an overview of the perceived problems in 2012 compared with 2009.

**Figure 19. Key Problems Reported by Human Service Nonprofits, 2009 and 2012**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on human service nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

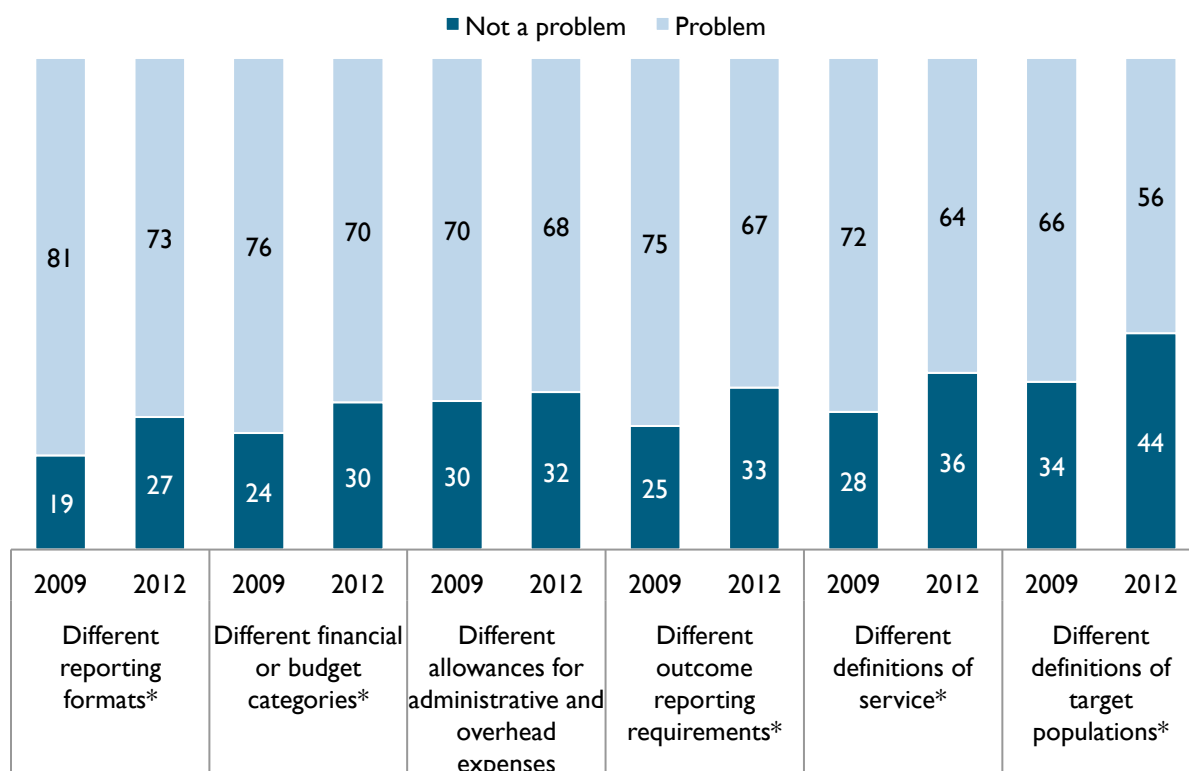
\* Differences are significant at the 95 percent confidence interval.

## Complex and Time-Consuming Application and Reporting Requirements

The most frequently cited problems in 2009 and 2012 involved governments' complicated and burdensome application and reporting requirements. Different reporting formats remained the most frequently cited problem. Nearly three-quarters of human service nonprofits perceived this to be a problem in 2012, which is only slightly lower than the 81 percent that reported this problem in the previous report (figure 20). As in 2009, different financial and budget reporting categories were the second most cited problem in 2012, with 70 percent of human service nonprofits noting this as a problem (76 percent in 2009).

Human service nonprofits did not report any significant improvement in problems caused by the different allowances for administrative and overhead expenses. More than two-thirds of human service nonprofits said this was a problem in 2009 and in 2012. However, fewer reported that different definitions of service were a problem in 2012 (64 percent), a significant improvement over 2009 (72 percent).

**Figure 20. Problems When Human Service Nonprofits Have Different Reporting Requirements**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on human service nonprofit organizations included in the framing sample. Missing or not applicable answers were excluded.

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

From the perspective of human service nonprofits, little improvement has been made in the past three years in streamlining the application and reporting processes to reduce the cost and burden of applying for and reporting on government contracts and grants. While there is a statistically significant difference with fewer human service nonprofits reporting a problem with complex and time-consuming application and reporting processes between 2009 and 2012, more than 70 percent of human service nonprofits continue to find government application and reporting

processes to be complex and time consuming. One respondent voiced frustration: “Reduced funding for client services, but increased requirements for reporting outcomes for clients. No funding for fringe benefits or administrative costs associated directly with projects funded by these grants.”

## **Failure to Cover Full Program Costs**

In 2009, nearly two-thirds of human service nonprofits reported that payments not covering the full cost of services were a problem. In 2012, just over half of human service nonprofits perceived problems with payments not covering the full cost of service. While this is a statistically significant change, the majority of nonprofits find payments that fail to cover the full cost of contracted services to be problematic. Nearly one-third of human service nonprofits find insufficient payments to be a big problem.

## **Changes to Contracts and Grants**

In 2009, more than 70 percent of human service organizations reported that government altered already negotiated contracts by decreasing payments for contracted services. In 2012, however, only 26 percent of human service nonprofits experienced decreased payments for contracted services, a significant improvement from 2009 (figure 21).

When asked if such changes caused problems, less than half of human service nonprofits responded that it was a problem in 2012. This is significantly lower than 58 percent that reported this as a problem in 2009.

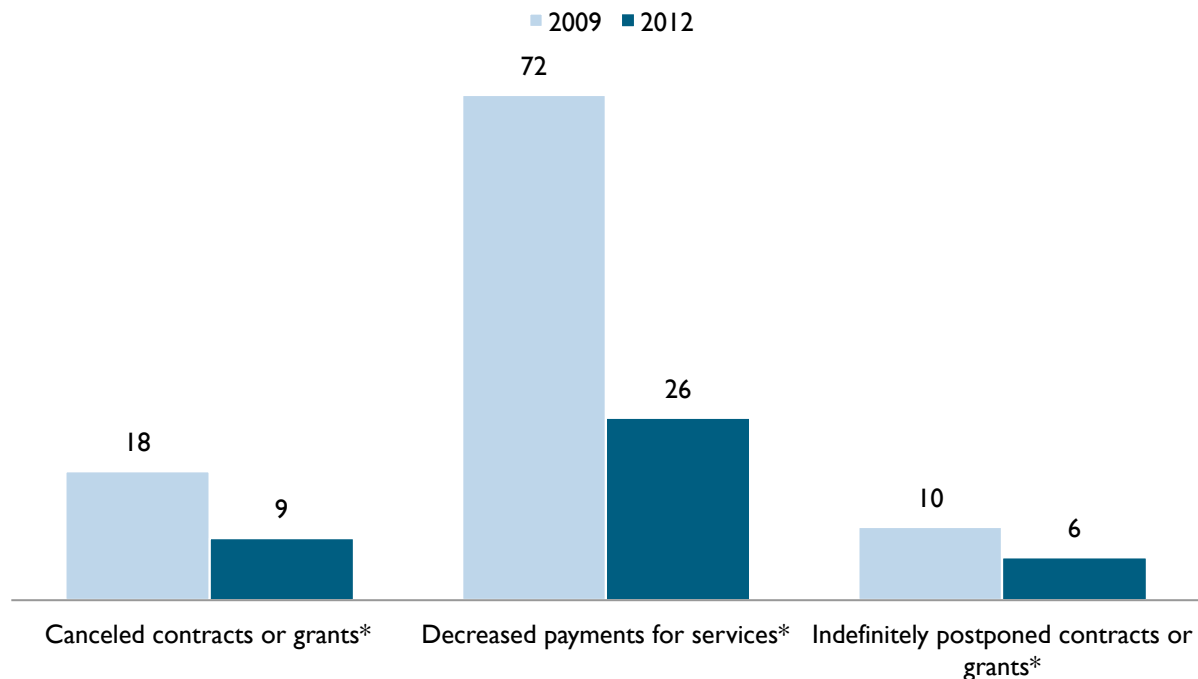
## **Late Payments**

In 2009, government agencies made late payments to nearly 40 percent of human service nonprofits. This number remains virtually unchanged in 2012. This is a sobering reminder that human service nonprofits are continuing to wait extended periods of time for payments.

Fewer human service nonprofits received payments more than 90 days late from local and state government agencies in 2012 than in 2009 (table 11). However, more human service nonprofits reported payments between 31 and 60 days and 61 and 90 days late in 2012 compared with 2009. Government agencies are not paying human service nonprofits as late in 2012 as they were in 2009,

but the prevalence of late payments was unchanged. There was no significant change in the number of days government contracts and grants were past due by federal agencies between 2009 and 2012.

**Figure 21. Changes to Government Contract and Grants**



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on human service nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

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

**Table 11. Days Government Contract and Grant Payments are Past Due for Human Service Nonprofits, by Level**

Level of Government	Percent of nonprofits							
	1-30 days		31-60 days		61-90 days		Over 90 days	
	2009	2012	2009	2012	2009	2012	2009	2012
Local	24	27	30*	31*	15*	22*	31*	21*
State	22	20	26*	29*	16*	24*	36*	26*
Federal	28	27	29	25	18	20	25	28

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on human service nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

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

Table 12 shows the average past due amounts by level of government. Government agencies at all levels owed human service nonprofits significantly less money at the end of 2012 compared with the end of 2009. However, this was still a problem in 2012, with governments owing payments to nearly 40 percent of human service nonprofits for services already provided. There was no change in the number of human service nonprofits reporting that late payments were a problem in 2012 versus 2009. Nearly 50 percent of human service nonprofits had a problem with late payments in 2009 and 2012.

**Table 12. Average Amount Governments Still Owe Human Service Nonprofits**

Level of Government	Average amount (\$)	
	2009	2012
Local*	103,535	102,328
State*	231,749	190,633
Federal*	385,476	110,896

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).

Notes: Figures are based on human service nonprofit organizations included in the sampling frame.

Missing or not applicable answers were excluded as were responses that reported \$0 in late payments.

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

## Providing Feedback to Government Agencies

Human service nonprofits have several avenues to provide feedback to government agencies regarding their contracts and grants. However, fewer human service nonprofits provided feedback to government agencies in 2012 compared with 2009. In 2012, about two-thirds of human service nonprofits provided feedback during meetings with funding agencies, down from nearly three-fourths in 2009. Just over 49 percent of human service nonprofits provided feedback through indirect advocacy (e.g., affiliated organizations or coalitions), down from 54 percent in 2009, a significant decrease. Finally, the number of human service nonprofits that provided feedback through official government feedback mechanisms was unchanged in 2012.

## Conclusion

The results reported here expand our knowledge of government-nonprofit financial relationships. From this first comprehensive national study, we now have a better understanding of the dollar amounts and funding mechanisms (contracts, grants, or both) that governments employ to pay for service provision by different types of nonprofit organizations. It is a longstanding tradition in the United States for governments to use nonprofits to provide services that governments do not have the capacity to provide directly. The extent of the resources and complexity of the government administrative processes, however, have not previously been probed from the vantage point of nonprofits that carry out government-funded work in many fields. Human service organizations receive the majority of contract and grant dollars because they are on the frontlines of personal and community needs that cannot be met without government resources. Healthcare organizations, even excluding hospitals, account for 12 percent of organizations and receive about 27 percent of government contract and grant dollars, illustrating the importance of healthcare provisions among government priorities and the extent to which governments rely on nonprofits to deliver services to the public.

Governments tend to fund different types of nonprofits through different funding mechanisms. When providing services on behalf of governments, arts, culture, and humanities organizations are most likely to have grants from government agencies, while health and human service organizations are most likely to have contracts or some combination of contracts and grants. Each funding mechanism has its own accountability and reporting expectations. Since many nonprofits have multiple contracts and grants with multiple government agencies, they must learn a variety of application and reporting procedures, often requiring different types of computer software, and perhaps track different types of outcomes. The resulting complexity is a major issue for nonprofits.

This study reveals that administrative problems identified in 2010 for human service nonprofits also affect other types of nonprofits, which suggests that these issues are common across government funding agencies and are not limited to only those contracts or grants dealing with human services. All types of nonprofits reported problems with late and insufficient payments,



complex and burdensome application and reporting processes, and changes made to contracts and grants after they have been approved.

In addition, this study shows that the current financial status of nonprofits is mixed. Not all nonprofits have recovered from the recession; many still have depressed revenues and many continue to make cutbacks. Addressing the administrative burdens by developing streamlined reporting and application processes and paying nonprofits the full cost of services on time would allow nonprofits to focus more time and effort on achieving the public service missions that government and nonprofits share.

Finally, the comparison between human service nonprofits in 2009 and 2012 also reveals a mixed picture. While some human service nonprofits perceive fewer problems with government funding administrations, there are still significant problems that must be resolved. Though some governments have worked with nonprofits to improve their processes, there is still more to do at all levels of government. Nonprofit leaders and government officials must work together to identify and implement solutions.

## **Recommendations**

### **Actions for Government Agencies**

Complex application and reporting processes stand out as the most problematic for nonprofits. Fortunately, these are issues that can and are being addressed by some government agencies at every level. Actions should include

1. Standardize and simplify applications, financial reporting formats, and outcome reporting requirements across federal, state, and local government agencies with input from nonprofits. Adopt common definitions of frequently used terms and standard accounting budget categories and push these changes down to the state and local levels by requiring states that receive federal dollars to use the common definitions and simplified formats in their reporting to federal agencies. The Health and Human Services (HHS) Accelerator System in New York City is a potential example of a more efficient process for city officials and nonprofit providers to manage procurement and financial systems.

2. Implement document vaults accessible across government agencies so that commonly required paperwork, such as audits, proof of nonprofit status, licenses, and other commonly required documents, can be provided once, updated at specified intervals, and used by all agencies that require them. Connecticut, Illinois, Maryland, and New York have some version of a document vault (National Council of Nonprofits 2013a).
3. States and localities should follow the federal government and implement transparent online systems, like grants.gov, that list all grants and contract opportunities. They should also provide online access for completing and submitting applications for contract and grant opportunities.
4. Involve nonprofits in working groups or similar commissions to identify and agree on mutually beneficial accountability processes. Connecticut and New York are just two states that have created a nonprofit liaison that is, working to ensure that nonprofits' voices are heard.

Government actions on other issues should include

1. Implement prompt payment processing standards and follow-through to ensure that they are working.
2. Create formal feedback mechanisms to obtain information on how well processes are working.
3. Collect and report data on contracting and grants practices, assess their effect on nonprofit organizations, and involve nonprofits in seeking solutions. These could include administrative expense reimbursement policies, late payments, changes to grants and contracts, and cost-sharing and matching requirements.
4. Compare processes, requirements, reimbursement limits, and fees used for nonprofit and for-profit contractors to identify and address potential inequities.

## **Actions for Nonprofit Organizations**

1. Organize and participate in efforts to simplify and standardize government applications, financial reporting and other reporting requirements; encourage foundations to adopt and use such standards.

2. Provide feedback to government funding agencies and participate in formal and informal efforts to address contracting and grants issues.
3. Develop and improve organizational capacity to apply for and successfully implement government contracts and grants:
  - a. Systematically track staff time to enable accurate measurement of program costs and allocation of administrative costs among programs and across the organization.
  - b. Identify performance indicators and develop systems to collect data to assess performance and measure outcomes.
4. Educate the public and elected officials directly and through associations about the importance of government contract and grant funding that enables nonprofits to fulfill public purposes while also meeting their missions.

Future research should include follow-up analysis of trends related to the nonprofit-government contracting and grant relationship. Researchers need to continue to document changes that are implemented at the federal, state, and local levels to determine how they are working and with what results. There should also be a focus on comparing contract and grant requirements between nonprofit and for-profits. For example, it would be useful to know how many businesses match or share costs with government. Finally, mechanisms need to be in place to better track changes across the states to help determine trends. These are just a few of the issues that future research could address.

## Methodology

This survey was based on a national, randomly drawn sample of 501(c)(3) public charities 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 US Internal Revenue Service and have more than \$100,000 in expenditures. The sample was pulled using the NCCS 2010 Core Files, which contain financial information from the Form 990. Because of lags in data processing, the 2010 file was the most complete listing of nonprofits at the time the sample was drawn. The NCCS database consisted of 85,098 nonprofit organizations, encompassing a broad range of nonprofits. The nonprofit program areas included in this study were arts, culture and humanities, education, environment and animals, health, human service, international and foreign affairs, public and societal benefit, and religion. All profession societies and associations and single organization support organizations were excluded. Table 13 presents more details on the types of program areas excluded from this study. The random stratified sample for this survey contained 20,000 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.

Social Science Research Solutions collected 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 front and back on 8.5" X 11" paper and stapled. The web version of the questionnaire contained 41 screens, which included a welcome page, an instruction page, and a survey submission page. Overall, about 25 percent of organizations completed the paper version and 75 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, and reminder e-mails (for organizations for which we had email addresses), and reminder phone calls. More than 7,800 nonprofits contacted us with information about the survey, and 4,024 completed the survey yielding a 33 percent response rate (table 14). The types and sizes of organizations that participated

in the study were similar to the organizations that did not participate. Hence, the potential of nonresponse bias for this study is rather small.

**Table 13. Types of Public Charities Excluded from Sampling Frame**

Vocational and technical schools
Higher education
Graduate and professional schools
Libraries
Student services
Parent and teacher groups
Veterinary services
Hospitals
Ambulatory and primary health care
Psychiatric hospitals
Medical Disciplines
Law enforcement
Labor unions <sup>a</sup>
Agricultural programs <sup>a</sup>
Homeowners and tenants associations <sup>a</sup>
Fire prevention <sup>a</sup>
Safety education <sup>a</sup>
Public safety benevolent associations <sup>a</sup>
Recreation and Sports (all) <sup>a</sup>
Youth development-religious leadership <sup>a</sup>
Philanthropy, Voluntarism, and Grantmaking Foundations (all)
Public transportation systems
Telecommunications
Financial Institutions
Leadership development
Public utilities
Mutual and Membership Benefit (all)
Unknown (all)

<sup>a</sup> Category was excluded from the sampling frame in the 2010 Human Service Nonprofits Government Collaboration Survey.

The analysis in this report is limited to the organizations that completed the survey and had government contracts. Nearly 3,800 organizations indicated at the outset of the questionnaire that they had no relationship or dealings with government and did not fill out the survey. They were

excluded from our analysis and were not included on the analytical data file. In addition, respondents completed the questionnaire, noting that they had no government contracts or grants. Consequently, the analysis data file contains a total of 4,024 organizations that completed the questionnaire, 2,764 of which have government contracts and grants. Each of these organizations was assigned a survey weight to adjust for disproportionate sampling done to increase the sample size in smaller states (table 14). All estimates in this report are appropriately weighted, and, therefore, the estimates can be generalized to nonprofit program areas (arts, culture, and humanities, education, environment and animals, health, human service, international and foreign affairs, public and societal benefit, and religion) included in this study that have at least \$100,000 in expenditures.

The analysis in the human services' section of the report is limited to the organizations that completed the survey, had government contracts, and were categorized as human service organizations. The analysis data file contained a total of 2,080 human service organizations that completed the questionnaire, 1,565 of which have government contracts and grants (table 15).

**Table 14. Nonprofits Weighted and Unweighted Counts**

<b>Response Status</b>	<b>Count</b>	<b>Weighted Count</b>
Responded to survey	7,823	N/A
Completed questionnaire	4,024	80,098
Had government contracts and grants	2,764	55,702
Did not have government contracts and grants	1,260	24,396

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grans (2013).  
N/A = not applicable

**Table 15. Human Service Nonprofits Weighted and Unweighted Counts**

<b>Response Status</b>	<b>Count</b>	<b>Weighted Count</b>
Completed questionnaire	2,080	32,360
Had government contracts and grants	1,565	29,483
Did not have government contracts and grants	515	2,877

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grans (2013).

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The Urban Institute is a nonprofit nonpartisan policy research and educational organization that examines the social, economic, and governance problems facing the nation. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders.

## Notes

<sup>1</sup> In this report, nonprofit refers to public charities classified as 501(c)(3) tax-exempt organizations in the Internal Revenue Code with expenses of \$100,000 or more. The study does not include hospitals, higher education, and other types of nonprofits not likely to have government contracts and grants. See the methodology section for a list of excluded types of nonprofits.

<sup>2</sup> Significant, in this report, is only used to refer to differences that are statistically significant.

<sup>3</sup> The sampling frame of nonprofits did not include hospitals and higher education organizations as well as other types of nonprofits not likely to have government contracts and grants. See the methodology section for a list of excluded types of nonprofits.

<sup>4</sup> Burnett, Jennifer, “Most States Still Struggling to Get to Pre-Recession Levels of Employment,” Knowledge Center (blog), The Council of State Governments, August 16, 2013, <http://knowledgecenter.csg.org/drupal/content/most-states-still-struggling-to-get-pre-recession-levels-employment>.

<sup>5</sup> The federal government uses a contract to purchase goods or services from nonprofit organizations and a grant when it is assisting the nonprofit to carry out an activity that Congress is supporting as a matter of public policy. See (Pettijohn 2013b) for more detail on differences between federal contracts and grants.

<sup>6</sup> Authors used data-oriented statistical methods to develop cutpoint. The data-oriented method collapsed an interval-ratio variable to an ordinal variable based on quartiles.

<sup>7</sup> Cost-sharing and matching requirements refer to those contracts and grants that explicitly state that the nonprofit must provide a certain percentage of the award.

<sup>8</sup> Organizational overhead or administrative expenses include costs associated with the organization as a whole that cannot be attributed to a program (such as utilities, accounting staff, or a receptionist). Program overhead or administrative expenses refer to administrative expenses directly related to programs and services (that is, program administration, such as computer use, copying, rent, and telephone use).

<sup>9</sup> While three out of four government contracts refuse to pay more than 10 percent of indirect costs, multiple studies have recognized that a more realistic “range of between 20 percent and 40 percent is appropriate, with a range of 25 percent to 35 percent as being most realistic” (National Council of Nonprofits 2013b).

<sup>10</sup> Human service nonprofit refers to public charities classified as 501(c)(3) tax-exempt organizations in the Internal Revenue Code with expenses of \$100,000 or more. The study does not include labor unions, agricultural programs, homeowners and tenants associations, fire prevention, safety education, public safety benevolent associations, recreation and sports, and youth development-religious leadership. See the methodology section for a list of excluded types of nonprofits.

<sup>11</sup> In order to capture more precise information on government contracts and grants, the question related to dollar amount received from government agencies was worded differently in 2012. Thus, dollar amounts reported by human service nonprofits in 2009 and 2012 are not directly comparable.



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