

Government Contracting: The Business of Foundations

A Letter from Kathleen Enright

Editors' note: *The Nonprofit Quarterly* is pleased to reprint this timely and important letter by Kathleen Enright, the executive director of Grantmakers for Effective Organizations, urging foundations to pay attention to the sometimes-serious contracting problems between state administrations and nonprofits. In our interviews for the *Nonprofits in the Age of Obama* series, this issue has come up repeatedly. Look for more from NPQ on this subject in the near future.

Government Funding of Nonprofits: A Force for Good?

Dear Grantmaker,

The economic stimulus package of 2009 is about to open a valve that will unleash serious dollars into communities. Nonprofits are so starved for resources that even the strongest organizations are struggling. The prospect of new dollars flowing to these organizations is a good thing, isn't it?

Given that government often constructs contracts and grants in ways that weaken recipient organizations, the situation is not so clear. Here are some facts to illustrate the point:

- Government agencies almost universally under-reimburse for the services provided by nonprofit organizations. It's the nonprofit equivalent of losing money on every person served and attempting to make it up on volume.
- Nonprofits are ill equipped to float the costs of services until reimbursement arrives up to nine months later, exacerbating already serious cash-flow challenges. At the same time, nonprofits aren't attractive borrowers for traditional lenders because they are so undercapitalized.
- Unlike their corporate counterparts, nonprofits are typically required to return unused funds at the end of the contract period, hamstringing their ability to build a healthy reserve.
- Antiquated application and reporting processes eat into organizational capacity before the work begins.

Bolstering, not Weakening, the Nonprofit Sector

The potential for new government dollars to further weaken an already fragile nonprofit sector is troublesome—especially considering that monies often used to subsidize government contracts are also scarce.

As a grantmaking community committed to the health and vitality of the nonprofits we support, it's in our best interest to advocate for governmental procurement practices and grantmaking systems that are fair and equitable. The good news is reform efforts have already yielded positive results.

Spurred by a coalition of nonprofits led by the Providers Council and supported by the Boston Foundation, the Massachusetts Executive Office of Health and Human Services commissioned a study

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—Kathleen Enright, GEO



to assess the financial health of the state's human-service providers. The headline of the study: cost reimbursement contracts were hurting providers' financial health, with most providers running deficits. Providers had no room to adjust budgets as contracts were renewed. In some cases, budgets had not been updated to reflect current costs of services in 10 years.

In 2008, in response to these findings, Massachusetts passed a bill to give more leverage to human-service providers in setting rates for their work. The bill included opportunities for regular reviews and cost-of-living adjustments.

Led by the Donors Forum and supported by the Wallace Foundation, a coalition of nonprofits in Illinois is in the early stages of a similar effort in that state.

We all have an opportunity to demonstrate leadership to broaden the capacity of the organizations we rely on. Some possibilities include the following:

- Convene grantees that are likely recipients of new government dollars to hear their thoughts on the current system and which reforms would most benefit them. Share what you hear with your colleagues in the donor community.
- Make sure that your organization consistently pays the full cost of services when giving project grants. Consider providing general operating support to help key grantees absorb the unreimbursed portion of government contracts until the situation can be corrected.
- Help grantees understand the full cost of delivering programs by providing them with access to financial capacity building. Similarly, help them understand the financial and programmatic consequences of accepting funds that do not cover the full cost of providing services.
- Support the work of local conveners, such as state associations of nonprofits that have advocated for changes beneficial to nonprofits. These infrastructure organizations can't educate lawmakers effectively without substantial financial support from the grantmaking community.
- Commission a study similar to the one conducted in Massachusetts to support reform efforts by making the negative consequences of the current system clear.
- Talk with local and state agencies about which reforms—if any—are possible.
- Help educate public officials and policy makers about the unintended consequences of current practices.

Systems change is possible only through collective action. If we all contribute in the way that makes most sense for us, broad-scale change can quickly be within our reach.

Kathleen Enright, Grantmakers for Effective Organizations