Contracts and Grants between Human Service Nonprofits and Government: Comparative Analysis

Sarah L. Pettijohn and Elizabeth T. Boris

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. Human service nonprofits are more likely than other types of organizations to enter into contracts with governments to provide services.

This brief summarizes results from the second national study of government contracts and grants with human service nonprofit organizations. We compare results of this survey with those of the national survey of human service nonprofit organizations conducted in 2010 (Boris et al. 2010). We examine how human service organizations have managed since the Great Recession ended and how their relationships with government funding agencies have changed.

The study results are based on a national, stratified, random survey of most types of human service 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 2014). Results are weighted to represent human service US nonprofit charities (except as noted) that had contracts and grants with government agencies in 2012 (Pettijohn, Boris, Devita, and Fyffe 2013).
Nonprofit Organizations with Government Contracts and Grants

In 2012, we estimate that local, state, and federal governments had agreements totaling about $81 billion dollars with nearly 30,000 human service organizations. Examples of human service nonprofits include organizations that provide rehabilitation services for offenders, job training, food banks, housing services, immigrant centers, battered women’s shelters, and community action agencies. On average, human service nonprofits have seven contracts and/or grants per organization; the median is three. This is not significantly different from the 6 contract and grants reported in 2009.

Significant improvements were reported by human service nonprofits in 2009 compared with 2012. In 2012, human service nonprofits were more likely to report funding from local and state governments and fees for service increased or remain the same, a statistically 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.

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.

Financial Health of Human Service Organizations with Government Contracts and Grants

In 2009, the United States slowly emerged from 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, many human service nonprofits still reported making cutbacks, but significantly fewer reported decreasing employee benefits and the number of people served. 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. 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 2012.²

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 1 displays an overview of the perceived problems in 2012 compared with 2009.

Complex and Time-Consuming Application and Reporting Requirements

The most frequently cited problems in 2009 and 2012 involved governments’ complicated and time-consuming 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 slightly lower than the 81 percent that reported this problem in the previous report. As in 2009, different financial and budget reporting categories were the second most cited problem in 2012, with 69 percent of human service nonprofits noting this as a problem (76 percent in 2009).

Human service nonprofits did not report any improvement in problems caused by the different outcome reporting requirements of various government agencies. 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) (see figure 2).

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. Statistically significant differences were found in the number of human service nonprofits that had a problem with complex and time-consuming application and reporting processes between 2009 and 2012. However, one respondent voiced frustration: “Reduced funding for client services, but increased requirements for reporting outcomes for clients. No funding for fringe benefits or..."
Figure 1. Key Problems Reported by Human Service Nonprofits in 2009 and 2012

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.
Figure 2. Problems When Human Service Nonprofits Have Different Reporting Requirements


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.
administrative costs associated directly with projects funded by these grants.”

In 2012, nonprofits in 14 states reported significantly more problems with the reporting process compared with 2009.

**Failure to Cover Full Program Costs**

In 2009, more than 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.

Nonprofits in 32 states reported fewer problems with insufficient funding, while those in 6 states reported more problems. Nonprofits in 9 of the 10 states with the highest percentages of problems in this area in 2009 reported significant improvements in 2012.

**Changes to Contracts and Grants**

In 2009, more than 70 percent of human service organizations reported that government altered already negotiated contracts and decreased 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 3).

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

The most recent survey found that organizations in seven states reported more problems associated with changes to contracts and grants compared with 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 1). 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 were not paying human service nonprofits as late in 2012 as they were in 2009, but the prevalence of late payments was unchanged. There was

### Figure 3. Changes to Government Contracts and Grants

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canceled contracts or grants*</td>
<td>18</td>
<td>9</td>
</tr>
<tr>
<td>Decreased payments for services*</td>
<td>72</td>
<td>26</td>
</tr>
<tr>
<td>Indefinitely postponed contracts or grants*</td>
<td>10</td>
<td>6</td>
</tr>
</tbody>
</table>

* Differences are significant at the 95 percent confidence interval.


Notes: Figures are based on human service nonprofit organizations. Missing or not applicable answers were excluded.
Government-Nonprofit Contracting Relationships

Table 1. Days Government Contract and Grant Payments are Past Due for Human Service Nonprofits

<table>
<thead>
<tr>
<th>LEVEL OF GOVERNMENT</th>
<th>30 days</th>
<th>60 days</th>
<th>90 days</th>
<th>Over 90 days</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2012</td>
<td>2009</td>
<td>2012</td>
</tr>
<tr>
<td>Local</td>
<td>24</td>
<td>27</td>
<td>30*</td>
<td>31*</td>
</tr>
<tr>
<td>State</td>
<td>22</td>
<td>20</td>
<td>25*</td>
<td>29*</td>
</tr>
<tr>
<td>Federal</td>
<td>28</td>
<td>27</td>
<td>25</td>
<td>28</td>
</tr>
</tbody>
</table>

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 2. Average Amount Governments Still Owe Human Service Nonprofits

<table>
<thead>
<tr>
<th>LEVEL OF GOVERNMENT</th>
<th>AVERAGE AMOUNT ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Local</td>
<td>103,535</td>
</tr>
<tr>
<td>State</td>
<td>231,749</td>
</tr>
<tr>
<td>Federal</td>
<td>385,476</td>
</tr>
</tbody>
</table>

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.

no change in the number of days government contracts and grants were past due by federal agencies between 2009 and 2012.

Table 2 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 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.

Overall, significantly greater percentages of nonprofits in 14 states reported more problems with late payments, while nonprofits in 19 other states reported no change in their problems with late payments.

Overhead Expenses

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 reported constraints on general overhead compared with 2009; however, there were still more than 50 percent that had 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 lower percentages of government contracts and grants dollars could be used to cover overhead costs.
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 provide a comparison between the state and human service nonprofits in 2009 and 2012. The relationship between government and nonprofits has improved since the first survey in 2009, however, there is still work to be done.

Late payments continue to be burdensome and add additional hardship to cash strapped human service nonprofits, and some human service nonprofits do not have adequate resources to cover late reimbursements by government agencies. This continues to be problematic for human service nonprofits.

Overall human service nonprofits have reason to be hopeful as there has been some improvement in their status since 2009. They appear to be recovering financially, although they still lack sufficient resources to provide services to all who need them. The depletion of reserves to make ends meet leaves human service nonprofits in a vulnerable position.

Acknowledgments

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Notes

1. Significant, in this brief, is only used to refer to differences that are statistically significant.


References


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