Executive Summary
Governments and nonprofits are inextricably tied together through service provision. Governments depend on nonprofits to supply public services, whereas nonprofit providers rely on government funding. This arrangement manifests itself through contracts and grants that can sum up to billions of dollars annually (Boris et al. 2010a). The contracting and grants system, however, is laden with problems that affect both nonprofit providers and government agencies, and therefore affect the people who are meant to benefit from nonprofits. A number of state governments and their nonprofit partners have begun to address contracting and grant issues through initiatives such as streamlining task forces, online procurement systems, and document repositories. This case study documents the efforts of nonprofit leaders, government agencies, and elected officials in the state of Maryland to address contracting and grants issues and streamline a disjointed and complicated system. The state has put in place an improved contracting and grants infrastructure that addresses three critical needs: simplifying and streamlining the contracting and grants system, building nonprofit capacity, and establishing lines of communication between agencies and nonprofits. Although Maryland has not solved all its contracting and grants problems, a key to its progress is the willingness of nonprofit providers and government agencies to identify opportunities for collaboration and improvement. Nonprofits in Maryland are highly organized and proactive in finding ways to work with government agencies to address contracting and grant issues. The solutions Maryland has put in place can be used to inform other states that seek to improve their own contracting and grants systems.

Introduction
All levels of government routinely partner with nonprofit organizations to provide services to constituents. Government works with third-party service deliverers when it is able to save money and provide more effective services to its citizens. However, the relationship between government and nonprofit organizations is not without problems.

A 2010 study conducted by The Urban Institute’s Center on Nonprofits and Philanthropy revealed large-scale, systematic problems in government–nonprofit contracting and grants processes that adversely affected the ability of many nonprofits to serve their clients (Boris et al. 2010a). This first national survey of
nonprofit human service organizations found five key problems with the government contracting process: payments did not cover the full cost of services provided; both applications and reporting processes were complex and time consuming; payments were late; and terms of the contracts or grant agreements changed during the course of the work (figure 1). Additionally, nearly a third of respondents thought that their experience with government during the recession was worse than in previous years (Boris et al. 2010a and b).

**Figure 1. Key Problems Reported for Government Contracts and Grants, United States**

<table>
<thead>
<tr>
<th>Problem</th>
<th>Not a Problem</th>
<th>Small Problem</th>
<th>Big Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments do not cover full cost of contracted services</td>
<td>24</td>
<td>32</td>
<td>44</td>
</tr>
<tr>
<td>Complexity of/time required for reporting on contracts and grants</td>
<td>24</td>
<td>37</td>
<td>39</td>
</tr>
<tr>
<td>Complexity of/time required by application process</td>
<td>25</td>
<td>37</td>
<td>39</td>
</tr>
<tr>
<td>Government changes to contracts and grants</td>
<td>26</td>
<td>31</td>
<td>42</td>
</tr>
<tr>
<td>Late payments (beyond contract specifications)</td>
<td>24</td>
<td>29</td>
<td>47</td>
</tr>
</tbody>
</table>

Source: Boris et al. 2010a.

Note: The numbers are based on the responses that identified the issues as either not a problem, a small problem, or a big problem. Missing or not applicable answers are excluded.

Although the study highlighted government contracting and grants issues from the nonprofit human service sector perspective, it did not provide information on the contracting and grants process from the perspective of government agencies that fund nonprofits. Feedback from some government officials emphasized that nonprofits are often late in applying for and reporting on contracts and grants, and that some organizations do not have the required skills or capacity to undertake the contracts they win, which can exacerbate problems in the government–nonprofit relationship.
This report presents both the nonprofit and government perspectives. It examines how the government–nonprofit contracting and grant processes work in one state, Maryland. Although some research has been done on the contracting and grants processes at the federal and local levels, systems at the state level are understudied. States are unique in that they often receive funding from the federal government to expend or pass on to local governments, while also providing funding from their own revenues. State agencies must also comply with federal requirements for money received and ensure compliance from entities they fund directly and through county and local governments.\(^1\) This study documents problems both government and nonprofit organizations encounter, identifies trends in government contracting, and showcases promising practices.

Maryland was selected because it has embarked on initiatives to improve relationships with nonprofits and revamp the contracting and grants processes at different levels of government. This development can be attributed in large part to the state’s highly organized nonprofits, which have for some time advocated improvements in the contracting and grants system. In fact, as figure 2 notes, the 2010 National Survey of Nonprofit Government Contracting and Grants found Maryland among the states in which nonprofits reported fewer problems with government contracting and grants (Boris et al. 2010b).

**Figure 2. Key Problems Reported for Government Contracts and Grants, Maryland**

<table>
<thead>
<tr>
<th>Problem</th>
<th>State Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments do not cover full cost of contracted services</td>
<td>33</td>
</tr>
<tr>
<td>Complexity/time required for reporting on grants/contracts</td>
<td>32</td>
</tr>
<tr>
<td>Complexity/time required by application process</td>
<td>28</td>
</tr>
<tr>
<td>Government changes to contracts/grants</td>
<td>26</td>
</tr>
<tr>
<td>Late payments (beyond contract specifications)</td>
<td>31</td>
</tr>
</tbody>
</table>

State Ranking: 1 = highest percentage of nonprofits with problems; 51 = lowest percentage of nonprofits with problems.
Maryland has infrastructure in place to improve the contracting process and to provide assistance to nonprofits applying for grants. For example, eMaryland M@rketplace (eMM) compiles state information on procurement to ensure that potential contractors have equal access to solicitation information. The Governor’s Grants Office, which helps nonprofits as well as local and state governments find, win, and manage grants, provides training and technical assistance in all aspects of grant writing and management.

Because the state passes money to county governments, this study also examines two counties, Montgomery and Prince George’s, to capture a more complete picture of the contract and grant system in Maryland. Montgomery County in particular stands out because of its highly organized and active nonprofit community, which enjoys a strong relationship with the county government. Years of advocacy and close interaction with government officials and agency representatives by nonprofit leaders have led to close collaboration between area providers and the jurisdiction’s largest government contractor, the Montgomery County Department of Health and Human Services.

History of Government Funding of Nonprofits
Since colonial times, the United States has depended on voluntary associations and churches to provide services to those in need. This dependence expanded in the 1960s with Great Society programs. President Johnson encouraged the federal government to provide financial support to nonprofits to accomplish desired program work. By the 1980s, President Reagan saw cutting funding for services provided by nonprofit organizations as a way to reduce the size of the federal budget. Nonprofit scholars, in response, highlighted the reliance of nonprofits on government funding and showed that donations would not be able to fill in for government funding cuts (Salamon and Abramson 1982; Salamon 1987).

Concerns about the interdependence of the government and nonprofit sectors have a long history. In November 1973, The Commission on Private Philanthropy and Public Needs was created to examine the nonprofit/government funding relationship. Among the commission’s major findings is that “decreasing levels of private giving, increasing costs of nonprofit activity and broadening expectations for health, education, and welfare services as basic entitlements of citizenship [as a result of New Deal legislation] have led to the government becoming a principal provider of programs and revenues in many areas once dominated by private philanthropy. And government’s growing role in these areas poses fundamental questions about the autonomy and basic functioning of private nonprofit organizations and institutions” (Commission on Private Philanthropy and Public Needs 1975, p. 16). Government contracts and grants then accounted for more than almost all sources of private philanthropy combined (Commission on Private Philanthropy and Public Needs 1975).

Government increasingly funds nonprofit organizations to perform services that it may no longer have the capacity to provide itself (Amirkhanyan 2007, 2009; Brown and Potoski 2003, 2006; Cooper 2003;
Milward and Provan 2000; O’Toole and Meier 2004; Sclar 2000; Van Slyke 2003). As of 2010, many nonprofit organizations continued to provide substantial amounts of services on behalf of governments and in turn received considerable government funding. As figure 3 shows, nearly a third of revenue sources for human service nonprofits comes from government through contracts (23.2 percent) or grants (9.5 percent) (Roeger, Blackwood, and Pettijohn 2012).

**Figure 3. Revenue Sources for Reporting Public Charities, 2010**

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees for services and goods from private sources</td>
<td>46.6</td>
</tr>
<tr>
<td>Fees for services and goods from government sources</td>
<td>23.2</td>
</tr>
<tr>
<td>Private contributions</td>
<td>12.6</td>
</tr>
<tr>
<td>Government grants</td>
<td>9.5</td>
</tr>
<tr>
<td>Other income</td>
<td>5.5</td>
</tr>
<tr>
<td>Investment income</td>
<td>2.6</td>
</tr>
<tr>
<td>Sources: NCCS calculations of IRS Statistics of Income Division Exempt Organizations Sample (2007); The Urban Institute, National Center for Charitable Statistics, Core Files (Public Charities 2010); American Hospital Association (AHA) 2010 survey; and the National Health Accounts, produced by CMS.</td>
<td></td>
</tr>
</tbody>
</table>

**Context of the Recession**

The Great Recession, which officially began in 2007 and ended in 2009, brought the government–nonprofit funding relationship into sharp relief. Late payments to nonprofits from financially stretched states and localities challenged the ability of human service nonprofits to maintain service levels. State budget crises, the falloff in giving and volunteering, and the rise in demand due to the recession all led to pressure on nonprofits to do more with less; many reported year-end deficits (Boris et al. 2010a).

Although the downturn officially ended in June 2009, state budget gaps and cuts persist (Center on Budget and Policy Priorities 2013). From 2007 through 2012, cash-strapped states resorted to $290 billion in cuts to public services (McNichol 2012). Furthermore, the rollout of the federal sequester, which mandates
billions of dollars of cuts in nondefense discretionary spending, will worsen the financial health of states\textsuperscript{3} and, in the process, nonprofits that partner with them.\textsuperscript{4} Government payments for nonprofit programs and services will be limited for the near future.

In states where the budgetary noose is tightening, the contracting and grants problems faced by nonprofits are likely to grow. Providers will have less funding to cover the full cost of programs and services performed on behalf of governments and limited overhead allowances to cover time dealing with cumbersome application and reporting requirements. During the recession, these pressures resulted in nonprofit cutbacks (Boris et al. 2010a). Figure 4 illustrates the strategies nonprofits used to cope with the most recent round of government budget cuts. These cutbacks can have serious and long-term implications for service delivery and nonprofit capacity.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{cutbacks.png}
\caption{Cutbacks by Human Service Nonprofits,2009}
\end{figure}

\textit{Figure 4. Cutbacks by Human Service Nonprofits,2009}

\[\begin{align*}
\text{Freeze or reduce employee salaries} & : 50 \\
\text{Draw on reserves} & : 39 \\
\text{Reduce number of employees} & : 38 \\
\text{Reduce health, retirement, or other…} & : 23 \\
\text{Borrow funds or increase lines of credit} & : 22 \\
\text{Reduce number of programs or services} & : 21 \\
\text{Reduce number of people served} & : 17 \\
\text{Increase program fees} & : 15 \\
\text{Reduce hours of operation} & : 10 \\
\text{Close offices or program sites} & : 7
\end{align*}\]

\textit{Source: Boris et al. 2010a.}

In this environment, nonprofits and government agencies have sought ways to improve the contracting and grants processes. Spurred by the need to be more efficient and effective, nonprofits and governments have identified a mix of reforms, which are outlined in the 2013 National Council of Nonprofits report.
Connecticut, Hawaii, Illinois, Maine, Maryland, New Jersey, New York, North Carolina and Texas have set up contracting reform task forces. Connecticut and New York have created a cabinet-level nonprofit liaison position, whereas Illinois, Connecticut, and New York City have created document vaults, which allow for the storage and safekeeping of documents that are commonly requested by government officials (National Council of Nonprofits 2013). Arizona, Massachusetts, Maryland, and Nevada have created governor’s grants offices.

**Government Funding Processes**

**Contracts versus Grants**
Although contracts and grants are both mechanisms used to pay for services provided by nonprofit organizations, the principal purpose of the proposed activity generally determines which funding mechanism is used (Pettijohn 2013). Table 1 outlines questions asked by the government to determine the funding mechanism to be used.

<table>
<thead>
<tr>
<th>Contract: Benefit or Use Test</th>
<th>Grant: Support or Stimulation Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Is the agency the direct beneficiary or use of the activity?</td>
<td>▪ Is the applicant performing the project for its own purpose?</td>
</tr>
<tr>
<td>▪ Is the agency providing the specifications for the project?</td>
<td>▪ Is the agency merely supporting the project with financial or other assistance?</td>
</tr>
<tr>
<td>▪ Is the agency having the project completed based on its own identified needs?</td>
<td>▪ Is the benefit to the agency incidental (i.e., do funded activities complement the agency’s mission)?</td>
</tr>
</tbody>
</table>

*Source: Federal Grant and Cooperative Act of 1977.*

**Contracting**
Typically, as figure 5 shows, the contracting process involves four phases: decide to make or buy the good or service; select the contractor; monitor/manage the contract; and evaluate the performance of the contractor (Brown and Potoski 2003; Brown, Potoski, and Van Slyke 2006; Cooper 2003).
Once the government determines that contracting the service to a third party is appropriate, the government must select a contractor to perform the service or produce the product. During this second phase, government must be as specific as possible about its expectations of the contractor and aware that vendors from the nonprofit and for-profit sectors may have different values (Brown, Potoski, and Van Slyke 2006). When a government agency selects a contractor, the agency establishes rules under which the contract relationship will operate (Cooper 2003). The typical contracting model is shifting from traditional vertical contracting relationships to horizontal partnerships. Government is less often a passive acceptor of bids and instead is an active participant in the marketplace, which has implications for nonprofit managers because it creates a more interactive process between the two parties.

Many state governments are streamlining their grant application processes, so a considerable amount of work has been done to improve phase two. For contracting, 30 states have implemented a statewide online procurement system. Although capabilities of these systems vary, most states have the ability to provide requisition/purchase orders, develop solicitations, receive bids and proposals, and award contracts (National Association of State Procurement Officials 2013).

It is during the third phase that government monitors and manages contracts. This phase is the longest in the contracting process. The government has to maintain enough capacity to oversee the contracts (i.e., budget for contract management, determine what costs can/cannot be reimbursed to the contractors, provide continued education for public managers, and recruit, train, and retain contract managers). Some agencies have moved beyond the traditional top-down “audit” approach to a more interactive approach that stresses working with contractors to ensure service quality and cost savings.

Contracts contain performance expectations, and through reporting, auditing, and monitoring, government officials ensure compliance. This third phase can be problematic for nonprofit organizations. Interviews in Maryland revealed that this is an area that still needs improvement. Nonprofit leaders
complained about the burdens imposed by mandated reporting, which takes away scarce resources from actual service provision.

In addition, newer service delivery models are emerging. Because the problems facing society are multifaceted and cannot be solved by a sole provider, governments are beginning to rely on networks of providers to accomplish complex and challenging service delivery goals. It sometimes takes a continuum of providers to ensure adequate provision of services. As a result, government agencies are increasingly relying on expertise from several organizations to deliver services in an efficient and effective manner. Management of service delivery networks requires special skills and resources appropriate for coordinating and managing multiple organizations.

During the final evaluation stage, the government agency must decide if it wants to separate or continue working with the contracting entity. In the case of separation, due process as spelled out in the contract must be followed. Government agencies no longer just verify financial compliance of contractors. They also evaluate using new accountability standards for contracting, which include legal (fair process), performance (outcomes), and market (efficiency and customer satisfaction) standards. With more demands for effective use of government funding by elected officials and the public at large, agencies must provide evidence that their contractors are performing in line with expectations. The need for government agencies to submit performance evidence to Congress means contractors are expected to document their effectiveness in service delivery through self-reported outcome measures of client satisfaction.

**The Maryland Model**

Maryland is home to a large group of nonprofit organizations that provide a complex mix of government-financed services to a diverse and widespread population. The experience of Maryland nonprofits, government agencies, and elected officials in improving the state’s contracting and grants system is a useful model for other states. Although Maryland still has more work to do, it has made some headway in streamlining its processes.

**Nonprofits in the State of Maryland**

About 7,800 nonprofits are located in Maryland. The three largest types are human services (33 percent), education-related organizations (18 percent), and health-related organizations (14 percent). In 2011, Maryland nonprofits reported over $2.8 billion in government grants, a third of which went to health-related nonprofits (Public Charities 2011).
Table 2. Maryland Filing Public Charities by Type and Amount of Government Grants

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
<th>Percent (%)</th>
<th>Total Revenue ($)</th>
<th>Total Expenses ($)</th>
<th>Total Estimated Gov't Grants ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arts and culture</td>
<td>766</td>
<td>9.8</td>
<td>553,532,882</td>
<td>485,358,368</td>
<td>209,345,858</td>
</tr>
<tr>
<td>Education</td>
<td>1,436</td>
<td>18.4</td>
<td>7,053,875,748</td>
<td>6,909,957,029</td>
<td>284,253,189</td>
</tr>
<tr>
<td>Environment/animals</td>
<td>353</td>
<td>4.5</td>
<td>437,218,828</td>
<td>408,455,325</td>
<td>54,297,927</td>
</tr>
<tr>
<td>Health</td>
<td>1,095</td>
<td>14.0</td>
<td>21,119,851,156</td>
<td>20,991,593,450</td>
<td>910,597,219</td>
</tr>
<tr>
<td>Human services</td>
<td>2,578</td>
<td>33.1</td>
<td>4,819,345,998</td>
<td>4,583,972,889</td>
<td>791,372,827</td>
</tr>
<tr>
<td>International and foreign</td>
<td>220</td>
<td>2.8</td>
<td>849,176,897</td>
<td>873,115,657</td>
<td>337,796,336</td>
</tr>
<tr>
<td>affairs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutual/membership benefit</td>
<td>17</td>
<td>0.2</td>
<td>13,849,126</td>
<td>16,307,682</td>
<td>536,547</td>
</tr>
<tr>
<td>Public/society benefit</td>
<td>881</td>
<td>11.3</td>
<td>1,815,308,553</td>
<td>1,809,904,872</td>
<td>262,520,967</td>
</tr>
<tr>
<td>Religion related</td>
<td>444</td>
<td>5.7</td>
<td>157,438,465</td>
<td>141,962,664</td>
<td>2,120,757</td>
</tr>
<tr>
<td>Unknown</td>
<td>5</td>
<td>0.1</td>
<td>357,988</td>
<td>442,359</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>7,795</td>
<td>100.0</td>
<td>36,819,955,641</td>
<td>36,221,070,295</td>
<td>2,852,841,627</td>
</tr>
</tbody>
</table>


State Funding

The State of Maryland has a structured system of contracts and grants. These processes are complex with separate streams originating from all levels of government. Contracts and grants follow somewhat different processes.

Contracts follow the procedures outlined in the Code of Maryland Regulations (COMAR) Title 21. Contracts for more than $25,000 must be approved by the Department of Budget and Management through a solicitation that is posted on eMM6 for a month. Bids are then evaluated by staff, and the overall most highly rated provider is awarded the contract. If the contract is for more than $200,000, it also has to be approved by the Board of Public Works. The same process applies to both nonprofits and for-profits under COMAR Title 21.

Grants are awarded through various agencies at both the state and local levels of government. The grants process is supported by a dedicated Governor’s Grants Office (one of the few in the country), from which the director oversees all the processes, training, and issues related to incoming Maryland grants. The granting process is standardized, starting with the application process, followed by a review of applications, and finally the awarding of the grant to the candidate deemed best able to do the work. The Grants Office, however, does not have a standard and uniform policy on how each agency must deal with proposals issued by an agency. Each government agency has some discretion to define criteria for eligible organizations.
County Funding

Two counties were examined in closer detail: Montgomery County and Prince George’s County. By examining these two counties, we are able to explore the differences of nonprofits that are in different stages with those with different levels of capacity to handle government funding. As Table 3 displays, there are differences in the size, age, and capacity of the two counties’ nonprofit sectors. Although these two neighboring counties are similar in land mass, Montgomery County has a well-established, active nonprofit sector, and Prince George’s County has a young, growing nonprofit sector.

Montgomery County had more than 40,000 individuals working in its nonprofit sector in 2011, more than 16 percent of the state’s nonprofit workforce. There are 44 nonprofit employees for every 1,000 people in Montgomery County. A majority (56 percent) of nonprofits in Montgomery County were founded before 2000. Nonprofits in Montgomery County have more revenue per capita, $7,194, than the state average of $6,754. While over two-thirds of nonprofits in Montgomery County have revenues of less than $50,000, Montgomery County has fewer of these small organizations, which is less than the state average of 74 percent of organizations with revenues less than $50,000. Montgomery County is also home to larger nonprofits, with almost 20 percent of the county’s nonprofit organizations having revenues of $250,000 or more (compared with 14 percent of nonprofits in the state).

Prince George’s County, on the other hand, is a growing community, and its nonprofit sector is growing as well. In 2011, nearly 15,000 people were working for nonprofit organizations in Prince George’s County, or about 17 nonprofit employees for every 1,000 residents of Prince George’s County. Growth in the sector boomed in the 2000s, with two-fifths of the county’s nonprofits forming in this decade. Another 14 percent were established in 2010 and 2011, making the majority of nonprofit in Prince George’s county young (less than 15 years in operation). Nonprofit revenue per capita in the county, $2,095, is less than a third of the revenue per capita of nonprofits in the state of Maryland. Prince George’s County also has a significant amount of small nonprofit organizations; 84 percent have revenues less than $50,000, which is greater than the state average of 74 percent. Additionally, Prince George’s County has almost half the number of large organizations (revenues of $250,000 or more) compared to the state of Maryland.

Understanding the current state of each county’s nonprofit sector is essential to understanding the potential effects of government funding on nonprofits. The following sections discuss the processes each county uses to distribute funding.
Table 3. Overview of Montgomery and Prince George’s Counties, 2011

<table>
<thead>
<tr>
<th></th>
<th>Montgomery County</th>
<th>Prince George’s County</th>
<th>State of Maryland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>991,645</td>
<td>874,045</td>
<td>5,839,572</td>
</tr>
<tr>
<td>Nonprofit employees</td>
<td>43,371</td>
<td>14,553</td>
<td>263,373</td>
</tr>
<tr>
<td>Employees per 1,000 people</td>
<td>44</td>
<td>17</td>
<td>45</td>
</tr>
<tr>
<td>Total reporting public charity revenue</td>
<td>$ 7.1 billion</td>
<td>$3.2 billion</td>
<td>$39.4 billion</td>
</tr>
<tr>
<td>Reporting public charity revenue per capita</td>
<td>$7,194</td>
<td>$2,095</td>
<td>$6,754</td>
</tr>
<tr>
<td>Percentage of nonprofits by size</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than $50,000</td>
<td>69.8</td>
<td>84.1</td>
<td>74.2</td>
</tr>
<tr>
<td>$50,000 to $99,999</td>
<td>5.9</td>
<td>4.2</td>
<td>5.7</td>
</tr>
<tr>
<td>$100,000 to $249,999</td>
<td>6.9</td>
<td>4.0</td>
<td>6.3</td>
</tr>
<tr>
<td>$250,000 to $999,999</td>
<td>7.8</td>
<td>3.9</td>
<td>6.5</td>
</tr>
<tr>
<td>$1 million or more</td>
<td>9.5</td>
<td>3.8</td>
<td>7.3</td>
</tr>
<tr>
<td>Percentage of nonprofits by founding date</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before 1950</td>
<td>6.8</td>
<td>3.8</td>
<td>5.9</td>
</tr>
<tr>
<td>1950-1959</td>
<td>1.9</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>1960-1969</td>
<td>11.4</td>
<td>8.7</td>
<td>10.8</td>
</tr>
<tr>
<td>1970-1979</td>
<td>7.5</td>
<td>4.8</td>
<td>7.8</td>
</tr>
<tr>
<td>1980-1989</td>
<td>9.9</td>
<td>7.8</td>
<td>10.7</td>
</tr>
<tr>
<td>1990-1999</td>
<td>18.3</td>
<td>16.6</td>
<td>18.4</td>
</tr>
<tr>
<td>2000-2009</td>
<td>33.6</td>
<td>42.7</td>
<td>34.2</td>
</tr>
<tr>
<td>2010-2011</td>
<td>10.2</td>
<td>13.7</td>
<td>10.1</td>
</tr>
</tbody>
</table>

Source: Nonprofit employee figure from Maryland Nonprofits. 2013. 2013 Nonprofits by the Numbers. http://www.marylandnonprofits.org/dnn/Portals/0/2013-MD-Nonprofits-By-The-Numbers-web.pdf; employees per 1,000 people is authors’ calculation based on U.S. Department of Commerce, Census Bureau, Current Estimates Data; revenue and age figures from The Urban Institute, National Center for Charitable Statistics, Core Files (Public Charities, 2011) and Internal Revenue Service Business Master Files, Exempt Organizations (2012).

Note: Reporting public charities includes only organizations that both reported (filed IRS Form 990) and were required to do so (had $50,000 or more in gross receipts in 2011).

**Montgomery County**

In Montgomery County, nonprofits have three avenues for securing county funding. The first path is the County’s competitive procurement process open to both for-profit and nonprofit entities. This is the mechanism for outsourcing work to private vendors. Many contracts across county agencies are with
nonprofit organizations that provide medical services, homeless shelters, housing and economic development programs, disability services, early childhood programs, and other social services. The vast majority of funds Montgomery County nonprofits receive as public service providers are through competitive bidding. The two other funding opportunities for county nonprofits are through the County Executive and the County Council. Unlike contracts awarded through the competitive procurement process, these are one-year discretionary payments and are not competitively bid.

**Grants as Contracts**

Funding from Montgomery County’s County Executive and County Council are marketed as grant programs to nonprofits even though they technically are not grants, which are prohibited by the County charter. Nonprofits apply for these so-called “grants,” which invariably end up as contracts. For example, information requested in the application process, such as program outcomes and budget amounts, is less specific than what is required when the agreement is later drawn up as a contract. This can be confusing and ultimately burdensome to some nonprofits, especially smaller groups that are new to the demands of contracting. Both government and nonprofit representatives interviewed said that such groups tend not to have the capacity to meet the legal and financial reporting requirements of the contracting system.

Moreover, nonprofits, many of which apply for both the County Executive’s Community Collaboration Grants and the County Council Grants, go through separate processes that run concurrently. Nonprofits find themselves submitting essentially the same applications twice, in slightly different formats.

The application form for County Executive grants is shorter and available online, whereas the form for County Council grants is still paper-based. Nonprofits that apply for County Executive grants have to provide services that are consistent with the County Executive’s designated program areas for a given fiscal year (FY). Providers that apply for County Council grants are expected to enhance the County’s services, goals, and objectives. In a given year, the County Executive’s program areas may not necessarily align with the County Council’s priorities.

The review process for these two pools of funding is quite different. County Executive grant applications are reviewed by staff members who make recommendations to the Executive. The Executive then recommends a number of Community Grants requested by nonprofits as part of his/her operating budget recommendations.

County Council grant applications go through the Grants Advisory Group, a community panel of about 30 volunteers appointed by the Council. The group, composed of residents who respond to the Council’s call for volunteers, reviews approximately 20 applications per program area, meets with applicants, and provides comments in a public written report evaluating how well each applicant meets criteria established by the Council. At the Council’s direction, the group also reviews and evaluates all County Executive-recommended Community Grants that have not gone through a competitive review process.
Members cannot be an employee or board member of a nonprofit applying for a grant. They must also commit to meeting weekly for four to five weeks.

The Council Grants Manager, who oversees this process, receives the Panel's report and recommends a limited number of requests for funding to the Council. Council members make final decisions on which requests to fund as part of their deliberations on the overall County budget. In some years, the Council President, in consultation with Council members, has recommended funding additional grants beyond those recommended by the Council Grants Manager.

The Executive usually announces his proposed allocations two months before the Council's allocations are announced, giving nonprofits that have been chosen for funding and that have applied for County Council monies a chance to withdraw from the County Council process.

Once the Council approves funding requests for both County Executive and County Council Grants, applications are forwarded to the appropriate department of the County's executive branch. The departments then execute noncompetitive contracts with the nonprofits.

Nonprofits in Montgomery County therefore have to manage a process that can get confusing to those unfamiliar with the grants-to-contracts system and burdensome to those who apply for both County Executive and County Council Grants.

Prince George's County

Unlike Montgomery County, nonprofits in Prince George's County can obtain funding from their county government through contracts and grants. The County awards procurement contracts to eligible entities to provide goods (supplies, foods, etc.) and services (trash pickup, child care programs, etc.) using an electronic procurement site, where interested parties can download information on current opportunities. Nonprofits can submit questions and see previous questions and their answers on this site.

Although procurement opportunities are available to nonprofits, the majority of county funds for nonprofits come from the remaining two sources: County Grants and County Executive Grants (De Leon 2013).

County Grants

Prince George's County distributes grant funding to local nonprofits through both executive and legislative branches of government. In total, there are three separate processes through which community organizations can receive grants from the County. One process is the County Council's Non-Departmental Designated Grants (NDDG) and Special Appropriations Grants (SAG). The Council Grants Manager oversees this process, which is separate from the County Executive's Community Partnership Grant Program (CPGP).
Thirty-five nonprofit organizations will be designated to receive a portion of the nearly $2 million disbursed through this grant program in 2014. In 2012, 23 organizations received awards that ranged from $25,000 to $200,000. Although the NDDG program was expanded in 2013 to include 33 organizations, only an additional $90,000 was added to the fund, meaning more nonprofits received smaller amounts. Awards in 2013 were between $5,000 and $150,000.

While funding amounts may vary greatly from year to year, it does appear that designated organizations can count on receiving some portion of funding from NDDG. Eighty-seven percent of organizations that received NDDG money in 2012 also had awards in 2013. However, little is known about the criteria or community input used to select nonprofit organizations for the NDDG funds. Applicants are required to submit a grant application, budget, IRS Form W-9, IRS tax-exempt letter, Form 990, list of members of the board of directors, and a report on how previous County Council grants were used.

The second grant opportunity for nonprofits provided by the County Council includes Special Appropriations Grants (SAG). SAG grants allow each of the nine council members to allocate $100,000 to nonprofit organizations in the member’s district. Totaling $900,000, SAG funds account for nearly one-third of County Council funding to nonprofit organizations. Funds are awarded at the discretion of the council member, and even less is known about how decisions are made regarding the selection of the organization and amount awarded. Just as with the NDDG program, SAG applicants are required to submit a grant application, budget, IRS Form W-9, IRS tax-exempt letter, Form 990, list of members of the board of directors, and a report on how previous County Council grants were used.

With County Council elections every four years, nonprofit leaders must constantly cultivate relationships with new council members. When new council members are elected, priorities for the district may change, meaning this source of funding is relatively unstable and unpredictable.

The CPGP program awarded $1.6 million in FY 2013, and unlike grants awarded through the County Council, the County Executive has clear priorities for its funding. Priorities are based on the Transforming Neighborhood Initiative (TNI). This initiative takes a holistic approach to address community needs and awards funds to organizations best equipped to meet those needs. An Executive Review Panel reviews all complete applications and makes recommendations to the County Executive’s Office. The application states, “Prior grant award success under this solicitation does not represent nor guarantee an automatic renewal of funding,” which indicates that this likely is an inconsistent funding source for nonprofits in Prince George’s County.

Although there are these funding opportunities from the county, compared with the rest of the state, a higher proportion of nonprofit funding comes from the federal government. Sixty-six percent of the total health and human services funding in Prince George’s County comes from the federal government, whereas only 16 percent originates from local sources. Prince George’s County relies less on local funding than any other Maryland county. This is perhaps one of the reasons that the nonprofit sector in Prince George’s
County is under-resourced and underdeveloped, both in the dramatic differences in number of employees and revenues compared with the state of Maryland and neighboring, Montgomery County.

The government contracting and grants issues facing Prince George’s County are similar to those of other areas with a young and maturing nonprofit sector. With small organizations and limited staff, these nonprofits grapple with administrative challenges associated with government funding. Dedicating time to overly complex and burdensome application and reporting processes is frustrating for all nonprofits but especially challenging for nonprofits that lack the capacity to dedicate staff to mastering the processes. Additionally, when there are delays in execution of the contract and reimbursement of funds, smaller nonprofits have a harder time keeping their doors open compared with larger organizations that have additional or diverse (and nongovernment) revenue streams.

**Issues and Solutions in Maryland**

Nonprofits, government agencies, and elected officials in the state of Maryland have been taking a hard look at the problems that beset their contracting and grants systems through various mechanisms, such as using performance measurement and assessment tools at the state level and task forces at the county level. They are taking measures to address many of these issues.

“*The way that we currently procure human services is a disservice both to the people we serve and to the people who [provide] services.*”

—Nonprofit executive director on contracting process.

**Issue 1**

A disjointed and complicated contracting and grants system.

Maryland state agencies that partner with nonprofits have different procurement and grant-making timetables, payment schedules, and channels of command. This poses a considerable challenge to organizations that have multiple contracts and grants from the state. Nonprofit interviewees for this study reported having to submit the same information and data through various reporting channels that use distinct and separate forms, an inefficiency that adds to overhead costs and takes away from program staff time with clients. Although some agencies have begun using electronic reporting to expedite the process, most have not. A nonprofit leader who complained that different requirements across agencies are a major problem, said “some are better than others; some have made improvements [to procedures] in the last few years that were
absolutely horrible before.” Practitioners we spoke to also said that the lack of coordination within certain agencies, coupled with the constant turnover of government program managers, adds to the inefficiency of the entire system.

Nonprofit leaders said that one thing different contracting and grants processes have in common is that they are all cumbersome. Notification bids have short turnaround times, and interested organizations are left scrambling to turn in their proposals. These applications, however, are often not reviewed in a timely manner. Nonprofits that submit renewal applications continue programs and services without having heard from state agencies in a timely fashion. As one interviewee pointed out, the organization was not willing to halt services that previously had been contracted by the government just because its renewal application had not been processed in time for the new cycle. Another individual complained about last-minute changes to funding requirements. Nonprofit representatives also reported delays in processing and payment of invoices.

These comments are supported by findings in the 2010 National Survey of Nonprofit Contracting and Grants: State Profiles report and in a recent comprehensive review of Maryland’s procurement system. In the survey, a vast majority (75 percent) of nonprofits complained about the complexity and time required in the application process (Boris et al. 2010b). A review of Maryland’s procurement process commissioned by the state found the “delegation of authority for setting procurement policy and regulation to multiple control agencies has resulted in a fragmentation of policy and procedure across the state. The resulting outcome is a lack of standards in areas such as forms and contract language which can cause confusion and inefficiency for procuring agencies and vendors.”

Solution 1

Streamlining the contracting and grants system.

Government officials and nonprofit leaders in Maryland have long acknowledged issues with the state’s contracting and grants system and have begun making substantial efforts to address these issues.

The state has instituted eMM, an internet-based procurement system that provides ready access to State procurement information. eMM can be an efficient tool to improve vendor access to State procurement information. It provides a platform to publish solicitations via the internet for potential bidders and it is also the resource for submitting electronic bids, providing ready access to solicitation information. In addition, the system allows vendors to obtain bid results online once the due date and time for bid submission has passed. Maryland is one of 30 states that use an electronic procurement or e-procurement system (National Association of State Procurement Officials 2012).

The review of the procurement process commissioned by the state recommends that Maryland could further streamline its procurement process by implementing a cross-agency initiative to standardize the forms,
contracts and solicitation procedures. It could also centralize and formalize procurement policy and regulation across all agencies.\(^\text{20}\)

Maryland also has its Governor's Grants Office, a one-stop shop for nonprofits and for-profits seeking grant opportunities available through the state. The office helps state agencies, local governments, and nonprofits identify, apply for, and manage grants. Its website provides information and training materials on the grants process and enables users to search for available state and foundation funding.\(^\text{21}\) It also gives access to extensive data and resources about grants and procurement monies flowing into the state.

Additionally, the governor has instituted StateStat, a performance-measurement and management tool, to make the state government more accountable and efficient.\(^\text{22}\) At biweekly meetings, state managers meet with the governor and his executive staff to evaluate the state’s performance, reporting and answering questions on agency performance and priority initiatives. Each week, a comprehensive executive briefing is prepared for each agency that highlights areas of concern. Briefings are based on key performance indicators from the customized data templates submitted to the StateStat office biweekly by participating agencies. Data are analyzed, performance trends are monitored, and strategies to achieve improved performance are developed.

A bill to create a “data warehouse” into which nonprofits could upload their audits was enacted into law in May 2013.\(^\text{23}\) It is hoped the data warehouse will streamline the bureaucratic interaction between various government agencies and service providers. This follows the example of other states that have established repositories that ease the contracting process. In 2012, for instance, Connecticut launched its online document vault through which nonprofits and other contractors can upload contracting documents, thereby reducing paperwork and processing costs (National Council of Nonprofits 2013).

\begin{quote}
“Patience and understanding and technical assistance.”
—Government agency representative on requirements for working with nonprofits.
\end{quote}

**Issue 2**

A lack of administrative and financial capacity among some nonprofits.

Government agency representatives interviewed for this study overwhelmingly said they valued working with nonprofit providers. They believe that nonprofits are able to provide targeted and special services not readily supplied by the market, especially to vulnerable and hard-to-reach populations. Government contractors and grantors also find nonprofit staff members to be knowledgeable and highly
experienced in their fields. They point out that nonprofit missions tend to be aligned with the missions of government agencies, such as student achievement, environmental protection, or public safety, and appreciate the fact that nonprofit professionals they work with share the same ideals and goals. A government representative said, “We prefer working with nonprofits since they are the experts in our field and we share the same mission.”

Interviewees, however, did mention capacity issues in partnering with nonprofits. Smaller nonprofits tend to have high staff turnover, less financial management experience, and a general lack of crucial administrative infrastructure. This is of particular concern as funders, both government and private, require data and outcomes measures in the application and reporting processes while not providing adequate support to meet these requirements.

A government agency head emphasized that key issues nonprofits now face are data and information. “The federal government is pushing for information on who they help and how they help,” he said. “A lot of times, it seems nonprofits are not up to providing this information and getting reports in on time. It’s getting worse in that the federal government is asking for more, while at the same time cutting administrative costs. They want more information and data and administrative work but they’re not providing the money to do it with. That’s an issue for both the agency and nonprofits.”

As state agencies are increasingly held accountable by federal agencies demanding rigorous outcomes and performance measurement, so nonprofits are being held to higher standards of accountability and performance metrics by state funders. A government representative stressed that there is a need for improvement in outcomes measurement, including better tracking of reasonable outcomes, particularly for existing programs. She explained that nonprofits need to become proficient in measuring results and be able to convey these results. At times, reported results are not consistent with proposed achievements.

However, the capacity of government agencies varies and needs to be made more consistent. The review of Maryland’s procurement system found that “procurement skill levels vary across the state with little visibility of which people have which skills in which agency.” The reviewers recommend raising procurement skills across state agencies.24

**Solution 2**

Building nonprofit capacity.

A government agency representative said that although he values the work of nonprofits, “patience and understanding and technical assistance” are required for some providers. She described the hand-holding one particular nonprofit needed, which included multiple visits because the practitioner doing the financials and reporting “was just not getting it.” The government representative did acknowledge that the person eventually mastered the process.
Maryland nonprofits and government agencies have teamed up to strengthen the administrative and financial infrastructures of nonprofits. In 2011, for example, the Governor’s Grants Office participated in 47 training sessions for approximately 4,100 people. The Maryland Governor’s Grants Conference in the same year drew over 700 people. In 2012, the Governor’s Grants Office Higher Education Conference had 250 attendees.25

In Montgomery County, nonprofit providers and county representatives are collaborating to address pressing contracting issues. Workshops designed to improve the administrative and financial capabilities of nonprofit practitioners are regularly provided. As an offshoot of a working group started by nonprofits to address contracting issues, a nonprofit advisory committee to the Montgomery County’s Department of Health and Human Services (DHHS), the county’s largest contractor of nonprofit and for-profit services, has also been formed. The goal of the committee is to get feedback from nonprofit partners, particularly on contractual and other business issues. The outcome of this collaboration remains to be seen, but all parties agree that it is a step in the right direction.

The Center for Nonprofit Advancement, Maryland Association of Nonprofits, and Nonprofit Montgomery also provide workshops on outcome measurement and other useful topics in the county. Some of these convenings bring together government and nonprofit representatives, providing them with a venue to meet in person.

Although technical assistance and capacity-building workshops are helpful to nonprofits, nonprofit representatives suggest that government agencies should also pay for or allow more indirect costs because current reimbursements barely cover these costs. This has serious implications for providers who are left with few options for covering the full cost of delivering their services and programs and can make decisions that compromise their ability to serve their clientele (De Leon, Pettijohn, and De Vita 2012). A Government Accountability Office (GAO) study (2010) found that, when indirect cost reimbursement is less than the amount of indirect costs nonprofits determine they have incurred, most nonprofits GAO interviewed take steps to bridge the gap. They may reduce the population served or the scope of services offered, and may forgo or delay physical infrastructure and technology improvements and staffing needs. Because many nonprofits view cuts in clients served or services offered as unpalatable, they reported that they often compromise vital “backoffice” functions, which over time can affect their ability to meet their missions. Further, nonprofits’ strained resources limit their ability to build a financial safety net, which can create a precarious financial situation for them. Absent a sufficient safety net, nonprofits that experience delays in receiving their federal funding may be inhibited in their ability to bridge funding gaps. When funding is delayed, some nonprofits said they either borrow funds on a line of credit or use cash reserves to provide services and pay bills until their grant awards are received. Collectively, these issues place stress on the nonprofit sector, diminishing its ability to continue to effectively partner with the federal government to provide services to vulnerable populations.
Issue 3

A lack of feedback mechanisms.

Although streamlining and capacity-building efforts are taking place in Maryland at the state and local levels, some nonprofit representatives still think that their voices are not taken into account by government agencies. A nonprofit representative complained that nonprofits are not consulted when government agencies they contract with define program objectives and outcomes. Another said that nonprofits are unable to argue their need for additional funding to cover the full cost of contracted services. A provider said that some grant processes can get very political and that providers have no recourse to air their concerns and grievances. All this stands in contrast to the statements of state government agency representatives, who said that lines of communication are fully open. In describing the state’s relationship with nonprofits, one agency head said “there is constant communication.” Government representatives all agreed nonetheless that communication is paramount. An individual stressed how crucial open lines are by saying “this forms a trusting relationship…nonprofits want to be heard.”

Solution 3

Establishing lines of communication.

To improve the contracts and grants system, Maryland nonprofits, government agencies, and elected officials have been working to institute clear and regular lines of communication.

In 2008, Maryland’s General Assembly created a task force composed of government agency representatives, legislators, and nonprofit providers to evaluate and make recommendations on the procurement system of health and social services by state agencies (State of Maryland 2011). In 2011, the group issued a report that included recommendations which are meant to make the state procurement system more transparent, competitive, and accountable. A key recommendation is the inclusion of provider input when drafting contract specifications. Other recommendations also benefit nonprofit providers, such as timeliness in preparing and issuing requests for proposals; prompt payments to contractors; standardization of contracting processes across state agencies; and expansion of electronic invoicing and payment (National Council of Nonprofits 2013; State of Maryland 2011).

In 2012, the General Assembly, prompted by the task force’s recommendations, enacted two bills meant to improve the way state agencies work with nonprofits and other providers. The first piece of
legislation created the Council for the Procurement of Health, Educational, and Social Services, which includes government officials, state agency representatives, and nonprofit representatives. The council is tasked with implementing and monitoring contracting reforms. The second measure allows providers to comment on draft versions of requests for proposal from state agencies (National Council of Nonprofits 2013). The impact of these measures remains to be seen, but the process that led to these developments seems to have had positive consequences.

A nonprofit executive said working with government agencies has gotten better and attributed this to the initiatives that resulted from the task force. She characterized this development as “a positive way” to address contracting problems. In particular, she appreciates the improved lines of communication between nonprofit providers and government agencies. She singled out the Maryland Department of Education, which listened to complaints about the process and made it easier. Another nonprofit leader said, “Our relationship with the Governor’s Office of Crime Control and Prevention has been much better; they listen to feedback and attempt to compromise.”

At the local level, there is an apparent collaborative atmosphere in Montgomery County. Montgomery County’s Department of Health and Human Services (DHHS) Nonprofit Advisory Committee meets regularly to get feedback from nonprofit partners, particularly on contractual and other business issues. The group, composed of DHHS and nonprofit representatives, started meeting in 2012. An offshoot of years of nonprofit advocacy and groundwork, the group made recommendations such as the streamlining of contract renewals and the adoption of a standard template for nonprofit requests for budget modifications. The committee has also given feedback on DHHS’s policy on allowable costs (i.e., indirect or fringe rates).

Other states have also provided platforms for nonprofit and government representatives to meet and discuss ways to improve contracting and grants systems and processes. In 2010, Connecticut’s General Assembly created a 28-member commission comprised of legislators and nonprofit human service providers whose mandate was to look into the funding of health and human service providers (State of Connecticut 2011). The governor established a Cabinet on Nonprofit Health and Human Services, which includes state agency and nonprofit representatives. He also instituted the country’s first cabinet-level nonprofit liaison, who built relationships with the nonprofit community and advised the executive (National Council of Nonprofits 2013). During the same year, the Illinois General Assembly established a task force to deal with redundancy in the state’s monitoring and reporting requirements. In 2011, the Hawaii legislature created a task force to examine and address problems in the state’s contracting system (National Council of Nonprofits 2013).

“We will pay for your therapist but we are not going to pay for her telephone.”
—Nonprofit director on overhead expenses.
**Issue 4**

An overall lack of funding.

Government representatives are well aware of the budgetary shortfall faced by most nonprofits due to the increasing demand for programs and services provided by nonprofits in a tight budgetary and funding environment. Nonprofits report that government contracts and grants do not cover the full cost of the programs and services they provide on behalf of the government. In particular, providers said overhead expenses, which are not covered by contracts and grants, are a big burden for organizations. This cost is magnified by increased reporting requirements, which take up staff time.

Although the economic outlook is improving for Maryland, its budget remains tight, and this does not bode well for nonprofits that provide services with state funds. For FY 2014, the Governor’s budget includes $325 million in cuts. Meanwhile, demand for nonprofit programs and services has increased and nonprofit administrative and program costs have risen.

**Solution 4**

Trying various streamlining avenues.

Streamlining the contracting and grants system, building nonprofit capacity, and establishing lines of communication between governments and nonprofits are useful efforts that make the processes more efficient. However, the bleak fiscal outlook faced by nonprofits that provide services on behalf of the state and counties of Maryland remains. According to nonprofits, policymakers and legislators must address the fundamental issue: adequate funding is not available for the programs and services the state and the public desire.

**Conclusion and Recommendations**

Contracting and grants, the main vehicles for nonprofit and government collaboration, are complex and cumbersome but indispensable for meeting public needs. The inefficiency of the contracting and grants system is a drain on the scarce resources of nonprofit providers and ultimately affects individuals and families who depend on nonprofit programs and services. The state of Maryland and its nonprofit partners have been working at streamlining the system, thereby providing other states with promising practices that can be applied in their efforts to improve their own processes.

First, there has to be a commitment from all stakeholders to make the contracting and grants system efficient, effective, and transparent. In Maryland, the current administration realizes the importance of the nonprofit and government partnership and has prioritized statewide streamlining efforts to benefit the state, service providers, and constituents. The collaboration and leadership of nonprofit representatives have been the keys to moving state and local initiatives along. In Montgomery County, for instance, a highly organized
nonprofit sector tenaciously worked for a voice in the contracting and grants process, resulting in an advisory committee to the jurisdiction’s largest government contractor.

Second, multisector task forces have to be created to critically assess the contracting and grants processes, make recommendations to improve the system, and implement identified changes. These task forces must involve elected officials, government agency heads, and nonprofit representatives. Political and agency diversity must be ensured. These groups have to meet on a regular basis and be empowered to move ahead with their work to break down organizational and systemic inertia and challenge deeply entrenched practices.

Third, legislation that addresses key contracting and grants issues identified by task forces must be passed. Measures can include streamlining initiatives, such as centralized online procurement systems and document vaults.

Fourth, the administrative and financial capacities of nonprofit providers have to be supported and strengthened. Nonprofit leaders and management experts can partner with government agencies to provide training and technical assistance to practitioners.

Finally, governments have to acknowledge the overall lack of funding for programs and services provided by nonprofits and allocate sufficient funds and other support to enable nonprofits to be successful in addressing needs in an effective and efficient manner. This will benefit nonprofit program participants, taxpayers, and communities.

Factors such as the political and economic environment of a state may make it difficult to cultivate productive relationships and partnerships that permit nonprofits and government to work together to streamline processes. However, in a tight funding environment, nonprofits and governments have little choice but to find better ways to work together at providing public services. One way is to improve their contracting and grants systems. Maryland is a working example of both the problems and emerging good faith efforts to improve processes.
Notes

1. Local governments can also receive federal funding directly and must adhere to federal requirements.
2. This analysis is based on reporting public charities (e.g., nonprofit organizations that file an annual Form 990 with the Internal Revenue Service).
5. This applies to the federal government when it distinguishes between contracts and grants, but it does not necessarily hold true for state or local governments.
7. A major source of funding for Montgomery nonprofits is the Department of Health and Human Services (DHHS). In fiscal year 2011 (July 1, 2010—June 30, 2011), total contracts awarded by the department totaled $65.4 million. This amount decreased in fiscal year 2012 (July 1, 2011—June 30, 2012) to $63.5 million. Source: Email from Loren Ganoe, Special Assistant to the Chief Operating Officer, Montgomery County Department of Health and Human Services, October 9, 2012.
9. Also referred to as Community Grants.
References


Appendix A

Data and Methods
This case study is the first in a multiphase project that will investigate government–nonprofit contracting and grants relationships. A case study approach is appropriate because contracting and grants processes are complex and best understood through personal interviews and observing work group meetings and participating in state-level meetings that seek to streamline the contract and grants processes. An in-depth examination of the processes will produce deeper understanding that can guide future research on the government–nonprofit relationship. The goals of the interviews were to develop comprehensive understanding of: (1) the contract and grants processes and current initiatives for improving and streamlining them; and (2) the government perspective on nonprofit organizations as partners in service delivery.

The first step in data collection involved researchers observing working groups in Montgomery County tasked to improve the contracts and grants processes. Additionally, researchers participated in meetings held at the state level that discussed best practices for applying for federal grants as well as how to pass through grants to lower levels of government. Data collected from these observations informed the interview guide used in the second wave of data collection.

Data were collected through semistructured interviews via telephone and in person during normal business hours. Researchers interviewed eight state-level officials and six county-level managers. Government officials were selected using purposive sampling techniques based on their use of contracts and grants as well as their likelihood of partnering with nonprofit organizations. The individual within the government agency that is most likely to work on contracts and/or grants was selected to respond on behalf of the agency or organization. Additionally, key officials in the state of Maryland were asked to recommend agencies and individuals within each agency to ensure representation across different agencies and a range of performance quality.

Finally, a survey of human service providers in Prince Georges County was conducted. This portion of the research focused on ways to streamline the reporting process. Initiatives undertaken by federal (grants.gov) and state (GGO) governments have improved the ability for transparency in the solicitation phase and streamlined the application process, but little progress has been made in easing the burden of complying with the reporting requirements.

The three techniques used to obtain data for this research project (observing working groups, interviewing government officials, and surveying nonprofit organizations) provide a rich picture of the government contract and grant processes for the state of Maryland. These data also enabled identification of best practices in improving the contracts and grants process, specifically regarding reporting requirements.