



# Nonprofit-Government Contracts and Grants

## California Findings

*Brice McKeever, Marcus Gaddy, and Elizabeth T. Boris, with Shatao Arya*  
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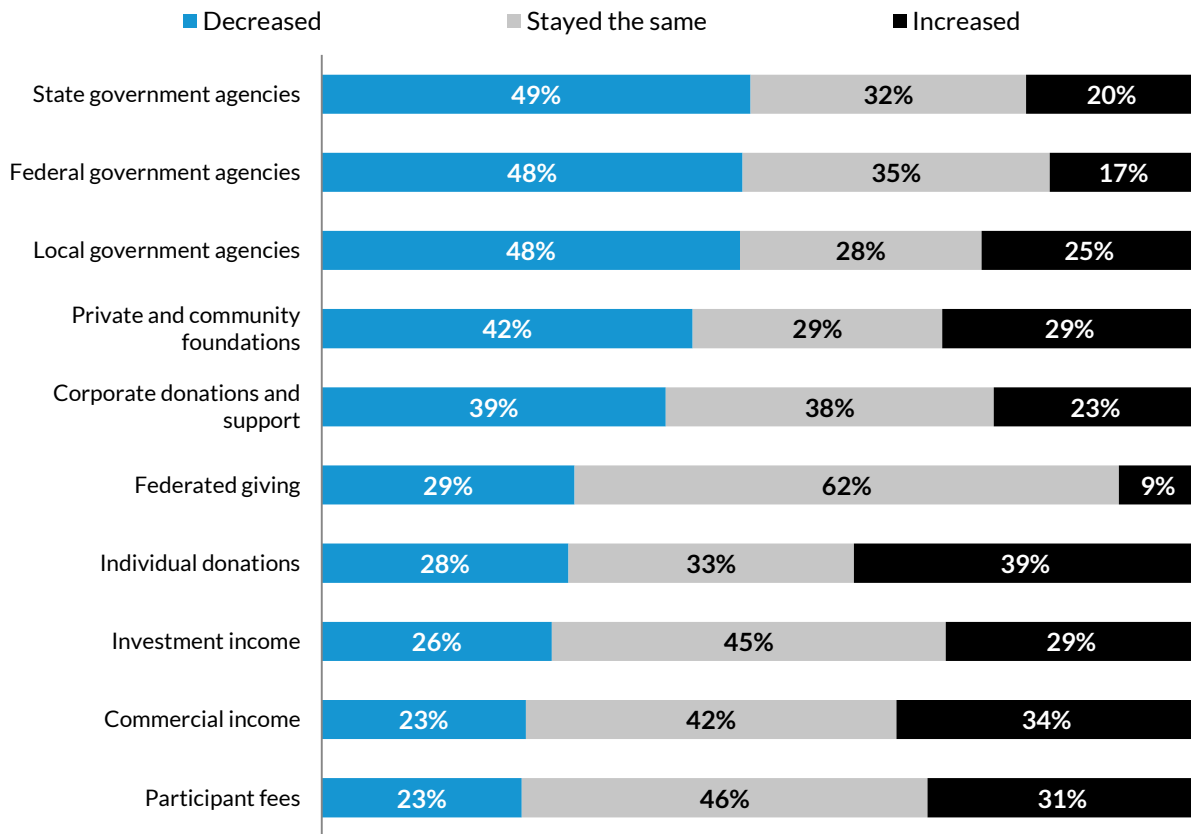
Despite some signs of recovery, California nonprofits continue to face post-Great Recession challenges. Though decreased revenues may reflect broad trends facing the nonprofit sector, many challenges are rooted in nonprofit-government contract and grant administration processes. Drawing on a national survey of public charity nonprofits, this study finds that California nonprofits widely reported dissatisfaction with the complexity of reporting and application requirements, the limits on program and organizational overhead expenses that restrict the recovery of the full costs of services, and late reimbursements for services rendered.

## Financial Health of Nonprofits with Government Funding

Though California nonprofits receive revenue from many sources, funding trends were negative or static in 2012. More than four-fifths of California nonprofits (84 percent) reported that at least one source of revenue decreased in that year. For 6 of 10 revenue sources, more nonprofits reported decreases in revenue than increases (figure 1). Government funding was particularly affected: nearly half of California nonprofits reported decreased funding from federal, state, and local government agencies. Among nonprofits with increased revenues, individual donations ranked first, followed by commercial income and participant fees.

**FIGURE 1**

**Changes in Nonprofit Revenues in California, 2012**



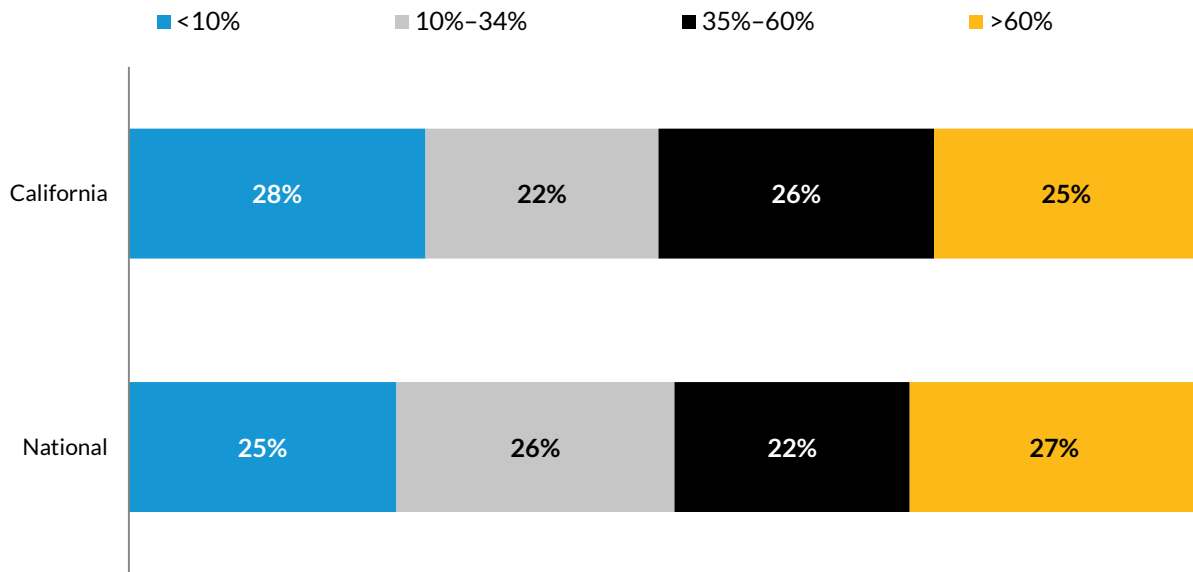
Source: Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2013).

Nevertheless, conditions for California nonprofits were generally stable in 2012: the majority of nonprofits maintained the same level of credit, sites, services, and operations. The majority of California nonprofits also reported increasing staff benefits and the number of people served, suggesting at least a few signs of postrecession recovery. But California nonprofits also drew on their reserves instead of decreasing operational capacity: 44 percent of respondents reported decreased reserves in 2012.

California organizations were more likely to have multiple government contracts and grants than nonprofits nationally. In 2012, 26 percent of California nonprofits held contracts or grants with five or more agencies, compared with 20 percent of nonprofits nationwide. Similarly, 80 percent of California nonprofits held contracts or grants with at least two agencies, compared with 70 percent of nonprofits nationwide. One-quarter of California nonprofits relied on government funding for 60 percent or more of their budgets, mirroring national trends (figure 2). With such strong ties to government for financing, problems with contract and grant administration can be a source of intense pressure on nonprofits.

FIGURE 2

Percent of Total Revenue from Government Sources



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

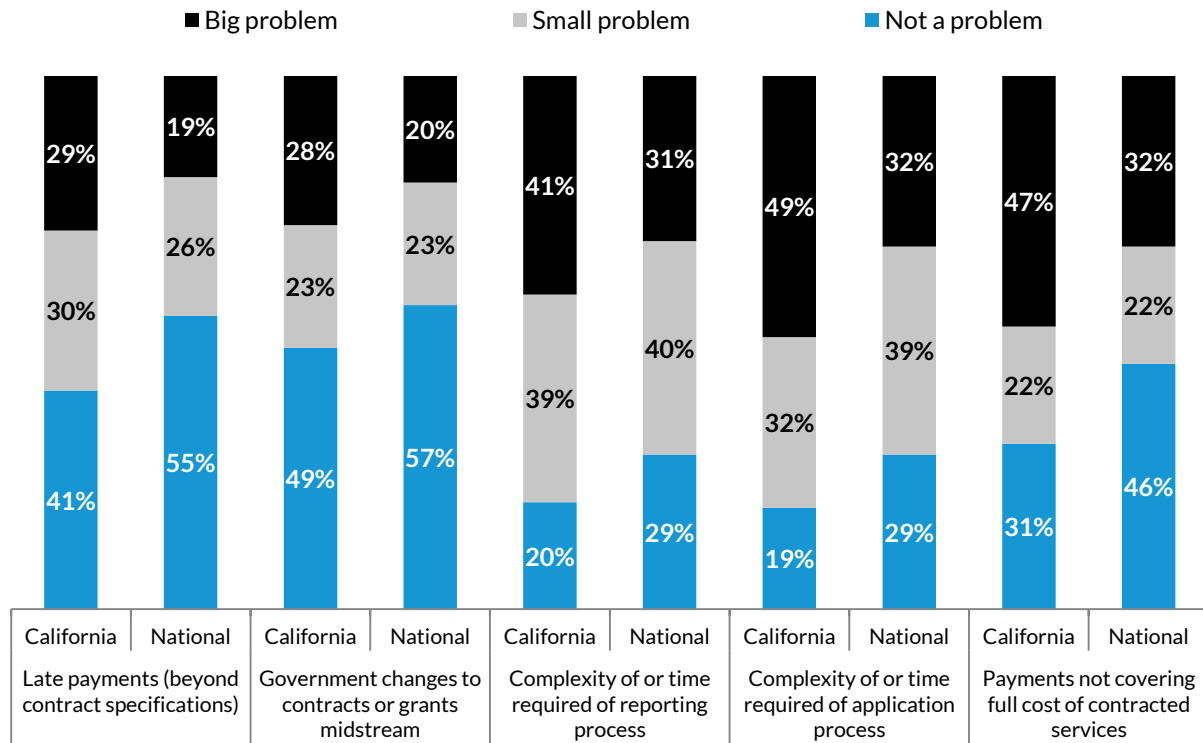
## Challenges with Government Contracts and Grants

Based on previous research, we identified five major issues that nonprofits face with government funding: government payments that do 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”, or “not applicable.” The results point to systemic flaws in government administrative procedures that introduce inefficiencies and intensify the effects of the recession and postrecession period (Boris et al. 2010a).

When compared with the national average, California nonprofits generally reported higher levels of dissatisfaction across all five issues associated with government contracts and grants. California nonprofits reported that issues with payments not covering the full cost of contracted services and the time and complexity of the application process were particularly problematic; nearly half of respondents called these “big problems” (figure 3).

**FIGURE 3**

**Problems with Government Contracts and Grants**



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

California nonprofits' noticeably higher levels of problems with government funding processes persist even when organizational size is considered. The one exception is that large organizations nationally and in California reported similar levels of problems with government changes to contracts or grants midstream (table 1).

**TABLE 1****Nonprofits Reporting Problems with Government Funding in California, by Size**

Problem with funding	\$100,000 to \$999,999		\$1 million or more	
	CA	National	CA	National
Complexity of or time required by application process	82%	69%	81%	75%
Complexity of or time required for reporting	74%	66%	85%	77%
Payments not covering full cost of contracted services	65%	48%	73%	59%
Government changes to contracts or grants midstream	58%	39%	47%	48%
Late payments (beyond contract specifications)	56%	42%	62%	48%

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

Specific problems identified in the national survey were diverse; Pettijohn and Boris's (2013) national report cited "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." As one respondent summarized, "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."

Nevertheless, that report also noted that respondents "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" (Pettijohn and Boris 2013). Respondents also provided comments that marked a path forward on several issues. Some national survey respondents remarked that some government agencies were providing training to prospective grantees and liaisons to help navigate the government systems, thus improving processes. As one respondent stated, "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."

## Failure to Cover Full Program Costs

In 2012, 54 percent of nonprofits nationwide reported that failure of government payments to cover full program costs was a problem. This proportion was even higher in California, where 69 percent of organizations reported experiencing this problem. Inadequate reimbursements are problematic because organizations must somehow cover the costs of the services they provide. Additionally, government contracts and grants often require nonprofits to match or share a portion of funding. Inadequate reimbursement and matching and sharing requirements impose additional costs on organizations, requiring them to dip into reserves, fundraise, or divert fee income or operating resources to cover the gap (National Council of Nonprofits 2013).

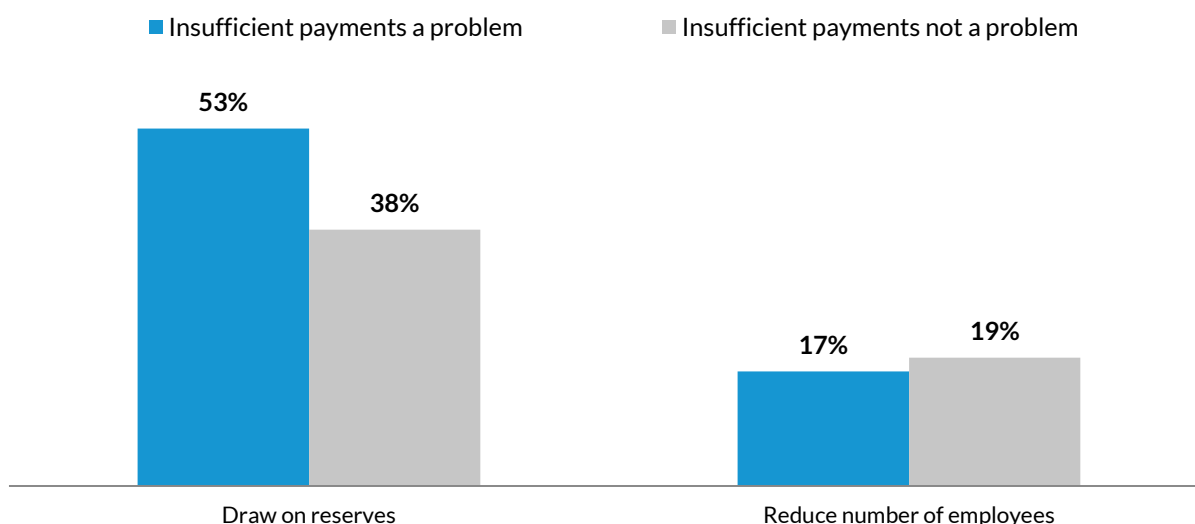
About half of nonprofits reported at least one government grant with a matching requirement and one-quarter had a government contract that required cost-sharing. This suggests that government agencies expect nonprofits to leverage grants more than contracts. In either case, governments are not providing for the full costs of programs they are funding.

Nonprofits that reported problems with insufficient funding were more likely to draw down reserves, nationally and even more so in California. Over half of those reporting insufficient payments as a problem also indicated decreased reserves, in contrast to less than two-fifths of those that did not report problems (figure 4).

Nationwide, except in California, organizations experiencing problems with insufficient payments were more likely to reduce staff.

**FIGURE 4**

### Reductions in Nonprofit Reserves and Employees in California



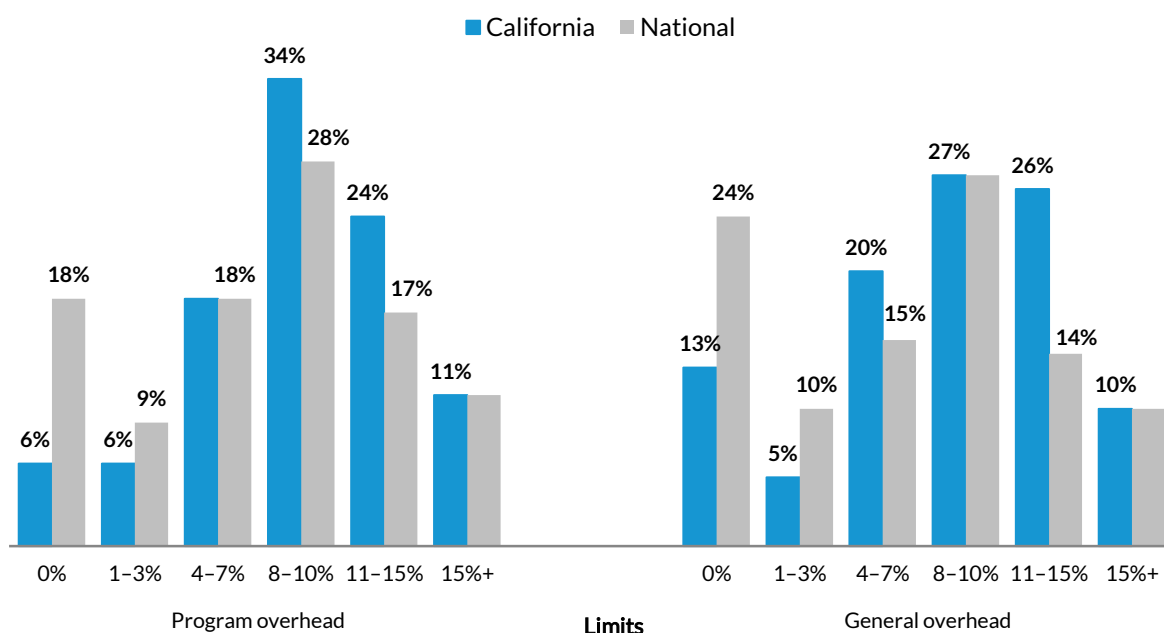
Source: Urban Institute, National Survey of Nonprofit-Government Contracting and Grants (2013).

## Limits on Program and Organizational Administrative Expense Reimbursements

California nonprofits are often subject to limits on reimbursement for program and organizational overhead or administrative expenses: 6 percent report no program overhead allowance and 13 percent report no general overhead reimbursement. Approximately two-thirds of California organizations report limits of 10 percent or less for program and general overhead expenses; approximately three-quarters of organizations nationwide report the same (figure 5).

**FIGURE 5**

**Organizations Reporting Overhead Limits, by Limit Amount and Type**



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

Lack of reimbursement for overhead costs might lead nonprofits to offer low pay for staff, particularly 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 (Wing et al. 2005). The US Government Accountability Office acknowledged the detrimental effects of failing to cover administrative overhead costs in a recent report. To cover indirect or overhead costs that are not reimbursed, the Government Accountability Office says nonprofits may serve fewer people, cut back on services offered, or forgo or delay capacity-building and staffing needs. According to the report, 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; Pettijohn and Boris 2013).

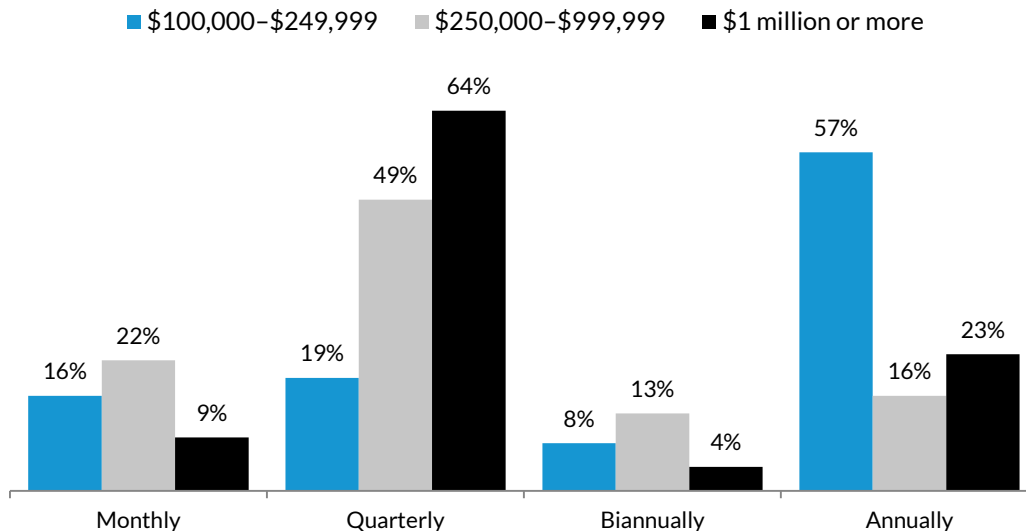
## Application and Reporting Requirements

Previous research has found that nonprofits with different funding sources often have multiple reporting requirements. Pettijohn and Boris’s 2013 national report found that “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 can be a drain on already limited resources. Numerous reporting requirements and formats can lead nonprofits to develop and implement multiple reporting processes, which can be an added expense for some organizations.” As one nonprofit in the national survey reported, “Though I understand the need for increased accountability, duplication of reporting requirements and lack of human communication is confusing and alienating.”

For all but the smallest California organizations, quarterly reporting was most common (figure 6). However, regardless of size, California nonprofits widely reported problems with reporting. Nearly 80 percent of California respondents reported problems with different reporting formats and different allowances for administrative expenses and overhead. Organizations that only received grants reported less intense problems with reporting requirements than those receiving only contracts or both contracts and grants.

**FIGURE 6**

**Reporting Frequency Requirements, by Size of Organization**



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



## Late Payments

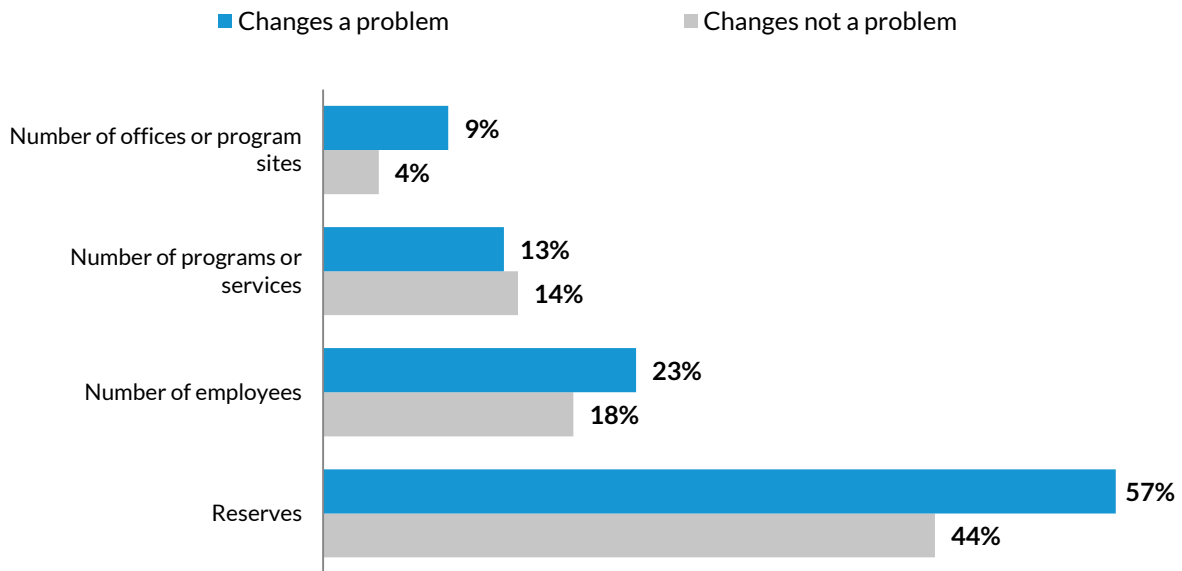
Almost 60 percent of California nonprofits reported problems with the government paying for services rendered beyond the contract specification. Governments at all levels owed considerable sums, but state governments were noticeably more indebted and owed more on average than federal and local governments combined. Across California nonprofits, such debt appears associated with an expansion in lines of credit: more than one-third of organizations that reported late payments as a problem had increased their lines of credit while less than one-quarter of organizations that did not experience problems had expanded their lines of credit.

## Changes to Government Contracts and Grants Midstream

Approximately half of California respondents reported no problems with changes to government contracts and grants midstream. Of those that reported problems, the most common were increased reporting requirements, decreased payments for services, and increased service requirements. Changes in contracts were generally associated with a greater likelihood of adverse effects on nonprofits, including tapping reserves, reducing staff, or decreasing the number of offices or program sites (figure 7).

**FIGURE 7**

### Reductions in Operational Capacity in California



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

## Conclusions

Before this research, the extent of the resources and complexity of the government administrative processes had not been probed from the vantage point of nonprofits that carry out government-funded work at the national, state, and local levels. In California as well as nationally, the problems encountered by nonprofits in our 2009 study persisted into 2012, suggesting systemic shortcomings in government administration and funding of nonprofit organizations. Consequently, many nonprofits faced financial and administrative burdens that continued to hamper their financial well-being and attainment of their missions. Extensive and diverse reporting requirements, late government payments, and government contracts not covering the full costs of services were particularly burdensome.

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.

## Methods

In this report we focus on nonprofit-government funding relationships for most types of California nonprofit organizations in 2012, expanding the analysis of California nonprofits reported by Pettijohn, Boris, and Farrell (2013). The survey and findings are based on a national, stratified, random survey of charitable nonprofits that reported \$100,000 or more in expenses on Internal Revenue Service Forms 990. We include the following types of nonprofit organizations: arts, culture, and 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). We explore these funding relationships by program area, organizational size, geography, and level of government (federal, state, and local). Results are weighted to provide both a representative national sample and a representative California sample. The sample for California, though statistically representative, is limited, so the results should be viewed as indicative of trends.

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## About the Authors

**Brice McKeever** is a research associate in the Center on Nonprofits and Philanthropy at the Urban Institute, where he primarily performs quantitative research for the center's National Center for Charitable Statistics. Among other projects, his work has included a series of briefs on how the Great Recession affected the nonprofit sector; a study on potential predictors of future nonprofit failure; and a longitudinal analysis of arts organizations in six major metropolitan areas as part of a study funded by the National Endowment for the Arts. Concurrent with his work at Urban, McKeever is pursuing a PhD in sociology at the University of Virginia, with concentrations in political and historical comparative sociology.

**Marcus Gaddy** is a research associate in the Center on Nonprofits and Philanthropy at the Urban Institute. He works with various teams focused on the hybrid space between nonprofits and for-profit business, nonprofit program evaluation, and performance measures. Gaddy holds a BS in economics from Ohio State University and an MPP from the University of Maryland.

**Elizabeth T. Boris** became the founding director of the Center on Nonprofits and Philanthropy at the Urban Institute in 1996. The center conducts research on the role and impact of nonprofit organizations and the policy issues that affect them. The center also hosts the National Center for Charitable Statistics, which builds and maintains the nation's largest research database on nonprofit organizations. She holds a BA from Douglass College, Rutgers University, with honors and Phi Beta Kappa, and an MA and PhD in political science from Rutgers University.

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