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Montgomery County Nonprofit Contracts and Grants

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Federal, state, and local governments provide resources to human service nonprofit organizations to deliver services such as food assistance, housing, employment training, youth mentoring, and child care. The main vehicles for this relationship are government contracts and grants, which are widespread among human service organizations (Boris et al. 2010). Contracts and grants processes present challenges to both nonprofits and government agencies. Government contractors and nonprofit providers—and ultimately their shared constituency—stand to gain by working together to improve the contracting and grants processes.

This brief describes how community-based organizations and a local government have come together to begin streamlining the process. Government representatives and nonprofit leaders in Montgomery County, Maryland, were interviewed to get a better understanding of contracting issues from both perspectives as well as solutions formulated by those involved.

Changes in the county's contracting system, such as the formation of a nonprofit advisory board to the county's largest government contractor, can be attributed to a few key factors. First, government agencies and nonprofits are willing to tackle the issues head on. Second, there is the political will to see improvements through. Third, nonprofit leaders paved the way for trust building and

collaboration. Nonprofit and government leaders in other counties can learn from Montgomery County's example and foster a similar environment for creating solutions to their own jurisdiction's challenges.

This brief is part of a larger study of nonprofit-government contracts and grants by the Urban Institute's Center on Nonprofits and Philanthropy in collaboration with the National Council of Nonprofits and funded by the Bill & Melinda Gates Foundation.

Montgomery County Nonprofits

Montgomery County has over 5,100 nonprofits serving area residents. These include organizations active in the arts, education, environment, health care, and human services (table 1).

A committed nonprofit leadership advocated for changes and convinced government officials to join in the effort to reform the contracting system.

Table 1. Montgomery County Nonprofits by Service Area

SERVICE AREA	NUMBER
Arts, culture, and humanities	537
Education	764
Environment	284
Health	476
Human services	924
International	234
Mutual benefit	8
Public and societal benefit	1,008
Religion	853
Unknown	14
TOTAL	5,102

Source: National Center for Charitable Statistics, 2013 BMF.

Table 2. Montgomery County Nonprofits by Size (Annual Revenue)

TOTAL REVENUE	NUMBER	PERCENT
Under \$25,000	3,519	69.0
\$25,001 to \$100,000	491	9.6
\$100,001 to \$250,000	312	6.1
\$250,001 to \$500,000	185	3.6
\$500,001 to \$1,000,000	169	3.3
\$1,000,001 to \$5,000,000	262	5.1
Over \$5,000,000	164	3.2
TOTAL	5,102	100.0

Source: National Center for Charitable Statistics, 2013 BMF.
 Note: Percentages do not sum to total because of rounding.

Sixty-nine percent of Montgomery County nonprofits are small with annual budgets of \$25,000 or less (table 2). Only 3.2 percent have annual budgets of \$5 million or more.

Montgomery County nonprofits fall under two main umbrella organizations, Nonprofit Montgomery and Maryland Nonprofits, which advocate for nonprofit interests at the county and state level, respectively.

Nonprofit Montgomery, an affiliate of the Nonprofit Roundtable of Greater Washington, is an alliance of over 80 nonprofits and community partners “working to improve the quality of life for all in Montgomery County.”¹ The organization is the leading advocate for nonprofits in the county. The Roundtable’s mission is “to build the strength, visibility, and influence of the non-profit sector to improve the life for those who live in the Greater Washington region.”²

Maryland Nonprofits is a statewide association established “in 1992 as a result of a comprehensive statewide organizing effort in the nonprofit and philanthropic community involving hundreds of nonprofit executives and volunteer leaders.” It has more than 1,400 nonprofit organization members and 300 associate members throughout Maryland.³

Montgomery County Government

The County Executive heads the executive branch of Montgomery County. Under this office’s purview are agencies that contract with nonprofits, including the Department of Health and Human Services (DHHS), the largest contractor among county agencies,⁴ and the Department of Housing and Community Affairs (DHCA). The nine-member Montgomery County Council is the legislative branch of County Government and is responsible for appropriating funds for contracts.

Montgomery County Funding Opportunities

Montgomery County nonprofits have three avenues for securing county funding: the procurement process, the County Executive's Community Collaboration Grants, and the County Council Grants.

Procurement process. The county's competitive procurement process is open to both for-profit and nonprofit entities and is the mechanism for outsourcing much of its work to private vendors. A considerable number of 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. Most of the funds Montgomery County nonprofits procure as public service providers are procured through competitive bidding.

A major source of funding for Montgomery nonprofits is from DHHS. In FY 2011, total contracts awarded by the department amounted to \$65.4 million. This figure decreased in FY 2012 to \$63.5 million.⁵

DHCA also makes funding available to eligible nonprofit providers through housing and community development related grants that the county receives annually from the U.S. Department of Housing and Urban Development (HUD). These grants include the Community Development Block Grant (CDBG), the HOME Program Grant, and the Emergency Shelter Grant (ESG). For FY 2013, the county awarded approximately \$450,000 to twelve nonprofit organizations providing services to lower-income county residents through the federal CDBG program (Montgomery County Department of Housing and Community Affairs 2012).

The two other funding opportunities for county nonprofits are through the County Executive and the County Council.⁶ Unlike

Montgomery County Population

Montgomery County, Maryland is a large, diverse county located north of Washington, D.C. In 2012, the county had a population of 1,004,709, approximately 17 percent of the state's total population. Twenty-four percent of its residents are under 18 years of age and 12.6 percent are over 65. Over half of its population (50.1 percent) is of color (18.2 percent African America, 14.4 percent Asian; and 17.5 percent Latino) and close to a third (30.9 percent) is foreign-born. Its residents are mostly educated and affluent: a majority (56.8 percent) has a college degree or higher. The median income is \$95,660. However, 6.3 percent live below the poverty line.³ As a nonprofit leader remarked, "Most people think everyone in Montgomery County is well-off—not so. There is a lot of need in the county."

a. Nonprofit Montgomery, "About Nonprofit Montgomery," <http://nonprofitroundtable.org/about-nonprofit-montgomery> (Accessed June 6, 2013).

contracts awarded through the competitive procurement process, these are one-year discretionary funds and are not competitively bid. The funds are marketed as grants programs to nonprofits even though they are technically not grants, which are prohibited by the county charter. Nonprofits apply for these grants that, when awarded, effectively become contracts with a particular set of requirements.

County Executive's Community Collaboration Grants. Community Collaboration Grants are a part of the County Executive's discretionary funding. This is included in the County Executive's annual recommended budget to support nonprofit organizations delivering services consistent with the County Executive's mission statement.⁷ Priority consideration is given to safety net services and out-of-school time activities for youth. In FY 2013, 100 Community Collaboration Grants totaling \$3,669,570 were approved (Montgomery County Council 2012).

County Council Grants. The council believes that strong partnerships with nonprofit organizations are critical to meeting county objectives. As such, during its review of the County Operating Budget each spring,

the council funds nonprofit program requests made directly to the council. In FY 2013, 70 Council Grants totaling \$2,160,937 were approved (Montgomery County Council 2012).

Montgomery county nonprofits are also able to access several other grant programs such as English literacy grants⁸ and arts and humanities grants.⁹

Grants as Contracts

In Montgomery County, the County Executive and County Council funding opportunities initially appear to be grants. These funds, in practice, are treated as contracts and awardees are subject to the contracting process, which has a different and more stringent set of invoicing and reporting requirements than grants. For example, information requested from applicants, such as program outcomes and budget amounts, is less specific than what is required in the award agreement, which uses contracting language and applies after funds are awarded. These requirements and the degree of specificity mandated can be confusing and burdensome to some nonprofits, especially smaller groups that are new to the demands of the contracting process. Both government and

nonprofit representatives interviewed said that many smaller groups tend to lack the capacity to meet the legal and financial reporting requirements.

Many nonprofits apply for both the County Executive's Community Collaboration Grants and the County Council Grants,¹⁰ requiring the nonprofits to comply with two separate systems though they are essentially submitting the same application.

The application form for County Executive grants is short and available online, while the form for County Council grants is still paper-based. Nonprofits that apply for County Executive grants provide services to county residents that are consistent with the Executive's mission.¹¹ Providers that apply for County Council grants propose programs and projects that advance the county's services, goals, and objectives, including, but not limited to, the following areas: community development, economic development, education, health and human services, and recreation.

The council does not set a limit on the amount of funding that can be requested; for the last five years, however, approximately 75 to 85 percent of the proposals funded were \$50,000 or less.

County Executive 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 or her operating budget recommendations. County Council applications are assessed by an advisory group of community members. The different review processes for grant applications lead some nonprofits to think that the County Executive's review process is more open to politicking than the County Council's process.

County Grants Advisory Group. Council applications go through the Grants Advisory

Group,¹² a community panel of volunteers appointed by the council. The Grants Advisory Group reviews applications, 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 Grants Advisory Group also reviews and evaluates all County Executive-recommended community grants that have not gone through a competitive review process.

The Council Grants Manager, who oversees this process, receives the 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.¹³

The Executive usually announces his or her proposed allocations two months before the council announces, giving nonprofits that have been chosen for funding and that have also applied for County Council monies ample time to withdraw from the County Council process.

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

For FY 2013, the Grants Advisory Group reviewed 225 applications totaling \$10.2 million. The council approved a total of 70 Council Community Grants totaling \$2,160,937 and 100 County Executive recommended Community Grants totaling \$3,669,570 (Montgomery County Council 2012).

Nonprofits find this bifurcated grants application process burdensome and in need of consolidation.

Issues

The contracting and grants process in Montgomery County presents challenges to both nonprofit providers and government agencies. Nonprofit and government representatives interviewed for this brief discussed key issues they faced.

The Nonprofit Perspective

Nonprofit leaders interviewed identified two key issues in Montgomery County's funding process.

Complexity and burdens. For nonprofits, the root of the confusion lies in the fact that they start applying for a grant that acts more like a contract. The questions that are a part of the application process do not prepare nonprofits for what will be required once the contracting process begins. The legal and financial information required to release funds is only sought after a grant is approved, which results in considerable time delay and often more red tape. For instance, applications ask for a budget that begins July 1, but some contracts can be signed as late as November or December, for a year that ends June 30. This leaves little time to fulfill promised program and service deliverables.

This compressed schedule also has serious implications for nonprofit budgeting and cash flow, since funds have to be expended within the contracting year. Nonprofits have to go through the same process every year, often providing the same information. Some nonprofit executives wonder if the process could run on a longer cycle.

Moreover, the grants applications processes for County Council Grants and County Executive's Community Collaboration Grants are different. Some nonprofits apply for support from both the Council and the Executive separately. One nonprofit leader asked, "Wouldn't it be better to have just one [process]?"

Nonprofit representatives also point to the uneven administration of contracts by the county, DHHS, and other departments. There is no procedural consistency between government departments or even contract monitors within a department. The county issues broad regulations that departments are left to interpret and implement. For example, there is no county-wide policy on indirect and fringe costs, structure for invoicing, or standard for processing contracts. Thus, nonprofits have a hard time effectively and consistently complying with requirements when applying for a contract or issuing an invoice after securing a contract. One interviewee characterized the process as an “awful contracting maze.”

There is a perception that the grants and contracting processes in Montgomery County can be highly political. A nonprofit provider interviewed said there is an understanding that having the ear of an elected official gets awards.

Government representatives conceded that the county’s grants as contracts process is complicated and can get confusing. One individual explained that the regulations are meant to embody a set of values—particularly fair play—that were developed in reaction to past controversies. “Things have happened over the years that have gone wrong, so additions [to the regulations] were made to avoid these problems in the future,” said one interviewee. Unfortunately, these revisions have accrued over time, making the process cumbersome and in need of streamlining. “It is onerous for everyone, nonprofits and government workers alike.”

Government representatives also acknowledged that some government contract monitors are trained social workers who lack administrative and fiscal training. These personnel are better trained to focus on service

delivery than administration. In some instances, this can lead to delays and inefficiencies in processing paperwork or responding to nonprofit providers.

Insufficient funding. Nonprofit providers believe that not enough funds are allocated and disbursed to meet the needs of the county. Moreover, payments made to nonprofits do not adequately cover costs of providing programs and services.

While the county’s commitment to support a full spectrum of nonprofits, especially new and emerging groups, is laudable, there remains the issue of sustainability of services. Some nonprofit leaders believe that the policy of earmarking funds for new and emerging organizations is not the most effective way to allocate funds, especially during times of scarcity. They suggest that funding should go to tried and tested nonprofits.

Approved nonprofits also can find themselves having to deliver more programs or services than what county funding covers. This happens when the County Executive or council awards a fraction of what a nonprofit grant applicant had requested but expects the provider to deliver the same amount of programs and services originally proposed. For example, an organization asks for \$50,000 to provide 500 units of a service but is only awarded \$30,000. It might still be expected to deliver 500 units to the county.

The Government Perspective

Government representatives identified issues they face when dealing with nonprofit providers.

Lack of capacity and skill for application processing. Although nonprofits are able to submit successful contract and grant applications, some providers lack the necessary administrative infrastructure to meet invoicing and reporting requirements. Nonprofits,

particularly smaller ones, lack financial and administrative personnel. A government representative complained that small operations are usually headed by well-meaning individuals who do not have the experience or know how for operating a business. In particular, nonprofits need a better understanding of financial accounting.

Government representatives also said that there is a need for improvement in outcomes measurement, including better tracking of outcomes, particularly for existing programs. At times, reported results are not consistent with proposed achievements. An agency representative rhetorically asked, “Is the work having the intended results? How do you know?” The individual explained that nonprofits need to become proficient in measuring results and be able to convey these results.

Unrealistic expectations. One government representative believes that some nonprofits have high expectations of grants and believe that they will be awarded the full amount they decide to put on grant applications. For instance, a nonprofit will aim high and request \$100,000. The council approves the grant but only for \$20,000. When the contract is written for \$20,000, the nonprofit takes issue, believing that they are entitled to the \$100,000 or at least a larger amount. Unable to get more than \$20,000, they try to deliver as much as they promised in their grant application.

Working toward Solutions

Montgomery County and its nonprofit providers have begun to address the issues outlined above.

A DHHS Nonprofit Advisory Committee has been formed to streamline the complicated and burdensome contracting and grants process. The goal is to get feedback from nonprofit partners, particularly on

contractual and other business issues (e.g. allowable expenses). The group, which is composed of DHHS and nonprofit representatives, started meeting in February 2012 and is scheduled to convene quarterly during its first year and twice in the following years. Among the committee's recommendations to date are

- create and adopt a standard template for nonprofits to request budget modifications;
- streamline contract renewals; and
- provide feedback on DHHS's draft policy on allowable costs (e.g., indirect or fringe rates).

DHHS is currently working to implement some changes in their policies and procedures to address nonprofit funding needs. The department will make advance payments for Community Grants less than \$25,999 "to help alleviate the administrative burden for staff and to support small emerging nonprofit organizations that often have insufficient cash reserves to initiate services and invoices on a cost reimbursement basis." In the second quarter of FY 2013, DHHS also initiated the process of adding inflationary adjustments to eligible contracts. The agency is also developing a policy on allowable costs for direct and indirect cost rates which will be released during FY 2013 and implemented in FY 2014. DHHS and Nonprofit Montgomery offered training for vendors in February 2013.¹⁴

Nonprofit umbrella associations in partnership with the County have provided workshops to improve the financial capacities of nonprofits. Offerings include the following:

- The Center for Nonprofit Advancement (CNA), Maryland Association of Nonprofits, and Nonprofit Montgomery provide workshops on outcomes measures.

- Nonprofit Montgomery in partnership with the county and the Community Foundation provides regular Financial Reporting and Management Institute (FIRM) workshops. The workshop curriculum provides some basic skills and strategies for fiscal management and also includes a module presented by the county contract team on best practices in contract compliance. This has helped the sector in providing a forum for both the contract monitors and nonprofit contractors to discuss how to improve efficiency and simplify the system without sacrificing fiscal integrity. The face-to-face contact with government representatives and peers has proven to be invaluable to participants.

Nonprofit leaders and government representatives interviewed are pleased with the steps that have been taken to address contracting and grant issues. More remains to be done, and they realize that this requires continued good working relationships. They agree that relationships between the county and its social service providers have improved. The interviewees unanimously agree that trust is being built and that it is "a work in progress." Key to facilitating this collaboration is the tireless advocacy of nonprofit leaders, particularly Nonprofit Montgomery.

Conclusion

The collaboration between government and nonprofit providers in Montgomery County provides a good example for addressing contracting issues that can, at times, seem intractable. A committed nonprofit leadership advocated for changes and convinced government officials to join in the effort to reform the contracting system. The willingness of government and nonprofit leaders to work together paved the way for honest dialogue and problem solving. Setting up structures

and processes such as an advisory committee, regular workshops, and clear channels of communications ensure that the partnership continues to work toward better contracting and grants processes. ■

Acknowledgments

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Notes

1. Nonprofit Montgomery, “About Nonprofit Montgomery,” accessed June 6, 2013, <http://nonprofitroundtable.org/about-nonprofit-montgomery>.
2. The Nonprofit Roundtable, “About the Roundtable,” accessed June 6, 2013, <http://nonprofitroundtable.org/about-the-roundtable>.
3. Maryland Nonprofits, “About Us: History,” accessed June 6, 2013, <http://www.marylandnonprofits.org/dnn/AboutUs.aspx>.
4. In fiscal year (FY) 2010 (July 1, 2009—June 30, 2010), the Montgomery County Department of Health and Human Services managed over 660 contracts with total encumbrances of over \$97 million, representing 13 percent of all County procurement funds (Montgomery County Office of Internal Audit 2011).
5. Email from Loren Ganoë, Special Assistant to the Chief Operating Officer, Montgomery County Department of Health and Human Services, October 9, 2012.
6. Montgomery County and Prince George’s County are the only counties in Maryland that have separate county council grant programs from county executive grants (Governor’s Grants Office and Maryland Association of Counties 2012).
7. The mission statement reads, “We pursue the common good by working for and with Montgomery County’s diverse community members to provide: A Responsive and Accountable County Government; Affordable Housing in an Inclusive Community; An Effective and Efficient Transportation Network; Children Prepared to Live and Learn; Healthy and Sustainable Communities; Safe Streets and Secure Neighborhoods; A Strong and Vibrant Economy; Vital Living for All of Our Residents. As dedicated public servants, the employees of the Montgomery County government strive to embody in our work these essential values: Collaboration; Inclusiveness; Knowledge; Competence; Innovation; Respect for the Individual; Fiscal Prudence; Integrity; Transparency.”
8. Montgomery Coalition for Adult English Literacy (MCAEL) is a community coalition of individuals and organizations that seeks to strengthen and promote adult English literacy services in Montgomery County. MCAEL supports adult English literacy service providers with direct grant funding through its Capacity Building grants, in partnership with Montgomery County Government and support of the County Executive and County Council.
9. The Arts and Humanities Council of Montgomery County (AHCMC) administers a comprehensive grants program that funds local arts and humanities organizations, as well as individual artists and scholars. Funding is provided by the Montgomery County Government, the Maryland State Arts Council, corporations, organizations, and individuals.
10. The County Council Grants process previously was more ad hoc, with nonprofits requesting for funds by sending letters, testifying, or meeting with councilmembers. In 2004, however, the council established a more formal process for considering requests for discretionary funding. Their goal was to have a more open, fair, and transparent process. While Council Members did not want to initiate a burdensome application process, they agreed that a common requirement for information would enhance the decision process and improve accountability to taxpayers.
11. Montgomery County, Maryland FY14, Executive’s Community Collaboration Grants Application, accessed July 24, 2013, <http://www.surveymonkey.com/s/execgrants>.
12. The volunteer panel, on average, has about 30 members in a given year. Interested individuals cannot be an employee or board member of a nonprofit applying for a grant. The volunteers must commit to meeting weekly for four to five weeks. Advisory group members are divided into committees that review approximately 20 applications per program area.
13. In prior years, the Council President, in consultation with Councilmembers, has recommended funding a limited number of additional grants beyond those recommended by the Council Grants Manager.
14. The Nonprofit Roundtable, “Important changes in nonprofit contracting with Montgomery County DHHS,” accessed September 19, 2012, <http://nonprofitroundtable.org/blog/524-important-changes-in-nonprofit-contracting-with-montgomery-county-dhhs>.

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Interviews

Representatives from Montgomery County’s County Council, Montgomery County Department of Health and Human Services, Nonprofit Montgomery, the State of Maryland Governor’s Grants Office, and a sample of nonprofit providers were interviewed for this study from February 2012 through May 2013. Names are withheld for confidentiality purposes.

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Erwin de Leon is a research associate at the Urban Institute's Center on Nonprofits and Philanthropy. He is currently part of a research team examining the breadth and depth of nonprofit government contracting and grants. He has authored or co-authored reports and articles on government contracting and grants, stimulus funding of government programs, community-based immigrant organizations, public education organizations, and alternatives to Gross Domestic Product. He is also a regular contributor to the Huffington Post and the Nonprofit Quarterly. Prior to joining the Urban Institute, de Leon was a research associate at the Aspen Institute's Nonprofit Sector and Philanthropy Program. He is a PhD candidate in Urban and Public Policy at the New School where he received his MS in Nonprofit Management.

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