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INSIDE THIS ISSUE

- In 2012, local, state, and federal governments worked with nearly 56,000 nonprofit organizations.
- Nonprofits reported more than \$137 billion in government contracts and grants.
- The two most common payment methods governments use to compensate nonprofits are cost-reimbursement and fixed-price or flat payments.

Contracts and Grants between Nonprofits and Government

Sarah L. Pettijohn and Elizabeth T. Boris

Federal, state, and local governments enter into agreements with nonprofit organizations to deliver services. Government reliance on nonprofits to provide services has been increasing since the 1960s (Smith and Lipsky 1993), expanding the ability of nonprofits to achieve their missions and the ability of governments to serve their constituents. Collaboration of governments and nonprofits has led to changes in both government and the nonprofits they fund.

This brief summarizes results from the second national study of government contracts and grants with nonprofit organizations (Boris et al. 2010).¹ In this second study, we assess the scope of government-nonprofit funding relationships across most types of charitable nonprofits, adding a new dimension of knowledge.

The study results are based on a national, stratified, random survey of most types of charitable nonprofits that reported \$100,000 or more in expenses on IRS Form 990 in 2010. To ensure a representative sample, prior to selection, organizations were stratified by state, type of nonprofit, and size of nonprofit. Smaller states were oversampled to ensure adequate sample sizes for state-level analysis (Pettijohn, Boris, DeVita, and Fyffe 2013; Pettijohn, Boris, and Farrell forthcoming). Results are weighted to

represent all US nonprofit charities (except as noted) that had contracts and grants with government agencies in 2012 (see Methodology section).

Nonprofit Organizations with Government Contracts and Grants

The findings from the 2013 National Survey of Nonprofit-Government Contracts and Grants present a mixed picture of the current state of nonprofits that perform services on behalf of governments under contracts and grants. Almost 40 percent of nonprofits reported that they continued to struggle in the wake of the Great Recession and ended the year with a deficit. About 15 percent of nonprofits reported that they had deficits of 10 percent or more at the end of 2012, a sign that nonprofits continued to face financial difficulties after the recession officially ended.

In response to changing revenue, nonprofits had to make tough decisions about how to allocate their funds.

Table 1. Dollar Amount of Contracts and Grants

Type of Organization	Number	Percent	Mean (\$)	Median (\$)	Total (\$ millions)	Percent
Arts, culture, and humanities	7,189	12.9	152,074	33,600	1,081	0.8
Education	3,828	6.9	1,392,814	157,034	5,223	3.8
Environment and animals	2,359	4.2	560,871	101,800	1,306	1.0
Health	6,729	12.1	5,586,483	545,082	36,448	26.5
Human services	29,483	52.9	2,826,338	387,732	80,565	58.6
Other	6,114	11.0	2,203,786	274,688	12,769	9.3
Overall	55,702	100.0	2,543,870	250,000	137,392	100.0

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

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

Almost half reported decreased government revenues from 2011 to 2012.

In 2012, we estimate that local, state, and federal governments worked with nearly 56,000 nonprofit organizations to provide support for organizations ranging from animal sanctuaries to preschools, from community improvement organizations to job training programs. Human services organizations secured the majority (53 percent) of those agreements (falling from 33,000 contracts in 2009 to 29,483 in 2012); arts, culture, and humanities (13 percent) and health (12 percent) were a distant second and third with health receiving 27 percent of government dollars (table 1). The dollar value of contracts and grants ranged from \$1,000 to \$325 million.

Governments use two primary funding mechanisms to fund nonprofits: contracts and grants.² About 43 percent of nonprofits reported that they only have grants compared with 19 percent that only have contracts. More than 38 percent have both contracts and grants. There are differences between those nonprofits that only have grants and those that have either contracts only or contracts and grants. It seems that once a nonprofit enters into a contract, its relationships with

governments change and problems arise. This may have to do with the generally more demanding nature of contracts, designed to procure services, in contrast to grants that are structured to provide assistance for desirable activities (Pettijohn 2013). Figure 1 displays the breakdown in contracts and grants by type of organization.

Governments more frequently had agreements with large nonprofits. Of the nonprofits working with governments, 47 percent have operating budgets of \$1 million or more and 36 percent have budgets between \$250,000 and \$999,999. However, 17 percent of nonprofits with budgets of \$100,000 to \$249,999 have a government contract or grant. Figure 2 shows the breakdown of nonprofits with government contracts and grants by type and size. To put these numbers into perspective, table 2 compares the size of nonprofits with government contracts and grants with the total nonprofit sector.

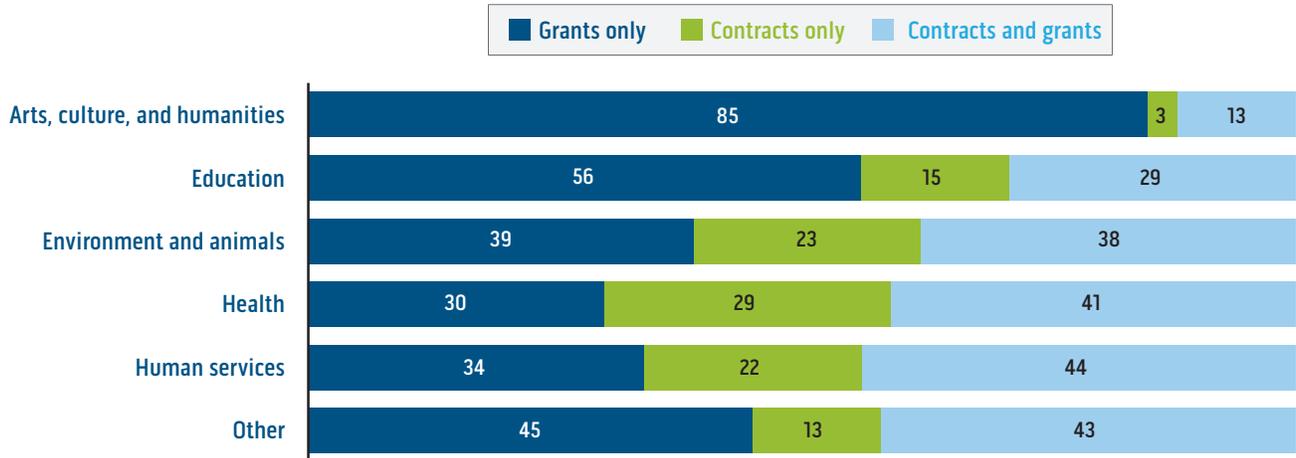
Characteristics of Government Contracts and Grants

Federal, state, and local governments use various payment methods to compensate nonprofits for

services provided under contracts or grants. The two most common payment methods are cost-reimbursement and fixed-price or flat payments. Cost-reimbursement agreements provide payment for allowable expenses up to a set limit. Fixed-price agreements pay a negotiated amount regardless of incurred expenses. Nearly two-thirds of nonprofits reported having cost-reimbursement contracts (63 percent) and grants (64 percent) with governments, while almost as many received fixed-price contracts (55 percent) and grants (62 percent).

Nonprofits with multiple contracts and grants often have contracts and grants that use different payment methods. One-third of nonprofits reported only one type of payment method for their contracts. Nonprofits, on average, are dealing with two to three types of payment methods for their contracts. Compare this with more than half of nonprofits with grants reporting one type of payment method; the average is between one and two types. This may be one more reason that contracts can be more challenging to manage.

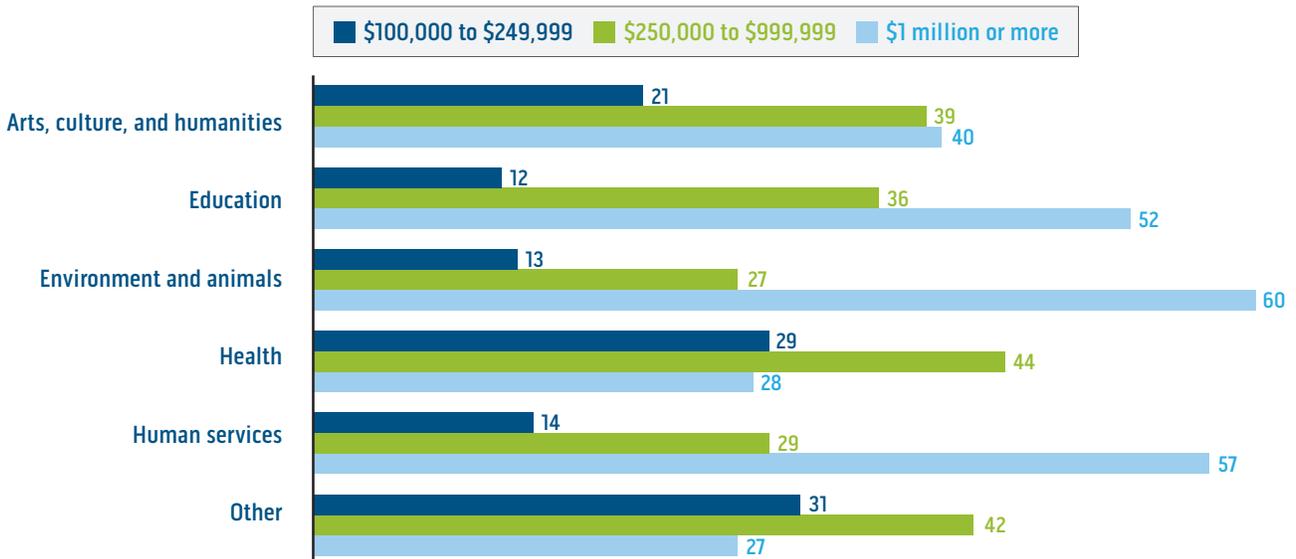
Figure 1. Funding Mechanism Used, by Type of Organization



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

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

Figure 2. Nonprofits with Government Contracts and Grants by Type and Size



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

Notes: Figures are based on nonprofit organizations included in the sampling frame. Other includes international, religious, and public and societal benefit organizations.

Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

Table 2. Size of Nonprofits with Government Contracts and Grants Compared with Total Nonprofit Sector

	PERCENT OF REPORTING PUBLIC NONPROFITS ^a	
	Government contracts and grants	Total
Less than \$100,000 ^b	—	40
\$100,000 to \$249,999	17	20
\$250,000 to \$999,999	36	21
\$1 million to \$4.99 million	31	12
\$5 million or more	16	7
	100	100

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013) and National Center for Charitable Statistics, Core Files (Public Charities 2011).

^a Reporting public charities include only organizations that file IRS Forms 990.

^b Nonprofits under \$100,000 in size with government contracts and grants were excluded from the sampling frame.

Cost-Sharing and Matching Requirements

Government contracts and grants often require nonprofits to match or share a portion of their contracts or grants with donations or other types of funding.³ In 2012, about half of nonprofits surveyed reported at least one government grant with a matching requirement, and one-quarter had a government contract that required cost-sharing, which may suggest that government agencies expect nonprofits to leverage grants more than contracts.

Among organizations that were required by governments to match or share some costs, the reported average cost share for government contracts was 30 percent of the contract (the median was 25 percent) and 44 percent for a government grant (the median was 33 percent). Large organizations with expenses of \$1 million or more were twice as likely as small organizations (those with expenses of \$100,000 to \$249,999) to have contracts and grants that required cost sharing.

Program and Organizational Administrative Expenses

Half of nonprofits reported that government contracts and grants excluded or limited reim-

bursements for program and organizational administrative (overhead) costs.⁴ Roughly 20 to 25 percent of survey respondents said governments would pay no administrative expenses; 75 percent said the limit was 10 percent or less.⁵

Organizational overhead costs are most often targeted for restrictions. The majority of nonprofits in 34 states said they had contracts and grants that limited reimbursement for organizational overhead and a majority of nonprofits in 27 states reported limits on program administration expenses.

Limits on administrative costs are a cause for concern because nonprofits must find ways to cover these expenses. Trying to minimize overhead costs might lead nonprofits to offer low pay 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 (Hager et al. 2005). According to a federal government report, to cover indirect costs that are not reimbursed, nonprofits may serve fewer people, cut back on services offered, or forgo or delay capacity-building and staffing needs (US Government Accountability Office 2010).

Accountability and Reporting Requirements

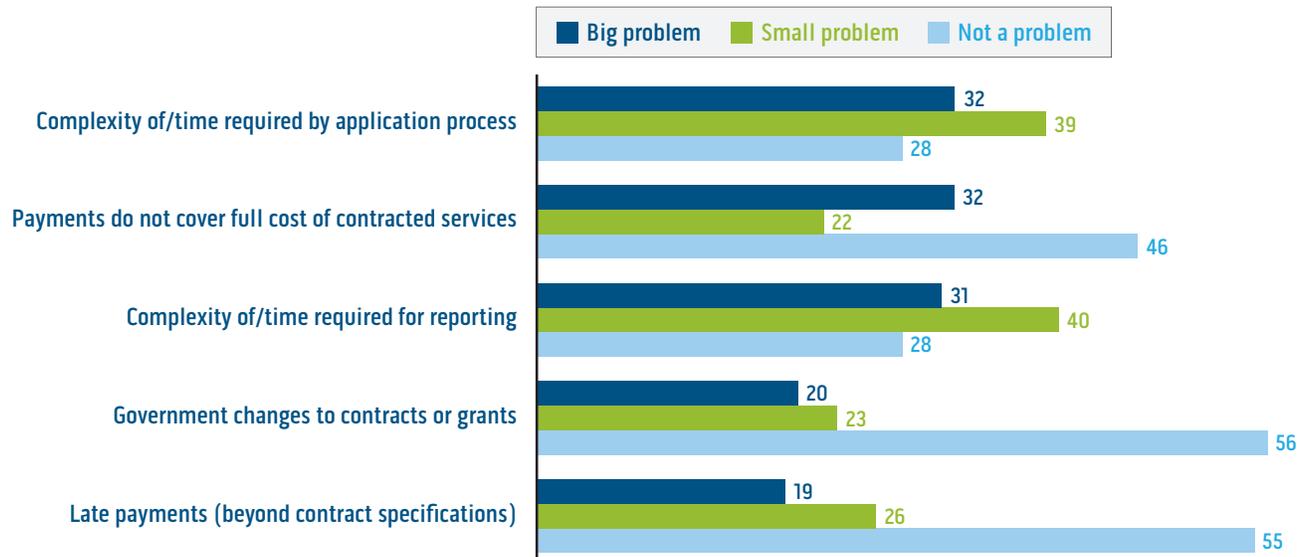
Government agencies that award contracts and grants to nonprofits generally require reporting and accountability to ensure that organizations use the funds in the intended manner. If nonprofits want to continue to perform services on behalf of governments, they must adhere to reporting requirements and the demands for increased accountability. However, figuring out how to comply with government reporting requirements has its challenges and can prove to be stressful on organizations, especially during times of reduced funding opportunities.

The largest reporting problems that respondents pointed to were different reporting formats (71 percent) and different allowances for administrative expenses and overhead (65 percent). Organizations that only received grants reported less intense problems with reporting requirements than those only receiving contracts and those that received both contracts and grants. Large organizations were more likely to state that different allowances for overhead were a problem (75 percent) compared with small nonprofits (63 percent).

Problems with Contracts and Grants

Since governments are a critical source of revenue for many nonprofits, the administration of that funding has an effect on the efficiency and costs incurred by nonprofits. During the recession, nonprofits reported some level of difficulty with five key problem areas: complex application processes, burdensome reporting requirements, payments not covering the full cost of services, changes to government contracts, and late payments. While organizations that received a higher proportion of their revenues from work funded by government contracts and grants were more likely to be affected, the problems cut across the nonprofit sector (figure 3). These are issues that not only plague human service organizations, but also reflect systemic problems in the government procurement and grants

Figure 3. Key Problems Reported about Government Contracts and Grants



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

Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

processes and the limited resources available to fund nonprofits in all program areas.

Complex and Time Consuming Application and Reporting Requirements

Complex application and reporting processes were the most widely experienced problems for all types and sizes of nonprofits (figure 3). Even nonprofits that relied on revenue earned from government contracts and grants for most of their resources, and presumably are more familiar with the processes required, reported that the time required was excessive and the complexity was difficult to navigate. Overall, more than 70 percent of nonprofits reported that complicated application and reporting processes were problematic.

Failure to Cover the Full Program Costs

In 2012, over half of nonprofits (54 percent) reported that failure of government payments to cover full program costs was a problem. Inadequate reimbursements are problematic because organizations must somehow cover

the costs of the services they provide. As reported earlier, many contracts and grants require cost-sharing or matching funds necessitating fundraising, which imposes additional costs for organizations, dipping into reserves, or diverting fee income or operating resources (National Council of Nonprofits 2013).

Changes to Contracts and Grants

Approximately 52 percent of nonprofits reported changes to signed government agreements. Forty-four percent of nonprofits reported problems created by governments changing the terms of such agreements. The most frequent changes involved governments increasing reporting requirements (35 percent), decreasing payments for services (23 percent), and increasing service requirements (16 percent). Overall, large organizations and those in the health and human services fields were most likely to experience such changes, perhaps signaling the volatility of funding for safety-net services on the one hand, and the

growing movement to ensure accountability and monitor performance on the other.

Late Payments

In 2012, governments made late payments to approximately one-third of nonprofit organizations. Late payments were regarded as a problem for 45 percent of nonprofits. Large nonprofits were most likely to report problems caused by government payment delays that exceeded contract and grant specifications. Late payments were prevalent among all levels of government; state agencies, however, owed nonprofits on average \$200,458, more than twice the amounts that local and federal governments owed nonprofits (table 3).

Changes in Experiences with Government Contracts and Grants

Problems associated with government contracts and grants are not new and are becoming a growing concern for many nonprofit organizations. Overall, 73 percent of nonprofits view their experience with government contracts

Table 3. Average Amounts Governments Still Owe Nonprofits, by Level of Government

Level of Government	Average Amount (\$)	Median (\$)
Local	84,899	30,000
State	200,458	40,000
Federal	108,500	26,808

Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).
 Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded.

and grants in 2012 the same as in 2011, compared with 21 percent that view their experience worse in 2012, and 6 percent that view their relationship better than the prior year.

Financial Health of Nonprofits with Government Contracts and Grants

Nonprofit organizations have a number of potential revenue sources. We asked nonprofits to report changes in eleven categories of

funding (figure 4). On average, respondents reported a decrease in two to three different types of funding sources between 2011 and 2012. Eighty-two percent of respondents reported a decrease in at least one type of funding source. Nonprofits most frequently reported less income from federal government agreements with 47 percent citing a decrease between 2011 and 2012. State and local government agency funding were the next highest

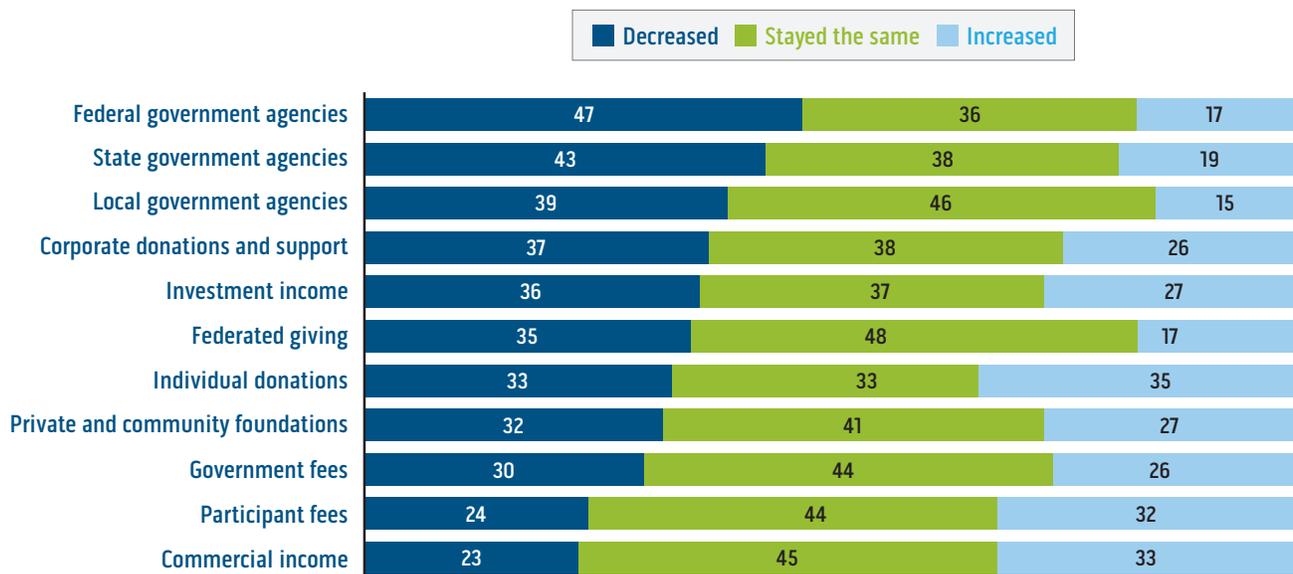
categories with decreases of 43 percent and 38 percent, respectively. Nearly one-third of nonprofits reported less revenue from government fees for service, such as Medicaid and Medicare. Compared with other types of nonprofits, health and human service organizations were more likely to be affected by reductions in government funding.

Actions Taken by Nonprofits to Balance Budgets

In response to changing revenue, nonprofits had to make tough decisions about how to allocate their funds (figure 5). While some nonprofits were in recovery, many continued to struggle, especially those that rely on government for more than one-third of their budgets.

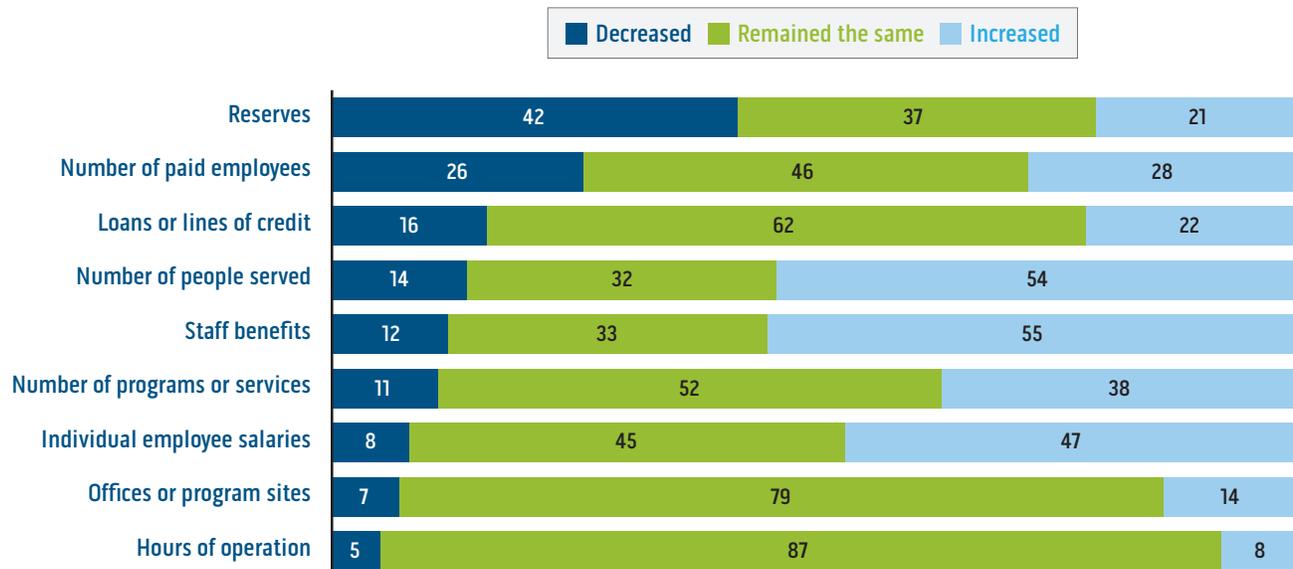
About one-half of nonprofits reported increasing employee salaries and benefits, which suggests that some nonprofits are showing signs of recovery. Although the number of paid staff remained the same for 46 percent of nonprofits, this number tended to increase for

Figure 4. Changes in Organizational Funding



Source: Urban Institute, National Survey of Nonprofit-Government Contracts and Grants (2013).
 Notes: Figures are based on nonprofit organizations included in the sampling frame. Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

Figure 5. Changes in Organizational Activity from 2011 to 2012



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

Notes: Figures are based on nonprofit organizations (excluding hospitals and higher education). Missing or not applicable answers were excluded. Percentages may not sum to 100 because of rounding.

nonprofits that reported a surplus in 2012. More than one-half of nonprofits increased the number of people served (54 percent) and avoided changes to their hours of operation (87 percent), the number of offices or program sites (79 percent), and the amount of programs and services offered (52 percent).

Conclusion

The results reported here expand our knowledge of government-nonprofit financial relationships. From this first comprehensive national study, we now have a better understanding of the dollar amounts and funding mechanisms (contracts, grants, or both) that governments employ to pay for service provision by different types of nonprofit organizations. It is a longstanding tradition in the United States for governments to use nonprofits to provide services that governments do not have the capacity to provide directly. The extent of the resources and complexity of the government administrative processes, however,

have not previously been probed from the vantage point of nonprofits that carry out government-funded work in many fields.

In addition, this study shows that the current financial status of nonprofits is mixed. Not all nonprofits have recovered from the recession; many still have depressed revenues and many continue to make cutbacks. 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.

Methodology

This survey was based on a national, randomly drawn sample of 501(c)(3) public charities taken from the Urban Institute's National Center for Charitable Statistics (NCCS). The sample was limited to organizations that are required to file a Form 990 (an annual financial statement) with the US

Internal Revenue Service and have more than \$100,000 in expenditures. The sample for this survey contained 20,000 organizations from all 50 states and the District of Columbia. More than 7,800 nonprofits contacted us with information about the survey, and 4,024 completed the survey, yielding a 33 percent response rate. All estimates in this report are appropriately weighted, and, therefore, the estimates can be generalized to nonprofit program areas (arts, culture, and humanities, education, environment and animals, health, human service, international and foreign affairs, public and societal benefit, and religion) included in this study that have at least \$100,000 in expenditures.

Acknowledgments

This study is part of a collaborative project of The Urban Institute's Center on Nonprofit and Philanthropy and the National Council of Nonprofits. The project was funded by the Bill and Melinda Gates Foundation. ■

Notes

1. In this brief, nonprofit refers to public charities classified as 501(c)(3) tax-exempt organizations in the Internal Revenue Code with expenses of \$100,000 or more. The study does not include hospitals, higher education, and other types of nonprofits not likely to have government contracts and grants. See the methodology section in Pettijohn et al. (2013) for a list of excluded types of nonprofits.
2. The federal government uses a contract to purchase goods or services from nonprofit organizations and a grant when it is assisting the nonprofit to carry out an activity that Congress has decided to support as a matter of public policy. See Pettijohn 2013 for more detail on differences between federal contracts and grants.
3. Cost-sharing and matching requirements refer to those contracts and grants that explicitly state that the nonprofit must provide a certain percentage of the award.
4. Organizational overhead or administrative expenses include costs associated with the organization as a whole that cannot be attributed to a program (such as utilities, accounting staff, or a receptionist). Program overhead or administrative expenses refer to administrative expenses directly related to programs and services (that is, program

administration, such as computer use, copying, rent, and telephone use).

5. While three out of four government contracts refuse to pay more than 10 percent of indirect costs, multiple studies have recognized that a more realistic “range of between 20 percent and 40 percent is appropriate, with a range of 25 percent to 35 percent as being most realistic” (National Council of Nonprofits 2013).

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