

Government Contracting Problems Hurt North Carolinians in Need, Taxpayers, and All Nonprofits

On October 7, 2010, the Urban Institute released a report on the first-ever national study of government contracting with nonprofits. The report uncovers long-standing systemic problems experienced by nonprofits that contract with federal, state, and local governments. It has major implications for all North Carolina's nonprofits.

The problems experienced by nonprofits include government bidding and reporting requirements that are overly complex and difficult to complete, unexpected changes to contract requirements made by the government mid-term, and even nonpayment of contracts and grants.

Basic Information on Nonprofits and Government Contracting Summary of the Report's Findings in North Carolina Why This Affects All North Carolinians and All Nonprofits Potential Solutions

Basic Information on Nonprofits and Government Contracting

- **Report on Government Contracting Problems in North Carolina**
- **Web Portal on Government Contracting** (site hosted by the National Council of Nonprofits with detailed information about government contracting and nonprofits)
- **"Costs, Complexification and Crisis"** (a special report from the National Council of Nonprofits)
- **Full National Report from the Urban Institute**
- **Executive Summary of the Urban Institute Report**
- **State-by-State Comparisons and Rankings**
- **News Release for North Carolina Media**

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Summary of the Major Findings in North Carolina

Complexity of Contracting Practices Cause a Burden

More than three in four nonprofits reported that complexity and time required for reporting on grants and contracts was a problem. And more than 70 percent said that the complexity of the bidding process was a problem. These systemic challenges take resources away from the direct work of helping people in need. Excessive and redundant reporting requirements are a particular problem for small organizations with limited staff. For those nonprofits, these challenges can divert dollars intended for operating programs to instead be spent on accountants, attorneys, and other outside contractors.

Government Inconsistency

More than three out of five surveyed reported that government agencies changed their contracts mid-term, with nearly 30 percent identifying this as a major problem. This lack of predictability challenges nonprofits in effectively allocating their limited resources.

Government Underfunding

Nearly two-thirds of respondents reported that governments fail to pay them the full cost of services rendered. Specifics include:

- Limits on indirect costs, such as administrative and other business expenses, according to 59 percent of respondents.
- Failure to cover organizational costs, such as rent, office

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equipment, and staff health coverage, according to 46 percent of nonprofits answering the survey.

- Requirements of matching or sharing costs from non-government funds to pay for some of governments' share of meeting its contractual obligations (according to 59 percent of respondents).
- Mandatory use of the NC E-Procurement system, which requires nonprofits to pay extra bank fees for purchases with funds from state contracts.

Major Cuts in North Carolina's Investment in Nonprofits' Critical Services

North Carolina's investment in essential services of nonprofits appears to be eroding more quickly than elsewhere in the nation.

Seventy percent of state-supported nonprofits in North Carolina reported a decrease in revenue from state grants in contracts in 2009, the fourth-highest decline of any state.

Decline in Private Philanthropy

Nonprofits have generally been unable make up for government underpayments due to a decline in private giving. **In 2009, nearly half of those surveyed reported a drop in individual donations, 58 percent saw a decrease in private foundation grants, and nearly two-thirds received less from corporations.**

Impact on Individuals and the Economy

More than half of North Carolina nonprofits surveyed operated at a deficit in 2009 – about a fifth higher than the national average. The impact is particularly severe for small nonprofits, with 71 percent of North Carolina organizations with budgets between \$100,000 and \$249,999 experiencing deficits, compared with 47 percent nationwide.

This affects the state's overall economy and contributes to the unemployment crisis in the state. Nonprofits provide about 400,000 jobs in North Carolina, or 10 percent of the state's workforce. The Urban Institute report found that 60 percent of North Carolina nonprofits froze or reduced salaries in 2009 (compared with 50 percent nationally) and 44 percent reduced their staff size.

Resiliency of North Carolina Nonprofits

Despite these challenges, only 13 percent of North Carolina nonprofits reported that they reduced the number of programs or services in 2009, well below the national average of 21 percent. Instead, they continued to meet increased demands with fewer resources.

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Why This Problem Affects All North Carolinians and All Nonprofits

The broken government contracting system hurts all North Carolinians. In particular, it affects:

- **North Carolinians in need**, since these problems undercut delivery of essential services.
- **North Carolina taxpayers**, since solutions could save government and nonprofits money and allow services to be delivered more efficiently.
- **All North Carolina nonprofits**. Foundations, corporations, and individuals which support nonprofits are being asked to subsidize the true cost for essential services that human service organizations provide on the state's behalf. This translates into less money for other vital nonprofits, including those in the arts, the environment, education, and countless other fields.
- **North Carolina's economy**. Nonprofits provide 400,000 jobs, about 10 percent of the state's workforce. By forcing nonprofits to cut staff and reduce salaries and benefits, these problems add to North Carolina's unemployment crisis.

The National Council of Nonprofits has [more information](#) on how this affects all Americans.

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Developing Solutions

The Center will take the lead in bringing nonprofits and state government together to develop collaborative solutions. The objectives for this collaboration are to improve its contracting processes to provide quality services for North Carolinians, use taxpayer dollars more effectively, and treat its nonprofit partners fairly. The Center has already led improvements in the state's online

grants reporting system for nonprofits through its collaboration with the N.C. Office of the State Auditor and N.C. Office of State Budget and Management.

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