

Grantmakers for Effective Organizations (GEO)

Letter from the President and CEO

Response to the Economic Stimulus Package
July 19, 2009

Dear friends,

You know what's keeping me awake at night? The economic stimulus package is about to open a valve that will unleash serious dollars into communities. Nonprofits are so starved for resources that even the strongest are struggling. The prospect of new dollars flowing to these organizations is a good thing, isn't it?



Given that government often constructs contracts and grants in a way that makes the recipient organization weaker as a result, the situation is not so straight-forward. A few facts illustrate the point:

- Government agencies almost universally under-reimburse for the services provided by nonprofit organizations. It's the nonprofit equivalent of losing money on every person served and attempting to make it up on volume.
- Nonprofits are ill-equipped to float the costs of services until reimbursement arrives up to nine months later, exacerbating already serious cash flow challenges. At the same time, nonprofits aren't attractive borrowers for traditional lenders because they are so undercapitalized.
- Unlike their corporate counterparts, nonprofits typically are required to return unused funds at the end of the contract period, hamstringing their ability to build a healthy reserve.
- Antiquated application and reporting processes eat into organizational capacity before the work begins.

What has me worried is the potential for **new government dollars to further weaken an already fragile nonprofit sector.**

As a grantmaking community committed to the health and vitality of the nonprofits we support, it's in our best interest to advocate for governmental procurement practices and grantmaking systems that are fair and equitable. The good news is reform efforts have already yielded some positive results.

Spurred by a coalition of nonprofits led by the Providers Council and supported by the Boston Foundation, the Massachusetts Executive Office of Health and Human Services commissioned a study¹ to assess the financial health of the state's human service providers. The headline of the study: **cost reimbursement contracts were hurting providers' financial health**, with most providers running deficits. Providers had no room to adjust budgets as contracts were renewed. In some cases, budgets had not been updated to reflect current costs of services in 10 years. In response to these findings, Massachusetts passed a bill in 2008 to give more leverage to human services providers in setting the rates for their work. The bill included opportunities for regular reviews and cost-of-living adjustments.

A coalition of nonprofits in Illinois, led by the Donors Forum and supported by the Wallace Foundation, is in the early stages of a similar effort in that state.

As a member of the GEO community, you're committed to reforms that will enable nonprofits to achieve better results. Here, too, we have an opportunity to demonstrate leadership to broaden the capacity of the organizations we all rely on. Some possibilities include:

- **Convene grantees that are likely recipients** of new government dollars to hear their thoughts on the current system and what reforms would benefit them most. Share what you hear with your colleagues in the donor community.
- **Make sure that your organization consistently pays the full cost of services** when giving project grants. Possibly consider providing general operating support to help key grantees absorb the unreimbursed portion of government contracts until the situation can be corrected.
- **Help grantees understand the full costs of delivering programs** by providing them with access to financial capacity building. Similarly, help them understand the financial and programmatic consequences of accepting funds that do not cover the full costs of providing services.
- **Support the work of local conveners** such as state associations of nonprofits that are advocating for changes beneficial to nonprofits. These infrastructure organizations can't educate lawmakers effectively without substantial financial support from the grantmaking community.
- **Commission a study** similar to the one in Massachusetts to support reform efforts by making the negative consequences of the current system clear.
- **Talk with local and state agencies** about what, if any, reforms might be possible.
- **Help educate other public officials** and policy makers about the unintended consequences of current practices.

Systems change is only possible through collective action. If we all contribute in the way that makes most sense for us, broad scale change quickly comes within our reach.

Thank you for the leadership you show in your own community and as a member of GEO. As always, I'd be pleased to hear from you, particularly if you're already participating in reform efforts on these issues.

Best,
Kathleen P. Enright
President and CEO
Grantmakers for Effective Organizations