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Reading reflection 2 – Role of govt. as funder
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PA663 – Skene-Pratt

The chapters from “Nonprofits for Hire: The Welfare State in the Age of Contracting” present some interesting information on the historical background of government funding of nonprofits, especially social and human service organizations. Prior to the 1960s, nonprofit agencies primarily depended upon private donations, endowment income and in-kind assistance and reflected social policies that emphasized a minimal federal role in funding social services. During the 1960s and 70s, thanks to initiatives such as the “War on Poverty” and Title IV-A of the Social Security Act, nonprofit agencies became agents of government in the expansion of the American welfare state through grants, contracts and purchase-of-service agreements with private agencies. The ensuing decades led to a shift from large, public institutions housing the mentally ill and developmentally disabled to government contracting with nonprofits to provide residential treatment services and a rise in community action and youth agencies. During the 1980s, under Reagan economics, the federal government reduced expenditures in some social service areas but increased them in others and decentralized many programs to states. As states recovered from the recession in the 1980s, state funding rose significantly and nonprofit agencies remained substantially dependent upon government funds (Smith, Lipsky, p. 66). The cutbacks of the Reagan and Bush administration translated into stagnant or reduced wages for nonprofit workers, program cuts and clients having to wait longer for assistance and receiving poorer service.

The second article “Costs, Complexification, and Crisis: Government’s Human Services Contracting ‘System’ Hurts Everyone” paints a grim and depressing picture of the current state of government contracting with nonprofits that provide human services such as food assistance, public safety, housing, child care, community and economic development, youth development and more. The report’s authors use some harsh terms such as “broken,” “alarming,” “archaic” and “cobbled-together” to describe the contracting system between federal, state and local governments and nonprofits. The five problem areas are failure to pay full costs, changing contract terms mid-stream, paying late, complexification of contracting processes and complexification of reporting requirements. The report also explains the ramifications of this outdated system. Nonprofits are forced to cut programs or staff, preventing needed services from being delivered. The tremendous waste in administration costs taxpayers. And it burdens nonprofits by creating cash-flow problems, often forcing them to take out bridge loans at banks or seek out other funding from foundations and private donors. As the authors write on page 8: “To put this into perspective, the Urban Institute Study notes that in 2009 American governments entered into \$100 billion worth of written agreements with nonprofits to deliver just human services for those governments. Now consider the size of that ripple effect when government fails to pay as agreed.”

This paragraph also got my attention based on what we have discussed in class about Michigan legislators deciding to cut off cash assistance at 48 months and believing other nonprofits or churches will fill the void: “The authors of the Special Report believe that most of the systemic problems relate to lack of attention – that the underlying system has been ignored for too long, allowing inefficiencies and uncoordinated layers of bureaucracy to corrode and weaken the service delivery system. However, there is a growing concern by many observers that government officials mistakenly believe that if government does not pay for human services, then foundations, federations, and other private giving will fill the void” (p. 6).

I finished these articles with mixed emotions and thoughts on government partnering with nonprofits to provide social and human services. The articles seem to lead to the million-dollar question: What

role should government have in the funding and delivery of social services? Has it been better to pass it to nonprofits through contracts and grants? Are we really saving money after considering the transaction and administrative costs of contracts for both governments and nonprofits? While the original intent of shifting this work to nonprofits seemed like a good one – the thought being that nonprofits could do it better and cheaper than big government – it has led to a defunct and inefficient reimbursement system, which it sounds like many governments cannot pay for. The report revealed that in Michigan, 50-69 percent of nonprofits reported problems with government payments not covering the full cost of contracted services as well as the federal, state and local governments paying an average of 90 days late. Part of the problem stems from the fact that government tends to operate regardless of whether or not it can pay its bills. Just look to our current \$15 trillion deficit. It writes checks that others cannot cash. Our country also has a proliferation of nonprofits which often duplicate services and seem to resist collaboration for fear of being put out of business. Maybe there are simply too many doing the same work and some need to fold.

It is obvious the government/nonprofit contracting system needs to be overhauled and streamlined. The report authors make a convincing case for immediate reform measures. However, I think another major problem is simple public awareness. I do not think the average American, including those who access human services, understand the complex web that is the government-nonprofit complementary relationship. Dennis Young discusses the rationale behind this relationship extensively in his article “Complementary, Supplementary, or Adversarial?: A Theoretical and Historical Examination of Nonprofit Government Relations in the United States,” which we were assigned for the week of Sept. 7.

As with anything, there are pros and cons to our current system of government contracts and grants supplying revenue to nonprofits to deliver human and social services. For one, many Republicans/Conservatives are against the idea of big government, so this is a way for the government to still provide support for social services but in an indirect way. On the flipside, based on the way government pays – either late or at a reduced rate – and its complex contracting processes and reporting requirements, it seems the system has grown so big, bureaucratic and inefficient that these nonprofit-government partnerships may no longer be the best use of taxpayer dollars. I also see problems with some nonprofits having too much reliance on one funding source and the need for them to diversify their revenue streams to avoid some of the pitfalls of chasing government money. When money is guaranteed, it can lead to stagnation, waste and lackadaisical behavior on the part of employees. When money is guaranteed and arrives late, it can create internal stress, frustration and reflect negatively on the organization in a variety of ways, including bad customer service, program cuts and staffing issues.

Using my case study organization as an example, Muskegon-Oceana Community Action Partnership, Inc. receives the majority of its funding from the federal government, funneled down to states in the form of Community Services Block Grant money. CAAs grew out of President Lyndon Johnson’s War on Poverty and have been tied to government since their inception in 1964. CSBG revenue has been guaranteed at some level since 1981. While the CAA structure has proven to be beneficial for determining and addressing poverty-related issues at a local level, the nationwide CAA network also survives based on CSBG funding. If that funding would disappear or the granting process is opened to competitive bid, as President Obama has proposed and Congress may soon debate, these community action agencies could be forced to close their doors. Additionally, the organization does not focus on fundraising or invest much staff resources in seeking out other grant money and it cannot lobby at the local level due to receiving federal money.