



# Nonprofit Association of Washington

Learn. Advocate. Collaborate.

## **The Nonprofit Experience with Government Contracting: Challenges & Recommendations**

March 2022

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### **Executive Summary**

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In December 2021, the Nonprofit Association of Washington launched a survey to assess the nonprofit experience with government contracting. Survey respondents were asked to identify challenges they've experienced, prioritize the challenges they want addressed, describe any positive experiences they have had with government contracting, and identify policy solutions they would like to see.

The six most prevalent challenges that nonprofits experience fall into two main categories:

#### Complex Contracting Processes

1. Difficult application procedures or timelines
2. Burdensome reporting requirements
3. Overly complicated or restrictive budget or invoicing requirements

#### Financial Constraints

4. Contract rates do not rise with cost increases over time
5. Reimbursement basis – receiving payment after delivering services
6. Contract rates do not cover administrative costs

All of these challenges impact the majority of nonprofits who contract with government. The impact is significantly greater for Black, Indigenous, People of Color-led (BIPOC-led) nonprofits, and these groups experience the biggest disproportionate

impact from contracts that do not cover administrative costs, late payments, reimbursement-based contracting, and burdensome insurance requirements.

Nonprofits are grateful for government partnership to meet common goals. The partnership can be improved in the following ways:

1. Nonprofits should be compensated appropriately for their work. Government funders should cover the full cost of service delivery, pay for necessary administrative costs, and increase contract rates to cover rising costs.
2. Government funders can and should remove or mitigate barriers to contracting that disproportionately impact nonprofits serving BIPOC, rural and other marginalized communities. These include reimbursement-based contracting, delayed payments, matching funds requirements, and onerous insurance requirements.
3. Processes can be simplified and coordinated across departments and government entities, reducing work for both funders and contractors. Opportunities include common application formats or elements, coordinated rather than multiple audits, less prescriptive rules about how money can be spent, and not asking for unnecessary information.
4. Government can best reach its goals when partners are strong and capable. Government funders should invest in capacity building and technical assistance to nonprofits, particularly those serving underserved areas or populations. General capacity building to strengthen nonprofits' infrastructure and systems, proposal writing assistance, and use of intermediaries are effective strategies.

The challenges associated with government contracting affect funders and contractors, and win-win solutions are possible. Most importantly, if unnecessary barriers and complexity can be eliminated, more funding, time, and energy can go toward maximizing quality services to Washington residents.

The next step is intentional dialogue between nonprofits and government funders to discuss these challenges and identify feasible solutions. The Nonprofit Association of Washington proposes the creation of a bipartisan legislative workgroup to facilitate dialogue and development of win-win solutions to improve contracting processes and results. We can build on the relationships forged through adversity during the pandemic to continue to improve outcomes for communities across Washington State.

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## Introduction

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In Washington State and across the country, nonprofit organizations have been increasingly called upon to implement and carry out what are traditionally government services. They've been asked to do this work on limited budgets and to continuously prove their expertise and effectiveness through burdensome and duplicative application and reporting processes for government contracts. Nonprofits are now leading pandemic recovery efforts amid a labor shortage and surging demand for services. The nonprofit sector is strained, and government contracting practices are directly contributing to this crisis. For nonprofits to continue serving our communities and providing vital services, contracting reform is needed.

This report summarizes the experience and recommendations of 109 nonprofits of different sizes and fields of service in communities across Washington State (see methodology section for more detail), including 23 BIPOC-led organizations and 30 rural organizations.

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## Findings

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### Challenges with Government Contracting

Respondents were asked to indicate which common challenges had impacted their organization. Percentages include non-responses from eight survey respondents, including five that indicated they do not contract with government.

Challenges	% Impacted
Difficult application procedures or timelines	66%
Burdensome reporting requirements	60%
Overly complicated or restrictive budgeting or invoicing requirements	59%
Contract rates do not rise with cost increases over time	54%
Reimbursement basis (receiving payment after delivering services)	52%
Contract rates do not cover administrative costs	51%
Short-term contracts make planning and staffing difficult	44%
Difficult or duplicative auditing requirements	31%
Requirement for matching funds	30%
Invoices not paid in a timely manner	28%
Burdensome insurance requirements	21%
Failure to disclose the use of federal funds in RFP	10%
Failure to follow OMB guidance on the use of federal funds	6%

table 1

The six most prevalent challenges fall into two main categories:

#### Complex Contracting Processes

1. Difficult application procedures or timelines (66%)
2. Burdensome reporting requirements (60%)
3. Overly complicated or restrictive budget or invoicing requirements (59%)

#### Financial Constraints

4. Contract rates do not rise with cost increases over time (54%)
5. Reimbursement basis – receiving payment after delivering services (52%)
6. Contract rates do not cover administrative costs (51%)

Additional related issues were raised by respondents, including duplicative requirements across government entities, lack of a common application or reporting format among funders, overly directive or controlling guidelines that get in the way of providing the highest quality services, and refusal to fund some required costs. It was also pointed out frequently that all these challenges lead to inequity and impact quality of services.

*"In our sector, affordable housing, each of these challenges represents a barrier to providing more homes. When [contracting requirements] cost the providers more time and money, less time and money go to the work that needs to be done."*

### **Complexity in the Contracting Process**

Complexity issues in the contracting process made up the top three challenges experienced by survey respondents. Applying for and administering government contracts requires significant resources and can be a complex and confusing experience. The information that is required to apply for government contracts can require multiple staff members to collect and organize, and it often isn't clear how that information will be used or why it is necessary. Applications require a burdensome budgeting process to document how funds will be spent, and invoicing governments for services performed can be equally complicated. Reporting requirements continue this burden and for some contractors, the level and type of data required can violate the privacy and safety of individuals who access services. For smaller organizations, the burden of this process is not worth the funding received and it creates inequitable access barriers to small and BIPOC-led organizations.

*Funding is awarded on a per project basis to assist with acquisition, pre-development or down payment assistance in most cases. Additional contracted grants cover reimbursement for critical home repairs. Complicated and cumbersome application process for WA Housing Trust Fund is a key issue for us. It was a 3-month grant process consuming hundreds of staff hours to*

*complete, that was ultimately not awarded. The additional cost per project just to meet the basic requirements, adds approximately \$15,000 to a project that may not receive funding.*

*At one point, for \$5,500 we were required to report 4 times a year AND send a survey out to all senior participants (postage, envelopes, paper, staff time to process) and report the results of the survey. So, 5 reports for \$5,500!!*

### **Lack of coordination across government entities leads to duplication of efforts.**

Inconsistencies on the government side of this process compound the frustration that nonprofits experience. Application, budgeting, invoicing, and reporting requirements differ across levels of government, and often differ across government agencies within the same jurisdiction. This can compound the sense that certain requirements are arbitrary or unnecessary but more importantly, it means that nonprofits who layer multiple sources of government funding must create multiple systems and “translate” data into different formats to deliver the same information to various agencies. Not only is this incredibly inefficient, but it is also resource intensive. The result is that more of the organization’s resources are spent on contract management and less on critical services. This can push small, less-resourced organizations out of government contracting opportunities altogether.

*“A recent and disturbing trend is the failure of government agencies to make their own deadlines, especially when it comes to award announcements and contracting. There is no give for nonprofits when it comes to submission. We are held to a higher standard than the government. All of us face the same labor shortages and COVID chaos.”*

**Short government timelines compound the burden associated with contracting requirements.** Application periods for contracts can often be as short as two weeks, requiring organizations to scramble to get all the necessary information together. Once awarded a contract, the allotted time to complete programming is often insufficient, and contract end dates remain rigid, even when governmental delays prevent programming from beginning on time. These government delays show up throughout the process, including invoice payments, which further impacts which organizations can compete for awards.

*Dept of Commerce published an RFA for diaper banks with less than two weeks to submit the proposal. For small nonprofits overwhelmed [by] providing primary services, this is a huge barrier and sets small nonprofits at a disadvantage for applying [for] and receiving funds. Small nonprofits also lack the army of paid Development people and grantwriters to devote many hours to writing an RFA, not to mention robust \$\$\$\$ reporting systems. The reporting process would be helpful if customized per each organization's budget and scale.*



*Especially since the pandemic, funding becomes available but the turnaround time from announcement to due date, or from when monetary awards are announced to [when they have to be spent], can be so short that it makes it difficult to effectively plan and spend. The [amount of] time a few of our subcontractors (food pantries) have had to wait for their SAM [System for Award Management] number has caused them to miss out on grant opportunities.*

Complexity issues arose as the top challenges faced by nonprofits because they consume resources that nonprofits don't have or could be better spent providing services and running programs. As the financial constraint issues will demonstrate, the expenses associated with these complexities are administrative expenses, an area on which government contracts either prohibit or severely restrict spending.

### **Financial Constraints**

The majority of survey respondents reported financial challenges with government contracting that constrain their ability to implement programs or even compete for funding altogether. As with the complexity challenges nonprofits face, these financial constraints require nonprofits to have sufficient capital and additional funding sources to be able to take on government contracts. Financial challenges are where we see the greatest disproportional impact for BIPOC-led organizations, reflecting the systemic underfunding of BIPOC communities and BIPOC-led organizations.

**Insufficient compensation and failure to raise rates squeezes nonprofit budgets.** Every year, the cost of providing services and running programs increases. Wages, rents, and overall price levels increase. Over the past decade, the minimum wage in Washington State has increased 60% from \$9.04 to \$14.49. As prices rise, however, most nonprofits continue to receive government contracts that fund programs at the same rate each year, leaving them to figure out how they'll cover the remaining cost of services. Fifty-four percent of respondents reported stagnant contract rates as an issue for them, and comments stressed that contracts do not cover the full cost of services. Because of this, some end their relationships with government altogether.



Low contracts rates also prevent nonprofits from paying competitive wages. Nonprofits provide vital services that can require advanced degrees and professional expertise, yet the rates nonprofits receive don't reflect that reality. For many, this frustration is compounded by the fact that if the government were carrying out these programs itself, wages and benefits would be much higher. While nonprofits have always faced this issue, it has become especially acute during the pandemic, contributing to the current labor shortage of essential nonprofit staff.

*"Over time, it is hard to provide services at the pay rate the contracts include. It makes it hard to be a competitive employer if you cannot pay staff enough. Plus, they do deserve an increase in wages year-to-year and often, this is a fight to get approved."*

**Administrative costs are necessary to run strong programs, but they are not covered by government contracts.** Not only do contracts not rise over time or cover the full cost of service, including wages, but they also don't cover administrative costs.

Administrative costs include expenses critical to running a program – rent, a database, or organizational finance managers – in addition to all the costs associated with applications, budgeting, invoicing, and reporting. Through the complicated and burdensome contract procedures addressed in the previous section, government is requiring nonprofits to take on costs for which it will not pay. This creates an environment where nonprofit employees are simultaneously underpaid and overworked.

*Nonprofits have a lot of volunteers and low paid workers. We need both to keep overhead down. But overhead increases with government funding and finding inexpensive super-devoted labor is not easy. It is like the government wants to put out a fire and supply the water, but not the hose.*

*My top priority is managing contracts that have zero allotment for our staff time, and the significant time required to manage them including reporting, etc.*

**Reimbursement-based contracting creates barriers for less-resourced nonprofits.**

Alongside insufficient contract rates, nonprofits in Washington State are subject to "reimbursement basis" contracts, meaning they must first provide services, invoice the government for reimbursement of services, and then wait for the government to process and pay the invoice. This process requires organizations to have enough cash on hand to front the costs of services for months, which can again be prohibitive to small and BIPOC-led organizations. Thirty percent of respondents reported that they had been impacted by payments not being paid on time, further extending the

timeline for cost reimbursement and increasing the working capital needed to float the contract.

*For large grants, the need to front funds and wait for reimbursement is a challenge. Staff turnover, particularly at the City of Seattle, has been disruptive at times.*

*Small [organizations] need cash flow for basic operating [expenses] and not being able to invoice until after services [are] rendered can be a challenge.*

### **Disproportionate Challenges for BIPOC-led Organizations**

Financial constraint issues were experienced by a smaller proportion of all respondents than contract process complexity issues, but disaggregated data shows that financial constraints are experienced at higher rates for BIPOC-led organizations. In *table 2* below, the highlighted rows show the areas of greatest disproportionate impact (>10% difference). Close behind these challenges are gaps in impact related to reporting and auditing requirements.

Challenges	All Orgs	BIPOC-led Orgs
Difficult application procedures or timelines	66%	74%
Burdensome reporting requirements	60%	70%
Overly complicated or restrictive budgeting or invoicing requirements	59%	61%
Contract rates do not rise with cost increases over time	54%	57%
Reimbursement basis (receiving payment after delivering services)	52%	65%
Contract rates do not cover administrative costs	51%	70%
Short-term contracts make planning and staffing difficult	44%	48%
Difficult or duplicative auditing requirements	31%	39%
Requirement for matching funds	30%	26%
Invoices not paid in a timely manner	28%	43%
Burdensome insurance requirements	21%	39%
Failure to disclose the use of federal funds in RFP	10%	17%
Failure to follow OMB guidance on the use of federal funds	6%	9%

*table 2*

Respondents also reported that current contracting practices undermine the ability of BIPOC-led organizations to apply for and utilize government grants and contracts.

*[There are] burdensome requirements when working with community consultants or community orgs that might be classified as "Sub-contractors". The requirements can be overly burdensome and costly for BIPOC consultants who have relatively small practices but are critical because of their relationship to community.*

*Some of these [challenges] are overcome-able for us because of our size, but a total obstacle for the agencies we fund, particularly historically under-funded BIPOC organizations.*

The disproportionate impact of contracting challenges on BIPOC-led organizations reflects what we already know: BIPOC communities and BIPOC-led organizations face structural barriers to financial resources, often leading to smaller, less well-funded nonprofit organizations. The government contracting process is one of those barriers.

### **Results for Rural Nonprofits**

Interestingly, rural nonprofits reported lower rates of experience with many of the challenges presented. The biggest difference is a gap in experiencing difficult or duplicative auditing requirements, but they also report less experience with certain challenges related to financial constraint (see *table 3*). Like BIPOC-led organizations, rural organizations can often be under-resourced, so this finding is unexpected. The survey data does not present any explanations, but the Nonprofit Association of Washington shared this finding at a virtual rural nonprofit gathering after the close of the survey to discuss with our rural partners. Participants hypothesized that rural nonprofits may be less likely to have the capacity to navigate complicated application procedures and therefore may not experience the additional challenges beyond that step. While the validity of this hypothesis requires further research, eight of the 15 survey respondents that do not currently contract with government were rural-based organizations, amounting to 26 percent of rural respondents. By comparison, only 9% of survey respondents that did not identify as rural reported that they were not contracting with governmental bodies.



Challenges	All Orgs	Rural Orgs
Difficult application procedures or timelines	66%	67%
Burdensome reporting requirements	60%	57%
Overly complicated or restrictive budgeting or invoicing requirements	59%	53%
Contract rates do not rise with cost increases over time	54%	47%
Reimbursement basis (receiving payment after delivering services)	52%	47%
Contract rates do not cover administrative costs	51%	40%
Short-term contracts make planning and staffing difficult	44%	43%
Difficult or duplicative auditing requirements	31%	20%
Requirement for matching funds	30%	20%
Invoices not paid in a timely manner	28%	30%
Burdensome insurance requirements	21%	20%
Failure to disclose the use of federal funds in RFP	10%	3%
Failure to follow OMB guidance on the use of federal funds	6%	7%

table 3

## Priorities for Change

Respondents were asked to prioritize among the government contracting issues listed, indicating which of these issues is a top priority to address. They rated issues on a scale from 1 (most important) to 5 (not important)<sup>1</sup>. While all issues were somewhat important, nonprofits most want to change the fact that contract rates do not rise with the cost of inflation and that they do not cover necessary administrative costs. In addition, improvements to the contracting process and requirements are important. It is important to note that although the top three issues most experienced by nonprofits related to complexity challenges, the two biggest priorities for change concern contract rates.

<sup>1</sup> Weighted averages are based on 96 responses to this question. Due to the structure of the question, weighted averages cannot incorporate non-responses.

Priorities for Change: All Respondents	Prioritization
Contract rates do not rise with cost increases over time	1.80
Contract rates do not cover administrative costs	1.80
Burdensome reporting requirements	2.17
Overly complicated or restrictive budgeting or invoicing requirements	2.18
Difficult application procedures or timelines	2.24
Reimbursement basis (receiving payment after delivering services)	2.28
Short-term contracts make planning and staffing difficult	2.57
Requirement for matching funds	2.60
Difficult or duplicative auditing requirements	2.67
Invoices not paid in a timely manner	2.69
Burdensome insurance requirements	3.05
Failure to follow OMB guidance on the use of federal funds	3.29
Failure to disclose the use of federal funds	3.40

table 4

For rural organizations, priorities aligned almost exactly with the priorities of the overall respondent pool, but for BIPOC-led organizations, challenges related to financial constraints constituted the top four priorities<sup>2</sup>. Like the overall respondent pool, the two challenges associated with contract rates were the top priorities for BIPOC-led organizations, however the two subsequent priorities were the reimbursement basis of payments and late payments.

<sup>2</sup> Weighted averages are based on 22 responses to this question. Due to the structure of the question, weighted averages cannot incorporate non-responses.

Priorities for Change: BIPOC-led Organizations	Prioritization
Contract rates do not cover administrative costs	1.57
Contract rates do not rise with cost increases over time	1.85
Reimbursement basis (receiving payment after delivering services)	2.00
Invoices not paid in a timely manner	2.00
Difficult application procedures or timelines	2.10
Short-term contracts make planning and staffing difficult	2.21
Burdensome reporting requirements	2.32
Overly complicated or restrictive budgeting or invoicing requirements	2.36
Burdensome insurance requirements	2.50
Difficult or duplicative auditing requirements	2.58
Requirement for matching funds	2.58
Failure to follow OMB guidance on the use of federal funds	3.00
Failure to disclose the use of federal funds	3.05

table 5

## Positive Experiences with Government Contracting

To identify potential bright spots to replicate, survey respondents were asked to describe positive experiences they've had with government contracting. The majority of comments spoke to positive experiences with contract administrators that have occurred despite numerous difficulties with the contracting system. However, a small number of respondents did note a lack of complexity in the contracting process and positive experiences with governments making changes based on feedback from nonprofits. These comments underscore that improvement in government contracting is possible.

### Respondents overwhelmingly reported experiences with caring government staff.

Twenty-one comments, representing 33 percent of responses to this question, noted positive experiences working with individuals in government who valued the work being done and did their best to support organizations through complex processes. Comments acknowledged that these individuals often do not have institutional power to make meaningful changes, but that they do their best under difficult circumstances. In some cases, this line of thought led to negative comments about government bureaucracies and individuals within government who do hold the power to improve the process.

*The people we work with from most government agencies are thoughtful and caring.*

*Usually the humans (staff) are very competent, understanding and apologetic for their systems, and helpful in navigating or trying to change requirements or provide waivers.*

**Despite frustrations with the contracting process, nonprofits are appreciative of their funding.** The second-most cited positive experience was an appreciation to just be funded and able to “do the work.” Nonprofit employees are dedicated to their work and care about the wellbeing of the individuals, families, and communities they serve.

*The amount awarded through government contracts/grants can be transformational.*

*[We were] consistently able to find some kind of government funding for our work, especially through the COVID-19 pandemic.*

**Positive changes to the contracting process occurred during the pandemic.** A number of respondents commented that relations and funding processes had improved during COVID-19. The crisis forced government and nonprofit leaders to work together quickly to ensure that the community was served. Reporting requirements were relaxed in some cases, and generally there was more flexibility and trust. Nonprofits are hopeful that some of these shifts can become permanent.

Comments identifying less-complex processes or government agencies making small changes based on nonprofit feedback were generally vague, but they nonetheless demonstrate that government does have the ability to improve the way it contracts with nonprofit organizations. Two comments described individual instances of obtaining requirement waivers or negotiating contracts, but overall comments described improvements made to entire contracting processes from one round of funding to another.

**Kudos were given for agencies that have made improvements.** Specific agencies noted for easier or streamlined processes were the Washington State Department of Transportation, the Washington State Office of the Superintendent of Public Instruction, King County’s Revive and Thrive application process for arts & cultural programs, and the City of Seattle’s Office of Arts and Culture. The Washington State Department of Commerce and Department of Children, Youth, and Families were noted for improvements made across rounds of COVID-19 relief funding.

## Policy Solutions that Nonprofits Want to See

Nonprofits are grateful for government partnership to meet common goals. The partnership can be improved in the following ways:

1. Nonprofits should be compensated appropriately for their work. Government funders should cover the full cost of service delivery, pay for necessary administrative costs, and increase contract rates to cover rising costs.
2. Government funders can and should remove or mitigate barriers to contracting that disproportionately impact nonprofits serving BIPOC, rural and other marginalized communities. These include reimbursement-based contracting, delayed payments, matching funds requirements and onerous insurance requirements.
3. Processes can be simplified and coordinated across departments and government entities, reducing work for both funders and contractors. Opportunities include common application formats or elements, coordinated rather than multiple audits, less prescriptive rules about how money can be spent, and not asking for unnecessary information.
4. Government can best reach its goals when partners are strong and capable. Government funders should invest in capacity building and technical assistance to nonprofits, particularly those serving underserved areas or populations. General capacity building to strengthen nonprofits' infrastructure and systems, proposal writing assistance, and use of intermediaries are effective strategies.

### Provide Appropriate Compensation

The top solution that nonprofits want to see is improved compensation. Nonprofits want to see contracts that cover the full cost of services, including administrative costs and competitive wages.

#### Cover the full cost of service delivery, with annual increases to cover rising costs.

Respondents noted that contract rates often make it impossible to pay skilled staff reasonable wages. This leads to recruitment and retention issues which in turn affect program quality. They noted that government wages for equivalent work are often significantly higher, and that community groups should be paid better for their skills and lived experience. Rates could be adjusted annually based on the Consumer Price Index, once the rates are reset at an appropriate baseline level.

*Rate adjustments should be made annually to contracts to keep up with increases to minimum wage, benefits, and other costs to provide quality services.*



*"If we want to provide services, we need staff to do that. We also need our staff to have support services from payroll, HR, communications etc. Keeping admin rates down to low levels is not a healthy organizational practice and it creates turnover and burnout."*

**Pay true administrative costs.** Many government contracts prohibit or severely limit spending on administrative costs, yet many required activities associated with government grants such as proposal writing, fiscal management, and evaluation are administrative. Failure to pay true administrative costs prevents organizations from investing in infrastructure such as strong fiscal and data management systems—the systems necessary to accountably manage government contracts. This effectively excludes smaller organizations from government contracting, as only larger, wealthier nonprofits have other funding sources to build these systems.

*Every nonprofit goes through a process to determine our federally-approved indirect rate. "Honor our indirect" is our rallying cry with all of our funders. We cannot be responsive to ever-changing and ever-increasing community need without a strong central administrative team.*

## **Remove Barriers for Under-Capitalized Nonprofits**

There are a number of barriers to smaller and community-based nonprofits accessing government grants and contracts. Here are some actions that are recommended by respondents to reduce barriers.

**Eliminate matching requirements.** Matching requirements, while often intended to demonstrate community buy-in, in fact privilege comparatively wealthier communities with more fundraising options, including urban areas.

**Address challenges with reimbursement-based payments.** Delivering on a reimbursement-based contract requires a nonprofit to have substantial working capital to cover the upfront cost of a reimbursement-based contract. Provide planning funds or structure payments to provide upfront funding for the initial contract period.

*Upfront and timely payment of invoices would be more equitable to enable smaller organizations with less cash flow to participate in government contracting.*

*Direct pass-through agencies to allow prepayment on contracts (subject to recovery) whenever funds are paid in advance to the pass-through.*



**Make on-time payments.** The challenge of floating expenses required to complete reimbursable contract work is exacerbated when government does not pay on time. As noted earlier in this report, 30% of nonprofits report being impacted by late payments.

*Government agencies [should] pay on a timely basis. We have to get our invoices in on strict schedules, but they often don't pay them for several months.*

**Reevaluate the necessity of insurance requirements.** Standard government insurance requirements can be burdensome and expensive for nonprofits. Requirements should be reasonable and be adjusted to requirements that truly relate to the services provided in a specific contract.

*Provisions on indemnity, insurance requirements, and IP [Intellectual Property] are often the provisions that are most burdensome or problematic when it comes to working with "sub-contractors" who are BIPOC consultants or smaller community organizations. Especially when the contract is not very big, or when the sub-contract is small, these requirements are overly burdensome for a smaller vendor to take on. Yet, those folks are the very community members that the agency often really wants us to work with because they are embedded in the communities we are trying to serve.*

## **Work Together and Simplify Processes**

Nonprofits overwhelmingly want to see simplified contract processes, coordination across government agencies and departments, and collaboration with nonprofits to understand community needs and how to meet them.

**Simplify application and reporting requirements.** More effective than teaching nonprofits how to jump through the many hoops associated with government contracting is the removal of hoops. Applications and reporting should be streamlined and reduced to only what is truly necessary.

*Make contracts more accessible and simple for people to follow so the common community organization doesn't fail the competition due to restrictive processes only the big organizations can do.*

*Nearly all our applications require extensive local demographic studies and narratives and hours of research to plead our case for affordable housing needs in the community when it has been a high priority for everyone for years. We know the need exists, let's just focus on building homes rather than duplicating demographic research, needs analyses, etc. We are a rural area and we have to provide information about proximity to banking, groceries, transit centers, etc. like we were an urban center.*

**Coordinate among government agencies and across departments.** There is a great deal of extra work created due to each level of government, and in some cases different departments within a single city or county, creating their own distinctive forms and requirements without coordination. In many cases, the same information is requested, but in novel formats. Responding to these requirements is labor-intensive for applicants. If there were a common application form, or even common elements such as a standard cover page, this would save hundreds or perhaps even thousands of hours for nonprofits in Washington each year—effort that could be reallocated to service provision. Similar savings of time and effort could be realized for both contractors and contract management staff by coordinating reporting formats, invoicing forms, and audit requirements to reduce duplication.

*Each opportunity we apply for requires starting over and compiling all the same basic information like 501(c)(3) validation, board roster, 990s, etc. All applications seem to require their own format, so it is difficult to create a re-useable document for all applications.*

*Streamlined auditing/monitoring - if you are qualified to provide services in multiple counties AND require a national accreditation - there is no need for multiple annual monitoring events.*

**Do not prescribe in detail how to do the work or spend the money.** Nonprofit partners have expertise in service delivery and need flexibility in how they spend resources to achieve desired results. Many respondents indicated that they preferred performance-based contracts and that specific requirements on how funds can be expended impede nonprofits from doing their best work. This type of micromanaging is commonly seen in contracting with nonprofits and rarely imposed on for-profit vendors.

*“Let’s also talk about evaluation/outcomes - the outcomes that BIPOC communities seek aren’t always the outcomes that governments are promoting/requiring we track.”*

*We have some state government contracts that are deliverables-based rather than reimbursement-based (we are paid the same monthly sum for meeting deliverables) which has been so much easier and enabled us to save some money and not waste funds that were budgeted for but we did not end up needing. It is ridiculous to feel like you have to spend money to align with a projected budget just because, rather than saving resources when possible.*

*Cover the full cost of delivering service and stay out of trying to tell us how to deliver those services. Instead, ask for a competitive proposal that describes how we will serve clients, why this will deliver the best results for the investment, and what it will cost to do the work.*

## **Support Organizational Development and Capacity Building**

Small organizations tend to have limited infrastructure and technical knowledge that precludes them from obtaining government contracts, despite being embedded in community and well-positioned to carry out services. To support these organizations in competing for and winning contracts, government partners need to invest in nonprofit capacity and organizational development.

**Invest in nonprofit capacity building for potential contractors.** If government agencies want strong nonprofit partners, investing in capacity building is wise. Organizational strength and solid infrastructure are necessary in order for nonprofits to ramp up service delivery in the event of a crisis (or to assist with pandemic recovery).

**Provide guidance and technical assistance.** Capacity building and technical assistance are also helpful to build the strength of BIPOC-led organizations, rural organizations, and other groups serving marginalized communities. These organizations have been chronically under-resourced, but also have the community knowledge and lived experience to effectively serve their own communities. This assistance should include, but not be limited to, proposal writing.

*New organizations may not apply for opportunities due to the process seeming too daunting but if they knew they had support during the process, it may encourage them to apply for opportunities they may have not considered.*

*It would be beneficial to provide assistance on best practices for applying for government contracts as well as training on how to adhere to proper reporting and invoicing procedures and how to handle potential contract disputes. I would say that the biggest issue was applicants would be considered non-responsive because they failed to follow the instructions on the RFP. Applicants need better guidance and possible review of application prior to submittal to make sure they cover all necessary requirements for their bidding proposals.*

*Several departments have scheduled Zoom meetings post award notification and pre contract negotiation. That's helpful!*

**Utilize intermediaries.** One way of working effectively with nonprofits, especially those facing barriers, is to work with partners with proven expertise in accessible grantmaking and existing relationships with target communities. In some cases, the intermediaries may have more well-developed reporting systems and be able to take on some of the burden of satisfying government compliance requirements on behalf of grantees.



*We are an intermediary subgranting funding to a number of agencies of multiple sizes. We tend to try to absorb as much of the administrative burden as we can so the agencies can focus on the direct service. We've had good relationships with the City and County as we've been major recipient of local, federal, and levy funds over the years from those entities. We're pleased to be a go-to for the public sector and to support getting public funds in a non-burdensome way to BIPOC-led organizations serving their communities.*

*For non-profits, partnering with other organizations may be necessary to obtain the contract. Acting as a "bridge-builder" capable of connecting organizations would be beneficial.*

*We were impressed with Dept. of Commerce partnering with Philanthropy NW during the pandemic to get funds to "by & for organizations." Working through intermediaries might be a great solution to explore further.*

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## **Conclusion and Recommendations**

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As currently practiced, the government contracting process creates and perpetuates structural inequities affecting access to financial resources. Whether related to the complexity and burden of the contracting process or the financial constraints it creates, the challenges most experienced by nonprofits and the challenges that they prioritize to address all share a common thread: they require nonprofits who participate in government contracting to be well-resourced.

Nonprofits must have the resources to supplement contracts that do not cover the full cost of services and must have general operating funds available to complete the administrative work associated with government contracts that government refuses to fund. They must have the resources to front costs associated with contracts starting with the application period and continuing with the provision of services prior to invoicing and receiving payment from their government partners. These challenges all favor larger and well-resourced nonprofits. Smaller, BIPOC-led nonprofits, which have been historically and systemically underfunded, continue to face barriers to accessing financial resources. The current system is inequitable and results in communities not getting the local, culturally responsive services they need. It is also out of alignment with stated goals of government funders to reach BIPOC, rural, and other marginalized communities.

The scope of challenges laid out in this report may seem daunting, but we know that improvement is possible. Starting points for change include increasing contract rates to cover the full cost of services and reducing the burden of contract applications and

reporting requirements. These types of improvements can eliminate unnecessary barriers, create a more equitable distribution of funding, and allow more funding, time, and energy to go towards maximizing quality services to Washington residents.

The next step is intentional dialogue between nonprofits and government funders to discuss these challenges and identify feasible solutions. The Nonprofit Association of Washington proposes the creation of a bipartisan legislative workgroup to facilitate dialogue and development of win-win solutions to improve contracting processes and results. We can build on the relationships forged through adversity during the pandemic to continue to improve outcomes for communities across Washington State.

Please contact the Nonprofit Association of Washington to join the list of interested parties and receive updates on our efforts to foster dialogue and change.



## Appendix A: Methodology

To better map the issues with government contracting in Washington State and identify policy solutions, the Nonprofit Association of Washington launched an online survey to hear directly from our sector. The survey was open from December 16, 2021, through February 7, 2022, and was primarily distributed via social media and the Nonprofit Association of Washington's email list, with additional assistance solicited from community partners to reach their networks.

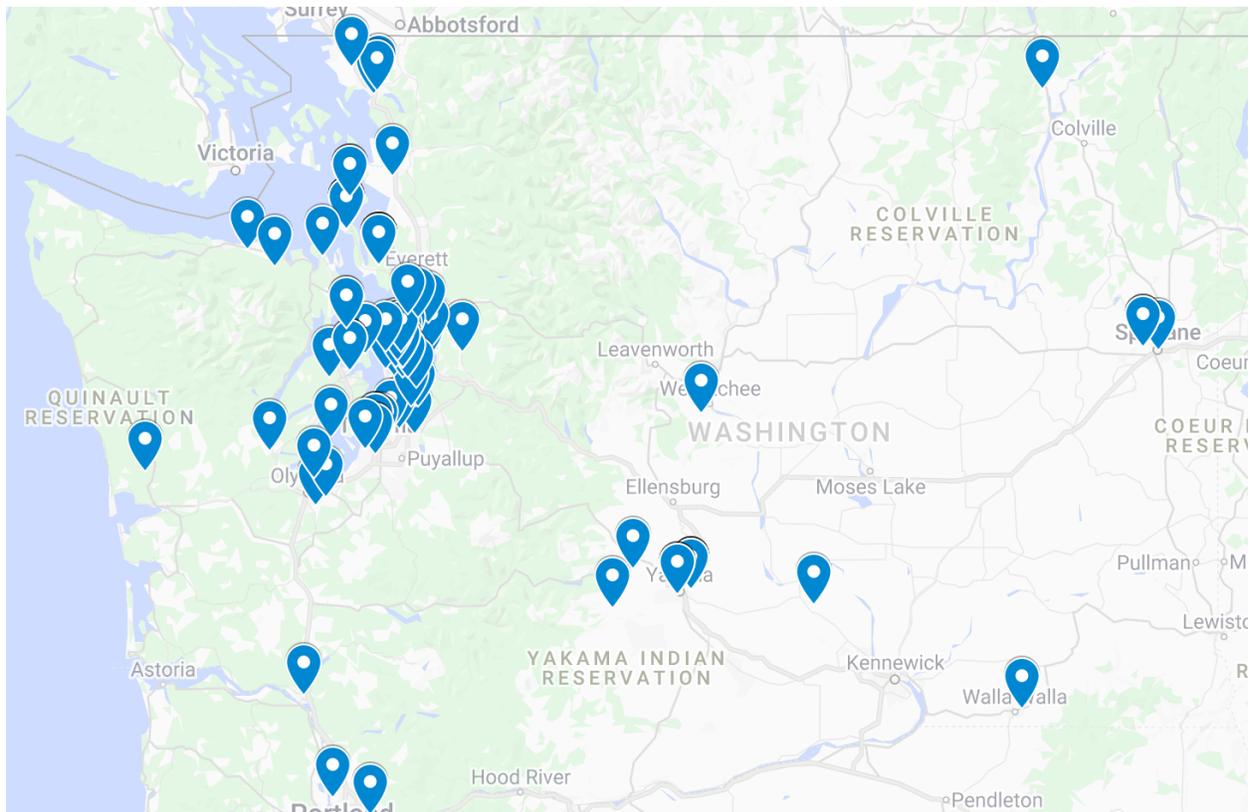


figure 1. Map of survey respondent locations

The survey received responses from individuals representing 109 Washington-based nonprofits and three additional responses that were omitted from the report. Two omitted responses were from out-of-state nonprofits, and one was from a local government entity in Washington. Respondents hailed from across the state (see *figure 1*), with 46 percent located in the Greater Seattle/Puget Sound Region (King, Pierce, and Snohomish Counties). Respondents represented a wide swath of the Nonprofit sector, with Human Services being the largest category of respondents at 41 percent (see *figure 2*). Half the respondents held 1-5 government contracts, 38 percent had six or more government contracts, and 13 percent did not contract with government at all

(see figure 3)<sup>3</sup>. State-level contracts were most common, held by 68 percent of respondents, and were closely followed by county-level contracts, which were held by 64 percent of respondents. Half held city-level contracts and federal-level contracts were less common at 38 percent (see figure 4). Twenty-one percent identified as BIPOC-led organizations and 28 percent identified as rural organizations.

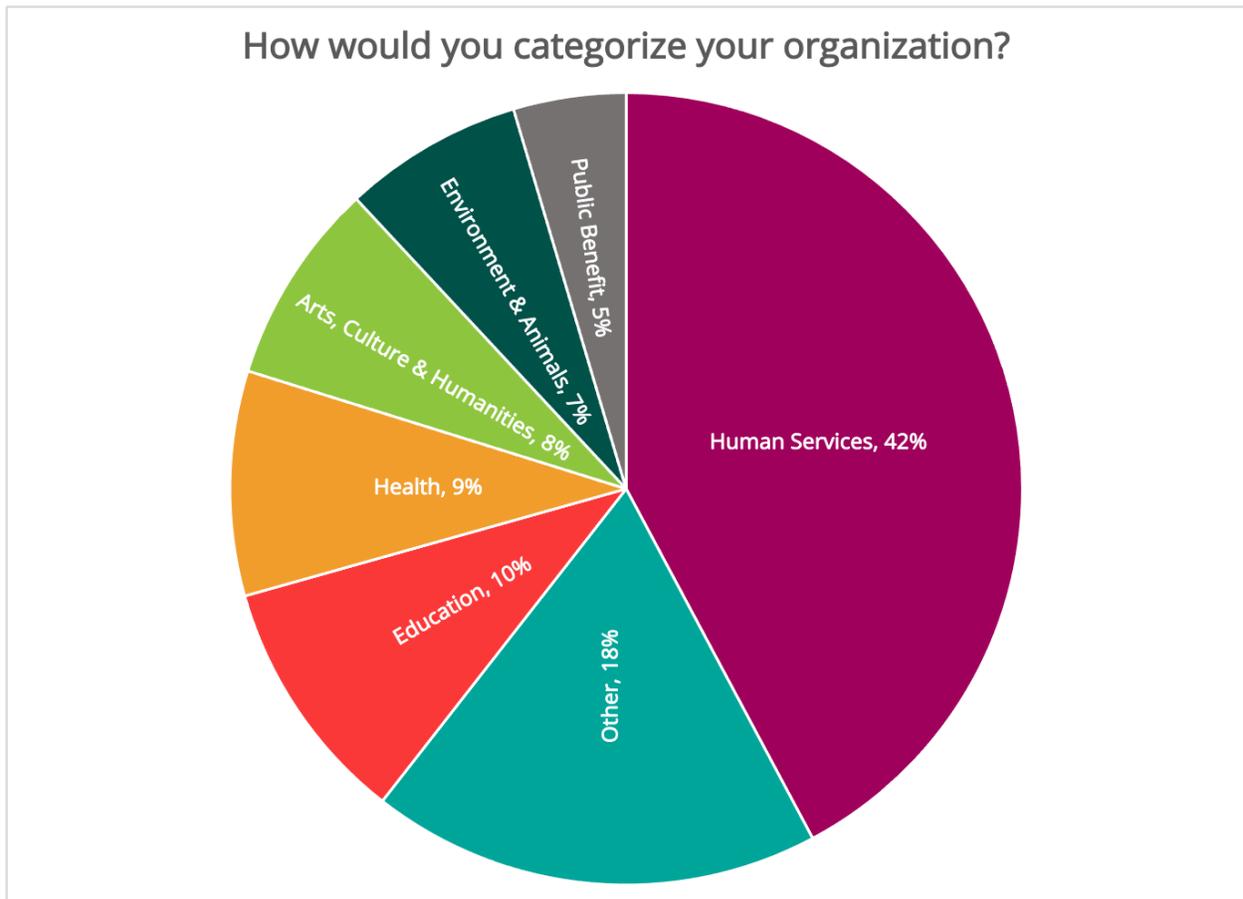


figure 2. Distribution of respondent organization sub-sector

<sup>3</sup> Percentages do not total 100 due to rounding.

How many government contracts does your organization have throughout a typical year?

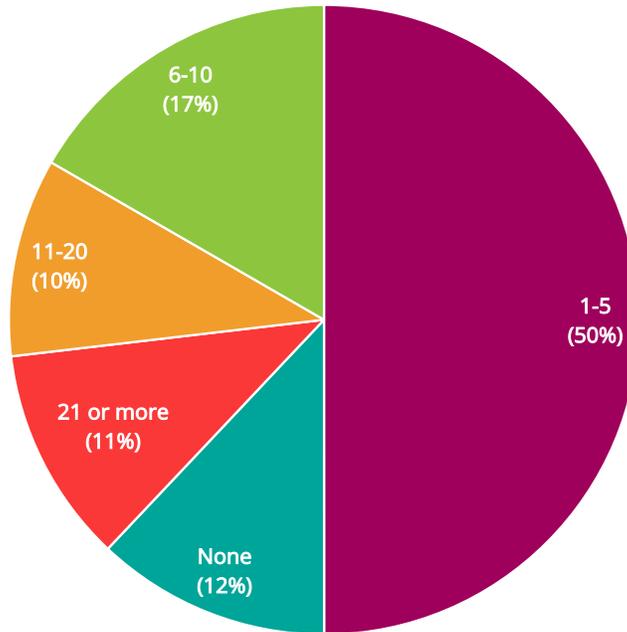


figure 3. Distribution of number of contracts held by respondents

Does your nonprofit organization contract with government agencies? At which levels? (check all that apply)

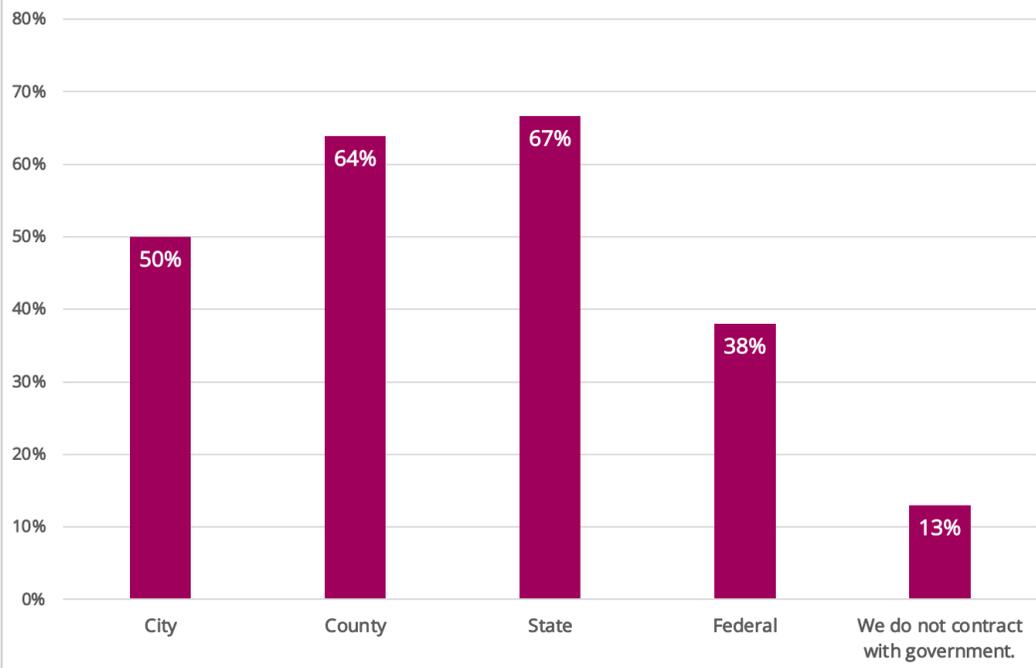


figure 3. Percent of respondent organizations that contract at various levels of government



## **Acknowledgements**

This report was authored by Nonprofit Association of Washington Policy Fellow, Anna Kelsey, and Executive Director, Laura Pierce.

We are grateful to each nonprofit leader who took the time to respond to this survey. We also appreciate the support of our partners in the nonprofit sector, including the BIPOC ED Coalition of Washington State, Philanthropy Northwest, and members of the Nonprofit Association of Washington's Public Policy Committee and Nonprofit Advocacy Workgroup, for distribution of our survey call. Their help brought in a significant response to our survey, which allows us to show with data what our sector has long understood about government contracting.

