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# Government-Nonprofit Contracting Reform

Since at least the 1960s, and accelerated in the 1980s, all levels of government have been entering written agreements with charitable nonprofits to deliver a broad array of services to the public. Governments have largely found nonprofits to be good partners: mission-driven rather than profit-focused, and more efficient and effective than unwieldy government bureaucracies.

The National Council of Nonprofits has worked through its network of state associations of nonprofits and with governments at the local, state, and federal levels to help repair the broken contracting “system” by building relationships, identifying solutions and promising practices that can be replicated in multiple jurisdictions, and advocating for their implementation.

## Why It Matters

In return for providing services on behalf of governments, governments have paid nonprofits late, changed contract terms mid-stream, and required increasing levels of burdensome complexity in applications and reporting requirements, among other barriers.

Government grantmaking and contracting systems must be fixed so people receive services when they need them, taxpayers receive full value for the programs they fund, and communities are strengthened through wise stewardship. Without responsible solutions, our communities will suffer even more.

## **Where We Stand**

Charitable nonprofits are private organizations that share a commitment with governments to improving lives and communities throughout the country. The National Council of Nonprofits is dedicated to improving government-nonprofit contracting systems, and to strengthening the public-private partnership at all levels through collaboration and direct engagement. Specifically, the National Council of Nonprofits supports:

### **Federal**

1. Reforms to government-nonprofit grants processes that streamline policies and procedures to avoid duplication and waste; develop standardized definitions for contracting and grant language; ensure that payments to nonprofit organizations for direct and indirect costs from the federal government through state and local governments are sufficient to cover the costs of providing services; are applied consistently, fairly, and in a timely manner; and eliminate from federal statutes and regulations arbitrary caps on reimbursement of nonprofit indirect, administrative, or overhead costs.
2. Adoption of reforms that help make the federal government a more productive and collaborative partner with nonprofit organizations.

### **State**

1. Creation of a senior Executive Branch Liaison to the Nonprofit Sector, with the goal of ensuring collaboration between government and charitable nonprofits. This includes, but is not limited to, a full cabinet level official, special advisory council, or as a senior advisor in the Governor's Office, and/or in the office of the state's primary nonprofit regulator and other cabinet-level departments.
2. The commitment of governments and nonprofit providers to collaborate in streamlining and reforming the existing flawed grants and contracting systems, including legislative, regulatory, and other reforms. Periodic review, timely

payments and process improvements can ensure individuals receive services they need and put taxpayer dollars to work so nonprofit organizations can maximize their impact. This commitment extends to supporting adequate funding for government for management staff and technology upgrades that promote improvements to application processes (e.g., document vaults) and promote processing of contracts and payments to nonprofits with government grants and contracts.

3. Collaboration between state and local governments and nonprofit contractors and grantees to ensure full and fair implementation at the state and local levels of the cost principles and other federal grants reforms contained in the Office of Management and Budget Uniform Guidance, adoption of a uniform system based on the federal cost principles and reforms in the Uniform Guidance, and elimination from state statutes and local ordinances arbitrary caps on reimbursement of nonprofit indirect, administrative, or overhead costs, or other unreasonable and burdensome statutory or procedural requirements.
4. Creation of bi-partisan nonprofit caucuses in state legislatures to serve as resources for information on the nonprofit sector through which lawmakers can work together on legislative and regulatory issues impacting charitable nonprofits and the people they serve in their states and tap ideas and solutions tested in the real world by organizations dedicated to serving their communities.

- [Public Policy Agenda](#)

## **Common Problems**

Research consistently finds that governments are not always good partners with nonprofits, with many governments routinely failing to pay the full costs of the contracted services, imposing unnecessary and wasteful burdens, and not honoring their legal obligations of the written contracts they signed — all of which add unnecessary costs to governments and nonprofits alike. These challenges increase nonprofit costs of doing business.

The consistent underfunding is a significant contributor to what is known as the “nonprofit starvation cycle” and results in a myriad of challenges for nonprofits, all of which ultimately limit a nonprofit’s ability to achieve outcomes and erode the availability of quality services in communities throughout the country. For more

information, see [Common Problems in Government-Nonprofit Grantmaking and Contracting](#).

## Solutions

Governments and nonprofits are natural partners, serving the same constituents in the same communities. It is in everyone's best interest to work collaboratively to identify and implement meaningful solutions to common problems.

Learn more about common sense grantmaking and contracting solutions that meet the test of helping taxpayers, those needing services, and governments just as much as they help nonprofits at [Solutions to Government-Nonprofit Grantmaking and Contracting Problems](#).

The Nonprofit Stakeholders Engaging and Advancing Together (SEAT) Act of 2023 ([H.R. 3245](#)), introduced by Representatives Mace (R-SC) and McCollum (D-MN), would create dialogue between the nonprofit sector and the federal government, while addressing numerous, longstanding challenges like federal grants reform.

The Streamlining Federal Grants Act of 2023 ([S. 2286](#) / [H.R. 5934](#)), introduced by Senators Peters (D-MI), Cornyn (R-TX), and Lankford (R-OK) ([press release](#)) and Representatives Gluesenkamp Perez (D-WA) and Virginia Foxx (R-NC) ([press release](#)), would improve the effectiveness and performance of federal grants and cooperative agreements, simplify the application and reporting requirements, and facilitate greater coordination among agencies responsible for delivering services to the public. Notably, the legislation also seeks to improve the services delivered to communities and organizations that historically have not received federal grants or cooperative agreements.

- [The Streamlining Federal Grants Act and the Benefits to Charitable Nonprofits](#), National Council of Nonprofits.

## More About Contracting Reform

- [Government Grants and Contracting](#), National Council of Nonprofits

- [The Urgency of Government Grants Reform for Your Nonprofit](#) webinar (1:16:53) and [presentation slides](#), National Council of Nonprofits, Nov. 20, 2023.
- [Written Statement: Improving Access to Federal Grants for Underserved Communities](#), National Council of Nonprofits, May 2, 2023.
- [Written Statement: Improving Access to Federal Grants for Underserved Communities](#), Michigan Nonprofit Association, May, 2, 2023.

## **Additional Resources**

- [Government Grants and Contracts Update](#), *Nonprofit Champion*, July, 2024.
- [The Promise of Government Grants Reforms](#), *Nonprofit Champion*, Nov. 27, 2023.
- [Significant Improvements to Federal Grants Rules Proposed](#), *Nonprofit Champion*, Oct. 2, 2023.