



STATE GRANTS IN TENNESSEE

Making Grants Work for Nonprofits





State Grants in Tennessee

This report investigates the pain points encountered by Tennessee nonprofits when partnering with the state of Tennessee through reimbursement grant contracts. It proposes five recommendations to spark discussions on improving the contracting process, streamlining reimbursements, and ensure responsible use of taxpayer dollars by fostering a sustainable nonprofit sector. To achieve this, the report suggests forming a collaborative state working group with state agencies, nonprofits, and public officials.

Background

Concerned by national trends and feedback from Tennessee nonprofits, Tennessee Nonprofit Network, the statewide nonprofit association, launched an investigation into the state's grant reimbursement process. A statewide survey and a nonprofit workgroup were established to pinpoint the challenges faced by Tennessee nonprofits and develop recommendations for long-term solutions.

Pain Points

- Timeliness in Reimbursements
- Burdensome & Complicated Reporting Requirements
- Inadequate Funding for Nonprofit Operations

Survey Details

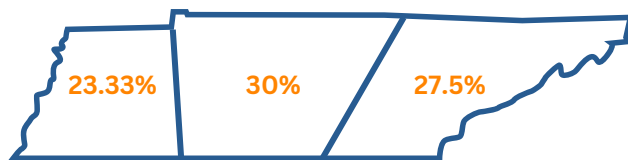


120 Organization Respondents



66% of Responding Organizations Contracted with 2+ State Agencies

Region of the State



Statewide = ~6%

**Note: Total percentages will not add up to 100% due to organizations serving multiple regions and blank responses.*

Recommendations

Form a State Working Group of Key Stakeholders to:

- State Provide Upfront Funding
- Explore Payment Models
- Establish Consistent Maximum # of Days for Reimbursement
- Create Consistency & Standardization in Grant Administration
- Increase Public Investment in Nonprofit Operations



Thank you for your hard work. This is such a blessing and gives hope to [small] organizations like us. - Nashville Nonprofit





Pain Points

79%
of respondents



Timeliness of Reimbursements

Delays create a cash flow crisis for nonprofits, forcing them to scramble for alternate funding just to maintain essential programs and operations.

80%
of respondents



Reporting Requirements

Reporting requirements are needlessly complex and duplicative, further aggravated by the # of systems.

78%
of respondents



Inadequate \$ for Operations

Capping overhead costs in grants starves nonprofits of funds needed for strong compliance and financial management.



Unique Challenges

Small and rural nonprofits struggle with an outsized cost burden due to match funds & limits, and communication barriers with the state.

TNN Workgroup Recommendations

Through Their Eyes

The biggest problem is timeliness. I submitted an invoice for the quarter ending 12/31 and didn't get payment until 4/10. At that point, I am cash flowing two quarters of funding. I have to have a line of credit available in case I need it because of seriously delayed payments.

-Child Advocacy Nonprofit

Reporting requirements are often very understandable, but sometimes are so extreme that they cause administrative burden that interferes with our ability to do our work.

-Human Services Nonprofit

We ... provide solutions to vulnerable individuals ... however, the ability to meet all of the administrative requirements of the state with a limited team and limitations to ... operating expenses makes it very hard... We find it hard to fundraise because our team is so small and busy meeting the requirements of our grants which covers about 90+ % of our operations. We have to have operating support for the programs to be successful and produce outcomes. However, it is hard to come by this core operating expense funding.

-Substance Abuse & Mental Health Nonprofit

Upfront Funding

- Provide Immediate Access to Funding
- Address Cash Flow Challenges for Nonprofits Operating on Limited Cash Reserves
- Provide Needed Resources When Delayed Reimbursements Could Strain or Disrupt Operations

Consistency & Standards

- Reduce Burden & Confusion for Both Nonprofits and State Agencies
- Increase Efficiency and Streamline Processes with Duplication of Efforts & Resources
- Improve Data Collection and Reduce Risk of Error

Explore Payment Models

- Move Away from Reimbursements Being the Default Contract Model to Fund Nonprofits
- Align Payment Model with Desired Impact
- Create More Efficient & Equitable Systems for Both Nonprofits & State Agencies

Investment in Operations

- Strengthen Nonprofit Capacity & Ability to Innovate
- Promote a Sustainable & High Quality Nonprofit Sector and Workforce
- Improve Quality of Services and Produce Stronger Outcomes for Communities Served

Tennessee nonprofits urge for a state working group with nonprofits, state agencies, and public officials.

By government and nonprofits working together, we will find ways to streamline processes and create a more efficient service delivery system for all Tennesseans.

Collaborate

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Introduction

Nonprofit organizations are indispensable in fostering and sustaining prosperous communities, delivering vital services that address a wide array of social and community needs creating a robust service delivery system across Tennessee. Despite their crucial role, nonprofits frequently encounter significant challenges in securing the necessary resources to fulfill their missions. Government grants at the federal, state, and local levels provide essential financial support, enabling nonprofits to effectively serve their communities. For decades, these grants have been the cornerstone of productive public-private partnerships, leveraging the financial might of government with the agility and dedication of nonprofits.

However, recent concerns have emerged regarding the reimbursement-based grant contracts, which impose financial strains and administrative burdens on nonprofits. This report delves into the specific challenges faced by Tennessee nonprofits under the current grant reimbursement system, shedding light on the significant impact on their operations and financial health. Through a comprehensive statewide survey and insights from a dedicated workgroup of nonprofit leaders, the Tennessee Nonprofit Network (TNN) aims to illuminate these issues and propose actionable solutions to enhance the efficiency and effectiveness of grant funding for nonprofits across the state.

To better understand the scope and nature of these challenges, it is crucial to examine the specific difficulties that nonprofits encounter with reimbursement-based grant contracts. While grants offer a powerful funding mechanism, concerns have recently surfaced regarding the challenges associated with government-nonprofit grant contracts that utilize a reimbursement methodology. Under this model, nonprofits front the costs for delivering services, then submit extensive documentation (receipts, case notes) to justify expenses and receive reimbursement later. A national study¹ highlights the specific difficulties faced by nonprofits with this payment approach. These challenges include:

- **Limited Cost Coverage:** Grants often fail to cover the full cost of delivering the services.
- **Reimbursement Complexity:** The processes for reimbursement can be overly burdensome and time-consuming.
- **Disrupted Operations:** Payment delays caused by reimbursement can significantly hinder a nonprofit's ability to function and deliver services effectively.

¹ National Council of Nonprofits, "Costs, Complexification, and Crisis: Government's Human Services Contracting "System" Hurts Everyone" (2010).

The challenges associated with reimbursement contracts pose a significant threat to the financial health of nonprofits, considering government grants and contracts constitute over 30% of their revenue streams². In Tennessee alone, the nonprofit sector relies on an estimated \$9.48 billion from grant contracts, representing a third of its \$31.6 billion in annual revenue³. These barriers to accessing essential funding can have long-term consequences for the stability and growth of these organizations.

One significant consequence is the impact on the nonprofit workforce. The financial strains and administrative burdens imposed by reimbursement contracts make it difficult for nonprofits to invest adequately in their staff. This is evidenced by a recent survey focused on the ongoing nonprofit workforce shortage⁴, which found that over 20% of Tennessee nonprofits identified challenges with government grants and contracts as contributing factors to their recruitment and retention struggles. The complexity and delays inherent in the reimbursement process divert valuable resources away from workforce development, including competitive salaries, benefits, and professional development opportunities.

This workforce shortage, initially identified in 2021 as a consequence of the COVID-19 pandemic, persists with nearly three-quarters (74.6%) of nonprofits reporting job vacancies in 2023⁵. The inability to fill these positions further exacerbates the challenges faced by nonprofits, as understaffed organizations struggle to meet their missions effectively. Addressing the inefficiencies in grant contracts is therefore crucial not only for the financial stability of nonprofits but also for building and maintaining a robust, dedicated workforce that can sustain and enhance service delivery across Tennessee.

The Survey

While government grants are essential for funding nonprofits that provide crucial services throughout Tennessee, the current reimbursement system creates challenges – many of them avoidable. In response to national discussions and concerns raised by Tennessee nonprofits themselves, TNN recognized a need to examine the state’s grant reimbursement process. This examination focused on the experiences of Tennessee

² IRS Business Master Files, Revenue Transaction Files, and electronic (e-File) Form 990 returns processed for fiscal years ending circa 2016 (June 2018) by DataLake Nonprofit Research (datalake.net), Urban Institute’s National Center for Charitable Statistics.

³ Urban Institute, National Center for Charitable Statistics, "Registered Nonprofit Organizations by State (BMF 12/2015)" <http://nccsweb.urban.org/tablewiz/bmf.php> {Data are 2015}

⁴ National Council of Nonprofits, "2023 Nonprofit Workforce Survey Results: Communities Suffer as the Nonprofit Workforce Shortage Crisis Continues" (2023).

⁵ National Council of Nonprofits, "2023 Nonprofit Workforce Survey Results: Communities Suffer as the Nonprofit Workforce Shortage Crisis Continues" (2023).

nonprofits as they navigate the system to secure and steward public funding for programs that benefit Tennesseans.

To tackle these challenges, TNN launched a multi-step initiative to gather input from Tennessee nonprofits. A statewide survey revealed their greatest concerns and priorities. Once the data was analyzed, a workgroup of nonprofit leaders from across the state convened to brainstorm solutions. They considered successful approaches used in other states while also crafting unique solutions specific to Tennessee's context. These recommendations, informed by both national best practices and local needs, will be presented at the end of this paper for consideration by policymakers and stakeholders.

To understand the challenges experienced by Tennessee nonprofits in more detail, TNN developed a survey called the "State Grant Reform Survey". This survey was based on a national study conducted in 2013⁶ ("National Study of Nonprofit-Government Contracts and Grants: 2013: State Profiles").

The survey collected two types of information from Tennessee nonprofits:

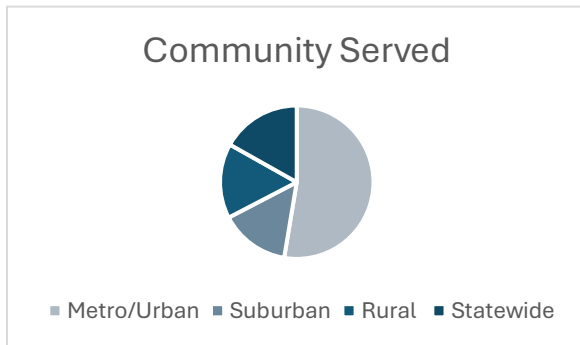
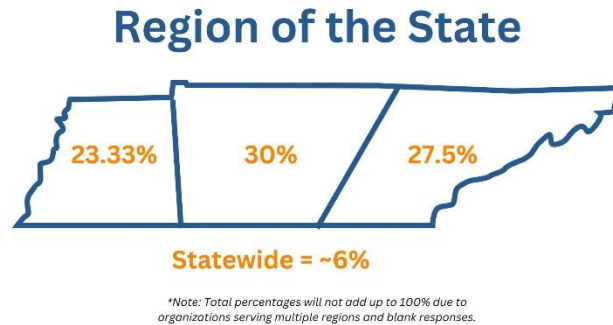
- **Organizational Details:** Basic information about the organization (type, location, budget size) and their experience with state grant contracts.
- **Pain Points:** Nonprofits ranked a list of common challenges they faced with reimbursement processes, with "1" being the biggest issue and "10" being the least problematic. These challenges mirrored national trends and included issues like:
 - Difficulty with reporting requirements for reimbursement
 - Untimely reimbursements
 - Unclear reimbursement guidelines
 - Inability to get reimbursed for start-up service costs
 - Limits on overhead or administrative costs
 - Match requirements

The survey also asked nonprofits to rate other common challenges with government grants, such as delays caused by government systems and inconsistencies between state and federal regulations.

⁶ Urban Institute, Center on Nonprofits and Philanthropy, "National Study of Nonprofit-Government Contracts and Grants 2013: State Profiles (Tennessee)" https://www.urban.org/sites/default/files/publication/22086/412949_-_national-study-of-nonprofit-government-contracts-and-grants-state-profiles.pdf {Data are 2012}

Respondents

The “State Grant Reform Survey” receives 120 responses from nonprofits across Tennessee. These organizations represented over ten different service areas, such as education, arts & culture, and human services. The survey successfully captured input from a diverse range of nonprofits, including those located in East, West, and Middle Tennessee, as well as those serving the entire state.



The survey also captured the diverse communities served by these nonprofits. While a majority (50%) focus on urban or metropolitan areas, a significant portion serve rural (15%) and suburban (14%) communities. Additionally, 16% of respondents provide services across multiple community types and operate on a statewide scale.

The survey also explored the budget sizes of responding nonprofits. Over half (51%) reported annual operating budgets under \$1 million. The next largest group (34%) fell between \$1 million - \$5 million, with the remaining organizations exceeding \$5 million annually. This breakdown reveals two primary categories: nonprofits with budgets under \$1 million and those exceeding \$1 million. While some variations may emerge in the data analysis between these groups, significant commonalities were also identified.

The survey also highlighted the complexity of the grant system for nonprofits. A majority (66%) reported receiving grant contracts from multiple state agencies. Over half (55%) work with two to four different agencies, and more than 10% manage contracts with over five. This means nonprofits must navigate diverse systems and reporting requirements, which can vary significantly between agencies and even between departments within the same agency.

While the TNN survey was not randomized across the entire Tennessee nonprofit sector, it aligns with national trends and previously validated surveys. This strong correlation suggests the findings provide reliable data that can inform policymakers and decision-makers in future discussions.

Survey Findings

The survey pinpointed the top three challenges faced by Tennessee nonprofits regarding reimbursement grant contracts:

- 1) **Timeliness of Reimbursements:** Nonprofits reported delays in receiving payment for services rendered.
- 2) **Burdensome Reporting Requirements:** The process for submitting documentation to justify expenses was deemed overly complex.
- 3) **Limited Overhead Coverage:** Grants did not fully cover the administrative costs associated with delivering services.

Timeliness of Reimbursement

The highest rated pain point identified by Tennessee nonprofits was timely reimbursements. Almost **80% of nonprofits identified timely reimbursements as a significant concern**. These nonprofits experience frequent delays in receiving payments from the state after services have been delivered and documentation is submitted. These delays can stem from inaccuracies in paperwork or inefficiencies within state systems.

We've had to take out a line of credit because the state was 9 months behind in reimbursement. Then, we get charged astronomical fees by the bank and, of course, the state won't reimburse for that...

- Nonprofit, Health Services

Delayed reimbursements create a crippling financial burden for nonprofits. Many lack the reserves to cover operating expenses and staff salaries while they wait for payment. This forces them into a difficult situation:

- **Taking on high-interest loans:** These loans add a significant financial burden, as the interest payments are not typically covered by the reimbursement. Nonprofits are essentially forced to subsidize the cost of services they deliver for the state.
- **Relying on philanthropy:** While philanthropy can help bridge the gap, it creates uncertainty and can't always be counted on.

In the worst-case scenario, these delays can force nonprofits to close their doors, leaving crucial service gaps, especially in rural communities that already have limited resources. Losing even one service provider can be devastating for these communities.

Reporting Requirements for Reimbursement

The second highest rated pain point and **identified by 80% of Tennessee nonprofits as a serious concern** is the complexity of reporting requirements for reimbursement. These

requirements vary significantly between agencies and even between contracts within the same agency. This inconsistency **creates unnecessary burdens** for nonprofits, who must navigate different processes and software systems for each grant.

Reporting requirements are often very understandable, but sometimes are so extreme that they cause administrative burden that interferes with our ability to do our work. For example, grants that require daily timesheets with detailed descriptions of work by the hour throughout the lifespan of the grant, whereas most grants are done by periodic time studies to confirm allocations.

- Nonprofit, Human Services

While some complexity may be due to federal regulations, the survey suggests there may also be misinterpretations or differing interpretations of federal guidelines at the state agency level, further adding to the confusion.

Inconsistent and excessive reporting requirements plague nonprofits across the board, even those with just one state agency contract. Nearly one-fifth (19%) of these single-contract nonprofits ranked reporting as their top challenge. This finding highlights that the number of contracts isn't the core issue; the inherently burdensome reporting process itself is the problem.

It's important to clarify that nonprofits in the survey and workgroup absolutely **support accountability and the transparent use of public funds**. Their concern lies with the pressure to rush through complex reporting that is tied to reimbursements. As mentioned earlier, delayed paperwork due to reporting issues leads to delayed funding (discussed in the timeliness section). Even a minor error, such as a misplaced comma or missing date, can delay payments for months until it's rectified. Sometimes, delays may occur through no fault of the nonprofit if their reporting documents were lost or overlooked in the process. This forces nonprofits to scramble for alternative funding sources to cover essential expenses like staff salaries and utilities.

Limitations on Overhead and Administrative Costs

The final **top-ranked challenge by 78% of survey respondents** was limitations on overhead costs, also known as indirect costs. These are **essential expenses a nonprofit incurs to ensure responsible program delivery**. They include expenses such as staff salaries for finance and volunteer management (critical for grants, audits, and large organizations), rent, and program-related technology. Unlike direct program costs, these expenses keep the organization functioning effectively versus serving clients directly.

Nonprofits strive for fiscal responsibility and good stewardship of public funds. However, limitations (or caps) on reimbursable overhead costs can hinder their ability to operate efficiently by hindering investments in and resources to critical infrastructure such as

finance, human resources, and other departments. These caps are also not based on the individual needs of the organization but often determined through complex formulas negotiated with the primary funding agency or set at a standard rate (usually around 10%).

The amount of overhead funding a nonprofit requires varies depending on its structure and mission. For instance, programs providing in-person services like residential care or schooling will naturally have higher overhead costs compared to those delivering services remotely. Similarly, as organizations grow and take on more programs and clients, their overhead needs typically increase to maintain efficient operations.

The survey highlighted a critical issue: **limitations on overhead costs prevent nonprofits from recouping the full cost of delivering services**. This forces them to subsidize state-funded programs by absorbing unreimbursed expenses. Furthermore, these limitations hinder critical investments in the nonprofit's infrastructure, essential for innovation and improvement. Like for-profit businesses that prioritize research and development (R&D) to stay competitive, nonprofits need to invest in their capacity to deliver high-quality services. However, current funding models often fail to recognize this need.

The examples above highlight the importance of finding a balance between fiscal responsibility and effective program delivery. As stewards of public funds, nonprofits work to minimize overhead and utilize public dollars efficiently, but these expenses are essential for ensuring long-term program quality and sustainability.

Unique Circumstances

Small Nonprofits

The survey revealed a unique challenge for smaller nonprofits (budgets under \$1 million). Compared to larger organizations, a higher percentage of small nonprofits ranked limitations on overhead costs (60%) and matching requirements (55%) as their number one concern. This suggests that limitations on overhead reimbursement and the need to secure matching funds to receive public funding **create a larger financial burden for smaller organizations**. Furthermore, considering the timeliness of reimbursements as another top issue, a hypothesis emerges: **anything impacting cash flow – the inflow and timing of funds – disproportionately affects smaller nonprofits** due to limited operating budgets.

The Federal Government allowed "waivers" for the match amount during Covid, and will resume the required match in another year. For a small nonprofit, that 25% match is a challenge. Larger organizations can use in-kind rent, etc. to offset the match. [We cannot]

- *Nonprofit, Human Services*

Rural Nonprofits

The survey also identified unique challenges faced by rural nonprofits. These organizations, with the highest percentage operating under \$1 million annually (60%), were the only community type to rank “Receiving Guidelines for Reimbursements after the Grant has Started” and “Match Requirements” with their top three pain points. This suggests that both unclear reimbursement guidelines and the need for matching funds pose particular difficulties for rural nonprofits, potentially due to their small budgets and limited resources.

Top Pain Points for Rural Nonprofits
1) Late Guidance
2) Match Requirements
3) Limits on Overhead
4) Timeliness

Unique to rural nonprofits, over 70% reported that receiving reimbursement guidelines after the grant has already begun was their number one pain point. This particular pain point was not seen as a major concern for any other community type (urban, suburban, statewide).

The survey doesn’t pinpoint the exact reason why **rural nonprofits experience delays or communication issues regarding reimbursement guidelines**. However, it’s clear that these challenges are **unique to rural organizations compared to others in the state**. This finding suggests a potential need for improved communication or streamlined processes specifically tailored to address the needs of rural nonprofits.

The high percentage of rural nonprofits with budgets under \$1 million (60%) likely explains their concern about match requirements, which aligns with the challenges faced by smaller nonprofits overall. As mentioned earlier, match requirements likely create a heavier financial burden for smaller organizations with limited cash reserves and resources compared to those with larger budgets.

In summary, this survey shed light on critical challenges faced by Tennessee nonprofits, particularly smaller organizations and those serving rural communities. The unique issue of delayed or unclear reimbursement guidelines for rural organizations underscores the importance of disaggregated data analysis to identify and address specific needs. Furthermore, the financial strain placed on smaller nonprofits by match requirements and overhead limitations **necessitates exploring alternative funding models that ensure equitable access to resources** and empower all nonprofits to deliver vital services across the state. By addressing these concerns and fostering improved communication, we can ensure a more efficient and equitable reimbursement process that strengthens the entire nonprofit sector and allows them to better serve all Tennesseans.

Difficulties with Government Grants

In 2013, the “National Study of Nonprofit-Government Contracts and Grants: 2013: State Profiles” report highlighted data gathered through a randomized survey from Tennessee nonprofits that gathered information on how many nonprofits faced challenges with government contracts. The results were positive, with most Tennessee nonprofits reporting no problems with common pain points like:

- Payments do not cover full cost of contracted services
- Government changes to contracts/grants midstream
- Late payments (beyond contract specifications)

In fact, Tennessee was close to the top ten in the nation for each of these metrics for having the lowest percentage of nonprofits experiencing these issues.

TNN replicated that survey, although not randomized, to compare their experiences with government contracts and grants. The results show a significant shift in concerns:

- **Increased Problems:** In 2012, most nonprofits reported minimal issues with areas like payment coverage, late payments, and mid-contract changes. In 2024, a much larger percentage identified these as problems, with some experiencing them as major issues. Notably, the biggest concern in 2024 is the inadequacy of payments to cover service costs. In 2012, only 17% considered this a major issue, but that number jumped to almost half (47%) in 2024 (a 175% increase).
- **Reporting Burden:** The complexity and time demands of reporting processes have also become a major concern for nonprofits. In 2012, 25% considered it a significant issue, while in 2024, that number rose to 48% (a 91% increase).
- **Shifting Priorities:** While reporting complexity remained a top concern in 2024, it swapped places with inadequate payments, which became the second biggest issue. The application process complexity dropped to the third most-reported problem.

In simpler terms, Tennessee nonprofits are now experiencing more challenges with government funding in 2024 compared to 2012. Key issues include insufficient reimbursement, overly complex reporting procedures, and a less streamlined application process.

	Not a Problem			Small Problem			Big Problem		
	2012	2024	% Change	2012	2024	% Change	2012	2024	% Change
Payments do not cover full cost of contracted services	61%	6%	-89%	22%	39%	75%	17%	47%	175%
Complexity of/time required by application process	34%	9%	-73%	35%	46%	31%	31%	39%	27%
Complexity of/time required by reporting process	37%	11%	-70%	38%	37%	-3%	25%	48%	91%
Late payments (beyond contract specifications)	58%	22%	-62%	21%	22%	5%	21%	33%	57%

Recommendations – Perspectives from the Nonprofit Sector

The survey results paint a clear picture: Tennessee nonprofits face more significant challenges than in years past due to a complex funding system, further compounded by external socio-economic factors. However, a crucial opportunity for improvement exists. There’s a shared recognition of these issues across both the public and nonprofit sectors. By fostering collaboration and bringing together diverse perspectives, Tennessee can develop practical solutions that alleviate burdens for all stakeholders.

This is where a dedicated, collaborative working group is essential. To address the challenges faced by nonprofits and improve Tennessee’s service delivery system, we propose the creation of a joint working group that includes representatives from:

- **Tennessee Nonprofits:** Their voices and experiences are critical to understanding the specific challenges they face and ensuring solutions are tailored to their needs.
- **State Agencies:** Their participation is essential for streamlining processes, improving administrative efficiency, and implementing effective solutions.
- **Public Officials:** Their leadership and support are crucial for securing any resources required for implementation.

This collaborative, solutions-oriented working group will review and discuss actionable recommendations (starting with the recommendations proposed by Tennessee nonprofits below), evaluate their feasibility, and develop a clear implementation plan. By bringing together diverse perspectives and expertise, we can ensure a holistic approach to solving some of the key challenges facing Tennessee’s service delivery system. This joint effort offers a promising path forward for creating a more efficient and equitable funding system that meets the needs of both Tennessee nonprofits and state agencies, while creating an effective and efficient service delivery system for all Tennesseans.

To inform the recommendations presented below, a comprehensive approach was undertaken to move beyond simply identifying challenges to proposing practical solutions. This involved a two-pronged strategy. First, extensive research was conducted by reviewing reform efforts undertaken by various government-nonprofit partnerships across the country. This benchmarking allowed for the identification of successful initiatives in other jurisdictions and best practices that could be adapted to Tennessee's unique context. Secondly, the specific pain points identified through the survey were carefully analyzed alongside Tennessee's unique needs.

By integrating this information with the insights gained from the research, five specific recommendations were formulated to address both immediate and long-term concerns. These recommendations aim to open a dialogue between nonprofit organizations, public officials, and state agencies, streamline the funding process, and ultimately enhance the efficiency of Tennessee's grant systems. This, in turn, will improve the effectiveness of services delivered by Tennessee nonprofits.

Recommendation #1: Upfront Funding – Easing Cash Flow Concerns for Nonprofits

The first recommendation is to provide a portion of the contract amount upfront to nonprofits delivering government-contracted services. This seemingly simple change can significantly improve the financial health and operational efficiency of these organizations.

Many nonprofits operate on shoestring budgets. Waiting for reimbursement after services are delivered can create a cash flow stranglehold. Upfront funding alleviates this pressure by providing immediate access to a portion of the funds. This allows them to cover initial costs associated with fulfilling the contract, such as hiring staff, purchasing supplies, or covering program development expenses. With this financial cushion, nonprofits can also better withstand potential future delays in funding. This translates to timely and uninterrupted service delivery for the government and the communities they serve.

Recommendation #2: Payment Models – Moving Beyond Reimbursement

We recognize the significant limitations inherent in the traditional reimbursement model for government-funded programs delivered by nonprofits. While this model has its place in certain contexts, relying heavily on reimbursement creates substantial challenges for both the organizations and the programs themselves. These challenges include cash flow issues, administrative burdens (including taking staff time away from service delivery to work on reimbursement requirements), and delays in service delivery.

A key issue to highlight is cash flow strain. Reimbursement requires nonprofits to expend their own resources upfront before receiving any government funding. This can be a significant burden, particularly for smaller organizations with limited reserves.

Furthermore, the uncertainty associated with reimbursement can discourage innovation and program development. Knowing exactly what resources will be available upfront allows nonprofits to plan more strategically. This financial security can empower them to explore creative solutions and potentially pursue more innovative approaches to achieve program goals.

The workgroup proposes exploring alternative payment models that move beyond the traditional reimbursement method. These models could include milestone-based payments, where funding is released at key stages of program execution, or advance payments with clearly defined deliverables. By providing funding at crucial points throughout the program cycle, these models can significantly improve cash flow for nonprofits. Ultimately, a more flexible funding system that fosters collaboration between government agencies and nonprofits can lead to a higher chance of program success.

Recommendation #3: Maximum Days – Ensuring Timely Payments

Building upon the importance of upfront funding and exploring alternative payment models, the need for establishing a clear and enforceable deadline for processing invoices is clear. Late payments, even with improvements in upfront funding, can create significant financial strain for nonprofits.

The biggest problem is timeliness. I submitted an invoice for the quarter ending 12/31 and didn't get payment until 4/10. At that point, I am cash flowing two quarters of funding. I have to have a line of credit available in case I need it because of seriously delayed payments.

- Nonprofit, Child Advocacy

The impact of delayed reimbursements goes beyond disrupted cash flow. Nonprofits often rely on these funds to meet payroll, cover operating expenses, and invest in program development. Unpredictable payment schedules make budgeting a challenge and hinder the ability to plan future activities. To address this issue, the workgroup recommends setting a maximum number of days between invoice submission and payment for government contracts.

This timely payment approach offers several benefits:

- **Reduced reliance on high-interest debt:** By receiving payments promptly and predictably, nonprofits can avoid the need to take out lines of credit with high-interest rates, which further drain their already limited resources.
- **Enhanced financial stability:** Timely payments contribute to the overall financial health of nonprofit organizations, allowing them to operate more effectively and deliver high-quality services.

- **Predictable funding environment:** Knowing when to expect payments fosters a more predictable funding environment. This allows nonprofits to focus on their core mission without the added burden of managing cash flow anxieties.

Ultimately, establishing clear deadlines for invoice processing ensures timely payments, strengthens the financial stability of nonprofit partners, and allows them to focus on delivering the vital services their communities depend on.

Recommendation #4: Consistency and Standardization in Grant Administration – Streamlining Processes for Mutual Benefit

Through conversations with both state agencies and nonprofits there appears to be a shared frustration: the administrative burden of grant administration. Inconsistent and complex invoicing and reporting requirements create delays, hinder program effectiveness, and leave everyone feeling bogged down in paperwork.

We propose a solution that benefits both sides: promoting consistency and standardization across grant administration processes. This could involve:

- **Centralized Online Portal:** Develop a one-stop online portal for submitting invoices and resources.
- **Standardized Templates:** Utilize standardized reporting templates to simplify data collection and analysis.
- **Clear Timelines:** Establish clear deadlines and expectations for each stage of the process.

By streamlining these procedures, government agencies can reduce their administrative costs associated with grant management. For nonprofits, consistent and standardized processes translate into less time spent deciphering complex bureaucracy and more time dedicated to delivering impactful programs.

Furthermore, true standardization requires ongoing collaboration between government agencies and the nonprofit sector. Open communication channels can facilitate the identification of common pain points and the co-creation of user-friendly processes that benefit everyone. Regularly reviewing and revising grant administration procedures based on feedback from both parties will ensure the system remains efficient and user-friendly, fostering a more collaborative and productive relationship between government and the vital nonprofit sector it supports.

In essence, a simplified and efficient grant administration process is a win-win for all.

Recommendation #5: Invest in Nonprofit Operations – Strengthening the Backbone

The final recommendation highlights the importance of government investment in nonprofit operations and overhead costs. While prioritizing program delivery is crucial, neglecting a strong operational foundation can ultimately hinder program success. Just like for-profit businesses, nonprofits rely on a healthy infrastructure to deliver vital services. This infrastructure includes skilled leadership, technology, and administrative support – all considered “overhead” costs.

Overhead: An Essential Investment, Not a Burden

Some may view overhead with skepticism, but these expenses are essential investments. Adequate funding for operations allows nonprofits to:

- **Hire and retain qualified staff:** This ensures programs are delivered with expertise and effectiveness.
- **Invest in technology:** Technology streamlines processes, reduces errors, and improves efficiency.
- **Maintain strong financial management:** Sound financial practices ensure responsible use of resources and accurate reporting, demonstrating good stewardship of public funds.

Ultimately, investing in operations strengthens the core of the nonprofit sector. This enables organizations to deliver impactful programs with long-term vision and sustainability.

De Minimis Rates: A Step in the Right Direction

There has been a recent positive development from the Federal Office of Management and Budget (OMB) on providing more financial resources to nonprofit operations, namely increasing the de minimis rate for administrative costs to 15%. We are hopeful that this federal change will be reflected in contracts and policies in Tennessee. This new rate sets a minimum acceptable percentage of grant funding that can be allocated towards operational expenses. We hope that this change will be accompanied by a broader cultural shift in how we think and talk about funding for nonprofit operations.

Shifting the Focus: Investing in Success

By viewing investments in overhead as investments in program success and long-term sustainability, the government can create a more effective and efficient services network for its citizens. Stronger nonprofits with a solid operational foundation can deliver higher quality programs with greater impact, ultimately leading to better outcomes for everyone.

Conclusion

This report has shed light on the significant challenges faced by Tennessee nonprofits navigating the current grant reimbursement system. The survey results revealed concerns around late payments, inadequate reimbursement for service costs, and burdensome reporting requirements. However, amidst these challenges, this report also proposes a path forward.

These recommendations offer a roadmap for improvement. These include exploring alternative payment models like upfront funding or milestone-based payments, establishing clear deadlines for invoice processing, and promoting consistency and standardization across grant administration. Additionally, the recent increase in the de minimis rate by the Federal OMB is a positive step towards recognizing the importance of operational investments for nonprofits.

The key to unlocking true and lasting change lies in collaboration. We urge all stakeholders – government agencies, public officials, and nonprofit organizations – to form a joint working group, as proposed in this report. Through open communication and a shared purpose of improving the funding landscape, this collaborative effort can lead to a more efficient and equitable system. Ultimately, this will strengthen the long-term sustainability of Tennessee’s vital nonprofit sector, enabling them to deliver impactful programs and services that benefit all Tennesseans.