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## Nonprofit struggles imperil North Carolina

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It's not surprising that nonprofits have struggled during the Great Recession, as charitable giving and government investment in public structures have declined and the demand for nonprofits' services has risen dramatically. It's also unsurprising that these struggles are deeply affecting the most vulnerable North Carolinians. As support for nonprofits wanes, children, seniors, low-income families, people with disabilities, victims of domestic violence and others who rely on their services can't get the level of care they need.

What may be less obvious is that nonprofits' struggles affect the quality of life for all North Carolinians, not just those who rely on the social safety net. The nonprofit sector provides 400,000 jobs in North Carolina, about 10 percent of the state's workforce. This year, however, 40 percent of North Carolina nonprofits have cut staff. When nonprofits are forced to downsize, the state's economic recovery stalls due to job loss, less spending in local businesses and the resulting declines in income tax and sales tax revenue.

Policymakers can help mitigate two major challenges facing nonprofits: disproportionately steep cuts in state funding and contracting practices that undercut nonprofits' ability to effectively deliver services. The first step, however, is recognizing and acknowledging these dual problems.

Overall, North Carolina nonprofits experienced a 26 percent decline in state support last year. According to a recent report from the Urban Institute, North Carolina's decreased investment in nonprofits was the fourth-worst of any state.

The Urban Institute report and a new survey by the N.C. Center for Nonprofits highlight many systemic government contracting problems that nonprofits are experiencing. These include:

- "Complexification" -- Three-fourths of state-funded nonprofits report that the grant application and reporting process is too complicated. This forces organizations to use limited staff resources for filling out paperwork rather than for providing services.
- Hidden underfunding -- More often than not, the state doesn't pay the full cost of the services that nonprofits provide. This leaves nonprofits without the resources to pay for basic organizational costs such as rent, office equipment and staff health coverage.
- Government inconsistency -- Nonprofits say that some state agencies view contracts as "evolving documents." Sudden mid-stream changes to the scope of work and expected outcomes can add significantly to nonprofits' expenses and reduce the quality of services.
- Late payments -- This year, 60 percent of state-funded nonprofits have experienced late payments on government contracts. This essentially forces nonprofits to involuntarily bankroll the government services they provide.

As a result of these problems, nonprofits have been forced to streamline already efficient operations -- downsizing, cutting salaries and benefits and taking out lines of credit. With nothing further to cut internally, a third of North Carolina nonprofits have had to reduce their level of service this year. With a state budget shortfall of at least \$3.5 billion expected next year, North Carolinians in need could face even deeper cuts. Here are three ways policymakers can help:

- Acknowledge that nonprofits are a major part of the state's economy. Job growth is a top priority for the incoming leadership in the General Assembly. If they are serious, legislators will need to look beyond tax cuts, which could actually lead to overall job loss if they mean further cuts to nonprofits' services. And as lawmakers consider proposals to bolster small businesses, it's essential to promote job growth in small nonprofits.
- Protect the state's investment in the vital services provided by nonprofits. There's a misconception that nonprofits can turn to private philanthropy to make up for cuts in state funding. In reality, individual, corporate and foundation giving have all declined significantly. Legislators can minimize these painful cuts by taking a balanced approach to the budget shortfall. They also should look carefully at the return on investment in nonprofits' programs.
- Develop fairer contracting processes for nonprofits. Easing the "complexification" of government contracts may be a win-win solution that saves the state money while providing better quality services to North Carolinians. By eliminating unclear or redundant reporting and audit requirements, state agencies can free more resources for direct service. Easing contractual limits on indirect costs can give nonprofits better flexibility. And when funding is unavailable to reimburse nonprofits on time, state agencies can provide reasonable estimates of expected delays.

By working closely with nonprofits, the General Assembly and state government officials can develop collaborative solutions that will prevent further erosion of the quality of life for North Carolinians.

*David Heinen is the director of public policy and advocacy for the N.C. Center for Nonprofits*

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