



BROOKINGS GREATER WASHINGTON RESEARCH PROGRAM
AND THE GEORGE WASHINGTON UNIVERSITY

Thin the Soup or Shorten the Line: Washington Area Nonprofits Adapt to Uncertain Times

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Human services nonprofit organizations are crucial partners to government and the private sector in developing and maintaining healthy communities and families. They are able to leverage multiple funding streams to create a greater capacity to deliver services than any single funding source could achieve on its own. Because they often have strong relationships with the people and neighborhoods where they work, nonprofits are well-positioned to meet community needs. However, in the current economic climate, Washington-area human services nonprofits are being squeezed by rising demand, escalating costs, and increasing administrative tasks, all accompanied by only sluggish revenue growth. An analysis using survey results, tax documents, interviews, and local government budget data finds that these organizations have coped with fiscal stress in a variety of ways—many of which could lead to significant erosion in the quality and quantity of services provided to the community. There are models, though, to bolster nonprofits which should be considered by regional philanthropic organizations and government alike. But overall, the public and private sectors need to work with the nonprofit sector to jointly develop solutions that will meet the needs of community residents without overly burdening the resources of any one sector.

“It is crystal-clear that nonprofits get caught in the politics of [state and local government] budgeting and suffer as a result.”

—Virginia Del.

Albert C.

Eisenberg

I. Introduction

Nonprofit organizations are crucial actors in delivering services and developing and maintaining healthy communities. They play a vital role in developing and maintaining the region’s quality of life, and are indispensable partners to local governments as localities fulfill their responsibilities to the public.

Like other sectors of the economy, nonprofit organizations shared in the economic boom of the mid-to-late 1990s. Rising contributions from private individuals and corporations, growing foundation endowments, and increased spending by state and local governments contributed to the health of the sector. However, like other sectors, nonprofit organizations have also been affected by the economic retrenchment that began in the late 1990s, the effects of which are still being felt throughout the region.



- National data on charitable giving shows that private giving to nonprofit organizations from private individuals, corporations, and foundations grew by just 1 percent in current dollars between 2001 and 2002. When adjusted for inflation, this increase amounted to a small drop in real giving of about 0.5 percent.²
- State and local governments continue to wrestle with significant revenue shortfalls. According to the Aspen Institute, the “combined revenue shortfall of state general funds grew from \$10.1 billion in 2001 to \$32.9 billion in 2002, to \$34.6 billion—or more than 7 percent of revenue—in 2003.”³ Economist James K. Galbraith noted that U.S. governors reported \$50 billion in shortfalls in FY2002, and estimated that local government shortfalls were equally as big that year.⁴
- As of 2004, the state fiscal outlook appears to be somewhat improved, although the National Association of State Budget Officers took care to temper the good news, describing the outlook as shifting as from “exceedingly dismal” over the last three years to “cautiously brighter at the end of fiscal 2004.”⁵

Together, private giving and income from government contracts account for the lion’s share of resources upon which nonprofits rely to meet the needs of their clients.⁶ For this reason, the combination of flat private giving and fiscally stressed state and local governments has led a number of sector observers to worry that nonprofits may be caught in an untenable bind, in which they must meet rising needs for their services with inadequate financial resources. Another factor affecting the Washington region is the well-publicized management problems at the local United Way, which caused a sharp drop in that chapter’s ability to raise funds.

This report examines how the financial climate facing nonprofits in the Washington DC area has changed over the past few years, and how nonprofit organizations in the metropolitan area have adapted to these changes. Although all nonprofits are likely to be affected by changes in their environment, we have focused the analysis on human service nonprofits that serve low-income people, the elderly, and youth. Nationwide these nonprofits account for over one-third of all nonprofit organizations and are likely to be especially susceptible to changes in the state and local fiscal environment.⁷

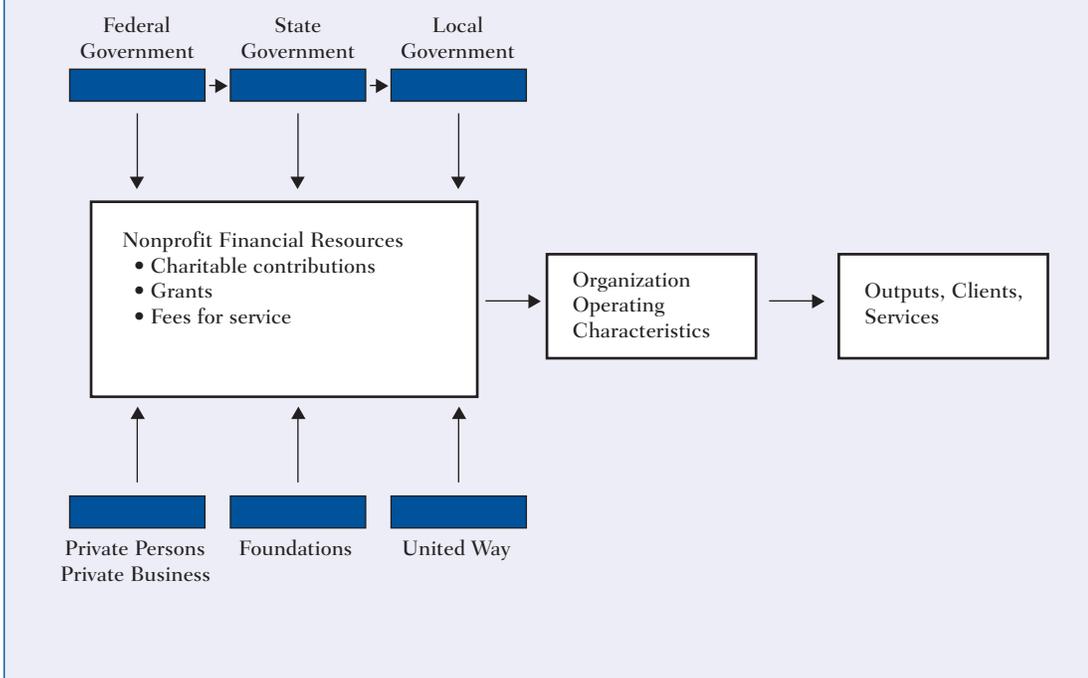
The report first provides findings based upon a survey of human services nonprofits in the Greater Washington region and a review of IRS 990 forms of selected members of the Nonprofit Roundtable of Greater Washington. It then looks at the ways local governments provide funds to nonprofit human services agencies, and the pressures and restrictions placed upon this process. The subsequent section includes three case studies to provide a more in-depth picture of how nonprofits are adapting to current economic times. Appendix A includes more detailed budget and fiscal information on the six jurisdictions in the study, and Appendix B contains the methodology section.

The study focuses on human services nonprofits in 6 jurisdictions in the Washington metropolitan region:

- Washington, DC
- Prince George’s County, MD
- Montgomery County, MD
- Arlington County, VA
- Fairfax County, VA
- Alexandria, VA

Understanding how non-profits have fared in the Washington area in challenging economic times is a difficult task. Information is fragmented and must be pieced together from a variety of sources. Even though all political jurisdictions in the metropolitan area have had to make budget adjustments in response to faltering revenues, individual jurisdictions in the region take

Figure 1. Funding Streams and Nonprofit Resources



different approaches to funding and partnering with human services nonprofits, reflecting their own fiscal capacity and management/administrative structure. As a result there is no clear or easy way to identify and catalog all of the local, state, and federal funds flowing to human services nonprofits. While this is a challenge to researchers, it is also a challenge to organizations who must navigate complex funding patterns to seek available funds.

Figure 1 provides a schematic view of the overall funding environment in which nonprofits operate and how changes in this environment ultimately affect their clients. The diagram illustrates how nonprofit organizations bundle funding from multiple sources to support their programs. As discussed in more detail in the next section, we have sought to “trace the arrows” and “fill-in” the boxes in Figure 1 for Washington-area nonprofits through a variety of means, in order to learn how local nonprofits have fared in a changing economic environment.

II. How Are Nonprofits Faring?

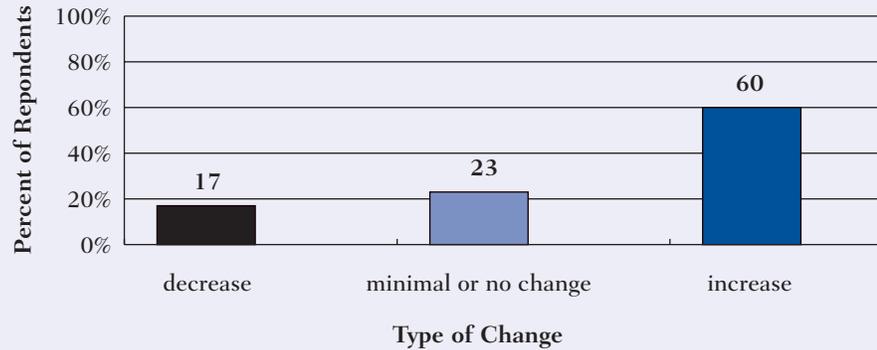
Nonprofits are experiencing increasing demand and costs, accompanied by sluggish revenue growth

The picture described by nonprofit executives in the surveys and interviews is one characterized by rising demand for services, rising costs, and only sluggish growth in resources. Analyses of IRS 990 forms corroborate this: in a group of 30 nonprofits, 60 percent saw revenues grow slower than expenses between 2000 and 2002. (Please see the Methodology section for more information about the survey sample and 990 forms.)

Survey results show that many nonprofits are clearly in a bind:

- Sixty percent of responding organizations reported an increase in the number of clients served during the last three fiscal years (Figure 2).

Figure 2. Percent of Organizations Reporting a Change in the Number of Clients and Program Participants Served, FY2001–FY2003 (N=120)

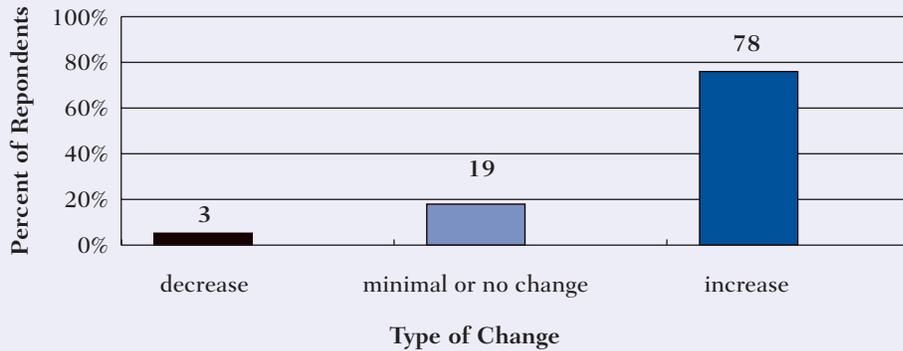


Source: Mail and telephone survey of human services nonprofit organizations

- Seventy-eight percent of responding organizations reported higher costs of delivering services over the same time period (Figure 3).
- About half of all organizations reported minimal or no change in federal, state, or local government funding. Sixteen percent reported declines in federal funding, 29 percent in state funding, and 21 percent in local funding. Thus, the majority of organizations reported minimal change or declines in government funding. Flat funding in the context of rising need and rising costs is not budget-neutral; an organization in that situation is losing ground (Figure 4).
- Among non-governmental sources of funding, more than half of organizations reported declines in United Way dollars, which is not a surprise given the financial mismanagement in the local chapter that came to light in the past few years. Private giving from foundations and individual and corporate givers was the funding stream most likely to increase: 40 percent of nonprofits surveyed reported increased private contributions. However, 25 percent of nonprofits still reported declines in giving from private donors (Figure 4).

As articulated by a number of executive directors, a fundamental problem is that nonprofits cannot count on their revenue streams—whether public or philanthropic—to cover the full costs of delivering services. Consequently, many nonprofits feel they are constantly in “catch-up” mode, and are hindered in their ability to invest in themselves in terms of staff, training, facilities, and technology to improve their programs and services. This consistent undercapitalization is a damper on the growth and effectiveness of nonprofits. It would be difficult to find a more concise statement of the problem than this provided by Mario Morino and Bill Shore in a recent publication: “. . . the way we fund nonprofits often prevents them from achieving

Figure 3. Percent of Organizations Reporting a Change in the Costs of Delivering Services, FY2001–FY2003 (N=101)



Source: Mail and telephone survey of human services nonprofit organizations

what they could do and certainly from being able to meet the latent demand for their services.”⁸

There was minimal difference between small and large organizations in terms of increased demand: 59 percent of small organizations and 61 percent of large organizations reported an increase in clients and program participants between FY 2001-2003. (Small and large organizations were defined as those below or above the median budget of \$639,429, respectively, in the survey sample. Small organizations had budgets ranging from about \$8,000 to \$635,000, while large organizations had budgets ranging from about \$645,000 to \$43 million. (For more information on the survey sample, please see the Methodology section.)

Large organizations were considerably more likely than small organizations to experience increases in the costs of delivering services: 87 percent compared to 69 percent. This is most likely because large organizations tend to have more costs to begin with, with a greater number of sites and employees and more formalized and sophisticated overhead and administrative systems.

The executive director of a nonprofit with an annual budget of about \$4 million explained, “While overall we look good financially—the bottom line, donations—we are not really making any progress because all of our government funding has been flat-funded while our rent, payroll, and day-to-day expenses have gone up.” A staff member of another nonprofit with an annual budget of about \$3 million said, “Our agency has 60 employees. We had a \$50,000 a year increase in our health care premium. This translated to a double-digit rate increase this year; there was also a double-digit rate increase last year. This translates into one [staff member] that we cannot hire.”

The majority of organizations experienced minimal/no change or a decline in their government funding sources between 2001 and 2003 (Figure 4). For example, 67 percent of organizations reported flat or declining federal funding over the time period, 78 percent reported no change or a decline in state dollars, and 70 percent reported flat or declining local dollars.

“The services we are providing shouldn’t and can’t go away.”

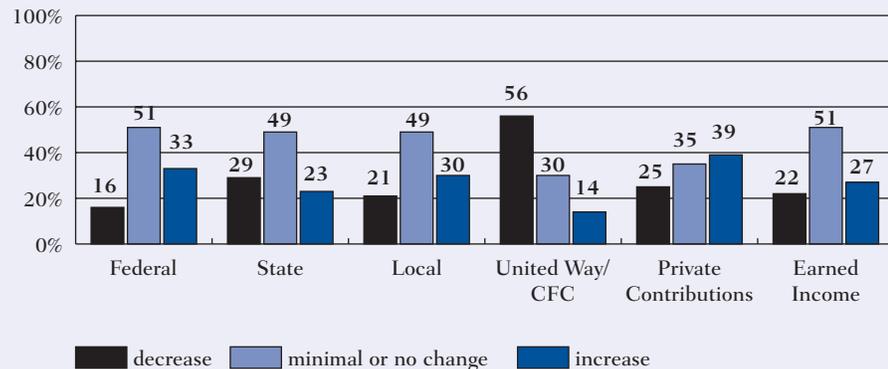
—Executive

director of a

human services

nonprofit

Figure 4. Percent of Organizations Reporting a Change in Funding by Sources of Funding, FY2001–FY2003



Source: Mail and telephone survey of human services nonprofit organizations

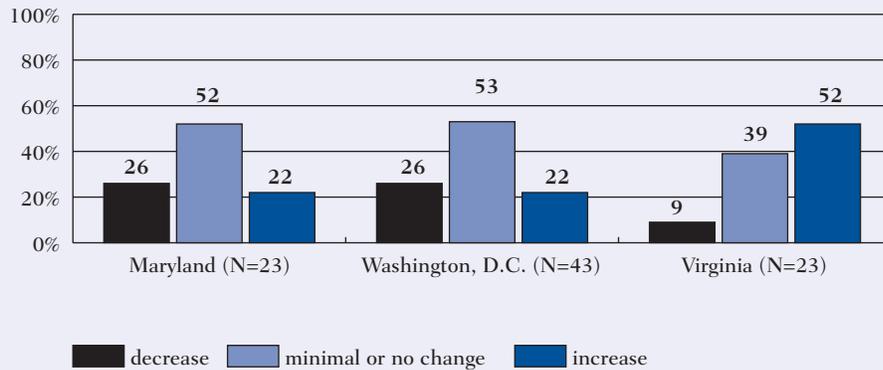
Since the survey did not ask respondents to adjust for inflation in answering funding questions, it is likely that responses are in current dollars. Thus, even though inflation rates were quite low during this period, responses of “no or minimal change” probably reflects a real decline in funding.

Some organizations did experience upsurges in government funding. One-third of nonprofits reported increased federal funding, 23 percent reported increased state funding, and 30 percent reported increased local funding.

Large organizations showed greater flux in funding than did small organizations. Smaller organizations were more likely to report minimal or no change across most funding streams, while large organizations were more likely to experience both increases *and* decreases in funding streams than small organizations. This is most likely because large organizations manage more funding streams than do small organizations. Typically, they can receive funding through multiple government programs in addition to client fees and contributions from a variety of philanthropic sources. Thus, in a stressed and dynamic budget environment, organizations with more budget streams are more likely to experience changes.

Large organizations did fare better than small organizations, however, in terms of private support. Forty-six percent of large organizations reported increases in private dollars, compared to 33 percent of small organizations. Additionally, more small organizations (37 percent) reported declines in private dollars than large organizations (14 percent). This reflects a sentiment expressed in numerous interviews with nonprofit executives that in uncertain times, funders are more likely to support larger, more well-established organizations.

Figure 5. Percent of Organizations Reporting a Change in Local Funding,* by Jurisdiction, FY2001–FY2003



* State and local funding streams are aggregated for Washington, DC, since it performs both state and local responsibilities.

Source: Mail and telephone survey of human services nonprofit organizations

A Note About Inflation

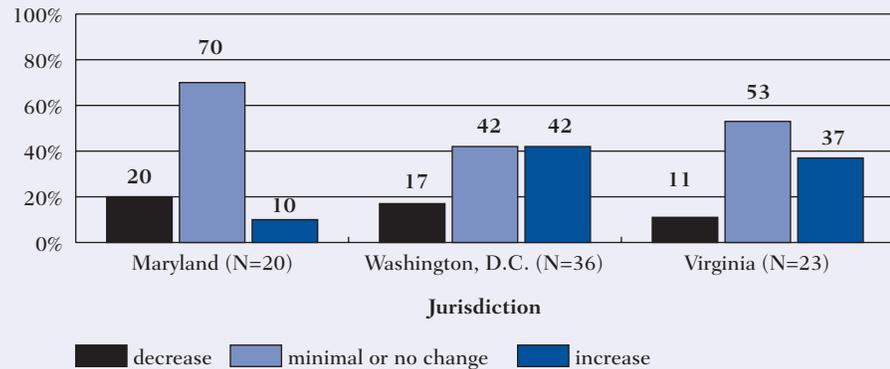
The nation has not experienced serious inflation during the last several decades, but even low inflation erodes spending power. Using constant dollars from today and traveling back to 1999, 89.2 cents would buy you what it now takes a dollar to purchase. On a ten dollar purchase, you'd pocket \$1.08, more than a 10 percent savings.

Using constant dollars, take a look at Fairfax County's Consolidated Community Funding Pool. The actual budget figure was \$4,932,250 in FY1999, and an adopted budget figure of \$6,458,709 is shown for FY2004. But 2004 dollars are not worth as much as 1999 dollars. In constant dollars, \$5,761,168 would buy in 1999 what it took \$6,458,709 to purchase in 2004. Rather than an apparent 30.9 percent funding increase over the five years from \$4.9 million to \$6.5 million, in constant dollars over those five years, the funding increase is 16.8 percent from \$4.9 million to \$5.8 million. Revenues to nonprofits, and other expenditures, are not always increasing as much as they might appear.

By far, the one funding stream most likely to decline was the United Way—more than half of survey respondents reported drops in United Way dollars. This is not surprising, considering the regional chapter's recent well-publicized financial mismanagement. As a result, funds raised in the United Way's workplace giving campaigns fell dramatically, from about \$45 million in 2001 to \$18 million in 2002 and \$19 million in 2003.⁹

Additional patterns emerge when looking at funding changes by jurisdiction. Nonprofits located in Northern Virginia fared better in terms of local funding than did nonprofits in sub-

Figure 6. Percent of Organizations by Jurisdiction Reporting a Change in Federal Funding, FY2001–FY2003



urban Maryland or Washington, DC (Figure 5). (For purposes of this analysis, state and local funds are aggregated into the “local” category for Washington, DC, since the city performs both local and state government functions.) Fifty-two percent of nonprofits in Northern Virginia reported increases in local funding, compared to 22 percent in suburban Maryland and Washington, DC. About half of the nonprofits in Maryland and the District reported no or minimal change in local funds, compared to about 40 percent in Virginia. The relatively high number of Northern Virginia nonprofits reporting increases in local funds probably reflects the strong property tax base in Northern Virginia jurisdictions. Montgomery and Prince George’s counties rely more heavily upon income taxes, which are more volatile during economic downturns, to complement their local revenues from property taxes. For instance, in Montgomery County’s FY 2004 budget, 32 percent of the general fund came from property taxes and 27 percent from income taxes. In contrast, in Northern Virginia localities, between 50-60 percent of their general fund budget was comprised of property taxes. (See the next section, “What’s happening at the local government level?” for a discussion on the pros and cons of Northern Virginia’s strong housing market.)

In terms of differences by state funding, however, fewer Virginia nonprofits reported increases in state funding (14 percent) than Maryland nonprofits (25 percent), suggesting that Virginia local governments used local dollars to try to minimize the impact of flat or declining state funding for human services.¹⁰

Looking at federal funding, more nonprofits in the District and Virginia report increases in federal funding than Maryland nonprofits. Forty-two percent of nonprofits in Washington, DC and 37 percent of Virginia nonprofits reported increases in federal funding, compared to only 10 percent in Maryland. Some of this difference is likely attributable to the effects of the terrorist attacks of September 11, with the closer proximity of the Virginia localities to the Pentagon disaster site and the number of official federal government buildings in the District.

A limitation to the funding data needs to be noted. Many government funds originate within one level of government, but are passed through another level of government. This may make

**Table 1. Indicators of Financial Health/Stress
Five-Year and Three-Year Groups of Nonprofit Roundtable Members**

	Organizations Reporting Operating Deficit	Organizations' Operating Surplus/ Deficit as a Percent of Expenses	Change in Organization Net Worth
Five-Year	Percent	Mean	Mean
1998	12	9	\$ 253,991
1999	36	1	\$ 324,214
2000	32	11	\$ 675,347
2001	18	4	\$ 82,855
2002	55	-2	\$ -258,050
N = 22			
	Organizations Reporting Operating Deficit	Organizations' Operating Surplus/ Deficit as a Percent of Expenses	Change in Organization Net Worth
Three-Year	Percent	Mean	Mean
2000	30	12	\$ 566,710
2001	17	6	\$ 205,780
2002	50	0	\$ -145,141
N = 30			

Source: IRS 990 Forms of Nonprofit Roundtable Members

it difficult for respondents to decipher the level of government from which funds originate. Data are reported in the format from which they were reported by survey respondents. Additionally, the survey does not measure the magnitude of the funding changes—that is, the dollar amounts of the decreases or increases in funds.

Despite nonprofits' best efforts, revenues are not keeping up with expenses

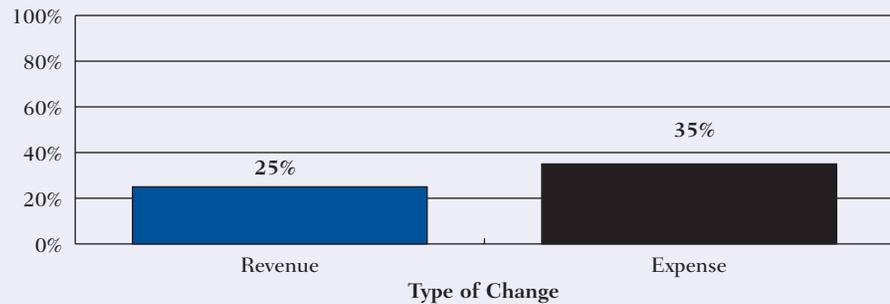
As a complement to our efforts to secure information about how changes in the funding climate have affected nonprofit organizations, we analyzed financial data from the IRS 990 reports of members of the Nonprofit Roundtable of Greater Washington for the period from 1998 to 2002.¹¹ Although the number of organizations examined is fairly small, and not representative of all Washington-area nonprofits, the analysis supports findings from the surveys and interviews: the finances of local area nonprofits have become more fragile in the past few years. (Please see the Methodology section for a discussion of the 990 analysis.)

The data show that FY 2002—the most recent year for which financial data were available—was characterized by greater financial stress than prior years. This may be seen from Table 1, which presents data from the five-year and three-year groups for three summary measures of financial health or stress: (1) the presence of an operating surplus or deficit, (2) the size of the operating surplus or deficit as a percent of total organization expenses, and (3) the change in the organization's net worth over the year.

In short, Roundtable members are in poorer financial health in 2002 than in earlier years because their financial resources did not keep pace with expenses. Although organizations in the group generally experienced growing revenue, revenue growth failed to match growth in spending.

- In the five-year group, only 12 percent of organizations reported a deficit in FY 1998, compared to 55 percent in FY 2002. In the larger three-year group, 30 percent of organizations had a deficit in FY 2000, compared to 50 percent in FY 2002.

Figure 7. Average Growth Rates in Revenue and Expense, for Roundtable Members Experiencing a Revenue Shortfall, FY2000–FY2002



Source: IRS 990 forms of the Nonprofit Roundtable Members

- In the five-year group, organizations went from an average operating *surplus* equal to 9 percent of their operating expenses in FY 1998 to an average operating *deficit* equal to 2 percent of operating expenses in FY 2002. In the three-year group, the average surplus was 12 percent of operating expenses in 2000, compared to no surplus in 2002.
- Organizations also experienced a worsening in their balance sheets in FY 2002. In the five-year group the average net worth declined by an average of \$258,000 between FY 2001 and 2002. In the larger three year group, in FY 2002, net worth declined by an average of about \$145,000 from the previous year.
- To gauge the magnitude of the gap between revenue and expenditure growth, we calculated the ratio of the growth in revenue for each organization in the three-year group to the corresponding growth in expenses for the period from 2000 to 2002. We found that *six out of ten nonprofits experienced slower growth in revenue than in expenses*. About one in seven organizations experienced a *decline* in revenue coupled with an *increase* in expenses.
- Moreover, for those Nonprofit Roundtable members experiencing a revenue shortfall (18 of the 30 organizations in the three-year group), the gap between resources and needs was substantial. The ratio of average change in revenue to change in expenses was just over one-third, indicating that, on average among the group members, for every \$100 that expenses grew, revenue grew about \$33.
- Another depiction of the mismatch between revenue and expenses can be seen in Figure 7, which compares average growth in revenues to average growth in expenses among the same 18 organizations in the group of nonprofits tracked for three years. The chart shows

that, on average, these organizations experienced revenue growth of 25 percent between 2000 and 2002, compared to 35 percent growth in expenses.

Nonprofits are adapting to tough economic times

They are diversifying their funding streams and changing the way they do business. . .

In the interviews and surveys, a number of executive directors discussed actions to create more stability in their funding and organizational capacity. They are actively seeking new revenue sources to sustain their organizations in the face of rising costs and demands and sluggish revenue growth. Not surprisingly, more than two-thirds of nonprofits surveyed reported that the amount of time they spend preparing grant applications for funding has increased over FY 2001–FY 2003. Establishing a more diversified funding portfolio gives nonprofits the nimbleness to survive, and makes them more attractive to funders.

“I think foundations are going to be more selective. We’re positioning ourselves to be more competitive,” said one nonprofit leader. This particular director is investing significant time and staff resources to develop a larger private donor base. He also is developing the capacity to solicit and manage grants from national foundations, hoping to win larger awards than are typically given by local foundations. Another director discussed more market-based options, noting the contribution of her organization’s thrift store to the agency’s bottom line. She continued, “We are going to hire a director of business operations. . . . As our infrastructure continues to erode—federal, state, foundations—those nonprofits that cannot step into being social entrepreneurs are going to have to merge, fall behind, or pare down to one or two things.” One director has already absorbed two small nonprofits that were about to close their doors, and is getting to ready to adopt a third. She commented, “Our job is not to rescue failing nonprofits, but these needs are not going to go away.”

A number of organizations in the region are working with Venture Philanthropy Partners (VPP) in the “high-engagement philanthropy” model. In this approach, funders (or “investors”) are involved with their grantees beyond providing financial support, and have as an explicit goal to build the organizational capacity and increase the effectiveness of their grantees. VPP works with their grantees (or “partners”) on issues like long-term planning, strengthening management systems, and recruiting board members and executives.

Drawing down their reserves. . . .

Just as it useful for individual families to have savings to tide them over when resources are pinched, so, too, it is useful for nonprofit organizations to have a reserve. Because members of the Nonprofit Roundtable tend to be larger and more established organizations, most have a positive net worth. The summary data in Table 1 shows that in 2002, nonprofits in the three-year group either experienced slower growth or a decline in their “reserves.” Some of this change may reflect a drop in the value of some of the financial assets held by nonprofits, but the change in net worth is also consistent with evidence from other studies that nonprofits will use accumulated reserves to help maintain their “mission” in poor financial climates.¹² However, many smaller and less well-established nonprofits are less likely to have the ability to draw on such reserves as a cushion in the face of weakening revenue and/or growing need.

But face hard choices that threaten to erode their quality of services and organizational capacity.

Even if organizations look financially comfortable from the outside—with modest increases in budget or no program cutbacks—they are often struggling to maintain the same level of services. They are making a number of organizational and programmatic changes to adapt to the current environment.

For example, they are diluting services. One survey respondent wrote, “We have reduced the amount of direct assistance we can give to clients in order to stretch the money available to

“A fundamental problem is that nonprofits cannot count on their revenue streams—whether public or philanthropic—to cover the full costs of delivering services.”

more people.” Another survey respondent said, “No new staff have been able to be hired, but more staff/volunteers [are] working longer hours and [providing] less intensive services to help meet the need.”

They are cutting staff: “Cuts in administrative/development staff allowed us to ‘maintain’ level of client services” with the same number of direct service employees and increased client demands. They are freezing salaries: “We did not give cost of living increases so that we could continue to pay the full cost of health insurance. This . . . does not apply to service delivery but does impact our ability to retain qualified staff.”

Human services organizations particularly rely on their staff’s ability to respond to and connect with clients, so reductions in the number, training or morale of staff can be particularly damaging. Individual staff members often have a great deal of responsibility and discretion in how they deliver services. This high level of responsibility and discretion reinforces the need for well-trained and well-supported staff. But since staff costs make up the largest share of the budgets of human services nonprofits, cuts affecting staff people are hard to avoid when budgets are tight. Other cuts, such as reducing maintenance of physical facilities and cutting ancillary services, are also likely to impact the quality of services. A child care provider noted, “You’ll see quality go down before [child care] centers shut down.” Directors know that these kinds of actions erode their capacity to provide services, but are struggling to identify sufficient resources so they can keep their doors open without making these kinds of organizational cuts. As one executive director said, “The services we are providing shouldn’t and can’t go away.”

III. What’s Happening at the Local Government Level?

Local officials value the services that nonprofits provide

Both in official written materials and interviews, numerous government officials and staff made it clear that they rely on nonprofit organizations to provide compassionate and effective services to residents. When they cut funds to nonprofits, it is often because they have no other choice. One local official lamented the impact on her program’s budget of cuts in afterschool funding at the state level: “The impact,” she said, “is that we can’t fund nonprofit service providers.” A county elected official described his philosophy: “The most effective way to deliver services is close cooperation between government and the independent sector. . . . I also believe that building the capacity of nonprofits is a way to strengthen community in general.”

Local governments fund nonprofits in a variety of ways

Local jurisdictions use multiple approaches to funding and partnering with nonprofits, reflecting their own fiscal capacity and management and administrative structure. Below is a list of the various mechanisms that local governments use to fund human services nonprofits. The funding may be federal, state, local, or a combination.

- **Funding pools** that are designed to serve broad human services needs or a specific population. A funding pool awards grants to nonprofits through a competitive application process with a common set of criteria. Often the fund is created by consolidating several funding streams into one source. Examples include Washington, DC’s Children and Youth Investment Trust Corporation, Alexandria’s Community Partnership Fund for Human Services, Montgomery County’s Collaboration Council, and Fairfax County’s Consolidated Community Funding Pool.
- **Competitive or non-competitive grants and contracts with the local human services department** or its component agencies to deliver services. These can include sole source contracts, contracts or grants awarded after release of a request for proposals, or purchase-of-service contracts.

- **Competitive or non-competitive grants and contracts that are NOT funded through the human services department** to benefit the region and the locality. Many of these types of grants are mandated through formula-funding based upon regional agreements with other jurisdictions or as required by law. These include Fairfax County’s Contributory Fund.
- **Non-competitive grants approved directly by the executive or legislative branch** with input from government staff. Examples include Montgomery County’s Private Agency Requests and Arlington County’s similar, though unnamed, process. In these cases, though the program may be placed in the human services department, the official who advocates for the program locates the necessary additional finances for program sponsorship.

These multiple access points for nonprofits to solicit and receive government funding can make the process less transparent, but provide more opportunities to tap into government funding. Successful nonprofit executives are well-versed in the various methods of obtaining government funding, and build ongoing relationships with appropriate officials. Whatever the formal process, the political component—staying informed and in contact with local officials—is critical. However, a number of organizations reported difficulty navigating the various government branches and departments to identify and apply for funding opportunities. The executive director of a five-year-old organization commented that she was still “figuring out” how to obtain contracts with the local government, in addition to the relatively small awards from one of the dedicated grant pools. Particularly in some jurisdictions, nonprofits reported that the funding process is not open to new organizations beyond the “in-crowd” that has received funding for years.

Many nonprofit executives praised the consolidated funding pools (particularly in Northern Virginia) for offering an accessible and transparent process, although a small minority preferred the old method of working with elected officials. However, all of the funding mechanisms occasionally came under criticism for not taking into account the actual cost of delivering services.

But the greatest dollar amounts flow through contracts

By far, the greatest amount of funding to human services nonprofits under these categories comes through contracts (both competitive and non-competitive) awarded by local human services departments. For example, in Arlington County, VA, an estimated \$14 million of the Department of Human Services’ \$89 million budget is contracted out to nonprofits for service provision. In Montgomery County, MD, an estimated \$61 million is contracted out to private providers (including both nonprofit and for-profit organizations) out of a total health and human services budget of about \$200 million. In Fairfax County, VA, the county contracted out \$44 million with 110 nonprofit human services organizations in FY 03, compared to \$8.1 million in grants awarded through the Consolidated Community Funding Pool.

Although the contracts clearly represent significant dollar amounts, they are difficult to track in government budget documents. Contracts for human services are embedded in the budgets of multiple departments and agencies even within a single jurisdiction, and expenditures are not tracked according to whether services are provided directly by the government, or by a for-profit or non-profit provider. Thus, there is simply no easy or clear way to systematically track the flow of public dollars to nonprofits. Federal, state and local dollars flow through multiple avenues and sometimes make detours on their way to nonprofits that provide local human services.

The context for funding nonprofits: Fiscal pressures at the state and local levels

All of the local and state jurisdictions examined in this study have engaged in cost-cutting mechanisms in the last few years to compensate for uncertain, flat, or declining revenues. Additionally, in response to resident opposition to rising real property tax assessments, a num-

ber of localities have cut their property taxes. Localities have struggled to make thoughtful choices in difficult circumstances. In presenting various “budget reduction options,” Fairfax County Executive Anthony Griffin wrote, “Many of these options will have short-term savings but longer term consequences as we make changes to our core services. I believe this conversation is difficult but necessary. These choices will include further reductions to vital services, the impact of which will directly affect county residents.”¹³

In Maryland and Virginia, both of which faced large predicted budget shortfalls in the coming years, state officials chose different paths. After an impasse lasting several months, the Virginia legislature enacted a landmark tax reform and budget package, agreeing on a \$60 billion state budget for the 2004-2006 biennium and directing \$1.4 billion in new tax revenue to school aid, hospitals, employee wages, and other services.

Maryland passed a FY 2005 budget of \$24 billion balanced with largely one-time accounting maneuvers and user fees. State officials were unable to find common ground and did not enact either Governor Ehrlich’s proposal to legalize gambling or the House of Delegates’ proposal to raise taxes. Consequently, the state’s long-range budget needs remain unmet. Local governments in Maryland are anticipating continued cuts in state aid, and in the next budget debate, state legislatures will again have to close a budget shortfall, estimated at \$250 million for FY 2006 and \$965 million for FY 2007. Public education is an increasingly large budget driver since the passage of the “Bridges to Excellence in Schools Act” in 2002. Also known as the “Thornton plan,” the law calls for substantial increases in levels of state formula funding to local school systems annually until FY 2008 in order to provide a “thorough and efficient” system of public education.

In turn, the local jurisdictions in Northern Virginia and Maryland also face different pressures and constraints. Arlington and Fairfax (and Alexandria to a lesser degree) all rely heavily on property taxes for local revenues, due in part to the state tax structure which limits the local taxing authority of counties. Counties cannot raise taxes on cigarettes, meals, or hotel stays unless they get permission from the General Assembly. Although property taxes have pumped revenue into local budgets because of the area’s booming housing market, residents and policymakers have become increasingly dissatisfied with the current situation, in which homeowners are shouldering an increasing share of the local tax burden. In Fairfax County, for example, property tax revenue accounts for all of the FY 2005 revenue growth, with the sum of all other revenue categories showing a modest decline. Policymakers in all three Northern Virginia jurisdictions have responded by reducing property tax rates. A memo on the adopted FY 2004 budget in Arlington stated, “We are sensitive to the needs of our residents who are on fixed incomes and will continue to provide real estate tax relief to qualifying elderly and disabled homeowners.”¹⁴

However, reliance upon the real estate taxes has provided an economic cushion to Virginia localities that Montgomery and Prince George’s counties have not experienced, with their greater dependence on the income tax, which is more volatile during economic downturns. One factor unique to Prince George’s County is that it has a property tax cap, TRIM, enacted by voters in 1978 and subsequently amended in 1984. Since local property taxes are a major source of revenue for local governments, the cap has limited the ability of Prince George’s County to raise local revenue, making it particularly reliant on state dollars and thus vulnerable to the effect of cuts in state funding.

Washington, DC faces a unique set of governance and budget issues. It performs both state and local functions, and its budget must be approved by the U.S. Congress. It also has a narrow tax base, since it is barred from taxing the income of non-residents, and much of its property value is non-taxable due to the presence of so many federal and nonprofit properties. However, the city has recovered from its fiscal collapse of the mid 1990s and is now in much better financial shape.

Table 2. FY 2005 Funding for General Budgets and Selected Program Areas in Local Jurisdictions¹⁵

Jurisdiction	Budget document	Total all funds	Total	General Fund		
				Funds to health and human services	Funds to schools	Funds to public safety and justice
Alexandria	FY2005 Proposed	\$519,000,000	\$432,850,876	9.4%	30.6%	23.1%
Arlington	FY2005 Adopted	\$865,600,000	\$718,460,430	12.7%	38.3%	17.5%
Washington, DC*	FY2005 Proposed	\$6,250,000,000	\$4,172,691,000	25.7%	22.3%	18.3%
Fairfax	FY2005 Adopted	\$4,651,400,000	\$2,733,221,469	11.4%	53.0%	12.9%
Montgomery	FY2005 Recommended	\$3,455,000,000	\$3,271,744,920	6.2%	48.5%	11.1%
Prince George's	FY2005 Adopted	\$2,350,255,200	\$1,948,282,600	4.7%	65.3%	18.1%

* Washington, DC's budget is not comparable to the budgets of other jurisdictions, since it includes expenses and functions that in other localities are handled at the state level, such as Medicaid.

Like other jurisdictions in the region, the District has had to restrain expenditures over the past few years in order to skirt revenue shortfalls. As did Alexandria, Arlington County, and Fairfax County, the District responded to resident concerns about high property tax assessments, lowering the cap on the property tax assessment rate levied on homeowners in 2004. For FY 2005, the city passed a budget totaling just over \$6 billion, after last-minute negotiations in which the City Council proposed \$60 million in cuts, the bulk of which fell in the health and human services arena. Ultimately, the mayor and the council agreed to a budget that cut \$14 million from the mayor's proposed budget, and created a reserve account of \$40 million that can be accessed with the council's consent.

Table 2 provides summary information on the current budgets of local jurisdictions, which range from about \$500 million to about \$6 billion. We highlighted the general fund for comparison since that is the portion of the budget which underwrites the majority of local government services and over which local governments have the most authority and discretion. Differences in spending patterns in three key program areas of health and human services, schools, and public safety reflect the fiscal pressures and constraints faced by the six local jurisdictions. For instance, Prince George's County, with its reliance on state dollars because of the county property tax cap, allocates the smallest percentage of its general fund to health and human services.

However, local governments organize their budgets differently, requiring care when making budget comparisons. Some local governments include courts within their public safety accounting, while others do not. For consistency, this report sums courts-related and safety-related expenditures into a common public safety and justice category. There are many similar local government accounting variations, meaning that only broad and general conclusions can be made when local budgets are placed side by side. See Appendix A for more detailed budget information on each of the six jurisdictions.

IV. Case Studies

The following case studies examine three nonprofit organizations providing services to children, youth and families in Washington DC, suburban Maryland, and Northern Virginia. Their specific programs vary somewhat, but they all strive to help the diverse communities they serve. In addition to government funding, they all actively solicit support from other sources, such as foundations, corporations, churches, and individual donors.

All of them have taken action to cope with fiscal stress in the last few years. They have sought additional revenue sources (two organizations received emergency funding from the Freddie Mac Foundation), cut ancillary services such as mental health counseling, laid off staff, instituted salary freezes, raised client fees, accepted more full-fee unsubsidized clients, and stripped some programs to the minimum.

These examples are not intended to be generalizable. Rather, the case studies are used to provide a more in-depth picture of how nonprofits are adapting to the current funding environment to complement the aggregate data presented elsewhere in the paper. As noted in the methodology section, the following nonprofits were selected to illustrate the effects of any changes in funding for child care and out-of-school time programs. They reflect a mixture of jurisdictions, size, and organizational age.

CASE STUDY

Calvary Bilingual Multicultural Learning Center Washington, DC

Calvary Bilingual Multicultural Learning Center (CBMLC) provides a variety of services for children, youth and families in the Columbia Heights neighborhood of Washington, DC. After the District government established a waiting list for subsidized child care and reduced funding for after-school programs, CBMLC laid off staff, instituted salary freezes, and reduced the size and comprehensiveness of its after-school program.

Mission: Educate children and youth and strengthen families in a bilingual, multicultural community

Number served per year (2003): 600+ children, youth, and family members

Year founded: 1986

Facilities: CBMLC moved into a new building (a former switching facility donated by Verizon, formerly Bell Atlantic) in 1995. Renovations were complete in 2001, allowing CBMLC to make use of the entire 73,000 square foot facility. With the additional space, CBMLC was able to create new programs, such as an infant/toddler center, and expand others, such as pre-school, tutoring, and support services to families.

Please see the appendix for more budget and fiscal information on Washington, DC.

Number of FT Staff: 89

Number of PT Staff: 11

Number of Volunteers: 80

FY 01 Budget: \$2.4 million
Percent of budget from government funds: 28

FY 02 Budget: 3.4 million*
Percent of budget from government funds: 30

FY 03 Budget: \$3.8 million
Percent of budget from government funds: 47

At the beginning of FY 2003, projected expenditures were \$4.5 million, leading to cuts of \$700,000 in order to close the gap between revenue and expenses.

*Much of the increase from 2001 and 2002 is due to the institution of a tiered rate reimbursement system by the District's Office of Early Childhood Development for subsidized child care. CBMLC was one of the initial centers certified at the highest level of quality (gold) at the beginning of the program, and received correspondingly higher reimbursement rates. CBMLC also opened its infant care center in 2001, generating both additional costs and revenue.

Major Services/Programs:

CBMLC provides services in four major program areas:

- The Learning Center, which provides quality early childhood education and out of school time educational support and arts enrichment services through its Infant/Toddler Center; the Bilingual Early Childhood Program; and a School Age/Youth Development Program.
- The Community and Family Development Institute, which provides comprehensive wrap around support services to children, their families and community members.
- The Professional Development Academy, which offers professional certification in early childhood education through the Child Development Associate (CDA) Training Program as well as ongoing training for teachers and community partners in an array of child development topics.
- The DC Bilingual Public Charter School, serving preschool through the fifth grade, is scheduled to open in the fall of 2004.

Examples of Collaborative Efforts with Other Nonprofits:

Healthy Families DC—In partnership with Mary's Center for Maternal Health, For Love of Children, the Columbia Heights/Shaw Family Support Collaborative, Healthy Babies and Children's Hospital, the program provides intensive city-wide home visitation services for families from pregnancy until age three.

Digital Community—In partnership with One Economy and Columbia Heights/Shaw Family Support Collaborative, the program supplied computers to neighborhood residents, trained neighborhood youth to provide computer training and technical support to families, and develops neighborhood-wide activities that promote access and skills-building opportunities for residents.

Major Government Partners and Funders:

Office of Early Childhood Development (OECD), part of the District's Department of Human Services. OECD is the agency which administers and manages the District's subsidized child care program. Starting in the late 1990s, OECD expanded the number of subsidized child care and school-age slots and instituted a tiered rate reimbursement system. The tiered

system offers higher rates to organizations reaching higher levels of quality including the achievement of national accreditation. OECD also partnered with DC Public Schools to provide before- and after-school services. However, in 2002, OECD reduced the number of children receiving subsidized child care due to budget constraints. As of mid-March 2004, there were 1,468 children on the waiting list for subsidized child care.

Children and Youth Investment Trust Corporation, a public-private partnership founded in 1999 with the goal of increasing the quality, quantity, and accessibility of programs that serve the District's children and youth. A major focus of the trust's funding is after-school and summer programming for school-aged youth.

Notable Recent Changes in Government Funding Streams:

Office of Early Childhood Development

OECD used federal dollars (largely high-performance bonuses from the Temporary Assistance to Needy Families program and other TANF dollars) to fund an expanded child care system with increased reimbursement rates. Local dollars remained fairly flat at about \$21–22 million between FY 01–03.

**Children Served by the Child Care Subsidy Program, Washington, DC
FY 1997–2004**

1997	1998	1999	2000	2001	2002	2003	2004 (projected)
5,800	6,027	11,467	14,688	23,801	21,947	18,436	18,509

Sources: Office of Early Childhood Development, DC Action for Children

Much of the increase and decline since 2000 is due to the Afterschool for All program, which in 2001 served 12,350 children in before- and after-school programs during the school year as well as in summer programs. In FY 2004, the program is funded to serve 6,000 children during the school year only. Afterschool for All is administered by the DC Public Schools, using TANF dollars transferred from the Office of Early Childhood Development.

The availability of ongoing federal funds to support child care in the District is uncertain, however. After FY 2004, it is not clear if the federal government will continue to award TANF high-performance bonuses. The pending re-authorization of the Personal Responsibility and Work Opportunity Act (PRWORA, which sets TANF rules) also makes future TANF funding uncertain—the amount of the federal block grant may change, and permissible uses of the dollars may change.

Child Care Subsidy Expenditures in Washington, DC

	FY 2001 Expenditures	FY 2002 Expenditures	FY 2003 Expenditures	FY 2004 Projected
Local	\$22,284,000	\$21,364,954	\$21,786,904	\$22,928,000
Federal	\$40,910,140	\$48,993,655	\$38,408,957	\$45,691,590
Total	\$63,194,140	\$70,358,609	\$60,583,861	\$69,007,590

Source: Office of Early Childhood Development

OECD started a waiting list for subsidized child care in June, 2002 for all but a few specific subgroups of the working poor. Those who continue to be enrolled include: all children receiving subsidized child care before June 1, 2002 as long as they remain eligible; TANF parents in an approved activity including employment; TANF parents who are disabled; children in foster care whose foster parent is employed; children in Child Protective Services (CPS) including court cases; children who are disabled; teen parents attending school; and TANF payees (child only cases).

Because of the waiting list, Calvary lost 50–60 child care slots over the course of two years, representing lost revenues of \$500,000–\$600,000 per year.

In August 2003, the Department of Human Services/OECD issued a proposed rulemaking to lower the income eligibility guidelines to families at or below 200 percent of the federal poverty level. Currently, families at 250 percent of the poverty level are eligible, and once enrolled, they remain eligible until they reach 300 percent of the poverty level. No action has been taken on the proposal yet. OECD received almost 650 comments in response, all of them opposed to implementing the proposal.

A letter from eight councilmembers to Mayor Williams stated, “[W]e believe we should honor the commitment we made two years ago to this program and continue to provide these important services to working families, particularly those already in the program, at their current levels. We are committed to working with you to identify funds . . . in order to keep this commitment to the District’s children and families. . . .”¹⁶

Children and Youth Investment Trust Corporation

Like OECD, the Children and Youth Investment Trust Corporation has used federal TANF dollars to support its programs. In its first year, the trust was funded with \$12 million in TANF dollars and has struggled since then to develop a reliable city funding stream. In its second year, the trust received \$5 million in TANF dollars and \$11 million in city funds, and raised \$1.7 million in private funds. In FY 2003, it received \$2.2 million in TANF and \$7.5 million in local dollars and raised \$3.8 million in private funds. In FY 2004, the trust received \$2.8 million in local dollars for year-round programs, is anticipating an additional \$4.7 million in local funds for summer programs and is still raising private funds.

One of the trust’s primary goals moving forward is to use city funding to leverage other private dollars. 2003 was the first year in which the trust granted out more funds (about \$11 million) than they received in city funding, due to their success in raising private dollars.

Starting in 2002, the trust’s funding to Calvary for after-school and summer youth programming underwent a sharp decline, in turn due to the trust’s reduced support from the city.

Children, Youth and Parents Served by Trust Corporation-Funded Programs

FY 01	FY 02	FY 03	FY 04 (projected)
5,100	25,100	23,050	8,220

CBMLC’s Major Private Funding Sources: Multiple foundations, corporations, and individual donors.

CBMLC's Strategies to Cope with the Current Funding Environment:

- Laid off 15 staff. Instituted 4 percent salary cuts for all but teacher positions.
- Downsized before- and after-school program “back to bare bones:” cut the number of children served, hours, and activities, such as art, music, and tutoring programs.
- Applied for and received an emergency Freddie Mac Foundation grant from the Helping Hand Emergency Fund.
- Stepped up other private fundraising efforts, such as a second annual appeal and emergency requests to funders.
- Used the organization’s line of credit to alleviate cash flow problems.
- Exhausted all reserves.

CBMLC's Major Operational challenges:

- Continuing to provide high-quality programs despite declining public revenue streams.
- Rewarding staff for their hard work and commitment.
- Providing scholarships to families for whom child care subsidies are no longer available.

CASE STUDY

Community Bridges

Silver Spring, MD (Montgomery County)

Community Bridges provides youth development programs for low-income adolescent girls in Silver Spring, MD. Its flagship program is Jumpstart Girls!/Adelante Ninas!, a multicultural empowerment and leadership development program. Last year, state funds that Community Bridges received through the Montgomery County Collaboration Council for Children, Youth and Families were cut in half. Another of Community Bridges’ funding sources, the Montgomery County Community Grants program, faced potential de-funding by county council action this winter. However, the resolution proposing the de-funding did not pass. Community Bridges has avoided major program cuts, although it did eliminate counseling services provided on a part-time basis by a contract employee.

Mission: Create model empowerment programs for girls aged 9–15 from low-income families in East Silver Spring and Takoma Park.

Number served per year (2003): 75

Year founded: 1997

Facilities: Administrative offices are in downtown Silver Spring. Programs are held in two elementary schools (Oakview and Rolling Terrace) and two middle schools (Eastern and Silver Spring International.)

Please see the appendix for more budget and fiscal information on Montgomery County, MD.

Number of FT Staff:	2
Number of PT Staff:	4
Number of Volunteers:	29

FY 03 Budget:	\$245,774
Percent of budget from government funds:	41
FY 04 Budget:	\$275,560
Percent of budget from government funds:	23

Major Services/Programs:

- Jumpstart Girls! Adelante Ninas! Multicultural empowerment and leadership development program for girls ages 9–15. Includes academic tutoring and programming on interpersonal skills, health, science, the arts, and community involvement.
- Family program. Monthly dinners with social and educational components for program participants and their families.
- Counseling. One-on-one counseling sessions for program participants in need of more intensive services.
- Pilot English-as-a-Second-Language (ESOL) program. At the request of Silver Spring International Middle School, Community Bridges created a small ESOL program focused on language skills and acculturation and is raising additional funds to expand the program to serve at least 30 girls by fall 2004.

Examples of Collaborative Efforts with Other Nonprofits:

- La Colectiva, an effort of Community Bridges, IMPACT Silver Spring, and Centro Familia to develop “The Village: A Collaboration for Community Success.” The project’s goal is to develop a nonprofit “village” facility that will house the founding organizations and other emerging nonprofits, allowing them to share administrative functions, link their services, and jointly develop additional services, such as a multicultural early childhood education center and a community café. The organizations have received funding from area foundations to develop a business plan for The Village and are in the planning phase.

Major Government Partners and Funders:

Montgomery County Collaboration Council, a “local management board” established by state statute with the goal of improving service delivery for children and families. The Collaboration Council manages and funds a variety of programs, including home visiting, family preservation, and after-school activities. The council’s primary funding source is the Governor’s Office of Children, Youth and Families, but also receives funding from the Governor’s Office for Crime Control and Prevention. The council is currently part of county government, but is planning to change into a “quasi-public” nonprofit organization. With its new organizational status, raising private dollars to supplement state dollars will be a priority.

Montgomery County Community Grants Programs, operated through the Department of Health and Human Services (Community Services grant) and the Department of Housing and Community Affairs (Community Development Block Grant). Nonprofits can receive funding through the Community Grants by applying to one of the grants programs (Community Services, Community Development, Community Empowerment, and Cultural Facilities). Alternatively, nonprofits can also seek a Community Grant by directly applying to a council member or the county executive directly, through what is called a Private Agency Request. (For more information on Montgomery County’s Community Grants programs, please see the “Montgomery County” section of the report.)

Notable Recent Changes in Government Funding Streams:

Collaboration Council

Community Bridges' contract with the Collaboration Council to provide after-school services was reduced from \$33,000 in FY 2003 to \$16,000 in FY 2004.

The Collaboration Council's budget was over \$14 million in FY 2002, \$12.5 million in FY 2003, and \$11 million in FY 2004. Its funding to support after-school programs was \$1.2 million in 2002 and 2003, and \$560,000 in 2004. Collaboration Council funds supported after-school services for about 2,000 children in FY 2001, and about 1,100 kids in FY 2004.

Community Grants

In November 2003, two county councilmembers (Phil Andrews and Marilyn Praisner) introduced a resolution to de-fund the community grants program in the FY 2005 budget. They wrote, "Our first obligation is to provide essential services including police and fire services, schools and school facilities for our youth, as well as to improve our transportation infrastructure. The fiscal strain we are experiencing precludes our ability in FY 2005 to fund community grants."

In response, a coalition of nonprofit organizations mobilized, developed a collective statement, and delivered testimony in opposition to the resolution at a council hearing in January 2004. The resolution appears unlikely to pass.

In a memo summarizing the issues surrounding the resolution, county council staff wrote, "Although the . . . description states that funds are one-time only, many organizations have received funds in multiple years. . . . In council staff's view, both the county and the non-profit community would benefit from a clear differentiation between one-time only grants and ongoing service needs."¹⁷

Community Bridges' Major Private Funding Sources: Multiple foundations, corporations, and individual donors.

Community Bridges' Strategies to Cope with the Current Funding Environment:

- Applied for and received an emergency Freddie Mac Foundation grant from the Helping Hand Emergency Fund.
- Cut counseling program for elementary school students. Now refer program participants in need of counseling to Montgomery County's "Linkages to Learning" program.
- Reaching out to new foundations for support.
- Reaching out to local businesses for support—for example, Whole Foods Market donated 5 percent of its profits on products sold on a particular day.
- Applied for and received designation to benefit from the Maryland Business Tax Credits program, which offers additional tax credits to businesses making donations to selected nonprofit organizations.

Community Bridges' Major Operational challenges:

- Maintaining current services and staffing in an uncertain funding environment.

CASE STUDY

***Main Street Child Development Center
Fairfax, Virginia***

The Main Street Child Development Center operates an early childhood development program for low-income children in Fairfax County and the City of Fairfax. Most of its students are subsidized through the Fairfax County Office for Children, and it leases space at below-market rates from the city of Fairfax. The county has proposed funding cuts to subsidized child care in the last two fiscal years, but they have not been enacted.

Mission: To provide a quality accredited early childhood program for 72 children of limited income, working families. To support our diverse families with Parent Education and Family Literacy classes.

Number Served Per Year: 72 children and about 20–30 adults in ancillary programs

Year Founded: 1973

Facilities: Former Green Acres Elementary School, which now houses Main Street Child Development Center, a senior center, and “swing space” for local government staff whose offices are being renovated. Main Street moved into the school in 2002, and has a lease until December 2005.

Please see the appendix for more budget and fiscal information on Fairfax County, VA.

Number of FT Staff:	18
Number of PT Staff:	2
Number of Volunteers:	6
FY 01 Budget:	\$604,916
Percent of budget from government funds:	63
FY 02 Budget:	\$595,195
Percent of budget from government funds:	69
FY 03 Budget*:	\$650,780
Percent of budget from government funds:	66

*Corporate, foundation, and individual giving were up in FY 03 to support Main Street’s move to a new location. Giving at those higher levels are not anticipated to continue.

Major Services/Programs:

- Early childhood education and development—Providing “active learning” experiences in a number of areas, such as the arts, language and literacy, movement, social relations, and numeracy.
- Parent Computer Literacy Classes—an eight week training program on basic computer skills for the parents of students.

Examples of Collaborative Efforts With Other Nonprofits:

- Family Learning Program—In collaboration with the Literacy Council of Northern Virginia and Fairfax County Head Start. The program assists parents in developing English-language and reading skills, reinforces and enhances what children are learning in school and promote parent and child interaction time.
- Wolf Trap Residency Program—in collaboration with the Wolf Trap Institute for Early Learning Through the Arts. In this program, an artist comes to the preschool classroom and works with the teacher to develop performing arts-based activities that teach curriculum topics.
- The center used to have a part-time social worker who provided mental health services to students and their families, thanks to a contract with Northern Virginia Family Services (NVFS). However, NVFS lost funding for that project, which provided mental health services at several child care centers and other locations throughout Northern Virginia.

Major Government Partners and Funders:

Fairfax County Office for Children, part of the Fairfax County Department of Family Services. The Office for Children, among other activities, manages and administers the county’s subsidized child care program. It recently established the Institute for Early Learning and Literacy, which provides literacy training for child care providers to enhance providers’ ability to support children’s emerging literacy. Main Street staff is participating in the training and are incorporating it into their program.

Number of Fairfax County Children Served in Subsidized Child Care

FY 2001	8,426
FY 2002	8,313
FY 2003	9,251

In a given month, the county pays for services for about 6,600 children.

Fairfax County expenditures for child care services

	Local	State/Federal
FY 2001	\$8,469,090	\$14,736,944
FY 2002	\$8,274,905	\$19,135,419
FY 2003*	\$4,489,905	\$26,318,617
FY 2004 (projection)	\$6,523,314	\$26,552,493

* Local expenditures for child care was less in FY 2003 and is projected to be less in FY 2004 because of one-time retroactive federal funding that was available these two years (see state/federal funding column). This funding will not be available in FY 2005 or beyond.

City of Fairfax. Leases space to Main Street in the former Green Acres Elementary School to Main Street at below-market rates.

Notable Recent Changes in Government Funding Streams:

- Budget cuts to the Child Care Assistance and Referral Program were proposed in both FY 2004 and 2005 in order to save the county money, but were not enacted in either year.
- The state's reimbursement rate to child care providers was last increased in 2001. The Virginia Department of Social Services hopes to raise the reimbursement rate to state-licensed and locally-permitted providers in the near future.

Main Street's Major Private Funding Sources: Multiple foundations, corporations, churches, and individual donors.

Main Street's Strategies to Cope with the Current Funding Environment:

- Accepting more unsubsidized children, so that full-fee children are making up 15–20 percent of the students, up from the typical figure of 10 percent. (Note: this strategy is not available to all child care centers serving low-income children. Centers located in distressed neighborhoods have difficulty attracting families who can pay for care out-of-pocket.)
- No raises or cost-of-living-allowances for the last two years.

Main Street's Major Operational Challenges:

- Uncertainty as to their future home. The lease at their current location expires in December 2005, and they are concerned about finding adequate, affordable space that is close enough to their current location to remain convenient for their current students and families.
- Retaining the center's staff given flat salaries and increasing health insurance premiums. Since high-quality programming is heavily dependent upon the teachers and teacher associates, staff turnover threatens the quality of the center's educational programs.

V. Conclusion

Human services nonprofits are active partners to local governments in delivering an extensive range of services and programs. In these uncertain economic times, the human services nonprofit community in the Washington region is doing its best to “hold the line”: to continue to provide full services despite increased demand, increased costs, and sluggish revenue growth. Nonprofits do this because they are committed to serving their communities, and they are able to do it because they have entrepreneurial and adaptable leaders in their midst. However, the combination of rising need, increased costs and lagging revenue growth threatens to erode both the quality and availability of services over time.

In response, many nonprofit organizations are seeking new sources of funding—such as national foundations, stepped-up individual giving programs, and revenue-generating subsidiaries like thrift shops—and are undergoing corresponding organizational re-design to adapt to changing economic scenarios. Local governments and the philanthropic community can support this capacity-building that enables nonprofits to refine their organizational and funding models. Although it is too early to draw firm conclusions, the “high-engagement philanthropy” model of Venture Philanthropy Partners (VPP) in the region shows real promise to help nonprofits improve their effectiveness and sustainability. In this model, funders do not only provide dollars, they form a long-term partnership with the grantee and provide management expertise and other non-financial assistance, much as venture capitalists do in the private sector.

Outside of the VPP model, there are multiple steps both public and private funders can take to help nonprofits improve their effectiveness. In many cases this means building on and expanding the capacity-building efforts in which funders are already engaged. Funders can support technical assistance programs or match young nonprofits with more experienced organizations in a mentoring program, and they can create more transparent funding processes and provide a clearer “road map” to nonprofit organizations interested in government and philanthropic funding.

In the end, however, the responsibility of creating and maintaining healthy communities in our region does not only belong to direct service providers. It is the province of all—the private, public, and nonprofit sectors. Human service providers are not the only ones affected by changes in policies and funding for such programs as child care, after-school programs, and job placement. The public and private sectors need to work with the nonprofit sector to jointly develop solutions that will meet the needs of community residents without overly burdening the resources of any one sector.

Appendix A: Detailed Budget and Fiscal Information on Six Local Washington-Area Jurisdictions

WASHINGTON, DC

NOTE: All of the demographic data in the following descriptions of local jurisdictions are from the 2000 Census, with the exception of the unemployment rate, which is from the Bureau of Labor Statistics, 2002. The budget figures are from the specific jurisdictions' budget documents.

Washington, DC Summary Information

Population, 2000	572,059
Percent foreign-born, 2000	13%
Median value of owner-occupied housing units, 2000	\$157,200
Median household income, 1999	\$40,127
Poverty rate, 1999	20.2%
Unemployment rate, 2002	6.4%
Proposed gross funds expenditures, FY 2004	\$5.7 billion
Proposed gross funds expenditures, FY 2003	\$5.6 billion

Population by race/ethnicity, 2000

White	Black	Asian	Hispanic	Other
158,617	340,061	14,605	45,015	13,761
27.7%	59.4%	2.6%	7.9%	2.4%

Washington DC's Financial Picture and Local Budget Pressures

Washington, DC faces a particularly complex set of governance and budget issues. In one entity, it provides services typically delivered by cities, counties and states. As the home of the federal government, the District faces some unique circumstances, most notably centered on two factors: its annual budget, including local revenues, must be reviewed and approved by the U.S. Congress; and it is barred by Congress from taxing the income of non-residents who work in the city. The District's tax base is further constrained by the fact that much of its property value is non-taxable. Federal buildings and properties in the city make up 42 percent of the District's property value, but are tax-exempt.¹⁸

After the District's fiscal collapse in the mid-1990s, in which the city went bankrupt, the District is now in better financial shape. The federally appointed Financial Authority that handled city management after the fiscal crisis disbanded in 2001, after the District balanced four consecutive budgets.

Like other jurisdictions in the region, the District has reined in expenditures over the past few years in order to skirt revenue shortfalls. It also responded to resident concerns about high property tax assessments by lowering the cap on the annual property tax assessment increase for homeowners in 2004. For FY 2005, the city council passed a budget totaling just over \$6 billion, after last-minute negotiations in which the council proposed \$60 million in cuts from the mayor's proposed budget, with the bulk of the council's proposed cuts falling in the health

and human services arena. Ultimately, the mayor and the council agreed to a budget that cut \$14 million from the mayor’s proposed budget, and created a reserve account of \$40 million that can be accessed with the council’s consent.

Processes for Funding Nonprofits in Washington, DC

Funding Pools

There is one main consolidated pool of funds to which nonprofits can apply. The fund serves a specific population – children and youth. (Please see the case study on Calvary Bilingual Multicultural Learning Center for an examination of how a specific nonprofit organization is faring in Washington, DC.)

Children and Youth Investment Trust Corporation

The Children and Youth Investment Trust Corporation is a public-private partnership founded in 1999 with the goal of increasing the quality, quantity and accessibility of programs that serve the District’s children and youth. A key focus of the trust’s funding is after-school and summer programming for school-aged youth. Such programs are in demand. A recent Washington Grantmakers report on Wards 7 and 8 noted that out-of-school time and youth development programs are a major priority among residents and community leaders.¹⁹

The trust was initially funded with \$12 million in federal TANF dollars, and since then has been funded with a mixture of TANF and local dollars. Its funding is dependent on the annual budget process, and both TANF and local dollars have been uneven. It releases requests for proposals periodically, when funding is available to support granting.

**Funding for the Children and Youth Investment Trust Corporation
(dollars in millions)**

	Year 1	Year 2	Year 3	Year 4
Local*		\$11	\$7.5	\$2.768 **
TANF	\$12	\$5	\$2.2	
Total	\$12	\$16	\$9.9	\$7.4 (projected)

*includes dollars specified for both year-round and summer programs.

** another \$4.7 anticipated for summer programs

Source: Children and Youth Investment Trust Corporation

One of the Trust’s primary goals moving forward is to use city funding to leverage other private dollars. In FY 2002, it raised \$1.7 million in private funds, and in FY 2003, \$3.8 million. 2003 was the first year in which the trust granted out more funds (about \$11 million) than it received in government funding, due to its success in private fundraising.

Departmental Budgets

A recent DC Fiscal Policy Institute report examined trends in the local share of the District budget—the piece of the budget the local government has the most control over—and found that when controlled for inflation, local budget growth was a modest 3 percent between 1990-2004. However, local spending in a number of agencies that serve low-income residents has been cut. The report singles out employment services, affordable housing, human services, non-Medicaid health services, mental health, the Office of Aging, the University of the District of Columbia, and the Department of Parks and Recreation as being especially hard hit.²⁰

The FY 2004 proposed budget of the Department of Human Services from all funds was \$400 million, down from \$442 million in FY 2003. The mayor's proposed budget for the department in FY 2005 is \$453 million. The Department of Human Services' local funds expenditures have risen about 4 percent annually from FY 1999 through FY 2003; and its gross funds expenditures (including federal funds it administers) have risen 5.2 percent annually.²¹ Controlled for inflation, the Department of Human Services budget fell 33 percent between FY 1990 and FY 2004 according to the DC Fiscal Policy Institute, reflecting cuts in child care, homeless services, emergency assistance, and welfare.²² Though the Department of Human Services lost funding ground, the Child and Family Services Agency budget grew by 67 percent, adjusted for inflation, in response to court mandates.²³

The city also has begun a program to build the capacity of small nonprofits and faith-based nonprofits and faith based organizations, administered by the Mayor's Office of Partnerships and Grants Development. The program enrolls up to 25 executive directors of emerging small nonprofits to assist them with their organizational structure and revenue streams. The program includes twice monthly capacity-building workshops, peer-learning activities, mentor-matching, and participant demonstration projects.

CITY OF ALEXANDRIA

City of Alexandria Summary Information

Population, 2000	128,283
Percent foreign-born, 2000	25%
Median value of owner-occupied housing units, 2000	\$252,800
Median household income, 1999	\$56,054
Poverty rate, 1999	8.9%
Unemployment rate, 2002	3.3%
Approved general fund budget, FY 2004	\$397.7 million
Actual General Fund, FY 2003	\$376.6 million

Population by race/ethnicity, 2000

White	Black	Asian	Hispanic	Other
68,937	27,956	6,961	18,747	5,682
53.7%	21.8%	5.4%	14.6%	4.4%

Alexandria's Financial Picture and Local Budget Pressures

Alexandria's proposed FY 2005 operating budget is \$432.8 million.²⁴ Like Fairfax County, Arlington County, and Washington D.C., Alexandria has experienced substantial increases in residential property assessments, which has spurred the city council to enact a series of reductions in the real estate assessment tax rate. The FY 05 proposed budget puts forward a reduction from \$1.035 to \$1.005 per \$100 of assessed value, which, if enacted, would be the third cut in as many years.²⁵ Without a change in the assessment rate, real estate revenue would account for a projected 54 percent of the FY 2005 general fund budget, up from 50.5 percent in FY 2004. The FY 2005 budget proposal also calls for additional real estate tax relief for elderly and disabled persons.²⁶

City departments have all restrained their expenditures over the past few years in various cost-saving measures to avoid shortfalls.²⁷ Additionally, costs to maintain current services have increased. Likewise, increasing needs in the maintenance of public safety "in light of the city's



rising residential and work populations and the city’s proximity to the nation’s capital” impact the city’s budget.²⁸ Nonetheless, the FY 2005 budget proposal has a cautiously upbeat tone, calling the general economic outlook for Alexandria “mostly positive.”²⁹

Processes for Funding Nonprofits in Alexandria

Funding Pools

The city of Alexandria began consolidating its funding approach to nonprofits in 1997. The Community Partnership Fund for Human Services removed the discretionary grants funding of nonprofits from city council and departmental overview into the hands of an independent citizen commission. Subsequent reforms in 1998, 2001, and 2002 created the present system that includes the Youth and Children’s Funds. Alexandria now has three funding pools that award competitive grants to human services nonprofits.³⁰

The budgets for the three funds are set during the annual budget process, based on the city manager’s recommendation and the Council’s vote on the final adopted budget. For each pool, there is a formal request for proposals. Separate bodies review the applications for each pool and make recommendations for funding. An independent citizen’s panel (the Community Partnership Fund Review Committee) reviews proposals for the Community Partnership Fund, the Youth Policy Commission reviews proposals for the Youth Fund, and a committee designated by the Early Childhood Commission reviews proposals for the Children’s Fund.

Community Partnership Fund for Human Services

- The Community Partnership Fund for Human Services serves adults age 22 and over, persons with disabilities, families and the senior population, and programs that serve anyone in need regardless of age.

Youth Fund

- The Youth Fund serves youth ages 6–21, and, like the Community Partnership Fund, the budget is set during the annual budget process.

Children’s Fund

- The Children’s Fund serves children aged prenatally through five. The Children’s Fund is budgeted separately in the Department of Human Services.³¹

Fund	Actual FY 2003	Approved FY 2004	Proposed FY 2005
Community Partnership Fund	\$ 870,500	\$ 821,690	\$ 862,775
Youth Fund	\$ 100,000	\$ 278,310	\$ 292,226
Children’s Fund	\$1,080,010	\$1,003,632	\$1,053,814
Total	\$2,051,510	\$2,103,632	\$2,208,815

Total combined expenditures for these Funds have increased annually since FY2000 at rates ranging between 2.5% to 5.6%, with the Youth Fund first appearing separately as a budget item in FY2002. The most recent years appear above. In all three funds, requests for support typically exceed the budget levels. For example, for FY 2005, applications to the Partnership Fund totaled \$1.8 million in requests, exceeding the available funds of \$862,775.

Departmental Budgets

Human services nonprofits also receive funding through contracts with the Department of Human Services for specific programs, such as subsidized child care and before- and after-school programs. The total human services expenditure for the FY 2005 proposed budget is \$41.9 million.³² This category includes the Department of Human Services, including the Children’s Fund; the Department of Mental Health, Mental Retardation, and Substance Abuse; Department of Health; Office of Women, Community Partnership Fund for Human Services; and Youth Fund. Alexandria’s health department personnel are state employees, unlike in Arlington and Fairfax where they are covered by local funds.

ARLINGTON COUNTY

Arlington County Summary Information

Population, 2000	189,453
Percent Foreign-born, 2000	28%
Median value of owner-occupied housing units, 2000	\$262,400
Median household income, 1999	\$63,001
Poverty rate, 1999	7.8%
Unemployment rate, 2002	2.7%
Actual general funds budget, FY 2004	\$665.7 million
Actual total general funds budget, FY 2003	\$664.8 million

Population by race/ethnicity, 2000

White	Black	Asian	Hispanic	Other
114,696	17,344	15,733	35,212	6,468
60.5%	9.2%	8.3%	18.6%	3.4%

Arlington County's Financial Picture and Local Budget Pressures

The adopted FY 2005 Budget for Arlington County is \$718.4 million.³³ Like Alexandria County, Fairfax County, and Washington, D. C., Arlington County has experienced a substantial increase in residential property tax assessments. In the last several years, the county has enacted several cuts in the property tax rate—resulting in an overall reduction of 6.5 cents since 2001. The real estate tax contribution to local tax revenues is 61 percent in the FY 2004 adopted budget.

While Arlington County has experienced strong growth in real estate tax revenue, recordation tax revenue and meals tax receipts in the last few years, “this phenomenal growth in these sectors is not expected to continue.”³⁴ Arlington County adopted its FY 2004 budget with assumptions that the rate of growth in these taxes would slow. In its FY 2005 proposed budget, the county again had positive news to report, despite cuts in state aid and the economic slowdown: “The FY 2005 projected revenues reflect a continued growth in the local economy. ... Arlington County remained exceedingly resilient in the wake of September 11, 2001. Though retail sales, transient occupancy taxes, and car rental taxes suffered significant declines; the overall health and diversity of tax and non-tax revenue did not create severe hardships on county services and functions.”³⁵

Processes for Funding Nonprofits in Arlington County

There is no consolidated grant pool in Arlington County as there are in other Washington area jurisdictions.

Departmental Budgets

In FY 2005, the adopted budget for Arlington's Department of Human Service's budget is about \$90 million, up from \$86 million in 2004.³⁶ A county official estimated that \$14 million of the department's budget is contracted or granted out to human services nonprofits to deliver services. The Department of Human Services includes these Divisions: Economic Independence Services, Child and Family Services, Public Health Services, Aging and Disability Services, Behavioral Healthcare Services. The Department aims for stable annual funding to the human services nonprofits it habitually funds, working each year "to fund reasonable increases in costs in providing approved services."³⁷ One side effect of this Arlington County emphasis on stability is that newcomer nonprofits may have a harder time successfully tapping into the local governmental funding stream.

In collaboration with the Virginia Department of Social Services, the Arlington Department of Human Services (DHS) has worked on an effort to draw down all available federal dollars to support human service programs, through a program called the Local Public Assistance Cost Allocation Plan (LPACAP). Because the Arlington County DHS is an integrated local human services department, it is able to claim additional federal funds to cover certain allowable administrative costs. A county official called the LPACAP funds a "godsend." The department has used the funds to enhance human services.

Other

Section N – Regional Organizations and Metro

Another avenue for nonprofits to access government funding is through a portion of the County Budget under Section N – Regional Organizations and Metro. The purpose of this section of the budget is to "supplement organizations that provide beneficial services to Arlington residents and visitors."³⁸

One portion (Group 4) of Section N is a pilot concept that focuses on nonprofit organizations that serve people with disabilities. Although not described as a competitive grant pool, it functions as one. A fixed allocation is available for distribution each year, and nonprofits apply through a competitive grant process overseen by the Disability Advisory Committee, a citizen group whose members are appointed by the county board. In FY 2003, \$89,000 was distributed to four organizations through this process, with \$98,000 each in the approved FY 2004 and proposed FY 2005 budgets.

Another portion of Section N (Group 3) funds a broad variety of nonprofits, composed primarily but not exclusively of human services organizations. In FY 2003, \$2.4 million was distributed to nonprofits through this process, with \$2.6 million in the FY 2004 approved budget and \$2.7 million in the FY 2005 proposed budget.

FAIRFAX COUNTY

Fairfax County Summary Information

Population, 2000	969,749
Percent Foreign-born, 2000	24%
Median value of owner-occupied housing units, 2000	\$233,300
Median household income, 1999	\$81,050
Poverty rate, 1999	4.5%
Unemployment rate, 2002	3%
Approved total general fund disbursement, FY 2004	\$2.559 billion
Adopted general fund disbursement, FY 2003	\$2.442 billion

Population by race/ethnicity, 2000

White	Black	Asian	Hispanic	Other
623,434	80,251	123,176	106,862	36,026
64.3%	8.3%	12.7%	11.0%	3.7%

Fairfax County's Financial Picture and Local Budget Pressures

The adopted FY 2005 general fund budget is \$2.7 billion.³⁹ Recent revenue growth in the county budget has been driven by property taxes, which in turn have been driven by the county's robust housing market, similar to the escalations in Alexandria, Arlington County, and the District of Columbia. In FY 2005, property tax revenue is projected to comprise 61 percent of the Fairfax County General Fund, up from about 50 percent in FY 2001 and 58 percent in FY 2004. The county enacted a real estate assessment cut in FY 2002, lowering the rate from \$1.23 to \$1.21 in FY 2003 and to \$1.16 per \$100 of assessed value starting in FY 2004. For FY 2005, after the state budget was passed, the county again reduced property taxes, to \$1.13 per \$100. Property taxes have been a particularly hot topic in Fairfax County: in the November 2003 council elections, several candidates to the Board of Supervisors ran on a pledge to cap property tax rate increases. Although they lost, the debate about property tax rates clearly continues.

Accompanying the advertised FY 2005 baseline budget was a list of "budget reduction options" for the Board of Supervisors' consideration. Among the options were cuts of various county staff positions, and in programs like subsidized child care, after school programming, emergency housing assistance, and medical care to persons with HIV/AIDS. In presenting these choices, the county executive wrote, "Many of these options will have short-term savings but longer term consequences as we make changes to our core services. I believe this conversation is difficult but necessary. These choices will include further reductions to vital services, the impact of which will directly affect county residents."⁴⁰ Ultimately, the county made \$5.8 million in cuts, including various county staff positions, and reductions to agencies such as Community and Recreation Services and Housing and Community Development.

FY 2005 cuts are in addition to cuts made to offset the shortfalls created by the FY 2004 property tax cut, in which Fairfax County reduced expenditures from FY 2003 to FY 2004 by \$51.3 million and increased revenue by \$8.2 million. Funding for HIV services was one of the programs eliminated by the cuts to offset the tax relief in FY 04: "This reduction eliminates county HIV-prevention contract funding to community-based organizations. Currently three organizations are supported with this prevention funding, providing educational sessions and outreach."⁴¹

The advertised FY 2005 budget struck a sober note about the future. After noting that the financial forecast for FY 2006 reflects a deficit of about \$6.5 million, the report states, “County staff will be working to identify cost savings and other redesign opportunities that may be possible to offset some of this deficit. However, the county will be challenged to fit many service requirements within the scope of available resources.”⁴²

Processes for Funding Nonprofits in Fairfax County

Funding Pools

There is one major source of competitive funding for human services nonprofits in Fairfax County, called the Consolidated Community Funding Pool. (Please see the case study on Main Street Child Development Center for an examination of how a specific nonprofit organization is faring in Fairfax County.)

Consolidated Community Funding Pool

In 1997, Fairfax County developed and implemented a more systematic method of allocating competitive discretionary grant awards to nonprofits providing human services to county residents. By 2000, the county had created the Consolidated Community Funding Pool (CCFP), which combines local general fund dollars and several federal funding streams (Community Development Block Grant and the Community Services Block Grant) into one competitive grant-making process.

Prior to 1997, the process for nonprofits to apply for and receive discretionary funding through the county (whether local funds or pass-throughs of state/federal dollars) was considerably more fragmented and disjointed. Nonprofits applied for grants from multiple agencies, with different eligibility criteria, applications, and reporting requirements. Spurred by a budget shortfall in FY 1997, the county decided to consolidate multiple funding streams into one pool, with awards to be made on a competitive basis.

Through the CCFP, grants are awarded every two years for a two-year term based on funding availability. Proposals must address one of five priority areas in human services (such as youth development and employment skills) and affordable housing. All organizations apply concurrently through the same competitive process.

Funding for the Consolidated Community Funding Pool⁴³

	Disbursed FY 2000	Disbursed FY 2001	Disbursed FY 2002	Disbursed FY 2003	Allocated FY 2004	Proposed FY 2005
Consolidated Community Funding Pool	\$6,900,000	\$7,700,000	\$7,800,000	\$8,100,000	\$8,700,000	\$9,010,000

The county government funds share of the CCFP has risen from \$4,271,553 as shown in the FY 1998 budget, the first year of disbursement, to \$5,778,226 in the adopted FY2003 budget. The rate of these local dollar increases has varied from a low of a 2 percent increase from FY 2001 to FY 2002 to a high of a 15 percent increase from FY 2000 to FY 2001.⁴⁴

Departmental Budgets

The largest funding streams to human services nonprofits are contracts embedded within the several departments that compose the health and welfare program area. They are for specific services and programs, such as subsidized child care and after-school programs. A number of departments in Fairfax County fall within the health and welfare program area portion of the

county budget: the Department of Family Services, the Department of Administration for Human Services, the Department of Systems Management for Human Services, the Community Services Board, and the Health Department. Their combined adopted FY 05 total budgets are \$311.6 million.⁴⁵ For administrative purposes, the Fairfax County Human Services Department includes these five agencies and three additional ones, including the Juvenile and Domestic Relations Court, Community and Recreation Services, and the Department of Housing and Community Development.

Among local jurisdictions, Fairfax County is unique in its ability to generate a total dollar value for contracts awarded to human services nonprofits. The county's Human Service Department budget, which includes seven of the eight agencies listed above (the Department of Housing and Community Development is funded elsewhere), distributed \$43.7 million in FY2003 to 110 nonprofit providers, and another \$86 million to for-profit providers, for a total of about \$130 million in contracts. Funds are distributed through competitive, sole source, and individual purchase of service contracts. Officials indicated that, in speaking of this county dollar figure to nonprofits, "probably it would be consistent" over the last 2-3 years and for the near future.

To help build the capacity of local nonprofits, the county has offered training on better fiscal management, and has matched nascent nonprofits to established nonprofits in a mentoring program. The two-year cycle of the CCFP provides some stability to nonprofits that successfully obtain these funds and defrays county costs related administering the selection process. However, unsuccessful applicants face possible hardships when they are not selected and must wait out the two-year cycle before eligibility for funds reopens.

Other

Contributory Fund

A third avenue for nonprofits to receive county funding is through the Contributory Fund. The Contributory Fund funds various nonprofit or quasi-governmental agencies that are promoting the general welfare of the county, but are not acting in support of direct county operations. Recipients of this fund, called "contributory agencies," include the Metropolitan Washington Council of Governments, the Northern Virginia Regional Park Authority, and Volunteer Fairfax.

Funding for contributory agencies in the health and welfare category was \$1.2 million in FY 2002; \$970,548 in the revised FY 2003 budget, and \$1.26 million the adopted FY 2004 Budget.



MONTGOMERY COUNTY

Montgomery County Summary Information

Population, 2000	873,341
Percent Foreign-born, 2000	27%
Median value of owner-occupied housing units, 2000	\$221,800
Median household income, 1999	\$71,551
Poverty rate, 199	5.4%
Unemployment rate, 2002	2.8%
Approved total operating budget, FY 2004	\$3.080 billion
Estimated expenditures, FY 2003	\$2.9 billion

Population by race/ethnicity, 2000

White	Black	Asian	Hispanic	Other
518,456	128,252	97,769	100,309	28,555
59.4%	14.7%	11.2%	11.5%	3.3%

Montgomery County's Financial Picture and Local Budget Pressures

Montgomery County's recommended FY 2005 budget totals \$3.3 billion.⁴⁶ After several years with mid-year reductions, across-the-board budget cuts in county departments and hiring freezes, the FY 2005 budget outlook is less gloomy than in previous years. However, after the passage of the state of Maryland's FY 2005 budget, which did not address the state's long-range budget needs, the county may alter its current recommended FY 2005 budget. Indeed, the county will continue to face some amount of uncertainty in its future budgets as long as the state does not address its projected deficits.

Unlike Montgomery County's FY 2004 budget, which proposed an increase in the income tax (and which was enacted by the council), no new taxes are proposed in the FY 05 budget recommended by the county executive. The budget transmittal memo to the council noted that the FY 2004 savings made a balanced 2005 budget possible, and added, "Although our economy is improving, we must be disciplined about committing to ongoing spending in order to maintain our excellent credit rating."⁴⁷

Unlike the Virginia jurisdictions in the region, Maryland jurisdictions rely more heavily on income tax collections and less on real estate taxes. While the three Northern Virginia jurisdictions collect about half or more of their general fund revenues from real estate taxes, in Montgomery County real estate taxes are just under a one-third of the total and income taxes are just over one-fourth.

Processes for Funding Nonprofits in Montgomery County

Funding Pools

Nonprofits can apply to several consolidated grant pools for support. The Community Grants Programs are generally locally-funded, while the Collaboration Council is a "local management board" created by state statute that awards grants to local nonprofits using state dollars. (Please see the case study on Community Bridges for an examination of how a specific nonprofit organization is faring in Montgomery County.)

Community Grants Programs

Montgomery County administers a number of grant programs funded with local dollars “designed to promote our diverse needs as well as strengthen community relationships.”⁴⁸ With the exception of the Community Development Block Grant fund, they all use local dollars.

Although the descriptions for the community grants explain that funds are one-time-only, some organizations have received community grant awards for multiple years. A county memorandum on the topic of community grants concluded, “. . . both the county and the nonprofit community would benefit from a clear differentiation between one-time-only grants and ongoing service needs. To the extent that funds are available, the county could continue to fund one-time purchases or seed funds for specific initiatives. Ongoing service needs should be evaluated within the context of the relevant department budget.”⁴⁹

(For a discussion of recent proposed changes to the community grant program, please see the case study of Community Bridges.)

Most community grants fall within the Non-Departmental Accounts section of the county budget. The Community Grants Fund is one of about 30 funds included in Non-Departmental Accounts. The Community Grants Fund totaled \$4.6 million in FY 02, \$4.4 million in FY 2003, and \$2.3 million for FY 2004. However, these numbers must be interpreted with caution. Community grants can either be located in individual departmental budgets or in “Non-Departmental Accounts” (and the same organization can migrate between the departmental and non-departmental budgets in different years), making it difficult to track trends in local spending in community grant pools.

- **Community Empowerment Grants**

Community Empowerment Grants, managed by the Department of Housing and Community Affairs, are designed to “offer one-time grants that promote direct service to community residents and enhance community pride, self-sufficiency and community participation.”

- **Community Service Grants**

Community Service Grants, managed by the Department of Health and Human Services, are designed to “provide one-time grants, primarily for capital purchases, that support health and human activities that contribute to a safe, healthy, and self-sufficient community.”

- **Community Development Block Grants**

Community Development Block Grants, operated by the Department of Housing and Community Affairs, use federal Community Development Block Grant funds, in order to support projects “that benefit low- and moderate-income persons and carry out a wide range of community development activities.”

Montgomery County Collaboration Council

The Collaboration Council is a “local management board” established by state statute with the goal of improving service delivery for children and families. The Collaboration Council manages and funds a variety of local programs, including home visiting, family preservation, and after-school activities. The council’s funding comes from different child-serving agencies (such as the Governor’s Office for Children, Youth and Families) at the state level that are then made available to support local needs.

The council is currently part of county government, but is planning to change into a “quasi-public” nonprofit organization. With its new organizational status, raising private dollars to supplement state dollars will be a priority.

The Collaboration Council’s budget was over \$14 million in FY 2002, \$12.5 million in FY 2003, and \$11 million in FY 2004. Its state funding to support after-school programs was cut to \$560,000 in FY 2004, down from \$1.2 million in FY 2002 and 2003. Collaboration

Council funds supported after-school services for about 2,000 children in FY 2001, and about 1,100 kids in FY 2004.

Departmental Budgets

The largest funding streams to nonprofits are contracts embedded within the county's Department of Health and Human Services (HHS). The approved FY 2004 operating budget for the Department of Health and Human Services is nearly \$200 million, and the recommended FY 2005 budget is \$203 million.⁵⁰ The Department for Health and Human Services includes Aging and Disability Services, Behavioral Health and Crisis Services, Children, Youth, and Family Services, Crisis, Income, and Victims Services, Early Childhood Services, Public Health Services, Administration and Support. The HHS budget notes that the department delivers many of its services "through partnerships with private providers."⁵¹ According to departmental staff, an estimated \$61 million is distributed in contracts to private providers, the bulk of which are nonprofits. The vast majority of these contracts, which include local, state and federal funds, are competitive. Contract sizes range from \$5,000 to a few million.

Other

Private Agency Requests

Non-profit organizations can also seek support by requesting funding directly from the county executive or a county council member. Such grants are inserted into a departmental budget, dependent upon the executive or county council member to finance it independently, or they may be included in non-departmental accounts.

A criticism of the Private Agency Request (PAR) is that since there is no formal process or established criteria, a nonprofit may not know that a PAR is an option. One nonprofit executive director said, "If you don't know to ask [for funding], you don't ask." Others, however, note that a benefit of PARs is that they provide organizations whose funding requests may not fit other grant criteria the opportunity to request funding assistance from local government.

PRINCE GEORGE'S COUNTY

Prince George's County Summary Information

Population, 2000	801,515
Percent Foreign-born, 2000	14%
Median value of owner-occupied housing units, 2000	\$145,600
Median household income, 1999	\$55,256
Poverty rate, 1999	7.7%
Unemployment rate, 2002	4.8%
Proposed general fund budget, FY 2004	\$1.8 billion
Proposed general fund budget, FY 2003	\$1.7 billion

Population by race/ethnicity, 2000

White	Black	Asian	Hispanic	Other
195,222	498,074	30,280	56,813	21,126
24.4%	62.1%	3.8%	7.1%	2.6%

Prince George's County's Financial Picture and Local Budget Pressures

Prince George's County's proposed FY 2005 budget is \$1.9 billion. The failure of the State of Maryland to find a long-term solution to its fiscal challenges will continue to affect Prince George's County, as several county programs are heavily reliant on state financing. Most of the \$71 million increase in the county's FY 2005 spending over the prior year "is committed by law to the Board of Education and to pay for growth in the cost of fringe benefits for County employees." The County Executive describes the county as facing "a tight revenue picture."

One factor unique to Prince George's County is that it has a property tax cap enacted by voters in 1978 and subsequently amended in 1984. Known as TRIM (Tax Reform Initiative by Marylanders), the measure places a ceiling of \$2.40 for each \$100 of assessed value on the county real property tax rate (\$.962 in full value assessment). TRIM was enacted as an amendment to the county charter and can be repealed either by referendum or state legislation that would allow the county council to eliminate the cap. In a 1996 election, county voters rejected efforts to repeal the tax cap. Since local property taxes are a major source of revenue for local governments, the cap has hindered the ability of Prince George's County to raise local revenue.

Thus, state cuts in local aid for a variety of programs have a particularly pronounced effect in Prince George's County. The transmittal memo for the proposed FY 2004 budget listed a number of previous and potential cuts in state funding, and noted, "The county is not in a position to replace these funds."⁵²

Process for Funding Nonprofits in Prince George's County

Funding Pool

The county does not have a locally-funded competitive human services grant pool, but it does have a state-funded consolidated pool primarily for children and youth.

Prince George's County Commission for Children, Youth and Families

The Prince George's County Commission for Children, Youth and Families, like Montgomery County's Collaboration Council, is a local management board established by state statute and designed to improve service delivery for children and families. Part of the Department of

Family Services, it uses state funding to fund a wide variety of nonprofit organizations serving children and youth.

The commission's funding has declined sharply in recent years: it was \$10.3 million in FY 2002, \$7.1 million in FY 2003, and \$5.8 million in FY 2004, with the same amount or less projected for 2005. In 2002, the commission's funding included almost \$3 million in federal TANF money, which has not been repeated. In FY 2004, funds for afterschool programming from the Governor's Office on Children, Youth and Families were halved, from \$1.1 million in FY 2003 to \$573,600 in FY 2004. Consequently, the commission reduced the number of contracts for afterschool programs from 20 to 9, as well as reducing the award amounts, with the ultimate end that fewer children are being served.

Departmental Budgets

The Department of Social Services (DSS) and the Department of Family Services (DFS) are the two major funders of human services nonprofit organizations. Most of their funds come from state and federal grants, rather than local dollars. For instance, federal and state funds support 90 percent of the Department of Family Services' \$22 million budget and 91 percent of the Department of Social Services \$141 million budget. Consequently, cuts in state and federal funds have "an immediate impact," in the words of one local official.

A Note About Faith-Based Organizations:

While every jurisdiction is home to faith-based organizations, a number of people interviewed suggested that faith-based organizations in Prince George's County have a particularly prominent role in providing human services. One individual said it's only a slight exaggeration to say they offer "cradle to grave" services, in some cases to their members, but in many cases to the wider community as well. Thanks to tithing from the congregation and active fundraising, many churches have the means to develop substantial service programs.

Appendix B: Methodology

The focus of this study is nonprofit organizations that provide direct human services. This paper uses the definition of "human services organizations" found in the National Taxonomy of Exempt Entities (NTEE) classification system. NTEE describes human services organizations as "private nonprofit organizations whose primary purpose is to support the personal and social development of individuals and families; provide care, protection and supervision; and enhance the individual's independence and ability to manage his or her own resources."⁵³

Information for this study is derived from a number of sources.

Local Budget Documents

Local budget documents were obtained through government Web sites as well as through government offices. These documents were analyzed to understand the nature of current fiscal conditions and the mechanisms through which nonprofit organizations receive grants and contracts from local governments. Further, these documents were searched to clarify which sources of funding come directly from the local government, versus pass-throughs of state/federal funding. Where possible, increases and decreases in funding to nonprofit organizations were observed through this mechanism.

Interviews with Government Officials and Nonprofit Executive Directors

Information observed in the budget documents and returned surveys was corroborated by interviews with government representatives and nonprofit executive directors. In sum, the research team conducted more than 50 interviews. Through meetings with budget officials, the mechanisms through which nonprofit organizations receive funding were confirmed. These

officials offered insight into past funding cuts that may have impacted nonprofits, the rationale behind any cuts, as well as any proposed cuts. Officials also discussed fiscal pressures specific to that state or locality.

Through group and individual interviews with nonprofit executive directors, the research team collected in-depth data on the fiscal and operational health of organizations. Data were collected until saturation was reached, saturation referring to the point at which no new themes emerge from new data.⁵⁴

Scan of Organizational 990s Forms

Organizations that have an annual budget greater than \$25,000 are required by the IRS to submit an annual 990 form, unless they are religious organizations. These forms detail the organization's revenue and expenses. 990 forms were pulled from the public data source, GuideStar, for Nonprofit Roundtable members.

Specifically, we created two groups of Nonprofit Roundtable members who provide human services who had filed the IRS 990 financial information returns in each year from 1998 to the 2002 ("five year group"), and from 2000 to 2002 ("three year group"). The two groups consist of a relatively small number of nonprofits (22 organizations in the five year group, and 30 organizations in the three year group), as well as organizations that are relatively "large" in terms of average revenues and net worth (see Table 1). For these reasons, the results reported in this section should not be considered to be representative of all nonprofits in the Washington DC.

The consistency and reliability of the data from the IRS 990 forms are dependent upon the nonprofit organizations that complete the form to make similar assumptions and interpretations related to the information requested on the form.

Case Studies

Child and youth-serving nonprofits for the case studies were selected after a number of interviews with nonprofit directors and government officials revealed that public funding streams for children and youth programs had been affected in a number of jurisdictions. Organizations receiving these public funds were selected in order to examine how nonprofits are adapting to the cuts. The selected nonprofits reflect a mixture of jurisdictions, size, and organizational age. Research consisted of interviews, site visits, a survey of organizational budget and programmatic issues (described below) and review of budget and other organizational materials.

Survey of Nonprofits

Description of Sample Organizations

The sample of nonprofit organizations providing direct human services that were surveyed came from two sources. The first source was a listing of member organizations of the Nonprofit Roundtable of Greater Washington, sorted so that the survey sample includes only those members that provide direct human services. The second data source came from the Urban Institute's DC Regional Nonprofit Database. The database contains financial, administrative and geographic information on organizations that filed Form 990 with the Internal Revenue Service (IRS) in fiscal year 2000, as well as supplemental information from local foundations on nonprofits that failed to file with the IRS in 2000. The set contains data on 8,158 nonprofit organizations in the Washington metro area. Using NTEE (National Taxonomy of Exempt Entities) codes as well as zip codes, organizations that provided human services and had a

Table 1. Comparison of Responding Organizations by Full and Part Time Paid Staff

Staff Quartiles	Range in Number of Full-Time Staff Members	Number of Part-Time Staff Members
Lowest one-fourth on staff sizes	0–2	0–2
Next one-fourth on staff sizes	2–10	2–4
Next one-fourth on staff sizes	10–31	4–12
Top one-fourth on staff sizes	31–350	12–350
Total	0–350	0–350

N=124

Average Number of Full Time Staff Members=30

Median Number of Full Time Staff Members=10

Average Number of Part Time Staff Members=16

Median Number of Part Time Staff Members=5

headquarters based in one of the six focus jurisdictions for this project were included in the sample.

The total sample size is 348 nonprofit human service organizations. The survey was conducted in two waves. First, organizations were mailed a paper survey including questions on basic organizational demographics, in-depth budget figures, and programmatic information. Due to a concern that responses to the mailed survey were under-representative of smaller nonprofits (those with budgets under \$200,000 in expenses), researchers shortened the survey and administered it over the phone. 124 surveys were completed in the two waves, for a response rate of 36 percent.

Of the responding organizations, 43 percent are from Washington, DC; 22 percent from Fairfax County; 18 percent from Montgomery County; 8 percent from Prince George’s County; 5 percent from Arlington County; and 3 percent from Alexandria. (Numbers may not add to 100 due to rounding.)

Number of Staff Members

Responding organizations reported an average of 30 staff members, although the median number of reported staff members was 10. (The median is the number marking the midpoint when values are put in rank order. The median is often used when there are high or low outliers that have the potential of pulling the average upwards or downwards.) The smallest organization had no full time, paid staff members. The largest organization had 350 full time, paid staff members. Responding organizations reported an average of 16 part-time staff members; the median number of reported part-time staff members was 4. The smallest organization had no part time, paid staff members. The largest organization had 275 part time, paid staff members. Table 1 reflects the breakdown of staff size of responding organizations. The wide range of the final 25% of responding organizations reflects that there were a few organizations within the sample with very large staffs. The majority of organizations in the sample have smaller staffs.

Budget Size

Table 2 displays the budgets of responding organizations. The average expenses of responding organizations was \$2,600,278. While the average is subject to the impact of outliers, the median is not. The median for this sample is \$639,429. There are three organizations in the sample with uncharacteristically high budgets. When looking at the rest of the sample, there is a greater percentage of smaller organizations.

Table 2. Comparison of Responding Organizations Budget Sizes

Budgets	N	Range in Responding Organizations' Expenses	Average Expenses
Small organizations (Expenses of less than \$200,000)	62	\$8,029 – \$639,429	\$249,626
Large Organizations (Expenses of greater than \$200,000)	62	\$639,429 – \$43,479,468	\$4,950,929
Total	124	\$8,029 – \$43,479,468	\$2,600,278
Median organization expenses of total sample=\$639,429			

Organizational Function

Organizational codes of the National Taxonomy of Exempt Entities (NTEE) were used to identify organizations that provide human services. The largest group of respondents (16.1%) fall within the NTEE code P33, indicating that they are child care providers. The next two most frequently appearing NTEE codes include, P20 and P99. P20 is the general human service organization code and P99 is the code for multipurpose human service organizations.

Comparing Jurisdictions

Survey participants were asked to indicate if they had experienced an increase, decrease, or no change in local, state, and government funds. Washington, DC's status as an entity that carries out both state and local functions confounds this variable, since nonprofits in the District do not have separate state and local governments from which to receive funding. Additionally, while it is possible that Washington, DC organizations received money from the states of Maryland or Virginia, it is impossible to decipher where this is the case. Responses were aggregated in the following manner to generate data for the District in the local funding chart:

- If organizations reported an increase/no change/decrease for both state and local funding streams, they were coded as their selection.
- If organizations reported a type of change in only one category (either state or local) they were coded for that one type of change.
- If organizations reported an increase in one, and a decrease in the other, they were coded as no change.
- If organizations reported no change in one and an increase or decrease in the other, they were coded with the increase or decrease they report (based on an assumption that no change in one category and a change in another category would result in a net change for the organization).

Figure 1. Budgets of Responding Organizations



Comparing respondents and non-respondents

Budget Size

Using a t-test of means, responding organizations have a statistically significant higher budget than non-respondents in the sample. Within this sample, we can assert with 95 percent confidence that responding organizations have annual expenses between \$41,461 to \$2,040,390 higher than non-responding organizations.

While the means compared through the t-test are subject to the impact of outliers, when comparing the median expenses of each group, a similar trend emerges. The median expenses of responding organizations was \$593,497. The median expenses of non-responding organizations was \$351,648, or \$241,849 lower than the median for responding organizations. When taking out the five organizations who are outliers, due to their very large budget of over \$22 million, there is no longer a statistically significant difference in budget size between the responding and non-responding organizations. While it does not seem that the sample is biased towards larger organizations, there are three organizations with uncharacteristically large budgets that have the ability to skew the findings. Due to this factor, where possible, the median and mean have been reported.

Location

As displayed in Table 3, organizations in the sample were most likely to be located in Washington, DC, followed by Maryland and then Virginia. This pattern is mirrored in the response rate of organizations from these locations. Among responding organizations, only Virginia-based nonprofits represented a greater percentage of total respondents than their representation in the total sample. As there are far fewer Virginia based nonprofits in the sample, this still resulted in fewer Virginia-based organizations responding to either the telephone or mail survey.

Table 3. Comparing locations of non-responding and responding organizations

Location	Responders	Non-responders	Total Sample
Washington, DC	40.3% (50)	41.5% (93)	41.1% (143)
Maryland	28.2% (35)	34.8% (78)	32.5% (113)
Virginia	30.6% (38)	23.7% (53)	26.1% (91)

* Note: Percents do not add up to 100% due to an anonymous survey

Organization Function

Using the NTEE codes as a proxy for organizational mission, the respondents are similar, although not identical to the non-respondents.

Table 4. Most frequent organizational types in the total sample and among responding organizations

NTEE Code	Percent in total sample	Percent in responding organizations
P33: Child Day Care	20.7%	16.1%
P99: Human Service-Multipurpose	10.3%	6.5%
P20: Human Service Organizations (general)	7.5%	6.5%
P28: Neighborhood Center/Settlement House	5.5%	5.6%
P30: Children's and Youth Services	4.9%	3.2%
P80: Services to Promote the Independence of Specific Populations	4.9%	3.2%
P81: Senior Centers/Services	4.9%	3.2%
Other codes	41.3%	55.7%

Endnotes

1. Patricia Atkins is a research professor with the George Washington Institute of Public Policy, George Washington University. Joseph Cordes is associate director, School of Public Policy and Public Administration and director, Center for Washington Area Studies, George Washington University. Mallory Barg is a Banneker Fellow, School of Public Policy and Public Administration, George Washington University. Martha Ross is a senior research analyst with the Brookings Greater Washington Research Program.
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