

## After the Shutdown: Next Steps to Strengthen Nonprofit and Government Partnerships

The 35-day lapse in federal funding that began on December 22, 2018, and ended on January 25, 2019 had many immediate impacts - on people served by nonprofits, on furloughed federal employees, on nonprofits as recipients of federal funds and key service providers in their communities, and on the economy as a whole. It also illuminated the depth of the interconnectivity between government and nonprofits and shed new light on the role that nonprofits play as front-line service providers in times of need. The aftermath of the shutdown presents a unique opportunity to reflect on how the sectors can better align and support one another, both during times of crisis and in their ongoing work to meet public needs.

### Government and nonprofits are partners in service

The government and nonprofit sectors are interconnected as partners in service delivery, both pursuing a mutually shared goal to improve the public good. Nonprofits receive government funds to support programs that improve the collective well-being, and often even hold contracts through



### KEY POINTS:

- Governments and nonprofits are key partners in service delivery. The shutdown illuminated the extent of the sectors' interconnectivity and highlighted areas for improved alignment.
- Nonprofits can adopt budgeting strategies to protect against shortfalls, maintain healthy reserves and communicate their experience with government funding streams through advocacy.
- Governments can bring nonprofits to the table, implement funding mechanisms that ensure continuity of service, and enact laws to prevent future shutdowns.

which they operate as a proxy, delivering services directly on behalf of the government and enabling agencies to meet their legislative mandates. While the percentage varies among organizations, nonprofits on average receive about a third of their revenue from government service fees, contracts, and grants. This means that the sectors are tightly interwoven, through the dissemination of funds and the provision of services.

### Nonprofits rely on government contracts and funding streams

Government grants and funding streams can provide nonprofits with general operating support, enable them to take on capacity building efforts, or scale programming to serve new populations. Contracts can enable nonprofits to secure ongoing support for their services when they are in a position to more effectively deliver services than a state or federal agency. Nonprofits can also utilize government funds to research and develop innovative new ways to respond to social problems that may in turn inform the design of government programs. When things are working well, the public and private nonprofit sectors can achieve efficiency and improve service delivery in meaningful ways.

The level of interconnectivity between government and the nonprofit sector also means that a disruption in one sector invariably impacts the other.

The modern day federal budget process is unpredictable. A shutdown presents the most extreme example of disruption; nonprofits experience at least uncertainty, and at most a loss or delay in funds they had anticipated. But even without a full lapse in funding, the federal government often operates under short-term continuing resolutions, which continue spending at the same levels as the previous fiscal year when an agreement cannot be reached on a full appropriations bill. Short-term spending plans do not give a full fiscal year picture of what budget and policy priorities look like.

At the state level, while a full fiscal year budget is passed each year in Massachusetts, appropriations to specific nonprofits can be at the whim of changing priorities and revenue pictures. This means that nonprofits - even those that do not directly receive government funds - have to be nimble, flexible, and resilient, forecasting as best they can for the coming year while possibly not having the full picture of government spending levels and support.

## Recommendations for nonprofits to better navigate government funding streams:

- **Track government budget processes and develop forecasts** - Nonprofits, particularly those that receive government funds, will benefit by closely tracking state and federal budget processes and understanding the impact of budget and policy priorities on their operations. Government grant recipients should carefully choose budgeting techniques used to spend down grants. A reimbursement-based model, for example, means that the organization has to cover expenses before drawing down funds to reimburse themselves. During a disruption in the availability of funding, this practice may put an organization at greater risk as opposed to drawing down
- **Maintain healthy reserves** - Nonprofits should set their own reserve goals based on a variety of factors, but a common rule of thumb is to maintain at least three to six months of expenses in reserves. This allows an organization to maintain continuity of both business and program expenses during times of unexpected financial shortfalls, including disruption in government funding streams. Making strong reserves a strategic priority is always a best practice, and the shutdown serves as a fresh reminder of the importance of safeguarding against budget shortfalls.
- **Communicate impact through advocacy** - By communicating both successes and challenges, nonprofits can work to inform the policy and decision-making processes that impact them as grantees and service providers. The shutdown's impact on nonprofit organizations and the people they serve helped spur a budget resolution at the national level, and planted the seeds for a more thoughtful state plan to handle similar events in the future. Nonprofits can lay the groundwork for advocacy by educating decision-makers and the public at large about their firsthand experience.



funds proactively to cover the upcoming period's grant-related expenses.

The level of interconnectivity between government and the nonprofit sector also means that a disruption in one sector invariably impacts the other.

## Governments rely on nonprofits to fill gaps in service

Nonprofits not only execute government grants and contracts, they provide services in lieu of government programs using other sources of support. When nonprofits are effectively meeting constituent needs in one area, government support can be prioritized



elsewhere, and vice versa. At its best this model enables nonprofits to expand the scope and deepen the impact of services, reaching new populations that are not covered through government programs or picking up where government benefits leave off. But when government services are disrupted, nonprofits step in to meet new demands, which has implications for their existing customer base. The effects on budgets and operations can be immense.

During the shutdown, nonprofits were presented with an influx in demand for services from a new population: furloughed federal employees who had missed two paychecks and turned to nonprofits as front-line service providers in their communities. This illustrated a tension between mission and capacity. Nonprofits are often serving a more fluid population than government programs - where eligibility or enrollment is strictly defined - and they strive to fill the gap in services. But a significant influx in demand for services from those usually covered by government programs, or from those newly in need of services, puts a strain on nonprofits budgets and capacity. In the absence of more coordinated efforts, nonprofits were left working overtime during and after the shutdown, stretching thin budgets, and jeopardizing their strategic initiatives to meet the new immediate needs of furloughed workers.

## Recommendations for government to support nonprofits as front-line service providers:

- **Convene cross-sector stakeholders** - State, local, and federal government partners are often well-positioned to convene stakeholders given their jurisdiction. While much is being done to break down silos within and between government agencies, governments should also recognize the role that nonprofits play as key partners in service delivery. Ongoing collaborative planning, via working groups consisting of representatives from both government and nonprofit sectors, can be a powerful tool. They can improve the existing delivery of services, and make it much easier to coordinate a shared response when it is necessary to go above and beyond normal service delivery.

By communicating both successes and challenges, nonprofits can work to inform the policy and decision-making processes that impact them as grantees and service providers.

## Formalizing strong relationships between nonprofits and government will:

- ✓ ensure that policy is informed by stakeholders and reflective of their input;
- ✓ streamline administrative processes between nonprofits and government agencies;
- ✓ coordinate and make the most of nonprofit, public, and private investments in social services; and
- ✓ enhance the impact and sustainability of programming.

- **Adopt safeguards that preserve continuity of service** - Towards the end of the shutdown, state leaders began to discuss proposals that would ease the impact of the disruption in federal funds. Proposals included increased state funding for food banks as front-line service providers, state unemployment insurance for those who were furloughed, and an intergovernmental task force to consider additional services government could provide to relieve the burden on individuals and community organizations. These were important steps in the right direction. Policy negotiations should continue with input from nonprofits so that safeguards are in place well in advance of the next funding shortfall.
- **Prevent future shutdowns** - At the federal level, a proposal to alter the budget process should be adopted. In the aftermath of the shutdown, several proposals have been made that would prevent a complete funding lapse. This can be done by adopting a mechanism that would prompt an automatic continuing resolution when negotiations reach an impasse. This would prevent a total lapse in funding, and the ensuing burden that would be felt by nonprofits and the people they serve.

Policy negotiations should continue with input from nonprofits so that safeguards are in place well in advance of the next funding shortfall.

## Resilient partnerships create immediate, lasting benefits

The recommendations outlined here will improve the ability of governments and nonprofits to respond to increased need, and improve the well-being of their constituents.

There is much to learn from moments of urgent need, which bring pressure to innovate, streamline, and create efficiencies. Some of the best models for collaborative, cross-sector planning and responses to complex problems are created during times of crisis. Such times can prompt an all hands on deck approach - one that capitalizes upon government resources and tailors assistance to individual community needs through entrenched, on-the-ground partners.

While it makes sense to learn from crises, the work of strengthening government and nonprofit partnerships should not be reserved for times of heightened need. For the time being, the immediate threat of a federal government shutdown is gone. But government and the nonprofit sector should not delay the implementation of the recommendations outlined here. The resilient partnerships that result will benefit everyone now, and improve the delivery of government and nonprofit services moving forward.



2 Atlantic Ave., 1st Floor  
Boston, MA 02110

### About the Massachusetts Nonprofit Network

MNN brings together nonprofits, funders, business leaders, and elected officials across Massachusetts to strengthen nonprofits and raise the sector's voice on critical issues. The network has more than 700 nonprofit member organizations and more than 100 for-profit affiliate partners. To join visit [massnonprofitnet.org/join](http://massnonprofitnet.org/join).

MNN's work is made possible through the generous support of our organizational sustainers.

