

TWO MODELS FOR NONPROFIT FUNDING ALLOCATION: LESSONS FOR NONPROFIT MANAGERS

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Maureen Berner, Meredith Hatch and Eileen Youens collaborate to discuss the layout of two models on nonprofit funding allocations and relationship to government, interweaving discussions with nonprofit managers and looking closely at ten local governments throughout the United States.



ABSTRACT

Local governments' approach to funding nonprofits, and subsequent needs for accountability, differs greatly from the way local governments approach paying private sector contractors and subcontractors. Nonprofit managers need to understand this process if they are to successfully interact with local governments. This study first examined the national literature in an effort to identify a standard, commonly acceptable national practice for such funding processes, and found none, for either federal funds allocated at the local level, or local funds staying at the local level. We address this gap by examining the non-

profit funding process of ten local governments in the southern United States in an effort to develop such a model. We also outline the legal framework within which these models must exist. From the diverse findings from these cities and the legal framework, we propose two models in an effort to start a national discussion on possible best practices in local government fund allocation for nonprofits.

INTRODUCTION

Nonprofits play an essential role in the provision of local government services. They play a role similar to a standard private sector contractor or subcontractor. Nonprofits and for-profits play a similar role in purchase of service arrangements, but the relationship is substantially different for grants, in which the government subsidizes a nonprofit's work to address a public problem, but does not specify through a request for proposal (RFP) the precise production process, outputs, or outcomes to be delivered (*Whitaker, 2007; deHoog and Salamon, 2002*).

However, local governments' approach to funding nonprofits, and subsequent needs for accountability, differs greatly from the way local governments approach paying private sector contractors and subcontractors. Rather than following a formal, competitive process, each government develops its own funding request and approval process for funding nonprofits. Nonprofit managers need to understand this process if they are to successfully engage local governments.

Using homelessness service funding as an example, this study first examined the national literature in an effort to identify a standard, commonly acceptable national practice for such processes, and found none. We attempt to address this gap by examining the funding process of nine cities and one county

in the southern United States, primarily North Carolina, but also South Carolina and Tennessee, in an effort to identify various attributes of different funding approaches. We also outline the legal framework within which these models must exist. Using the diverse findings from these cities and the legal framework, we propose two models in an effort to start a national discussion on possible best practices in fund allocation for nonprofits.

This study does not evaluate the overall success of various homelessness prevention programs or that of individual nonprofits. While our example is one involving mainly federal funds passed down to the local level, our focus is on understanding the fund allocation process for nonprofits generally. We start with a brief background on overall homelessness prevention programs, from the federal to the local level, to give context to our discussion. We then turn to our first research question – does a national model for funding nonprofits exist? – through our literature review. Finding none, we then discuss our further methodology to develop a model. We then address the current legal framework for these funding processes. Our results from the case study cities are presented next. Based on all of this information, we finish with our proposed models and discussion.

AN EXAMPLE OF FEDERAL TO STATE TO LOCAL TO NONPROFIT FUNDING: PROGRAMS TO ADDRESS HOMELESSNESS

It would be helpful for this discussion to have a ubiquitous program as an example. For this work, we choose homeless assistance and prevention, and in this section, we provide details on this program and its activities. However, homelessness/housing programs are just one example of local government/nonprofit collaboration. Our work is meant to reflect on nonprofit funding in general, acknowledging that it will not fit all nonprofit funding situations.

The United States Department of Housing and Urban Development (HUD) provides several different grant sources to combat homelessness. Most of the money local governments allocate for home-

less assistance and prevention comes from federal pass-through funds provided by HUD. When examining local government fund allocation for homeless assistance and prevention, it is important to understand what HUD funds are available to local governments and how local governments receive them.

HUD allocates funds for homeless assistance based on the results of two community planning efforts: the Consolidated Plan and the Continuum of Care Plan. HUD defines a Consolidated Plan as one that provides the framework for states and localities to identify housing, homeless, community and economic development needs and resources and develops a strategic plan to meet those needs. More specifically, the Consolidated Plan requires state and local governments to develop housing and community development priorities, which must include a focus on homelessness. The Consolidated Plan lays out a three- to five-year strategy to implement formula-funded grant programs, including Community Development Block Grants (CDBG), the Emergency Shelter Grants Program (ESG), HOME Investment Partnerships Program (HOME), and Housing Opportunities for Persons with AIDS (HOPWA).

Through these formula-funded grant programs, funds are distributed to state and local jurisdictions that have a HUD-approved Consolidated Plan. Allocation of funds follows formulae based on factors such as community housing need, poverty, age of housing, and population. The funding distribution formulae are different for each program. (*U.S. Department of Housing and Urban Development [2006]. Programs of HUD*). The local governments are then responsible for distributing funds to eligible recipients (local government agencies or private nonprofit organizations) (*U.S. Department of Housing and Urban Development, 2008*). States sometimes act as intermediaries.

Continuums of Care (CoCs) are local homeless assistance planning networks – they are meant to support local organizations and to help public and private resources fill the gaps and avoid

duplication of services available to people who are homeless (*U.S. Department of Housing and Urban Development [2006]. Programs of HUD, p. 17*). The CoC Plan complements and overlaps with the Consolidated Plan. The CoC Plan draws upon extensive community participation and includes identification of local funding priorities. CoC funds support three major HUD programs: the Supportive Housing Program (SHP), the Shelter Plus Care Program (S+C), and the Section 8 Moderate Rehabilitation for Single Room Occupancy (SRO) program. As with the Consolidated Plan, funds are available to states, local governments, Public Housing Agencies (PHAs), and Native American Tribes. While the requirements for both Consolidated Plans and CoCs specify the activities that can be funded under each program, all programs rely on the federal grant recipient to re-distribute funds to other, usually lower level, government agencies or nonprofits.

These federal-state-local government-nonprofit links are not unique to homelessness prevention programs. In fact, research shows that the incidence of these public-private partnerships is growing (*Warner and Hefetz, 2008*). Local governments often work with nonprofits to identify public service needs, coordinate services, and develop programs. Additionally, governments often offer in-kind or financial resources to support public services provided by nonprofit organizations. Generally, when local governments provide financial resources to nonprofits, they either purchase public services from nonprofits or provide grants to nonprofits (*Henderson, Whitaker, & Altman-Sauer, 2003*). (Local governments can also fund nonprofits through line-item appropriations and through in-kind donations, which are discussed in further detail below.) When local governments purchase public services from nonprofits, they are able to offer these services without using their own employees. Governments often purchase services to save money or to gain a higher quality service than in-house production would provide. When local governments contract with service providers, these contracts often detail activities the vendor

will provide, how many clients will be served, and other measures of service process and output. For example, a local government may purchase services from a nonprofit that will operate a homeless shelter to serve people who are homeless within the jurisdiction. Rather than a traditional notion of partnership, these relationships may most often be led and controlled by government (*Gazley, 2008*).

When local governments provide grants to nonprofits, they often allow the nonprofit more freedom and flexibility in how they will provide needed services. “Grants are particularly useful to government officials when they want to support a public policy goal without designing specific programs (*Whitaker & Drennan, 2007, p. 15*).” Nonprofits receiving grants from local governments can provide the following benefits (*Whitaker & Drennan, 2007, p. 15; Henderson et al., 2003, p. 35; Feiock & Andrew, 2006, p. 759-763; Gulati-Partee, 2001, p. 32-33*); they can:

- Supplement public funds with contributions of time, expertise, and money from volunteers and other donors,
- Move more flexibly or quickly than government to address a pressing public need,
- Build a sense of community or encourage civic participation by involving volunteers, neighbors, or others who are known and trusted by a particular community,
- Bring specialized expertise on community issues or on a specific population because of their mission and experience, and
- Augment, complement or fill in the gaps in government services.

With this background, we looked to see if a national model for allocation of nonprofit funding, using homelessness programs as our example, could be found.

LITERATURE REVIEW

Unfortunately, we established that no national model for funding nonprofits for homelessness

services exists. In an extensive search of academic and practitioner literature, no resources on promising practices or models on municipal fund allocation for homelessness prevention and services for people who are homeless were found. More importantly, there does not appear to be any national model for local government funding of nonprofits in general. There is very limited work on municipal allocation of funds to nonprofit service providers. What follows is a detailed discussion of the main work that does exist in this area.

How Local Governments Approach Funding of Nonprofits

There is not an extensive amount of literature on how nonprofits are funded in general. There is material on the level and distribution of funding, such as Jalandoni, Petrescu, and Green (2005), which found that the distribution reflects the presence of numerous social service agencies and the size of the population. Other literature addresses why certain nonprofits are funded, either posing theories about why individuals or institutions support nonprofits, or asking what influences funding levels. For example, Luksetich (2008) suggests governments possibly prefer to subsidize nonprofits rather than provide the service itself for three reasons. First, it could “garner political support for the [majority] party”; second, “the government’s share of the costs of the operation may be lower;” and third, in a related point, volunteer labor means lower costs. He also presents results supportive of earlier work of Smith and Lipsky (1993), which suggested that increased availability of government funds results in more and larger nonprofits.

Froelich (1999) discusses how nonprofits must continually explore different funding sources, and how government funding is considered to be one of the more stable, reliable sources. Half of social service organizations receive their income from the government, frequently through service contracts. Nonprofits become very dependent on government support for their mere existence. “Government funds are more broadly accessible than major

private contributions that favor large noncontroversial recipients (Froelich, 1999, p. 254).” A survey of 200 nonprofit human service agencies showed that government contracts comprise an average of 34 percent of revenue for all agencies, but more than 60 percent of revenue for the agencies that obtain income from government contracts. While informal government-nonprofit relationships are common, local governments are more likely to provide funding and equipment to nonprofits with which there is a formal agreement than to nonprofits with which the local government has no formal agreement (Gazley, 2008).

Jalandoni, Petrescu, and Green (2005) point out that even finding data about federal funding of nonprofits can be difficult. Smith (2008) talks about the challenge of strengthening nonprofits, pointing out the rise of government funding of nonprofits through alternative sources such as tax credits; however, most of his discussion deals with federal and state issues rather than local issues. None of these academic research articles explore funding mechanisms or provide advice to governments, particularly local governments, the main governmental contact with nonprofits, about how to best manage the allocation of these funds.

According to major national nonprofit or local government practitioner associations, there are no national models, best practices or even promising practices for local governments to use in funding nonprofits. In the process of researching and writing this article we searched for information on a national model. We consulted with the Government Finance Officers Association, the International City-County Management Association, the National League of Cities, the National Alliance to End Homelessness, National Human Services Assembly, the Independent Sector, and the National Council of Nonprofits. None of these organizations were able to identify a model or practices for us.

There are several practitioner-oriented publications that discuss general local government-nonprofit relations and make recommendations on how to

improve them, such as Whitaker and Drennen (2007), which reviews various ways local governments work with nonprofits, examines how nonprofits differ from local governments legally and practically, lists the benefits local governments receive from working with nonprofits, and identifies the challenges those relationships may pose. Other articles from the same journal include general nonprofit-government relations research by Gulati-Partee (2001) and Altman-Sauer, Henderson and Whitaker (2001 and 2005).

Not surprisingly, the main body of work on the specifics of fund allocation has been by this same team: Henderson, Whitaker and Altman-Sauer (2002, 2003 and 2004) and Altman-Sauer, Henderson and Whitaker (2005), building on earlier work by Whitaker and Day (2001). All the pieces are limited to North Carolina in their scope, but there is little to suggest that their research does not reflect the situation in other states. In their initial work, Henderson, Whitaker and Altman-Sauer (2002) explain that state and local government processes for funding nonprofits differ greatly from one another, and that this variation is appropriate: “No single process can ensure fair, effective, efficient choices about nonprofit funding in every jurisdiction, or even in many jurisdictions (*Henderson et al.*, p. 39).” However, they also made several recommendations to make any local government’s funding allocation process more effective:

- At the beginning of the funding process, the local government should clearly define how they will make funding decisions,
- assign staff to manage the logistics of the funding process,
- have a broad-based, flexible strategic plan including goals that nonprofits are expected to achieve, and
- encourage decision-makers in the funding process (whether elected, professional, or volunteer) to avoid personal or professional biases.

The researchers also identified six key questions

local governments should ask themselves when designing or redesigning a funding process for nonprofits:

- 1) Why do we want to fund nonprofits? (What is the ultimate outcome we hope to achieve?)
- 2) Why do we want to have a formal process for making funding decisions? (Public relations, increased citizen participation, stream-lined process, protect decision from political favoritism, guarantee political influence?)
- 3) How will we identify community needs that we want to help nonprofits address? (Internal or external information sources? What level of detail and reliability?)
- 4) How will we obtain nonprofits’ proposals for meeting community needs? (Internally or externally driven?)
- 5) How will we review proposals?
- 6) How will we make funding decisions?

These last two questions are the focus of this work. As is discussed in our findings, most of the jurisdictions contacted for this study employed a combination of these recommendations and key questions when designing their fund allocation processes. The selection criteria, the subject of question 6, are complicated (we discuss the legal options for selection below). Regardless of what process is used, the authors recommend clearly establishing who will decide which nonprofits are granted funding, and on what basis, early on so as to avoid potential misunderstandings and a change in procedures in the middle of a budget review.

METHODOLOGY

Our basic methodology was to determine if a national model could be identified, and if not, to try to develop such a model based on a legal framework and the experiences of other cities. Specifically:

- 1) From relevant literature and contacts with national and some state associations, we

determined if an ideal model for cities funding of homeless prevention efforts specifically, or nonprofit funding in general, existed. We also determined if specific cities were identified as national models or were lauded for their use of 'best practices.'

As discussed above, we found this step, perhaps common in other fields or on different practices, was not fruitful for our effort. Herman and Renz (2008) may have the explanation. Management practices such as how funds are allocated are intimately tied to two of public administration's current major themes: accountability and effectiveness. In a broader article on these themes, Herman and Renz (2008) offer nine theses related to nonprofit organizational effectiveness research and theory, two of which are relevant to this study. The authors point out that nonprofit effectiveness is related to the use of correct management practices but not in any simple 'best practices' way, and that it is unlikely that there are any universally applicable best practices that can be prescribed for all nonprofit boards and management.

With this challenge, we turned to developing a model that would at least provide a starting point for local governments which deal with this task in one form or another, knowing there is no 'right' process for all jurisdictions.

- 2) Through interviews and document review, we gained a general understanding of the homelessness prevention funding processes in nine cities and one county.
- 3) Based on the national literature and the case studies, we propose two models describing an externally and internally controlled nonprofit funding process.

National practitioner organizations were also contacted, such as the National Alliance to End Homelessness and its research arm, the Homelessness Research Institute, the Government Finance Officers Association, and library specialists in local government publications and topics.

Counties are often responsible for funding homelessness prevention and services because they are the traditional jurisdiction responsible for social services. Towns and cities often depend on collaboration with counties to provide services for people who are homeless. Once large enough, the cities often take on this responsibility within city limits. The cities included in this study administered their own homelessness funding, separate from the county. The nonprofits involved, however, may receive funding from the county as well. For that reason, the case study cities include Greensboro, High Point, Winston-Salem, Raleigh, Fayetteville and Charlotte in North Carolina; Greenville and Spartanburg, South Carolina; and Bristol, Tennessee. Cumberland County, North Carolina was also included. Roanoke and Norfolk, Virginia, as well as Kingsport and Johnson City, Tennessee, were invited to participate, but did not respond. In each local government after conducting internet research on city structure, we contacted the Office of Housing or Community Development or like entity, and from there, identified the city staff member most knowledgeable about the nonprofit fund allocation process. We asked each interviewee a specific series of questions regarding their funding process. Two to three attempts were made electronically and with follow-up telephone calls to verify all information gathered with each city. Not all cities responded to verification requests. In addition, materials for grant applicants, including application forms, guidelines, frequently asked question sheets, samples, internal studies and any related information were gathered from each jurisdiction. All research was conducted June through October, 2007.

MODELS IN PRACTICE: GENERAL APPROACH TO FUNDING, TYPES OF RECIPIENTS, AND THE LEVEL OF COLLABORATION IN FUND ALLOCATION

This section presents the characteristics of local government funding for homelessness prevention and services by providing a description of models used by cities.

Jurisdictions find diverse sources of funds for homeless prevention and services. All cities contacted allocated federal funds for such purposes. While Greensboro, North Carolina is the only jurisdiction surveyed with a specific tax committed to funding services for housing and homelessness, many other jurisdictions allocated general fund money, general obligation bonds, local government capital improvement funds, general obligation funds and sewer funds for housing and homelessness.

One local government representative noted that it is extremely important for local governments and service providers to have good relationships with HUD. Interestingly, several jurisdictions mentioned a decrease in the amount of federal funds they are receiving. None of the jurisdictions we studied received state-originated funds. Instead, funding was a combination of federal pass-through money distributed by the state and local jurisdictions and local funds.

In most of the jurisdictions contacted, funds for homelessness prevention and services were allocated by local governments to nonprofit organizations. Some jurisdictions allowed funds to be allocated to faith-based organizations. One local government surveyed provided resources and support to for-profit housing developers. Often, local governments have eligibility restrictions for organizations requesting funding. The most common restrictions found in our case study cities are that an organization: 1) have 501(c)3 tax status, 2) have a strong finance and accounting system, 3) have been in operation for over one or two years, and 4) leverage complementary or matching funds. Often these restrictions were simply those imposed by the originator of the funds, such as the federal or state governments.

The level of collaboration between government and nonprofits in the fund allocation process varied greatly. On the limited side, it is not uncommon for local governments to hold public hearings on the budget, including nonprofit allocations, immediately before adoption of the manager's

recommended budget. We have witnessed the situation where the public hearing is scheduled for 8 PM and budget adoption for 9 PM on the same evening. On the more extensive side, cities or county elected officials may serve alongside nonprofit members on advisory boards, provide city or county staff directly or provide funding for staff for advisory committees, or work together to produce joint recommendations for the full governing board.

LEGAL BASIS FOR LOCAL GOVERNMENT-NONPROFIT FUND ALLOCATION: NATIONAL PATTERNS AND A SPECIFIC STATE EXAMPLE

Local governments fund nonprofits through three mechanisms: (1) line-item appropriations and grants, (2) purchase-of-service contracts, and (3) in-kind donations of property (other than money) (*Bluestein & Brown-Graham, 2001*). When funding a nonprofit through a line-item appropriation or a grant, a local government will provide funds to the nonprofit to be used for a specific purpose, such as homelessness prevention. If the local government chooses to set aside funds in its budget for a particular nonprofit, the local government will do so through a line-item appropriation to that nonprofit. If the local government chooses to set aside funds in its budget for a specific purpose (but without designating the recipient of the funds during the budget process), or if the local government is awarding pass-through funds from the federal government or state government, it will usually award the funds to a specific nonprofit through a grant.

Purchase-of-service contracts are the second mechanism local governments use to fund nonprofits. In a purchase-of-service contract, the local government pays another entity (for-profit, nonprofit, or public) to perform a specific service. As with grants and appropriations, the local government provides monetary support to the nonprofit in exchange for work performed by the nonprofit. However, by entering into a service contract with a nonprofit, the local government generally retains more control over the manner and method in which the work is performed by the nonprofit than

the government would with a grant or appropriation. For example, while a local government may provide a grant to a nonprofit for the purpose of homelessness prevention—allowing the nonprofit to determine the manner and method in which the nonprofit will carry out that purpose—the local government would enter into a service contract with a nonprofit to staff and manage a homeless shelter—a specific method of addressing homelessness. As an alternative to a traditional service contract, where the local government provides the funding and the other entity performs the service, a local government may also use some form of public-private collaboration (also known as “joint contracting” or “mixed delivery contracting”) by which the local government collaborates with the nonprofit to provide the service. (Gazley, 2008; Warner and Hefetz, 2008.)

The third way that local governments fund nonprofits is through in-kind donations of property other than money. These donations can be in the form of real property (land or buildings attached to land) as well as personal property (property other than land or buildings attached to land, such as supplies or equipment). Sometimes a local government will place restrictions on the donation so that the nonprofit recipient may only use the property for a specific purpose, but this is not always the case.

The funding models proposed in this article focus on funding through line-item appropriations and grants, rather than funding through purchase-of-service contracts or in-kind donations.

It is important to note that the funding options available to a local government depend first on the source of the funds—local, state, or federal. If the funding comes from the state or federal government, the local government will often be required to follow certain rules established by the funding source regarding the use of those funds. If the funding comes from the local government, the funding options available depend on the authority given to the local government by the state in which it is located. The United States Constitution does not recognize or even mention local

governments. Instead local governments are created by and receive their authority from the states, through state statutes and state constitutions (Silvestri & Nelson, 1999). Accordingly, before making decisions about how to fund nonprofits, a local government must first determine which funding options are available to it based on the source of the funds and under the laws of the state in which the local government is located.

Local Government Discretion in Funding

When a local government has the authority to engage in an activity, the local government often has the authority to design the processes by which these funds are appropriated and expended (unless those processes are dictated by state law or federal law). It is important, then, that local governments design fund-allocation processes that support the government’s goals and objectives in funding nonprofits. In addition to deciding how to fund nonprofits, local governments must also decide what types of expenses to fund. Some governments fund only specific programs or projects, while others provide general operating support, covering expenses related to an organization’s operations as a whole.

North Carolina

The North Carolina Constitution provides that North Carolina local governments may only enter into contracts and appropriate money in order to accomplish public purposes [N.C. Const. art. V, § 2(1), (7); *Hughey v. Cloninger*, 37 N.C. App. 107, 245 S.E.2d 543 (1978), *aff’d*, 297 N.C. 86, 253 S.E.2d 898 (1979)]. Accordingly, North Carolina local governments may only provide funding for nonprofits that will use the money for a public purpose. (The North Carolina Constitution does not define the term “public purpose.” For a discussion of how North Carolina courts have interpreted this term as it relates to local government funding of nonprofits, see Bluestein & Brown-Graham, 2001.)

The North Carolina General Statutes specifically authorize local governments to “contract with and appropriate money to any person, association, or

corporation, in order to carry out any public purpose that the [local government] is authorized by law to engage in.” (N.C. Gen. Stat. 153A-449 [counties], N.C. Gen. Stat. 160A-20.1 (cities)). The statutes also authorize local governments to engage in dozens of specific activities related to local government funding of nonprofits, such as:

- Entering into contracts (N.C. Gen. Stat. 153A-11 [counties], N.C. Gen. Stat. 160A-11 [cities]);
- contracting for and accepting grants (N.C. Gen. Stat. 153A-14 [counties], N.C. Gen. Stat. 160A-17.1 [cities]);
- engaging in community development programs and activities (N.C. Gen. Stat. 153A-376 [counties]; N.C. Gen. Stat. 160A-456 [cities]);
- contracting with other entities for health and social services (N.C. Gen. Stat. 153A-259 [counties only]);
- selling property to entities carrying out a public purpose (N.C. Gen. Stat. 160A-279 [cities and counties]);
- donating personal property to nonprofits (N.C. Gen. Stat. 160A-280 [cities and counties]); and
- appropriating funds for drug abuse programs (N.C. Gen. Stat. 160A-494 [cities only]).

PROPOSED MODELS FOR NONPROFIT FUND ALLOCATION

As we examined both national literature and these case studies, we agreed with the common understanding that each allocation process is unique to each city or county’s situation. However, there were enough themes across jurisdictions for us to propose two main models of nonprofit fund allocation: one based on a preference toward stronger internal government control, and one based on stronger community involvement. The models do not reflect any single model found, but represent a compilation of attributes from different cases.

In both cases, elected officials have ultimate decision-making authority on both locally controlled process and funding, and will drive the preference of either approach.

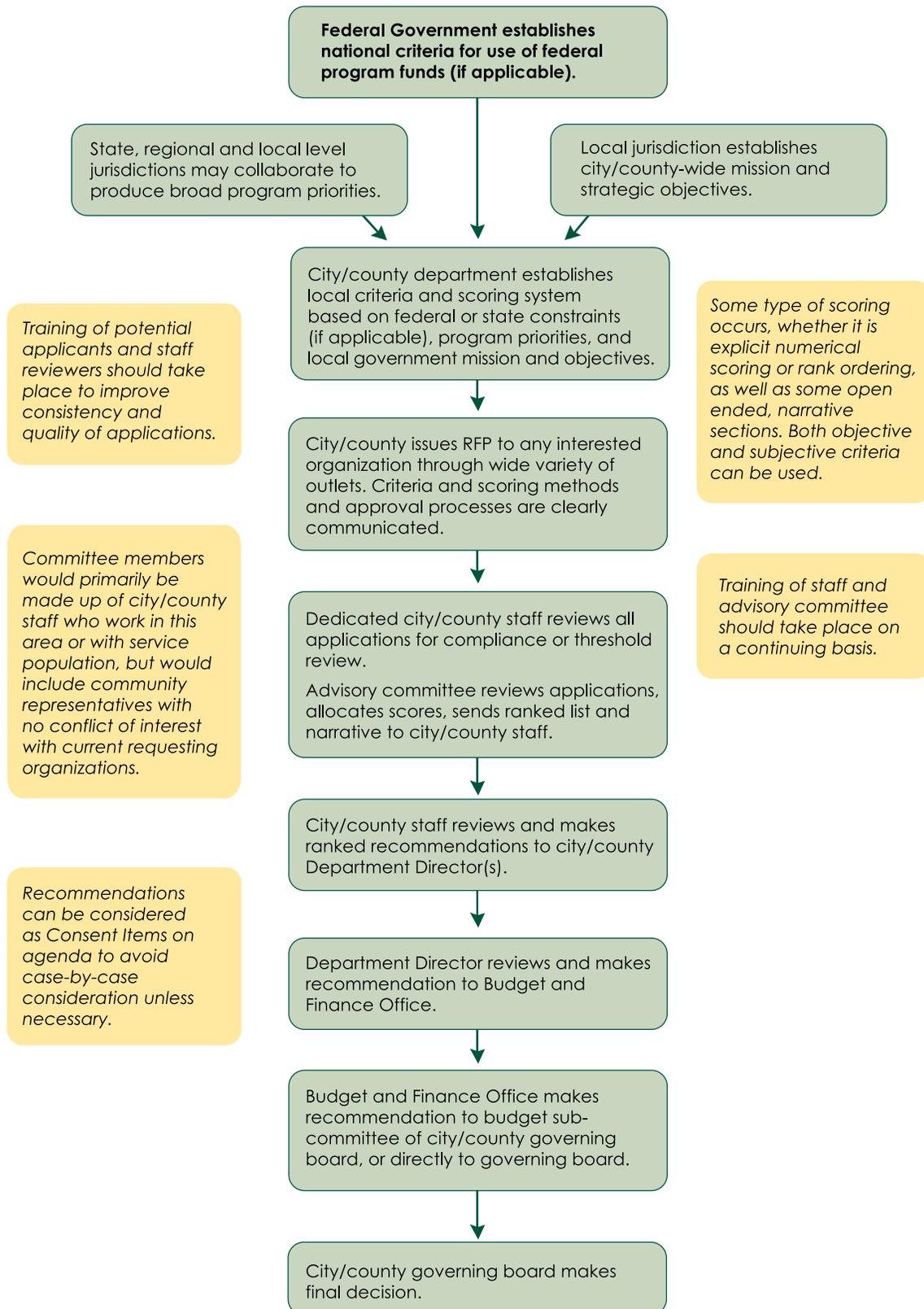
Internal Control Model: *process is fundamentally controlled by local government staff.*

In this model, the overriding value is, not surprisingly, control. Key information content and flow, criteria and standards, time-table, and necessary approvals are determined by staff. Even if elected officials make the final decisions, the primary influence on that decision is staff information and opinions. There is little or no influence given to non-staff, such as the applicant groups themselves, the subject area community, the nonprofit community in general, or citizens at large. There are less layers of review, perhaps less formality, less process documentation or guidance.

This approach seeks to preserve staff flexibility and, ultimately, elected officials’ flexibility. Historical relationships are important, and incumbency can provide automatic preferences for certain nonprofits. Some might argue that this method is more directly accountable, in the sense that groups often present their case, formally or informally, directly to the elected officials’ decision-makers without as many layers of review. Staff may argue that they can be more objective using this method, since staff conflicts of interest can be more easily controlled. This approach may take less time and be considered, as a result, to be more efficient. Others would argue this approach is more subjective since it does not tend to rely on pre-established, measurable criteria.

It would be a mistake, however, to view internal control as inherently less objective. An internal process can be fair and an external one can be manipulated. We found at least one jurisdiction which moved toward more internal control during the course of our research because the city officials (and local newspaper) felt the external actors and process were not objective. However, in general, this model places less importance on citizen

Figure 1: Internal Control Model



participation, transparency, objectivity, competition, and consistency in favor of maximizing organizational and/or elected officials' control of the process.

At the extreme, where line-item appropriations are made, decision-makers, as a board, carry direct responsibility for which organization receives funding and how much. For example, until recently, Nashville, Tennessee used line-item appropriations controlled by the elected officials through the budget process. One of our case study jurisdictions, Spartanburg, also provides line-item support for homelessness prevention or services. Sometimes line-item appropriations are given to large, established organizations such as the Salvation Army or the United Way, who might in turn re-allocate funds to other nonprofits.

External/Shared Control Model: *process involves shared control between local government staff and outside interest groups.*

In this model, some level of control is relinquished to community actors. Value is placed on the expertise of those who work directly with the target population. On one end of the spectrum, an organization that exists outside of government control is the recipient of all program funds; this organization would then re-allocate funds through a process outside of governmental control. On the other end of the spectrum, a member of the community may simply advise the local government, making recommendations on recipients or level of funding, perhaps by serving as a member on an internal staff committee. Along the spectrum, advisory groups may include members of the affected population, such as a stakeholder who will be directly or indirectly affected by the services provided. To continue the housing example, this might be small business owners in an area where homeless individuals congregate.

Regardless, the key component of the external control model is some level of citizen participation and shared decision-making. As a result, the process may take longer. Usually, established application

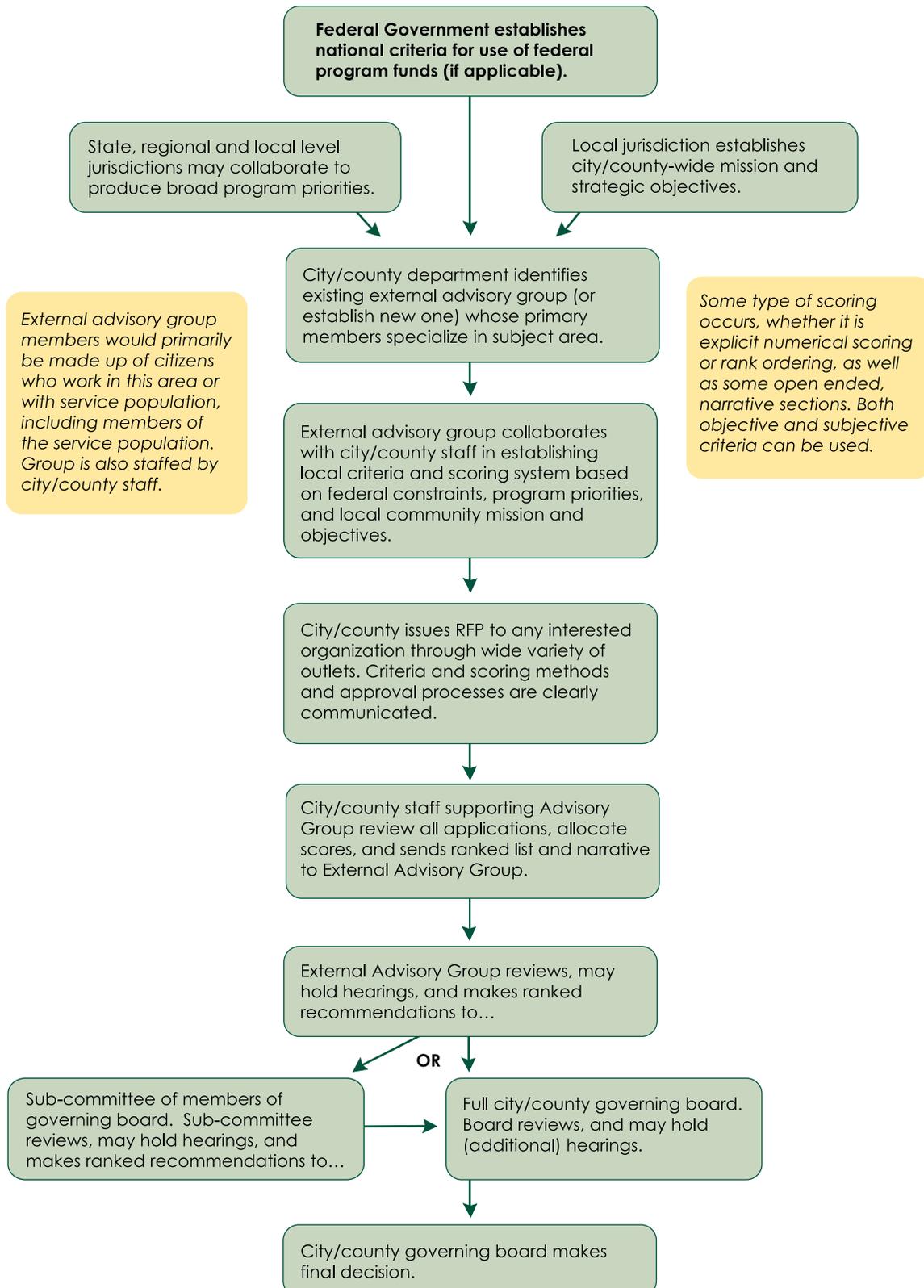
guidelines and selection criteria exist in this model, and therefore this model usually provides more transparency and consistency. Staff or elected officials may feel that community members add value to the process due to their expertise or familiarity with the applicant organizations. Inclusiveness may also be seen as adding objectivity and legitimacy to the process, and, therefore, to the final decisions.

In our case study cities, city staff provide a great amount of support to both the allocation process and the maintenance of relationships with nonprofit service providers. In most cities, staff members play a strong role in coordinating the allocation process and maintaining relationships between the city and the service providers. City staff members play an important role in bridging relationships between jurisdictions, service providers, and advocacy groups as well as coordinating the allocation of funds. In one jurisdiction (Greensboro), a community member familiar with the nonprofit organizations involved was paid by the city as a consultant to help manage the process.

While many jurisdictions collaborate with nonprofit organizations in their allocation process, the final decisions are generally made by the City Council. This seems to be a critical choice of process: does Council make the funding decisions or does it delegate that authority to staff or to an advisory committee (or other "outside" agency like United Way or a Homelessness Prevention Consortium)? Seven of the jurisdictions contacted (Charlotte, Fayetteville, Cumberland County, High Point, Raleigh, Winston-Salem, Greenville) involved city staff, non-city employees familiar with homelessness prevention or services, homelessness coalition members, or community development governing boards in their fund allocation processes, albeit with varying degrees of participation.

This is an important point – We did not find an example of a nonprofit funding allocation process completely independent of government control. Even jurisdictions with fairly well established criteria, consistent application procedures, objective point allocation and ranking systems, and citizen

Figure 2: Stronger Community Involvement Model



DISCUSSION

These models only describe the grant/line-item appropriation method of funding nonprofits. The models do not address service contracting (which, incidentally, also typically use an RFP process) or donations of in-kind property (which is often done in an ad-hoc fashion). Most jurisdictions surveyed invite nonprofit service providers to submit proposals for funding. The first step in this process is the development of the request for proposals (RFP), which is managed by city staff in the majority of cities surveyed. Usually the RFP will include available funds for housing development, as well as eligibility requirements for organizations applying for funds, submittal instructions, and project selection criteria.

In thinking about which model a local government would like to follow, we recommend the government come to an agreement first on the questions posed by Henderson et al (2003):

Should local government staff review?

- **Benefits:** it is relatively fast, easily controlled, and consistent.
- **Cons:** it may perpetuate the status quo of funding practices (funding the same organizations or the same activities without question or could “preclude the infusion of new perspectives or ideas”).

Should community volunteers or standing advisory boards review?

- **Benefits:** possible alleviation of political pressure on staff and elected officials.
- **Cons:** in order to use this type of review effectively, governments need to allocate funds for staff support and guidance, be willing to share authority with the volunteers, and allow adequate time for the volunteers to make their recommendations. In addition, volunteers or boards (as with staff and elected officials) may use practices that are not transparent or fair.

Should members of the elected body review? *(Note that sometimes the elected body must make the final funding decision because of the rules established by the funding source [state or federal] or because of the laws of the jurisdiction in which the local government is located.)*

- **Benefits:** increased community influence in the process and savings of some direct staff costs.
- **Cons:** potential unfairness because of interpersonal dynamics or possible influence by vocal or well-connected constituents. There may be additional costs in terms of time spent on the process. As one nonprofit expert noted, “Discussions can take A LOT of time” (emphasis in the original).

There are some recommended practices that cut across both models of course. In both models, ideally, advisory committee members or staff reviewing the applications would have some orientation and training, particularly on what key terms or rating scales mean. Without a common, stated understanding, personal biases can slide into these processes easily and even unintentionally. Another, related recommendation is that these meetings be facilitated by a third, independent, neutral party. A nonprofit expert advised us, “These decision-making processes are tedious and tiring. People get more and more confused as they get into the process, and they start making unplanned diversions or compromises.”

LIMITATIONS

Our primary limitation is that we gathered information at one point of time – the fall of 2007. Policies regarding funding nonprofits change constantly. We cannot attest that the specific information used here reflects the current process used in any particular city or county. However, our goal was to capture a sense of various ways local governments approached this task, rather than repeat specific annual guidelines.

Secondly, in an effort to capture those general approaches correctly, we made numerous attempts to verify our information with government officials from that particular jurisdiction. Unfortunately, not all jurisdictions responded to our requests to verify our information. Most jurisdictions responded, and if they provided factual changes those changes have been incorporated into the text. Others did not respond at all. Our conclusions did not change as a result of this review process.

CONCLUSION

Legally and comparatively, local governments have many options when deciding which programs to fund and how. Nonprofit managers need to understand these processes, and how they differ based on

community need and allocation preferences. While we offer the models above, we would like to stress that we agree with Henderson et al (2003, p. 39) that “no single process can ensure fair, effective, efficient choices about nonprofit funding in every jurisdiction, or even in many jurisdictions.” We hope these models will serve only as the starting point of a collaborative effort to develop a national local nonprofit funding model. Nonprofit managers can contribute to this discussion by assessing whether a high or low government control model would most benefit the nonprofit sector in the joint goal of meeting community needs. We look forward to work that takes us to this next step in the effort to improve the intersection of the nonprofit and local government sectors. ■

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