

GOVERNMENTAL FUNDING

Sometimes the Board of Directors or even the paid leadership of non-profit organizations believe if they can simply get ongoing governmental funding all financial needs will go away. While it is true that there is a huge amount of governmental funding available, Boards of Directors and others who think that almost unlimited governmental funding is available for the taking are wrong!

Governmental funding can be a source to help a non-profit organization fulfill its mission. But the contract specifications and regulatory requirements tied to governmental funding can be almost overwhelming.

Some good reasons to stay away from governmental funding are that those organization's that choose to utilize governmental funding, trade some of their independence for governmental funding. These non-profit organizations may benefit from the "certainty" and feel the pain and the "uncertainty" of governmental funding. Sometimes it takes years, sometimes it only takes months, but the allocation for governmental funding seem to, from time to time, suddenly be "capped." It is not at all unusual for a non-profit organization to get a notice from its governmental funding source that despite the terms of the funding source signed, "No funds (or significantly reduced funds) will be available for the next quarter."

Sometimes this is due to poor budgeting by those who manage the governmental funding. Sometimes it is due to unexpected drops in anticipated revenue. But suddenly the governmental entity's problem is dumped on the non-profit organization. In most cases the governmental entity will continue to pay its own employees and may even give them cost of living salary and wage increases. But the non-profit organizations that depended upon that governmental entity will not only have no money for pay raises it will instead have to lay off employees. When governmental entities face tight times they of course honor their contracts with the utility companies and suppliers they use. But when governmental entities revenues are reduced, they almost always cut funding to the non-profit organizations to which they "give" money. The mind set of governmental officials is that they "give money" to non-profit organizations but the other funds they spend are necessary costs.

There are really great reasons to make the most of all available governmental funding. Governmental funding can provide a large amount of funds to help a well run and worthwhile non-profit organizations fulfill their Mighty Missions. Governmental funds can make it possible to serve people on "wait lists," or to provide new services to individuals who would not otherwise be served. Quite often successful non-profit organizations utilize governmental funding to pay for core services and then utilize fundraising revenues to supplement or enhance those services. In fact some donors fully expect that a non-profit organization has obtained all the available government funding it can before asking them for a personal or corporate donation. They do not want to be the sole, or even the major, source of funding for a service that they feel the government should fund. For example, most individuals or corporations will not make significant donations to a local public school for day-to-day operational costs or for teacher salaries.

Yet donors may very well be willing to help pay for programs that they see as over and above the day-to-day responsibilities of public schools. For example, the Iowa Association of School Boards "*Leave a Legacy of Literacy*" program has a great potential to attract donors. They may well be able to obtain donor funds to train volunteers to work one-on-one with students struggling with reading. Donors and even service organizations such as Rotary, Kiwanis, and many others will willingly buy

books so these children will be able to read. Individuals, who have significant power, influence and perhaps even great wealth will give of their own time to read one-on-one with these children. But they will not give donations for administrators' salaries or even for regular classroom teachers.

In the United States most individuals seem to accept that public education funding is the responsibility of the government. They see governmental funding as responsible to provide core education services. Governmental funding is anticipated for public universities, community colleges, and some vocational and technical schools. Donors are willing to fund scholarships for these educational programs, but they expect governmental funding to pay for the majority of the operational costs of these educational institutions. Yet in spite of the donors' expectation for governmental funding they will still make large donations for construction of new buildings. For some reason it seems acceptable for donors to help pay for capital expenditures for new buildings and even to "endow a chair." Donors are willing to provide the funds to attract and retain the very best for these educational institutions.

However governmental funding is rarely available for Christian or other faith-based elementary or high schools. Yet even in these schools governmental funding may be available. Some such schools obtain school lunch funding for students who are income eligible. In some cases the local public schools may actually provide special education teachers for faith-based schools. In the Midwest at least one Christian school was able to utilize bank qualified tax exempt bonds to pay for the non-religious use portions of a new campus it was building. In the early 2000's faith-based organizations became eligible for governmental funding. It also appears that this eligibility will continue, at least for a few years, under the administration of President Barack Obama, who was sworn into office in January of 2009.

These non-profit faith-based organizations are using governmental funds to provide services that may also be offered by other non-profit organizations. They provide programs for individuals with mental illness. Every day the homeless come to their shelters for warmth, for food, and for safety from the horrors that await those who have to stay on the streets overnight. Health care is offered by many non-profit faith-based and non-faith-based hospitals across the United States. These hospitals and health centers may or may not actually get governmental funding but they often get a governmental benefit when they are exempted from paying property taxes. In some cases they do not even have to pay sales taxes on the items they purchase to fulfill their missions. However, wonderful these tax exemptions may be, local and state laws differ. No non-profit organization should act as if such tax exemptions apply to them unless they have confirmed such exemptions in writing.

Tax exempt bonds and a blend of governmental and private funds are being used all over the United States to build sports complexes. In Missouri, Kansas, and Utah, local governmental funds are being used to build and equip softball and youth baseball parks. Governmental funding was used to build new high school football stadiums in Rogers and Bentonville, Arkansas. In Kansas City \$600 million is being spent to rejuvenate both the Kansas City Royals baseball stadium and the Kansas City Chiefs football stadium. But in Texas, which is known for its almost religious support of football \$1.3 billion of governmental and private funds is being spent for the completion of an entire new stadium for the Dallas Cowboys professional football team.

All over the United States, federal and state governmental funding has been used to construct and pay operational costs of homeless shelters. It has been used to pay rent assistance for the poor. It also has been used to pay for the construction and some of the day-to-day operational costs of group homes for emotionally disturbed youth or adults with severe physical or mental disabilities. Governmental funds are available to make public use buildings accessible and also can be used for

“home and vehicle modifications.” It is believed that using governmental funds to help individuals remain independent and even to help individuals with physical disabilities to drive to and from work helps them continue to earn an income and lessens the likelihood that they will need governmental funding for day-to-day expenses.

Our society believes in helping those who cannot help themselves. We are willing for governmental funding to pay for health care for the elderly and the disabled on an income eligible basis. To provide a reasonable quality of life and to also keep individuals with severe disabilities out of very costly institutions governmental funding pays for their care in community housing, in group homes, and even in homes owned by these individuals. Many non-profit organizations exist to help such individuals become and remain as independent as possible. These non-profit organizations often receive governmental funding on a “fee for services basis.” The rates paid for these services vary greatly.

The rates (or fees) paid for such services seem to shrink year after year. Often when a new service is first developed rates and fees are on the basis of negotiated funding. These fees are developed based on the best estimates of all parties, are reasonable and realistic. At these times most non-profit organizations can cover all costs and if done carefully can actually save some funds for the next year’s operations. Next projected rates based upon realistic budgeting are utilized and if managed well will meet the day-to-day operational costs of the program provided by the non-profit organization. As the rate or fee setting system refines further “cost reimbursement” rate setting is utilized. These fees are calculated at the end of a non-profit organization’s fiscal year and are based upon “allowable” costs. Well run non-profit organizations can still operate successfully with such rates and fees.

As the rate or fee system matures further or as the governmental entity personnel realize the actual amount of money that is being spent steps are put in place to hold down these fees and rates. The governmental entity personnel announce that in the next year rates and fees will be calculated on a “retrospective cost basis.” This system bases the next year’s rates or fees upon only allowable costs. Of course these costs are calculated only after any unspent governmental funds are deducted. At its earliest stages this system does allow the next year’s rates to be adjusted by a cost of living index. As available governmental funding tightens or as governmental priorities shift these cost of living adjustments seem to disappear.

As the system governmental funding oversight fully matures rates and fees are paid based on prior expenditures but even more and more costs are not allowed. At this stage administrative costs are capped, capital spending is capped, and the amount rate or fee to be paid is capped. In some cases the maximum allowable rate or fee is the eighty-fifth percentile of all the costs of similar organizations. Using this system guarantees that some organizations will have costs that are covered by the rates and fees paid. Regardless of the quality of services provided these organizations have to have other sources of income to cover these costs.

Of course while this process of cost based calculation of rates and fees is used by the governmental entities it does not apply to the ever increasing costs of similar services provided directly by the governmental entities themselves. The employees of state run mental health institutions or mental retardation hospitals often receive total compensation \$15,000 to \$25,000 more than similar employees in non-profit organizations which serve the same type of individuals in the community.

Governmental funding can be a major source of funding for other services. It often is used to pay for libraries. In many parts of the country libraries are actually operated by city or county employees. Some libraries try to operate without governmental funding and find it a great financial

struggle. These libraries often have not developed skills in fundraising. They and even the public libraries may have a wealth of volunteers, but unless they are asked to give of their financial resources they will give only of their time. Libraries that meet all the need of its patrons and the community in which it is operates are rare indeed.

But even governmentally funded libraries can face financial difficulties and may need to actually begin fundraising. During the financial crisis of 2009 The H.P Wright Library in Venture County, California faced closure. The friends and patrons of this library were given forty-five days to raise \$280,000. Since those who care for and use this library have never had to raise funds for its operation this will be a large, but not insurmountable task. As important as community college education can be to the future employability of its graduates, the Venture College also faced serious reductions in governmental funding. Robin Calote, the college president, was quoted as saying, "We need to rethink our mission and focus on first things first, make the money go as far as it can."

Governmental funding can allow non-profit organizations to achieve much. It can allow them to expand how they work to achieve their Mighty Mission. Governmental funding is available for almost any worthwhile effort. For example, governmental funding is used to promote health and also to subsidize tobacco farmers. Governmental special education funding helps gifted students and students with mental retardation. It helps pay for prison construction and it pays for programs to help people stay out of prison. Non-profit organizations use governmental funding to help at-risk newborns thrive and the elderly survive. Governmental funding helps fishermen and at the same time is used to save certain fish species.

Governmental funding can be a wonderful resource to meet the needs of many. Non-profit organizations should seriously consider using it to the maximum extent possible. Why should those a non-profit organization exists to serve not get services or be on a wait list for services for years if governmental funding could meet their needs today? If governmental funding can help a non-profit organization to fulfill its mission it needs to seriously consider obtaining governmental funding.

Governmental funding, like grant funding brings with it a whole series of regulations and responsibilities. In most cases these responsibilities are realistic and most non-profit organizations should be able to meet them. However some expectations or even regulations may not be so easy to meet. For example, in one case a governmental funding regulation required that a non-profit organization "assure" that those it served in individual apartments "have three well balanced and nutritious meals per day." This simple requirement was totally unrealistic because the governmental funding only paid for organizational staff to spend four hours per week with the persons who lived in these apartments. So that non-profit organization took reasonable care to see that those it served had well stocked kitchens. It checked on those individually by phone and it made sure that they appeared healthy and got regular medical checkups. Some day, one of these individuals, just like the many individuals in the general population will be diagnosed as obese. Some day this fine non-profit organization may find that the reasonable care it provided was not enough. However, in the many years that this non-profit organization has existed no one has charged it with not complying with this regulation. In all these years, many individuals have had a wonderful quality of life. Many have lived the life most of us would want for our own loved ones.

Governmental funding used by this non-profit organization has allowed thousands and thousands of persons who would never have been served without governmental funding to be served. With all of its limitations, governmental funding can help non-profit organization after non-profit organization to fulfill its Mighty Mission.

Governmental Funding Requirements

The successful use of governmental funding depends on the strengths of the organization, its capacity, and its willingness to change. The following elements need to be in place or the organization needs to have both the willingness and capacity to able to put them in place.

1. **A non-profit status** is normally required for governmental funding. The non-profit organization must have its corporate documents in order and have a functioning Board of Directors.
2. **Strong organizational leadership** is important so that on a day-to-day basis the organization is well run and able to fulfill the requirement of its governmental funding. This includes a Board of Directors that is committed to the use of governmental funds and the new services that the non-profit organization can provide with these funds.
3. **The ability to expand significantly** to meet the needs for which governmental funds will be paying. The non-profit organization needs to have the operational or “organizational capacity,” or be willing to hire additional leaders to provide adequate programs and administrative oversight of the programs and services provided with governmental funding.
4. **Operations that are not promoting a particular faith** even though governmental funding can be obtained by faith-based institutions. These non-profit organizations are prohibited from using governmental funding to provide religious instruction or worship services. Of course people of faith who are motivated to serve can practice their faith in their own times and their own ways.
5. **Funds to invest in start up** are often required. Governmental funds are sometimes but only rarely available for “start up” costs. Most often governmental funds will only be made available to non-profit organizations that are already providing an acceptable level of quality services
6. **Working cash and capital equipment funds** may (or may not) be allowable costs. But governmental funds are almost always paid after they are earned. This means that often invoices are submitted at the end of a month. The governmental funds will be received in two weeks or later. At start up the initial governmental funding may not arrive until after ninety days of operation. Funds for cash flow or the ability to borrow these funds are critical.
7. **A commitment to provide regular reports** is often required. Those monitoring governmental funds will expect regular reports of such things as: actual units of service provided, staff training, positive outcomes obtained, incident reports, satisfaction of those served and other stakeholders.
8. **Fiscal integrity and competence are expected** and clear accounting practices must be in place. Regular audits will be expected and a sound system of checks and balances as well as internal controls will necessary. It will be critical that the non-profit organization is able to properly segregate governmental funds from its other funds.
9. **Strategic planning with clear goals, objectives, and timelines** while not necessarily required will make using governmental funding more practical and successful. The non-profit organization using governmental funding needs to know clearly how it will use those funds to fulfill its Mighty Mission.
10. **Contingency planning** is also very important. All non-profit organizations using governmental funds have contingency plans in place for when the governmental funds are reduced or even dry up entirely.

NOTE:

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