Improving Nonprofit–Local Government Contracting: A Discussion Primer for MACC Members

METROPOLITAN ALLIANCE of CONNECTED COMMUNITIES
Courageously Collaborative

MACC Pay Justice Strategy

METROPOLITAN ALLIANCE OF CONNECTED COMMUNITIES

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Pay Justice Requires Contract Reform

At MACC, our Pay Justice Strategy is about investing properly and enabling the community nonprofit infrastructure that strengthens community well-being. Pay Justice is about valuing the human service professionals that serve our communities.

The MACC network believes in the transformational power of human services, the strength of our communities, and that everyone has the right to well-being. We believe human services are critical to community well-being and that human services nonprofits play a vital role in building and fighting for the our communities.

As a network, MACC human service organizations are in deep partnership with government agencies to deliver services and programs designed to strengthen community wellbeing. As a network, a high percentage of our budgets is government revenue- both grants and fee for service contracts.

As a network our concern about the complexity and inequities that show up in government funding has grown. Our network recognizes how systemic racism shows up in the underinvestment and overregulation of human service nonprofits. Burdensome, duplicative, and bespoke compliance and reporting requirements in addition to the lack of full cost coverage leaves human service nonprofits and our workforce bearing a growing operational burden that threatens our organizational stability and ability to strengthen our community's wellbeing.

MACC organizations are stuck between a rock and hard place – between accepting grants and contracts that don't pay full costs and fair wages or depriving our communities of critical services and jobs. We're fighting the exploitation of our workforce and the fundamental devaluing of our work. For a long time, funders have failed to fully value our nonprofit workforce. Human service nonprofits are fighting the fundamental devaluing of the people we serve and devaluing the people we serve beside. About 48% of the MACC network's workforce are people of color and about 80% of our workforce is female. We're trapped in grants and contracts where we don't set the terms- that pay salaries which are not keeping pace with the cost of living and in many cases pay poverty-level wages for essential human services work.

What You'll Find in this Document

This document includes a compilation of the most common recommendations that have been developed for improving the contracting relationship between nonprofit organizations and government. References for these recommendations are noted – and all come from researchers, sector thought leaders, and public policy advocates who have been doing work on this over the last 10 years.

Challenges with government contracting have been long-identified by the MACC network as a major challenge to our business models, our organizational sustainability and resilience, and workforce burnout and turnover. Challenges with contracting represents a major barrier to human service organizations reaching our full potential and delivering on our missions. MACC's Pay Justice work is about fighting for funding that works for our organizations, and works for our workforce.

If you have questions, suggestions, or ideas- feel free to reach out to MACC at info@macc-mn.org

Recommendation 1: Pay on time, and fix cash flow by design

What to ask for:

- **Prompt payment standards** in contracts (clear invoice timelines, "proper invoice" definitions, escalation path, and interest/penalties for late payment). State associations often pursue these as "prompt payment" reforms. (Maryland Nonprofits)
- **Advance or upfront payments** (or working-capital advances) instead of pure reimbursement—especially for smaller providers or new programs with start-up costs. (calnonprofits.org)
- **Pay undisputed portions** of invoices even if a piece is in dispute (reduce "payment holds" that create provider cash crises). (Often included in prompt payment reforms.) (councilofnonprofits.org)

Why this is important

- Urban Institute's contracting research consistently flags **late payments** and **administrative burdens** as systemic problems, and points to paying **full cost on time** as a core fix. (Urban Institute)
- NFF regularly documents the operational harm of **late government payments** and urges payment reforms to stabilize services. (Nonprofit Finance Fund)

Key Messages:

- **Key message 1 – Stability = service continuity**
  "When payments are delayed, nonprofits end up financing public services out of pocket. Paying on time helps ensure services continue uninterrupted for residents."
- **Key message 2 – This is a system fix, not a provider problem**
  "Late payments usually aren't about provider performance—they're about system bottlenecks. Clear timelines and advance payments reduce friction for everyone."
- **Key message 3 – Counties benefit too**
  "Predictable payment systems reduce invoice disputes, emergency escalations, and staff time spent managing crises instead of outcomes."

Recommendation 2: Cover the full cost of services (including indirect)

What to ask for:

- A county policy that contracts/grants will cover **the full cost of delivery**, not just direct program costs. (Urban Institute)
- **Indemnify indirect cost recovery**: allow the organization's **federally negotiated indirect cost rate** (if they have one), or at least a reasonable de minimis rate. (councilofnonprofits.org)
- **Eliminate arbitrary caps** on "admin/overhead" that don't match actual compliance, HR, IT, finance, quality, and reporting requirements. (Urban Institute)

Key "hook" many counties don't realize:

- When federal dollars flow through state/local systems, **OMB Uniform Guidance requires pass-through entities to honor indirect cost reimbursement** rules (this is a powerful compliance-based argument, not just advocacy). (councilofnonprofits.org)
- Recent OMB changes increased the federal **de minimis indirect cost rate to 15%** (useful in negotiations about what's "reasonable"). (Social Current)

Key Messages:

- **Key message 1 – Outcomes require infrastructure**
  "The outcomes the city/county wants depend on finance, HR, IT, supervision, and compliance systems. Those costs are real and essential to delivering quality services."
- **Key message 2 – Underpaying doesn't save money:**
  "When contracts don't cover full cost, providers burn out staff, reduce quality, or exit contracts—creating higher long-term costs and service instability."
- **Key message 3 – This aligns with federal best practice**
  "Federal guidance already expects pass-through funders to allow reasonable indirect cost recovery. Aligning locally reduces confusion and risk."

Recommendation 3: Standardize and simplify procurement and contracting

What to ask for:

- A **standard county solicitation "cover page" / executive summary**: payment model, timeline, contract term, reporting burden, match requirements, indirect cost policy, and allowable costs—so providers can assess fit quickly. (This is a common "make it usable" reform across the field.) (councilofnonprofits.org)
- **Common formats and templates across departments** (reduce "every department does it differently"). (Urban Institute)
- A "**no surprises**" rule: limit midstream contract changes; when changes happen, require mutual written agreement and adequate lead time. (Urban Institute)

Key Messages:

- **Key message 1 – Predictability improves participation**
  "Clear, standardized RFPs help organizations quickly assess fit and feasibility—especially smaller and community-based providers."
- **Key message 2 – Less customization, fewer errors**
  "When every department uses different formats and rules, mistakes increase. Standard templates reduce back-and-forth and contract delays."
- **Key message 3 – Transparency builds trust**
  "A simple contract or RFP summary upfront helps set shared expectations and prevents misunderstandings later in the process."

Recommendation 4: Reduce reporting burden and align oversight with risk

What to ask for:

- **Streamlined reporting** (fewer duplicative reports; align reporting across programs; only collect data that will be used). (Urban Institute)

- **Right-size monitoring**: use a risk-based approach (e.g., lighter touch for strong performers; more intensive monitoring only when risk indicators exist). This aligns with how federal grant administration is designed to work. (eCFR)
- **County-provided training and a named contract liaison** to reduce errors, churn, and back-and-forth. (Urban Institute)

Key Messages:

- **Key message 1 – More reporting doesn't equal more accountability**
  "Collecting data that isn't used increases workload without improving outcomes. Fewer, clearer metrics help everyone focus on what matters."
- **Key message 2 – Right-sized oversight improves performance**
  "Risk-based monitoring allows staff to focus attention where it's most needed while reducing unnecessary burden on strong performers."
- **Key message 3 – Streamlining saves public dollars**
  "Duplicative reporting costs both providers and the county time and money—without increasing insight or compliance."

Recommendation 5: Build procurement with providers and community (not to them)

What to ask for:

- Use **Requests for Information (RFIs)** (or listening sessions) *before* an RFP to co-design scopes, outcomes, and realistic pricing. (Results for America)
- Define "community engagement" expectations in procurement design (APHSA frequently emphasizes intentional, trust-based engagement in system design). (APHSA)

Key Messages:

- **Key message 1 – Providers have operational expertise**
  "Nonprofits can flag unrealistic timelines, pricing gaps, or reporting challenges before a contract is released—saving time later."
- **Key message 2 – Early input prevents mid-stream fixes**
  "RFIs and listening sessions reduce amendments, change orders, and disputes once contracts are live."

- **Key message 3 – This strengthens equity goals**
  "Co-design lowers barriers for culturally specific and smaller organizations that are often excluded by complex procurement processes."

Recommendation 6: Increase transparency and accountability in the contracting system

What to ask for:

- Public dashboards or routine reporting on:
  - **Invoice cycle times** (submission → approval → payment)
  - **Indirect cost reimbursement practices**
  - **Contract execution timelines** (award → contract start)
  - **Amendment counts** and reasons
    This is a common National Council of Nonprofits "system accountability" recommendation. (councilofnonprofits.org)

Key Messages:

- **Key message 1 – What gets measured can be improved**
  "Tracking payment timelines and contract execution helps identify bottlenecks and target process improvements."
- **Key message 2 – Transparency benefits all parties**
  "Shared visibility into timelines and expectations reduces tension and builds a more collaborative partnership."
- **Key message 3 – This supports continuous improvement**
  "System-level data allows the county to modernize contracting practices over time rather than responding to individual crises."

Helpful Resources for the Work Ahead

National Council of Nonprofits (field-tested policy menu)

- **“Solutions to Government–Nonprofit Grantmaking & Contracting”** (big list of reforms: prompt pay, full cost/indirect, streamlining, transparency). (councilofnonprofits.org)
- **“Toward Common Sense Contracting: What Taxpayers Deserve”** (classic reform framework; strong language on paying indirect and fixing broken processes). (councilofnonprofits.org)
- **OMB Uniform Guidance explainer (indirect cost reimbursement requirements for pass-through entities).** (councilofnonprofits.org)

Urban Institute (research + problem framing counties take seriously)

- **Nonprofit–Government Contracts & Grants research** (identifies recurring problems: full cost gaps, complex applications, heavy reporting, midstream changes, late payment; points toward streamlining + paying full cost on time). (Urban Institute)

Nonprofit Finance Fund (cash-flow + full cost framing)

- **Full Cost Framework** (shared language for “what it actually takes” to deliver outcomes). (Nonprofit Finance Fund)
- Recent NFF writing/surveys documenting **government payment delays** and the need for payment reform. (Nonprofit Finance Fund)

Social Current (federal policy alignment you can echo locally)

- Policy priorities and federal updates emphasizing **full-cost coverage** and the **15% de minimis** indirect change in Uniform Guidance (useful leverage for state/county “alignment” arguments). (Social Current)

APHSA (human services system/procurement modernization + engagement)

- APHSA materials emphasizing **intentional community engagement** in system design and procurement-adjacent modernization efforts (useful for counties that want “customer-centered” improvements). (APHSA)

State & local association examples (helpful for “this is normal / other states do it”)

- **Minnesota Council of Nonprofits – State Grant Reform** (MN-specific framing and coalition approach- MACC is a key partner with MCN in this work). (Minnesota Council of Nonprofits)
- Examples of enacted reforms in other states (advance pay, prompt pay, indirect cost reimbursement). (calnonprofits.org)