



Renewing the partnership between the state and nonprofits

By Brent Never



Illinois Issues

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Dear Reader,

Over the past several decades, Illinois state government has relied more and more on nonprofit organizations for services the state once provided to its most vulnerable residents, such as those who are elderly, mentally ill or physically or developmentally disabled. The state also has furnished a financial base for other nonprofits that promote such important pursuits as environmental safety, the arts and education and health issues.

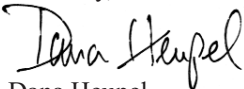
Strong partnerships developed over time between the state and those nonprofits, with explicit or implicit contracts that set out what was required of each. But the economic recession has frayed those relationships, as nonprofits are forced to wait months and months after they provide services for the state to reimburse them. To keep operating, many nonprofits dipped into reserve funds until they dried up and borrowed until their credit limits withered, as well. Now, many are laying off staff and curtailing services. Others are shuttering their doors for good.

In this essay, underwritten by the Donors Forum and distributed to *Illinois Issues* subscribers, Brent Never, assistant professor of nonprofit leadership at the University of Missouri-Kansas City, makes the case that the social compacts among state government, nonprofits and Illinois residents must be renewed and redrawn to avoid a collapse of those relationships. He also suggests ideas for government and nonprofits on how that might be accomplished and points to several models that have worked elsewhere.

The essay evolved from a series of articles about the plight of nonprofits published by *Illinois Issues* in 2009 and also underwritten by the Donors Forum, a Chicago-based umbrella association for foundations and other charitable organizations and nonprofits.

We hope the essay establishes a base for discussions and takes a first step toward repairing the damaged relationships between the state and nonprofits, so that those partnerships that have worked so well in the past can continue successfully for all involved long into the future.

Sincerely,

A handwritten signature in black ink that reads "Dana Heupel". The signature is written in a cursive, flowing style.

Dana Heupel
Executive Editor
Illinois Issues



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The relationship between Illinois state government and its nonprofit service providers is at a crossroads. The state's public leaders and citizens face profound choices about which services state government should provide, how they should be provided and, ultimately, who should pay for them. With an estimated \$13 billion budget shortfall in the fiscal year that began July 1 — and decreased revenue anticipated for years to come — those choices will be painful. It is time for all of the stakeholders in the patchwork of service provision — the government, the nonprofits and citizens — to re-engage in understanding the nature of the social compact that has been established. What values does each group hold dear? Should the partnerships continue? Should the government be the one to pay to provide services? What is the role of philanthropy or recipients paying for their services?

Given the epic challenges that Illinois faces, it only makes sense that we all seek to address these fundamental questions. Only through this dialogue will we be able to reinvigorate the compact that has doggedly succeeded through close to five decades.

As the consequences of fiscal imbalance sweep from Springfield across the state, Illinois' most vulnerable citizens and others who rely on nonprofits face the specter of fewer services, longer wait times and greater worry about the future. While the economic downturn eroded the ability of Illinois government to pay for services, it also forced more people to turn to human service providers and other nonprofits. The strain of those twin pressures has stretched the bonds between state government and its contractors to a near breaking point.

The ripple effect of the state's fiscal crisis profoundly changes the viability of all nonprofit organizations that rely on state funding: arts, environmental, education and human services. Organizations that for decades have worked in partnership with Illinois now must bear the burden of late payments, no payments and uncertainty about the future. The social compact between Illinois government, its nonprofit service providers and the citizens who count on those services has been seriously damaged. The result is an abusive system that ultimately does not serve the long-term interests of all Illinoisans.



State Sen. Susan Garrett (D-Lake Forest) shows her gift from representatives of the United Way of Illinois. The group was promoting its agenda to constitutional officers and lawmakers at the Illinois Statehouse.

For three decades, the state of Illinois has intensively contracted with nonprofit organizations to provide a wide range of services — mental health counseling, support of residents with developmental disabilities, child care options for working adults and youth programs for at-risk children — along with helping to fund organizations that support the arts, environmental causes, health issues and education. Following the national trend toward moving services out of the government and into the private and nonprofit sectors, Illinois has had a long and largely productive connection to its providers. An

implicit agreement, or compact, had been reached that was based on two principles:

- It is imperative that Illinois' most vulnerable citizens receive services and that arts, environmental and educational programs receive support.
- The nonprofit sector will provide human services over the long term, and it will promote the arts, environmental protection and education.

Public leaders of all persuasions bought into that compact, leading to a patchwork quilt of service delivery. But like a quilt, if one thread is pulled loose, the

linkages invariably begin to fray and fall apart.

The stark reality

The simple truth is that the state of Illinois is losing at a numbers game: Illinois Comptroller Dan Hynes calculated that when the state began its new fiscal year on July 1, it owed \$4.5 billion in unpaid bills. A year earlier, that debt was \$3.9 billion. With revenues continuing to come in below projections, state government faces several years of painful decisions needed to right its budget. In this difficult fiscal environment, public leaders face the task of choosing from four unpopular options:

- Cut spending in four large areas of the general fund budget: education, health care, human services and public safety — all of which tend to be popular with Illinois citizens.
- Raid special funds, such as the account that holds settlement money from tobacco companies, and use them for purposes other than their original intent.
- Continue to underfund pension obligations, meaning that in the not-so-distant future, Illinois will owe a compounded amount to its retirees.
- Raise taxes.

Although Gov. Pat Quinn exercised portions of those first three

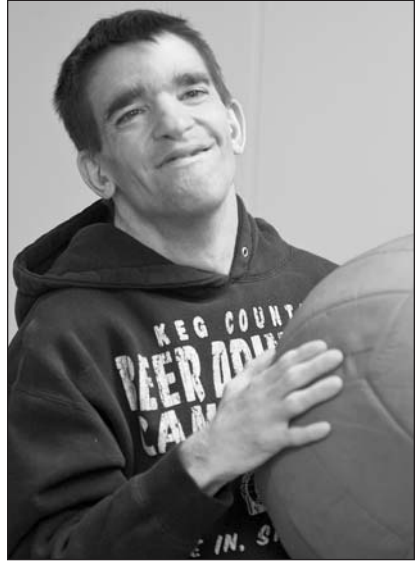
options and voiced support for the fourth after the General Assembly delivered to him an unbalanced state budget in July, Illinois state government remains in serious financial trouble. And much of the burden will fall on nonprofit contractors as the state further extends the backlog between when services are rendered and providers are paid.

Hynes has warned for several years that in effect, the state's piggy bank is empty and that checks would bounce if they were sent to service providers in a timely manner, which is 60 days under the State Prompt Payment Act. Now, the state must wait to collect a dollar of revenue before it pays out a dollar in expenses. And with the recession, revenue projections are continually being revised downward, which in turn extends the time that the comptroller must wait to reimburse contractors for services rendered. An aggravating factor is that not all invoices are treated alike. Those related to federal funding that stipulates a certain time for reimbursement must be pushed through the process over those without a federal mandate. Ultimately, human service providers and other nonprofits continue to wait upward of six months.

But those organizations must continue to pay routine bills, such as payroll and utilities, while

waiting on state reimbursement. To do so, they rely on cash reserves or short-term borrowing. As the fiscal crisis enters its third year, many providers' cash reserves are nearly depleted, and they have found it difficult to obtain loans, especially during the banking crisis. The result is that providers are looking to cut non-program costs, one of the largest of which is payroll. Organizations are reducing staffing levels and benefits, and the human capital that has developed over the years throughout the sector is increasingly moving away.

Efficiency has always been an important component of the rhetoric of contracting for services, so it is important that organizations continue to improve their programming and lower their costs to deliver the services. Perhaps cutting state funding is a means to enhance efficiency, but it also could mean a drastic reduction in the capacity of the sector to react to essential human needs. For example, in a recent survey of Illinois human service organizations, the United Way of Metropolitan Chicago found that nearly half of all contractors rely on state funding for at least 50 percent of their budgets. Certainly, budget cuts are an option, but that could significantly reduce the capacity of Illinois providers to serve those populations for many years to come.



Streator Unlimited client Nino Muscato catches a ball during his day's activities at the Streator facility. Roughly 80 percent of SU's budget comes from the state, which has been six months behind on payments.

The evolution of a compact

A compact is simply either a formal or informal agreement between parties about how they will act in relation to one another. The idea of a compact is centuries old. Famously, the passengers on *The Mayflower* decided to formally declare the rights and responsibilities of the members of the future Plymouth Colony. Informally, many organizations have a compact where employees know what will be tolerated and what won't in the workplace. Even though compacts may be formally written, they

usually evolve over time and enshrine complicated understandings of right and wrong. That is why new parties to a compact often have the hardest time discerning what they can and cannot do. The compact between the state of Illinois and its contractors, likewise, has evolved over several decades and continues to be in a state of transition.

It is important to recognize some of the values that have developed over the years among nonprofit providers, Illinoisans and government leaders — both elected and administrative.

Perhaps the most important for all parties is the idea that there are vulnerable populations in the state, such as children, people with mental disabilities or the unemployed, who deserve to be served. The type of service to those populations that has developed over time is largely paid for with government funds but delivered by private entities. Often, nonprofit organizations are those providers.

The second value implicitly held by all stakeholders is that those populations will need to depend on services over a long term. Homelessness or mental illness will not be solved in any given fiscal year. Only through a long process of developing and implementing effective services will those populations receive the care they deserve. We should not

lose sight of the fact that all parties also believe that resources are not infinite and that the most good should be done with those limited resources. In many ways, nonprofit organizations have been chosen to deliver services because the belief is that without a profit motive, they will be less expensive than public-sector delivery.

Lastly, there has traditionally been a shared understanding of how nonprofit organizations represent local communities. For elected leaders, that has meant they have been able to use local institutions in their districts. For citizens, it means that local people are helping each other, rather than relying on what they might term as “bureaucrats.”

Each of those commonly held values has come under stress during the recent deep recession. As citizens feel that their personal budgets are squeezed, they have had to re-evaluate what services they would like to see in their communities. Likewise, public leaders have to think about cutting services or increasing taxes. And nonprofit service providers do not know whether they can continue to deliver those services, and they cannot plan for the future with such uncertainty. The compact is in a state of flux.

The present situation that results in months of unpaid contractual obligations represents a pernicious level of abuse that most

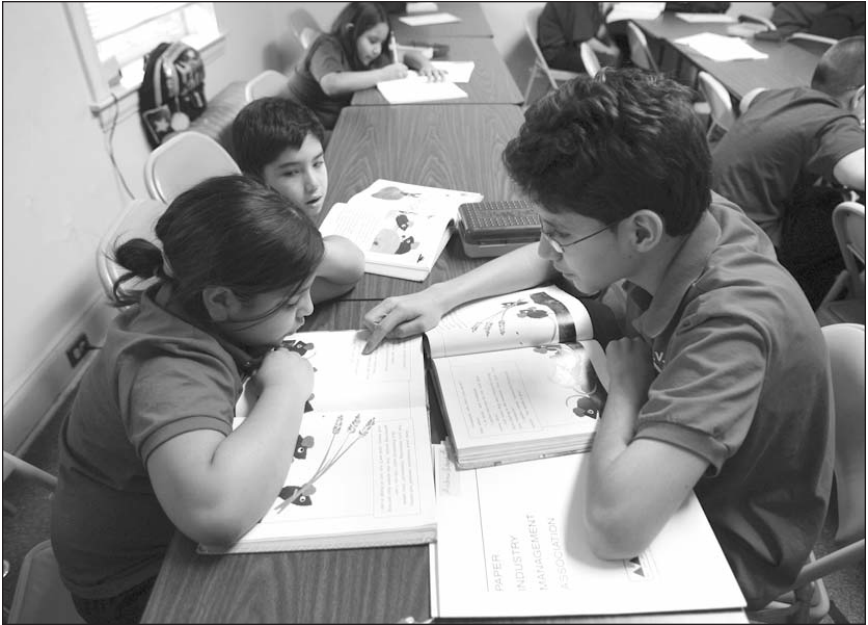


Rosa Pergams, Riley Newman and Griffin Berg work at the Oak Park River Forest Food Pantry, located in the basement of the First Church of Oak Park. The outreach has seen a significant increase in demand for food.

likely will lead to many service providers closing their doors rather than working with the state. The question remains: What would a healthy contracting regime look like? There are two applicable examples of a healthy relationship: the connection between the federal government and defense industries; and the success of the Head Start program over four decades. What makes those examples comparable to human service providers and many other nonprofits in Illinois? First, both represent situations where there is only one buyer of the services: the federal government. Second, the federal govern-

ment does not expect to see immediate results from either program but has committed to long-term development. That development relies on a level of trust between the contracting agency and the contractor.

Why do we find trust in those two examples but not currently in Illinois? Trust comes from a mutual understanding and respect for what each of the parties brings to the relationship. That trust is developed through reciprocal relations. In the case of the Department of Defense, there is a revolving door, where federal employees often go on to work in the defense industry, and



Children receive after-school tutoring from volunteers at Providence Family Services in Chicago, run by retired nun Sister Patty Fillenwarth. The agency is funded by donations, small grants and the proceeds from the annual church rummage sale.

vice versa, where industry employees come back to work at higher levels in the DoD. There is a level of reciprocal knowledge about the challenges and pressures that all parties face. The revolving door can lead to collusion if taken too far, but in the end, it creates stability in transactions that take years before reaching successful conclusions.

Head Start and defense industries also have a stable base of political support in the legislative and executive branches. Public leaders see the value in those programs and are willing to allocate funding consistently over time. And there is a long history of

effective program evaluation that allows contract officers to make informed decisions about what is working and what is not. The evaluations then become the evidence necessary to garner the legislative support that is needed to fund future iterations of the relationship.

Illinois state government, in large part, does not have those elements with its nonprofit service providers. With the recent buyouts of state employees, high levels of attrition and potential layoffs, there is little continuity when it comes to human capital. That means contractors cannot count on state employees to be knowledgeable

about the longer-term process inherent in many services for populations at risk. In addition, the highly charged political atmosphere that has moved throughout state agencies makes providers question whether their funding is tied to results or to political patronage. And without investing in routine and high-quality program evaluation, state government is unable to prove the worth of its human service programs. In this time of enormous fiscal stress, having fragmented understandings of program success only jeopardizes future funding for contractors.

Moving to partnership

Therefore, the important question becomes: How do we move from a system where there is a fragmented, broken relationship between the state and its providers to one with a solid partnership? Human services are essential to Illinois' most disadvantaged populations. The extreme fiscal imbalances will surely mean a reconfiguration of how the state provides those services. One can view the process of restructuring the relationship as top-down — from political leaders down to providers — or from the bottom-up. There is evidence that both methods have led to better outcomes for service recipients and taxpayers alike.

Invariably there will be top-down changes in the relationship, due to the \$13 billion deficit, as well as key elections in November. Those changes do not have to be catastrophic for all parties involved. A good example of a productive and costless change in the human services relationship comes from England and Wales. In 1997, with the election of a new Labour prime minister, Tony Blair, there was a political opening to alter the English contracting regime. After close to 20 years of conservative reforms to strip services from the public sector, Blair wanted to signal that his party believed in cost efficiency, as well as better outcomes for citizens. The solution was to create a compact — or meta-contract — between the new government and its service providers. The compact laid out the rights and responsibilities of all parties and served as the bedrock upon which productive relationships could be built. Importantly, there was a mechanism for representatives of government agencies and service providers to meet annually to evaluate the effectiveness of the compact and to address any frayed relationships. The result was a long-term dialogue that elevated contractors to the level of partners in public service.

In a similar vein, Mayor Michael Bloomberg of New York City has announced a process for

streamlining what contractors felt was a convoluted and difficult contracting system. His administration has committed to a four-year process of instituting master service agreements, online payment systems and partnerships with contractors. There is a general recognition that the contractors hold the lion's share of knowledge about how best to address the needs of clients. That means the contracting system should be changed from the current arrangement, where contracting agencies hold all of the power in the design and implementation of contracts, to one where contractors have a voice in the creation of long-term solutions.

That partnership method of designing contractual agreements is not impossible for Illinois state government. The governor, agency directors and legislative leaders must understand that after decades of contracting out human service functions, the public sector does not have the knowledge base nor the human capital needed to drive contracts from the top down. Only through longer-term engagement with service providers is it possible to craft agreements that will lead to the best outcome for recipients, while at the same time saving taxpayer resources.

A partnership also requires the effort and good faith of the service providers. Foremost, human service organizations and other nonprofit

providers must educate themselves about effective programming. While it is easy during times of shrinking resources to turn inward, the sector must view this as a time to foster engagement. There is no doubt that state funding will decrease in the coming years, but at the same time, the sector only will be treated as a full partner if it educates public leaders about the successful outcomes of innovative programming.

To educate public leaders, the human services sector and other nonprofits must commit to systematic evaluation of their programs. Singular case studies and fragmented data collection is not enough. If the state is to commit to longer-term relationships, the nonprofits must prove themselves to be trustworthy through routine evaluation and improvement. Part of the dialogue with the state should be about including the funding needed to evaluate program outcomes.

Finally, nonprofit service providers must commit to collective action — whenever possible, they must speak with one voice. To spur bottom-up change to the system, political leaders need to know that human service providers and other nonprofits are united. Just as the Business Roundtable speaks for the largest corporations in America, nonprofit service providers need to make a concerted

effort to escape the silos of their geography and their professions. Providers cannot approach the table to discuss partnerships with the state if it is unclear who should be at the table and what they stand for. Only through intense engagement across the sector can there be any credible bottom-up action.

Shoring up the compact

For more than four decades, a consensus has evolved among government, the nonprofit sector and citizens that it is important to address the needs of our most vulnerable communities. That compact has been built on a series of values — compassion, effi-

ciency, representativeness — that are now being rocked by the recession. Do we still believe in these core values? What does our future look like if we were to change the patchwork of service delivery?

A compact is a living agreement that evolves, and it requires the attention of all participants so that the parties will hold to it in the future. Illinois is at a crossroads. The hyper-partisanship of the past decade has served to drive citizens further from this ongoing dialogue. The current result is a compact that can be hijacked by fringe interest groups or forgotten by key participants.

Representatives of the nonprofit sector have been actively

Photograph by Darrell Goemaat



Instructor Fabian Rawls leads a basic computer class provided through Metropolitan Family Services, a 150-year-old nonprofit agency in Chicago that helps people with no place else to go.

working to engage all nonprofit organizations, not only human service providers. The ripple effect of the crumbling compact also has a drastic effect on the viability of arts, education and environmental organizations throughout the state. While the relationships between each of those subsectors and government have developed in slightly different trajectories — for example, the state has been more like a benefactor to the arts than an equal partner — it is essential that those organizations also engage their constituencies in the dialogue. Their relationships with state government may be different, but all nonprofit organizations face a

choice of whether to continue in a broken system or to actively push one another to build a better partnership that will serve the interests of all Illinoisans.

Brent Never is assistant professor of nonprofit leadership at the Henry W. Bloch School of Business and Public Administration at the University of Missouri-Kansas City. A two-time Fulbright Scholar, he previously was an assistant professor of public administration at the University of Illinois Springfield. He earned his Ph.D. in public policy from the School of Public and Environmental Affairs at Indiana University-Bloomington.



