

# Unlocking California State Funding for Community-Based Organizations to Advance Health Equity



ChangeLab Solutions



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# Introduction

Community-based organizations (CBOs) are an indispensable part of the public health infrastructure in California. They not only provide essential services but also meet community needs in circumstances where government entities are unable, unwilling, or less equipped to do so.<sup>1</sup> Because CBOs have the advantage of being based in the communities they serve and because they are often staffed by members from those communities, they are well situated to serve their communities in advancing health equity. Therefore, by partnering with CBOs, state agencies can often increase their own reach and impact, promote equitable solutions to community needs, and encourage local residents to engage in decision making.<sup>2</sup> Additionally, government partnerships with CBOs can strengthen agencies' work processes and goals by using funding streams that governments alone cannot due to limitations imposed by statutes, laws, politics, or bureaucratic silos within the government.<sup>3</sup> As such, government entities (i.e., government agencies, departments, or offices; see [Appendix A](#) for a full list of key terms) can reap many benefits by ensuring that CBOs have the financial resources to provide essential services, programs, and other support to their communities.<sup>4</sup>

Although well intended, legal requirements and agency-specific decisions have created significant barriers for California-based CBOs in accessing critical state funding.<sup>5</sup> Contracting and procurement processes are created by federal, state, and local laws and regulations and are guided by administrative policies, which in turn shape government entities' decision making on how funding is distributed and managed. Additionally, government entities' internal structures, administrative practices, and staff capacity influence how they implement contracts and grant processes.<sup>6</sup> Most of these measures, policies, and practices are enacted to ensure that government entities are good stewards of taxpayer dollars, setting standardized processes to prevent fraud and favoritism and to ensure that limited public funds are fairly distributed. However, these processes often increase financial and administrative strain on CBOs, limiting their ability to meet community needs and advance health equity. By establishing equitable processes and streamlined approaches for contracting and procurement, government entities can ensure that CBOs are able to access the crucial funding they need to support the communities they serve.

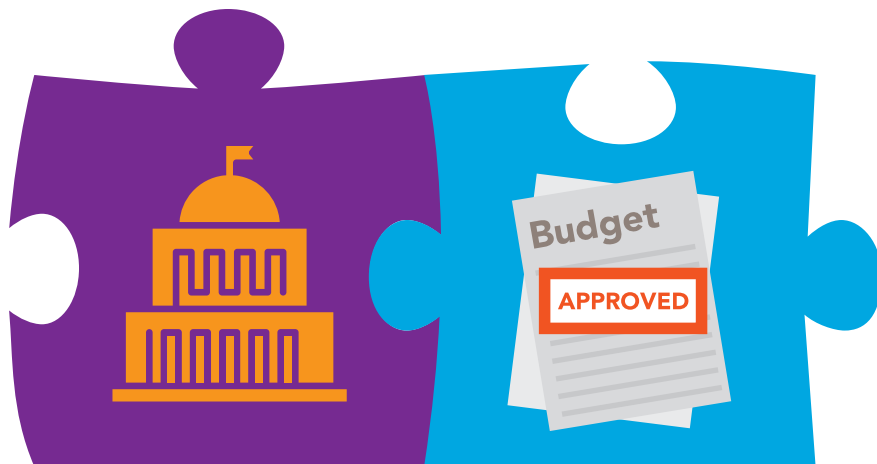
The purpose of this issue brief is both to summarize the challenges that CBOs face in accessing funding resources from California state government entities and to provide government agencies with concrete actions they can implement to address the challenges that CBOs encounter during contracting and grantmaking processes. By working to address these challenges, government entities have a valuable opportunity to improve how resources are invested, allowing them to support CBOs as vital public health partners, strengthen the relationships between government entities and CBOs, and make funding more accessible and equitable for the diverse communities that face the greatest health inequities.



# Summary of findings & recommendations

Although state law sets mandatory requirements for grantmaking and contracting processes, state government entities can make a number of discretionary choices about how their grants and contracts are managed, as long as these choices do not violate state or federal laws. Our legal analysis shows how these discretionary decisions by government entities, added to the many requirements of state laws, have resulted in a challenging and sometimes burdensome grantmaking and procurement environment for CBOs. The CBOs we interviewed have experienced many barriers throughout government contract procurement and grantmaking processes. Complex and cumbersome contracting processes strain the organizational resources and capacity of CBOs, resulting in many CBOs' taking financial risks when entering into funding arrangements with government entities. Requirements stipulated by grants and contracts disproportionately burden smaller and less well resourced CBOs and exclude many from applying for and receiving state funding, even when those organizations would be the best suited to serve their communities. (See [Appendix B](#) for more information on research methods and data sources.)

[Table 1](#) briefly describes the common challenges that CBOs face in state contracting and grantmaking and summarizes recommendations on how government entities can address those challenges.



**Table 1. Summary of Findings & Recommendations**

Challenges Experienced by CBOs	Recommendations for Government Actions & Alternative Approaches
Inflexible and burdensome restrictions on how funds can be used	<ul style="list-style-type: none"> <li>• Allow and approve indirect expenses at rates that cover the true cost of operations</li> </ul>
Inadequate funding to cover the full cost of CBO activities	
Complex application processes and requirements and lack of clarity on how funding recipients are selected	<ul style="list-style-type: none"> <li>• Provide greater access to technical assistance for grant writing and application development</li> <li>• Extend application deadlines to allow more time to prepare competitive applications</li> <li>• Reduce or remove application requirements</li> <li>• Expand or pilot the use of intermediary organizations to increase CBOs' capacity to apply for funding</li> <li>• Reexamine and clarify selection processes</li> </ul>
Routine failure to provide timely payment	<ul style="list-style-type: none"> <li>• Design and implement contracts and grants with shorter payment periods, to help ensure prompt and timely payments</li> <li>• Establish schedules for advance payments or fixed payments</li> <li>• Remove other barriers to payment</li> </ul>
Complex and time-consuming reporting and documentation requirements	<ul style="list-style-type: none"> <li>• Revise or reduce reporting requirements</li> <li>• Expand or pilot the use of intermediary organizations to add capacity to meet reporting and documentation requirements</li> </ul>



# Challenges faced by CBOs in government contracting & grantmaking

Like many nonprofits, CBOs commonly experience challenges related to government funding environments – for example, lack of dedicated staff to apply for or manage grants and contracts, the consistent need for fundraising because funds are not guaranteed from year to year, and the fact that many grants or contracts do not fully cover administrative overhead costs. The complexity of requirements for application, qualification, and reporting are an additional challenge. These challenges make it difficult or, in some cases, impossible for CBOs to access government funding, and this reality means that state and local government entities are missing opportunities to better support CBOs that make a difference in meeting communities' needs. The challenges experienced by CBOs and other nonprofits in government grantmaking and contracting processes are well documented<sup>7,8</sup> and are also reflected in our interviews with key informants from CBOs and state entities. Many of these challenges are outlined in the following sections.

## Inflexible & burdensome restrictions on the use of funds

Contracts, especially grants, often stipulate requirements on how CBOs can use the funding that is awarded to them. These stipulations may take the form of restrictions on what activities CBOs can pursue, who CBOs can work with, and what purchases CBOs can make. Requirements can be “very narrow in scope and . . . oftentimes not allow us to do the work

the way we do the work,” one CBO interviewee noted. While these restrictions are intended to ensure that public money is appropriately spent, they may impede a CBO's performance of their work. For example, the CBO interviewees we spoke with noted challenges related to their inability to use grant funding to compensate community members for their participation in meetings and to provide child care and food at community events. Many state entities restrict the use of state funds for direct and indirect community compensation, even though this strategy is often understood to be a best practice for ensuring equitable community engagement. This funding restriction creates equity issues, given that some community members – often those who are most disenfranchised – may not be able to participate and give their input without these resources.



To overcome funding restrictions, CBOs often have to either tap into additional funding or braid multiple funding streams. These arrangements may complicate how CBOs plan or do their work, since many of these alternative funding sources may impose additional restrictions. As one CBO interviewee put it, “Sometimes what’s being offered and what either the organization has historically done or what they perceive as the need within the community is not a perfect match. . . . [For example,] we’re not just a housing organization; we’re a multi-service organization. So we don’t just want [to only provide] housing-related services; we want [to provide] a broader suite of services. But does that mean that we . . . have to tap into seven different funding streams and [also be] the ones responsible for braiding and blending?”

## Inadequate government funding to cover full costs

In some cases, a grant or contract does not cover the full cost of carrying out the activities it is meant to encompass, which can result in CBOs taking on a project at a loss. These circumstances may arise when government entities do not adequately scale their requested deliverable(s) and timeline to the funding they offer or when administrative costs, including those related to funded services, are not factored into grants or awards. This second circumstance typically occurs when indirect rates are set below the level needed to account for all the costs of operations – for example, office rent or cost of utilities. In both situations, smaller and less well resourced CBOs are disproportionately affected both because they may not be able to determine whether the offered funding amount will cover the cost of work and because they are less likely to have financial reserves in place to absorb cost overruns that will likely occur as a result. Consequently, CBOs that are larger, better established, and better resourced are often better positioned to overcome such inadequacies by tapping into their reserves or braiding alternative funding sources. These situations demonstrate how inequities in the funding model privilege larger CBOs.

### **What are the application and selection processes for state contracts and grants?**

Contracts or grants to CBOs from government entities usually involve a competitive selection process. A government entity will advertise an opportunity – including details such as expected deliverables, funding amount, and timeline – and then will accept bids or applications to win that funding. Applications sometimes include a request for a narrative on why the applicant is the best candidate for the funding and how the applicant will use the funding. Government entities generally use this information to decide between applicants.

Some application and selection process requirements are mandated by California state law. For example, state government entities must submit contracting opportunities over \$10,000<sup>9</sup> for competitive bidding<sup>10</sup> to the state’s [procurement website](#),<sup>11</sup> and the type of bidding and selection process used (e.g., a simple bid with a price quote versus a request for a narrative proposal) depends on the dollar amount of the contract and the nature of the services requested.<sup>12</sup>

## Overly complex applications & lack of clarity on how funding recipients are selected

CBO interviewees described the requirements of contract and grant applications as well as lack of clarity about the selection process as major barriers to accessing state funding. Interviewees discussed four primary challenges: complex applications, burdensome application requirements, tight timelines for submission, and opaque selection processes. (In this issue brief, we will use *applications* to encompass both bids for contracts and applications for grants.)

**Complex applications.** While applications allow government entities to learn more about the applicant pool and, theoretically, to make an informed award decision, they can be burdensome for CBOs that lack professional grant-writing or contracting staff. The application process is especially challenging when applications are complex or lengthy. Such applications may require significant amounts of information or narrative, as well as information that CBOs with limited resources are less likely to be able to provide. For example, one CBO interviewee noted that government entities often want to see an evaluation plan, which requires the CBO to hire or bring on an organization or consultant with that expertise.

**Burdensome application requirements.** Beyond the complexity of many applications, eligibility requirements can present challenges, especially when they are disproportionate with the total amount of the funding award.

For example, a CBO interviewee mentioned that insurance requirements can be administratively and financially burdensome, particularly when the contract or grant amount is small. Insurance requirements generally protect the state from damages (e.g., bodily injury, property damage, and other potential losses) that arise out of a contractor's work on behalf of the state. However, in some circumstances, the risk of loss to the government does not scale equitably with the burden on CBOs in obtaining the required coverage.

Another example of burdens placed on CBO applicants is matching requirements. Government entities sometimes offer grants that require applicants to supplement any grant money received with funding from other sources – in other words, to match the money that the government entity provides. This requirement can be challenging for a CBO because the grant might cover only a portion of the cost of the services requested or because the CBO might not have additional funding ready in time to submit their application and would need to expend already limited resources to secure other funding – or because the CBO might not be able to secure additional funding at all. One CBO interviewee unequivocally stated that “cost match would be an immediate ‘no’ from our organization, . . . [and] there are quite a few [grants with such requirements].”



**Tight application timelines.** Interviewees noted that application timelines are notoriously short and seldom allow adequate time to respond. A government-based interviewee stated, “Writing a good proposal is not easy. . . . It has to be compelling, in that you’re competing with other vendors that can do something similar or may have more experience than you. So it takes time to put together a really good proposal, and a lot of the times the state posts their work, and the turnaround time to get proposals back to the state to review is very quick. . . . I’ll see one-week turnaround times for some proposals.” CBO interviewees – even including one CBO with dedicated grant-writing staff – spoke of difficulties in meeting such short deadlines. One observed that “these applications have been truly cumbersome for us [despite having a full-time staff of fundraisers and grant writers] . . . so, it just kind of leads me to the thought that if this is what it looks like for [us, as a larger intermediary organization] . . . what is this looking like for the smaller CBO?”

**Opaque selection processes.** Our interviewees note that the process that government entities use to select applicants is seldom clear, and it can unintentionally create inequitable outcomes. No universal criteria are used to evaluate contract or grant applications,<sup>13</sup> so criteria can differ among government entities or even from contract to contract or grant to grant. Further, while evaluation criteria created by a government entity are made public, how those criteria are applied to each applicant often is not, resulting in a lack of transparency on how recipients are selected. Government agencies and entities retain significant amounts of discretion in how they apply their criteria and determine funding recipients.

In some cases, selection criteria favor larger and more established organizations over smaller or newer CBOs – regardless of whether they are the best equipped to perform the contract or carry out grant objectives – either because of the government agency’s familiarity with the larger organization or because the larger CBO may be more experienced in writing to fit the criteria. One CBO interviewee noted, “Even with some of the smaller nonprofits and organizations led by people of color, they stick with the same ones over and over and over . . . and people get entrenched in this system.”

At the same time, it is important to note that preexisting funding relationships between government entities and CBOs do exist, and these relationships can serve a purpose in allowing government entities to continue working with effective CBOs. These high-performing CBOs generally understand the expectations of the government entities they routinely partner with, have tailored their practices to efficiently meet these expectations, and may have deep ties with the communities in which they operate. However, routinely funding the same organizations can come at the expense of working with new, diverse partners and building relationships with other organizations with strong ties to communities.

## **How does the payment process work? What are advance and progress payments? What are the penalties when a government entity is late on payment?**

The most common payment process is a reimbursement model, in which CBOs first complete their agreed-upon activities for the contract or grant and then submit an invoice to the government entity for reimbursement. According to the Prompt Payment Act,<sup>14</sup> government entities must pay “properly submitted, undisputed” invoices within 45 calendar days of receipt.

Other processes used in lieu of or in addition to the reimbursement model include advance payments and progress payments. Advance payments are up-front payments from the government agency to the CBO, intended to be spent on the CBO’s activities as enumerated in the grant or contract. Progress payments provide partial payment to the CBO, conditioned on completing a portion of the work.

If a California government agency is late on its payment, it must submit a late payment report to the California Department of General Services and pay a fee based on the value of the contract. For example, a \$50,000 payment that is 60 days late incurs a \$1,212.30 fee.

## **Untimely & delayed payments**

CBOs often experience financial insecurity and so may be particularly sensitive to unanticipated setbacks such as late payments. Such circumstances can disproportionately affect CBOs that operate with smaller financial reserves and thus are less likely to be able to absorb payment delays. Several CBO interviewees described delayed payments as a significant challenge.

In some cases, payments are delayed because the state’s reimbursement system relies on mailed paper checks rather than direct electronic deposit. One CBO interviewee mentioned that a funder sent a check to the wrong place, delaying payment for several weeks beyond the expected payment date.

Meanwhile, penalties for late payment are not adequately enforced or are insufficient. Although late government payments incur penalties, as noted in the preceding box,<sup>15, 16</sup> CBOs have expressed concern that late fees paid by government entities are not commensurate with the harm that CBOs experience when payments are delayed. Enforcement may also be lacking because it relies on government agencies to self-report delays. As a result, late fees are not an effective deterrent to late payments in all cases. A CBO interviewee recounted, “For the state, there is a Prompt Payment Act that they should pay within 45 days, but the consequences are so miniscule, and . . . only the state agency can report to General Services that they were late. We can’t. We have no access to submit for the penalties, which is really odd, so we’ve had many cases where our [payment was] really late, and we never [received the penalty fees]; . . . there’s [just] no enforcement of that.”

The timing of payments may result in hardships even when payments are received on time. Some CBO interviewees have stated that the standard 45-day reimbursement period after submission of invoices presents difficulties. For example, if a CBO has monthly bills due, they might have to float at least two weeks of cash before payment arrives.

Finally, CBOs are challenged by limitations on the use of advance and progress payments. While use of advance and progress payments may slightly ameliorate issues with late payments, advance payments are often prohibited except when specifically authorized by statute, and progress payments are generally disfavored.<sup>17</sup>

### **What reporting and documentation are required for grants and contracts?**

To ensure transparency and accountability in the use of public funds, government entities often have complex and extensive reporting and evaluation requirements, as well as other administrative requirements. CBOs may be required to provide tracking, recording, and reporting on various financial, programmatic, and compliance aspects, sometimes on a scheduled, periodic basis.

## **Overly complex & time-consuming reporting & documentation requirements**

Several CBO interviewees stated that mandated reporting and administrative requirements for contracts and grants can be very burdensome. A government-based interviewee reflected on seeing small CBOs struggle as a result of “not having the financial management sophistication to be able to build [internal processes] properly, which then affects the speediness of payments.”

Fulfilling the reporting and documentation requirements of contracts and grants may be time-consuming and might require specialized knowledge. To fulfill these requirements, CBOs may incur significant administrative costs for staff training, data collection, recordkeeping, and reporting systems. CBOs generally have limited resources to begin with, and using their resources to meet these requirements may detract from their core activities. A CBO interviewee mentioned that they’ve heard other CBO leaders say they “don’t have time for . . . figuring out . . . the paperwork for billing and to re-jigger our data system [just] so that we can collect the information that’s required [to bill].”

# State agencies' discretionary decisions about contracting & grantmaking processes

Many of the challenges that CBOs identify in contracting and grantmaking processes are not due to mandatory requirements set in state law but rather are a result of discretionary decisions made by the government entity offering the contract or grant opportunity. In general, government entities retain flexibility to manage their procurement processes, as long as these processes do not contradict federal or state law.

State government entities may exercise some discretion in making decisions about the contracts and grants they offer in the following ways:

- Setting requirements for eligibility and for application materials
- Identifying evaluation criteria for applications
- Placing restrictions on the use of funding
- Setting reporting requirements and other administrative activities that must be performed during the grant or contract

In some instances, the California Department of General Services uses its State Contracting Manual to suggest how contracts and contracting processes might be structured. Ultimately, however, the department does not require government entities to follow its guidance.<sup>18, 19</sup>

Many requirements set by state government entities are well intentioned, but they still may pose challenges for CBOs. In some cases, these requirements may be unnecessarily burdensome without commensurately advancing a government entity's interests. Many of the challenges identified by CBOs in this issue brief and in other reports could be addressed by making the revisions and changes proposed in this report, which would promote greater equity without sacrificing the integrity of the contracting or grantmaking process.

Additionally, in some areas of the procurement process, state law could be beneficial to CBOs if it were properly enforced. For example, the state law that requires government entities to make payments no later than 45 days from receipt of an invoice could be regularly enforced.<sup>20</sup>



# Recommendations for more accessible & equitable procurement processes

As this analysis has demonstrated, state government entities have opportunities to increase equitable access to state funds for CBOs through discretionary decisions that they make in their procurement processes. This section discusses actions and alternative approaches that state government entities should take to improve the state funding ecosystem for CBOs. Many of these recommendations require government entities to assess the current state of their processes and consider updating those processes. Government entities that do review their processes might find it helpful to solicit the perspectives of CBOs.

Further, some of these recommendations might help shift the relationship between governments and CBO contractors and grantees away from a hierarchical, transactional dynamic and toward a more equitable, cooperative one. In the private philanthropy sector, such a shift in relationship dynamics forms the basis of a new approach called *trust-based philanthropy*.<sup>21</sup>

## Lessen restrictions on the management & use of state funds

### **Allow and approve indirect expenses at rates that cover the true cost of operations.**

Government entities have the ability to adjust how the funding from their contracts and grants can be used by CBOs. Governments can allow a greater portion of funding to be used for indirect expenses – for example, administrative costs related to the requested services. Government entities can also remove or modify other funding restrictions – for example, restrictions on subcontractors and sub-grantees or restrictions on the types of activities to which funding may be applied. As an alternative, government entities can consider increasing funding for indirect costs on a contract-by-contract (or grant-by-grant) basis, according to the goals and needs of the governing entity and the type of services requested.

## Reduce the complexity & burdens of the application process & reexamine the selection process

**Provide greater access to technical assistance for applications.** Government entities should provide access to technical assistance, to help potential applicants understand the application process and the requirements of the contract or grant. This assistance may take the form of a toolkit or guide, a live event such as a workshop or office hours, or even individualized assistance. The California Strategic Growth Council employs many of these strategies to assist applicants in the process of applying for their grant programs.<sup>22, 23</sup> In another example, King County, Washington's County Council required that a minimum of 1% of funding be set aside for technical assistance and capacity building, to help service providers break down barriers to applying for government contracts.<sup>24</sup>

**Extend application deadlines.** Technical assistance efforts will be even more effective if government entities extend the application process, building in extra time for applicants to seek out, receive, and incorporate that assistance. In general, government entities should consider lengthening deadlines or advertising opportunities earlier, to allow CBOs more time to prepare competitive applications. One possible strategy is to streamline the review process by reducing the amount of application materials required; the time saved during review can be put toward extending the deadline.

**Reduce or remove application requirements.** Government entities should also examine application or eligibility requirements and reduce or remove the ones that are unneeded. For example, government entities can reduce the amount of insurance coverage that is required for CBOs, tailoring requirements to the size of the contract or grant and the level of risk involved. Another suggestion is to reduce or eliminate matching requirements for funding. By basing requirements on the nature and scale of CBOs' activities, government entities can establish a more nuanced and fair application process, ultimately making the process less complicated and more accessible for all.

### **What are intermediary organizations?**

Intermediary organizations act as a bridge between governments and CBOs by providing or adding operational and administrative capacity to organizations that may not have the capacity to apply for funding or to efficiently manage complex contracts and grants. Intermediaries often have specialized staff who are knowledgeable in grant writing, proposal development, and contracting and who are better able to navigate government application requirements and write proposals that fulfill procurement criteria. Intermediaries also have the resources for staff to complete these tasks in a timely and comprehensive matter.

Intermediary organizations are structured in several ways. Some simply act as an operational arm of smaller CBOs, helping CBOs find grants and contracts that match their priorities and then assisting the CBOs by writing and submitting proposals. These intermediary organizations are sometimes called *backbone organizations*. Other intermediaries may be directly funded by a government entity to carry out broader community goals and may have discretion to disburse that funding to CBOs.

Here are some examples of intermediary organizations in California:

- The Multi-Ethnic Collaborative of Community Agencies operates in Orange County.<sup>25</sup> They work with their member agencies to increase access and delivery of resources to diverse multicultural communities in the county by acting as a backbone organization to apply for and manage funds for the collaborative.
- Accountable Communities for Health (ACH) is a community-driven collective intended to promote health equity.<sup>26</sup> The East San Jose PEACE (Prevention Efforts Advance Community Equity) Partnership is an example of an ACH operating in California.<sup>27</sup> In the ACH model, decision making is typically spread across the local stakeholders who constitute their leadership; these stakeholders include residents, CBO leaders, local

governments, health care providers, and others. To finance services and activities, ACHs oversee wellness funds, which can include government funding as well as private philanthropic money. ACHs often employ backbone organizations to carry out administrative tasks. Because of their collaborative and diverse nature, ACHs are often able to secure funding that otherwise might not go to any single CBO working alone.

- Equity in OC is a county-wide initiative to address the root causes and systemic drivers of health inequities.<sup>28</sup> The initiative works with the Orange County United Way as a third-party grant administrator “backbone” for the various grants funded under the project.<sup>29</sup>
- Together Toward Health was brought together in the summer of 2020 to provide a massive and coordinated public health effort to not only address COVID-19 but also prepare communities for longer-term health and resilience.<sup>30</sup> They, along with their funders, provided funding, coordination, support, and counsel to 548 CBOs across the state to fill in gaps in COVID-19 response and recovery efforts.

While intermediary organizations have been successfully established in California, deploying them does raise some equity issues. An interviewee noted that intermediaries run the risk of becoming so dependent on and intertwined with the funding entity that they become an extension of that entity and thus recreate the same inequities: “If we start . . . pursuing this line of state funding, do we as an organization become beholden to this state funder to such an extent that we have to revisit our purpose, our mission, [and] our vision? . . . [Are we accountable to] a state agency that’s delivering the funding as opposed to . . . a group of local stakeholders who have supported [us] from the beginning?” Another interviewee expressed concern that funding that otherwise would be dispersed broadly throughout the community might “stay in the same pot” of organizations affiliated with the intermediary. Steps should be taken to safeguard against these unintended consequences.

**Expand or pilot the use of intermediary organizations.** Intermediary organizations can be leveraged to address many of the difficulties with the application process and eligibility requirements for funding by providing needed capacity, training, technical assistance, and support to CBOs as they apply for and manage state contracts and grants. Intermediaries can help to both build and fill CBO capacity where needed.

**Reexamine and clarify selection processes.** Government entities should be open to new organizations that might better advance their objectives, but they should also continue to support high-performing organizations they regularly work with. Finding the right balance can be difficult; however, government entities can promote a more equitable selection process by reexamining and, if necessary, revising the selection criteria for their contracts and grants as well as how those criteria are applied (and by whom). For example, selection criteria that favor the lowest cost can be revised to promote other values, such as equity or social impact. In reexamining their process, a government entity might ask the following questions: Are certain criteria favoring or disfavoring one type of applicant over another? What does that mean for the government entity’s broader goals? Has the performance of contractors or grantees been satisfactory to date?

Government entities can also increase transparency within the selection process, so that CBO applicants can better understand how competitive they are for various grants or contracts and accordingly adjust how they write their applications. Government entities might explore potential solutions such as providing greater detail about the selection process in the grant or contract posting, illustrating how criteria will be scored by providing a sample or hypothetical application, or, upon request, explaining how an application from a non-winning applicant was scored.

## Improve the predictability & timeliness of payments

**Design contracts and grants with shorter payment periods.** Contracts and grants can be designed with payment periods that are shorter than the 45-day maximum period required by state law. Shorter payment periods help CBOs maintain healthier cash flow, allowing them to cover operational expenses, pay staff, and implement programs without undue financial strain. Shorter payment periods would also reduce the financial risks associated with delayed payments. These changes can promote equity, given that smaller CBOs may face additional challenges related to accessing capital and navigating complex financial structures.

**Establish schedules for advance payments or fixed payments.** Government entities should use advance payments when possible. California recently passed and signed legislation – Assembly Bill 590 (2023) – that allows nonprofits to secure up to 25% of contracted funds up front, with priority given to nonprofits serving vulnerable communities.<sup>31</sup> Prior to passage of this bill, the governor authorized a similar pilot program for advance payments for a limited number of state grant programs in 2022.<sup>32</sup> This pilot project helped to pave the way for broader legislative action.

Contracts and grants can also be designed with fixed payment schedules in which payment intervals or dates are determined ahead of time, instead of using the reimbursement model. A fixed payment schedule allows contractors or grant recipients to anticipate when they will receive funds, enabling better financial planning and budgeting. A fixed payment schedule helps grant recipients manage their cash flow more effectively because CBOs do not have to front expenses and then wait for reimbursement. As an added benefit, fixed payment schedules can reduce the administrative burden on both government entities and CBOs because they dispense with the need for detailed expense tracking, invoicing, and reimbursement processes.

Fixed payment schedules can be tied to performance milestones or project deliverables (i.e., payment upon completion of a certain activity). This arrangement can ameliorate some concerns about accountability, given that funding is linked to achievement of specific goals rather than freely dispensed irrespective of performance. An example of this model comes from King County in the state of Washington. The county has worked to establish fixed, performance-based payments in their contracts with CBOs so that organizations are paid in more frequent and predictable intervals. In moving to performance-based contracts, the focus shifted from paying for quantity to paying for quality.<sup>33</sup>



**Remove other barriers to payment.** Finally, government entities can remove other barriers to payment by taking actions such as simplifying invoicing requirements, moving administrative functions online, and using direct electronic funds transfer in lieu of mailing physical checks. Several legislative bills have been introduced that propose some of these solutions, although only the advance payment bill, AB 590 (2023), has passed and been signed into law.<sup>34</sup>

## Reduce burdens associated with administrative requirements for contracts & grants

**Revise or reduce reporting requirements.** Government entities can revise or reduce reporting requirements, especially when the requirements do not meaningfully advance transparency and accountability. For example, if a CBO is required to submit quarterly reports but the government entity does not have staff capacity to do a detailed review of every report, the government entity could instead require reports on a semi-annual or even annual basis. As an alternative measure, instead of frequent and detailed reporting on input activities, reporting could be required at the conclusion of the project, with a focus on whether desired outcomes, as defined by the community, were achieved. Government entities can also allow more flexibility in reporting by specifying broad categories of data that they want to receive while allowing grantees or contractors to determine details such as format or metrics.

**Expand or pilot the use of intermediary organizations.** In addition to providing application assistance, as noted earlier, intermediaries can assist CBOs in managing funds and compliance with reporting requirements. Intermediaries can also provide support in monitoring and evaluating the outcomes of funded projects, to help CBOs demonstrate the impact of their work. These functions are often required to retain continued funding or to obtain new funding. Finally, intermediaries can serve as a single point of contact for multiple funders, saving CBOs time and effort by avoiding the need to navigate the unique reporting requirements of each funding source.



# Conclusion

CBOs are critical to advancing the goals of public health, but they often encounter obstacles to accessing and managing the state funds needed to advance their mission. This issue brief highlights the situations that many CBOs face when attempting to access or manage state funds, and it provides recommendations for how government entities can enact alternative approaches to their procurement processes, in service of advancing health equity. The takeaways from our qualitative and legal research reveal that although state laws set mandatory requirements, individual government entities have a substantial amount of discretion to make strategic decisions that could improve how grants and contracts are administered. Given this autonomy, state entities have a unique opportunity to implement equitable practices to ensure that CBOs can access the critical funding they need to support the diverse communities they serve and thus promote health equity.



# Appendix A: Key Terms

- **Blending or braiding (of funds):** Combining two or more funding sources (also called *funding streams*) to support a program or activity
- **Contract:** A mutually binding legal relationship obligating the seller to furnish supplies or services and the buyer to pay for them
- **Contractor:** An entity that performs the service mandated by a contract with a government agency
- **Fixed payment schedule:** A payment plan in which the payment intervals, dates, and/or amounts are determined (i.e., fixed) prior to commencement of work. This plan differs from the commonly used reimbursement model of payment, in which the contractor or grantee performs the service and then invoices the government agency to receive payment.
- **Government agency or government entity:** A California local, regional, or state government agency, department, or office tasked with managing or administering public funds
- **Government procurement:** The process by which a government acquires goods or services it wishes to obtain
- **Grant:** An award of financial assistance in the form of money – or property in lieu of money – by a funding government agency. The grantee is required to account for spending the money in the manner specified by the funding government agency grantor. In the context of this issue brief, grants are often distinguished from contracts, in that grants are generally intended to further a public purpose or benefit, whereas contracts are used to acquire supplies or services for the government’s direct benefit or use.
- **Grantee or grant recipient:** An entity receiving funding from a government grant
- **Indirect costs:** Expenses of doing business that are not readily identified with a particular grant or contract but are necessary to support the general operations of an organization and the activities it performs. Indirect costs generally include expenditures such as overhead (e.g., rent and utility expenses) and general and administrative expenses (e.g., the costs of an accounting department, human resources department, and information technology).
- **Indirect rate:** A percentage of direct costs (costs directly associated with the contracted services) that can be added to a contract amount to cover indirect costs
- **Reimbursement model of payment:** The most common payment arrangement, in which a contractor or grantee performs agreed-on services and then invoices the government agency to receive payment

# Appendix B: Data Sources, Research Methods & Limitations

To gain a better understanding of the challenges that CBOs face in the contracting process and to provide recommendations on how to improve the state's funding environment for CBOs, we engaged in several research activities:

- **Key informant interviews.** Seven interviews with key informants were conducted to gain insights into the experiences of CBOs and how state and local government entities and health departments can better support, fund, partner, and engage with them to promote equitable post-pandemic recovery efforts and address the fundamental drivers of health inequity.
- **Literature review.** A brief literature review was conducted to explore challenges and successes experienced by CBOs and other nonprofits in the government contracting and procurement process.
- **Review of state statutes and contracting requirements.** Specific California codes and statutes that are relevant to the government contracting and procurement process were reviewed, including sections of the California Government Code, California Public Contract Code, and the State Administrative Manual created by the California Department of General Services.

Please note that this issue brief does not reflect all of the perspectives involved in the contracting process between CBOs and government agencies. Additionally, a comprehensive review of all state codes, regulations, and guides was not conducted as part of this analysis.

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9. Gov. Code § 14827.3; Cal. Pub. Contract Code § 10348.
10. Cal. Pub. Contract Code § 10340(a).
11. DGS Manual 5.70(A), 5.75.
12. DGS Manual 5.06.
13. DGS Manual 5.40 gives *suggested* criteria.
14. Cal. Gov. Code § 927, et. seq.
15. Cal. Gov. Code § 927.6.
16. Cal. State Admin. Manual § 8474.
17. Cal. Gov. Code §§ 11256-11263, 11019, and 12502.
18. DGS Manual 5.35 gives *suggested* requirements for applications.
19. DGS Manual 5.40 gives *suggested* guidelines for evaluation of bids submitted in response to RFPs.
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