

# Costly Delays: Diagnosing and addressing operational delays in Baltimore's nonprofit contracting process

by Brendan Hellweg and Jake Mills

## Executive Summary

Baltimore City government is a major economic engine in the Baltimore region, equaling nearly 10% of both the city's Gross Domestic Product and its workforce.<sup>1</sup> Through its \$4.11 billion FY 2023 budget, Baltimore supports the services of hundreds of nonprofit organizations that seek to be a force of equity for the city, providing essential services to residents facing housing insecurity, unemployment, and other pressing needs. A reliable contract with the city can allow a nonprofit to expand, serve more residents, and build the employment base of the city, and small nonprofits in particular can reach residents experiencing housing and economic insecurity.

However, longstanding delays in contracting and payment of city partners leave some nonprofits asking if the barriers to accessing city funding are worth the effort. The city depends on nonprofits to provide services, particularly in Black and low-income communities. When those nonprofits are unable to provide those services because of inefficiencies in grantmaking operations, it is more than a breakdown in business operations. It prevents government from supporting its most vulnerable and historically disenfranchised citizens.

The purpose of this report is to identify how the city's contracting and payment process

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<sup>1</sup> <https://fred.stlouisfed.org/series/REALGDPALL24510>  
<https://fred.stlouisfed.org/series/SMU24925819093000001SA>

with nonprofit organizations can be improved. Interviews with Baltimore nonprofit leaders and an analysis of city-funded grants revealed that Baltimore nonprofits experience delays of a year or more in receiving payment for services delivered through government grant agreements, with the largest delays occurring during the contracting stage. These delays represent expensive bridge loans to the city for large nonprofits with strong balance sheets, but they disproportionately burden small organizations with lower access to credit. Although some delays are attributable to federal requirements or financial reporting best practices, and others are currently being resolved through ongoing reforms, this report identifies several significant challenges in the contracting process that present opportunities for Baltimore to improve its partnerships with nonprofits while ensuring accountability for public funds.

- **Nonprofits often work without a contract or approved funding:** The median recipient for Community Development Block Grant (CDBG) funding provides contracted services for 438 days (more than 14 months) before its contract is approved by the Board of Estimates and it can begin billing the city.<sup>2</sup> Only one contract in our sample of 115 CDBG recipients was approved on or before its service start date.
- **Delays can stretch beyond a year:** One nonprofit director reported going without pay for nearly a year in order to keep employee payroll and services when a grant was delayed.

Larger nonprofits (those with an operating budget of \$2 million or more) report forgoing competitive grants like the Community Development Block Grant (CDBG), saying, “The opportunity cost is not worth it.”

- **“Black box” process frustrates nonprofits:** Almost all interviewees cited a lack of transparency about the process and expected time frames for each step in contracting. Repeat partners build internal workflows to accommodate the partnership, but first-time awardees report significant confusion and resulting delays.
- **For repeat awards, few efficiencies are achieved:** Nonprofits that receive the same or similar awards annually report low information retention or efficiencies from year to year, making each year its own negotiation rather than a standard renewal process.
- **Relationships get results when delays occur:** Nonprofits with strong relationships with senior city leaders report escalating to directors or commissioners when a grant is held up or a mistake occurs. This informal approach favors incumbent organizations over newcomers.

These challenges result in fewer and more strained partnerships, limiting the services delivered to Baltimore residents. Nonprofits of all sizes, with budgets ranging from \$200,000 to more than \$30 million, reported not applying or intending not to reapply for grants given the delays. One larger nonprofit leader said, “The juice is not worth the squeeze,” opting instead

<sup>2</sup> Author calculations from Comptroller’s Office tabulations of Board of Estimates data.

to pursue philanthropic and state funding or redirect their operations toward other cities.

These barriers have been exacerbated by the pandemic and its associated disruptions, but delays in payment long predate the COVID-19 pandemic. To address these concerns, we identified several areas for improvement with actionable first steps:

- 1. Authorize first quarter prepayment:** To reduce the burden of late payment, produce a simplified contract approved by the Board of Estimates at the nonprofit's start of services wherever possible for 25% of the contract or \$50,000, whichever is greater. Alternatively, offer financing for nonprofits to start services funded by the city through the Civic Fund, which provides fiscal sponsorship for public-private partnerships between City programs and the philanthropic community.
- 2. Map, standardize, and digitize nonprofit contracting:** To clear the "black box" and enable performance management, develop process maps for each agency grant process, aligning and simplifying wherever possible. Set Service-Level Agreements (SLAs) and points of contact for each stage, and consider adopting the Department of Housing and Community Development's newly implemented Neighborly software (or a similar tool) for contracting across agencies.
- 3. Task a contracting improvement team:** Within the newly authorized Comptroller's Department of Accounts Payable or the

Mayor's Office of Performance and Innovation (CitiStat), establish and fund a workflow assessing in-progress grant agreements and diagnosing bottlenecks both within IT systems and in manual steps of the review process. Establish a complaint process to reduce reliance on pre-established connections. Designate a leader in each major contracting agency responsible for monitoring the status of in-progress and pending grants.

- 4. Encourage day-one invoicing:** To enable the city to see its contracting backlog, encourage nonprofits to submit invoicing from the first day services start (rather than at contract approval). A tracker for this completed but unpaid work will facilitate performance management and accountability.
- 5. Expedite renewals and increase multiyear contracts:** Longstanding recipients of recurring grants should receive accelerated renewals based on templates rather than full reassessment each year. Where possible, repeat annual grants with the same recipient should be converted to two-, three-, or five-year grants, depending on the circumstances.

These proposals would not eliminate all delays, but they represent achievable steps targeted narrowly to the greatest challenges for nonprofits—particularly small nonprofits with limited access to capital—in collaborating with the city. This report goes into each reform in greater detail and outlines next steps for integrating these actions with ongoing reforms.

## Background

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The spending power and labor force of the Baltimore City government is a major economic engine in the Baltimore region, equaling nearly 10% of both the city's Gross Domestic Product and its workforce.<sup>3</sup> Through its \$4.11 billion FY 2023 budget, Baltimore supports the services of hundreds of nonprofit organizations that provide essential services to residents facing housing insecurity, unemployment, and other pressing needs. A reliable contract with the city can allow a nonprofit to expand, serve more residents, and build the employment base of the city; small nonprofits in particular can reach residents experiencing housing and economic insecurity.

However, longstanding delays in contracting and payment of city partners leave some nonprofits asking if the barriers to accessing city funding are worth the effort. The city depends on nonprofits to provide services, particularly in Black and low-income communities. When those nonprofits are unable to provide those services because of inefficiencies in grantmaking operations, it is more than a breakdown in business operations. It prevents government from supporting its most vulnerable and historically disenfranchised citizens.

On December 30, 2021, City Auditor Josh Pasch published the Biennial Performance Audit for Fiscal Years 2020 and 2019. The principal objective of the report was to evaluate whether the city had "effective policies, procedures, and processes to pay vendors not later than the date specified in the contract, or, if no date is specified, 30 calendar days from the receipt date of a proper invoice."<sup>4</sup> Following the auditor's conclusion that the Department of Finance's Bureau of Accounting and Payroll Services (BAPS) did not meet these performance standards, Comptroller Bill Henry announced the introduction of a City Charter amendment to create a Department of Accounts Payable responsible for all vendor payments and disbursements made by the city with the mayor's endorsement. Voters passed a charter amendment establishing the department, and the change will go into effect January 2023. Our team was approached by the Abell Foundation ahead of this policy change to identify the most important areas for process improvement in the city's relationships with nonprofit organizations, particularly those with smaller operating budgets.

In addition to data analyses of 115 Community Development Block Grant (CDBG) awards totaling \$27 million over two years, we interviewed city officials, content experts, and 11 nonprofit

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<sup>3</sup> <https://fred.stlouisfed.org/series/REALGDPALL24510>  
<https://fred.stlouisfed.org/series/SMU24925819093000001SA4>

<sup>4</sup> [https://comptroller.baltimorecity.gov/sites/default/files/comptroller\\_baltimorecity\\_gov/attachments/DOF%20PERF%20Audit\\_04-21-2022.pdf](https://comptroller.baltimorecity.gov/sites/default/files/comptroller_baltimorecity_gov/attachments/DOF%20PERF%20Audit_04-21-2022.pdf)

**“ It’s unlikely that I will apply to the Community Catalyst Grant again because it will take a year to receive funding. This is the only reason—for operating grants, it can’t take a year.”** –Interviewee 2

executive directors with annual budgets ranging from under \$200,000 to more than \$30 million.<sup>5</sup> These executives’ organizations had relationships with the city ranging from one-off partnerships to long-standing service-delivery arrangements. The goal of these conversations was to determine, to the extent that nonprofits faced undue challenges, where the issues were most acute, how they impacted service delivery, and what could be done to improve these partnerships, particularly for small nonprofits with lower access to capital. Interview questions are included in the appendix.

We found that both the nonprofits we spoke with and the Comptroller’s Office itself agreed that the creation of the Department of Accounts Payable would only minimally impact the areas that most burdened small and local nonprofits, with the benefits of this policy change mostly accruing through the efficient payment of vendors. A cross-cutting concern mentioned by several nonprofits interviewed for this report is a reluctance to “go on the record,” either for criticizing practices or for “going over someone’s head” when escalating a slow process. For this reason, many

of the interviewees are referred to solely by their interview number.

Although nonprofit leaders report frequent delays and adverse impact on their financial and operational performance, late payments on invoices are just one element of the challenges they face. Almost every one of the nonprofits we spoke to reported that late payments for existing contracts was a far smaller burden than slow contracting speed. Consistently, nonprofit leaders reported that although they received notice that they were awarded contract with the city before services were set to begin, the contract was not actually approved by the Board of Estimates until 6–12 months after its start date. Essentially, late payment of invoices often contributes 1–3 months of delays to a 9- to 15-month problem. Interviews with representatives from the Comptroller’s Office confirmed that the move of Accounts Payable into the Comptroller’s Office would not alleviate this problem; rather, it represented an incremental step forward in repairing the process.

<sup>5</sup> Note: Although our data analysis was limited to CDBG awards due to data availability, interviewees received grants from agencies including the Mayor’s Office of Employment Development, the Baltimore City Health Department, and the Mayor’s Office of Homeless Services.

## Assessing the New Department of Accounts Payable

### THE POLICY CHANGE

The Department of Accounts Payable, within the Comptroller's Office, is now responsible for all vendor payments by the city.

### WHAT WILL CHANGE AND HOW

This moves invoice payment from the Department of Finance's Bureau of Accounting and Payroll Services (BAPS), under the Mayor, to the Comptroller's Office. The Comptroller's Office intends to further modernize the system for invoicing and enhance checks and balances around the timely payment of invoices and reporting.

### BENEFITS OF THE CHANGE

This change will make the Comptroller responsible for the prompt payment of city invoices, a consistent issue for local vendors. A dedicated office with license to conduct process improvement will be more accountable than the present organization. Additionally, consolidating financial oversight under the Comptroller gives voters a clearer view into the relative performance of elected officials.

**However, this effort should be understood as a first step in the right direction, rather than a solution to the city's procurement challenges.** Using the framework established by Bloomberg Philanthropies, this change represents a path toward elevating procurement as a strategic function, by signaling a more collaborative dynamic between the Mayor and Comptroller and a willingness to rethink processes.

Given these early findings, we refocused our assessment towards the delivery and approval of city contracts after a grant is awarded. Among the largest issuers of grants to nonprofits are the Department of Housing and Community Development (and, in particular, the Community Development Block Grant program), the Baltimore City Health Department, the Mayor's Office of Homeless Services, and the Mayor's Office of Employment Development. We interviewed recipients of each grant category, as well as city officials responsible for the delivery of many of these grants.

## Understanding the Process

Contracts with the city are subject to the approval of the Board of Estimates (BOE), a five-person board with three representatives of the Mayor alongside the City Council President and Comptroller. When a grant is issued by Baltimore City, it is first awarded by an agency to

an organization (which is then expected to carry out the project for which funding was awarded) and then approved as a contract between the city and the receiving organization. Though the Board of Estimates is often cited as a source of delays for government operations, most of

“The only way we can protect ourselves and have the peace of mind to provide services ... is that we cannot rely on these external uncertainties. We build our own reserves as a coping mechanism and have learned to say no to reapplying to grants that have hurt us in the past” –Interviewee 6

the time involved in finalizing a grant agreement is spent between the granting agency and the receiving nonprofit developing the budget, contract, and reporting system for the services rendered by the nonprofit. During this time period, the nonprofit is often expected to begin delivering services despite not having a contract in place, and invoices can be approved only after the Board of Estimates has approved the contract.


A grant-issuing agency typically has broad discretion in how it administers a grant Request for Proposals (RFP), depending on federal, state, and local guidelines that can influence selection or reporting of nonprofit partners. A typical RFP might require a preliminary budget, a grant proposal, and an interview ahead of selection. The process from here is generally managed by a program manager who is responsible for the execution of this agreement. Once the grant is awarded, the nonprofit is generally expected to begin work with the understanding that a contract will be eventually approved. This is a key challenge for small nonprofits with lower access to capital because they are expected to deliver services well before they receive funding.

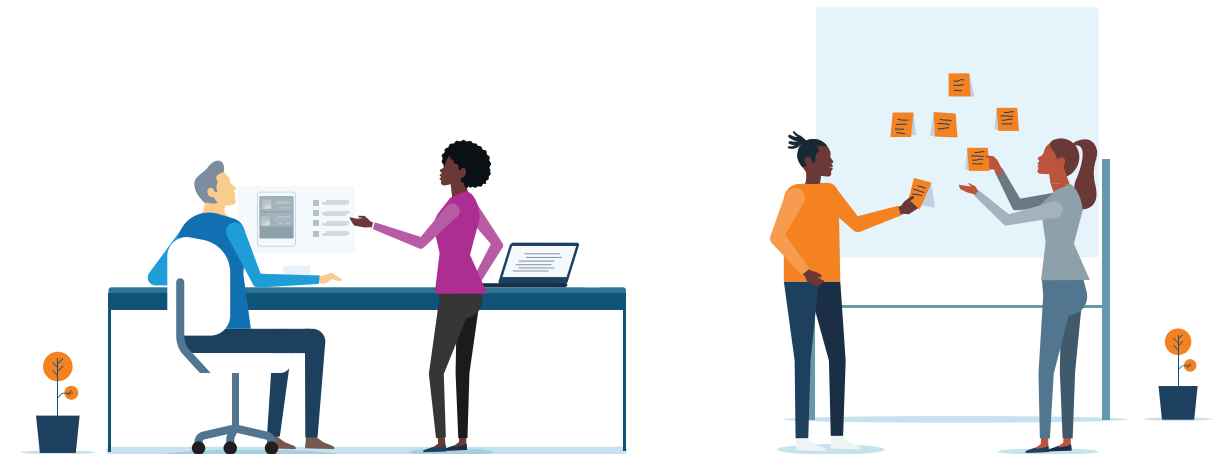
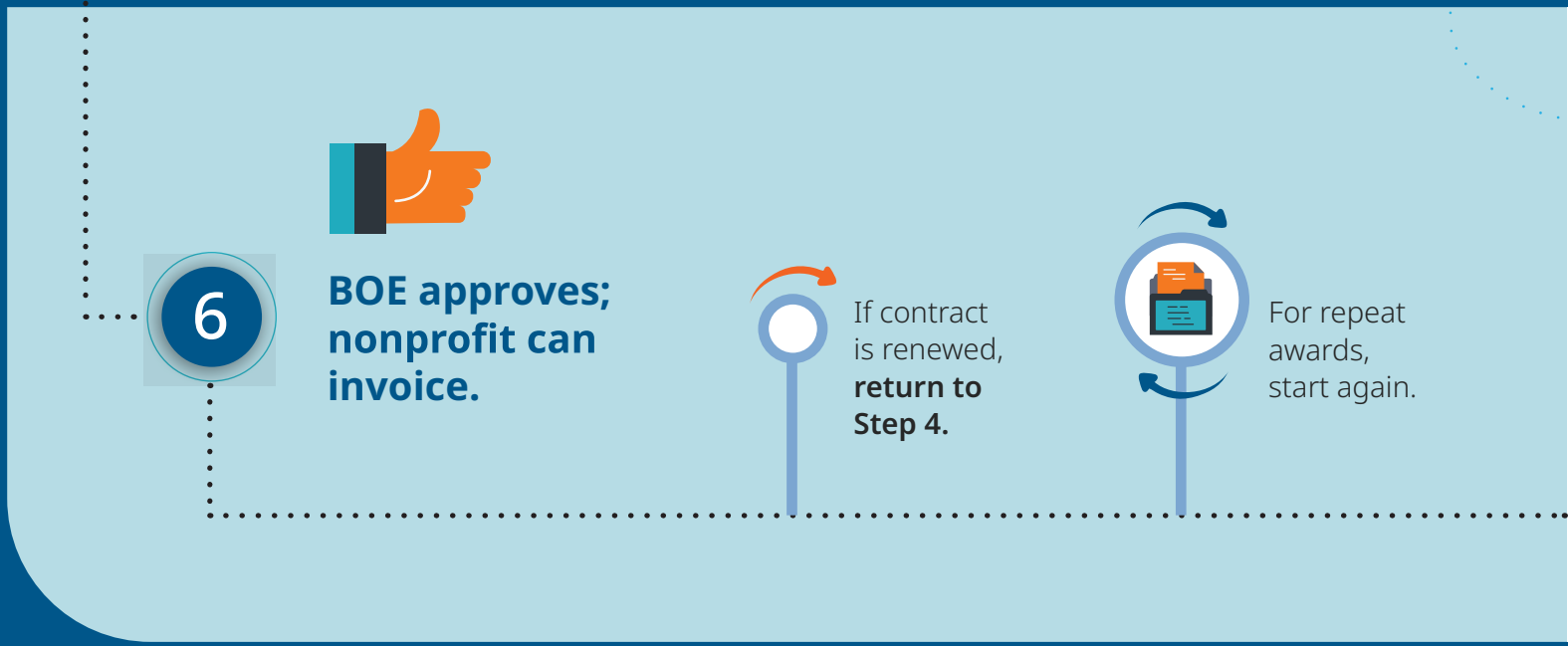
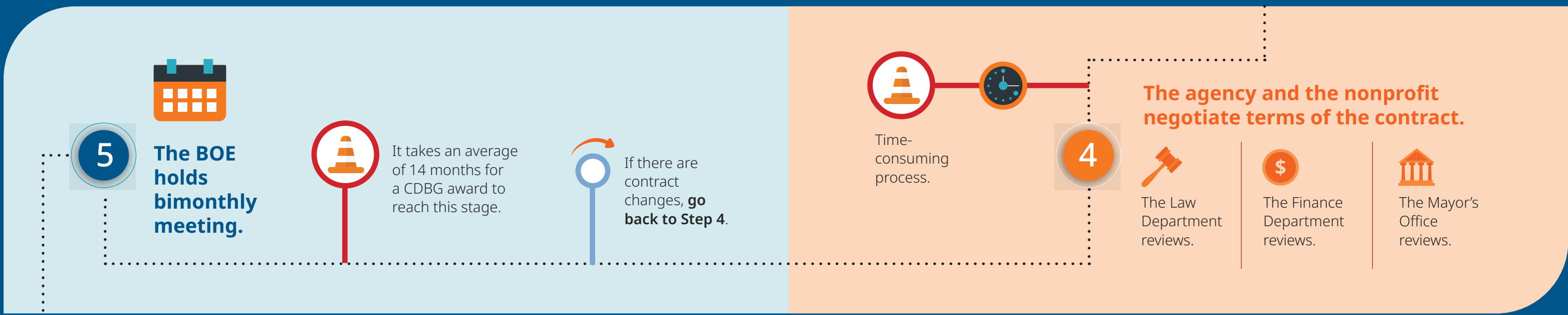
Given the centrality of the Board of Estimates in approving all contracts and the de facto majority control by the mayor, a number of “Pre-BOE” meetings and approval chains are used to ensure that there are few surprises in the meeting. The agency will seek pre-approval of its grant agreement with the Baltimore City Law Department and Baltimore City Finance Department before bringing the agreement to the Mayor’s Office for a Pre-BOE discussion. At this point, the mayor may choose to advance the contract to the BOE or send it back for changes.

Assuming the contract moves forward, it is included in the bimonthly Board of Estimates agenda, discussed in a public meeting, and voted on by the five members. Only at this point is the nonprofit authorized to receive payment. **The nonprofit may be submitting nine months of invoices and associated reporting at this time, so payment may be further delayed by insufficient (or hard to assemble) documentation.**

The high-level process is illustrated on pages 8–9, with orange shading to indicate the phases interviewees found most challenging to navigate.

# Overview of the Process

 Phases interviewees found most challenging to navigate





## Overview of the Process<sup>6</sup>

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1. **Pre-planning:** Agency develops/redevelops RFP or adopts a state/federal program for local use.
2. **Solicitation and Evaluation:** The agency releases guidelines for its RFP. Nonprofits develop proposals that are evaluated along pre-defined criteria, public input, and other factors.
3. **Selection:** The agency notifies the nonprofit of its selection. The nonprofit is then expected to start work according to its proposal, which may be within one to two months. This selection process may include a public comment period in addition to the internal review process.
4. **Contracting (Pre-BOE):** The agency and the nonprofit negotiate terms of service, a budget, performance reporting, and other key factors in line with other requirements (e.g., federal CDBG guidelines). During this phase, the nonprofit is expected to deliver services and report performance but cannot be paid until the contract is approved.
  - **Pre-approval of contract by Law Department:** When the agency and nonprofit have settled on terms, the Law Department reviews for compliance with city and other requirements. This may trigger another round of review.
- **Pre-approval of contract by Finance Department and Audits:** When the budget is ready, the Finance Department reviews for funding availability and Audits reviews for auditing standards. This may trigger another round of review, but interviewees describe it as relatively brief (two weeks on average).
- **Pre-approval of contract by Mayor's Office (Pre-BOE):** The Mayor's Office reviews the final draft ahead of the BOE meeting, generally the week prior. This rarely leads to another round of review.
5. **Board of Estimates Review:** The BOE holds a biweekly public meeting to consider contracts before the city. Typically, nonprofit contracts are approved at this stage without issue, but it is the sole formal approval stage. The Comptroller's Office estimates that it takes an average of 14 months for a CDBG award to reach this stage, and delays can reach nearly three years.<sup>7</sup>
6. **Invoicing for Services:** The nonprofit is now able to be paid. To submit an invoice, they must demonstrate service delivery through performance reports, which are approved by the agency program manager.

<sup>6</sup> Steps synthesized using Seachange process detailed here: <http://SeaChangecap.org/wp-content/uploads/2018/11/NYC-Contract-Delays-The-Facts.pdf&sa=D&source=docs&ust=1661104413790665&usg=AOvVaw2r0idjDNrTHajwZpQAosTh>

<sup>7</sup> <https://www.thebaltimorebanner.com/politics-power/local-government/city-delays-leave-baltimore-nonprofits-waiting-up-to-two-years-for-needed-funds-UJ45ONJXU5FILN4WOWA4EAPW5M/>

“Once we got the powers that be involved, it was turned around very quickly. That’s what you have to do in this city.” –Interviewee 8

### OPTIONAL STEPS

**A. Accepting State or Federal Funds:** If the city is using state or federal funds for the grant, it will first accept the funding through the Board of Estimates prior to the Solicitation and Evaluation phase. One agency director said that this process of formally accepting federal funds prior (rather than parallel) to issuing the RFP can further delay the grantmaking process by an additional two months.

**B. Changes to Existing Contracts:** If a change to the existing contract is needed (for instance, a position reclassification), the alteration must go through Steps 4 through 6 again. One interviewee said, “If estimates are changing, we will eat the loss rather than make a change since it would take another year.”<sup>8</sup>

**C. Protesting Delays:** If a payment or contract step is delayed, nonprofits will often attempt to contact senior staff at the commissioner or director level. This depends on

preexisting relationships, which can favor incumbent organizations, though it can also allow smaller organizations to “punch above their weight” if they have strong connections. For small nonprofits without these connections, the best move is to “CC as many people as you can.”<sup>9</sup>

**D. Repeats and Renewals:** For contract renewals, return to step 4, when the contract must be reassessed with the new budget and agreement. For repeat awards, most or all of the process is repeated.

As part of our analysis, we assessed 115 CDBG grant awards approved by the Board of Estimates between March 3, 2021, and July 20, 2022. Grants ranged from \$27,600 awarded to the Greater Remington Improvement Association for a needs assessment survey to \$480,600 awarded to the Living Classrooms Foundation for a workforce development program.

<sup>8</sup> Interviewee 2

<sup>9</sup> Interviewee 9

Within this sample, the median contract went before the Board of Estimates 438 days after its start date. Since almost all contracts were for one year, work would almost always be completed before the first payment could go out.

Of the 115 awards, 76% were repeat awards, meaning they paid the same organization roughly the same amount to fulfill the same service across the sample years. For instance, the city awarded Comprehensive Housing Assistance, Inc., \$46,750 to provide pre-purchase counseling to low- and moderate-income home buyers in October 2021, one year and three months after its contract start date. This award was three months into its second

contract, which took effect in July 2021. Ultimately, the second contract was approved by the Board of Estimates two weeks before expiration on June 15, 2022.

Although nonprofits reported that these types of delays existed long before the pandemic, Housing Commissioner Alice Kennedy emphasized COVID's strain on operations and staff capacity, as well as priority given to emergency relief funding. Moreover, the Federal Government's delay in approving their yearly budget and CDBG allocation further postpones when local jurisdictions are notified of their official award amount, a contracting impediment outside the city's control. Commissioner Kennedy

### By the Numbers: Summary statistics about BOE review of CDBG awards

Statistic	Value
Minimum days from start to approval	0 days (only one in sample)
25th percentile, days from start to approval	321 days/11 months
Median days from start to approval	438 days/14 months
75th percentile, days from start to approval	525 days/17 months
Maximum days from start to approval	975 days/2 years, 8 months
Standard deviation, days from start to approval	163 days

Source: Baltimore City Comptroller's Office tabulation of Board of Estimates records from March 3, 2021, to July 20, 2022.

said there would always be a gap between when expenses are incurred and when they are reimbursed. "Organizations must assess whether they have the organizational and

financial capacity to receive funding that comes with many strings attached and is not able to be immediately available."



## Diagnosing the Problem

Based on this understanding of the process, we interviewed nonprofit organizations and city officials to understand the greatest pain points to target for our recommendations. These challenges appear to have been exacerbated during the pandemic, but they are not new; one former nonprofit executive noted that, in the 1990s, he experienced an average delay of 12–18 months across CDBG, HOME, and other city-administered grants.<sup>10</sup>

Issue	Stages Impacted	Description
Single program managers administer process without consistent “backup”	<p><b>Solicitation and Evaluation</b> (delayed issuance)</p> <p><b>Contracting</b> (delays and unclear lines of communication)</p> <p><b>Invoicing</b> (delayed approvals)</p>	Several interviewees noted that, if a program manager is sick or leaves the city, the nonprofit is unlikely to be notified and will only find out on inquiry, weeks later. In the worst cases, the nonprofit may be left waiting until the position is filled months later. Given these challenges, the most experienced nonprofits will check in regularly and cultivate relationships with managers to ensure staff are still on track. One longtime nonprofit executive noted that, unlike past years, no senior Department of Housing and Community Development (DHCD) staff is individually responsible for moving grants, nor was he aware of a comprehensive spreadsheet tracking the process. However, Commissioner Kennedy noted that a new deputy director would soon be working to implement business process software to expedite and streamline communication. <sup>11</sup>
Lack of clear process or expected time frame for completion	<p><b>Solicitation and Evaluation</b> (unclear criteria or process)</p> <p><b>Contracting</b> (unclear lines of communication)</p> <p><b>Protesting Delays</b> (unclear why barriers occur)</p>	Nonprofits report having “no way of validating” what stage a grant falls into, leaving them unsure if the cause of a delay is real or just a “scapegoat.” <sup>12</sup> One interviewee noted that, though program managers diligently reviewed their documents on time, it was rarely clear what was causing delays in reaching BOE review. Another interviewee described the contract going through “radio silence for weeks and weeks and weeks and then it goes to the Board of Estimates.” <sup>13</sup> Housing Commissioner Kennedy noted that federal delays in approving the HUD budget in recent years has exacerbated this problem, as the city’s CDBG funds are contingent on federal appropriations. <sup>14</sup>

<sup>10</sup> Greg Cantori, Former Nonprofit Executive Director

<sup>11</sup> Alice Kennedy, Housing Commissioner

<sup>12</sup> Interviewee 7

<sup>13</sup> Interviewee 10

<sup>14</sup> Alice Kennedy, Housing Commissioner

Issue	Stages Impacted	Description
High reliance on analog or one-off emails over clear process sites	<b>Contracting</b> (coordinating with program managers)	From the initial RFP through the selection process and invoice payments, many city agencies rely on email exchanges to facilitate procurement and payment. Using email as a primary medium for a process that involves an array of checks and balances makes it difficult to decipher barriers to contract and invoice approvals. Highly experienced nonprofits will internally track completion in Excel or another tool to avoid missed steps. However, city officials note that it is not uncommon for delays to be made worse by subrecipients failing to respond to requests in a timely manner. To address this issue, DHCD is onboarding the CDBG grant process to its Neighborly software, a cloud-based program management tool currently in the implementation phase.
Variations among different city agencies	<b>Pre-planning</b> through <b>Contracting</b> (engaging in multiple contracts, performance improvement)	The city does not have a universal system for generating grant agreements. Agency processes are highly variable due to different sources of funding (and associated reporting requirements), operating systems, and staffing, many of which cannot be changed unilaterally by the city. However, there is no complete template of the agency and central steps a nonprofit grant must work through before receiving payment. <sup>15</sup>
Unwieldy amendments to the budget and contract	<b>Changes to Existing Contracts</b> (large delays from repeat stages)	Nonprofits report that any amendments to the budget essentially restart the contracting process and result in long postponements to payments. Instead, they forego changes to the budget that may improve the quality and efficiency of service delivery. If a new hire becomes necessary, nonprofits with strong balance sheets may eat the cost, while smaller nonprofits may have to cut services or stretch their budget.
High barriers to contract renewal	<b>Repeats and Renewals</b> (lack of efficiencies in repeat steps)	Longtime partners of the city feel they go through the same “first contract” growing pains every year—there is no learning curve or customization to support multiyear partnerships. One interviewee noted that a basic template for repeat awards would be useful, while others recommended multiyear awards wherever possible.
Disruptions from COVID-19 and remote work	<b>Contracting</b> (lower visibility into performance) <b>Protesting Delays</b> (harder to contact)	Several interviewees noted that COVID-19 has further reduced transparency and performance, as staff working from home have even less oversight or visibility into their peers’ work. Interviewees noted that, due to this lower visibility, a grant may be held up for months because one staff member takes a leave of absence. Housing Commissioner Kennedy noted that these delays were compounded by the need to adjust grant making processes to accommodate new federal sources of funding, such as federal CDBG COVID-19 grants.

<sup>15</sup> Celeste Amato, Comptroller’s Office

## Impact on Nonprofits and Service Delivery

These operational delays produce significant costs for nonprofits working with the city and threaten to undermine the critical work they are contracted to do. Below are the largest categories of disruptions produced through delayed payment.

- **Financial strain:** Late payments cause significant financial strain, and most interviewed nonprofits reported utilizing their reserves, lines of credit, or other funding streams to make payments, while others paid vendors late or cut back on operational expenses. Given there are rarely any margins beyond expenses from city contracts, nonprofits assume great risk with little reward outside of increasing mission-related activities. These efforts can effectively be described as costly and interest-free bridge loans to the city through services rendered.
- **Diminished pursuit of additional city contracts:** Because there is no expectation that payment will begin at the time of service delivery, nonprofits can essentially only pursue grants for which they can front the money through reserves and lines of credit. As delays have become increasingly pronounced since the start of COVID, nonprofits have reported steering clear of RFPs, despite strong mission matches and solid past performance. The consequence is less competition in city contracting, which could have negative impacts on outcomes. However, other nonprofits noted “always leaning towards taking

advantage of the opportunities available,” which mitigates this barrier to participation.<sup>16</sup>

- **Foregoing budget amendments:** Any amendment to the contract’s budget risks restarting the contract approval process. The prospect of furthering delay in payment for services results in forgoing such changes and contract inefficiencies. As a result, one city agency director noted that “we have to give money back at the end of a lot of the grants we contract out because it’s hard for our providers to draw down to the number ... nonprofits deliver the outcome and don’t get the cost covered.”
- **Internal staffing and operation strains:** In general, nonprofits noted that they maintained the best services possible despite delays, but strains are most observable for internal staff and efforts to expand services.
- **Variability between small and large nonprofits:** The nonprofits we spoke with strongly supported our hypothesis that slow contracting and payment disproportionately strains small nonprofits. Large nonprofits can handle what amounts to a bridge loan of services and capital to the city, though it can cause tension within the organization. One interviewee managing a small nonprofit (<\$250k operating budget) reported not taking a paycheck for nearly a year to avoid layoffs and service disruption because a city contract was delayed.

Interviewees noted that errors and delays by nonprofits in some cases contributed a large portion of the overall time to complete a contract. In particular, one agency official described

<sup>16</sup> Interviewee 10

reworking budgets that did not add up or requesting missing information without an immediate response. These issues are legitimate and point to a need for streamlined processes

and improved safeguards for small nonprofits. A high-performing system should be able to correct for human error without contributing excessive delays.

## Research on Peer Cities and Best Practices

Baltimore's contracting issues are acute but not exceptional. Cities across the country are increasingly identifying contracting and procurement reform as a critical step in addressing the root cause of inefficiencies and inequities that spur from government spending.

### Eliminating Slow Contracting and Setting High Standards in New York City

In January 2019, more than 200 social service nonprofit representatives "sounded the alarm" that chronically late payments left almost 20% of their agencies functionally insolvent.<sup>17</sup> An investigation by SeaChange Capital Partners into these longstanding payment delays draws striking parallels to our findings in Baltimore. Like Baltimore's Board of Estimates, the Comptroller's Office of NYC must "register" a contract before it goes into effect, and nonprofits were expected to start services even if a contract was not in place. In their analysis, SeaChange found that more than 90% of NYC social service contracts were registered after their contract start date, with an average delay of 210 days be-

tween service start and registration (compared to 438 days for CDBG contracts in Baltimore).

Similar to the accounts of nonprofit executives in Baltimore, SeaChange's report found that nonprofits have "little choice but to begin service from the start date," considering the operational burdens of hiring and rehiring staff, fixed costs associated with programming, and the importance of maintaining good standing with city agencies.<sup>18</sup> SeaChange makes four recommendations to address New York City's nonprofit contracting issues:

1. **Lend nonprofits the money up front** via NYC's fiscal sponsor arm, the Fund for the City of New York, for contracts of \$500,000 or less.
2. **Make it easier for nonprofits to borrow from others** "by allowing contractual payments to be assigned to third-party lenders" (i.e., banks).
3. **Establish a "SWAT team"** for contracts of \$1 million or more that remain unregistered for 90 days.
4. **Collect late fees** that could be paid to affected nonprofits.

<sup>17</sup> <https://www.bloomberg.com/news/articles/2019-03-08/when-cities-pay-contracts-late-homeless-people-suffer>

<sup>18</sup> <http://seachangecap.org/wp-content/uploads/2018/11/NYC-Contract-Delays-The-Facts.pdf>



## Building Overall Procurement Effectiveness in Baltimore County

Some nonprofits we interviewed indicated greater ease in working with Baltimore County, which has also engaged in process improvement studies over the last year. In January 2022, Baltimore County's Blue Ribbon Procurement Commission released a report outlining their recommendations for improving the county's contracting functions and outcomes. Although their report covered overall procurement, their recommendations on reducing barriers to entry, increasing consistency, improving training, and supporting Minority Business Enterprises (MBEs) are broadly applicable and address similar challenges to those facing Baltimore city nonprofits.<sup>19</sup>

- 1. Reduce barriers to entry:** Raise the minimum procurement threshold above \$25,000 to reduce small-dollar paperwork and offer resources and training to smaller organizations.
- 2. Increase consistency across agencies:** Designate a chief procurement officer, standardize procurement processes and responsible parties, and increase communication across agencies.
- 3. Build staff capacity:** Require annual training for approving officials and department heads. Identify staff involved in bids and contract management across agencies

to increase training and share learnings across peers.

- 4. Support underrepresented organizations:** Align and publish accountability measures by agency and increase funding for historically disadvantaged vendors. Codify and publicize initiatives to increase accessibility.

## Expanding Digital Governance in Long Beach, California

After identifying procurement reform as a central element to economic inclusion, racial equity, and recovery from COVID-19, Long Beach launched a new procurement software in June 2022 to more effectively contract with "local, diverse, and disadvantaged businesses."<sup>20</sup> Long Beach Buys is the culmination of a years-long effort to make the city's procurement process more efficient, results-driven, and sustainable. The website includes vendor resources and video guides that help guide organizations through essential steps to contracting with the city, such as registration, certification, bid solicitation, and proposal submission. The platform also includes a data and reporting module to measure city performance, a contract management module to anticipate upcoming milestones, and a public dashboarding function to promote greater transparency. Although it is too soon to report on program efficacy, the platform represents a new benchmark for accessible procurement systems.

<sup>19</sup> <https://www.baltimorecountymd.gov/county-news/2022/01/18/baltimore-county-procurement-reform-commission-issues-recommendations-for-improving-county-policies>

<sup>20</sup> <https://www.longbeach.gov/press-releases/long-beach-launches-new-procurement-software-long-beach-buys/>

## Bloomberg's Four-part Framework for Procurement Reform

Much of the research into equitable procurement reform focuses on commercial vendors and their role in building city-wide equity and generational wealth for underrepresented groups. Although nonprofit contracting improvement targets a different piece of the city's economic ecosystem, Bloomberg Philanthropies' four-part framework for procurement reform offers a simplified way to define and measure progress:<sup>21</sup>

- 1. Make the process more efficient, inviting, and transparent:** Engage in digitization and human-centered design to improve processes.
- 2. Focus on outcomes rather than activities:** Get rid of overly prescriptive oversight of vendor activities while closely observing final service delivery.
- 3. Foster greater equity:** Simplify bidding, pay promptly, and reduce excessive requirements so that smaller and younger organizations can compete.
- 4. Elevate procurement as a strategic function:** Widespread training and the creation of a steering committee with sufficient representation across city agencies.

<sup>21</sup> <https://bloombergcities.jhu.edu/news/four-ways-turn-procurement-force-change>



## Recommendations

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To alleviate the problems facing nonprofits and begin reforming Baltimore's procurement processes, we suggest five attainable actions that would meaningfully improve the experience of nonprofit partners and city staff. Our goal is

not to design a perfect system for large-scale procurement reform, but rather to put forward a system that can begin being implemented within the next year.



- 1. Authorize first-quarter prepayment:** To reduce the burden of late payment, produce a simplified contract approved by the Board of Estimates at the nonprofit's start of services for 25% of the contract or \$50,000, whichever is greater. For small grants, the full cost would be covered up front. Alternatively, offer financing for nonprofits to start services funded by the city through the Civic Fund.
- a. **Justification:** This will give nonprofits a leeway for costs incurred to deliver services for the city and be a force for equity by alleviating the burden of bridge loans for smaller nonprofits. Martin Schwartz of Vehicles for Change noted that its city partners in the Eastern Shore funded contracts partially up front in this manner. This practice is currently in place for Community Catalyst Grants, according to the Department of Housing and Community Development.
  - b. **First step:** The Law Department assesses legal feasibility for direct financing for each major grant type, and if necessary, the steps and barriers to involving a third party.
  - c. **Long-term vision:** Consider moving away from reimbursement grants where possible, offering half or full payment ahead of time for nonprofits providing services to residents.
- 2. Map, align, and digitize nonprofit contracting:** To clear the "black box" and enable performance management, develop process maps for each agency grant process, aligning and simplifying wherever possible.

Set Service-Level Agreements (SLAs) and points of contact for each stage, and adopt the Department of Housing and Community Development's newly implemented Neighborly software for contracting across agencies. Produce a menu of contract templates and reporting systems for nonprofits of different sizes to improve the ease and relevance of city grant agreements.

- a. **Justification:** Cities like Long Beach<sup>22</sup> have provided a blueprint for revolutionizing the medium through which vendors do business with local government. This is an affordable step that will streamline processes, increase access and competition, remove headaches for city staff and vendors, increase accountability, and produce better data for future improvements.
- b. **First step:** Create a publicly available and consistently formatted nonprofit contracting process map with each step in the workflow from award to completion and contact information and Service-Level Agreement associated with each major step to enable performance management. This step is especially important for CDBG, which can also adopt some of the efficiencies identified in Baltimore County's Blue Ribbon Commission.
- c. **Long-term vision:** Launch a purchasing platform and marketplace that standardizes procurement processes across all city agencies and simplifies the experience for businesses and organizations contracting with the city.

<sup>22</sup> <https://longbeachbuys.buyspeed.com/bsa/>

### 3. Task a contracting improvement team:

Within the Comptroller's Department of Accounts Payable or the Mayor's Office of Performance and Innovation (CitiStat), establish and fund a workflow assessing in-progress grant agreements and diagnosing bottlenecks. Establish a complaint process to reduce reliance on pre-established connections. Demonstrate executive prioritization through regular public report-outs to the Board of Estimates.

- a. **Justification:** Baltimore's current guidelines require that invoices be paid within 30 days. Long delays in contract approval that set back nonprofits' ability to invoice for services represents a de facto loophole to the city's policy. Rather than tracking solely the tail end of the city's payment process, performance managers should evaluate the full cycle.
- b. **First step:** Assess what department this team should fall under and hire or assign experienced staff. Produce a monthly grants life cycle report consolidating agency progress on grant making for the mayor and reviewed during dedicated Board of Estimates meetings.
- c. **Long-term vision:** Automate a workflow tracking system for all grants within the city to ensure each grant is delivered within a Service-Level Agreement of 30 days or less.

- 4. **Encourage invoicing from Day One:** To enable the city to better track its contracting backlog, encourage nonprofits to submit invoicing from the first day services start (rather than at contract approval). A public tracker for this completed but unpaid work

will facilitate performance management and accountability.

- a. **Justification:** Once the city launches a portal that prevents invoices being lost on old email chains, this step will simplify work for both nonprofits and city staff, who will no longer go through checks and balances on months-old activities and reporting.
  - b. **First step:** Use Workday's financial management software for invoicing across all city agencies and alert nonprofits to new norms
  - c. **Long-term vision:** Ideally, this item becomes irrelevant as nonprofits will no longer provide services before contracts are approved. Instead, the city should publish average time to contract and time to payment for each recurring grant, enabling nonprofits to make informed contracting decisions.
- 5. **Expedite renewals and increase multiyear contracts:** Longstanding recipients of CDBG and other recurring grants can receive accelerated renewals based on templates rather than full reassessment each year. Where possible, repeat annual grants with the same recipient should be converted to two-, three-, or five-year grants, depending on the circumstances. Although it is true that expediting renewals could in some cases favor organizations already working with the city, this change would free up staff time that could be used to increase the competitiveness and accessibility of each round of RFPs. This change would also make each contract more valuable to applicants, fostering the necessary conditions for a

more thorough and equitable award process. Additionally, reliably recurring federal and state grants should pursue BOE acceptance of funding in parallel to nonprofit RFPs issuance.

- a. **Justification:** As part of the effort to streamline procurement inefficiencies, it will increase capacity for both city staff and nonprofits to remove the hassle of long contract processes for all but predetermined outcomes. Because 76% of CDBG contracts go to repeat recipients, a shift to two-year contracts could cut contracting workload by 38% per year. This multi-year approach is
- b. **First step:** Review requirements to contract renewal processes and assess justification for all one-year grants.
- c. **Long-term vision:** Move all predictably recurring contracts to three-year agreements with termination clauses for poor performance. Given the increased contract value, increase the competitiveness of the RFP process and train smaller nonprofits to submit compelling proposals to enable them to expand.



## Evaluating Progress

The following framework offers a methodology for monitoring and evaluating progress toward implementation of equitable contracting and procurement processes for nonprofits.

Equitable Contracting and Procurement Practices for Nonprofits					
Component	Not Yet Begun	Initial Implementation	Partial Implementation	Full Implementation	Evidence Guide
<b>First-quarter Prepayment</b>	No access to funding at the start of service delivery	Nonprofits are allowed to pursue external financing for city contracts.	City facilitates relationship and sets intentional target to ensure small nonprofits do not loan the city money for service delivery.	Baltimore awards 25% of the contract or \$50,000, whichever is greater.	Comparing date and amount of first payment to service start date and total contract.
<b>Aligned and Digitized Contracting</b>	No web portal for applications, communications, or invoicing. Process strictly involves paper and email.	Some city agencies use Workday for some elements of their process.	All city agencies use the same web portal for communication and invoicing, after service begins.	All city agencies use a web portal with human-centered design, from issuing RFPs to drawing funds for invoice payment.	Percent of city agencies using the same digital medium and percent of contracting and procurement processes that take place on that medium.
<b>Contract Task Force</b>	No central group assigned to ensuring awarded contracts get to the Board of Estimates for approval.	An office or staff is assigned a role in facilitating Board of Estimate approvals.	A clearly defined team is formed with the authority and capacity to ensure approvals. 85% of contacts approved within three months of service start date.	A clearly defined team is formed with the authority and capacity to ensure approvals. 95% of contacts approved within one month of service start date.	Tracking BOE approval dates to start of contract dates.

Equitable Contracting and Procurement Practices for Nonprofits					
Component	Not Yet Begun	Initial Implementation	Partial Implementation	Full Implementation	Evidence Guide
<b>Day One Invoicing</b>	Organizations must wait long after beginning service delivery to begin invoicing due to delays in contract approvals.	Nonprofits are allowed to submit invoices at the start of service delivery, and can do so in a clearly defined portal to ensure their work is well kept and documented.	75% of invoices are reviewed by project managers, clearing the way for payment, within a month of submission (even if the contract has not been approved by the Board of Estimates).	Nonprofits are encouraged to submit from Day One; 95% of invoices are reviewed within a month of submission.	Comparing first invoice date to start of service date.
<b>Renewals and Multiyear Grants</b>	No distinct renewal process, many grants renewed annually, despite going to the same vendors.	Simplified renewal process for long-standing awardees; city commits to convert annually renewed grants to multiyear timelines where possible.	Agency-wide renewal systems and standards in place. Grants awarded to the same nonprofit five years in a row converted to a multiyear timeline.	Agency-wide renewal systems and standards in place, grants awarded to the same nonprofit three years in a row converted to a multi-year timeline.	Renewal timeline vs RFP timeline, number of annual grants with same vendor three years in a row.



## Appendix

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### QUESTIONS FOR NONPROFITS:

1. **Tell me about your organization (size, mission, budget).**
  - How much of your budget comes through the city? Has that stayed the same over time?
  - What organizations/agencies do you work with?
2. **Tell us about your experience contracting with the Baltimore City.**
  - How long/how many contracts? Contract structure (e.g., quarterly, monthly...)
  - Process of entering business with city
  - Experience with contract management/ongoing services
3. **Tell us how contracting with Baltimore City impacts your organization.**
  - What impact did/do late payments have on your organization?
    - i. Staffing
    - ii. Operations
    - iii. Resources
    - iv. Ability to fulfill grant expectations
    - v. Services to stakeholders/residents
  - Has this problem changed over time?
4. **Can you talk through the level of impact on your organization and on your services at different payment timelines? When does late payment go from being a headache to being something that disrupts services or your organization?**
5. **Are there specific points when things become problematic? For instance, change orders, extensions, or other parts of the process?**
6. **Are there any other parts of the city's contract design or contracting process that represent a challenge for your organization?**
7. **Tell us about your communication with the city.**
  - Who was your primary payment contact with the city?
  - Describe your communications with them.
  - (If relevant) How does this compare to your experience with other major donors/grants you receive?
8. **Would you do different business with the city or seek to provide different/more services if you had greater certainty you would be paid on time? Does this problem limit the scope of your work with the city?**
9. **Have you worked with other jurisdictions? If so, how does the payment process compare? The proposed policy change would be to move the accounts payable service from the Department of Finance over to the Comptroller's Office.**
10. **Thinking about your experiences working with the city, how do you think this policy would impact payment of nonprofits?**
11. **Anything we didn't ask about?**

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Robin McKinney, CASH Campaign of Maryland

*And several other interviewees from the nonprofit and government sectors who wished to be kept anonymous*

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