

## The Impact of Welfare Reform on Nonprofits in Delaware

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Researchers at the University of Delaware's Center for Community Research and Service recently assessed the extent to which the devolution of welfare reform (known as A Better Chance or ABC) has affected the ability of nonprofits in Delaware to respond effectively to client needs and the nature of changes in nonprofit organizational structures, administrative processes, and inter-organizational relationships. Data collection included a mailed survey to social service programs, three focus groups, and in-depth interviews with welfare reform contractors.

The study provides evidence that welfare reform policy changes have produced unforeseen consequences for nonprofit sector capacity and inter-organizational relationships in Delaware. Survey respondents represent small and medium sized agencies, with only 16 percent having budgets over \$1 million. Statewide, about a third reported that more than three-quarters of their clients are African American and more than three-quarters said that their clients use some kind of public assistance program. Focus group participants represent larger, statewide organizations, but have similar clients.

Surveyed agency staff spend increasing amounts of time on welfare rules that affect their clients, particularly child care, workfare, sanctions, and job searches. Requests for basic needs and emergency assistance have increased since welfare reform was enacted, while documentation and paperwork are now significant administrative burdens. Three themes emerged from the focus groups: that agencies are seeing an increase in demand for help with basic needs, that the central foci of welfare reform – decreasing welfare dependence, enforcing work, and establishing penalties for noncompliance – have impacted agencies' work with clients and that since welfare reform it is more difficult to give clients the help they need.

Welfare reform contracts are currently held by one for-profit firm that specializes as a contractor to government agencies, MAXIMUS, Inc, a local affiliate of a national nonprofit (Salvation Army, Delaware region), two campuses of the state community college system (Delaware



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Technical and Community College), a faith-based agency operating in Wilmington (Ministry of Caring), a statewide agency that provides family support, employment and HIV/AIDS services (Children and Families First), and two organizations providing substance abuse treatment (a regional community and migrant services organization, Delmarva Rural Ministries, and a Wilmington-based substance abuse treatment program, Brandywine Counseling). We also interviewed several former contractors, a local affiliate of a national nonprofit network (Goodwill of Delaware and Delaware County), a third Delaware Technical and Community College campus, a community center in Wilmington (West End Neighborhood House), and an organization that provides housing, education, child care and crisis alleviation services to the Latino community (Latin American Community Center). The average budget of the nonprofit contractors we interviewed is \$6.7 million, with a range from \$1.8 million to \$12.6 million.

In-depth interviews with nonprofits contracted to provide welfare reform services revealed that contractor agency clients are affected by a range of welfare rules and regulations relating to eligibility for services, access to services, and logistical obstacles such as transportation and child care, which require agency staff intervention. The ABC contracts entail significant administrative work due to documentation and reporting requirements associated with pay-for-performance contracts, which also result in cash flow and infrastructure problems. Agencies that lost or changed contracts saw increases in staff turnover and lower staff morale.

Several factors shape the dynamics of the state/nonprofit relationship in welfare reform contracting: 1) financial capability and performance accountability of nonprofit organizations, 2) competition with for-profit service providers and among larger and smaller nonprofits, and 3) the role of nonprofits as advocates in the policy making process. The hope that devolution would bring greater autonomy and flexibility to local nonprofits has not become a reality. Delaware nonprofits note that decisions about performance measures and funding are made without their input and lack the flexibility that local providers desire for addressing local client needs. Accounting and reporting requirements have become more complicated and burdensome under welfare reform.

While cost-reimbursement welfare services contracts still

predominate nationwide, Delaware relies exclusively on performance-based contracts to pay employment services providers. Similar to other studies, our research indicates that pay-for-performance contracts result in high incentives to perform, high risk for contractors, significant cash flow problems for contractors, and present substantial operational challenges for both the state and contractors. Smaller organizations in our study did not have the financial resources to implement contracts that required them to cover significant expenses upfront or to weather a period in which expenses exceeded income. Similar to other studies, in Delaware, short-term contracts and contract instability result in structural limits for contractors. While other studies show inconsistent patterns of performance by nonprofit, for-profit, and public agency contractors, in the most recent Delaware contract cycles, the nonprofit and community college contractors achieved and exceeded performance targets more frequently than their for-profit counterpart.

The entrance of for-profit firms into areas regarded by many as the domain of the nonprofit sector has instilled a fear that nonprofits are losing their place in the community. Although a higher number of ABC contracts have been awarded to nonprofit organizations, about half the contract dollars audited by the state were awarded to for-profit firms and another third to the state community college system, while the nonprofit contractors together received only a fifth. Many, including our nonprofit contractor interviewees, see nonprofit agencies as more likely to meet the needs of their clients regardless of their contract obligations, while for-profits and public agencies are more likely to operate on a business model. The declining participation of community-based organizations associated with performance-based contracts and for-profit competition poses threats to a healthy service sector and to meeting the needs of a diverse client base.

The political climate of the 1990s and the devolution of policy making and program authority to states and local government raised potential barriers for nonprofits to exercise their voice in public debates. In line with the findings of the national Strengthening Nonprofit Advocacy Project (SNAP) study, our research showed that government funding may be a significant barrier to public policy participation. Those of our interviewees that do participate are troubled by their perceived inability to gain access to or legitimacy in policy making arenas.

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Similarly, the contracting relationship appears to have a chilling or deterrence effect on open and candid communication between the state and its contractors. Delaware interviewees reported that they are not consulted about the development or revision of contract performance measures and goals and see lack of responsiveness to their suggestions about how to improve reporting systems and communication.

Contracting welfare reform may prove to be a hazardous enterprise in the context of what some authors term “disjointed federalism,” and one that comes at a high social price. In every state, thousands of families depend on the prospect that some combination of public and private services will improve their chances of making it as workers. The extent to which either services or the private market can offer sufficient opportunities for economic inclusion is debatable. But without services or the assurance of income support, there is only the market.

Welfare reform was constructed with relatively clear policy features, but an uncertain institutional foundation. In this

respect, it has similarities to prior welfare reforms that put policy first and institutional practice later. Discussions about TANF re-authorization offer an opportunity to seriously reconsider institutional strategies at the national level. We also recommend that Delaware allocate sufficient resources so that privatization is done well, develop contracts that include performance incentives but limit risk to contractors, that contract scope encourage competition (including participation by community-based organizations), and that public and private agencies find effective ways to coordinate services. Other potential changes include: lengthening the contract period, instituting quality control in the referral process (from DSS and between contractors), streamlining the electronic reporting system, and establishing parity among contracts (in terms of payment levels at different payment points). The challenge remains to create policy provisions and institutional arrangements that can enhance the capacity of organizations - both public and private - to deliver policy and then can hold them accountable for the content and quality of what they do.

### Resources

Full report, *The Impact of Welfare Reform on Nonprofits and The People They Serve in Delaware*, is available at [www.udel.edu/ccrs](http://www.udel.edu/ccrs).

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