



## **Working Group on State Grants to Nonprofits: Context-Setting Materials September 2023**

**Audience:** The Minnesota Council of Nonprofits (MCN) is convening a cross-sector working group aspiring to equitable state grantmaking for all, by focusing on the lived experiences and expertise of rural-based, small, and BIPOC-led and –serving nonprofits. More information can be found here:

<https://www.minnesotanonprofits.org/state-grants-working-group>.

**Purpose of this document:** All participants in this working group come with their unique knowledge of and experience with state grants to nonprofits, and no singular person has an omniscient holistic view of the entire enterprise from all perspectives. The following document is meant to establish a shared context for our work together. High-level findings have been pulled out from larger reports in order to focus working group members’ time and energy, and links to the original sources are included for those who wish to take an optional deeper dive.

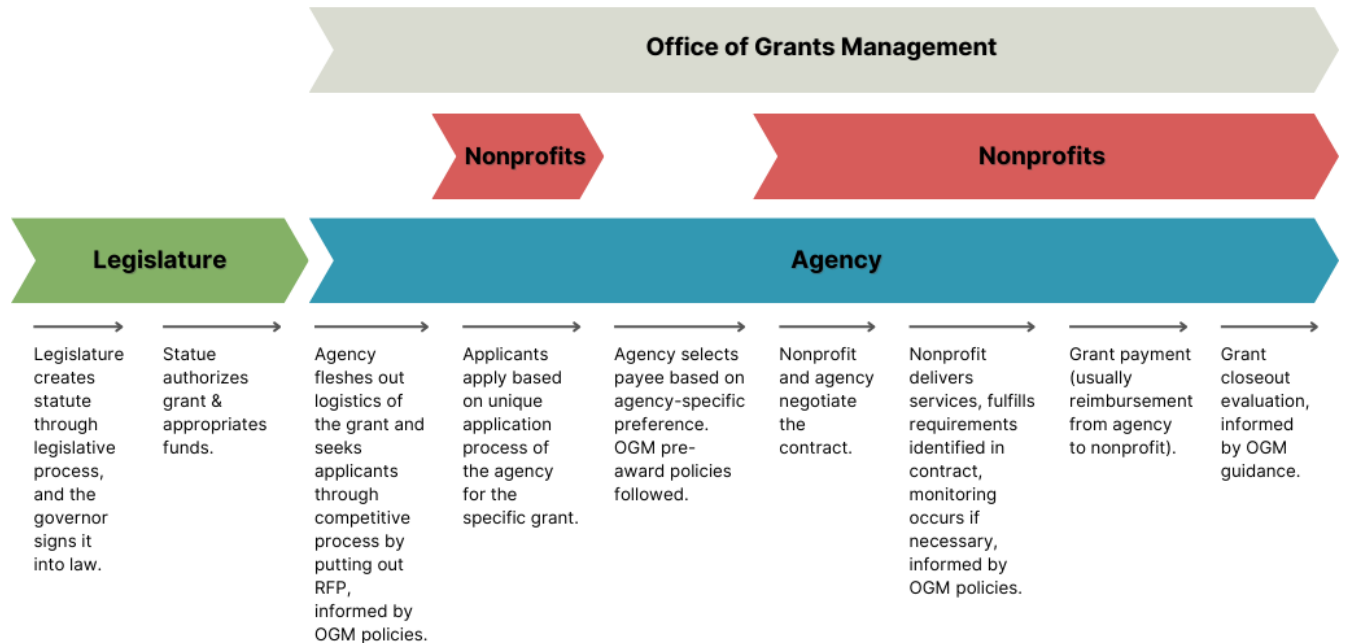
**Expectations:** Working group members are expected to read and be prepared to discuss this document at our first meeting on September 14; they are not expected to read all cited materials.

**Compiled by:** Kari Aanestad (Associate Director) and Marie Ellis (Public Policy Director) at MCN, with guidance from the working group planning committee (Patrick Carter, Martin Jennings, Laura “Lenny” Jones, Brooke Stelzer, and Lindy Yokanovich).

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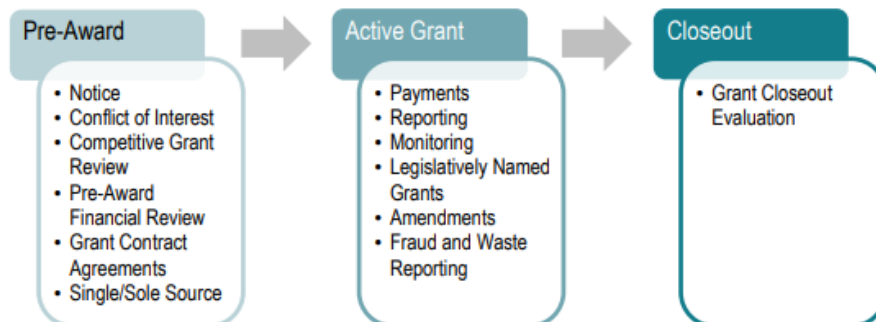
## Life cycle of a state grant

Most of us see one or a handful of the parts of a grant’s life cycle. Take a minute to consider where your knowledge lies and where you want to focus your learning. While grants to nonprofits can come through a variety of channels (such as direct appropriation, as a pass-through from federal channels, and more), this working group will be focused on grants that come from pools of funding identified in Minnesota state legislation and distributed to state agencies, who then award funds to nonprofits through competitive funding opportunities.



Source: [State Grants to Minnesota Nonprofits](#), p. 3-5

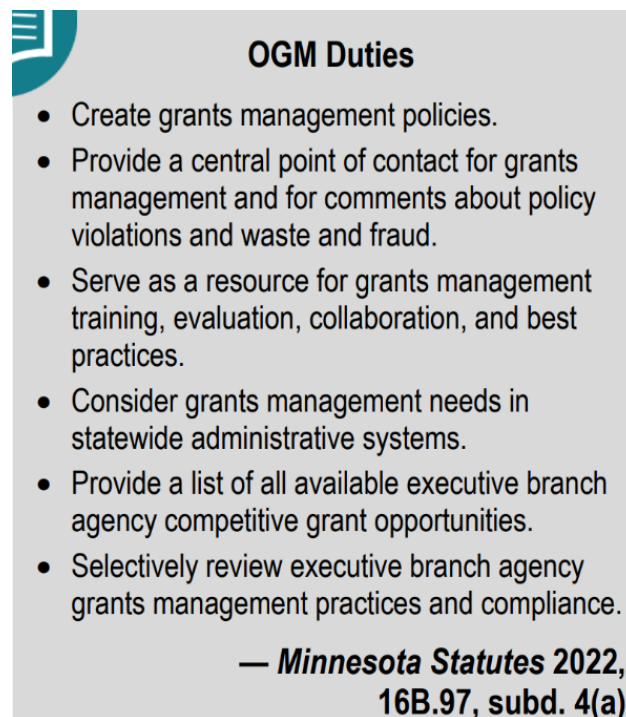
### A subset of the lifecycle: within the state agency’s purview



Source: "[Oversight of State-Funded Grants to Nonprofits](#)," Minnesota Office of the Legislative Auditor 2023, p. 10

**The Office of Grants Management (OGM) plays** an important role in Minnesota state grantmaking. OGM was established following a 2007 Office of Legislative Auditor report to “strengthen accountability and improve management of state grants.”

Currently OGM’s role is to “standardize, streamline and improve state grant-making practices and increase public information about state grant opportunities.” OGM does not hold enforcement authority. Naomi Munzner, director of the Office of Grants Management, and Betsy Hayes, Chief Procurement Officer and Director of the Office of State Procurement, will join our working group on 9/14 to lead a brief presentation on OGM’s role with a specific focus on the components of a Request for Proposals.

A graphic with a grey background and a teal icon of a document with lines in the top-left corner. The title "OGM Duties" is centered at the top. Below it is a bulleted list of six duties. At the bottom, the citation "— Minnesota Statutes 2022, 16B.97, subd. 4(a)" is centered.

**OGM Duties**

- Create grants management policies.
- Provide a central point of contact for grants management and for comments about policy violations and waste and fraud.
- Serve as a resource for grants management training, evaluation, collaboration, and best practices.
- Consider grants management needs in statewide administrative systems.
- Provide a list of all available executive branch agency competitive grant opportunities.
- Selectively review executive branch agency grants management practices and compliance.

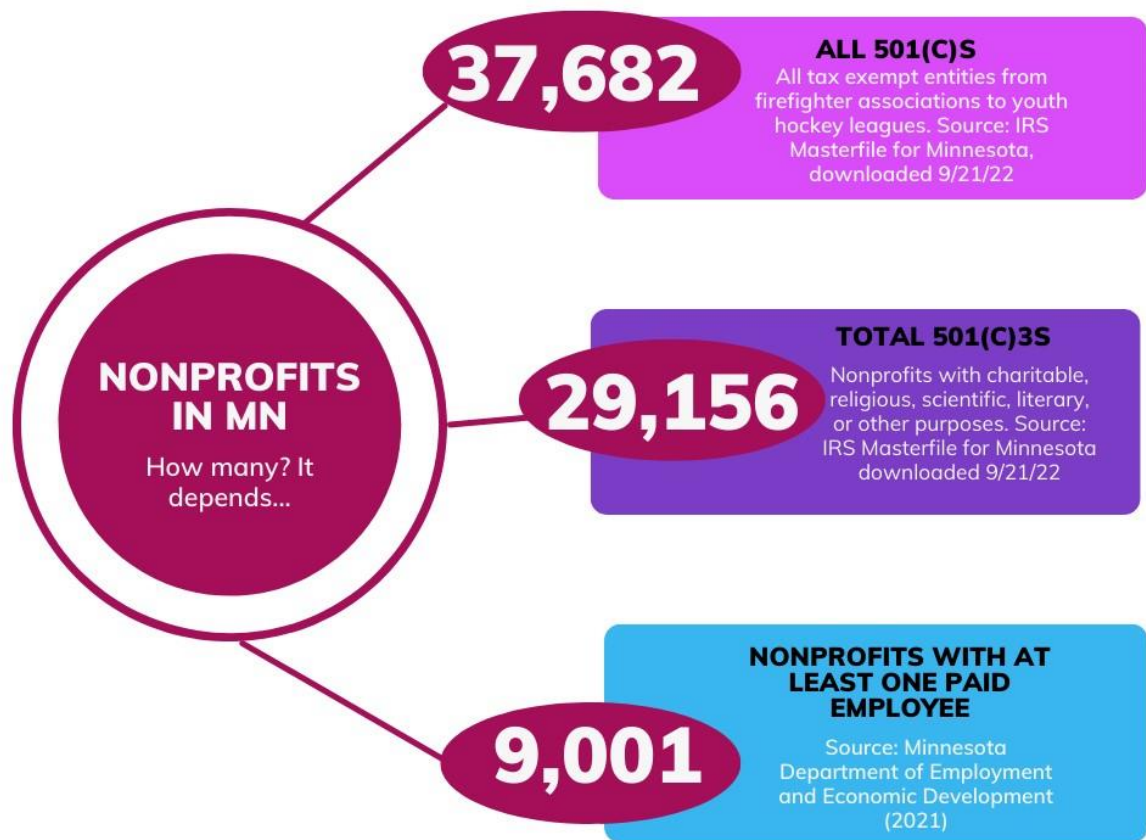
— **Minnesota Statutes 2022, 16B.97, subd. 4(a)**

Source: “[State Grants to Nonprofit Organizations](#),” Minnesota Office of the Legislative Auditor 2007, p. 39

## How many nonprofits are there in Minnesota?

In order to look more closely at current inequities in the state grantmaking system in light of where dollars are going, we must first understand the universe of nonprofits in Minnesota. A few key questions emerge that warrant broader exploration in the future:

- How many of these organizations are currently eligible to receive state funding?
- Of those, how many are receiving state funding? (more on this in the next section)
- To what degree is the state's eligibility requirements supporting or prohibiting its own goals around impactful, equitable state grantmaking?



Source: Minnesota Council of Nonprofits

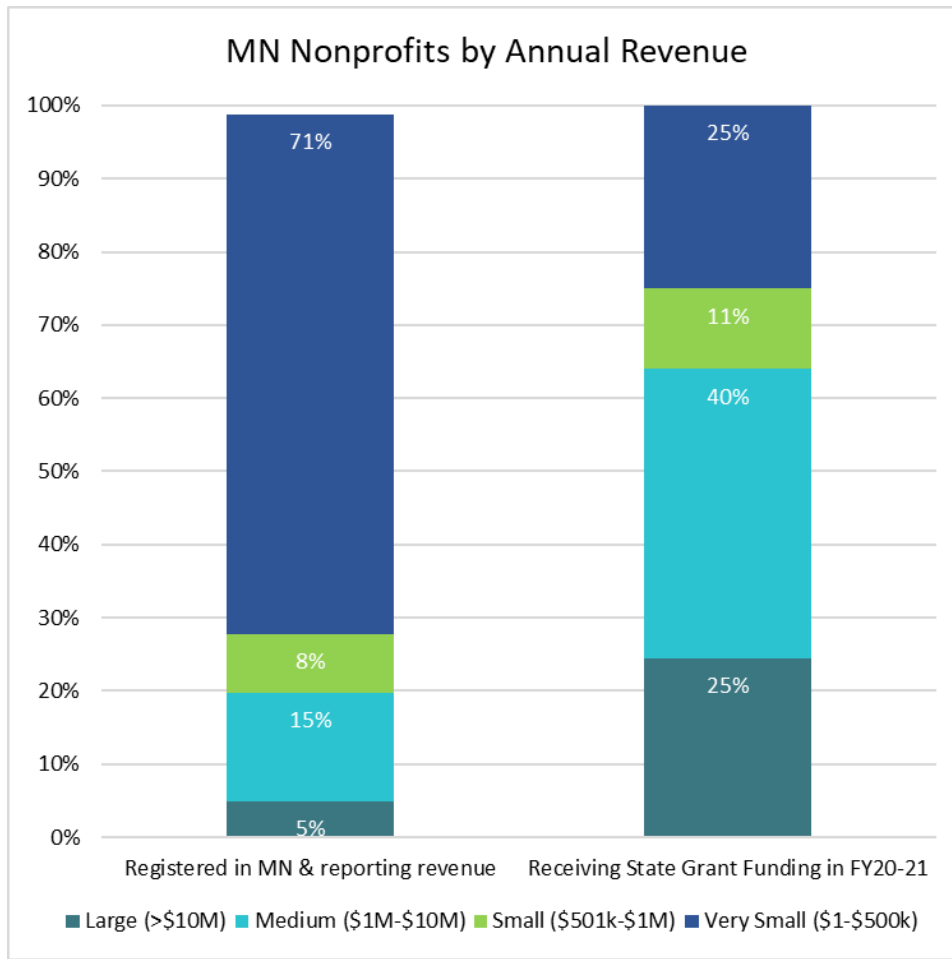
## Where have state dollars been going?

The Office of the Legislative Auditor released a report in February 2023 that included important statistics on where state funding is currently going. A few highlights include:

- State agencies spent an annual average of about \$514 million on state-funded grants to nonprofit organizations during the past five fiscal years. (p. 6)
- Nearly one-quarter of the nonprofit organizations that received state-funded grants in the past five fiscal years received grants from multiple state agencies. (p. 7)
- While the amount of state-funded grants to nonprofit organizations varied over fiscal years 2018 through 2022, about half of all organizations received less than \$68,000 during the five-year period. (p. 8)

Source: "[Oversight of State-Funded Grants to Nonprofits](#)," Minnesota Office of the Legislative Auditor 2023

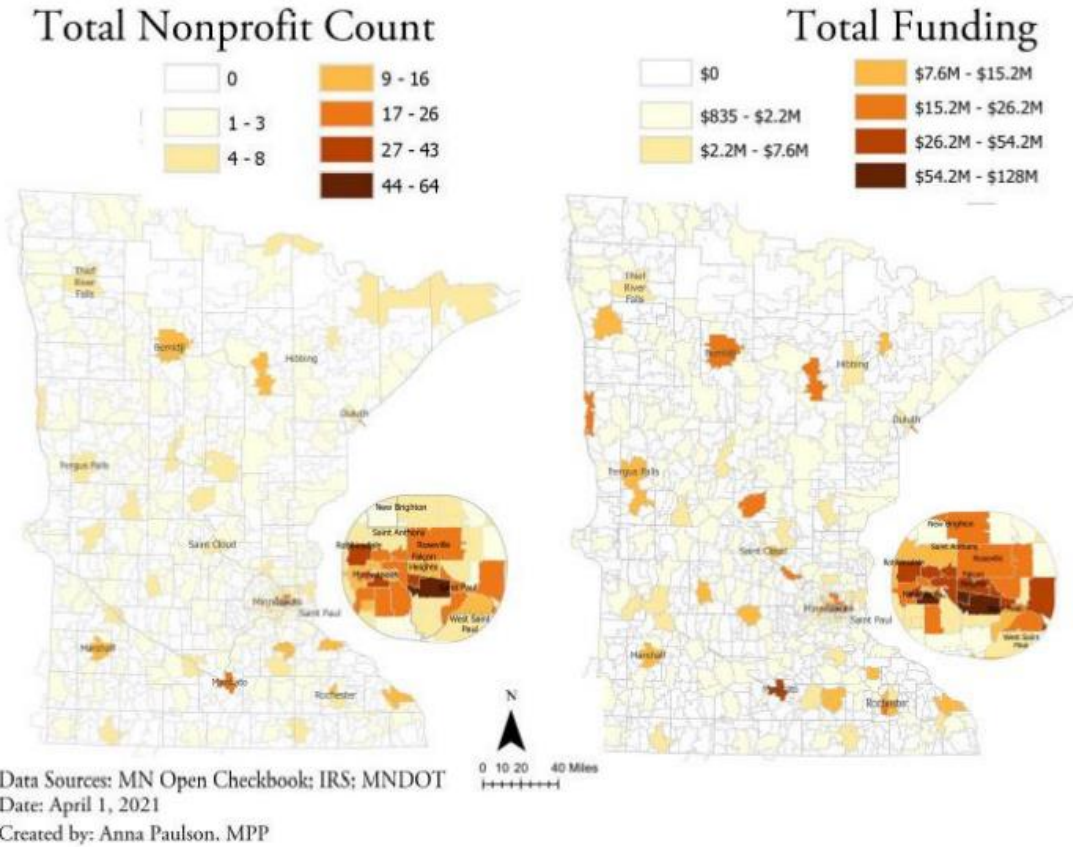
### MN State Grants to Nonprofits by Budget Size



Source: Minnesota Management and Budget, data from their 2023 Impactful Grantmaking research

# MN State Grants to Nonprofits by Geography

*Geographic and funding density, all nonprofits*

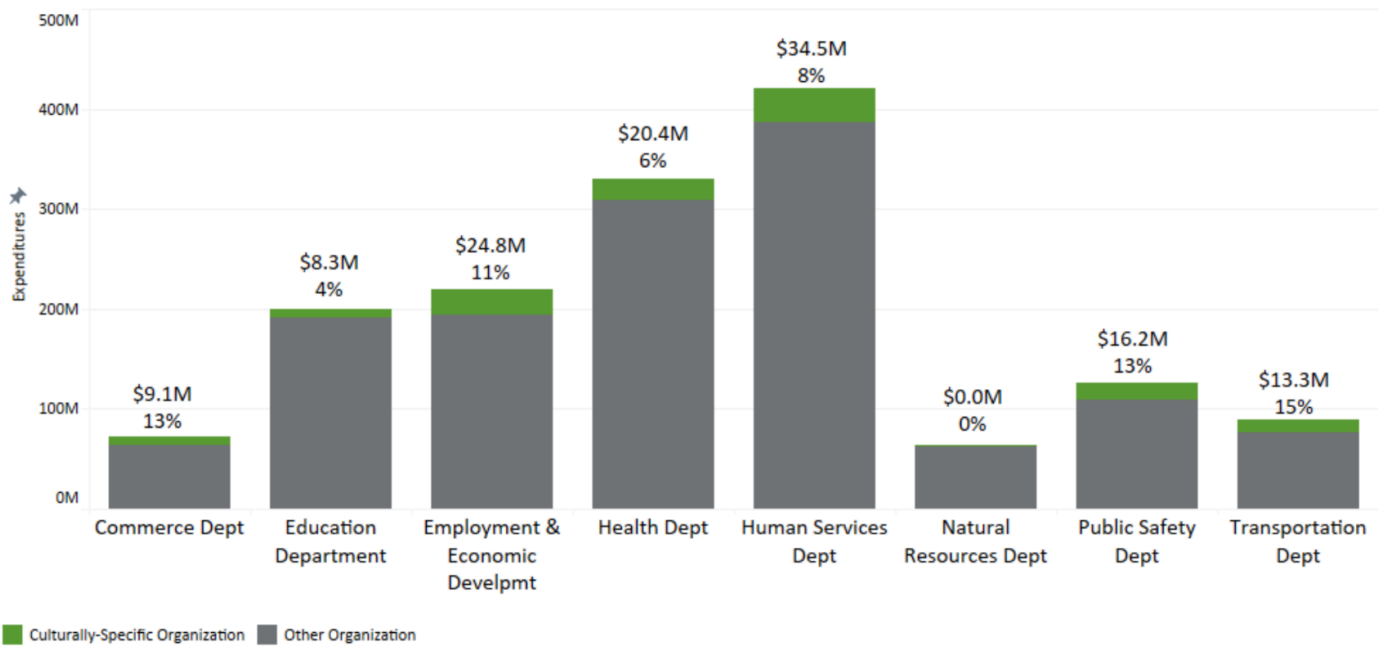


Source: [Equity in State Grantmaking](#), May 2021, University of Minnesota Humphrey School of Public Affairs in partnership with the Minnesota Council of Nonprofits, p. 13  
 Note. Figure represents location density (left) and total funding (right) by zip code for all nonprofits awarded grants from FY18 to FY20 from DEED, MDH, DHS and MSAB combined.

[A recent report from Minnesota Management and Budget \(MMB\)](#), disaggregates data on state grants by highlighting dollars that go to culturally-specific nonprofits and tribal communities. **In reviewing the two graphs below**, please hold these important layers of nuance:

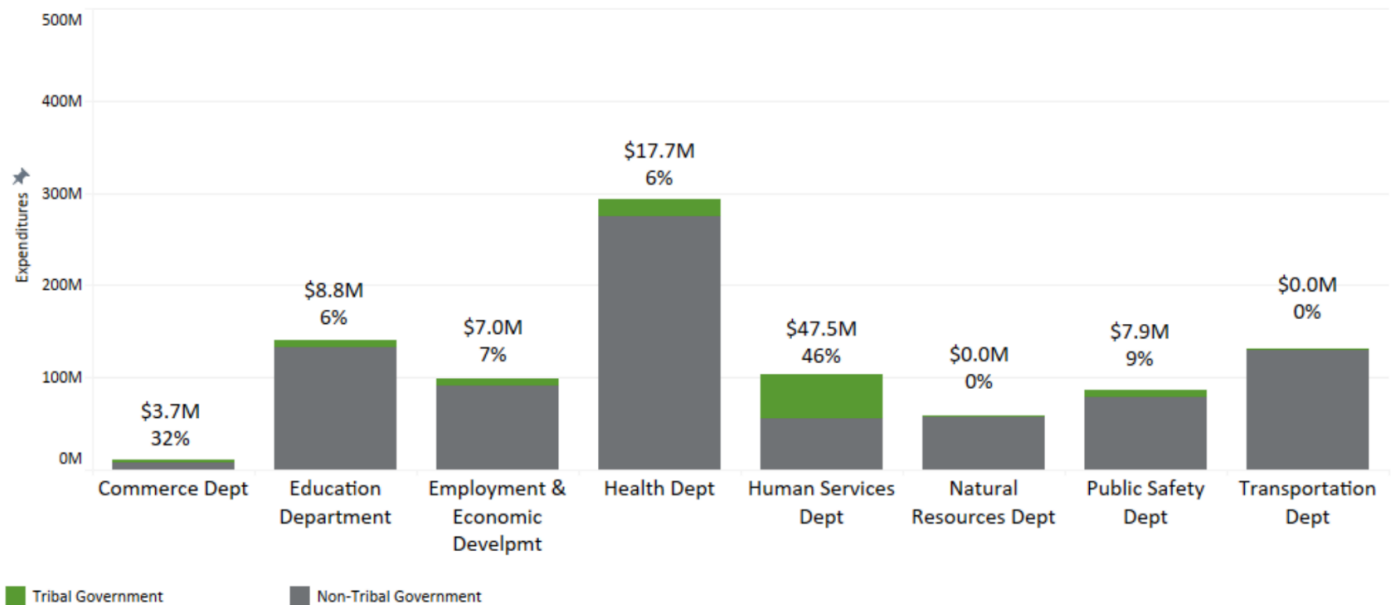
- MMB used the Minnesota Council of Nonprofits (MCN)'s [MN BIPOC Nonprofits Index](#) as a proxy for analyzing how much state funding is going to culturally-specific groups. The BIPOC Nonprofits Index features information on over 500 groups but is not a complete census of all culturally-specific groups in Minnesota; it's a starting point that is continually enriched by ongoing research and community input.
- There are over 37,000 tax exempt entities in the state of Minnesota, including approximately 9,000 organizations with at least one paid employee.
- If we were to assume the BIPOC Nonprofits Index is a best-known proxy for a complete census, then culturally-specific nonprofits make up around 5 percent of nonprofit employers in Minnesota.
- If our collective goal is to create equitable access for eligible groups so that communities have what they need to thrive, to what degree is a proportionate amount of state funding going to BIPOC-led and/or -serving groups a measure of success and impact? This is a bigger question that warrants broader exploration in the future.

**Figure 2. State Grant Funding to NGOs, by agency and estimated percent of funding going to culturally-specific organizations (FY20-FY21)**



Source: "[Learnings from Enterprise-wide Review for Grant Impact](#)," Minnesota Management & Budget 2023, p 6

**Figure 3. State Grant Funding to Governments, by agency and estimated percent of funding going to tribal governments (FY20-FY21)**



Source: “[Learnings from Enterprise-wide Review for Grant Impact](#),” Minnesota Management & Budget 2023, p. 7

### **Where will state dollars be going?**

The 2023 legislative session was one of the most historic legislative sessions in Minnesota as the state’s legislature had an approximately \$17 billion projected surplus in building the 2024-2025 biennium state budget. Of that, \$5 billion will be spent in ongoing appropriations (including to an estimated 286 organizations) and a significant majority of the rest will be in one-time state spending. A report prepared by Hylden Advocacy & Law provides an overview of where state funds will be distributed (“[2023 Nonprofit Minnesota State Funding Breakdown](#)”).

The following is an abbreviated excerpt from that report featuring only the increases in spending that will result in competitive grant opportunities for nonprofits in the 2024-2025 state fiscal years:

- **Agriculture**: \$148 million increase in spending, with \$100 million dedicated to expanding broadband access
- **Early Learning**: \$300 million increase in spending; \$280 million is appropriated to nonprofits via competitive grant programs and direct appropriations
- **Health & Human Services**: \$1.78 billion increase in spending, of which there will be 62 competitive grant programs for eligible nonprofit providers
- **Human Services**: \$2.9 billion increase in spending, which includes 31 competitive grant programs



- Legacy: \$874.2 million is appropriated from the state’s legacy fund, of which \$138.87 million is appropriated for competitive grants
- Public Safety: \$3.5 billion increase in spending, of which \$112 million is appropriated to competitive grant programs
- Workforce & Economic Development: \$1 billion increase in spending, of which \$260.3 million is appropriated for competitive grant programs

**What are common nonprofit experiences of state grantmaking systems?**

Two-thirds of all respondents to a survey MMB launched and featured in its 2023 report said the process of applying for a grant was “difficult” or “somewhat difficult.” When responses are disaggregated by race, 80 percent of BIPOC led- and/or -serving organizations report applying for a grant was “difficult” or “somewhat difficult”:

**Opportunities for Improving the Grantmaking Experience**

Grant programs must – by statutory definition<sup>13</sup> – serve a public purpose. In many cases, grantees serve as an extension of the State to improve the lives of Minnesotans. Internal and external partners highlighted that the grantmaking process should not exclude any organization that is prepared, capable, responsible, and well-situated to serve Minnesotans and fulfills any requirements in grant authorizations. Providing a positive grant solicitation experience can be done without the State undermining due diligence and oversight of compliance-related issues. However, almost two-thirds of non-profit leaders who responded to our survey said that the process of applying for a grant was “difficult” or “somewhat difficult” (See Figure 4). Almost 80 percent of BIPOC Index organizations who responded reported that applying for a grant was “difficult” or “somewhat difficult”.

**Figure 4. How was the process of applying for a State grant? (% of all respondents)**



Source: “[Learnings from Enterprise-wide Review for Grant Impact](#),” Minnesota Management & Budget 2023, p 7

A 2021 research paper led by a team at the Humphrey School of Public Affairs at the University of Minnesota used quantitative analysis of where state funding is going and conducted qualitative interviews of nonprofits and state agencies to discern key themes about the current state of grantmaking in Minnesota. The following are summarized themes that emerged among nonprofit interviewees regarding their experiences with the state grantmaking system in Minnesota:

- Process
  - Cumbersome applications
  - Criteria in Requests for Proposals (RFPs) is often unrelated to nonprofits' work
  - Retroactive pay/reimbursements are barriers for smaller nonprofits and are a pain point for nonprofits of any size; This is the state's preferred payment method according to [08-08 Policy on Grant Payments from the Office of Grants Management](#).
- Capacity
  - Application and reporting requirements take more time than is available and cost more in administrative time than what is offset by grant funds
- Transparency
  - Lack of knowledge of open opportunities
  - Lack of transparency in grantmaking process
  - Lack of feedback
- Structural Inequity
  - Incumbent advantage: Organizations who have received state funding before are more likely to receive it again
  - Top-down decision-making with little community input

Source: "[Equity in Minnesota State Grantmaking](#)," May 2021, University of Minnesota Humphrey School of Public Affairs in partnership with the Minnesota Council of Nonprofits

Q. Are there any other public policy or regulatory issues you would like to see MCN address in 2023 and beyond?

A: "Revamping the policies and procedures of [state agency]. The contracting process is ridiculous for grantees. The project managers have no decision making ability and the time it takes to get answers or do complete a contract takes too many months to completion. Recognizing they have lost some staff recently, the internal culture of the place is not supportive to the agencies that receive funding. It's a toxic environment that I know has existed for decades and no matter who the commissioner has been, there has been little change. It's the piece of my work that is the most frustrating and time consuming. Wasteful hours spent on busy work for [state agency]. It's demoralizing and shameful that the state has allowed this to continue for as long as it has."

*Source: Minnesota Council of Nonprofits' 2021 Community Feedback Survey*

## **The State is investing in its capacity to manage grants, with equity focus**

The [2023 OLA report](#) confirmed what MCN hears from our members: grants management staff at granting state agencies do not have the tools necessary to successfully and equitably oversee its grants to nonprofits. We see energy and commitment to this work from the state, and also recognize the barriers that state agencies face in making changes.

In 2023 the Governor's proposed budget included investments for much-needed grantmaking reforms, and the legislature included those investments in final legislation. MCN supported our members by advocating for these investments. The state's budget now includes these investments:

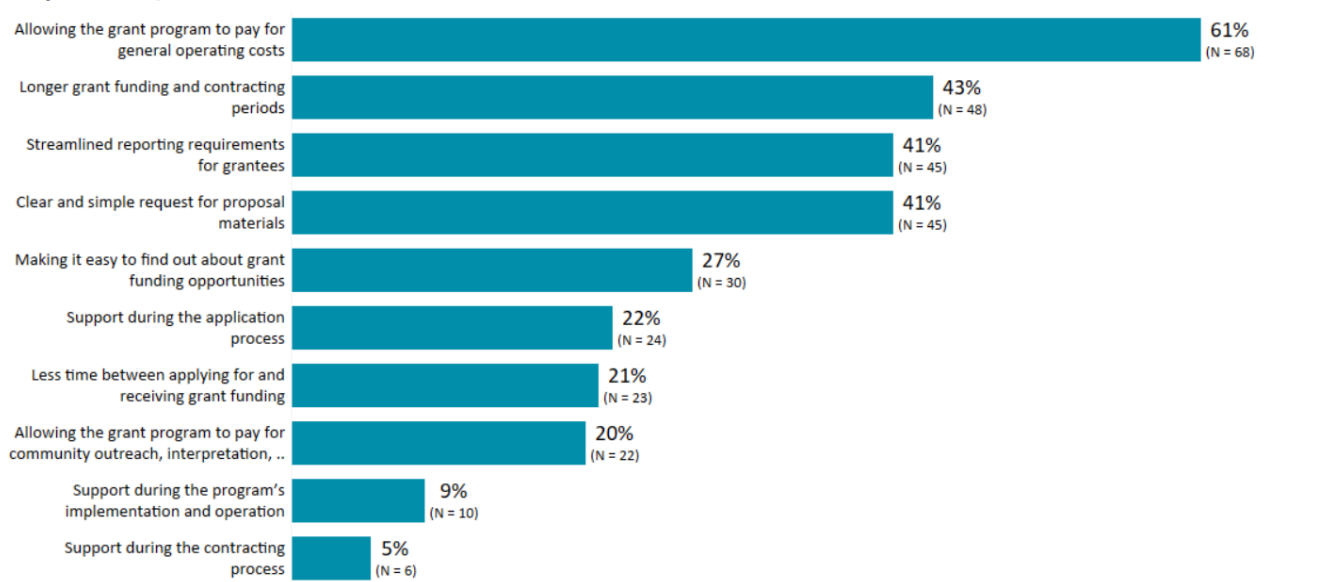
- A very significant increase in the state's internal capacity for grants management. The state's Office of Grants Management is currently a 1 FTE office, and under the new legislation it will be a 7 FTE office. Three of those positions will focus specifically on equity in grants management.
- Funding to determine the feasibility of a grants management platform that all 27 granting state agencies would use. Currently only 13 agencies have such a technology platform, and each one is different. A unified system will reduce barriers for nonprofits in applying for state funding, relieve some administrative burdens from state agency grantmaking staff, and provide data on state grants to nonprofits that is currently unobtainable.

## What possible solutions are already being identified and/or implemented?

A key part of the working group’s shared work will be to identify promising practices and solutions based on the wide-ranging experiences and expertise among working group members. The following section is a starting point and is not meant to be a comprehensive audit:

**Making changes based on nonprofits’ feedback:** MMB’s 2023 report included nonprofit responses to a survey question that asked “What features of State grant programs would make it more likely you’d apply for grant programs?” The following offers a list of opportunities to explore in terms of making grants more accessible according to nonprofits’ perspectives:

**Figure 6. What features of State grant programs would make it more likely you’d apply for grant programs? (% of all respondents)**



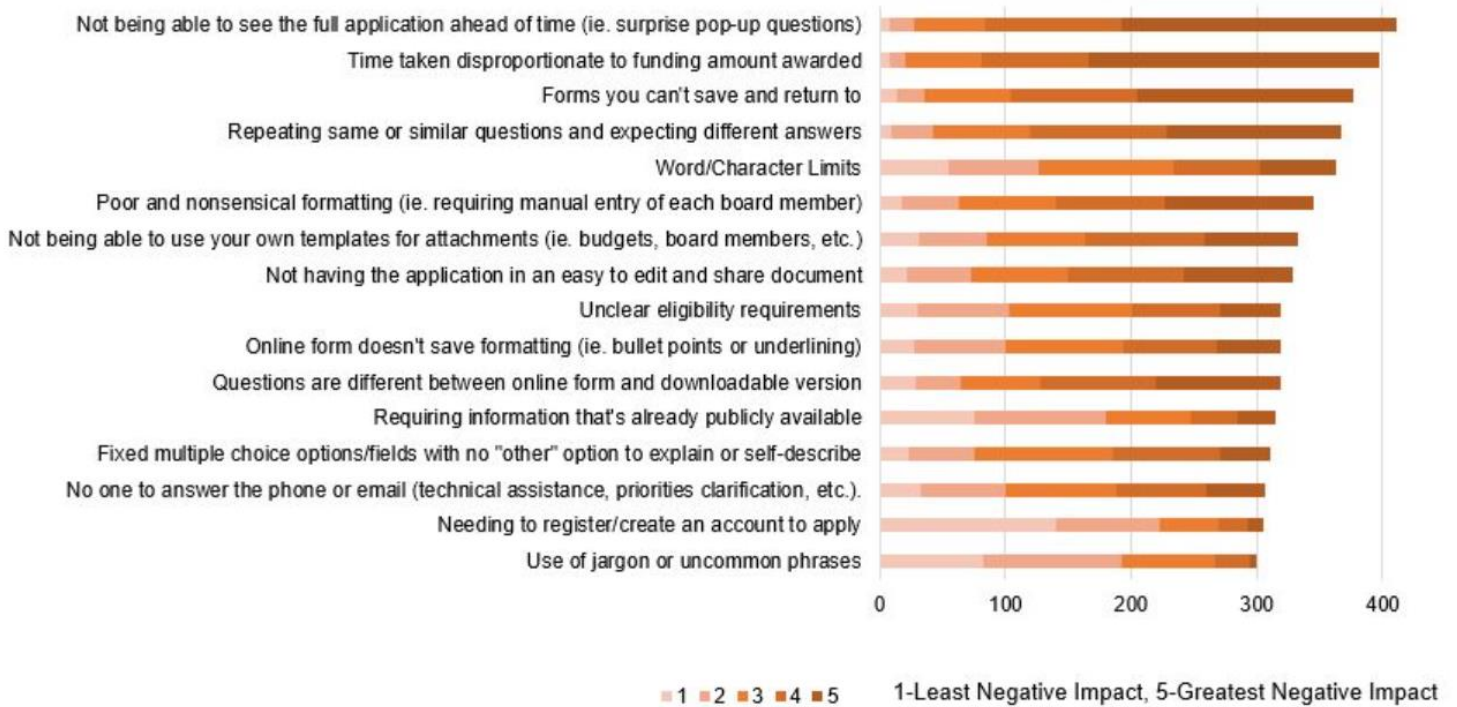
*Note: BIPOC Index organizations reported the same top four answers as all respondents (however, the third and fourth most common responses were switched)*

Source: “[Learnings from Enterprise-wide Review for Grant Impact](#),” Minnesota Management & Budget 2023, p 8

**Simplifying grant applications and report forms:** Millions of mission-related hours are lost every year to the time-consuming grant application process. Nonprofits consistently report that “technical time-wasters” in grant applications consume 20-30 percent of their time, according to over 2,500 anonymous reviews of grantmaking foundations on GrantAdvisor.org. Addressing such time-wasters is a key opportunity for funders seeking to improve accessibility and equitable access to funding.

To specifically identify the top changes needed, a #FixTheForm survey was launched in November 2020. In less than four weeks it received 500 responses from grantseekers across nine countries, representing every shape, size, and activity area of the nonprofit sector. Here’s what they identified are the top pain points:

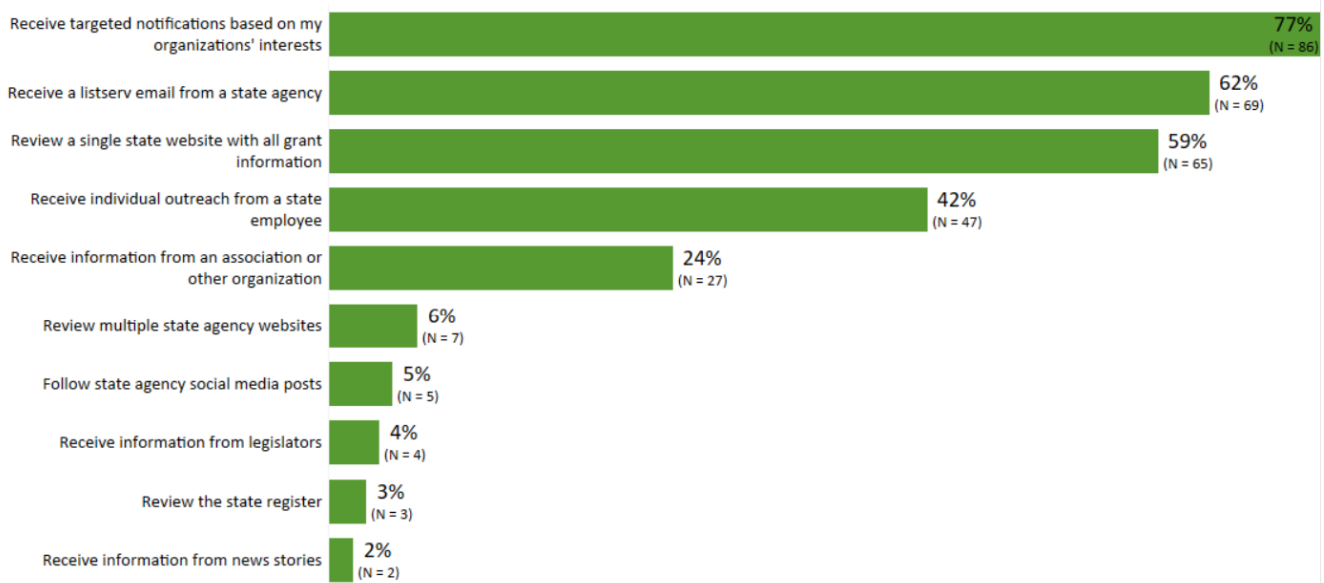
### #FixTheForm Full Results



Source: “[Fix the Form](#),” GrantAdvisor.org

**More expansive promotion of open funding opportunities:** The 2021 Humphrey paper identified one key barrier for eligible groups in applying for and receiving state funding is not knowing about open opportunities. Some state agencies are proactively promoting open funding opportunities among nonprofit audiences, not simply passively posting it on their websites (which is most common practice and the minimum required by law):

**Figure 5. What are the best ways to get information about grant programs (% of all respondents)**



*Note: BIPOC Index organizations reported the same top three answers as all respondents (however, the first and second most common responses were switched)*

Source: “[Learnings from Enterprise-wide Review for Grant Impact](#),” Minnesota Management & Budget 2023, p 8

### **Possible roadblocks to this group’s work**

Energy and commitment to create more equitable grantmaking systems can be stymied by various factors. There are many factors beyond the control of staff at state agencies. Some that we recognize include: changing priorities of commissioners, the Administration, or the legislature, funding constraints, staffing constraints, lack of necessary technology, environmental factors like the public’s perception of the state or of nonprofits, agency or supervisor culture resistance to change. State agencies are financial stewards, and it is on their shoulders to ensure that tax-payers dollars are used for the purposes intended.

It is critical to this work that we be hard on the systems currently in place, and that we be easy on each other. None of us created these systems, and we are all here make them better.

## Definitions

- **Grant agreement**: A grant agreement is a written instrument or electronic document defining a legal relationship between a granting agency and a grantee when the principal purpose of the relationship is to transfer cash or something of value to the recipient to support a public purpose authorized by law instead of acquiring by professional or technical contract, purchase, lease, or barter property or services for the direct benefit or use of the granting agency.
- **Grantee**: a person or entity that applies for or receives a grant.
- **Granting agency**: the state agency that provides the grant.
- **Equity**: Eligible groups have access to and receive state funds; communities have what they need to thrive.
- **BIPOC**: Black, Indigenous, and People of Color
- There are no set definitions for the terms below, so we provide here the way MCN uses these terms.
  - o **BIPOC nonprofits**: a broad classification that requires multiple considerations. MCN maintains a [database of “BIPOC nonprofits”](#) on our website, and outlines the criteria for inclusion under “Methodology.” The primary inclusion is who the organization serves, and additional considerations include who serves in managing roles and governing roles for the organization. These are referred to as “BIPOC-led and -serving” nonprofits.
  - o **Culturally-specific nonprofits**: a subset of “BIPOC nonprofits,” culturally-specific nonprofits have missions focused on one of a few cultures.
- **Request for Proposals (RFP) legal definition**: “a solicitation in which it is not advantageous to set forth all the actual, detailed requirements at the time of solicitation and responses are negotiated to achieve best value for the state.” [Minn. Stat. §16C.02 Subd. 12](#)
- **Request for Proposals (RFP)**: A Request for Proposal (RFP) is a formal invitation to potential contractors or grantees to submit a proposal. Proposals should identify how they will respond to the needs identified in the RFP. [Minnesota Housing webpage on RFPs](#)