My name is Dr. John Brothers and I am the President of the T. Rowe Price Foundation, the charitable giving arm of T. Rowe Price and the President of the T. Rowe Price Charitable, a donor-advised fund serving thousands of donors throughout the United States.

T. Rowe Price is an international investment management company founded in Baltimore in 1937, and we employ over five thousand associates in our downtown Baltimore headquarters and our Owings Mills campus.

We are a proud corporate citizen of our state. The T. Rowe Price Foundation was established in 1981, and in 2018 we contributed nearly $10M and over 40,000 hours of community service to improve the lives of Marylanders.

I also have the honor of being able to straddle multiple sectors, both leading a philanthropy in the corporate sector but also having studied, taught, led and consulted local, regional, national and international nonprofits and governments on how to partner and closely align to achieve better outcomes in our communities. **It is an honor to be with you today and I am hoping to make three points.**

**Point One – Smaller Nonprofits Don't Participate Because of Burdensome Government Processes**

If we think about Senate Bill 630 regarding state grants reform, you might agree that a main beneficiary of this bill would be the nonprofit sector. In most data on the nonprofit sector, charities account for approximately ten percent of the nation's economy and about ten percent of those employed - 13% in Maryland. Additionally, if we look at government's relationship to the nonprofit sector, according to an Urban Institute report, one-third of revenue for nonprofits came from the government through formal contracts and grants.

Drawing down into this relationship even further, the health and education sub-sectors are by far the largest sectors in the nonprofit world, with hospitals and other health-related nonprofits accounting for over 60 percent of all charitable nonprofit expenditures, and nonprofit universities and other educational institutions making up 17 percent of spending. But those basic statistics don't tell the whole story. An important note behind this data is that nearly 80 percent of these expenditures largely come from a few large organizations in the nonprofit sector.

Take Baltimore, for example. Our Foundation conducted research on a specific core group of nonprofits, representing over 650 organizations totaling $2.5 billion dollars. Almost two-thirds of these nonprofits had expenses well under $1M, which represents just 5% of total nonprofit spending in Baltimore. By contrast, nearly 50 nonprofits with expenses over $10 million represent two-thirds of all nonprofit spending.

Large and small nonprofits also have vastly different funding profiles. The bulk of the revenue from the largest nonprofits was government revenue, often with revenue percentages over 85% from government while the smaller nonprofits received funding from a more diverse pool. Why is this the case? According to that Urban Institute study, **a top reason that smaller nonprofits did not apply for government funding was due to the complexity and time required by the application process and the complexity and time in the reporting.**

Another reason may be that these smaller organizations are largely un- or under-represented. Remember that the Small Business Administration was created to ensure that large businesses don't "muscle out" small businesses, that government is able to access the ideas of small businesses to help better further government, to help fuel small businesses as economic driver and job creation engine and, finally, to create opportunities for dis-advantaged socio-economic groups. There is no similar state or federal entity playing that role for the nonprofit sector despite the nonprofit sector continued robustness, for example being a larger employer in Maryland than the manufacturing and construction industries.

**Point Two – The Negative Return on Investment of Applying for Government Funding**

In that same study, complex application and reporting processes were the most widely experienced problems for all types and sizes of nonprofits but especially small-to-mid-sized nonprofits. Even nonprofits that relied on revenue earned from government contracts and grants for most of their resources, which presumably are more familiar with the process, reported that the time required was overly excessive and the complexity was difficult to navigate. Overall, more than 70 percent of nonprofits reported that complicated application and reporting processes were problematic.

Understanding that complex application and reporting requirements is an obvious challenge. What is worse is that the data suggests that the complexity and burden of the applications causes these organizations to draw on financial reserves and reduce the number of employees, compared with nonprofits that did not partake in the government process. This should never be the case. **Partnering with the government should be an enhancer to the nonprofit organization, to its community and to the field and not one that causes nonprofit organizations to experience symptoms of organizational decline.**

**Point Three – Developing Complex Infrastructure for Nonprofits to Meet Government Requirements is Burdensome**

Nonprofits with different funding sources often have multiple reporting requirements. There is little to no consistency in format, and some reports are redundant and very time consuming. Because these reporting requirements may be tied to funding, there is a heavy burden on nonprofit staff and can be a drain on already limited resources. Numerous reporting requirements and formats can lead to nonprofits having to develop and implement multiple reporting processes, which can be an added expense for many organizations.

Again, in that same Urban Institute study, the largest reporting problems that nonprofits cite is that government entities often use different reporting formats and different allowances for administrative expenses and overhead. I would be remiss if I also didn't highlight that existing overhead rates are much too low for nonprofit organizations partnering with government, especially in comparison to our for-profit partners, and is another reason that makes it difficult for small to midsized nonprofit organizations to partner with government. For example, engineering contracts with various Maryland departments have an overhead ceiling of 130% while the nonprofit sector for many state agencies has a ceiling of 10%. While there might not be exact parity, overhead limits should be realistic and high enough for nonprofits to deliver the services of the grant or contract.

Finally, on this point, as two-thirds of the nonprofit sector is small-to-mid-sized nonprofits, it is easy to understand that they need to be as efficient as possible with staff time. Most of these organizations do not have a research-and-development department or that the business development function of their organizations resides in someone who is also responsible for several other roles and responsibilities in the organization. **Having a streamlined application and reporting process will both save the nonprofits valuable time and resources but also allow them the time to more effectively plan their potential future relationship with government and achieve their missions.**

**Conclusion**

As Maryland legislators, you have a great opportunity to make a difference. I believe having a cross-section of entities, including public grant-making efforts, nonprofit providers and officials from local government representing the various stakeholder communities, will lead to powerful recommendations for the future of this work. This should result in powerful best practices for both grant application and reporting and lead to a potential model for other states to follow.

The T. Rowe Price Foundation may not be directly impacted by Senate Bill 630, but we support any efforts that encourage other businesses and companies in Maryland to give back to our communities.