

**Testimony of Jennifer Geiling,  
Before the New York City Council Committee on Contracts  
Oversight Hearing – City of New York’s Indirect Cost Rate Funding Initiative  
November 25, 2020**

Good morning Chair Kallos and members of the Contracts Committee. My name is Jennifer Geiling and I serve as the Deputy Director for the Social Services Task Force in our Procurement Operations Division at the Mayor’s Office of Contract Services (MOCS). I am joined by my colleague Erin Villari, Deputy Director for our Procurement Operations Division. Thank you for the opportunity to describe the work the City Implementation Team (CIT) has led over the past fourteen months to achieve a major breakthrough in recognizing and funding indirect costs associated with the delivery of human services. This is an issue that nonprofit providers have championed for many years, across at least two New York City Mayoral Administrations and various funding communities nationwide. Through our partnership with the sector we have now established New York City as the first large municipality in the country to recognize and invest in providers’ indirect costs.

Our nonprofit partners deliver vital services to our City’s five boroughs, including some of our most vulnerable neighbors. In fact, Mayor de Blasio has deemed their critical work to be essential during the current State of Emergency. The Administration has worked closely with the sector over the years and during this crisis period to reduce administrative challenges, increase cash flow and create a more open dialogue.

A significant component of our shared conversations has been the need to recognize indirect costs as legitimate and necessary to providing services. Indirect costs represent costs that do not directly contribute to the delivery of services, but impact the effective operation of an organization. For example, the salary of an organization’s accountant or the depreciation cost of a computer that is used to manage an organization are both indirect costs. An indirect cost rate is a ratio (expressed as a percentage) of the indirect costs to a direct cost base.

Recognizing and funding these indirect costs and indirect cost rates are not issues that are unique to New York City. Municipalities around the country, along with foundations, have been grappling with these concerns, as well. In my testimony today, I will provide background on how the City, in partnership with the sector, has led in indirect cost policy and practice and then describe the Indirect Cost Rate Funding Initiative (ICR Funding Initiative).

### **The City Cost Manual: Recognizing Indirect Costs**

This Administration has led the way in moving the needle in the national indirect cost dialogue. The first step was developing and adopting in Fiscal Year 2020 the City's Health and Human Services Cost Policy and Procedures Manual (the "Cost Manual"). Two years in the making, the Cost Manual establishes - for all City Health and Human Services contracts - what costs are direct, indirect, allowable and unallowable. Previously, cost treatment varied across contracts, what may have been allowable in one program may have been unallowable in another, and what were deemed direct costs in one agency may have been indirect in another. This disparate treatment created administrative challenges and expenses for providers, as well as confusion, especially for those that manage multiple City contracts at the same time. Understandably, the sector called for a single framework and pushed for alignment with Federal Guidance. The Cost Manual realizes both goals.

Like programmatic costs themselves, indirect cost rates were historically subject to varied calculations and treatment within City contracts. While this Administration has long been committed to recognizing at least a 10% indirect cost rate for our City contracts, the Cost Manual took indirect cost rates to the next level. With the adoption of the Cost Manual, we recognize that every organization has a different cost structure and indirect cost rate, and now have a uniform framework for organizations to submit those rates and the City to accept them.

Leveraging the Federal Guidance, providers with federal Negotiated Indirect Cost Rate Agreements (NICRAs) can submit those rates to the CIT for City acceptance and use them in developing contract budgets. For those providers that do not have a federal rate, the City offers two options for claiming, both also based off Federal Guidance. First, providers can claim a 10% de minimis indirect cost rate without any upfront verification documentation. Alternatively, a provider can calculate its indirect cost rate through a range of acceptable methods, have that calculation verified by an independent certified public accountant, and submit the rate and verification documentation to the CIT for City acceptance and use.

This indirect cost rate policy is a breakthrough. It standardizes budgeting practices, centralizes activity, and recognizes each organization's unique structure. The Cost Manual sets

a precedent that we encourage foundations and other municipalities to consider in order to establish a cohesive operating environment for our nonprofit partners.

### **The Indirect Cost Rate Funding Initiative**

In June 2019, with the adoption of the City's budget, Speaker Johnson and Mayor de Blasio announced that the New York City Council and the Administration agreed not only to adopt the Cost Manual, but to also make an investment to close the gap between existing indirect cost rate funding and actual indirect costs. Remaining true to a core principle that each provider has a unique individual cost rate and recognizing the varied treatment across human services contracts, the City went into this investment with a commitment to identify the true indirect costs within each of the thousands of active City contracts. This unprecedented approach gave rise to the CIT, co-led by MOCS and the Mayor's Office of Management and Budget (OMB), which was charged with implementing the ICR Funding Initiative by establishing and managing the claiming process.

In November 2019, the CIT, in partnership with Council Finance, launched that process. This was a monumental undertaking that was accomplished through collaboration with the Nonprofit Resiliency Committee, the New York City Council, the New York State Society of Certified Public Accountants, the Provider Executive Director ICR Workgroup and City agencies.

The design of the claiming process considered the range of providers that do business with the City of New York. Our first step was to convene a workgroup of executive directors from nonprofits and membership organizations (Provider Executive Director ICR Workgroup) to advise with our planning and implementation design. We established a process that runs 18 months from the date of the Fiscal Year 2020 Adopted Budget, allowing providers time to organize their operations in order to claim. Based on the recommendation of our Provider Executive Director ICR Workgroup, we created a Conditional Indirect Cost Rate which allowed organizations that knew they had a rate higher than 10%, but didn't yet have the verification documentation, to claim a rate of up to 12% for Fiscal Year 2020 funding. This opportunity was available on the condition that the provider obtain an Accepted Indirect Cost Rate in Fiscal Year 2021. Finally, we created a range of resources and support services - worksheets, checklists,

videos, webinars and job aids which are all available online at [nyc.gov/nonprofits](https://nyc.gov/nonprofits). We also have a central service desk that stands at the ready to answer specific questions from providers and certified public accountants with a developed escalation path to ensure appropriate and timely responses.

### **A Global Pandemic Hits the City, CIT Maintains Operations and Sector Communication**

Four months into the rollout of the claiming process, the global COVID-19 pandemic hit the City like nothing we've seen before. Despite massive displacement, the CIT claiming process remained intact - providers continued to submit indirect cost rate claims and the CIT oversaw reviews and approvals. We connected with every single provider that submitted an Entryway Form in Fiscal Year 2020 and more than 90% of providers that entered the process saw it through to completion. We also continued to release constant communications so nonprofits could stay abreast of new resources, information and upcoming deadlines.

Communication has been a hallmark of our work since we first created the CIT. If you visit the Indirect Implementation Webpage, you will see an archive of more than 52 emails, each to more than 3600 provider executives and staff – virtually one email for every week since we launched the initiative. We also share our weekly communications with membership organizations and City agencies so that they can distribute them through their networks. As we near key milestones, we send targeted communications to specific provider groups and conduct one-on-one outreach. We have also met with the Provider Executive Director ICR Workgroup throughout the initiative. All of this has been maintained throughout the past nine months.

When the budgetary fallout of COVID-19 began to come into view during Fiscal Year 2021 budget negotiations, the Administration and City Council were faced with drastic declines in revenue and together made challenging cuts across the City's budget. The ICR Funding Initiative was no exception. We were grateful that the investment remained, but it was reduced. Providers who had Accepted Indirect Cost Rates in Fiscal Year 2020 would receive budget amendments of either 60% of their accepted Fiscal Year 2020 amendment value or funding equal to a 10% indirect cost rate – whichever amount was higher. With this policy, providers could maximize their funding within the current budget realities and the City

remained true to its ongoing commitment to funding contracts with at least a 10% indirect cost rate. In practice, this meant providers who had already claimed the 10% de minimis rate saw no changes to their expected Fiscal Year 2020 additional funding, while others experienced additional funding at a lower than expected level.

While MOCS does not play a role in budget negotiations, as a principal member of the CIT we were part of the team tasked with announcing the City's policy for implementing the adjusted funding and updating the indirect cost rate amendment process to reflect the changes. As soon as the Fiscal Year 2020 funding policy was established, the CIT immediately announced it to the Provider Executive Director ICR Workgroup in a conference call conversation and issued a letter later that day to the sector, which can be found on our webpage. Additionally, we hosted three live webinars, posted a recording to our website, and developed tools to support agencies and providers with the amendment adjustments.

### **Looking Ahead**

We understand the challenges faced by the City Council and the Administration when negotiating the Fiscal Year 2021 budget and the disappointment of providers who expected full additional funding. Our work for the remaining weeks is to ensure that the indirect cost rate claiming and funding allocations are managed through a timely, central, transparent and uniform process. We continue to leverage technology in this pursuit, maximizing use of HHS Accelerator and PASSPort. The Fiscal Year 2021 application deadline is December 1<sup>st</sup> and the initiative closes on December 31<sup>st</sup>. We have worked closely with City-contracted providers to ensure they have the information and resources they need to enter the process and successfully complete it before the end of the year. It is critical that all providers enter the process so that they may use their true indirect cost rates to design their contract budgets, receive Fiscal Year 2021 funding and be in a position to receive any additional indirect cost rate funding that may become available in the future.

The City values the tremendous work of the nonprofit community and the critical services they deliver to improve the lives of countless New Yorkers. Establishing a process for recognizing and paying indirect costs reflects the significance of our partnership and our

commitment to the sector. We recognize that this continues to be a difficult situation for all parties as the City addresses the ongoing impact of the COVID-19 crisis, but we look forward to the City Council and Administration restoring full funding levels as soon as the budgetary environment permits.

Thank you. We are happy to answer any questions about the CIT or the initiative.

**Greenwich House Testimony**  
**City Council Committee on Contracts – Oversight Hearing**  
**Reviewing the City's Indirect Cost Rate Funding Initiative During the COVID-19 Pandemic.**  
**November 25, 2020**

Thank you, Committee Chair Kallos and fellow Committee members for the opportunity to join this important discussion.

My name is Darren Bloch, I'm the Executive Director and CEO of Greenwich House, a community-based non-profit that has been serving New Yorkers in the West Village and beyond for over 117 years.

I think it's fair to say, there are few words in "government-speak" less compelling than the phrase "indirect rate."

Unfortunately, it's an understated policy with an outsized impact on communities, and families and our strive towards economic justice.

We know that communities with vibrant and sustainable community-based organizations nurture healthier, more resilient, and successful people who make our whole City and civic fabric economically stronger and more socially resilient.

That isn't the stuff of pseudo-science and fairy tales, those outcomes are understood through the lens of hard economics and rigorous evaluations.

So when we undercut our non-profits with a dysfunctional approach to indirect rates, we're sabotaging our growth potential during good times...And during times of crisis, we are literally cutting into some of our best tools to build back better.

Even more troubling, is the fact that the work done by community-based organizations is largely being advanced by women and people of color, serving marginalized communities and communities of color.

So when we undercut our non-profits with a dysfunctional approach to indirect rates, we're accepting and perpetuating a systematic underinvestment in our black, brown, and low-income communities which have been historically and purposely sidelined.

To be clear, this is happening at city and state levels, and it is systemic and intentional.

Its baked into every contract, across every agency. And as they say, the system is working exactly as the system was designed to work.

To give a quick sense of the tangible impact:

If you look at our four contracts to manage four senior centers over the past six years, we received about \$1m as an indirect rate to administer these contracts.

And yet if you look at the scrubbed and certified actual costs for basic administrative functions, *we were underpaid* by about \$1m over that span.

This highlights the non-profit dilemma, which no other business sector that works for the city is asked to confront.

We're professional problem solvers and so we try to find a way to make that math work. We fundraise, we learn how to run lean, we get creative; but this model and approach – supported by our government – is unpredictable and unsustainable.

So when the City does not fully fund the actual cost of the work solicited, we are forced to suppress our spending and costs, which threatens our health, vitality and responsiveness.

If you extrapolate that over tens of thousands of contracts being managed by thousands of different organizations you can see the systemic weakening of a sector – and the communities we employ and serve.

*And when you hear a number like \$200m as an estimate of what is needed to begin to fully address this issue, I hope that is seen and understood as investment with a tangible triple bottom-line return. It is not a gift and it's not frivolous.*

To be fair, over the past several years this Administration - and the City Council - have given time and attention to this subject. And we have seen positive movement on funding and real improvements on processes. That is noted.

But we can only offer half-celebrations when the work is only half-funded.

It is long past time for a sustained and concerted effort to fully fund this work – and embrace the economic impact and economic justice imperative behind that funding.

That all said, I remain hopefully that there is real energy and will to change our direction and approach.





## HOMELESS SERVICES UNITED

307 W. 38TH STREET, 3RD FLOOR  
NEW YORK, NY 10018  
T 212-367-1589  
[www.HSUnited.org](http://www.HSUnited.org)

### **Homeless Services United Testimony before the NYC Council Committee on Contracts Indirect Cost Investment November 25, 2020**

Thank you Chair Kallos and members of the committee for scheduling this hearing today. My name is Catherine Trapani and I am the Executive Director of Homeless Services United (HSU), a coalition of mission driven nonprofit homeless services providers. HSU's members run a variety of programs that function as a critical part of the City's safety net – member programs include everything from HRA Homebase Homeless Prevention Programs, DHS Street Outreach, HRA Domestic Violence and DHS Homeless Shelters, DHS SRO Homeless Housing Programs and more. Together, this portfolio of contracts fulfills the City's legal obligation to provide shelter to all New Yorkers who need it and, our collective commitment to serve those most at risk and struggling with housing instability. As the Council well knows, many of these programs have been underfunded for years. Nonprofits have always worked to fundraise privately to subsidize the City's efforts to combat homelessness crafting unique solutions to complex problems but in recent years, we've fundraised not just to innovate and add new interventions but, to survive the City's business practices, which can border on abusive. For years we've floated the operations of shelter programs the City is legally obligated to provide without reimbursement waiting for contracts to register, for invoices to be paid and for amendments and modifications to be approved. Right now, I can name several providers who are owed up millions of dollars in receivables for services already rendered – two are owed nearly \$30 million dollars each.

Given the fiscal precarity of the sector, the City found an eager partner in me to collaborate on solutions to improve business practices first via the Nonprofit Resiliency Committee and later through provider

and coalition workgroups with OMB and MOCS. Through this collective work, several innovations were suggested and several moved forward, including finally investing in the infrastructure that makes nonprofits work and creating a rational system to set indirect cost rates and fully fund them. Lending the collective expertise of my membership and my time, I worked closely with the City Implementation team to implement the indirect cost policy and staked my reputation on the promises made to convince my member organizations and colleagues to do the work and invest resources in making it happen. HSU member organizations hired accountants and auditors who worked tirelessly on reallocating costs and painstakingly reviewing every line in every contract of every budget to implement the policy on the promise that they would finally be made whole and fully funded to support their operations.

Throughout the implementation process, but particularly towards the end of fiscal year 2020, members began to make decisions about what contracts to renew and which they could no longer afford to operate. Some programs had begun the year with indirect cost rates of zero and it was only due to the commitment to fully fund indirect for these contracts that nonprofits decided to continue their work into fiscal 2021.

You can imagine our disappointment then, when after budgeting for full funding and making business decisions based on that commitment, fiscal year 2020 funding was slashed by 40% and fiscal 2021 funding remains uncertain. There is simply no way to recover retroactive losses for fiscal 2020 in a good year, let alone a year when a global pandemic made it nearly impossible to fundraise for these types of expenses. The uncertainty around fiscal 2021 is making planning and budgeting nearly impossible as well. Due to the intricacies of the implementation process, some providers have had to modify administrative indirect expenses out of their direct cost base but, because of poor communication with agencies and lack of knowledge on what the current year funding levels will be haven't been able to re-allocate those funds to indirect lines. In those cases, not only are providers not getting the additional funding promised but are, at least at the moment, worse off than they were before they were made to

go through this complex exercise to adopt the policy. In cases where nonprofits only continued operations of programs that had a zero percent indirect rate due to the promise of future funding, they are continuing to bleed money they don't have and may not be able to recover while waiting for decisions to be made on the current year allocations.

I want to be clear that this funding is critical and necessary to successfully operate programs that New Yorkers rely on every day to survive. Many shelter providers struggling under the weight of broken promises and delayed payments can no longer take on new projects just as need is spiking and, I can nearly guarantee that many of the programs that are not currently in receipt of indirect funding such as HRA SRO housing will close without intervention. Closure of those programs would deal a terrible blow to the clients served. Sadly, foundations and private funders do not tend to be interested in supporting the continued housing of formerly homeless men with barriers to economic success and our members simply cannot afford to continue without the City paying what it costs to responsibly run those programs. The tenants in these buildings will likely be relegated to the shelters or streets absent the Council's intervention and the affordable housing units in which they reside will be lost. We implore you to restore the funding we need to survive to prevent that from happening.

Thank you for your advocacy on this critical issue and for the opportunity to testify.



November 25, 2020

The Committee on Contracts of the New York City Council  
250 Broadway  
New York, NY 10007

RE: Reduction in Indirect Cost Rate Reimbursement to Nonprofit Organizations

Dear Committee Members:

Member of the Committee on Contracts and Chairperson Kallos, I am Myung Lee, President and CEO of Volunteers of America-Greater New York. It is my privilege to submit this written testimony to you concerning impacts of the reduction in the Indirect Cost Rate.

### **Volunteers of America-Greater New York**

Volunteers of America-Greater New York (VOA-Greater New York) is the local affiliate of the national organization, Volunteers of America, Inc., and is one of the largest providers of human services in the metropolitan New York area. Founded in New York City in 1896, today VOA-Greater New York has 1,200 staff who provide life-changing, often life-saving services through 80 programs in New York City, Westchester County and Northern New Jersey. The bulk of VOA- Greater New York's human services are provided to the most vulnerable residents of New York City through City contracts.

VOA-Greater New York provides shelter, transitional and permanent housing, and supportive social services to the people of New York City, including:

- Individuals and families who are homeless
- Families recovering from domestic violence
- Veterans
- Senior citizens, including chronically homeless senior citizens
- Preschool children with developmental delays
- At-risk youth
- Individuals living with HIV/AIDS
- Adults with behavioral health issues
- People with a history of substance use

In this testimony today I will address the reduction of the Indirect Cost Rate and its impacts on VOA-Greater New York's ability to provide the services to those in need.

## **Indirect Cost Rate**

New York City government has always asked nonprofit organizations, like VOA-Greater New York, to do more with less. Along with our sister agencies, we cautioned City officials that without systemic change to the way the City did business with us, our COVID-19 response would be at risk. Never before in our history have we had to work in an environment of such fiscal uncertainty. Indirect Cost Rate (ICR) is but one example.

As you know, New York City has historically paid nonprofit organizations ICR to cover certain administrative overhead - our real cost of doing business. The current reimbursement rate is 10%.

For FY2020, The City gave us three options:

- 1) Keep the current 10% rate;
- 2) Opt for a 12% rate immediately for FY2020 requiring a subsequent outside audit at our expense and no opportunity to recover at higher than 12% if the audited rate was higher than 12%; or
- 3) Choose to calculate and have the ICR audited in order to determine our actual indirect costs and receive that rate, retroactively back to July 1, 2019. This audited ICR rate would therefore be valid for FY 2020 through FY2022.

We were also told that in addition to our Department of Homeless Services contracts we would, for the first time, receive ICR reimbursement for our Human Resources Administrative contracts.

VOA-Greater New York chose option three. We spent money – a good investment, we thought – and hired an internationally respected auditor. The audit firm determined our true administrative costs to be 17.93%.

Even with the City-mandated 10% backout, we anticipated \$1.17 million in reimbursement for costs we had already incurred for FY2020. This was finally a chance to get a fair reimbursement on our true costs.

But then in August, the City announced that nonprofit organizations would only be paid 60% on that amount. In an instant, we went from expecting \$1.17 million to \$700,000. With one wave of the hand, we lost \$470,000.

We played by the rules. We prepared the calculations. We did the audit. We filed our templates on time and responded to MOCS questions. We followed every instruction the City gave us to the letter and today, we are sitting here with our hand out. We have yet to see a penny of the retroactive ICR in the amount of \$700,000 for costs already incurred.

Plus, we are almost five months into the new fiscal year, and still have not been told how much of our indirect funding in FY2021 and FY2022 is going to be cut.

Compounding the ICR issue, like many nonprofits, we have had to borrow on our line of credit as we wait for the City to pay on contracts. Annually, VOA-Greater New York's line of credit interest expense is \$450,000 – for which we are not reimbursed by the City. On top of that, we were forced recently to pull out \$5 million from our portfolio to cover costs. Our long-term rate of return assumption on that money is 5.8% given the blend of portfolio assets. That comes to a loss of \$290,000 of returns. Combined with the interest on our line of credit

our total cost and lost revenue is \$740,000. We have also planned, a multi-million deficit for FY 21, to a large degree caused by the lack of clarity and resolution on the indirect cost rate matter.

## **Impact**

This is all backbreaking to an organization that is helping the poorest of the poor; the sickest of the sick; the most vulnerable of New Yorkers.

And during a time when our services have never been more necessary, the consequences of this fiscal uncertainty are dire:

- We have cut program positions, including cooks and have developed relationships with other not for profits to donate food to our programs to reduce our food costs. We have frozen program positions where we have discretion (unfunded/ rental budgets) which has a negative impact on our ability to service clients and maintain buildings.
- To cut costs, we have decreased specialty services like psychiatric services by replacing a Psychiatrist with a Nurse Practitioner.
- We have laid off staff in our administrative office.
- We have instituted a hiring freeze. For example, we are also holding up filling critical administrative positions that impact and support programs, such as quality assurance.
- We have forgone raises and cost of living adjustments for administrative staff.
- We are contemplating cutting business insurance levels.
- We have reduced our investment in staff training.
- We have cut community engagement and outreach.

These are but a few of the cost-cutting initiatives we have had to undertake to survive.

## **Conclusion**

Volunteers of America-Greater New York delivers what we promise to the City – the City should do the same. We simply cannot afford to continue operating in this uncertain fiscal environment. At a time when nonprofits are incurring millions of dollars in pandemic-related expenses, we implore the City to fulfill its promise to reimburse us for administrative costs at the promised rate.

Absent this, the very future of Volunteers of America-Grater New York and our 125-year legacy are at risk. But more importantly, the life-changing services we provide to the most vulnerable New Yorkers are in jeopardy.

Respectfully,



Myung J. Lee



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For FY2020, The City gave us three options:

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Respectfully,



Myung J. Lee

Good afternoon. My name is Lew Bader. I am the Finance Director for Counseling in Schools. I would first, like to take this opportunity to thank you for the opportunity to testify before the Committee today.

Counseling In Schools is a Community Based Organization. We have been working in schools, community centers and shelters across the city of New York since 1986, providing mental health services. In any given year we embed social workers and youth workers in locations to directly work with between 7,000 and 10,000 students, helping them with their social and emotional growth, which I am sure everyone will agree is as important as intellectual growth.

I came to Counseling in Schools five years ago after spending forty years in Fortune 500 companies, where the goal is to maximize profit and shareholder value.

Counseling In Schools and all the other organizations that are testifying here today have a different mission. Ours is one that is founded on the principle that our communities are strong, our schools are strong, families are strong and the

children we serve are strong. And that together, we can ensure that every student realizes their full potential.

The City, State and Federal governments have always asked us to do more with less. Frankly, we have always gladly done that. But, when the Covid-19 pandemic hit, the city's response was not to invest in the communities most impacted. Rather, the response was to cut our contracts and retroactively reduce our funding.

For fiscal 2020 Counseling In Schools chose to take the 10% de minimis rate so that we could focus our efforts on meeting the immediate needs of the pandemic and not on what seemed like an endless stream of back and forth modifications to excel spreadsheets. Therefore Councilwoman Rosenthal there are no dollars missed for 2020.

But in fiscal 2021, we, at Counseling In Schools will take a double hit. Besides the Indirect Rate Cut, when the new budget for 2021 was first announced the Department of Education's Office of Community was hit with a \$9 million cut which was ultimately reduced to \$6 million. For Counseling in Schools this meant a

4.7% decrease to our Community Schools budgets which will mean a decrease in direct funding for 2021 of more than \$180,000. This includes a 4.7% decrease to our indirect funding for those programs. And then they are going to take more – we don't know how much because we have not been told how much of our indirect funding will be cut in 2021. This has forced us to reduce spending on supplies for students, furlough some of our employees and cut back on the services we provide, all while increasing our spending on technology and communications, training our staff to do their work remotely and equipping them with the tools to do so. Indirect funding does much more than just pay our rent. During the pandemic it provided us with funding to provide food to families suffering from food insecurity, students with computers who otherwise would not have an ability to learn remotely and communications platforms like Zoom that enable our staff to communicate with students, parents, school staff and each other to provide services during these unprecedented times.

Counseling in Schools and every organization testifying before you today have always worked with the City in good faith.

Nonprofits helped the City develop the Cost Manual, advocated during the fiscal 2020 budget to get a commitment that it would be funded. We followed the City's implementation plan. We invested resources to get our rates certified by our Certified Public Accountants (\$11,000) – that cost us money and diverted our attention from other matters. We were not reimbursed for our time or the money we spent. And we have yet to receive any funds related to the revised indirect rate. Let me clear - Because of the lack of transparency and the city's decision to not honor their commitment we are now worse off than when this process started. Let me stress that point WE ARE NOW WORSE OFF THAN WE WERE WHEN THIS PROCESS STARTED.

The retroactive cuts to the Indirect Cost Rate Initiative (ICR) in Fiscal Year 2020 and repeated underfunding of the program in Fiscal Year 2021 are devastating because they impact us across our entire budget.

Trying to replace that funding for mental health services- especially for children in the middle of this pandemic - is not about our bottom line; it is about preventing the undermining of the scope and effectiveness of essential services during a time

of growing need and doing the foundational work for our City's recovery. THE FOUNDATIONAL WORK FOR OUR CITY'S RECOVERY.

I would be remiss if I did not point out that Counseling In Schools has always worked with a large population of Students in Temporary Housing. The cuts you have instituted and are contemplating will prevent us from serving as many students as we have in the past. This disproportionate impact is not just unfair, it is devastating to those who are most vulnerable.

It sounds to me, from the testimony I have heard today that the 60% cut was arbitrary and that we are about to receive another arbitrary cut. I ask this committee to recommend that the mayor and the Budget Office find another place to save money. Don't make our children pay for this city's inability to be fiscally responsible.

Counseling In Schools is not alone. Because of cuts to human services, including indirect funding, New York City's government- contracted human services sector has laid-off over 40,000 workers.

These cuts do not impact all New Yorkers' equally, but rather, as I have already stated, they disproportionately impact communities that have already been hardest hit by COVID-19.

On behalf of Counseling In Schools and all of the Non-Profits that provide services to the citizens of the City of New York I urge you to restore full funding to provide us all with the revenues we need to fulfill our collective mission.



**Testimony of Stanley M. Isaacs Neighborhood Center  
Committee on Contracts Hearing  
November 25, 2020**

I would like to thank Chair Kallos for his support of the human services sector and for bringing much needed attention to this critical issue. I'm Gregory J. Morris and I'm the President and Executive Director of the Isaacs Center. The Isaacs Center is a multi-service organization providing services to all ages for nearly 60 years. We are a "hybrid model" Senior Center and NORC (Naturally Occurring Retirement Community) program located at the Isaacs Houses and Holmes Towers public housing developments on the Upper East Side, and the Taft Houses Senior Center in East Harlem. Since the start of the pandemic, our services to older adults have transitioned to virtual/online platforms, telephone reassurance, the launch of a community kitchen, and a commitment to meeting urgent needs – tablets and air conditioners, glasses and emergency meals. We operate an Education and Workforce Development program that provides young adults who are out-of-school and out-of-work (OSOW) with sector-specific job training, internships, employment placement, and retention support. Young adults were one of the groups hit hardest by the pandemic's economic fallout. As many as 324,000 (34%) of 16 to 24-year-olds across New York City are out of school and out of work right now. Our out-of-school time programming seeks to mitigate the inequities in our education system by providing children who are underperforming in school – especially children who live in public housing – with daily enrichment, academic intervention, and social/emotional supports.

In FY20, the City made a commitment to provide the human services providers with indirect rates that reflect their actual costs for FY20 through FY23. The City established the *Indirect Cost Rate Initiative*, which was funded at \$53.4 million, for the purpose of raising indirect rates on the City's human services contracts. The City then asked organizations to determine their actual indirect cost rate.<sup>1</sup> To produce this content, Isaacs Center engaged two accounting firms, to do the raw analysis and provide the required Independent Accountants' Report. The final report certified an 18% indirect cost rate for our organization. The cost of engaging both firms was approximately \$15,000.

Our Independent Accountants' Report was submitted in May but every 2-3 weeks since, the City requested supplemental data to support the submission. On August 13th Isaacs Center received notification that our 18% indirect cost rate was approved by the City, and that our organization would receive amendments to our City contracts retroactively from FY20 through FY23 to reflect this increase. The FY21 Adopted Budget for the City (passed in June), however, cut \$20 million in funding from its Indirect Cost Rate Initiative. The City implemented this cut by eliminating all providers who submitted their analysis after June 30th and providing only 60% of new funding to providers (like Isaacs Center) who submitted before the deadline and were approved. **While the acceptance of the new rate at 18% being funded at 60% provides an additional \$217K in funding, if the initiative had been fully funded, Isaacs Center would have received \$362K in fiscal years FY20 through FY23. This difference of \$145K is nearly 3% of value of our government contracts (\$5,086,076), and yet, there is no expectation that we will do 3% less of what we are contractually mandated to do.**

The reduction of indirect funding support at this time compromises our ability to execute on our identified programmatic objectives – at a time when our services provision is more essential than ever – and undermines our efforts to provide quality administrative functions and operations – at a time when our personnel - and the facilities in which they work - are being stretched beyond their traditional identified capacities in response to the pandemic. The *City of New York Health and Human Services Cost Policies and Procedures Manual*<sup>2</sup>, which has been modified 5 times since it was first published in March 2019, provides instruction on how service providers like

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<sup>1</sup> We have historically received 10% for our indirect/administrative costs [executive salaries, fringe, facility costs etc.] on our City contracts, despite our actual indirect costs being much higher, similar to most other providers in the human services sector.

<sup>2</sup> <https://www1.nyc.gov/assets/nonprofits/downloads/pdf/NYC%20HHS%20Cost%20Policies%20and%20Procedures%20Manual.pdf>



Isaacs Center should allocate their direct and indirect costs, and it is a useful reference when considering how indirect funding cuts have direct consequences:

- Maintenance and repair costs related to cleaning, repairing, refurbishing, and retrofitting offices used by general administrative personnel are indirect costs and reductions in indirect funding has challenged us to identify and utilize private funding resources to ensure that our key administrative personnel in Human Resources, Fiscal and Operations, IT, and even facilities access to both the environment and equipment necessary to perform each of their functions safely. (p.40)
- Insurance Costs are indirect costs and employer-based health insurance costs were grow annually by no less than 5% before COVID. Without additional indirect funding, Isaacs Center will be forced to either accept a plan with less robust premiums – there by compromising their personnel’s trust in their health benefits at a time when there are greater concerns about health than ever, or Isaacs Center will forced to increase the employee’s contribution to their health insurance plan. (p.32)
- CPA’s fee for conducting an examination of financial records, accounts, business transactions, accounting practices, and internal controls and issuing a report to the Provider expressing a professional opinion is consider an indirect cost (p.27). It is interesting to note that the *Indirect Cost Rate Initiative* analysis and the completion of the appropriate worksheets associated with this analysis required the involvement of a reputable CPA to create an acceptable application. The effort to produce our analysis cost Isaacs Center \$15K.
- Materials and supply costs with organization-wide access and use are considered indirect costs. Reductions to funding for these purposes result in less access to equipment and resources as varied as office paper and copier supplies, toilet tissue, and PPE for all personnel. (p.41)

As has been reported, the primary driver of the human service sector’s financial distress is underfunded government payment rates which are 80 cents or less per dollar of true program delivery cost. At Isaacs Center, this means that we are seeking to secure more than \$1M in financial support from private philanthropy, corporations, and individual donors to fulfill the obligations of our contracts. When Mayor de Blasio, Speaker Johnson and City Council announced the launch of the Indirect Funding Initiative to increase financial stability among Human Services providers in December 2019, organizations like ours began to plan for the possibility that the gap that has existed for so long between our payment rates and true program delivery costs would begin to close. Despite the successful implementation of the ICR Cost Manual and the new protocols established to facilitate government contracting as set forth in partnership between MOCS and the Non-Profit Resiliency Committee, the absence of the full commitment of the City related to indirect rates, and, the inability of the City to clarify what funding providers can expect in FY21, has completely underserved and undermined the sector at a time when our work and our workforce has never been more essential.

This has been a year of unbelievable challenges, and it is not over. But it has never been clearer the essential role that the human services sector plays in our communities. **We ask for your strong support to advocate for the full restoration of this funding in the City’s next financial plan.**



**New York City Council  
Committee on Contracts  
Council Member Kallos**

**November 25, 2020**

**Oversight - Reviewing the City's Indirect Cost Rate Funding Initiative During the COVID-19 Pandemic.**

Thank you, Chair Kallos, for the opportunity to testify on the City's Indirect Cost Rate funding initiative.

LiveOn NY's members include more than 100 community-based nonprofits that provide core services which allow New Yorkers to thrive in our communities as we age, including senior centers, home-delivered meals, affordable senior housing, elder abuse prevention, caregiver supports, NORCs and case management. With our members, we work to make New York a better place to age.

In November of 2019, human services providers celebrated the significant and long overdue commitment by the City to fully fund non-profit providers for their full Indirect Cost Rates (ICR) on City contracts. This commenced a long, and arduous—but meaningful—process, which collaborated with the Nonprofit Resiliency Committee, in of creating the ICR manual to standardize the appropriate allocations of these rates; followed by non-profits laboring to review their fiscal systems to fully comply; all with the goal of inevitably certifying their approved ICR rates and coming a significant step closer to full payment for their work, which includes feeding seniors, supporting elder abuse victims, offering respite to caregivers, and so much more.

**Fast forward to today, and this process has been partially for naught, with the City cutting ICR payments by at least 40% in Fiscal Year 20, and an unknown amount for the Fiscal Year that we are almost halfway through.** I state that this cut is *at least* 40% due to the fact that aging service providers have learned they will be paid only 60% of their ICR *for just 7 months of their FY20 contract*, which is effectively a much larger cut than originally indicated.

There's no other way to put it, than that New York City's human services providers are tired; tired of operating as a partner in good faith with the City, only to receive funding below what is needed to execute each contract for critical services and that is less than these providers truly deserve.

Further, providers are tired of being promised funding, like through the ICR initiative, that never comes to fruition. **For aging service providers, this is the third unfulfilled promise from this Administration:** Senior Centers were also promised \$10 million through the City's Model Budget process for much needed raises for staff, that was inevitably reneged without a word, and were promised \$5 million for Senior Center kitchen staff, that also went unfulfilled.

**These promises, starting with the Indirect Cost Rate initiative, must be redressed in full.** The City can no longer take for granted the very providers that consistently step up and find a way to meet the needs of New York's communities. Today, nonprofits are more at risk of insolvency than ever, with a



recent study by Candid finding that 1,829 non-profit organizations might go out of business across New York due to the current COVID crisis.<sup>1</sup> Yes, at the very time that the safety net of services is most critical—during a global pandemic—the City has put the system responsible for making these services possible at greater risk. **This is not a question of availability of funding, it's a question of priorities. LiveOn NY implores the City to make nonprofits, and the full funding of nonprofits, a priority, by fully funding the Indirect Cost Rate (ICR) initiative, and all prior commitments.**

Thank you for the opportunity to testify.

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*LiveOn NY's members provide the core, community-based services that allow older adults to thrive in their communities. With a base of more than 100 community-based organizations serving at least 300,000 older New Yorkers annually. Our members provide services ranging from senior centers, congregate and home-delivered meals, affordable senior housing with services, elder abuse prevention services, caregiver supports, case management, transportation, and NORCs. LiveOn NY advocates for increased funding for these vital services to improve both the solvency of the system and the overall capacity of community-based service providers.*

*LiveOn NY also administers a citywide outreach program and staffs a hotline that educates, screens and helps with benefit enrollment including SNAP, SCRIE and others, and also administers the Rights and Information for Senior Empowerment (RISE) program to bring critical information directly to seniors on important topics to help them age well in their communities.*

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<sup>1</sup> <https://blog.candid.org/post/how-many-nonprofits-will-shut-their-doors-state-level-data/>



TESTIMONY SUBMITTED TO  
THE NEW YORK CITY COUNCIL  
COMMITTEE ON CONTRACTS

Hearing Regarding

Oversight: Reviewing the City's Indirect Cost Rate Funding Initiative During the COVID-19 Pandemic.  
Wednesday, November 25, 2020

Jim Purcell  
CEO

Council of Family and Child Caring Agencies

Good morning, Chairperson Ben Kallos, and good morning to the members of the New York City Council Committee on Contracts. My name is Jim Purcell and I represent the Council of Family and Child Caring agencies, also known as COFCCA. COFCCA represents over fifty New York City child welfare agencies, organizations that provide foster care and child maltreatment prevention services to many thousands of families. Our members range from large multiservice agencies to small community-based preventive services programs in community districts around the city. We thank the Committee for the invitation to testify about the Indirect Cost Rate and its intersection with the COVID-19 epidemic.

The nonprofit agencies that provide family and child welfare services in New York are charged with doing everything possible to ensure children are safe and well-cared-for, whether they are living with their parents or kin, living in a foster home, or living in an agency-staffed group home or residential center. These agencies have long struggled to operate and meet the city's needs while being funded at rates less than what it costs to do the work. The Council's introduction of the Indirect Cost Rate as a way for agencies to submit documentation of real costs - and be *paid* at rates that reflect real costs - was welcomed by our COFCCA members and seen as the City finally acknowledging the agencies' reality. Agencies that applied early in the ICR implementation process had the funds to maintain a solid infrastructure, which thus supports stronger programs. But before February, few recognized just how important infrastructure and program support would be.



When New York City effectively shut down for COVID-19 in March, children and families' needs didn't stop - - on the contrary, the job of keeping the City's children safe and healthy was made even more difficult. Foster care didn't stop, but now foster care caseworkers had to complete their work from home or from the field as offices closed. Family visits didn't stop, but now caseworkers had to help children, their parents and their foster parents acquire and use new technology. Services to prevent children from coming in to foster care didn't stop, but families' needs increased and prevention case workers had to come up with new ways to get the families the resources they needed. Group facilities didn't close, and the staff who worked at these locations needed to put things in place to protect themselves and the youth in their care. A prime example of infrastructure supporting program at this time is the agencies' information technology managers, who each had to rapidly source and deploy hardware, software, and security solutions to manage an unplanned shift to a mostly- or totally-remote workforce model. It stands to reason that those agencies with strong, well-funded infrastructures were able to make this shift faster and more effectively than those without.

Since the ICR is key to appropriately funding human services when we're *not* in a crisis situation, it is incredible that the City would consider cutting ICR funding in FY21 (the fiscal year that started five months ago). It is truly reprehensible to cut funding retroactively from agencies' FY20 payments, especially given that these agencies dropped everything to shift resources and increase services to keep the City's children safe with the assurances that they could spend what they had to in order to get this important work done. These cuts undermine the scope and effectiveness of essential services during a time of continuing and growing need. And since human services direct workers are predominantly people of color, mostly women, who serve populations historically disadvantaged due to race, sexual orientation, sexual identity, immigration status, health and mental/behavioral health issues, and income inequality, these cuts disproportionately hurt the City's already-marginalized citizens.



The City needs to maintain its commitment to pay providers for the full costs of services. When a contractor paves a road or paints a bridge, as long as the contractor presents a truthful accounting of reasonable costs, the City pays the bill. Child welfare services are at least as important as our roads and bridges (I would argue "more important"). It should not be acceptable for the City to acknowledge the full child welfare costs and yet say, "but we're not going to pay you the full amount," and worse, "and we're going to cut what we promised you last year," money the agencies already spent. We urge the Committee and Council to reject any cuts to the Indirect Cost Rate funding for FY20, FY21, and going forward.

We at COFCCA would be happy to answer any questions the Council members may have, or to arrange for members to see their local child welfare agencies in action. We thank you for allowing us to submit our testimony.

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**Contact Information:**

James F. Purcell, CEO

Council of Family and Child Caring Agencies  
254 West 31st Street, Fifth Floor, New York, NY 10001  
Phone: (212) 929-2626 / Fax: (212) 929-0870

[www.cofcca.org](http://www.cofcca.org)

# SHELTERING ARMS

Children and Family Services

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*Embracing Hope and Building Futures for Generations*

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**Testimony delivered by Anthony Edwards, Chief Financial Officer  
Prepared for the NY City Council Contracts Committee  
November 25, 2020**

Good morning. My name is Anthony Edwards and I am the CFO at Sheltering Arms Children and Family Services. Thank you to Chair Kallos and members of the New York City Council Contracts Committee for the opportunity to testify.

Sheltering Arms is one of the City's largest providers of education, youth development, and community and family well-being programs for the Bronx, Manhattan, Brooklyn, and Queens. We serve nearly 15,000 children and families each year, and employ more than 1,200 staff from across New York City.

Through the Indirect Cost Rate initiative (ICR) Sheltering Arms was approved for an 11% indirect rate, which would have meant an increase of \$1.3M in critical indirect funding across our FY20 contracts. Because of the retroactive cuts, we are missing out on \$78,000 that was budgeted and spent in FY20 to support our core infrastructure that allows us to continue serving our communities across NYC:

- Upgrading and maintaining our payroll system to ensure staff are paid accurately and on-time.
  - The cost of processing our payroll alone is \$14,000 every two weeks.
- Ensuring that our technology across 50 sites, including 20 residential sites, (and hundreds of home offices!) are effectively meeting the needs of increased reliance on internet, including video meetings and therapy sessions, remote learning, and file sharing (e.g. improving WiFi, maintaining computers and laptops, upgrading licenses for LogMeIn and VPN access).
  - The cost of transitioning our staff of 1,200 to remote work was about \$30,000 in equipment costs that was not eligible for reimbursement.
- PPE and cleaning for administrative staff and offices for staff whose work could not be completed remotely (e.g. our Facilities team continuing to make deliveries of PPE and donations to our residential and program sites; our Accounts Payable team which must continue to print paper checks to ensure our bills are paid)
  - In FY20 we spent more than \$1.2M on PPE, cleaning, and emergency supplies. While much was reimbursed, \$69,000 was not eligible for reimbursement.

In FY21, we are projecting a budgeted deficit for the first time in more than 10 years. This deficit is largely driven by unreimbursed indirect costs due to cuts to the ICR.

Nonprofits like us invested resources into preparing for the ICR and getting our indirect rate certified. We trusted the City to follow through on this critical step to shoring up the sustainability of the human services sector – a sector that is vital to the City's recovery.

On top of the increased demand for our services from the community and the increased demand on administrative teams to support remote programs, the City itself is demanding more of us in the midst of the pandemic. In July the City added new requirements for monthly invoice submissions on all reimbursement-based contracts. This new process is incredibly tedious and time consuming, meaning that while the City is actively cutting how much they will pay us for indirect expenses, they are also actively increasing our indirect expenses by increasing the administrative burden required in order for us to get paid for services provided. This is unjust, illogical, and unsustainable. The City is starving its essential businesses.

The City must fully fund the ICR in order to stabilize the human services sector and to ensure that we will be here to serve our communities for years to come. Thank you again for the opportunity to testify before you today. I'm happy to answer any questions you may have.

Anthony Edwards, CFO  
aedwards@shelteringarmsny.org



Submitted by Paula Magnus, Deputy Director & CFO

## NORTHSIDE CENTER FOR CHILD DEVELOPMENT

City Council thank you for this opportunity and to my fellow providers, I too believe it feels like preaching to the choir, based on what I've heard this morning and now afternoon. WHO should be listening to our testimony, right now should be the individuals that came up with the initial \$34 million from start to cover our indirect rates and whoever came up with the 'right sizing'.

Not sure why the dollar amount of the indirect funding level needed at some point in time could be given to the Council so decisions could be made on this important funding issue.

Northside applied over \$500,000 and the amount was reduced over \$200,000 for 2020.

By the way, my staff followed-up a few weeks ago about our contracts being amended and we were told they are behind....so our amounts have not been registered and for sure not invoiced.

It is a lot of work for MOCS and lots of work administrative work and paperwork data gathering for non-profits as well costing us more indirect dollars through this process that we are not getting paid for.

As a financial staff member and currently the Deputy Director and Chief Financial Officer close to 25 years at Northside Center for Child Development...

I REMEMBER WHEN INDIRECT ALLOWANCE WAS 25%.....now we are being told the basic indirect amount is 10%...not sure how this amount got so reduced over the years.

Northside has facilities in Harlem, the Bronx and Brooklyn. I respectfully testify to the importance of the funding needs to assist in covering the indirect cost for non-profits serving millions of New York City citizens, this funding **must remain. It is way past due** and if the funding is not provided, organization serving the most vulnerable will continue to fold, as has been happening during our COVID crisis!

These are challenging times growing inequities in income, health care, public health, education, housing, and social justice—millions of children and families have been, and still are being, severely impacted by the virus....we know ...every penny matters!

**For years administrative indirect requirements have been added to City contracts, unfunded mandates, as they are known.** Thankfully, the City has acknowledged these costly expenses, through much research for years.

To certify the financial strain these unfunded mandates have been causing non-profits organizations gathered data that were certified by CPA firms to verify the expenses. Additional funding is needed for these that have been carrying the **financial burden for years**.

Now, more than ever, is the time for the City to stay committed and provide ALL the dollars needed for Agencies to survive!

Virtual connections, computer equipment, data and indirect administrative support are basic requirements and without increased funds for these indirect costs, services for our **suffering** New Yorkers such as mental health, education, childcare, and the like will be devastated.

The indirect funds have been promised for year, **struggling** organizations have already included in their current operational budgets, the indirect cost rates funds.

Last fiscal year we lost 40% of our indirect funding due to a cut made in this program, for those of us 'holding' on by a shoestring we cannot afford to serve our citizens in need without these funds.

**Our plea is to provide the full funding for our indirect cost rate, for 2020 and 2021. Make those whoever it is....giving these 'right sizing numbers' answer up for the cuts they are making!**

Thank you for allowing us this time to voice our sincere concern for these funds to remain as our families that are **suffering** and agencies that are **struggling**, cannot wait any longer!



**Testimony before City Council Committee on Contracts  
Remote Hearing  
November 25<sup>th</sup>, 2020 | 10:00am**

Good morning Chair Kallos and members of the Committee. My name is Nicole McVinua and I am the Director of Policy at Urban Pathways. Thank you for the opportunity to testify at today's oversight hearing on the impact of retroactive cuts to the FY20 Indirect Cost Rate (ICR) Funding Initiative and the delay in determining the FY21 ICR on our organization.

Urban Pathways is a nonprofit homeless services and supportive housing provider. We assist single adults through a unique combination of street outreach, drop-in services, safe havens, extended-stay residences, and permanent supportive housing. We also offer a wide range of additional programming to meet the needs of our clients, including our Total Wellness Program and UPwards Employment Program. Last year Urban Pathways served over 3,900 New Yorkers.

Nonprofit human service providers have been underfunded for many years. City contracted organizations have typically received 85 cents - 87 cents for every dollar of the actual costs to run our programs. The area of the budget that has historically been most neglected are those that fall under indirect costs: the costs of providing the backend support necessary to provide direct services, including Human Resources, IT, accounting, rent, and other infrastructure costs. The result is that nonprofit human service providers typically operate at a deficit and are forced to make up the difference through private fundraising.

The decision to fund the actual indirect costs for nonprofit human services contracts was a groundbreaking decision by City government. The result for Urban Pathways was the opportunity to run our programs on a break-even budget, instead of starting at a deficit. This would open up the opportunity to use fundraised dollars to expand our existing services or grow our programs to benefit current and future clients. The announcement of the ICR Funding Initiative included a reimbursement of our actual indirect costs for FY20 and that this rate would then be used moving forward.

Unfortunately, we never saw this come to fruition. Following the release of the FY21 Budget we were informed that 40% of our increased rate would not be funded for FY20. The result for our organization is a **retroactive cut of \$387,553**. Having already planned on how that money would be used, a retroactive cut is particularly harmful; this is a cut for services already rendered that we cannot go back and not spend. Further, we have still not yet received the reimbursement for the FY20 funds that have not been cut.

Following this announcement, we have been told **that the City does not yet know how much of the ICR will be funded in FY21**. We initially planned our FY21 Budget around this increased funding, but now we have no idea at how much the City is going to fund our indirect costs. **Five months into the fiscal year, this is making it impossible to plan our budget.**

Compounding this is the matter of **increased costs related to the COVID-19 pandemic**. Our spending has significantly increased to ensure our staff and clients have access to appropriate PPE and to expand deep cleaning of our facilities and offices. The pandemic has also created a need to increase access to Wi-Fi for our clients in order to make telemedicine and virtual therapeutic services available. The majority of our programs are residential, meaning they never close and require staff presence 24/7. Our direct service staff has continued to work on site throughout the course of the pandemic to provide critical services to our homeless and formerly homeless clients, while increasing risk to themselves and their families. To recognize this sacrifice, we provided our employees with differential pay for the hours they worked on-site from the end of March through mid-October. Due to the cuts to the indirect rate, we are no longer able to continue this increased pay rate.

Due to the pandemic, we forecast a drop in private funding in FY21, which has always been a necessary supplement to fund our actual indirect and administrative costs. The lack of the additional ICR funding may put a stress on our overall support capacity and liquidity. This could ultimately result in program cuts or closures. **Nonprofit organizations were doing critical work on behalf of the City prior to the pandemic, and we will be instrumental in the recovery of communities hardest hit by COVID-19. Cuts and resulting program closures will disproportionately impact these communities.**

I also want to highlight the damage that will be done if the City reverts contracts back to the 10% de minimis rate. The Cost Manual formalized which costs fall under the ICR and moved rents for our program sites, which is a significant cost, into the ICR. Therefore, **if we were to go back to receiving the 10% de minimis rate on our City contracts, we would actually be taking a significant cut from our original indirect rate**, as we could not recover these costs that have been removed from our program budgets.

For every step of this process, the human services sector has worked with the City in good faith. Urban Pathways' CEO, Frederick Shack, co-chaired the Nonprofit Resiliency Committee, working closely with the City and other nonprofits to help develop the Cost Manual. Nonprofit organizations advocated during the FY20 budget to get a commitment that the initiative would be funded, followed the City's implementation plan, and invested significant resources to get our rates certified. Now, due to the lack of transparency and partnership from the City, we are worse off than when this process started.

Nonprofit organizations doing the work of the City should not be in a position where their survival rests on their ability to meet their fundraising goals. We hope our testimony today helps bring a clearer understanding of the impact of ICR cuts and underfunding.

Thank you very much to the Committee for your work and for holding this hearing today.

**For questions or further information, please contact:**

Nicole McVinua, Director of Policy

[nmcvinua@urbanpathways.org](mailto:nmcvinua@urbanpathways.org)

212-736-7385, Ext:233



Brooklyn Community Services  
Testimony to New York City Council Committee on Contracts  
Public Hearing - November 23, 2020  
Janelle Farris, CEO

Thank you Chairperson Kallos and members of the Committee on Contracts for this opportunity to present testimony on a matter that is of great potential harm to the City of New York.

My name is Janelle Farris and I am the Executive Director and President of Brooklyn Community Services, the oldest non-sectarian human service provider in Brooklyn. With over 150 years of experience working in Brooklyn's underserved communities, our programs serve over 20,000 people annually. Throughout the COVID-19 crisis BCS staff continued to reach clients, either in person or remotely, in an effort to continue positive growth and to provide a life raft to those in need of it. We run shelters, provide housing, operate emergency food pantries, offer family support programs, day care, mental health care, youth and education programs.

The COVID-19 pandemic and efforts to end it, have given rise to an education, economic and mental health crisis, one that is growing for New York City residents. Crisis response is not new to BCS, we respond quickly and effectively each time the City and the residents of Brooklyn need us, building upon our practice to meet needs from influenza in the 1800's to 9-11, from hurricane Sandy to Covid-19. The city relies on non-profits, who address social justice issues every day, to meet community needs, especially during times of crisis.

And yet historically, as we strive to offer highly regulated, professionalized services, programs that support the city's most vulnerable populations, programs that are run primarily by women and people of color, we are expected to operate at an extreme disadvantage. For years nonprofits have been paid by City government contracts at rates of pay 10 to 20% less than the cost of doing business. Over the past ten years we have all witnessed growing numbers of nonprofits struggle due to economic hardship. And then, two years ago, the City of New York took a progressive step into a new paradigm. Working with nonprofit providers, the City made a commitment to all New Yorkers to preserve the non-profit service sector acknowledging that the sector is a vital component of City Services.

We were asked and we did partner with the City to create the ICR (Indirect Cost Rate) system. We worked with City Staff for months and then re-aligned our budgets and hired auditors as required, all while strengthening our capacity to serve our clients along the way.

And now, the response of NY City Government to our shared effort, to the over 600,000 people that this sector employs, and the hundreds of thousands of people we serve is: "tough luck." In the midst of a

pandemic where our essential employees ensure that there is Child Care available for working parents, that food pantries are stocked and operational, that at-risk families are visited and children safe and cared for, that seniors have meals delivered, that shelters are staffed and their residents safe, that those living with mental illness do not fall victim to their illness, that youth are engaged and actively working toward their futures, we are offered retroactive budget cuts on top of and on the pathway toward additional budget cuts.

For Brooklyn Community Services, this means a retroactive cut of over \$745,000 to our FY20 budget, and five months into the FY21 fiscal year, we are forced to operate within uncertainty that is unconscionable. While we accept with some frustration 60% of the total amount of indirect funding we were promised last year, of the \$1.1 million we should have already received, we have yet to be paid. Instead, until last week, the only budget modification we'd received thus far was for \$775.00. What does that mean in terms of operations? It means that multiple vacancies will remain unfilled permanently, a large portion of staff - who are already underpaid given the cost of living - are denied raises, infrastructure improvements are postponed, the salaries that competition demands -- we cannot pay -- It means that non-profit providers are less able to operate efficiently. And it indicates that the City does not care.

Consider this, 90% of the workforce at BCS are people of color and the majority are women, earning an average full-time salary in the \$40,000 range. Our work, and that of other non profits, helps people to thrive in challenging circumstances, reduces the number of hospital visits and cuts Medicaid costs, supports people to gain and maintain steady employment, reduces the likelihood of criminal offences, reduces the number of homeless people living on the streets, provides housing for youth coming out of foster care and people who are differently-abled, all at significantly lower cost and more effectively than hospitals and the criminal justice system. Failure to fully support the nonprofit sector is not only a statement of the values and ethics that this City reflects, economically, it is a poor investment strategy.

As growing numbers of families go hungry due to the economic crisis, funding for food pantries was cut. As gang violence and domestic abuse increase due to economic and pandemic stress, youth education and youth development programs are being cut. Cuts to indirect funding ensure that nonprofits are less able to bridge gaps in services that will rise as needs grow. The 40% cut in FY20 and the looming FY21 cut of an unknown amount is effectively a cut across the lives of New Yorkers who do not have much in terms of resources available to them already. These cuts dismiss the value of essential employees and the value and efficiency of the nonprofit sector. These cuts suggest that the people served by the nonprofit sector are not valuable citizens. These cuts undermine the effort of the City to care for its citizens and belie the very nature of a City that is known for coming together in a crisis.

In closing I simply ask that you please uphold the promise of full Indirect funding today, for a stronger City tomorrow.



**Testimony: UJA-Federation of New York**

**New York City Council Committee on Contracts  
Honorable Ben Kallos, Chair**

**Oversight: Reviewing the City's Indirect Cost Rate Funding Initiative During the COVID-19 Pandemic**

**November 25, 2020**



Thank you Chair Kallos and members of the Contracts Committee for holding this important hearing and for the opportunity to submit testimony.

Established more than 100 years ago, UJA-Federation of New York is one of the nation's largest local philanthropies. Central to UJA's mission is to care for those in need. UJA identifies and meets the needs of New Yorkers of all backgrounds and Jews everywhere. UJA connects people to their communities and responds to crises in New York, Israel and around the world, and supports nearly 100 nonprofit organizations serving those that are most vulnerable and in need of programs and services.

Over the last eight months, the COVID-19 pandemic has dramatically and disproportionately impacted the lives of those living in poverty, further lifting-up the effects of systemic inequality and the real challenges New York City faces. In response to these needs, UJA's network of human services partners have been on the front lines since the pandemic hit, assisting New Yorkers of all backgrounds, throughout the five boroughs. UJA's network provides a wide range of services, including emergency childcare, mental health supports, case management services, services for survivors of domestic violence, senior services, and access to food. For years, these City-contracted services were underfunded, with a significant piece of that shortfall related to the Indirect Cost Rate (ICR).

In FY20, New York City made a commitment to increase funding for indirect costs (overhead and administrative costs) associated with providing contracted human services programs through the Indirect Cost Rate Initiative. As part of the Nonprofit Resiliency Committee, two UJA partners, as well as other critical human services providers in New York City, met regularly with the Mayor's Office to establish a new ["City of New York Health and Human Services Cost Policies and Procedures Manual"](#) to guide the ICR Initiative, which launched in November 2019. The City's commitment and investment was a step in the right direction that would have greatly assisted UJA's provider network.

Human services providers were given a series of options to adjust their organization's ICRs. They could:

1. Accept a 10% de minimis ICR offered by the City to apply across all human services contracts
2. Apply an approved federal Negotiated Indirect Cost Rate (NICRA) if applicable. Federal NICRA is an option applicable only to agencies that hold contracts directly with the federal government
3. Work with a CPA to apply the principals of the "Cost Policies and Procedures Manual" across each human service contract held by the agency. This process by which agencies determined new ICRs was time consuming, costly (between \$5,000-\$25,000) and had to be completed by June 30, 2020. Organizations that endured this process starting in November 2019 were promised retroactive contract enhancements for FY20 and an approved (and funded) new ICR applicable for the next three fiscal years. Most of UJA's provider network pursued this option.
4. Accept an ICR rate of up to 12% for FY20 while completing the ICR adjustment exercise with a CPA over the course of the fiscal year. This was referred to as "accepting the conditional rate".

Throughout the first half of 2020, as the City's finances were beginning to be impacted by COVID-19, providers continued the ICR exercise with no word from the Mayor's Office or City Council that cuts to ICR were imminent.

During last days of budget negotiations, the Mayor's Office indicated there might be "adjustments" to the ICR. Then weeks after the FY21 budget closed, the Mayor's Office retroactively rolled back its commitment to the FY20 ICR by 40% at the start of FY21. Providers, who had gone through the time and expense of determining their new Indirect Cost Rates across their organization's human services contracts, now find themselves with a significant cut for services already rendered and costs that were assumed to be covered by the City. **Across the UJA provider network alone, there is a combined loss of \$2.3 million for the ICR.** This number does not account for additional funds lost due to changes in the definition of "indirect costs". Due to the ICR Initiative and Cost Manual guidance, some expenses that were previously covered as direct costs shifted to indirect. When the City cut the ICR, these expenses that had been previously paid for were no longer funded, leaving providers at a larger retroactive deficit.

Additionally, only human services contracts in HHS Accelerator were eligible for adjustment under the ICR Initiative. The Department for the Aging (DFTA) did not begin the fiscal year with its contracts in HHS Accelerator. This means that the new ICR for DFTA contracts can only be applied to the portion of the year that they were in HHS Accelerator, yielding an even greater cut for those providers.

The ICR funds important aspects of human services provision, which are needed now more than ever to help New York City respond and recover from COVID-19. **It is imperative that New York City support its human services network at this time of great need and not create further obstacles to critical response efforts for the most vulnerable New Yorkers.**

UJA aims to be a good partner to New York City; however, the City has been opaque and has not been forthcoming with a variety of data imperative to understanding the true impact of the ICR cuts. Without the following data from the Mayor's Office of Contract Services, UJA and its network cannot effectively partner with the City to address this issue. UJA and its partners are asking for the following information:

1. The true cost of the Indirect Cost Rate Initiative;
2. The total value of the cuts taken to the ICR Initiative for FY20;
3. The number of human services providers that participated in the ICR Initiative and which adjustment option they chose;
4. Plans for FY21 for existing contracts and new procurements

**UJA stands with its partners and requests that New York City roll back these punitive, retroactive cuts to the human services ICR, and commit to fully funding the ICR. The amount of money being discussed is unclear (as the Mayor's Office will not release data) but is undoubtedly the equivalent of a "rounding error" compared to larger, \$88.1 billion general budget. The respect and recognition of the human service nonprofit sector is at**

**stake. We call upon the City Council to continue to use all appropriate actions to have the ICR Initiative's funding restored, baselined and no longer threatened.**

Thank you for the opportunity to provide testimony. Please reach out to Hillary Stuchin at [stuchinh@ujafedny.org](mailto:stuchinh@ujafedny.org) with any questions.



45 Broadway, 22nd Floor, New York, NY 10006  
Tel: 212-967-0322 | [www.unhny.org](http://www.unhny.org)

**Testimony of United Neighborhood Houses  
Before the New York City Council Contract Committee**

**Council Member Benjamin Kallos, Chair**

**Presented by J.T. Falcone, Policy Analyst  
November 25, 2020**

Thank you Chair Kallos and members of the New York City Council Committee on Contracts for the opportunity to testify today. My name is J.T. Falcone, and I am a policy analyst at United Neighborhood Houses (UNH). UNH is a policy and social change organization representing 44 neighborhood settlement houses, 40 in New York City, that reach 765,000 New Yorkers from all walks of life.

A progressive leader for more than 100 years, UNH is stewarding a new era for New York's settlement house movement. We mobilize our members and their communities to advocate for good public policies and promote strong organizations and practices that keep neighborhoods resilient and thriving for all New Yorkers. UNH leads advocacy and partners with our members on a broad range of issues including civic and community engagement, neighborhood affordability, healthy aging, early childhood education, adult literacy, and youth development. We also provide customized professional development and peer learning to build the skills and leadership capabilities of settlement house staff at all levels.

**Indirect Cost Rate Funding Initiative (ICR)**

In December 2019, Mayor Bill de Blasio and Speaker Corey Johnson announced the Indirect Cost Rate Funding Initiative (ICR), a “groundbreaking”<sup>1</sup> initiative created to stabilize the City's human service sector. For many years, New York City has not funded the full costs of providing childcare programs, homeless shelters, after school programs, senior centers, and more. Without properly funding indirect rates that support these programs, many human service organizations were unable to support technology, appropriate maintenance and other costs that enable them to provide quality programming. The ICR was a recognition of this failure, and the Mayor and Speaker added \$53.4 million to fund indirect rates in the FY 20 budget.

Leading up to this announcement, settlement houses worked in partnership with the City on the Nonprofit Resiliency Committee to help to develop the Health and Human Services Cost Policies and Procedures Manual (Cost Manual) and advocated for a commitment to fund these costs. In response to the announcement of the ICR initiative, human service providers got to work to determine their indirect cost rates in accordance with the Cost Manual. Many providers paid

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<sup>1</sup> <https://www1.nyc.gov/office-of-the-mayor/news/602-19/mayor-de-blasio-speaker-johnson-city-council-the-launch-the-indirect-funding>

auditing firms to analyze their budgets and contracts in order to generate their true indirect rate, which they then submitted to the Mayors Office of Contract Services (MOCS) according to the guidelines set forth by that office. Indirect rates require careful and thoughtful calculation that considers a wide variety of factors at an organization. Throughout last winter, nonprofits submitted the required documentation to ensure the City had the necessary information to fund their new, higher indirect rate that would be retroactive through FY 20.

When, in April 2020, the Mayor announced plans to cut \$20 million in FY20 funding from the ICR in his Executive Budget, providers were assured by the Administration that this cut was a “rightsizing” for the current fiscal year, and they were encouraged to continue their fiscal analysis to calculate their organization’s indirect rate. With the COVID-19 pandemic in full swing, and providers busy working on the frontlines to keep their communities above water, many took the Administration at its word that there would be enough funding to cover the increase costs of their higher rates, and they set their budget projections accordingly.

The Adopted FY21 budget included budget cuts to the ICR for FY21 and future fiscal years. It was not until August 11 that providers were told that the cut to the FY20 ICR funds was in fact not a rightsizing and would actually result in a 40% retroactive budget cut. These retroactive budget cuts were made after settlement houses and most other human service providers had already closed their FY20 budgets on June 30<sup>th</sup>. The cut amounted to over \$5 million for FY20 for New York’s settlement house network alone. Furthermore, providers were told that policies for higher rates for FY21 and beyond would be determined in the future, leaving providers in the dark for FY21. For FY21 and beyond, our network anticipates potential cuts of at least \$16 million.

### **Impact of the ICR Cuts**

Because each organization has a different indirect rate and because the City has not shared information about the overall cost of the ICR Initiative, calculating the consequences of this budget cut is uniquely challenging, but these cuts are destabilizing, especially in a time of unpredictable costs and escalating needs. After working with the Administration in good faith throughout this tumultuous year, they have been forced to lay off key administrative staff including human resources and information technology (IT) team members. This comes during a time when staff morale is severely impacted by the COVID-19 pandemic and remote technologies are more important than ever. Very few organizations have cash reserves to utilize when the City makes last-minute budget cuts like these, adding to greater financial instability at these organizations during an already financially turbulent time.

In addition to the financial impacts, there is an impossible-to-calculate but all-too-real consequence when the City breaks promises to its contractors: the loss of trust. During a global pandemic, with New Yorkers in greater need of emergency services, trust between the City and the nonprofit community is critical. There is a tremendous opportunity cost when providers cannot trust City contracting agencies, at a time when close coordination and cooperation is needed to ensure that New Yorkers have the services and support they need.

### **Recommendations**

We urge the City Council and the Administration to follow through on their promises and support the human services sector. Specifically:

- MOCS and OMB must share their calculations on the total cost of the ICR for FY20, FY21, and beyond. While we may not be able to rectify the consequences of the retroactive FY20 budget cut, it will be important to understand how such a disastrous oversight was made in a year when every dollar in the budget was so carefully considered.
- Fully fund the approved rates submitted to MOCS for FY21 and beyond. With five months into the fiscal year, it is essential that the City ensure that the funding levels are sufficient to cover the approved rates of human service organizations and communicate immediately.
- Ensure that any Requests for Proposal (RFP) issued by City Agencies accepts approved ICR indirect rates rather than requiring providers respond using placeholder rates (as was recently stated in the Administration for Children's Services Family Enrichment Center RFP).

Thank you for your time. I can be reached for follow up at [jfalcone@unhny.org](mailto:jfalcone@unhny.org) or at 917-484-9322.



**Testimony to the New York City Council  
Committee on Contracts  
Submitted by the Supportive Housing Network of New York  
November 24, 2020**

Good morning Chairperson and members of the Committee on Contracts. My name is Emily Levine and I am here representing the Supportive Housing Network of New York. Thank you for the opportunity to testify before you today regarding the Indirect Cost Rate (ICR) Funding Initiative for FY20 and FY21.

As nonprofit providers working with our city's most vulnerable residents, we appreciated the city's foresight in committing to paying providers their true indirect cost rate. Our agencies spent considerable time and resources to adhere to the city's requirements, only for the city to renege on these promised funds. To retract on this commitment is to demean trust in the city and damage nonprofit infrastructure.

Undercutting our agencies' reimbursements will only serve to strain the relationship between the city and the nonprofits it depends on. Nonprofit service providers acted on the good faith assumption that they would be paid for services rendered. Now, the city threatens to shortchange them for money that has already been spent. Reimbursements for the outlays that make it possible for organizations to provide crucial services, especially during the COVID-19 pandemic, should never be on the chopping block.

Not for profit agencies, deemed essential to the functioning of a healthy and safe city by your administration, are rarely treated as such. We appreciate the difficult fiscal situation the city finds itself in, but posit that it is unjust and unfair to balance the budget on the backs of mission-driven nonprofit organizations that serve the city's most vulnerable. While COVID-19 ravaged our city, workers at nonprofit agencies braved the pandemic to provide people with food, shelter, and other essential services. Providing these services was not without cost, and now the city shirks responsibility for reimbursing providers whose employees put their lives on the line to serve their fellow New Yorkers.

Because of cuts to human services, including indirect funding, New York City's government contracted human services sector has laid-off over 40,000 workers, and these cuts will only serve compound the irreversible damage our nonprofits will face. The events of 2020 served to highlight just how essential nonprofits are to New York City. It is time for the city to provide these agencies with the compensation that is essential to their operational longevity.

Thank you for the opportunity to testify, and I welcome any questions.



## **TESTIMONY**

New York City Council  
Committee on Contracts  
Oversight Hearing

Reviewing the City's Indirect Cost Rate Funding Initiative During COVID-19  
Wednesday, November 25<sup>th</sup> 2020

Submitted by:  
Michelle Jackson  
Executive Director  
Human Services Council of New York

### **Introduction:**

Good morning Chairperson Kallos and members of the New York City Council Committee on Contracts. My name is Michelle Jackson, and I am the Executive Director of the Human Services Council (HSC), a membership organization representing over 170 human services providers in New York City. HSC serves our membership as a coordinating body, advocate, and an intermediary between the human services sector and government. We take on this work so that our members can focus on running their organizations and providing critical direct support to New Yorkers. These are the nonprofits that support our City's children, seniors, those experiencing homelessness, people with disabilities, individuals who are incarcerated or otherwise involved in the justice system, immigrants, and individuals coping with substance abuse and other mental health and behavioral challenges.

This year as the COVID-19 pandemic tore through every corner of our City, New York City contracted human services were thrust onto the frontlines of a global health crisis—ensuring high-risk populations such as seniors and disabled New Yorkers had access to food and support, providing childcare for the families of first responders, running drop-in centers and shelters for homeless New Yorkers, supporting our City's youth struggling to keep up with their education without resources to learn remotely, and more.

The human services sector stepped up to service New Yorkers in need across the boroughs even though they were facing a funding crisis before our City even saw its first case of COVID-19. The stark reality is that long before this crisis hit, the City government has asked us to do more with less. The human services sector gets most of its money through government contracts to provide needed, and often legally required services, across New York City. Yet these contracts historically underfund the direct cost of implementing contracted programs by 20%. Because of this, 68% of New York City providers anticipated not being able to meet their pre-COVID-19 demands for services in 2020 and City-contracted human services workers are being paid poverty wages for their essential work.



Since March, the Human Services Council has been warning City government that without real systemic change and investment in the communities most impacted by this crisis, our City's COVID-19 response and recovery and its future economic stability would be at risk. But instead of listening to the expertise of those organizations out on the frontlines, the City responded by cutting human services contracts even more and retroactively clawing back indirect funding.

To add insult to injury, the impact of the April FY20 cut to the Indirect Cost Rate (ICR) Initiative was not communicated with providers until a month after the close of the fiscal year, so there was no opportunity to engage with the Administration or the Council leadership on the impact of this cut. And when providers and advocates in the sector did ask, we were told it was just a "rightsizing" of the program, only to be told in August 2020 that indirect funding for FY20 would be cut up to 40%, despite the fact the fiscal year was over, and the money had already been spent. This delay also allowed the City to repeat the same underfunding of the ICR initiative in the Adopted FY21 budget, and it was only then that we were informed this would be a real cut both retroactively in FY20 and for the start of FY21.

Now, in addition to this cut for FY20, which providers found out after the fiscal year was over, the City still has not told nonprofits if they will receive their funding for the current fiscal year. These funds are already budgeted for in providers' FY21 budgets and it is tremendously risky to have human services nonprofits operate in the face of a second wave of COVID-19 with no clear communication of how much they will be paid for their services. Providers must decide what to budget for and what to spend money on now, and if they don't spend that money, they cannot be reimbursed for those costs, meaning providers can be conservative in their spending and potentially lose out on reimbursements for indirect, or spend as they planned and end up with a deficit. This is not how you treat an essential industry.

### **The City created fiscal chaos for a sector providing critical safety net support for New Yorkers.**

**One thing MUST be clear: Cuts to indirect mean cuts to services and layoffs of essential workers. Cuts to human services at the City and State level, including this cut to indirect funding, and the lack of support from the Federal government has resulted in the layoffs of over 40,000 human services workers in New York City since February 2020.**

For more than a year, providers have, in good faith, worked with the City on the ICR Funding Initiative, and many agreed to contracts in FY20 with the promise that they would be paid for their certified indirect rates. The current state of the ICR initiative is a mandated retroactive budget cut for last year and no promise of significant funding for this year. This cut goes to the heart of nonprofit human services and spreads throughout their entire operations. **It is vital that the FY21 Adopted budget is immediately modified to include the full restoration ICR Funding for FY20 and going forward.**

### **Timeline of New York City's Failed Indirect Manual Rollout:**

**February 2019:** The *Health and Human Services Cost Policies and Procedures Manual* was released through the Nonprofit Resiliency Committee (NRC). This manual standardizes indirect rate

definitions across human services contracts and creates a standard approach for providers to calculate an individualized rate. At the time the manual was published, the City did not increase funding to address the gaps this manual displays in human services contracts or allow for any reductions in services to account for these glaring gaps in funding. The NRC members were asked to “trust” that this was a good faith process and that providers would not be disadvantaged with this manual.

**March 2019:** Human Services providers strongly advocated for the City to back its implementation of the manual with additional dollars so that providers can apply their real indirect rates as part of New York City’s FY20 budget.

**April 2019:** The New York City Council called for an investment of \$106 million to fund the *Health and Human Services Cost Policies and Procedures Manual* in their FY20 Preliminary Budget Response. This cost estimation of \$106 million came from an estimation that the manual would increase the indirect rate to an average of 12 percent, up from ten percent.

Mayor Bill de Blasio did not add this funding into the Executive Budget, so providers continued to fight for the manual to be funded as the Mayor and City Council began their final budget negotiations.

**June 2019:** The Mayor and City Council committed to funding an adjustment to the Indirect Cost Rate (ICR) Funding in the FY20 Budget. No money was set aside for this initiative as part of the FY20 Adopted Budget with the intent that money would be allocated during an upcoming FY20 budget adjustment and providers would get their true indirect rate retroactive to the beginning of FY20 (June 2019).

**July 2019:** The Office of Management and Budget and Mayor’s Office of Contract Services from a City Implementation Team (CIT) to design the implementation and roll-out of the ICR Funding Initiative that was established in the FY20 budget.

**October 2019:** City-contracted human services providers were briefed on the City’s implementation plan and the timeframes for rolling out ICR Funding Initiative. As part of the process, providers were once again told that they would receive their true indirect rate on all City contracts, retroactive to June 2019 and through FY23 if they submitted all their paperwork based on the deadlines in the CIT’s implementation plan.

**November 2019:** The de Blasio Administration added a total of nearly \$54 million in baselined funding to the budgets of 12 city agencies for the ICR Funding Initiative. This was around half of the \$106 million the City Council estimated it would cost in their FY20 Preliminary Budget Response back in April.

**December 2019:** Mayor Bill de Blasio and Speaker Corey Johnson officially announced that the City has launched the ICR Funding Initiative.

**April 2020:** ICR funding for FY20 was reduced from \$54 million to \$34 million, which was characterized at the time as a “rightsizing” of the funding needed to fulfill FY 2020 contract submissions. Providers were assured that their FY20 indirect rates would not be impacted because of this cut, despite the City’s ICR funding level now being only 32% of \$106 million the City Council estimated it would cost in their FY20 Preliminary Budget Response.

**June 2020:** The FY21 Adopted Budget included the reduced ICR funding level of \$34 million for FY21, once again under the guise of a “rightsizing.”

**August 2020:** City-contracted human services providers were told that the cuts in April were a reduction, not a rightsizing, and that their indirect funding for FY20 would be cut up to 40%, despite the fact the fiscal year was over, and the money had already been spent.

Providers were given no information about what this means for their FY21 contracts, despite ICR funding being underfunded at the same level (\$34 million) in the FY21 Adopted Budget.

Led by Contract Chair Kallos, over 20 council members wrote to the Mayor calling for ICR funding for FY20 to be fully restored. Comptroller Stringer and all five borough presidents also called on the Mayor to reverse this damaging retroactive cut.

**November 2020:** The City announced that RFPs will continue to use the manual but have a 10% “placeholder” for indirect, so providers can only include 10% indirect in the RFP and are then supposed to negotiate later. Under the ICR Funding Initiative, all new RFPs should cover the provider’s cost manual rates and no justification was given about this new policy. This effectively reverts the contracting system back to February 2019 when the *Health and Human Services Cost Policies and Procedures Manual* was released with no increased funding to address the gaps this manual displays in human services contracts or allow for any reductions in services to account for these glaring gaps in funding.

It now four months into FY21 and providers still have not been given any information about how their indirect rates for FY21 will be affected by the reduction of funding in the FY21 Adopted Budget.

## **The Economic Impact of Cuts to the Human Services Sector:**

Compounding cuts to human services will only cost the City more money in the long run. It is in the fiscal interest of New York City to reverse course and invest in the human services sector now so it can play a key role in the long-term economic recovery of New York City as we rebuild from the COVID-19 pandemic. **Programs like supportive housing, job training, and childcare help the communities most impacted by this pandemic regain their footing. In addition, human services promote positive education outcomes by offering support services such as access to food, shelter, and afterschool programs that allow families and children to focus more time and energy on education.**

**Further, human services sector saves taxpayers money. One example of this is supportive housing, which was found to save New York City taxpayers a net average of \$10,100 per person per year, according to the New York City Department of Health and Mental Hygiene.** Alternatives to incarceration, another human service provided by nonprofit organizations, similarly yield high returns on investment. New York City’s Department of Correction pays \$168,123 per incarcerated person annually, well beyond the costs of investing in alternative-to-detention programs.

The human services sector also brings millions of charitable and federal government dollars into the City and engages in extensive fundraising. Instead of this money being funneled into individual profit, it is invested right back into programs that support community development. There are an estimated 125,000 human services workers in New York City employed by the nonprofit sector and these workers buy into the local economy. There is also approximately \$6 billion in contracted human services programs funded by the City alone, and those dollars go into many local businesses for food service, supplies, construction, IT, transportation, and a myriad of other services that will need to recover from the impacts of this public health crisis. The economic power of the sector should be utilized as a core pillar of New York City's COVID-19 recovery.

The flip side of this equation would be the continued disinvestment in human services in response to the City's budget deficit via sweeping cuts to human services and the refusal to restore ICR Funding. This course of action would continue to erode vital services for communities of color, people with disabilities, and low-income communities who have already been hardest hit by this pandemic and lead to even more layoffs of essential workers.

**While the ICR Initiative is not the budget item that will make front page news, it is the lynch pin in shoring up organizations that keep New York running. This failure by the Administration and City Council leadership to fully reinstate the program will result in the loss of programs and greatly impact New York City's economic recovery.**

### **Conclusion:**

Cuts to ICR Funding in the FY20 and FY21 budgets deeply harmed the very communities in crisis the de Blasio administration claims to support. Now, human services providers on the frontlines of New York's COVID-19 response and recovery are on the brink of failure due to millions of compounding and secretive cuts throughout the pandemic and within the FY21 Adopted budget. These cuts will make it even more difficult for providers to rebuild communities as we recover from COVID-19. **The FY21 Adopted budget must be modified to include the full restoration ICR Funding for FY20 and going forward.**

Thank you Chair Kallos for providing me with this opportunity to testify and holding this important oversight hearing to review the City's cuts to the ICR Funding Initiative during the COVID-19 pandemic. We greatly value our partnership with you and the City Council and know you stand with us in our call to address the funding crisis facing our City's human services sector.

Michelle Jackson, Executive Director  
Human Services Council of New York  
jacksonm@humanservicescouncil.org



**Testimony  
New York City Council  
Committee on Contracts  
Wednesday, November 25, 2020**

Submitted by –  
Beatriz Dias Taveras, Executive Director  
Catholic Charities Community Services

Good afternoon Chairman Kallos and the members of the New York City Council Committee on Contracts. I am Beatriz Diaz Taveras, Executive Director of Catholic Charities Community Services. Thank you for the opportunity to testify today.

The non-profit sector was fortified and grateful to Mayor de Blasio, Speaker Johnson and the City Council for including funding for the Indirect Cost Rate (ICR) Funding Initiative in the FY2020 budget (the “Indirect Rate Initiative”). As stated in the “Fiscal 2020-2024 Preliminary Financial Plan Overview,” “The November Plan added \$54 million across twelve agencies in Fiscal 2020 and in the outyears for this initiative.” As a member of the Nonprofit Resiliency Committee, Catholic Charities proudly worked with the City and over 100 nonprofits and coalitions to develop an *Indirect Cost Manual* that provides uniform standards and a model for determining direct and indirect and allowed and disallowed costs that promote easier collaboration between nonprofits and city agencies. Following the direction of the City Implementation Team, providers invested resources into developing and obtaining federal Negotiated Indirect Cost Rate Agreements (NICRA) or CPA-certified indirect rates.

While this progress was promising, it was not applicable to all City contracts awarded to human services nonprofits as the City failed to extend this benefit to City Council discretionary contracts. This decision had, and continues to have, a disproportionate effect on large providers whose overhead expenses are constant regardless of whether a contract is awarded by City Council or a City agency. The decision also adds significant financial constraints on smaller providers, such as

those within the Catholic Charities federation, who are already adversely impacted by having to provide advance services without timely reimbursement due to extensive contract registration delays (thus having to “advance” their own cash to cover payroll and operating costs until contract registration).

To the grave disappointment of Catholic Charities Community Services and the sector at large, this progress was swiftly eliminated without consent from, or collaboration with, the nonprofit sector when the City announced the rescinding of its commitment to fund the Indirect Rate Initiative this past summer. Citing COVID-19 related budgetary constraints as the determining factor, the City reversed all of the progress and years of work invested into this initiative overnight, forcing nonprofits into essentially the same economic position they had been in prior to the change. What the FY21 Executive Budget called a \$20 million “rightsizing” based on FY20 approved indirect rates quickly morphed into an arbitrary cut that prevented the City from funding more than 60% of an organization amended indirect rate for FY20. Now five months into FY21, providers have not been informed if this 40% withholding will continue to apply to FY21 contracts.

The true financial impact of a \$20 million (37%) retroactive cut to social services during a global pandemic is unconscionable and immeasurable. Unlike many other businesses and industries, the work of social services nonprofits increases dramatically during times of health and economic crises. Catholic Charities, and many providers like it, continue to see an increase in the demand for our services as tens of thousands of New Yorkers find themselves without work, without income, without healthcare and without affordable housing. This surging need is exacerbated by the reality that this pandemic has changed the profile of the average individual or family in need of services- many individuals and families are seeking the aid and support of Catholic Charities for the first time.

Consequently, as with any increased demand for services, increased operating expenses necessarily follow. Additional staff are necessary to support demand and maintain performance quality standards, new and costly technical enhancements are required to support virtual services delivery and sustain a remote workforce, and costs continue to rise related to the purchase of mandated and pandemic related necessities, such as PPE and increased cleaning and sanitization services.

The City's commitment to fully fund the Indirect Rate Initiative is needed now more than ever, and we respectfully call for the City's reversal of its decision to rescind its cuts to the Indirect Rate Initiative and restore these necessary funds to the nonprofit sector so that they may continue to provide much needed services to vulnerable New Yorkers.

# CATHOLIC Charities Neighborhood Services

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191 Joralemon Street, Brooklyn, New York 11201

## Testimony of Catholic Charities Neighborhood Services

November 25, 2020

**Good morning Chair Kallos and members of the City Council Contracts Committee. My name is Alan Wolinetz, CFO, and I am testifying on behalf of Catholic Charities of the Diocese of Brooklyn. Thank you for chairing this oversight hearing on the Indirect Cost Reimbursement program, an issue that is extremely critical to all human service providers in our City.**

**We strongly need the restoration of the \$20 million cut to the \$53 million program to provide financial relief to Not -for- Profit agencies for indirect costs. For years we have been self-funding the indirect cost from donations, fundraisings and other cost saving indicatives. So we were pleased when NYC in 2019 agreed to provide additional funding to help alleviate the financial burden of agencies funding the increasing costs related to manage our various programs. We, like all other nonprofit human services providers, were devastated when the June City budget contained these \$20 million cuts to the ICR. Such a reduction creates major financial hardships during these difficult times when the pandemic has hindered our ability to raise essential funds.**

**Catholic Charities Neighborhood Services and other human service provider organizations have always been an indispensable part of the lives of many New Yorkers. Even in the best of times, we faced daunting fiscal challenges to maintain our programs that are so essential to the most vulnerable New Yorkers; namely the poor, the elderly, mental health individuals, the homeless, family and children. We operate food pantries, meal delivery programs, clinics and programs for the mentally and physically challenged, supportive housing for the homeless, and senior citizen centers and health care facilities. Our clinics, pantries and centers can be found throughout our City in practically every neighborhood. Therefore, New York City agencies and Communities have always understood the significance of these programs. All the city agencies that**



**we have contracts with have been strong partners of ours and we appreciate your tremendous support over the years.**

**As you can see from the foregoing description, indirect funding provides the essential infrastructure to house these services:**

- **Human Resources to recruit, train and support staff and managers**
- **Fiscal Services to ensure the funding is allocated and spent according to our contractual mandates**
- **Legal Services to ensure corporate compliance, prepare and review contracts and leases, develop and promote policies and advocacy on the needs of our families**

**We cannot build a house without the foundation and it must be sufficient to hold the walls up, likewise we as non-profits cannot provide services without a strong and adequately funded infrastructure. Thank You**



**New York City Council Committee on Contracts  
Oversight - Reviewing the City's Indirect Cost Rate Funding  
Initiative During the COVID-19 Pandemic**

**November 25, 2020**

Thank you Chair Kallos and members of the Committee on Contracts for the opportunity to submit testimony today on the City's cuts to the Indirect Cost Rate Funding Initiative during the Covid-19 Pandemic. We welcome today's hearing as an opportunity to share our experience with NYC contracts and particularly regarding indirect expenses during the Covid-19 pandemic.

JASA is a not-for-profit agency that honors older New Yorkers as vital members of society, providing services that support aging with purpose and partnering to build strong communities. For over 50 years, JASA has served as one of New York's largest and most trusted agencies serving older adults in the Bronx, Brooklyn, Manhattan, and Queens. JASA has a comprehensive, integrated network of services that promotes independence, safety, wellness, community participation, and an enhanced quality of life for New York City's older adults. These programs reach over 40,000 clients and include home care, case management services, senior centers, NORC supportive services, home delivered meals, caregiver support, continuing education, licensed mental health, senior housing, advocacy, legal services, adult protective services, and guardianship services.

Like most agencies in the human services' sector, JASA regularly operates under challenging financial situations. NYC contracts are chronically underfunded; each year, agencies must supplement government contracts with private and philanthropic funds to address gaps in our program budgets and ensure adequate service delivery. Annually, we rely on the NYC Council to recognize this funding challenge and to help, and help you do. In FY20, the NYC Council added nearly \$1.5 million to JASA's budget through discretionary funds and Council Initiatives. On behalf of the more than 40,000 older adults that JASA reaches, we offer a heartfelt thank you.

JASA is a highly reliable community partner, and we have always operated in good faith with the City. Prior to COVID-19, JASA urged the City to fully invest and pay the full cost for contracted

services. Non-profit organizations helped the City develop the Cost Manual and advocated during the FY20 budget for a commitment that it would be funded and followed. JASA welcomed the opportunity to participate in this effort and shared information to help inform the process. We also invested significant time and resources to have our rates certified. Indeed, it seemed initially that the process worked. JASA's indirect rate was increased to match our actual costs. However, at the start of FY21, we were informed by the City that there would be retroactive cuts made to the FY20 indirect rate. There has yet to be a determination about rates for FY21, despite being five-months into the fiscal year.

Clawing back funding for senior services in the middle of this pandemic is not about our bottom line; it is about undermining the scope and effectiveness of essential services during a time of growing need and setting back our City's recovery.

### **The impact of retroactive cuts on JASA**

JASA has continued to operate throughout the pandemic, with staff working to meet the needs of a growing number of older adults who suddenly find themselves vulnerable and in-need of assistance. Service delivery has pivoted in some programs to remote operations for programming and administrative tasks. This has resulted in hundreds of JASA staff engaging with clients via tech platforms and telephone to host remote classes and workshops for senior centers and NORC programs, conduct wellness calls, run online support groups and virtual legal conferences, and more. All of these interactions require IT support for tablets, wifi, and troubleshooting.

Beginning in March 2020, JASA received numerous directives from the City regarding programming and budgets. Programs, such as senior centers (of which JASA has 22), shifted to primarily remote operations, with staff conducting intensive client contact and outreach through calls, wellness surveys and virtual programs. JASA also responded to the changing dynamics regarding food service, initially providing "Grab and Go" meals, then in many cases serving as hubs for DFTA's senior center food distribution programs, and staff finally serving as authorized enrollers for the City's GetFood program. Budgets were and continue to be modified; COVID-19 budgets were requested for each contract. Every budget modification, changes in COVID-19 reimbursement guidelines, additional forms/templates and 100% documentation for COVID-19 expenses, etc., required a dedicated, time-intensive effort by JASA's finance department. The staff have worked tirelessly throughout the pandemic to keep JASA in compliance, submitting reports in a timely manner, seeking reimbursement for services delivered and securing other appropriate and available resources.

We addressed many of these challenges in our testimony to the Committee on Contracts and Aging on June 23, 2020. As noted above, five months later, JASA and other human services agencies continue to struggle with the ability to plan in a fiscally responsible manner, without notification of our FY21 indirect rate. We proceed in providing programming and services, trusting that there will be a fair reimbursement. However, our ability to make budget decisions, offer high-quality client services and a stable work environment for staff is threatened by this uncertainty.

Cuts to the indirect cost rate also highlight the vulnerability of human services organizations during emergencies. The administration pulled back on promised and anticipated funding at the same time that organizations were mobilizing to address the increasing needs of NYC residents. JASA's clients are some of the most vulnerable and the most at-risk for serious viral disease and death: they are older, many with chronic diseases and underlying health conditions. Some are formerly homeless and others are victims of elder abuse and exploitation. Many live in immigrant communities and communities of color, underserved by health care entities and where health disparities are pronounced. Most JASA clients live alone and rely on others to assist in a variety of ways (shopping, homecare, food preparation, to name a few) and necessary physical distancing results in social isolation and loneliness. The expectations being leveled on the human services community, while simultaneously cutting funds to indirect costs, threaten to destabilize the very programs needed in times of emergency.

These contract funding reductions are not just about our existing contracts. Even though the Mayor and City Council committed to paying the full indirect costs of human services programs going forward, contracting agencies are turning down budgets in new contracts if the indirect rate is higher than 10%, regardless of the standardized rates established in the Cost Manual. With upcoming RFPs for the senior centers, Naturally Occurring Retirement Communities programs (NORC), Elder Abuse Prevention, and more, these cuts have the potential for a lasting impact on the future of senior service provision.

JASA remains deeply concerned about mid-year funding cuts to existing contracts, retroactive cuts for FY20, the lack of guidance on the FY21 indirect cost rate for programs that are already operating for five months in the midst of a pandemic and future contracting with the City.

Thank you for the opportunity to offer this testimony.

Molly Krakowski  
Senior Director, Government Affairs  
JASA

[mkrakowski@jasa.org](mailto:mkrakowski@jasa.org)  
212 273-5260



**Testimony for NYC Council Committee on Contracts  
November 25, 2020 Hearing**

Hello, Chair Kallos and distinguished members of the City Council. I am, Michelle DeMott and I am the Chief of Staff to Mitchell Netburn, President & CEO of Samaritan Daytop Village. I first want to thank you for your continued support during these challenging times. Samaritan Daytop Village (SDV) is a nationally-recognized human services organization that provides comprehensive services to more than 33,000 people each year through a network of over 60 facilities primarily located in the five boroughs of New York City and depends on funding from the City Council to continue to safely provide these services. We offer a rich array of programs including treatment for mental health issues and substance use disorder, transitional and supportive permanent housing, and innovative services for veterans, homeless individuals, women, children, youth, seniors and families.

Long before this crisis hit, City government has asked us to do more with less. Leading into the pandemic, we cautioned legislators that without systemic change our City's COVID-19 response and recovery would be at risk. But instead of listening to our expertise and investing in the most vulnerable New Yorkers and in the communities most impacted, the City responded by reducing some contracts as well as indirect funding.

Mental health and substance use services has never been more important than at this moment. It is clear that the pandemic is not only a physical health crisis, but a behavioral health crisis. New York City faces an unprecedented rise in the demand for behavioral health services. The clients that we serve are among the most vulnerable New Yorkers, including those who are low-to-no income with complex medical and behavioral health needs. These cuts do not impact all New Yorkers' equality, in fact they disproportionately impact communities that have already been hardest hit by COVID-19 due to structural racism, ableism, and income inequality.

Behavioral health funding simply cannot be cut. Our programs were already operating on razor-thin margins before the pandemic. We have had to spend tens of thousands of dollars buying technology for staff and clients to enable telehealth, purchasing PPE, and adding additional cleanings. Because of cuts to human services, including indirect funding, New York City's

government contracted human services sector has laid-off over 40,000 workers. In order to ensure we remain fiscally sound, we have been forced to make prudent but painful financial decisions, including furloughing staff.

We quickly adapted our services to continue reaching our clients safely amid the pandemic. To mitigate the spread of COVID-19 and to comply with governmental mandates, we immediately adjusted our program operations to include telehealth platforms. In order to continue to deliver these critical services, we had to purchase devices for both staff and clients incurring a huge expense. Additionally, we have provided both staff and clients with PPE, enhanced our cleaning and disinfecting protocols, including hiring outsourced vendors, adjusted policies and workflows, and took guidance from city, state and federal partners. We know that our services are essential and life-saving, which is why our programs continued to operate without interruption.

We have stood ready to help our city and our communities recover from COVID-19. We know that the long-term success of New York requires the full range of services that the human services sector provides. With the financial support of the City Council, we can ensure that New Yorkers regain their health and well-being, and that our city fulfills its commitment to take care of those in need.

I thank you, on behalf of Samaritan Daytop Village, and we look forward to continuing to be on the front lines in partnership with you and your communities to serve the most vulnerable New Yorkers.

Submitted Testimony of Good Shepherd Services  
Before the New York City Council Committee on Contracts  
Oversight Hearing Reviewing the City's Indirect Cost Rate Funding Initiative During the COVID-19  
Pandemic.

Submitted by  
Michelle Yanche, Executive Director  
Good Shepherd Services

November 25, 2020

**Good afternoon, my name is Michelle Yanche and I am the Executive Director of Good Shepherd Services. Thank you Chair Kallos and the Council Members of the Committee on Contracts for the opportunity to testify on the City's Indirect Cost Rate.**

**On June 30<sup>th</sup> the New York City Council adopted the Fiscal Year 2021 budget which included a \$20 million dollar cut to the City's Indirect Cost Rate Funding Initiative. Once the dust had settled and we learned what the impact would be we realized how hard the impact would be. And that it would be retroactive, impacting costs already expended and a year already over. For Good Shepherd Services specifically, this meant that the \$1.2 million dollars we had not only anticipated receiving but had point-blank been told would be reimbursed to us, would instead be reduced to \$700,000. We immediately would have to absorb a retroactive \$500,000 loss and figure out how to make up for a mirror-image impact in the new fiscal year as well. Make no mistake: the individuals this hurts the most are our participants, our fellow New Yorkers, the people our Good Shepherd team had been literally putting their lives at risk to help get through a pandemic.**

**Terms like "indirect costs", "administrative rate", "overhead" may not be appealing terms that garner priority attention in the annual budget division of limited resources. That's why it's important to put a face to what we are really talking about here. Investments in "indirect" mean having a strong finance team, a strong IT team, maintenance & facilities, experienced HR and training teams to recruit, onboard, clear, license, and train new staff... and, yes, also sensitively and humanely work with staff when sadly they are being laid off – These are all of the teams who were the most critical part of our infrastructural core that enabled us to pivot and be responsive in the middle of this crisis – and in a "regular" year as well. And now, as we respond to new RFPs, the City is asking that calculate a 10% Indirect Cost Rate in the event that funding for the indirect initiative is not available. We are moving in the wrong direction and at the worst possible time.**

**We want to highlight two key points:**

- 1- New York City contracts with human service providers have long been notoriously under-funded. Neither the full cost of high-quality direct services nor the associated indirect costs were almost ever being covered in the first place. This initiative was intended to right that wrong.**
- 2- After committing to reimburse providers' documented actual indirect rate beginning in FY 20, the city then retroactively, and after the fiscal year had ended, reneged on that which meant that organizations were expecting a level of resources to come, had budgeted for that, had expended**



based on those budget, and then after it was too late to course correct had a hole blown in a budget year that had already ended. For Good Shepherd Services this was a hole of \$500,000.

This means that for FY 21, the year we are currently in, we have to absorb that lost \$500,000 from FY 20 and also again for FY 21. Make no mistake: this comes, as it always does, at the expense of the direct services we could instead use those funds to provide to participants. And in a pandemic year, it hurts that much more because the need for what we could instead do with those funds is so painfully great.

Rather than expanding services and providing increased direct assistance to participants, we have had to cut programs and do layoffs which impact our participants in ways that could have been offset or lessened had we not had to shift resources to cover a hole in the indirect rate. This is unfortunate in good times; it is unconscionable in bad.

The indirect cost rate initiative is, at its core, about fairness and justice. These are costs that have always been associated with the services that the City contracts us to provide. This goes to the heart of the city-non-profit partnership. It is about sharing risks and sharing costs in the effort to serve our fellow New Yorkers and to serve them well. Eroding the progress that was being made to right this historic wrong directly erodes the strength of our partnership, and our shared ability to execute on our commitment to provide high-quality human services. It is one of the single most impactful drivers of inefficiency in human service provision in New York City.

Good Shepherd Services adds our voice to the Human Services Council's call for full restoration of the Indirect Cost Rate Initiative and we urge the Council to work closely with the Administration to ensure the Indirect Cost Rate is fully funded in the budget for FY 22 and every year thereafter.

Thank you for the opportunity to submit our testimony. I am happy to answer any questions.

#### About Good Shepherd

Guided by social and racial justice, Good Shepherd Services (GSS) partners and grows with communities so that all NYC children, youth, and families succeed and thrive. We provide quality, effective services that deepen connections between family members, within schools, and among neighbors. We work closely with community leaders to advocate, both locally and nationally, on behalf of our participants to make New York City a better place to live and work.

## **ICR Testimony Henry Street Settlement**

To the NYC Council Committee on Contracts:

On behalf of the Henry Street Settlement, I submit this testimony on the NYC Indirect Cost Rate Initiative.

For years our agency has incurred costs categorized as Indirect in order to effectively and efficiently manage programs funded by government contracts. These costs are higher than the indirect rates that are reimbursed by the government contracts. In some cases the reimbursement is half of the actual and in even more drastic cases, no indirect costs are provided by some contracts. We have been increasingly accountable for greater internal controls and separation of duties, which require more staffing, better operating systems, security measures, increased insurance coverages and policies, all of which equate to greater indirect costs for agencies. Insurance premiums have skyrocketed in the last two years and we have trouble keeping up with the cost, many times unreimbursed by contracts. The ongoing and steady auditing of programs by city-contracted independent auditors creates an undue burden on staff already stretched thin and is a duplicate effort and cost. Agencies are already required to have an independent audit firm do a complete audit and a separate OMB Uniform Guidance audit, which should obviate the need for all the individual audits. Even during the pandemic when remote working was urged, we had as many as four audit firms working on multiple audits at the same time, one firm auditing 15 programs at one time, and each of them requesting all documentation to be scanned and sent during these remote audits. Revisiting the allocation of city funds to these duplicative independent audits could yield some savings for NYC.

When the ICR initiative was announced agencies like Henry Street settlement began a conscientious effort to read the manual, do the work required to evaluate and isolate indirect costs precisely, then we went through the separate audit required, which took both staff time and money, with the hopes of right-sizing the indirect reimbursement finally. After meeting deadlines and outcomes and dedicating the time and money, we were so disappointed in the retractions of the promise for these extra funds. We appreciate the allocation of the 60% partial funding, but it still does not cover the costs.

In 2020, agencies had to expend even more funds in safety supplies and equipment, extensive cleaning protocols and added staff, additional monitoring staff at each entry point and location, increased HR management of NYC and NYS protocols for safety and procedures for sick time and quarantine time. All these costs add to the existing burden of indirect expenses. Additional payroll costs, especially unemployment, are often unreimbursed by contracts. Many contracts already cap the fringe benefit rates and agencies have to find other funds to absorb the excess fringe costs. In an industry where salaries are so much lower than market, benefits are necessary for staff retention.

We urge you to reconsider restoring the ICR funds to its original intention and distribute to nonprofit agencies as promised.

Thank you,

Josephine Lume

Josephine Lume, CPA  
Chief Financial Officer  
Henry Street Settlement  
265 Henry Street | New York, NY 10002  
Office: 212-766-9200 Ext 2278  
[henrystreet.org](http://henrystreet.org) | [Facebook](#) | [Twitter](#) | [Instagram](#)



# **ST. FRANCIS FRIENDS OF THE POOR, INC**

**155 WEST 22<sup>ND</sup> STREET**

**NEW YORK, NY 10011**

**Tel.: 212-947-0794**

**Fax: 212-714-1277**

Christina M. Byrne, MSW  
Executive Director

Rev. Thomas J. Walters, OFM  
Secretary/Treasurer

November 25, 2020

Good Day Distinguished Members of the NYC Council's Committee on Contracts,

Hello, my name is Christina Byrne. I am the Executive Director for St. Francis Friends of the Poor which has provided permanent supportive housing (for adults who are severely mentally ill with a long history of street homelessness) in NYC for 40 years. I am writing to ask your office to honor the Indirect Cost Rate Initiative for human services nonprofits.

This game-changing commitment to pay city-contracted human services providers their true indirect cost rate was included in the FY20 budget, but the rollout is being affected by opaque cuts to the program in the FY21 adopted budget. It has been months since the budget has passed and there is still no clear guidance from the City about the scope and impact of these retroactive cuts.

We went through considerable time and expense to have our true indirect cost rate (ICR) verified by a CPA and were so grateful to learn that our contracts would be amended to reflect an increase in the ICR for both FY19/20 and FY20/21.

Unfortunately, despite numerous requests for updates from DOHMH and DHS, we have no additional information or guidance. As the pioneering and first provider to offer permanent supportive housing in NYC, St. Francis Friends of the Poor has long been acknowledged by the City to have significantly lower reimbursement rates than other similar providers. In fact, we don't currently receive any ICR in our DHS budget which specifically provides funds that allow us to keep our three residences clean, safe, and well-maintained. The addition of the approved ICR of approximately \$90,000 annually is desperately needed to pay for these expenses.

This initiative must proceed as planned. Providers need our indirect rates honored to close out FY20 and are relying on this funding in FY21, especially given the increased budget strain caused by COVID19. Please ensure the Indirect Cost Rate Initiative is fully honored and providers receive transparent guidance about the effects of the FY21 cuts.

Please do not hesitate to call if you would like additional information about St. Francis Friends of the Poor and the importance of the ICR initiative to our essential operations.

Best regards,

Regards,

A handwritten signature in black ink that reads "Christina Byrne". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Christina Byrne, MSW  
Executive Director