



New York City Council Oversight Hearing
Indirect Cost Rate (ICR) Funding Initiative
Wednesday November 25, 2020

My name is Michael Winter, I am the Chief Financial & Administrative Officer for Lantern Community Services, Inc. and I want to thank you for the opportunity to testify here today.

Founded in 1996, Lantern Community Services' ("Lantern") mission is to champion the independence and well-being of New Yorkers who are impacted by or threatened with homelessness. Lantern's innovative services enable the more than 2,000 people we serve each year – formerly homeless families, formerly homeless single adults, and youth who have recently aged out of foster care – to recreate their lives. With proven results in health, employment, education and life skills, our programs are delivered inside Lantern residences and tailored to each person's needs. We provide our clients – many of whom live with mental illness, addiction, disability, HIV or other chronic illnesses – with the tools to integrate into the greater community with dignity and lead more independent lives. Lantern's work is grounded in the Housing First model, with no compliance requirements and voluntary participation in a robust array of supportive services. Lantern is a tax-exempt not-for-profit corporation under 501(c)(3) of the Internal Revenue Code.

Lantern's provision of social services to these single adults are funded through contracts with NYS Office of Mental Health (OMH), NYC Department of Human Resources (HRA), and the NYC Department of Health & Mental Hygiene (DOHMH).

During my professional career, I have worked as senior financial manager in both local government (New York City Department of Consumer Affairs) and for various not for profit entities in NYC.

When the ICR initiative was first introduced, we were excited about the opportunity to finally be fairly compensated for the costs to run a complex organization such as ours and to "right-size" our contracts. Lantern, like many of our sister agencies, was allowed to embed some administrative (indirect costs) in our contracts as direct costs. I am a perfect example of this. As the Chief Financial Officer for the organization, my position per all IRS and NYC oversight guidelines is considered 100 percent administrative, yet I am funded 88 percent as a direct expense across our 20 plus contracts. One of the benefits of this initiative, in addition to finally



funding actual administrative costs for not for profits, was to bring NFP organizations into federal/state/local cost reporting requirements.

This initiative required many of us in the NFP community to undertake detailed review and analysis to identify embedded indirect costs in our contracts and to have that review certified externally, at an additional cost, in order to apply for an approved rate. Again, like many of our sister agencies, we did this in good faith anticipating that once we received a certified rate we would be able to undergo the arduous budget modification process for FY 2020 contracts and process our FY 2021 contracts based on the approved ICR.

Lantern received our MOC approved ICR in early July that was to be applicable for FY 2020, FY 2021, and FY 2022.

We recognize that given the pandemic, FY 2020 has been a challenge, and that FY 2021-22, is destined to be equally or more so. However, it has been disheartening that as we attempted to engage with our funders on implementation issues, contract analysts seemed unaware of the initiative and/or disinterested in trying to get answers on how this would work.

Before going into the fiscal numbers, I would be remiss if I did not highlight a recent experience we had attempting to register a “new” FY21 contract. Our initial RFP budget submission, predated an approved change to our ICR and thus we listed the Program Administrator as a line item in the contract. We were informed by OMB that the position was considered “indirect” and should be covered under our indirect rate. However, when we subsequently applied our approved MOC ICR figure, the contract submission was rejected and we were instructed to use the 10 percent “di minimis” indirect rate that we historically received for the majority of our contracts.

Given all of the funding and budget uncertainties that the pandemic has and will continue to raise, the projected \$300,00 reductions will inhibit our ability to provide much needed services to the clients that we serve.

We respectfully request that the City keep its commitment and honor the massive amounts of time and effort that not-for-profits and city personnel have put into furthering this consequential initiative. The human services sector needs to have the costs of professional management services captured in our contract rates and reimbursement protocols.

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For 134 years, University Settlement has been one of New York City's most dynamic social justice institutions. Our programs include eviction prevention and benefits assistance, quality early childhood programs, afterschool and youth development programs, extensive mental health services for adults, families, and children, adult literacy, arts enrichment programs, support for the aging, and community center resources. Our programming extends across Manhattan and Brooklyn.

Our work with, knowledge of, and connection to our neighborhoods is indispensable; this has never been clearer than during the Covid-19 pandemic.

During the spring lockdown, our teams pivoted to help distribute emergency food, provide hand sanitizer and masks, ensure our neighbors had sufficient medication and other emergency supplies, and confirm the safety of our communities. In the fall, we began providing in-person early childhood support and serving as Learning Labs for our youth in Brooklyn and Manhattan, which the city had asked us to provide and we were honored to do.

In this context, we must express our dismay at New York City's decision to withdraw from its funding commitment to cover more of the true operational costs of nonprofits.

By only receiving 60% of the funding we were promised for FY20, we experienced a loss of \$338,000. Even if we can accommodate an unknown, likely significant budget gap for FY21, no organization should experience this amount of budgetary instability due to the city's lack of transparency.

To answer Council Member Rosenthal's question, we have been paid some of our indirect costs at our old rate, which is 10 or 12% depending on the contract, but we have not been paid for all of our FY20 contracts yet.

Like all nonprofits, we keep our operations lean. We are used to doing more with less. We understand why talking about administrative and operational costs often takes a backseat to programmatic needs. But the truth is: no organization can provide programming without a robust and reliable operational infrastructure.

Our Learning Labs, which the city asked us to run, as examples of how reduced operational capacity can hurt programming:

1. To staff our early childhood and youth programming, we are required to run extensive background clearance on all staff working so closely with our young people. We cannot begin our programming until all our staff are cleared, and it takes weeks to clear each staff member. This multi-step process requires a knowledgeable HR team, which the indirect funding rate would support, to shepherd the hiring process.
2. The indirect cost rate funds our backend staff including our IT department, which we need for our virtual programming. When the city approached University Settlement to offer Learning Labs to help children of essential workers, we were ready to do so within weeks. Yet, by choosing to not fully fund our indirect rate, which supports our IT

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department, the city ignores the very infrastructure we need to provide a service they asked for.

Starving our operations has additional ramifications beyond simply our programming. For example:

1. As an organization, we are committed to working with local small business. University Settlement works with hundreds of local vendors every year who supply everything from snacks for afterschool programming, food for clients, consultant services, and computers/tablets in this remote environment. The loss of indirect funding directly impacts our ability to support local vendors.
2. The indirect cost funding also goes towards maintaining and upgrading our facilities. Our community members should have access to clean and well-maintained facilities, and we cannot do that if we can't pay facilities staff.
3. Nonprofits are anchors in their communities not only through the programming they offer, but also in offering opportunity and paid work. Across our programming, we employ part-time staff and contract with many individual consultants, all small businesses themselves—like artists for early childhood classes, learning specialists for afterschool programming, exercise teachers for our seniors. We want to continue providing these opportunities for paid work, but the budgetary uncertainty renders it difficult for us to plan for hiring or have the HR team to process hiring.

With this public health crisis accelerating inequality across NYC, we cannot think of a more inopportune moment to be guided by an austerity outlook that we know does not work for our communities. In the months ahead, this is certain: NYC will rely on nonprofits like University Settlement and the networks we are a part of—to provide programming for our children so that they remain healthy, engaged socially, and supported in their learning; to provide material aid through food and housing support for those facing economic stress; to be a trusted source of public health information and distributor of resources; and to strengthen a city through caring for our communities.

We, at University Settlement, are proud to do our part to support NYC. We only hope that NYC will support us as well.