



**Testimony of Yolanda McBride, Director of Public Policy, Children's Aid
Prepared for the Oversight - Reviewing the City's Indirect Cost Rate Funding Initiative
During the COVID-19 Pandemic**

Committee on Contracts

November 25, 2020

Good morning, my name is Yolanda McBride, I am the Director of Public Policy at Children's Aid. I would like to thank Chair Ben Kallos and the Committee on Contracts for the opportunity to submit testimony reviewing the City's Indirect Cost Rate Funding Initiative during the COVID-19 Pandemic.

For nearly 167 years, Children's Aid has been committed to ensuring that there are no boundaries to the aspirations of young people, and no limits to their potential. We are leading a comprehensive counterattack on the obstacles that threaten kids' achievements in school and in life. We have also constructed a continuum of services, positioned every step of the way throughout childhood that builds well-being and prepares young people to succeed at every level of education and every milestone of life. Today our nearly 2,000 full and part time staff members empower nearly 50,000 children, youth and their families through our network of 40 locations including early childhood education centers, public schools, community centers and community health clinics in four New York City neighborhoods – Harlem, Washington Heights, the South Bronx, and the north shore of Staten Island.

Children's Aid stands with nonprofits, human service providers and advocates deeply concerned about the devastating impact of the retroactive FY20 cuts to the Indirect Cost Rate (ICR) initiative and the uncertainty around FY21 funding. We are a member of the Human Services Council and the statewide, Stronger Nonprofits Together coalition. Phoebe Boyer, our president and CEO, is a member of the Mayor's Non-Profit Resiliency Committee (NRC) and co-chaired the Service and Program Design group, which was one of the three committee focus areas. She also served on the Indirect Cost Rate Provider Working Group (ICR Working Group) which was an outgrowth of the advocacy work done by the Human Services Council and priorities of the NRC.

For two years, nonprofit organizations dedicated considerable time and resources working in partnership through the NRC and the ICR Working Group process. Nonprofits like Children's Aid collaborated with the City to develop the Cost Manual and advocated during the FY20 budget process to secure a commitment that it would be funded. When the City announced that it would reimburse nonprofits their full, negotiated indirect cost rate from



FY20 to FY22 in 2019, we celebrated. This collaborative work and agreement were also recognized at the City and national level as a model illustrating how to fairly address the true costs of services provided by the human services sector. The sector also worked in partnership with the Mayor's Office of Contracting Services (MOCS) to inform the implementation process and invested considerable resources to submit all required paperwork and budget modifications in accordance with the City's guidance. In response to the City's promise of additional revenue to fully reimburse our negotiated indirect cost rate, we adjusted our FY20 agency budget to reflect the newly negotiated indirect rate.

In August, after our organization's fiscal year ended on June 30 and the money had been spent, the City announced a retroactive cut to the indirect cost rate initiative. By renegeing on its promise to fully fund approved indirect cost rates, the City dealt a devastating blow to the human services sector at a time when we incurred considerable costs resulting from the pandemic, and were already increasingly vulnerable.

To illustrate a clear picture of our financial situation and the scale of these cuts on our financial viability, our FY21 annual budget is \$148.3 million, of which nearly 63% is funded by government grants and contracts. City contracts total \$79.1million for FY21 or nearly one half of our total budget. The current deficit for our City contracts is \$1,861,842.

Children's Aid, has received been approved for a new rate but we have not received that funding to date. Also, only three of the 72 ICR amendments have been registered. Thus, we have only been paid for indirect at our old rate, suffering a cut of \$888,000 across our nearly 100 City contracts for FY20 and we stand to lose \$1,177,000 in FY21. This loss of funding compounded by critical cuts to several City youth and foster care programs we have contracts for have resulted in staff furloughs and layoffs across central operations, scaling back of programs, impacting our entire organizational budget.

At the height of the pandemic, the cuts led to 57 layoffs and 496 staff being furloughed between April 1 to August 28. Currently we have 116 furloughed staff and 53 staff laid off. Like many nonprofits Children's Aid is self-insured. As a result, we have had to absorb extended unemployment benefit obligations that were unbudgeted totaling \$1.5 million from March through September. We are now averaging extended unemployment benefit costs of \$400,000 a month. The federal government committed to covering half of the extended unemployment benefits through CARES Act funding to New York State Department of Labor, however we have seen little to no guidance from the Department of Labor on reimbursements. We remain deeply concerned about the feasibility and timing of this funding.



The City's Indirect Cost Rate initiative is not a new funding source, it was the City's acknowledgment and commitment to fully funding the true costs of programs. Indirect expenses are often the things that we do not see when we walk through the front door of an organization to go to a program or receive a service, but help to keep that front door open. Indirect rate funding is what allows human service providers to scale technology, maintain facilities, and other operational capacities that are vital to the provision of programs, especially in this ever-changing environment resulting from COVID-19 and meet the increased demand for services.

For example, the pandemic has increased our reliance on remote devices and has expanded the need for our Information and Technology (IT) division to provide support and trouble-shoot. This division is committed but modest in size when compared to our overall staff count and is responsible for managing the dissemination and upkeep of 4,000 devices (laptops, phones, desktops and camera, chrome books, etc.) for nearly 2,000 full and part time staff. We have a total of 15 IT staff members, but only three who provide tech support. That is a ratio of one IT staff person for every 666 Children's Aid staff members. Without the indirect rate, we are unable to ramp of critical behind the scenes support.

If we lease a facility for a program, we can charge the contract for rent, however, if we use space we own, most city contracts won't cover or allow us to add "facilities depreciation" costs to the budget. We currently own six facilities and were only able to cover 12% or \$306,921 of our \$3.8 million facilities depreciation costs in FY20. With every contract we take from the city, we lose money because we have to fill the gap. This is done through the unrestricted net assets of the agency which includes contributions (donations), bequests and other sources.

The indirect rate cut directly undermines our work, especially at this time when nonprofits with owned sites become critical resources to support the city's educational system especially when school buildings are closed. Our Goodhue Community Center in Staten Island and Dunlevy Milbank Center in central Harlem remained operational throughout the pandemic and were hubs for our food box distribution efforts, census registration, providing PPE and other community resources to our youth, families and neighborhood residents.

Our school staff conducted 1:1 calls, emails, and zooms to check in with families on how remote learning/access were going, whether food was available, and general inquiry about needs and/or provision of community resources. Children's Aid distributed nearly 60,000 meals and food boxes to the communities we serve since late-March through the end of September. Within our Early Childhood families, we also found that there was a great need for diapers. From March through the end of September we purchased 450+ cases of diapers for families. Because of the connection we have as a Founding Member of the Boys



and Girls Club of America, we have been able to leverage additional food to serve thousands of meals as well as PPE for staff, youth, and families.

We have also tried to support the New York City Department of Education and distributed tablets and laptops to children who had no devices for school. Our staff has also been providing remote mental health, counseling, teletherapy, and social emotional support sessions for both students and parents. Our mental health support has been crucial; many of our students and families are facing real loss, fear, anxiety about the future, and depression. And despite the fact that we never stopped serving our children, youth and families, nonprofits remain in the dark about FY21 cuts to the indirect cost rate nearly five months into the fiscal year.

To recover collectively from this challenging time, nonprofits need to be seen as partners with the city, as entities to be worked alongside in full transparency and with full respect. The nonprofit sector is an invaluable part of the city's social safety net. Communication, guidance, regulations, and budget flexibility must be clear, timely, and realistic in order for the sector to effectively keep doing what they do best; meeting the needs of the thousands of New Yorkers who rely upon their services.

Earlier this week, the Mayor announced heartening news on the City's economic prospect in the November Financial Plan Update for Fiscal Year 2021. While we remain deeply concerned about the City's long-term financial position, it is clear that with the prospect of an additional federal economic stimulus, the City will hopefully not need to succumb to gutting the very same programs and services sustaining the most vulnerable New Yorkers. We urge the Mayor and City Council to use the November Budget modification to honor their commitment to the human services sector and fully fund the ICR Initiative and restore agreed upon indirect rates for every qualified organization in FY20 and maintain this commitment in FY21 contracts. Failure to honor the City's commitment will threaten the health and viability of the city's non-profit sector, forcing social service providers, especially the smallest and the weakest, into an insolvent situation. These cuts do not impact all New Yorkers' equally but rather disproportionately impact communities that have already been hardest hit by COVID-19 due to structural racism, ableism, and income inequality.

Children's Aid sincerely thanks the New York City Council for their vigorous support of children, youth, and their families in New York City. We look forward to continuing working with the City Council and the Administration to support the recovery and revitalization of the city and the communities we love.

Thank you for the opportunity to submit this testimony for the record. If you have any questions about this testimony, please feel free to contact me at ymcbride@childrensaidnyc.org or (347) 882 - 5996.