New York City Independent Budget Office

Focus On:
The Executive Budget

June 2020

Rocky Road for Nonprofit Human Services Organizations:
City Increases Support for Administrative Costs, But Providers Face Other Challenges

The Executive Budget for 2021 includes a $20 million decrease in funding for an initiative that just got underway last fall to provide health and human services agencies increased funding for their administrative costs. This brief examines the current funding plans for this initiative as well as some of the unique difficulties facing these providers during the Covid-19 pandemic.

Indirect Cost Rate Funding Initiative

In the November 2019 Financial Plan, the de Blasio Administration added a total of nearly $54 million in baselined funding to the budgets of 12 city agencies for the Indirect Cost Rate (ICR) Funding Initiative. The initiative allowed health and human services providers contracting with these agencies to claim increased funding for their indirect costs, defined as any cost not directly connected to a programmatic objective outlined in an agency's contract. Broadly speaking, this refers to administrative costs that support the organization as a whole, such as office rent and supplies, utilities, or personnel costs for administrative staff. Direct costs, in contrast, are those that relate directly to service provision.

The initiative, first announced in June 2019, stemmed from the efforts of the Nonprofit Resiliency Committee, a group of health and human services nonprofit organizations and coalitions. Prior to implementation of the ICR Funding Initiative, providers contracting with the city received disparate levels of support for their indirect costs, often

$54 Million Indirect Cost Rate Initiative Funding for Fiscal Year 2020 Cut by $20 Million
Dollars in thousands

Agency	Added in November 2019	Cut in April 2020
Administration for Children's Services	$9,163	($3,430)
Department for the Aging	4,607	(1,724)
Department of Education	5,961	(2,231)
Department of Health and Mental Hygiene	4,716	(1,766)
Department of Homeless Services	14,451	(5,409)
Department of Probation	340	(127)
Department of Small Business Services	622	(233)
Department of Youth and Community Development	3,739	(1,400)
Department of Housing Preservation and Development	979	(367)
Human Resources Administration	5,455	(2,042)
Mayoralty	350	
Miscellaneous	3,396	(1,271)
Total	**$53,779**	**($20,000)**

SOURCE: Mayor's Office of Management and Budget
NOTE: The $20 million saved is pro-rated across all affected city agencies as a 37 percent decrease in each agency. It is not based on how many of each agencies' contracts have had new ICRs accepted and it is possible that funding will be shifted among agencies in future budgets.
New York City Independent Budget Office

far lower than the actual indirect costs incurred. The initiative was based on a new citywide cost manual that standardizes the process of calculating ICRs and centralizes the process for providers to claim new rates through amendments to their existing contracts using the new ICRs. In November, funding was added to the city budget because the new rates will in most cases be higher than those providers have received in the past. The initiative applies to health and human services contracts that were in effect as of July 1, 2019, with some exceptions; as of March 24, 2020, a total of 339 providers had begun the process of applying for the new ICRs.[1]

The Citywide Savings Program in the 2021 Executive Budget included a $20 million decrease for the initiative across agencies in the current fiscal year (unless otherwise noted all years refer to city fiscal years). Based on the number of providers that have so far submitted requests for new ICRs, the Mayor's Office of Management and Budget now expects spending for the initiative in the current year will be $20 million less than they had anticipated in November. Providers have been assured that this decrease does not represent a cut in the initiative, that the initiative is moving forward, and that providers that submit for new ICRs and are approved will be able to claim their money.

Determining Rates

Providers have two options for getting new ICRs approved. One is for providers is to accept a default ICR of 10 percent. According to a report issued by the city implementation team working on the initiative, as of March 24, 93 providers had completed the first step in claiming this 10 percent ICR and 11 had gotten all the way through the process and had a 10 percent ICR accepted by the city.

Alternatively, providers can file for a rate higher than 10 percent. This requires submitting verifying documentation from either the federal government or an independent accountant certifying that the provider's ICR conforms to city standards. Providers have until June 30, 2020 to submit this verification paperwork to retroactively claim new ICRs for this fiscal year; they can also submit the necessary documentation between July 1 and December 31, 2020 to claim new ICRs for 2021. As of March 24, 112 providers had submitted forms indicating that they intended to apply for a higher, independently verified ICR by June 30; 7 of these providers had already had their new ICRs accepted.

If a provider knows that their ICR is higher than 10 percent but did not anticipate being able to submit the additional verification documentation required by June 30, they had the option of claiming a conditional ICR of up to 12 percent for 2020 only. Providers were required to submit a form indicating that they planned to take this conditional option by January 31, 2020. One hundred and thirty-four providers applied and as of March 24, 58 had ICRs of up to 12 percent accepted for 2020. These providers must submit additional verification paperwork by December 31, 2020 to claim their actual ICRs for 2021 and subsequent years. According to advocates for the human services industry, rates independently certified by an accountant or the federal government have often been higher than the 10 percent or 12 percent defaults—in some cases, as high as 21 percent. With the exception of conditional rates, which are in effect for one year, ICRs once established are applicable for three years from the start of the fiscal year in which the provider submitted a request for a new rate.

Limited Effect of Executive Budget Reduction. The Executive Budget would only reduce spending for the current year. The Mayor's Office of Management and Budget contends that even with the $20 million reduction for 2020 that funding is sufficient to pay providers their current year ICRs. This is because the number of providers applying for the 10 percent ICR was known at the time the Executive Budget was released as well as the number that had filed to claim a conditional ICR of up to 12 percent for this year. Advocates for nonprofits have also said that they expect that organizations that have applied for ICRs for this year will receive the funding, and indeed some already have. No reduction was made to the later years when it is assumed that the rates providers eventually get independently verified for 2021 and the out-years are likely to be higher.

Other Difficulties Facing Providers

As the ICR Funding Initiative has been moving forward, health and human services providers have faced other difficulties stemming from the Covid-19 pandemic. Many providers are incurring higher expenses than usual due to increased demand for their services, and some have been forced to cancel fundraisers that usually provide a significant portion of their annual budgets. Nonprofits and their advocates have also raised concerns about uncertainty, a lack of clear guidance, and inflexibility around their city contracts during this particularly difficult time.

In mid-March, the de Blasio Administration declared that health and human services providers would continue to get paid even if they could no longer meet their contractual performance targets due to the pandemic. But on April

21, providers whose contracts are with the City Council received a letter stating that only costs for "essential work" performed after March 22—the date that Governor Cuomo's pause order went into effect—would be reimbursed.[2] That caused concern among providers who had been operating for the intervening month in the expectation that they would be receiving reimbursement, and confusion about which services would be deemed essential and therefore qualify.

Nonprofit providers have also faced uncertainty about whether and when expenses related to the pandemic will be reimbursed by their contracting agencies at the city or state level. Organizations have paid for increased cleaning, personal protective equipment, and technology for their own staff and, in some cases, for clients. In mid-March the city committed to reimbursing pandemic-related costs as long as providers came up with a plan of service with their contracting agencies, but the state has not made a similar commitment for its contracts. Providers have pointed out that it is difficult to work out plans with their contracting city agencies due to the evolving nature of the pandemic and their clients' needs and that greater flexibility in contracts, particularly during extraordinary circumstances, would be helpful.[3]

Additionally, many providers have been giving incentive pay to their typically low-wage frontline workers to offset the risks and inconveniences of working during the pandemic. Nonprofits and their advocates have said that reimbursement policies for incentive pay have been inconsistent across city agencies, with most agencies denying the requests.[4]

Even if providers do ultimately receive reimbursement, in the meantime they will have incurred costs that in many cases place considerable strains on their budgets. Even in less catastrophic years, contracts with the city are not usually registered for several months after the beginning of the contract, meaning that providers incur costs before receiving payment, and may have to borrow money and pay interest on the borrowing, which is not reimbursed by the city. This practice, combined with the effects of the pandemic, has placed many organizations in an especially difficult financial position this year.

The Executive Budget's proposed elimination of the Summer Youth Employment Program and other youth summer programming for this year also deeply concerns many providers, who say they were not given adequate notice from the city and may have to lay off or furlough staff.[5] The nonprofit sector is bracing itself for potential further cuts to human services programming when the city's budget is adopted in late June.

Prepared by Katie Hanna

Endnotes

[1]The following contracts are not eligible for the ICR Funding Initiative: 1) Contracts that are also supported with federal or state funding if those funding guidelines prohibit the city from applying the cost manual; 2) City Council discretionary contracts; and 3) Administration for Children's Services Residential Foster Care, Human Resources Administration Emergency Domestic Violence, Department of Health and Mental Hygiene Ryan White, and Department of Education Universal Pre-K.

[2]These contracts are not eligible for the new ICR funding.

[3]Center for New York City Affairs, "Essential Yet Vulnerable: NYC's Human Services Nonprofits Face Financial Crisis During Pandemic." https://nycfuture.org/research/essential-yet-vulnerable

[4]Ibid. and Human Services Council, "COVID-19 FAQ," p. 6. https://humanservicescouncil.org/wp-content/uploads/2020/06/COVID-19-FAQ-6.8.20.pdf

[5]Chalkbeat, "NYC youth programs face job cuts as budget details remain unknown." https://ny.chalkbeat.org/2020/6/10/21287280/nyc-youth-programs-face-job-cuts-as-budget-details-remain-unknown and The City, "New York Youth Summer Jobs Program Scrapped Over Coronavirus." https://thecity.nyc/2020/04/new-york-youth-summer-jobs-program-scrapped-over-coronavirus.html