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**Gale A. Brewer, Borough President**

**November 25, 2020**

**Gale A. Brewer, Manhattan Borough President  
Testimony before the NYC Council Committee on Contracts  
On the City's Indirect Cost Rate Funding Initiative During COVID-19**

My name is Gale A. Brewer and I am the Manhattan Borough President. Thank you to Chair Kallos and members of the Committee on Contracts for the opportunity to submit my testimony regarding cuts to the city's Indirect Cost Rate Funding Initiative.

On August 12, 2020, I was informed that the Mayor's Office of Contract Services (MOCS) announced a 40% cut to the city's FY20 Indirect Cost Rate Funding Initiative, citing a pandemic-related budget shortfall as the reason to adjust the budget allocation of the Initiative *after* the FY20 contract term had already ended. The cuts impacted service providers who had opted for an indirect cost reimbursement rate higher than 10%, which I understand to be about 75% of the 262 nonprofit organizations that had joined the Initiative in FY20. These organizations were asked to choose between accepting an indirect cost rate reduction to 10% or to receive 60% of their anticipated reimbursement value—for costs that they had already incurred.

This was a devastating blow to New York City's human service providers, many of which struggled to keep their doors open even as the city requested these organizations to expand their services to meet increased needs exacerbated by COVID-19. For example, organizations with Department for the Aging contracts would receive only 60% of their indirect cost expenses and only for part of the fiscal year. Yet these service providers never stopped serving older adults during the pandemic, accommodating the city's request that they serve as such as cooling centers and Learning Bridges childcare sites; these are costs that the City later chose not to reimburse.

In June 2019, Mayor de Blasio and the City Council agreed to allocate funding in the FY20 budget for the Indirect Cost Rate Funding Initiative (ICR). The initiative aimed to cover human service providers' indirect costs, such as paying for office lighting or the cost of a CPA for financial audits that were based on standardized criteria established in the Health and Human Services Cost Policies and Procedures Manual adopted in March 2019. The initiative signified the City's commitment to these organizations, acknowledging the true costs required to provide services and the city's willingness to fund these costs.

Regrettably, the promised funding was not forthcoming. Although \$54 million was allocated for the ICR Funding Initiative in FY20, in August this amount was cut by \$20 million to \$34 million due to "right-sizing." This was a budget adjustment in the wrong direction—advocates in the human services sector realistically estimated the true cost to fully fund the Initiative at anywhere from \$90 million to \$200 million.

In response to the ICR cuts, I and my counterparts sent a joint five Borough Presidents letter to the Mayor on September 2, 2020 urging him "to fully fund the Indirect Cost Rate Initiative as promised for FY20 and into FY21 including pandemic related costs."<sup>1</sup> On September 15, 2020, I joined Councilmember Ben Kallos, the Human Services Council, and dozens of nonprofit service providers in a rally calling for the reinstatement of ICR for FY20 and FY21. In the two months since these actions, with growing food lines and increased health care needs as COVID-19 cases surge, the Mayor cannot continue to expect organizations to serve more New Yorkers while rescinding the commitment to fully fund the associated indirect costs of these services.

Let me be clear: reinstating ICR funding to the original funding level of \$54 million should only be the first step. For future fiscal years, the Mayor, along with OMB, MOCS, and the City Council, should work toward determining—and then fully funding—the true cost of nonprofit organizations' indirect cost expenses. Millions of New Yorkers rely on the services provided by nonprofits; the City relies on them; and we cannot afford to lose their highly cost-effective service delivery model.

I look forward to working with members of the committee to ensure the sufficient allocation for the Indirect Cost Rate Funding Initiative.

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<sup>1</sup> <http://www.manhattanbp.nyc.gov/wp-content/uploads/2020/09/2020-09-02-Borough-Presidents-Letter-to-Mayor-Indirect-Cost-Rate-Funding-Initiative.pdf>