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**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
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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”¹ 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

¹ <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 30th. 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 or at 917-484-9322.