

A Government Retreat from Overhead Aversion

02.04.20 | Linda J. Rosenthal, JD



Marian Conway of *The Nonprofit Quarterly* says that “for nonprofits, this is a dream come true.” What is this much-anticipated gift? “The City of New York is planning to help pay indirect costs.”

Until recently, there has been a wall of resistance from donors and funders (foundation *and* governments) for supporting overhead items in grants and contracts. Traditionally, foundations have preferred making grants for “exciting programs,” not to keep a grantee’s lights on, and where it “gives them the most control of the funds.” Individual donors, too, prefer to support high-profile projects. Development officers want to please them, so often these contributions come with restrictions against “indirect costs.”

But in 2019, there have been some noteworthy breaches in that wall, although it’s still in fits and starts. Even so, the Big Apple’s announcement of a new policy to help social services organizations cover certain overhead costs is a big deal. Budget approval from the New York City Council came in June, “after years of complaints from local providers.” Beginning in late November 2019, certain community organizations got the chance to start applying for additional financial support “for indirect cost rates exceeding 10% of a city contract.”

Even for organizations outside that metropolitan area, it may be a signal to their governmental units that it’s long past time to toss out the Overhead Myth.

Indirect Costs

In the budget adopted in June 2019, the Council and Mayor Bill DiBlasio “agreed to fund established indirect cost rates of human services providers.” Under the category of “indirect costs,” are “administrative expenses or overhead costs for nonprofits, such as rent, water bills, and staff wages.”

“But for the purposes of New York City’s contracts, indirect costs refer to expenses that may not be explicitly identified within a contract but provide benefits to it.” An example given is the “salary of a lawyer providing legal services” which “may qualify as direct costs.” On the other hand, the money going to pay the salary of an accountant “whose work supports the nonprofit in general” may be an indirect cost.

Overhead Calculations

And the rates must be in accordance with the rules in the [City of New York Health and Human Services Cost Policies and Procedures Manual \(Cost Manual\)](#). This Cost Manual “provides the guidance for covered expenses” but it’s a doozy: the Table of Contents is two pages and there are six more pages of definitions and acronyms. And that’s not all. There are another 80 pages of descriptions and policies to “standardize cost definitions” and clarify the phrase, “cannot be readily identified.”

The examples given in the Cost Manual don’t necessarily make it all that much clearer. But the NPQ’s Marian Conway reminds us that the legalese and mountains of definitions are reminiscent of a certain “brilliant parody” video created about a year ago by the New York [Human Services Council](#), called [Pizza and a Laugh—A Reminder about Your Nonprofit Financial Stress Level](#).

There are tricky provisions about which organizations are or will be eligible for this overhead reimbursement. There are also complexities in how organizations can get the money. There are “three main options to access funding” with differing verification or documentation requirements or procedures.

Conclusion

The new rules are certainly an improvement over the former status quo where the government didn’t cover all costs and contracting nonprofits started “out each time with a deficit. If they borrowed money in advance for government reimbursement later, after the work is done, they were operating at a greater loss with interest incurred.” This was an unfair and unsustainable burden, particularly as compared with the rules for “for-profit vendors that do not have this crippling hole.”

But following the reasoning in [Why Funding Overhead Is Not the Real Issue: The Case to Cover Full Costs](#) (September 12, 2019), “the entire way nonprofits (and government partners) look at ‘overhead costs’ is in desperate need of a [revisioning](#). The better solution may be to stop talking about overhead altogether, and advocate for funding ‘full costs.’”