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THE SENATE OF MARYLAND
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SB127: Indirect Costs

House Health & Government Operations Committee
Tuesday, April 1, 2025 1:00 PM

More than 40,000 nonprofit organizations make a meaningful difference to the quality of life every day in every corner of our State. They fill the gap-- feed our hungry, protect our children, strengthen our neighborhoods-- for far less money than government could. The far-reaching, dramatic actions by the new Administration these past two months risk shredding this vital safety net. This is through markedly decreasing capacity and sharply increasing need-- meaning a greater reliance on our nonprofit partners.

Unfortunately, government has historically underfunded nonprofits' costs of doing business, commonly known as "indirect" or "overhead." In FY23, Maryland awarded nonprofits 4,242 contracts, 446 grants, 132 direct payments, and five loans to meet State priorities, totaling $1.7 billion. The indirect cost portion of these awards helped nonprofits do their work, and do it *better*: secure the space, supervise the staff, pay the bills, evaluate the outcomes.... In comparison, the average for-profit business overhead is 25%-- and 45% in service industries!

In 2018, the standard overhead allowance was set at 10% by the U.S. Office of Management and Budget (OMB). By a unanimous vote in both chambers, SB1045 guaranteed the same to Maryland's nonprofits.

In April 2024, OMB modified its regulations to raise the standard indirect cost allowance to 15%. SB127 proposes that Maryland's indirect cost rate match the federal government's, both now and in the future. This is a common-sense approach that eliminates the need for new legislation with every OMB update. Importantly, SB127 and its cross-file HB300 (as initially amended) set Maryland's indirect allowance at "the greater of" the current OMB rate or 15%-- safeguarding against potential back-tracking by the federal government.

It is worth noting that the revised Fiscal Note for HB300 clarifies that raising the indirect cost rate on contracts and grants would have ***no fiscal impact***-- it would simply give nonprofits more administrative flexibility in delivering their contracted services.

These bills have advanced with slightly different amendments. The lead sponsors agree that:

- HB300 is an emergency bill; SB127 should be amended to match. The need is ***urgent***.

- Unfortunately, SB127 was amended in Senate Committee to add a sunset clause. Overhead is a cost of doing business that will not go away-- and the clear trend is that the more that indirect costs are studied, the likelier it is that these allowances will continue to increase. This data-driven rate adjustment, therefore, should not sunset.

- Regarding the study amendment in HB300, the Department of Budget & Management sent a Letter of Concern to the Budget & Taxation Committee on March 26, 2025. In their opinion, the study has unclear objectives and "requires data that is not currently available… [necessitating] labor-intensive research…placing an excessive burden on DBM staff resources."

Aligning Maryland's indirect cost allowance with the current federal standard would make State grants to our nonprofit organizations more effective. This fair, affordable, and efficient update would encourage more nonprofits to partner with State government to offer their crucial services to our communities.

I urge a favorable report on SB127, a top priority bill for Maryland Nonprofits.