MARYLAND NONPROFITS
marylandnonprofits.org
1500 Union Avenue | Suite 2500 | Baltimore, MD 21211
410.727.6367 | 800.273.6367 | Fax 410.235.2190

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Testimony on Senate Bill 127
State Government - Grants and Contracts - Reimbursement of Indirect Costs
Senate Budget and Tax Committee – Procurement Subcommittee

Position: Favorable

Maryland Nonprofits is a statewide association of almost 2000 nonprofit organizations and institutions. We ask you to support Senate Bill 127 to allow nonprofit grantees and contractors to operate more effectively and maintain their financial stability, by increasing the minimum 'indirect costs' or overhead rate allowed on state grants or contracts from 10% to 15% of "modified total direct costs".

In 2018 Marland adopted what had been the OMB minimum assured rate of 10% dating from 2014. In 2024 the Office of Management and Budget (OMB) revised the federal "Uniform Guidance" (2 CFR 200) and included in its update an increased of the minimum or *de minimis* indirect cost rate from 10% to 15%, stating this was "in response to feedback from the Federal financial assistance community".

OMB further explained in its announcement that "this change would allow for a more reasonable and realistic recovery of indirect costs, particularly for new or inexperienced organizations that may not have the capacity to undergo a formal rate negotiation, but still deserve to be fully compensated for their overhead costs." They also noted that this was supported by over 250 commenters on the initial draft regulation, and that others urged a rate of 20% or more.

One of the reasons Maryland adopted its current minimum indirect rate was to simplify state grant processing by aligning with the same standard agencies were required to follow with most federally funded agreements. Matching the new federal standard as proposed in Senate Bill 127 is a common sense update. In 2020 you created the MD Efficient Grant Application (MEGA) Council to work toward standardizing our grants process across state agencies in a way to be consistent with the OMB Uniform Guidance.

But most importantly, the current 10% rate is widely acknowledged to be not only inadequate but a contributing factor to the “starvation cycle” that destabilizes nonprofit providers. Since the 10% rate was set nonprofits have suffered through the pandemic and many have seen charitable contributions decline in real terms.

Past studies by the U.S. Government Accountability Office found that underfunding providers negatively impacts the quality of their services and financial sustainability. Now the people and communities these organization serve, on behalf of government, face the threat of limitations or cutbacks in both state and federal support –that will only increase demands for their services.

For these reasons we urge you to give Senate Bill 127 a favorable report.