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**Testimony
SB 127/HB 300**

**Senate Budget and Taxation Committee
January 22, 2025
Position: FAVORABLE**

Dear Chairman Guzzone and Members of the Senate Budget and Tax Committee:

Housing Initiative Partnership (HIP) is a nonprofit organization that develops innovative affordable housing, revitalizes neighborhoods, and equips people to achieve their housing and financial goals. Our vision is that every person lives in high-quality affordable housing in a thriving community. With 35 years' experience, HIP has developed over 500 units of affordable, service-enriched rental housing as well as over 100 single-homes sold to first-time homebuyers earning 80% or less of AMI. HIP is a HUD-approved counseling agency providing a wide range of housing counseling services from placing homeless families in permanent housing to rental counseling to homebuyer education to foreclosure counseling to financial capability counseling. We maintain offices in Hyattsville in Prince George's County, and in Germantown and Gaithersburg in Montgomery County, Maryland.

Senate Bill 127 and House Bill 300, will raise Maryland's minimum indirect rate from 10% to "the de minimis rate established in Subpart E of OMB Uniform Guidance", now 15% and automatically tie it to any future OMB increases.

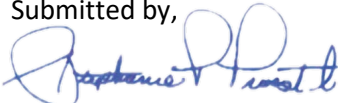
Last year OMB revised the "Uniform Guidance" (2 CFR 200) and increased the *de minimis* indirect cost rate to 15%. The Final Rule Announcement stated "... in response to feedback from the Federal financial assistance community, OMB proposed to raise the *de minimis* rate from 10 percent to 15 percent. OMB explained 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." It also noted this was supported by over 250 commenters on the initial draft regulation, and that others urged a rate of 20% or more. Many estimates of the actual indirect costs to nonprofit service providers exceed 20%.

This change should be adopted for several reasons:

1. **Simplicity**—By adopting the minimum indirect rate this will help simplify the state grant process by adopting the same standard agencies were required to follow with most federally funded agreements – so matching the new federal standard is simply a common sense update.
2. **Consistency**--By using the standard ‘as set by’ OMB, from instead of again adopting just the current 15% rate, these bills assure that future changes in federal regulations don’t require continuous legislative actions
3. **Financial Imperative**--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, significant increases in organizational expenses, 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. We simply cannot responsibly administer quality programs and services without the proper administrative and organizational structures. HIP has served the community for 35 years with quality, impactful programs and services; however, our greatest challenge is to raise funds that support the necessary general operating/administrative infrastructure such as accounting, audits, data tracking software, rent, utilities, and insurance. This year alone HIP’s audit cost doubled and our insurance increased 25%. This is simply not sustainable without increases to the State’s indirect rate.

We respectfully request a FAVORABLE report.

Submitted by,



Stephanie Prange Proestel
Executive Director