

MOTION BY SUPERVISOR HILDA L. SOLIS AND
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November 3, 2015

Request the CEO to make recommendations for implementing Office of Management and Budget Uniform Guidance related to indirect cost reimbursement by government to nonprofits.

The County and charitable nonprofit organizations share a mutual commitment to improving lives and communities. Nonprofits, which make up 6.6% of the County workforce, are key partners with County government in implementing programs that provide critical services to the public, such as health care, human services, and housing-related services.

At the same time, research demonstrates that nonprofits providing services on behalf of governments often are not paid the full costs of services performed. In particular, nonprofits are not sufficiently reimbursed for indirect costs necessary to operate. Sometimes called “overhead,” these costs include administrative expenses, facilities costs, utilities, and other ongoing operational expenses not directly associated with a specific project.

A recent study by the Urban Institute entitled “Nonprofit-Government Contracts and Grants/California Findings” found:

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- Over 5,000 nonprofit organizations receive an estimated \$14 billion in government contracts and grants in California alone.
- One-quarter of California nonprofits earn 60% or more of their revenue from governments.
- Approximately 7 in 10 nonprofits in California report that the government funding they receive fails to cover the full cost of their services.

Recognizing this deficiency and the unfair burden that it places on nonprofits providing services on behalf of governments, the Federal Office of Management and Budget (OMB), on December 26, 2014, promulgated the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, commonly known as the OMB Uniform Guidance, which merges eight separate OMB circulars and codifies them in the Code of Federal Regulations. The OMB Uniform Guidance expressly mandates that government agencies (local, state, and federal) that hire nonprofits to deliver services using federal funds must now reimburse those nonprofits for their reasonable indirect costs. It requires that most nonprofits be reimbursed at a standard minimum rate of no less than 10% of their modified total direct costs to support the fundamental operations of the organization. Nonprofits that have negotiated a federal indirect cost rate must be paid that negotiated rate. This requirement to reimburse indirect costs represents the federal government's official recognition that all governments entering into written agreements with nonprofits to deliver services to the public have an affirmative duty to pay their fair share of the costs that those nonprofits incur.

The County has a strong interest in the successful implementation of the OMB Uniform Guidance related to nonprofit overhead to strengthen further nonprofit services within its jurisdiction. Further, it is required to be in compliance with this federal mandate when it distributes federal funds.

WE, THEREFORE, MOVE THAT THE BOARD OF SUPERVISORS direct the CEO, the Interim Director of the Internal Services Department, the Auditor-Controller, and other impacted agencies to:

1. Report back to the Board within 120 days with recommendations on implementation of the OMB Uniform Guidance related to paying the reasonable indirect costs of nonprofit services with federal funds in Los Angeles County.
2. In developing these recommendations, consult with County nonprofit and philanthropic leaders for their input and advice.
3. Send a five-signature letter urging State leadership in implementation of the OMB Uniform Guidance related to nonprofits.

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