Government of the District of Columbia
Office of the Chief Financial Officer

Glen Lee
Chief Financial Officer

MEMORANDUM

TO: **The Honorable Phil Mendelson**
Chairman, Council of the District of Columbia

FROM: **Glen Lee**
Chief Financial Officer

DATE: **April 8, 2026**

SUBJECT: **Fiscal Impact Statement – Nonprofit Services Preservation Amendment Act of 2025**

REFERENCE: **Bill 26-249, Draft Committee Print as provided to the Office of Revenue Analysis on March 29, 2026**

Conclusion

Funds are not sufficient in the fiscal year 2027 through fiscal year 2030 budget and financial plan to implement the bill. The bill is expected to cost $6.9 million in fiscal year 2027 and a total of $70.2 million through fiscal year 2030.

Background

In 2021, the District enacted the Nonprofit Fair Compensation Act[1] ("NFCA"). The law was intended to provide District-wide standards for the indirect cost reimbursement rate ("IDCR") a nonprofit could receive under a grant or contract with the District. IDCRs allow the nonprofit organization to spend grant or contract proceeds on costs that are not directly tied to the services required under the grant or contract, such as the organization's overhead costs, such as occupancy costs, administrative and management salaries, and insurance.

The federal government allows entities that receive federal grants to be reimbursed for indirect costs in accordance with cost principles specified in regulations. Because of the vast differences across service providers, the federal government authorizes a single granting federal agency, known as the cognizant agency, to negotiate with individual nonprofits a reimbursement rate that is made on

[1] D.C. Law 23-185, effective March 16, 2021 (68 DCR 3401).

behalf of all federal agencies. This rate is known as the organization's Negotiated Indirect Cost Rate Agreement ("NICRA").

The NFCA did not apply to non-profits which are hospitals, foundations, colleges or universities. The NFCA required all District contracts and grants with other non-profits (including subcontractors and subgrantees) to reimburse the nonprofit at its federally negotiated rate as documented in an unexpired NICRA. If the nonprofit did not have a NICRA, NFCA provided nonprofits with the following alternative elections to calculate its allowable IDCR: 1) a "de minimis" rate of 10 percent; 2) a new negotiated rate with the awarding agency; 3) the same rate used by the entity with any District agency in the past two years; or 4) a Certified Public Accountant (CPA) certified calculated rate based on Office of Management and Budget Uniform Guidance. NFCA's IDCR provisions applied in a phased-in matter and were applicable at any contract or grant award value beginning in fiscal year 2026.

The bill increases the "de minimis" IDCR rate from 10 percent to 15 percent and provides an annual adjustment to this percentage rate equal to the annual increase in the Consumer Price Index (CPI), but capped at 3%. The bill amends the indirect costs compensation provisions of the D.C. Code to clarify that indirect cost compensation must be "in addition to and on top of" any direct service costs and may not supplant any portion of a grant or contract award for the provision of goods or services, provided there is funding available.

The bill amends the option to use the same rate negotiated with any District agency to cover the past three years and makes two changes to the CPA-certified calculated rate provisions: first, to allow for an audit completed in any of the past three years; and second, to allow nonprofits with annual revenues below $250,000 to use an independent bookkeeping or financial services firm to calculate the IDCR using the nonprofit organization's end-of-year income or activities statements.

The bill prevents the District from using a nonprofit organization's request for payment based on an unexpired NICRA or District-negotiated indirect cost rate as the sole or determinative factor in a decision to deny, reduce, or terminate a grant or contract. When making a grant or contract award decision, the District may only use a nonprofit organization's requested or negotiated indirect cost rate as a screening criteria after assessing that the organization can meet the desired quality standards.

The bill exempts Business Improvement Districts from NFCA provisions. The bill sets out a phased-in implementation of the new IDCR reimbursement provisions, as follows:

For grant and contract solicitations with a cost estimate at or below:	Implementation Date (assuming funded for FY27)
$500,000	Fiscal Year 2027
$1,000,000	Fiscal Year 2028
$2,000.000	Fiscal Year 2029
$5,000.000	Fiscal Year 2030
$10,000,000	Fiscal Year 2031
All	Fiscal Year 2032

The bill requires each District contract, grant solicitation and award for services to be performed by a nonprofit organization to include an indirect cost compensation clause, in plain language, that obligates the District to compensate for indirect costs in addition to direct service costs if the applicant discloses their requested rate amount calculated pursuant to one of the options outlined above. Within 180 days of the bill's effective date, the Mayor, and the Office of Contracting and Procurement (OCP), must promulgate rules for District agencies to fairly and uniformly calculate, negotiate, award, and pay indirect cost rates for nonprofit organizations receiving District grants and contracts, respectively. Within 90 business days after promulgation of the rules, the Mayor shall conduct annual training sessions for all District agencies on the calculation, negotiation, award, and payment of grant and contract IDCR for nonprofit organizations. Completion of such training on an annual basis shall be mandatory for all agency employees directly involved in the solicitation or management of District grants or contracts with nonprofit organizations. The bill also requires plain language clauses in all grant and contract solicitations and awards to nonprofit organizations explaining their right to payment for indirect cost rates.

Finally, the bill gives the Mayor the authority to establish a grant program for nonprofit relief. The purpose of the grant program shall be for the purpose of strengthening nonprofit organizations' financial viability, enabling nonprofit organizations' to meet indirect costs when providing services to District residents, and encouraging private partnership in support of meeting nonprofit general operating expenses. The bill establishes certain requirements for applications to the grant program and allows the grants to be in the form of matching funds for nongovernmental sources of funding for organization's indirect costs.

The bill excludes the distribution of Business Improvement District (BID) taxes from all of its provisions.

Financial Plan Impact

Funds are not sufficient in the fiscal year 2027 through fiscal year 2030 budget and financial plan to implement the bill. The bill is expected to cost $6.9 million in fiscal year 2027 and a total of $70.2 million through fiscal year 2030.

Nonprofit Services Preservation Amendment Act of 2025 Total Cost ($ in thousands)					
	FY 2027	FY 2028	FY 2029	FY 2030	Total
IDCR provision for Contracts	$1,393	$5,656	$9,608	$13,553	$30,210
IDCR provisions for Grants	$5,472	$7,949	$11,203	$15,321	$39,946
Total Cost	**$6,865**	**$13,605**	**$20,811**	**$28,874**	**$70,155**

Table Notes

a. Includes 2% annual growth rate in value of contracts
b. Includes annual CPI increases in *de minimis* IDCR rate to bring *de minimis* rate to 15.38% in fiscal year 2028, 15.73% in fiscal year 2029, and 16.14% in fiscal year 2030
c. Includes only grants and contracts with an estimated value per the implementation phase-in amounts described in the background. Costs will increase outside of the financial plan period.

To estimate the increase in District budget required to fulfill the bill's IDCR reimbursement provisions for contracts, the Office of Revenue Analysis (ORA) relied on survey data provided by the Office of the City Administrator (OCA). The survey data was considered the best source, since contract data produced and maintained by OCP currently are not distinguished by whether contracts are awarded to a nonprofit entity. Moreover, contract awards are provided for a total amount which is not distinguished at OCP by an amount awarded for direct costs versus an amount awarded for indirect costs. OCA surveyed 61 District agencies over one week in October/November 2025, and received data from 47 responding agencies. The survey returned 159 contracts with nonprofit organizations, with contract values totaling $284 million. Of all contracts reported, the majority (111) did not include any IDCR amount. 42 contracts were reported to have an IDCR between 5 – 15% and only 7 were reported to have an IDCR of 15% or above. For purposes of the fiscal impact, we assume IDCRs increase to the bill's new *de minimis* rate of 15%, if not already included at 15% or higher. This is because the bill now makes explicit that IDCR should be provided "in addition to and on top of" any direct service costs.

The bill's new IDCR provisions for contracts are therefore expected to eventually increase funding required for contracted services by $18.6 million (before accounting for expected annual growth in contract values and the bill's required CPI-adjustments to the *de minimis* IDCR). Under the phased-in contract award thresholds provided by the bill, funding requirements during the financial plan would only apply to contracts with values up to $5 million. The bill is estimated to increase costs for contracted services by $5.5 million in fiscal year 2027, rising over the financial plan to $13.6 million in fiscal year 2030. Annual costs will increase outside the financial plan period as the implementation threshold contract value rises through fiscal year 2032 and the de minimis IDCR continues to increase by the CPI inflation factor.

To estimate the increase in the District budget required to fulfill the bill's IDCR reimbursement provisions for grants, ORA based grant spending on Local Funds budgeted amounts for the account category "subsidies and transfers" while using OCA survey data on grants to inform assumptions on current IDCR amounts and, in some cases, percentage of grants that would be covered by the bill's various implementation thresholds. The methodology was meant to account for OCA survey data limitations including omitted agencies and omission of fund data (Capital, Federal Local). Under these assumptions, approximately $413 million of Local Funds grants (in 2026 dollars) would eventually be covered by the bill's IDCR provisions, leading to approximately $14 million in increased annual grant costs, prior to accounting for inflation of grant awards or the *de minimis* IDCR. After accounting for the bill's implementation thresholds, inflation of grant awards and the bill's required CPI adjustments to the initial 15% de minimis rate, the bill's projected impact on Local Funds grant costs is $5.5 million in fiscal year 2027 and increases to $15.3 million in fiscal year 2030. Annual costs would continue to rise beyond the financial plan period.

Providing the Mayor the authority to establish a grant program for nonprofit relief does not have a cost since the bill does not require the grant program, however sufficient funding and staff resources would need to be available to implement the authorized program, including establishing the application process, reviewing applications, entering into awards, and monitoring awards. Budget authority for grant awards would also need to be provided for the Mayor to act on the bill's nonprofit relief grant provisions.

The Mayor and OCP can implement the bill's provisions regarding solicitation and contract disclosure, plan language summaries, and staff training on calculation and payment of IDCRs, within their budgeted resources.