

# Essential Expenses:

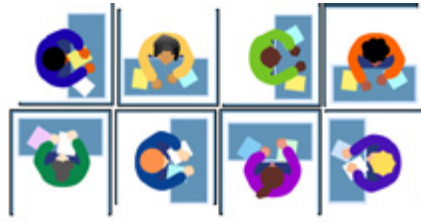
*Understanding the Real Costs of Providing  
Human Services in Illinois*

February 2025



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# Letter from Our Executive Director

“Because there is no standard definition or process to measure it, overhead is just an illusion that helps to avoid the much harder work of measuring community benefits.”

- Vu Le, [\*How the focus on overhead disenfranchises communities of color and fans the flames of injustice\*](#)

Dear Reader,

We begin almost every section of this report with the words of our survey respondents, so my letter opens with a quote from our friend and nonprofit truth teller, Vu Le. Vu captures a thought that has been on my mind—the myth, or as he so aptly calls it, the illusion of overhead and why so many funders equate low administrative costs with worthiness. These expenses—for supervisor salaries, facilities, insurance and more—are essential to organizational impact, yet are viewed in funding circles as anything but. Even among individual donors, revenue versus overhead is a decision-making metric. Talking to a friend, I heard about her advising a wealthy relative on annual giving plans. Her basis for the advice? How small an organization’s overhead expenses are as a percentage of their budget. When I challenged that rationale, my friend disagreed. “Well,” she reasoned, “there are a lot of worthy causes, you have to start somewhere.”

But is this really a good place to start? I don’t think so and from what you will read from our coalition partners, they don’t think so either—especially when their biggest funder, the State of Illinois, employs a similar philosophy. Overhead, what the State often refers to as “indirect costs,” constitute significant portions of their budgets yet contracts limit these costs to 10% unless renegotiated. In addition, the administrative burden of negotiating these rates is extensive, beyond the capacity of many smaller organizations, and funding won’t cover the time required to do that work. Meanwhile, leaders grapple with increasing costs and diminishing resources to cover them. Our coalition partners are unwavering in their commitment to their communities, but continue to be worried about how to keep the lights on.

So, where should we start? How about we start by throwing out archaic ideas about overhead funding in favor of contracts that focus on community outcomes, not arbitrary percentages of organizational incomes? How about we demand more trust-based models that allow for flexible funding and let providers determine where dollars should be spent? How about we alleviate administrative burdens so that human service providers can use their time and resources on fulfilling their missions rather than meeting onerous grant requirements? Regardless of how we start, our goal remains the same. We must ensure that community-based human service providers have what they need to thrive, so they can focus on what they do best, taking care of our communities. The true cost of failing to do so will come at the expense of our collective well-being—with workers, their families, and the communities they serve bearing the brunt. We will not allow that to happen nor will we settle for anything less than a sector that is equitably, sustainably, and fully funded. You can quote me on that.

In solidarity,

Lauren Wright  
Executive Director, Illinois Partners for Human Service



# Executive Summary

The limitations put on permissible expenses in state funding do not fully address the actual costs many Illinois human service organizations incur to provide services. As a result, state-funded, community-based providers are confronted with the ongoing challenge of making ends meet to support their operations and fully serve their communities. Illinois Partners for Human Service (Illinois Partners) surveyed our coalition partners and conducted research on these issues to help advocates, public officials, and community members better understand where funding models meet and miss the mark for state-contracted community-based service providers. The research looks beyond state grants and reimbursement rates that only cover prescribed direct service costs to identify the other, often less obvious, expenses that figure into service provision. The examination includes considerations of the State's 10% de minimis rate applied to indirect costs, including when and if providers seek higher rates, and a discussion of how providers have planned to accommodate past and possible changes to the US Department of Labor (DOL) minimum exempt salary requirements. The report also provides an assessment of the actual expenses providers call fundamental to service delivery, but government funding fails to fully cover—the ones designated as “overhead” and considered indirect costs. An aspirational exercise in which organizational leaders envision how unlimited resources would impact their work, their clients, and their communities closes the report.

## Key Take-Aways

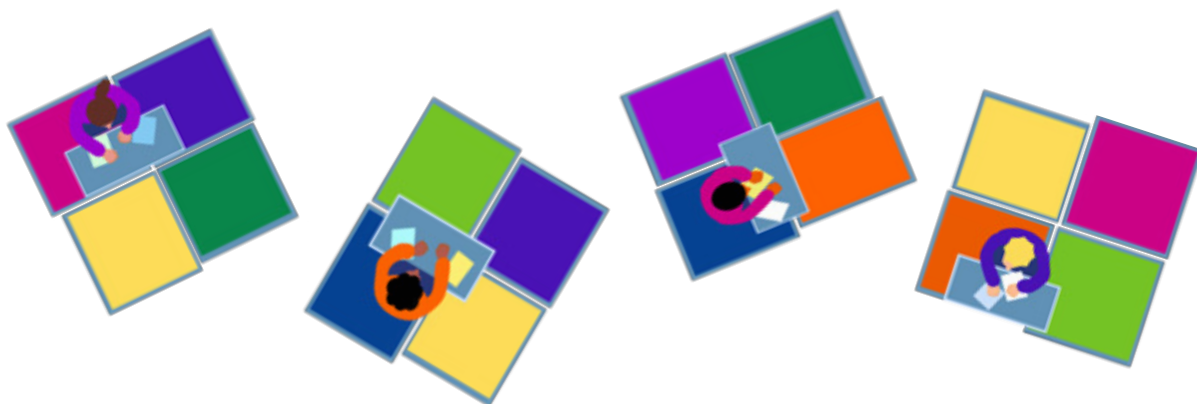
- **Costs:** Reimbursement rates do not keep pace with or reflect the rising costs of all the goods and services needed to sustain and provide high quality health and human service programs.
- **Supervisors:** Direct supervisor salaries should be categorized as a direct service cost. In addition, a portion of indirect supervisor salaries should be permissible in direct or indirect cost calculations.
- **DOL Overhead Exempt Salary Increases:** DOL requirements were slated to increase 64% in increments between 2024 and 2025. Some providers had already budgeted and implemented changes to accommodate the mandate(s) before a court case vacated these minimum salary requirements in November 2024.
- **The 10% De Minimis and Overhead Caps:** The 10% de minimis and current caps on overhead are insufficient and definitions of acceptable indirect costs are too limited.
- **Indirect Cost Rate Negotiation:** Indirect cost rate negotiations are pursued infrequently despite the fact that the de minimis rate rarely meets an organization's indirect cost needs. The negotiation process is onerous and overly complicated, indicating the need for protocols to be streamlined, simplified, and consolidated.
- **Cost Recovery:** Delayed and deferred state reimbursements, insurance denials, and lapses in Managed Care Organization (MCO) payments can significantly impact an organization's financial stability. Dedicated staff for cost recovery efforts can be critical in mitigating losses, but not all providers can afford these positions.
- **The Rising Cost of Insurance:** Providers identify insurance as a cost that is increasingly difficult to manage. Certain categories of coverage, particularly for youth-serving providers, are also becoming hard to find and premiums are outpacing revenue potential.
- **Overhead:** Contract limits on overhead expenses and the 10% de minimis impact multiple aspects of service provision for state-contracted providers. **On average, the actual cost reported by participants for their overhead expenses is 29% of their organizational budgets.**

## Recommendations

- Similar to the originally introduced version of the [Community Partner Fair Contracting Act \(CPFCA\)](#), to reduce administrative burden, we recommend the State:
  - **Prioritize Timely Contracts and Payments** by issuing contracts within 30 days of the grant term, and approving bills or invoices within 30 days;
  - **Expand and Clarify Advanced Payment Eligibility** by requiring state contracts to identify a date of payment and whether a contract is eligible for the Illinois Contractor Prompt Payment Act and advanced payment;
  - **Promote Flexible Contracts that Cover the Full Costs of Services** by removing arbitrary caps on fringe benefits and limits on indirect costs in contracts or grant agreements to less than 20%;
  - **Expedite and Simplify the Court of Claims Process** by diverting undisputed, lapsed appropriation claims of less than \$2500 and allowing state agencies to pay claims from any appropriated funding source.

While some of these suggestions were addressed in the [pared-down version of the CPFCA](#) that passed in January 2025 during lame duck session, more work is needed to reduce administrative burden for community-based providers.

- Recategorize direct supervisor salaries as direct costs, fully coverable by reimbursement rates and grants.
- Broaden the spectrum of acceptable cost categories for indirect cost calculations.
- Increase the de minimis to encompass and better address all of the overhead costs providers incur.
- Create a subsidy, commit to annual cost of living adjustments, increase the cap on fringe benefits and/or indemnify community based organizations to better support general insurance costs.
- Facilitate an alternative means of health insurance coverage, such as a co-op, pool, Multiple Employer Welfare Arrangement (MEWA), captive, or marketplace.





# Introduction

## ***What are the real costs of delivering human services in Illinois?***

A seemingly simple question on the surface, but delve a little deeper and the answer is not as straightforward as government funding models would suggest. These models minimize administrative costs and infer that the most effective nonprofits are the ones with the lowest overhead expenses. This approach, lacking in nuance and rooted in the myth of overhead, fails to look at impacts and outcomes in favor of bottom lines. Moreover, it does not take the expertise of providers into account and shows little confidence in their ability to determine how funding would best be allocated to sustain their essential services.

In this report, Illinois Partners for Human Service set out to answer the true cost question to help advocates, public officials, and community members better understand where funding models meet and miss the mark for state contracted community-based service providers. We structured our research to look beyond state grants and reimbursement rates that only cover prescribed direct service costs to:

- Identify the other often less obvious expenses that figure into service provision;
- Examine the State's 10% de minimis rate applied to indirect costs to find when and if providers seek a higher rate, and what prevents them from doing so;
- Consider the proposed DOL minimum exempt salary requirements and how providers have planned to accommodate the changes should they ultimately go into effect;
- Understand the actual expenses that providers consider fundamental to delivering services, but government funding fails to cover—the ones often relegated to the category of “overhead” and therefore lumped under indirect costs.

Finally, we asked human service providers to engage in a “pie in the sky” exercise to envision what might be possible if funding models permitted them to define the expenses that constitute the actual costs of providing services. How might this paradigm shift affect the systemic issues their clients and communities face? What more could they accomplish if they had more flexibility in funding?

Nearly 100 organizations responded to our survey, sharing invaluable data, insightful answers, and perspectives that could only come from the providers who have been managing state contracts year after year. Their responses indicate that the parameters on permissible expenses issued by the State do not always align with the factors that contribute to their true costs of doing business which stretches their resources and staffs to their limits. As a result, the organizations that rely on state funding are confronted with the ongoing challenge of making ends meet to support their operations while also being able to fully serve their communities. With this in mind, the question now becomes: What can be done to ensure community-based human service providers have the funding they need to cover their actual costs so that they and all Illinoisans can thrive?



# Methodology

In June 2024, Illinois Partners surveyed our coalition partners to ascertain what should be prioritized in our advocacy and research objectives. From a list of 10 possible areas of investigation, the actual cost of delivering human services in Illinois emerged as the #1 topic of interest. In response, Illinois Partners began the process of creating a protocol to conduct this research by way of a survey to be distributed to community-based providers statewide. To develop the survey, we conducted internal brainstorming sessions with our team and Board of Directors, facilitated one-on-one meetings with sector leaders, and recruited a group of beta testers to review the survey and provide critical feedback ahead of our wider distribution effort. Topics covered included the State's 10% de minimis rate, indirect cost negotiations, changes to the DOL minimum exempt salary requirement, cost recovery strategies, and the impact of overhead costs on operational expenses.

Our primary purpose was to find answers to the following core questions:

- What factors most influence the cost of delivering services and do reimbursement rates and state grants take these factors into consideration?
- Where are the gaps between how providers define relevant costs and how the State defines them?
- What would the impact be if providers had a say in how state funding was applied to their work?

In October 2024, we released the survey to our coalition partners and other health and human service providers across the state. We sent invitations via email, our monthly Fast4ward newsletter, and social media posts. The survey was conducted via the Survey Monkey platform and was open for three weeks to maximize participation. We received 94 complete responses for use in our data analysis. During our data collection period, a series of Local Area Council meetings were held in various regions around the state. We leveraged these convenings to ask participants questions related to this research. Responses were recorded and incorporated into our narrative analysis.

## Of Note...

*The survey included questions pertaining to changes made by the DOL to the Fair Labor Standards Act (FLSA) to increase the minimum salary requirements for overtime exempt employees on July 1, 2024 and January 1, 2025. However, following the completion of all data collection, on November 15, 2024, a lawsuit filed in federal court in Texas ended with a ruling vacating increases to the minimum salary requirement, past and future, for overhead exempt employees nationwide. For now, the minimum salary requirement has returned to \$35,568, effective immediately. In response to the decision, Illinois Partners sent supplemental questions to all original survey participants to obtain their reaction to the reversal so we could include their responses in this report.*



# Research Results

## Survey Participant Demographics

94 organizations representing a variety of sizes, areas of service provision, and geographic focus completed the survey. The size of organizations ranged from 1 to nearly 1600 employees, with an average size of 111 employees. Collectively, they serve thousands of people across the state each year. A more detailed accounting of the breakdown by size, geography, populations served, and leadership demographics can be found on page 9.

Services	% of all orgs that provide this service
Adoption	5.3%
Adult and Older Adult Services	40.4%
Advocacy	42.6%
Child Care	10.6%
Community Development	16%
Developmental Disabilities	20.2%
Early Intervention	11.7%
Food and Nutrition	24.5%
Foster Care	6.4%
Health Care Services	20.2%
Housing	38.3%
Immigration Services	7.4%
Legal Services	11.7%
Mental and Behavioral Health	48.9%
Substance Use Disorder Treatment/Prevention	18.1%
Transportation Services	20.2%
Violence Prevention and Recovery	24.5%
Workforce Development	30.9%
Youth Services	39.4%
Other (please specify)	27.7%

Figure 1

Survey participants were asked to choose from a list of services to specify which ones their organizations provide as shown in Figure 1. All services listed as options in the survey were selected by one or more respondents.

For questions pertaining to the factors contributing to the cost of delivering services, participants were asked to identify what they would consider to be their primary area of service. The five primary services most frequently cited in response to this question were:

1. Mental and Behavioral Health
2. Adult and Older Adult Services
3. Developmental Disabilities
4. Housing
5. Youth Services



We offer disaggregated demographic data from our survey participants in order to promote deeper understanding of how different groups and communities are represented in our research.

## Representation of Organizations by Geography and Size

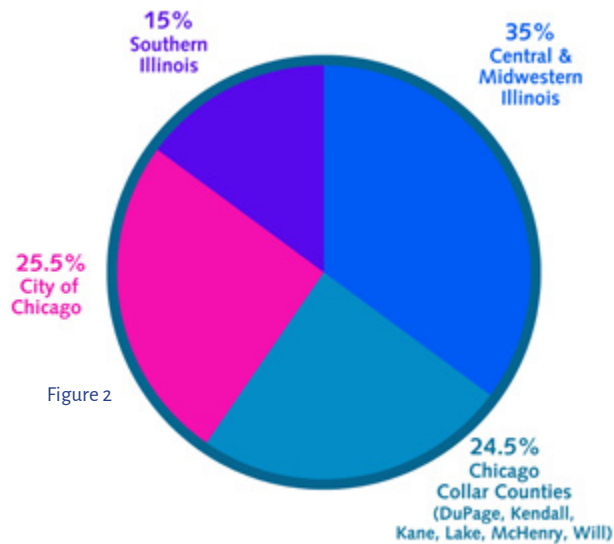
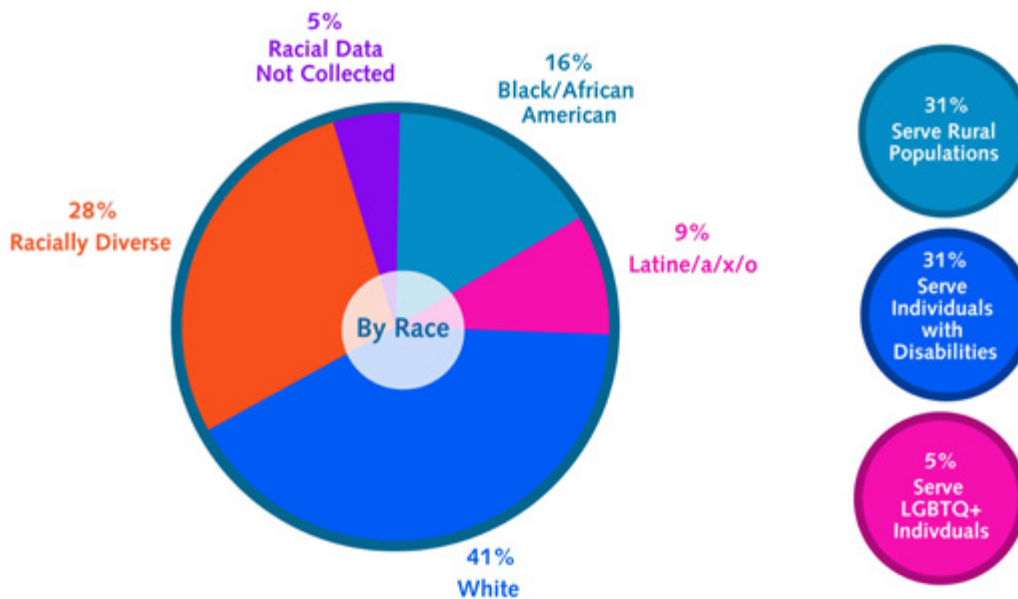


Figure 3

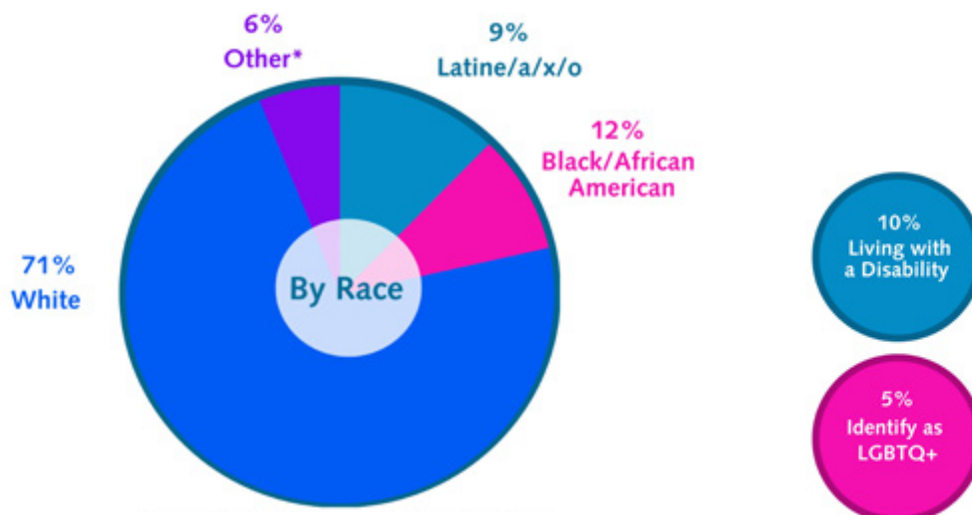
Organizational Size*	Average # of employees	Average # of individuals served
Fewer than 100 Employees	31.4	4730.2
100+ Employees	289.1	10,812.3
ALL	111	8493.7

**Note:** Several data points were considered outliers of the data set for “number of individuals served.” Out of 94 organizations, two organizations with fewer than 100 employees and four organizations with 100+ employees were considered outliers. When values for the number of individuals served are listed in ascending order, a number greater than 2 times the preceding number is considered to be an outlier. Based on this premise, the dataset for organizations with fewer than 100 employees served up to 30,000 individuals, while organizations with 100 or more employees served up to 80,000 individuals.

## Predominant Populations served by Surveyed Organizations



## Demographic Breakdown of Surveyed Executive Directors



\*Other includes groups with less than 4% representation: Asian, Native Hawaiian and Other Pacific Islander, and 2+ Races.

## Costs of Providing Services

Nearly 50% of respondents calculate the cost of providing services as a cost per unit of time, per session, per assessment, and/or per person served, with the majority calculating cost in terms of number of people served. The remaining organizations either do not break down or track service costs or they utilize a different methodology for assessing actual service delivery expenditures.



Does your organization calculate the actual cost of providing a service?	
Calculated by one or more of the methods specified: 1-Yes, as an actual cost per unit of time. 2-Yes, as an actual cost per session, assessment, etc. 3-Yes, as an actual cost per person served.	48.95%
No, actual costs are tracked in a different manner.	31.9%
None of the above (or do not calculate)	13.8%
Other	5.3%

Figure 6

Regardless of how they calculate or define cost variables, most organizations surveyed report that their actual costs incurred to deliver a service exceed the amount allotted through grants or reimbursement rates designated for providing that service. As a result, organizations have tight limits that constrain the number of clients they are able to serve, the earning potential of staff at all levels, and how diminishing service capacity could impact the well-being of their broader communities.

Survey respondents identified essential expenses and categorized the following items as missing from or inadequately covered by reimbursement rates. Broadly these expenses fall into the categories of:

- Workforce and Operations
  - ▶ Human Resources
  - ▶ Program Development
  - ▶ Quality Assurance Personnel
  - ▶ Annual Cost of Living Adjustments (COLA)
- Facility Costs
  - ▶ Office Rent
  - ▶ Building Maintenance and Improvements
  - ▶ Security
  - ▶ Technology
  - ▶ Pest Control
  - ▶ Utilities
- Government Requirements
  - ▶ Taxes
  - ▶ Unemployment Insurance
  - ▶ 990 Filing Fees

Employee wages stand as a singular example of where these challenges are most acutely felt. While employee compensation has necessarily increased in recent years, particularly in the wake of the Covid-19 pandemic, reimbursement rates have not been comparably adjusted. Meanwhile, costs for rent, insurance, technology, and other goods and services have also risen, all while rates and contract amounts have largely remained flat. In response to all of these factors and more, one comment from a survey respondent summed up the challenges by saying, “It has been increasingly difficult to maintain the level of service with funding awarded in a time of significant inflation and market pressures.” In the words of another survey respondent, “The funding level restricts the number of clients served, staff salaries, rent, and all other program expenses that support a successful program. Funding can be the same for many years without consideration to the increase in salaries and costs of goods and services.”



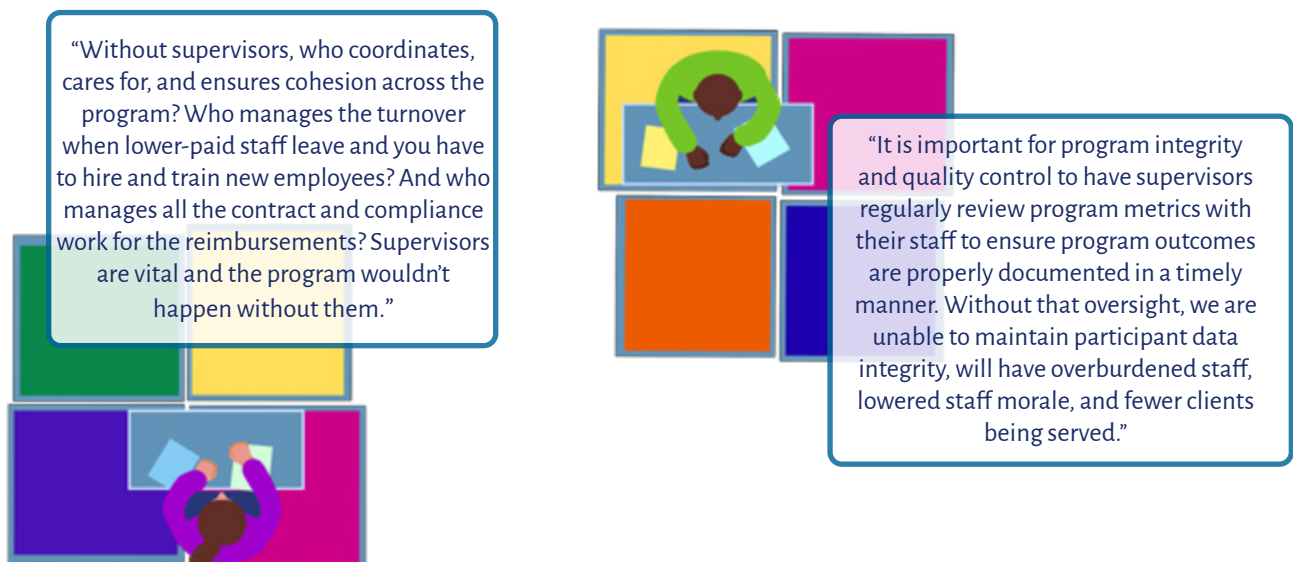
## Supervisor Salary Reimbursement

One area of particular concern for the majority of respondents is that supervisor salaries are not fully reimbursed or accounted for despite the critical role they play in ensuring high quality delivery of services. Supervisors are credited with guiding frontline employees in serving the needs of their communities, nurturing staff, promoting team cohesion and longevity, and providing crucial leadership in many aspects of direct service provision. Supervisors can also carry caseloads when there are vacancies in staffing. As such, respondents offered the following approaches for mitigating supervisory costs:

- Responsive and meaningful inclusion of supervisory wages in reimbursement rates and/or indirect cost calculations;
- More allowances for both direct and indirect supervisory expenses in rate reimbursement considerations;
- Grantee flexibility to determine permissible percentage of supervisor salary based on time spent or the supervisor-to-client ratio needed to deliver the service.

One respondent offered this formula, “Direct Supervisor Salaries should be included fully. Indirect Supervisory should be included based on a percentage of time spent. Additionally, [for] indirect administration—CEO, HR and Finance—a portion (at least 20%) should be included in the reimbursement.” Another suggested, “The state should assume that staff supervision will be included in direct salary costs and allow organizations to budget for supervision based on [the needs of] the actual program.”

Respondents report other ways in which more fully including supervisor salaries in these calculations could impact their operations. On a basic level, the unrestricted funding sources currently used to cover this cost—most often, contributions from the philanthropic community—could be redirected to secure more resources to assist more clients. It could also bolster senior staff capacity for recruitment, hiring, and staff retention efforts thus allowing organizations to expand high demand clinical programs that require supervisors with advanced degrees. “It would help us mitigate the churn and burn of credentialed upper management who find themselves supervising line staff because we lack a supervisor with the required credentials.” Perhaps, most importantly, it would represent an acknowledgement that the provision of services is a multifaceted endeavor that extends beyond the direct interaction between a single employee and a client. Service delivery relies on a tiered effort undertaken by a team of professionals working together to ensure the most positive outcomes for the individuals they serve. Every aspect, including valuable supervision time, contributes to the quality and integrity of the service provided and ensures organizational accountability for intended outcomes, successes, and deficiencies.





## Department of Labor - Overhead Exempt Salary Increases

At the time the survey data was collected, the DOL had made several significant changes to the FLSA overtime pay requirements for salaried employees in 2024. The new requirements were developed for the purpose of restoring balance between salaried and hourly employees. The increases were intended to buoy lower-paid salaried workers in an effort to prevent them from working more hours and receiving lower pay than their hourly counterparts working in similar jobs.

When the July 1, 2024 overhead exempt salary increase rolled out across the country a judge in Texas granted a preliminary injunction for one specific employer, the State of Texas. The judge cited the rule as “likely unlawful” as it appears to substitute the FLSA’s duties test with a salary test, and questioned Congress’ grant of authority to the DOL. On November 15, 2024, [a lawsuit challenging the FLSA](#) was heard in federal court in Texas and the presiding judge deemed that while salary is a component used in defining the exempt salary requirement, it is “not included in the statutory text, and therefore cannot displace the statutory duties test.” His ruling went on to say, “When a third of otherwise exempt employees who the Department acknowledges meet the duties test are nonetheless rendered nonexempt because of an atextual proxy characteristic—the increased salary level—something has gone seriously awry.” This ruling vacates increases to the minimum salary requirement for overhead exempt employees nationwide, and returns the salary requirement to \$35,568 effective November 15, 2024.<sup>1</sup> The situation could evolve should the DOL appeal the decision in this case, and the sector will be subject to adherence to any future DOL salary requirements.

The DOL had planned to increase the overtime exempt minimum salary twice, once on July 1, 2024 from \$35,568 to \$43,888, and again on January 1, 2025 from \$43,888 to \$58,656. These changes would have resulted in an increase of \$23,088, or 64.9% over the course of 6 months. The November court ruling makes the mandate to meet these requirements null and void for now. However, the time lag between the July implementation and November ruling means that many human service providers were nonetheless impacted having already made changes to their pay structures to meet the requirements.

Among our survey respondents:

- 58% needed to enact increases to meet the January requirement;
- 27% were affected in July and had already made adjustments, some of which incorporated additional increases to preemptively withstand the January requirement.

Of those impacted:

- 47% chose to raise salaries to meet the new overtime exempt thresholds;
- 76% opted to switch employees from exempt to non-exempt;
- 12% eliminated positions due to financial constraints making it too difficult to fulfill the requirement.

Survey results indicate that 66% of organizations with fewer than 100 employees were or would have been affected by one or both of the DOL overtime exempt salary increases, while 93% of organizations with more than 100 employees were or would have been impacted by the proposed changes. The first table on the next page shows the breakdown by organizations with fewer than 100 employees and those with more than 100 employees, while the second shows the breakdown by geography.

<sup>1</sup> <https://info.bracewell.com/40/2516/landing-pages/opinion-plano-chamber-of-commerce-v.-dol-e.d.-tex.pdf>

## Breakdown of Impacted Organizations by Size

Size of Organization	Type of Employee	Average % difference in number of employees between January 2024 and January 2025
Fewer than 100 Employees	Salary	-11.0%
	Hourly	27.4%
100+ Employees	Salary	-9.5%
	Hourly	23.1%

Figure 7

**Note:** The percentages presented are averages of projections made by each organization that reflect the change in their anticipated staffing between January 1, 2024 and January 1, 2025. These projections provide a general overview of how different regions or different sized organizations may have shifted their hiring practices during that timeframe.

## Breakdown of Impacted Organizations by Region

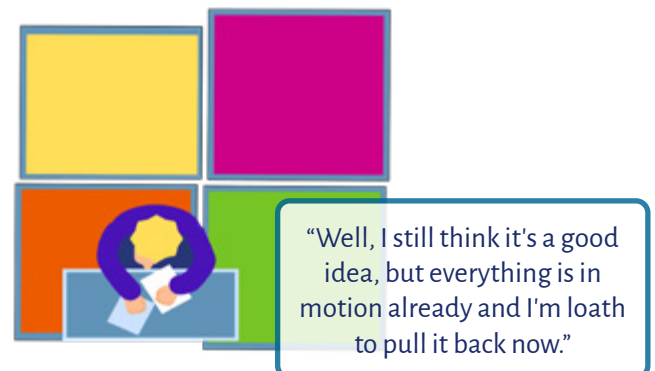
Region	Type of Employee	Average % difference in number of employees between January 2024 and January 2025
Central Illinois/Quad Cities	Salary	-24.0%
	Hourly	22.6%
Chicago Collar Counties	Salary	-1.1%
	Hourly	25.3%
City of Chicago	Salary	-6.1%
	Hourly	22.2%
Southern Illinois	Salary	-17.2%
	Hourly	29.7%

Figure 8

## Supplemental Survey

A supplemental survey was sent to participants to gauge their reaction to the DOL exempt salary increases being vacated; 24 responses were received. The survey shows that trade associations and other nonprofit organizations were the most common sources for leaders to learn about the federal DOL updates. Other responses with equal representation included government sources, news/social media, and those who were unaware of the change until they received the email for the supplemental survey.

The majority of respondents support increasing employee wages, even suggesting it is the right thing to do. Serious reservations remain about such a significant increase over a short amount of time without commensurate increases in local, state, federal, and philanthropic funding to make the increases sustainable. Prior to the July update, 39% of



the organizations already had made salary increases. None of them intend to reverse those raises. Respondents expressed disappointment that both increases were struck down. They were especially surprised that the July ruling was vacated after already having gone into effect. Some categorized the reversal as a blow to workers' rights.

While respondents recognize that DOL changes can occur with little notice, most expressed some measure of relief regarding the vacated ruling at this time. The most common reasons cited were:

- No increase in administrative burden;
- No increase in personnel costs;
- No additional impact every three years with the escalator clause;
- No need to lay off employees; and
- No negative impacts to staff morale for those who would have become non-exempt.

In response to the abrupt and significant salary increases, as well as the litigation, respondents reported several lessons learned, among them:

- The need for time studies to understand what is involved in the work;
- The importance of staying abreast of FLSA laws and changes; and
- The need to consider factors other than salary when classifying employees.





“[Rate Negotiation] is a long and time intensive process that seems to me could be streamlined, saving taxpayers’ money, and allowing [us to] focus on more important issues.”

## Indirect Cost Rate Negotiations

The State provides a nominal level of reimbursement for indirect costs incurred by state-contracted providers. The current state de minimis for indirect costs stands at 10%, while the de minimis for indirect costs in federal grants was raised from 10% to 15% in 2024, an improvement though still short of what providers report needing to more effectively offset these expenses. Providers can apply to the State annually to negotiate a higher rate but to do so, they are faced with an onerous process that involves the creation and submission of multiple cost analysis worksheets, financial statements, narrative explanations, itemized lists and other supporting documents and certifications to validate their proposed new rate. A step-by-step explanation of the process can be found in [“The Guide for Indirect Cost Determination,”](#) issued by the State of Illinois. The fact that a 66-page publication is needed to outline the process is an indication of the significant amount of time required to complete the application. It also contributes to why 35% of survey respondents describe the process as “burdensome,” and an additional 12% report a lack of capacity to apply for an adjusted rate.

### What is the De Minimis?

*The State of Illinois defines the de minimis rate as 10% of the Modified Total Direct Costs (MTDC) including all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.*

### Reasons for Not Negotiating a New Rate

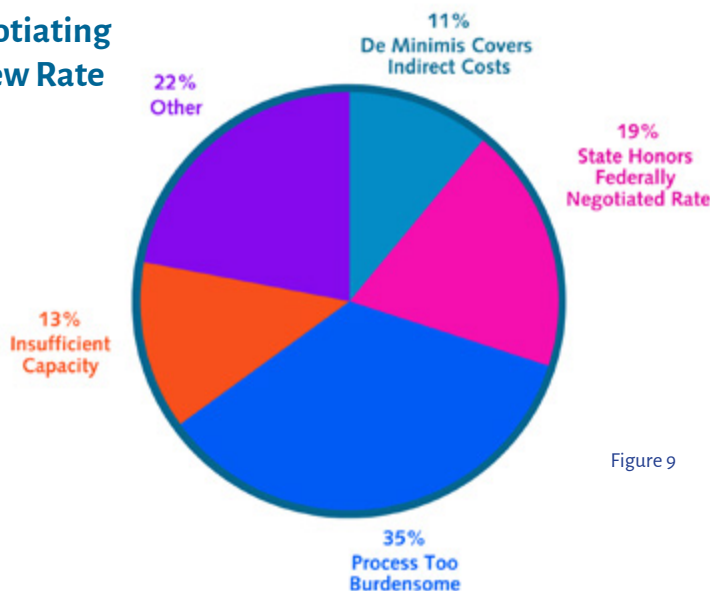
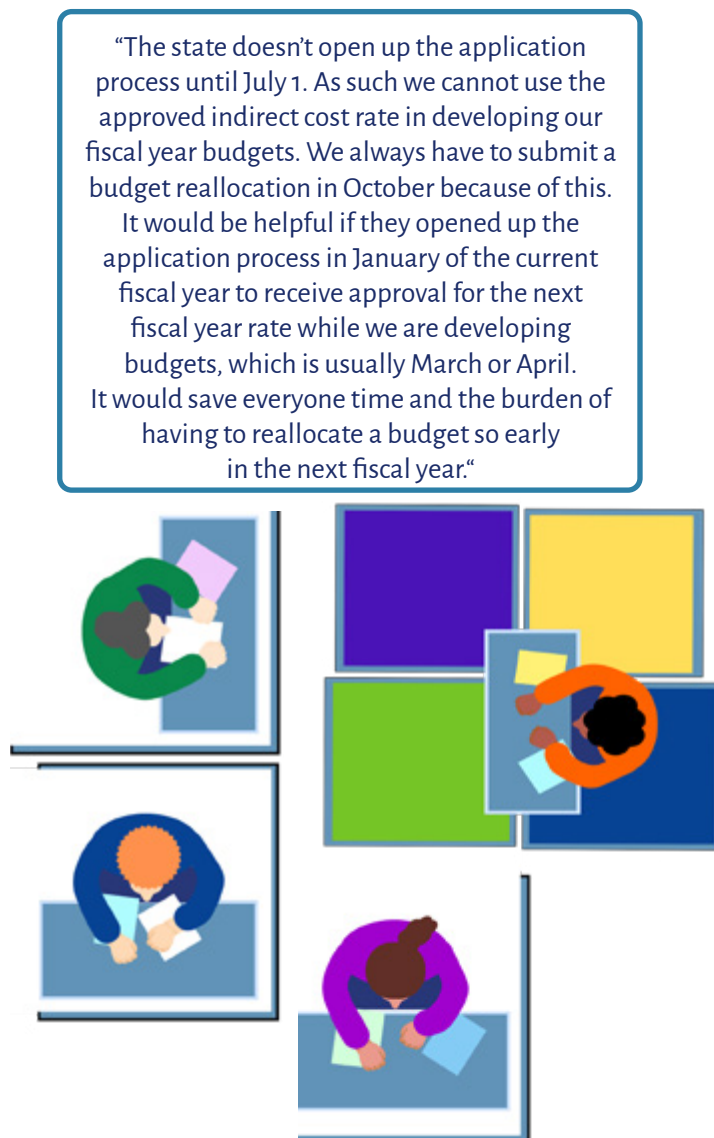


Figure 9

Survey results indicate that only 6% of organizations applied for a negotiated indirect cost rate. For those that do attempt a negotiation, the wait time for a positive response from the State was five months on average, while applicants were notified within five weeks if the rate proposal was rejected. There was a 67% success rate for all of the attempts made by survey respondents to negotiate for indirect cost rate adjustments. The negotiated rates accepted ranged from 17 to 26%, marking increases of 7 to 16 percentage points above the 10% de minimis at the time.

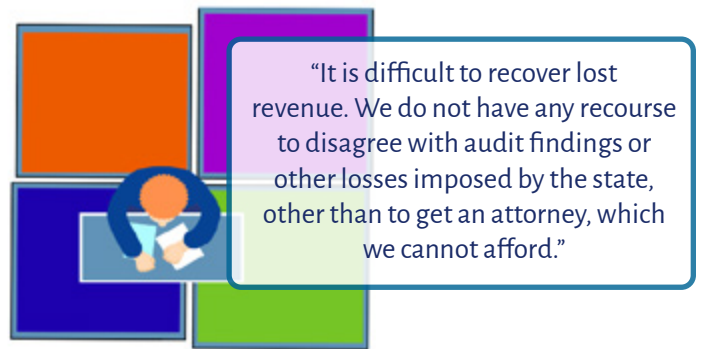
Few organizations report attempting to negotiate for a higher indirect cost reimbursement. The reasons given for choosing not to negotiate are shown in Figure 9.

Several suggestions were made to improve the application process and expedite implementation of indirect cost negotiations. Top among them were opening the application process in January, six months prior to the current open date, and honoring indirect cost rates for all awards, including those with stated caps. In particular, making the indirect cost application date 6-months earlier was emphasized as it would save organizations time and eliminate the burden of having to reallocate their budget in the new fiscal year to adhere to the State’s current timeline.



## Cost Recovery

Lost revenue relating to factors such as late payments from the State and/or insurance denials is an issue for many providers. However, not all organizations have the administrative capacity to mitigate the losses and recover the lapsed income in a timely fashion. The ones that do typically have unique positions on staff such as “MCO Negotiator” to facilitate their cost recovery efforts. We found that more than half of organizations responding to this question employ dedicated staff to recover revenue lost from insurance, back interest from the State, and other issues, including overdue MCO payments. On average, these organizations hire 2-3 employees for this specific purpose. **The number of hours spent on cost recovery, from both dedicated employees and others, such as CEOs, CFOs, and administrators doing the work themselves, amounts to 103.6 hours—more than 2.5 weeks per month per organization.** Respondents who do not have or cannot afford to hire negotiators recognize the importance of recovering this missing, delayed, or deferred revenue, as well. Some organizations, particularly ones dealing with MCOs, understand that they are leaving money on the table by not having dedicated staff for the purpose of cost recovery. One such organization shared, “We are slowly adjusting to needing to have this role in our organization, now that we are billing Medicaid as a source of revenue. I anticipate in the future this will be a unique role in our organization.” Another said, “It is extremely important but we simply cannot afford a dedicated position to address the issue.”



Even those providers with dedicated staff for cost recovery purposes find the reimbursement process to be overly complicated and unnecessarily cumbersome, especially when it seems, as a survey respondent put it, like “MCOs are working hard to not pay providers.” Even so, they feel the effort is necessary because these outstanding balances can equal 10% of their operating budgets. Payment delays at the beginning of the fiscal year, when the State is still processing contracts, prompt some providers to use lines of credit as a stopgap measure to cover expenses until funding is secured. Others report having to get creative to ensure service continuity while large amounts of money are tied up in claims appeals, which takes a significant amount of time to navigate and adds to already heavy workloads. Particularly frustrating is the fact that so many of these tactics must be employed simply because the State is failing to honor their own contracts. In addition to delivering essential human services, providers are then expected to keep themselves whole while payments are delayed, denied, or negotiated. One commenter summed up the impact of this frustrating burden, stating, “[Cost recovery] requires the effort of two full-time employees. It is burdensome and ridiculous. Our cash flow constantly suffers due to 60-120 day payments by the State. We should not be asked to finance the State of Illinois.”



Beyond the immediate impact of lost time and wages for personnel to recover money from insurance denials and back interest, there are multiple operational issues tied to these income losses and lapses. Survey respondents report the following examples:

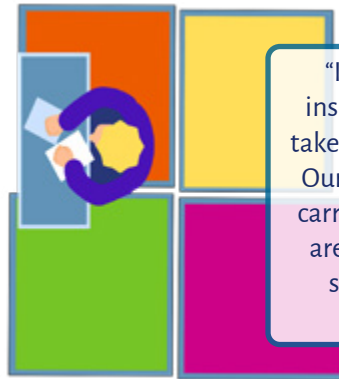
- Diminished overall financial stability;
- Limited available cash to cover expenses;
- Downgraded or compromised delivery of services;
- Depletion of unrestricted or reserve funds;
- Interruption of cash flows;
- Disruption of strategic planning or ongoing strategic initiatives;
- Potential shuddering of programs or organizational closures;
- Shaken stakeholder confidence;
- Reluctance or dissuasion by organizations to apply for state grants.

## Rising Insurance Costs and Implications

Insurance has become a cost that more and more providers identify as being increasingly difficult to manage. In addition, certain categories of coverage are becoming harder to find and secure, particularly for smaller organizations with less leverage in the marketplace. Human service employers across all areas of service provision report rising costs for many kinds of insurance. In addition to employee health insurance, which we address specifically in the next section, they have seen marked increases in the prices of the following policies:

- Automotive
- Cybersecurity
- General Liability
- Crime Theft
- Property
- Sexual Abuse
- Umbrella
- Workers Compensation

Some have seen cost increases of as much as 900% in just the last five years. If insurance expenses continue to grow at the current rate without any reimbursement or cost assistance through contracts or other funding sources, something will have to give. Survey respondents express concern that, as a result, services will suffer and they will inevitably have to make cuts or close programs completely. One respondent commented, “Our liability insurance has increased from about \$75,000 a year [in 2019] to over \$700,000. This is not due to our claims experience being poor, but overall increases in the market for foster care providers due to some very large judgments across the country. If increases continue to follow the current trajectory, we will no longer be able to serve [this population] in 2-3 years.” Beyond the price tag, providers express grave concerns about whether or not they will be able to obtain the coverage they need at all. For example, reports indicate that there is only one insurance carrier left in the state willing to offer liability policies for some types of youth serving nonprofits. While responses indicate that this issue is most acutely impacting youth services at this time, concerns about rising costs and increasingly limited options are common across the sector. Of particular concern is the possibility of continued uncertainty undermining the stability of service provision.



“It’s becoming more difficult to find insurance carriers for agencies who will take on the risk of our types of businesses. Our broker has currently found only one carrier that will do business with us—we are at their mercy. This is not a tenable situation for organizations who are needed for vital services.”

## Health Insurance

Survey respondents report that the cost of employee health insurance policies account for a significant portion of their budgets. Premium costs are outpacing revenue potential and even with annual renegotiations and consideration of creative or refined plan options, the costs reliably rise at least 10% and as much as 18% year after year. Still, the standard de minimis rate in state contracts ensures cost defrayal of no more than 10%, leaving organizations to tap other funding sources to help cover one of their biggest operational expenses. The continual increase in premiums has forced some providers to shift the onus of



“Every dollar spent on insurance is one less dollar going to direct services.”

covering the higher cost to their employees, which means less competitive wages and benefits that then undermine workforce recruitment and retention efforts. In one instance, a respondent shared that rising employee health insurance costs have increased their annual fringe benefit rate to a level that sometimes exceeds 100% of an employee's pay, an example of an unsustainable financial burden that will only get harder and harder for providers to shoulder without some sort of funding intervention. Organizations report turning to unrestricted funds and reserves when grant allocations for indirect costs are exhausted. Another layer of complexity exists for providers failing to meet the 50 employee threshold. Though they are not required to offer health insurance, some wish to provide this benefit to be competitive in the job market. Even so, options are scarce and their bargaining power is limited because fewer workers means lower profitability margins for the carriers. Meanwhile, they are cognizant that providing substandard insurance would prevent employees from accessing more comprehensive and cost effective plans offered through the Affordable Care Act marketplace.

## Insurance Solutions

When asked what the State of Illinois could do to help human service providers mitigate general insurance costs of all kinds, survey respondents offered the following recommendations:

- Incorporate a subsidy within state contracts and grants earmarked specifically for insurance purposes;
- Include Cost of Living Adjustments annually in reimbursement rates and grant awards;
- Indemnify Illinois non-profit and community based organizations in the same manner and with the same protections as state human services (for liability insurance, in particular).

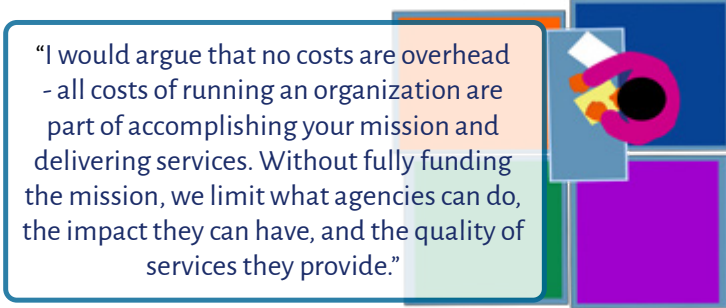
To address the specific challenges related to providing and covering the costs of health insurance, respondents made the following suggestions:

- Encourage, support, and cover costs for programs that prioritize and promote employee health and wellness;
- Increase the fringe benefits cap within state contracts from 25 to 30%;
- Create a statewide single-payer system for employee health insurance;
- Create a wholly-owned subsidiary insurer—an insurance captive—for contractors with the State;
- Create a co-op, pool, or marketplace, and/or allow for a multi-employer welfare arrangement (MEWA) of Illinois non-profit and state contracted community-based organizations to generate greater purchasing power and negotiate better rates.



## Overhead Expenses and the Myth of Overhead

It is a widely held belief that the most effective non-profit enterprises, including community-based human service organizations, are the ones that minimize their overhead expenses and put every possible dollar towards directly delivering a service. Known as the overhead myth, this idea fails to account for some of the most basic and fundamental expenses organizations must cover to sustain their work and ensure high quality service provision, many of which we have already discussed in this report. They include administrative costs such as salaries for supervisors, executives, and support staff; infrastructure expenses like rent, utilities, facility maintenance, technology upgrades and maintenance, and office equipment; and operational functions such as human resources, marketing, accounting, fundraising, legal services, grants, and office management. No other industry is asked to do so much with so little, nor is any other business judged—and sometimes penalized—for prioritizing and investing in essential operational expenses to fulfill its mission.



“I would argue that no costs are overhead - all costs of running an organization are part of accomplishing your mission and delivering services. Without fully funding the mission, we limit what agencies can do, the impact they can have, and the quality of services they provide.”



“[Overhead limits] make organizations prioritize growth in program costs only, sometimes skimping on the needed infrastructure to grow.”

Despite the fact that overhead expenses are necessary and unavoidable in the administering of human services, private and governmental funding sources largely limit how much of a grant or contract can be allocated to cover them. The State of Illinois’ 10% de minimis is an example of downplaying the significance of overhead costs in delivering services and does not align with the budget percentages our survey respondents shared. **On average, the actual cost of a participant’s overhead expenses is 29% of their organizational budget.** Contract limits and the low de minimis impact multiple aspects of service provision for state-contracted providers, including those related to analytics, capacity building, efficiency, capital investment, innovation, strategic planning, and more.

Organizational leaders are frustrated by these limitations because, in their words, they “falsely minimize the amount of time and effort required to manage a program.” They need roles like accountants for financial and grant reporting, lobbyists to advocate with legislators, supervisors to guide and monitor direct services, all of which are considered overhead. Some providers mention dropping services because they are unable to afford things like the software, training, and supervisory salaries to support them. Others question how and if they can fulfill state-mandated contractual outputs with these anti-growth financial policies that perpetuate some of the biggest fiscal challenges they face and set organizations up to fail. They feel hamstrung by overhead limits that “prevent [them] from being nimble and [able to] respond to emerging issues inherent in operating a business and providing a public service... and make it very difficult to cover inflationary costs.” Their contracts and grant awards may depend on specific service outcomes, yet they are unable to cover the expenses to recruit, manage, and retain the employees needed to effectively deliver the service. They are also unable to



“Nonprofit organizations’ operations have been severely compromised with the unrealistic caps imposed for administrative costs... it limits the resources needed to invest in infrastructure (IT, program research and development, resource development, quality controls, analytics, etc.) that would inform decision making processes and resource allocation. As a result, nonprofits are forced to operate at subpar levels with inadequate systems.”

include the full cost of salaries for the staff needed to meet often extensive reporting requirements. “Funders have more and more infrastructure expectations around reporting and fiscal controls, but don’t support the staff salaries needed to address these tasks.” All of the responses received point to a larger issue that reflects the inflexibility of grant funding and reinforces the overhead myth. Rather than setting limitations and imposing cost restrictions on operational expenses, funders should trust organizational leaders to define the actual cost of delivering their services.

Discussions at Local Area Council meetings highlighted the exceedingly slow progression to improve infrastructure due to inadequate indirect cost rates, even at the federal level. It was also noted that there is a mindset about limiting overhead and requiring fundraising for human services that isn’t prevalent in other industries and other government contracts. For example, construction companies aren’t holding bake sales to finish building a road, yet human services are expected—if not required—to fundraise to augment government grants and reimbursements for their work.



## Solutions

Survey respondents were asked how unlimited resources would change the way they envision their organization's potential to solve the systemic issues their clients face and the impact it could have on their communities. These pages include the types of pragmatic, inspirational, and aspirational answers we received, each one a reflection of the writer's deep commitment to their community and true belief in the infinite potential of their organization's work.

"WHAT???  
We would be able  
to help SO MANY  
PEOPLE."



"Preventing  
everyday challenges  
from turning into life  
altering crises."



"Innovation would  
flourish and quality of care would  
improve. We would view families as having  
longer runways to address the challenges they  
face and more supports to accomplish their goals.  
And ultimately it would cost society less  
because we'd do it right  
the first time!"



"It would allow us to  
flex our resources to meet  
the needs of our clients, instead  
of asking our clients, who are  
already struggling, to fit within  
our program restrictions."




"Unlimited resources  
would allow us to compensate  
employees in a way that we could compete with  
for-profit companies for talent, develop, and  
implement innovative programming with some level  
of risk involved. At this moment we do not have the  
margin to make this risk acceptable. We would pro-  
vide what our clients and communities really need,  
not what we are paid to do within the confines  
of generic contracts."

"Unlimited resources for the  
other organizations we partner with  
would mean that we would be able to work with  
people who aren't [just] trying to survive every day.  
Our schools would be fully funded. Our families and  
youth we serve would not be hungry, or homeless. We could  
focus our behavioral health and restorative justice services  
for youth on addressing natural disasters, conflict,  
etc. from a place of knowing that our  
communities have all their  
basic needs met."



"We could spend  
time building trust  
with clients and solving  
issues without a  
transactional  
time limit."






"We could end homelessness and accomplish functional zero within a year."

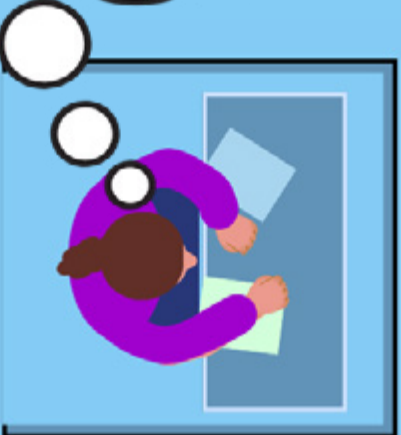
"We could give our clients the individualized service that each household needs in order to overcome their challenges to housing stability. We could ensure that clients develop career paths instead of entry-level jobs that will never meet the cost of living. We could hire qualified and well-trained staff that meet client needs efficiently without sacrificing their own well-being and family relationships to do so. We could expand our programming to meet the actual needs of the community instead of having to turn away people in crisis every day."



"Our clients come with various needs, and we are not able to address them all. Referrals are limited in the area and take weeks or months for an appointment. We feel like we are putting a bandaid on most of the time. Everyone is in the same boat with limited funding and staff. Degreed, experienced staff would be easier to employ and retain with better salaries. Expansion would also need capital funds to expand the building and parking lot to accommodate additional services. We would also increase our Education and Prevention department and add a Training department."



"We would be able to operate the agency more strategically, without having to rely on makeshift solutions or cutting back on essential projects. It would enable us to address systemic issues more effectively, invest in long-term initiatives, and significantly enhance our impact on the community.... we could expand programs, hire more staff, and create sustainable solutions ... ultimately driving more meaningful change."



"We would be able to do research and development on our local issues and tailor services to meet the needs without having limitations on who does and doesn't qualify for services. We would be able to pay people a thriving wage and retain staff. We would be able to help clients with financial assistance, which would prevent further crises. The possibilities are endless."





# Key Take-Aways

## **Costs**

Reimbursement rates do not keep pace with or reflect the rising costs of all the goods and services needed to sustain and provide high quality health and human service programs. These costs include fundamental expenses such as rent, insurance, maintenance, and infrastructure, as well as capacity building investments such as analytics, efficiency studies, capital improvements, and strategic planning. As a result, organizational leaders believe insufficient reimbursement rates undermine their community impact, limit their ability to offer competitive wages and benefits, and inhibit plans to bolster, build, or expand areas of service provision.

## **Supervisors**

Supervisors are an indispensable part of providing direct services and their compensation must be included as such in state funding. Direct supervisor salaries should be categorized as a direct service cost. In addition, a portion of indirect supervisor salaries should be permissible in direct or indirect cost calculations.

## **Department of Labor - Overhead Exempt Salary Increases**

DOL requirements were slated to increase 64% in increments between 2024 and 2025. Among survey respondents, 66% of organizations with fewer than 100 employees were or would have been affected while 93% of organizations with more than 100 employees were or would have been impacted by the proposed changes. Some providers had already budgeted and implemented changes to accommodate the mandate(s) before [a court case](#) vacated these minimum salary requirements in November 2024. Respondents expressed disappointment that both increases were struck down, and were especially surprised that the July ruling was vacated after already having gone into effect. Most respondents also expressed support for increasing employee wages, although there are serious reservations about such a significant increase over a short amount of time—and without commensurate increases in local, state, federal, and philanthropic funding to make the increases sustainable.

## **The 10% De Minimis, Overhead Caps, and Indirect Cost Rate Negotiation**

The State sanctioned 10% de minimis and current caps on overhead are insufficient. Both downplay the undeniable operational impacts of overhead costs, and neither aligns with the budget percentages survey respondents report having to dedicate to these expenses. The de minimis for indirect costs in federal grants was raised from 10% to 15% in 2024, an improvement, though still short of what providers report needing to more effectively offset these expenses. Indirect cost rate negotiations with the State are pursued infrequently despite the fact that the de minimis rate rarely meets an organization's indirect cost needs. Of those who chose not to negotiate, 48% cite a lack of capacity or the process being too burdensome. The handful of organizations that did successfully negotiate were granted new rates ranging from 17 to 26%.

## **Cost Recovery**

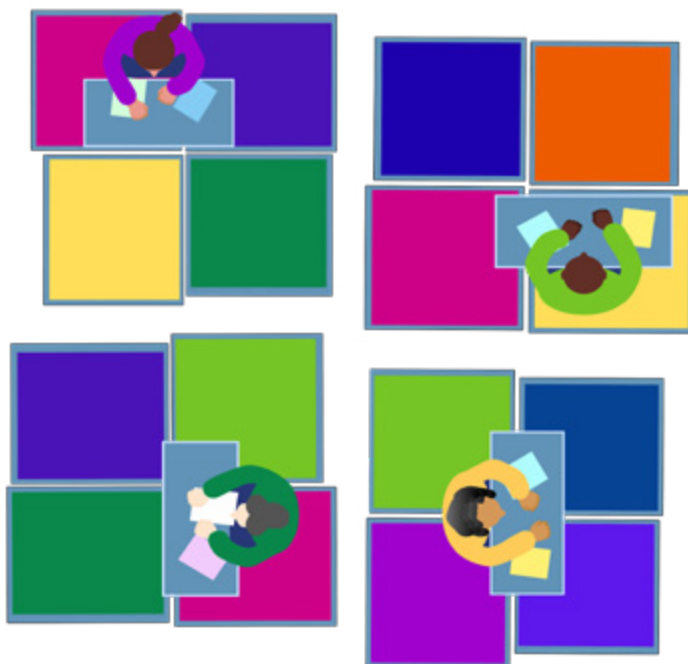
Delayed and deferred state reimbursements, insurance denials, and lapses in MCO payments can significantly impact an organization's fiscal outlook and financial health. Dedicated staff for cost recovery efforts, such as MCO negotiators, can be critical in mitigating losses, but not all providers can afford these positions. Organizations with and without dedicated staff report spending, on average, 2.5 weeks per month on cost recovery activities.

## The Rising Cost of Insurance

Insurance is a cost that providers identify as being increasingly difficult to manage and, in addition to the rising cost of all types of policies, certain categories of coverage are becoming harder to find including automotive, general liability, property, and workers' compensation. Employee health insurance is an area of particular concern for many organizations as the cost accounts for a sizable portion of their budgets. Premiums are outpacing revenue potential and even with annual negotiations and refinements, the costs can rise at least 10% and as much as 18% year after year. Since the standard de minimis rate in state contracts ensures cost defrayal of no more than 10%, organizations are forced to tap other funding sources to cover this tremendous expense. Providers failing to meet the 50 employee threshold are finding they have limited bargaining powers and even fewer options for finding coverage for their workers.

## Overhead

**On average, the actual cost reported by participants for their overhead expenses is 29% of their organizational budgets.** Overhead expenses are necessary and unavoidable in the administration of services, but contract limits and the low de minimis impact multiple aspects of service provision for state-contracted providers. The overhead myth perpetuates a belief that the most effective nonprofits, including human service organizations, are the ones that minimize their overhead expenses and put every possible dollar towards directly delivering a service. However, this outdated idea fails to account for some of the most basic and fundamental expenses organizations must cover to sustain their work and ensure high quality service provision. They include administrative costs such as salaries for supervisors, executives, and support staff; infrastructure expenses like rent, utilities, facility maintenance, technology maintenance and upgrades, and office equipment; and operational functions such as human resources, marketing, accounting, fundraising, legal services, and grants management.





# Conclusion & Recommendations

## Conclusion

State-funded human service providers are not receiving adequate reimbursement for the actual costs they incur to deliver essential services. This disparity is caused primarily by limited overhead allowances and narrowly defined categories of permissible expenses issued by funders in grants and contracts. As such, the following themes emerged from survey data collected from service providers across the state:

- **The 10% De Minimis and Overhead Caps:** The 10% de minimis and current caps on overhead are insufficient and definitions of acceptable indirect costs are too limited.
- **Supervisors:** Direct supervisor salaries should be categorized as a direct service cost. In addition, a portion of indirect supervisor salaries should be permissible in direct or indirect cost calculations.
- **Indirect Cost Rate Negotiation:** The indirect cost rate negotiation process is onerous and overly complicated and requires too much time for most providers to initiate.
- **Cost Recovery:** Though delayed and deferred state reimbursements, insurance denials, and MCO payment lapses impact financial stability, not all providers can afford dedicated staff to mitigate these losses.
- **Insurance:** Insurance costs are becoming increasingly difficult to manage and certain categories of coverage harder to secure, particularly for youth-serving providers.
- **Overhead:** The 10% de minimis for indirect costs does not align with the average amount reported by survey participants for their overhead expenses—**29% of their organizational budgets.**

The inevitable outcome is a system that perpetuates instability as organizations grapple with ever increasing expenses and funding sources fail to respond accordingly. Funding models must be reconsidered in order to address the changing realities in community-based human services and rectify these shortfalls. State funding must incorporate provider input to reflect the real costs incurred to deliver services in order to help, not hinder, organizations to reach their full potential while effectively serving their communities.

## Recommendations

To better enable providers to cover and manage the actual cost of providing services and fully serve their communities, the State should consider deploying the following actions and policies:

- Similar to the originally introduced version of the [Community Partner Fair Contracting Act \(CPF-CA\)](#), to reduce administrative burden, we recommend the State:
  - **Prioritize Timely Contracts and Payments** by issuing contracts within 30 days of the grant term, and approving bills or invoices within 30 days;
  - **Expand and Clarify Advanced Payment Eligibility** by requiring state contracts to identify a date of payment and whether a contract is eligible for the Illinois Contractor Prompt Payment Act and advanced payment;
  - **Promote Flexible Contracts That Cover the Full Cost of Services** by removing arbitrary caps on fringe benefits and limits on indirect costs in contracts or grant agreements to less than 20%;
  - **Expedite and Simplify the Court of Claims Process** by diverting undisputed lapsed appropriation claims of less than \$2500 and allowing state agencies to pay claims from any appropriated funding source.

While some of these suggestions were addressed in the [pared-down version of the CPFCA](#) that passed in January 2025 during lame duck session, more work is needed to reduce administrative burden for community-based providers.

- Recategorize direct supervisor salaries as direct costs, fully coverable by reimbursement rates and grants;
- Broaden the spectrum of acceptable cost categories for indirect cost calculations;
- Increase the de minimis to encompass and better address all the overhead costs providers incur;
- Create a subsidy, commit to annual cost of living adjustments, increase the cap on fringe benefits, and/or indemnify community based organizations to better support general insurance costs;
- Facilitate an alternative means of health insurance coverage, such as a co-op, pool, MEWA, captive, or marketplace.





# Appendix:

## Participating Organizations

AgeGuide Northeastern IL  
AIDS Foundation Chicago  
Alliance for Human Services  
Alternatives  
Arrowleaf  
Association for the Developmentally Disabled of Woodford County  
Brightpoint  
Caritas Family Solutions  
Casa Central Social Services  
Center for Housing and Health  
Centro de Información  
Chicago Children's Advocacy Center  
Child Care Resource and Referral  
John A Logan College  
Children's Advocacy Centers of Illinois  
Clove Alliance  
Community Assistance Programs  
Community Health Partnership of Illinois  
ComWell  
Crisis Center Foundation  
Crosspoint Human Services  
DuPagePads  
East Central Illinois Area Agency on Aging  
Egyptian Area Agency on Aging  
Elderwerks Educational Services  
Elim Christian Services  
EPIC  
Esperanza Community Services  
Faith in Action  
Family Focus  
Family Resources  
Family Service and MHC of Cicero  
Family Service Association of Greater Elgin Area  
FORA  
Freedom House  
Futures Unlimited, Inc.  
Greater Chicago Food Depository  
Greenlight Family Services

Grundy Area P.A.D.S.  
Hamdard Center for Health and Human Services; NFP  
Heart of Illinois Big Brothers Big Sisters  
Heartland Health Services  
Helping Hand  
Home of the Sparrow, Inc.  
HOPE Fair Housing Center  
Horizon House Peru of Illinois Valley  
HRDI  
Illinois Coalition Against Sexual Assault  
Illinois Department of Employment Security  
Illinois Network of Centers for Independent Living  
Illinois Valley Center for Independent Living  
IMPACT CIL  
Instituto del Progreso Latino  
Journeys | The Road Home  
Kenwood Oakland Community Organization  
Land of Lincoln Goodwill Industries, Inc.  
Lawrence Hall  
Little City Foundation  
Little Friends, Inc.  
Live4Lali, Inc.  
Loving Bottoms Diaper Bank  
Mano a Mano Family Resource Center  
Mental Health Centers of Western Illinois  
Metro East Every Survivor Counts  
Metropolitan Family Services  
Mother and Child Alliance  
National Alliance on Mental Illness of Southwestern Illinois  
New Moms  
One Hope Project  
Pioneer Center  
Prevention First  
Quad Cities Open Network  
Rides Mass Transit District

Riverwalk Adult Day Services  
Safe Families for Children - Quad Cities  
Safe Journeys  
Shawnee Health  
Sinnissippi Centers  
Sophia's Kitchen  
St. John's Community Care  
TASC  
The Center for Youth and Family Solutions  
The Inner Voice, Inc.  
The Salvation Army  
Thrive Counseling Center  
TRADE Industries  
UCP-Center for Disability Services  
United Way of South Central Illinois  
Way Back Inn  
YBMC, Inc.  
Youth & Opportunity United, Inc.  
Youth Conservation Corps  
YWCA Metropolitan Chicago  
YWCA Northwestern Illinois  
YWCA of Pekin

