

# Indirect Cost Guide

## For TCEQ Grantees receiving federal or state funds

Federal Funds: Governed by [2 CFR 200](#)  
State Funds: Governed by [Texas Uniform Grant Management Standards](#)

### Definitions

- **Indirect Costs:** Expenses incurred for a common or joint purpose that are not readily assignable to a specific project.
  - Typical indirect costs include “overhead” expenditures for the office space, utilities, and administrative staff. These are necessary for the grantee to perform its project work, but are not attributable exclusively to one project or another.
  - Indirect costs are legitimate expenses and receive their own budget category.
  - Grantees must have an established *Indirect Cost Rate (ICR)*. The ICR is applied as a percentage to specific direct costs of the project to determine the indirect costs of that project.
  - Ideally, the “base” is the set of direct costs that drive the indirect costs; in other words, the indirect costs should be a function of the base, rising and falling in proportion to the direct costs incurred.
- **Indirect Cost Rate (ICR):** This is the ratio (expressed as a percentage) of an entity’s indirect costs to its direct cost base.
- **Indirect Cost Rate Proposal:** The documentation prepared by an entity to substantiate its request for the establishment of an indirect cost rate, showing detailed cost information from the previous fiscal year. In simplest terms, this analysis distinguishes direct cost items, which are exclusively spent on individual programs and projects, from indirect cost items, and then calculates what the indirect costs amount to as a percentage of a specific portion of the direct costs, which is called the “base.”
- **Modified Total Direct Costs (MTDC):** MTDC is a commonly used direct cost base for **federal** funds. This generally consists of Personnel Costs, Fringe Benefits, Travel, Supplies, Contractual, and Other excluding anything above \$25,000 per subaward (see *Subcontracts and Subawards Explanation* document). MTDC excludes equipment, capital expenditures, 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.

### Types of [Indirect Cost Rates](#)

- **Predetermined Rate:** an audited rate that is not subject to adjustment. This is set for a specified period of time, usually the entity’s fiscal year. This rate is based on an estimate of the costs to be incurred during the period. These rates must be approved

by a federal cognizant agency or state single audit coordinating agency (discussed further below).

- **Fixed Rate** means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs is carried forward to the next period.
  - Federal rules require the use of federally-approved indirect rates, with limited exceptions.
- Negotiated Predetermined Rate:
  - With **state funds**, TCEQ and a grantee may negotiate a predetermined rate based on an indirect cost rate proposal, including cost experience, and other information allowing the parties to reach an estimation as to the probable level of indirect costs incurred by the grantee for the project and that those costs would not exceed the actual indirect costs. (See UGMS, II., Attachment E, E. Negotiation and Approval of Rates).
  - With **federal funds**, TCEQ may not force or entice grantees to accept an ICR lower than their negotiated rate. A grantee may *choose* to accept reimbursement of less than the full ICR or use part of its indirect costs toward match (discussed below).
- *De minimis* Rate & Default Rate:
  - With **state funds**, UGMS provides that agreements with other governmental entities may use a default indirect rate equal to 10% of direct salary and wage costs, excluding fringe benefits. This does not require the grantee to have never had a rate before.
  - With **federal funds**, if a grantee has **never** received a negotiated indirect cost rate from a cognizant agency, then under federal grant rules it can receive a *de minimis* indirect rate of 10% of Modified Total Direct Costs, which may be used indefinitely ([2 CFR 200.414\(f\)](#)).
- Other Types of Rates: **Provisional** (used pending final rate) and **Final** (applicable to a past period)
  - Grantees with a Provisional ICR are allowed per rules to request any unrecovered indirect costs after a final rate is established. EPA and TCEQ do not allow the grantee to receive these additional indirect costs. The amount listed in the budget limits the indirect costs.

## Approval of Indirect Rates

- Direct Federal Funding
  - Grantees with \$35 million or more in direct federal funding must submit their ICR Proposal to their federal "[cognizant agency for indirect costs](#)." This is typically the agency which provides the organization with the largest dollar value

of total grant awards. The grantee will then receive their ICR through a negotiation agreement (letter) with their federal cognizant agency. Further details regarding identification of an organization's cognizant agency for indirect costs are available in [Title 2 CFR Part 200, Appendix V, Section F1](#).

- No Federally-Negotiated Indirect Cost Rate
  - If the grantee does not have a federally negotiated ICR but receives state awards or receives federal funding through a pass-through entity (e.g. Section 319 grants from TCEQ or Texas State Soil and Water Conservation Board) , per UGMS:
    - An entity's assigned state single audit coordinating agency may review and negotiate its ICR proposal; or
    - If the assigned state single audit coordinating agency does not review the entity's ICR proposal, the major state funding agency or another designated state agency may perform the review.
    - **NOTE:** These state-level reviews pertain *only to state funds*. For federal pass-through funds, seek guidance from the federal project officer for whether this rate may be used.
- Multiple Indirect Cost Rates
  - Larger organizations often are required to group their direct costs into separate categories or cost objectives such as research vs. other types of objectives, and assign indirect costs to each of them in proportion to the indirect costs they require. See the following links for policies and procedures on indirect cost proposals for [state and local governments](#), [institutions of higher education](#), and [nonprofit organizations](#).

## Time Period for Indirect Cost Rates

The indirect cost rate and base documented in a cognizant agency or single audit coordinating agency agreement can be used for the period indicated.

- For entities that have a federal negotiated indirect cost rate, they may request an extension of those rates for up to 4 extra years from the cognizant agency. After that, a new cognizant agency agreement based on a new indirect cost proposal is required.
- Under UGMS, if a grantee has a negotiated agreement within the past 24 months by a federal cognizant agency or state single audit coordinating agency, all state agencies must accept that rate until a new rate is established. UGMS II, Attachment E, E.2.b. Alternatively, the negotiated agreement may specify a longer period for which a predetermined rate is valid for use. UGMS II, Attachment E, B.5.
- The federal *de minimis* rate may not be used after an expired federally negotiated ICR; however, UGMS allows agencies within a governmental unit (a U.S. state, local government, political subdivision, & tribes) to use the standard indirect rate (ten

percent of the direct salaries and wages) even if the agency has or has had a negotiated ICR.

## Calculating Total Project Costs

All Direct Costs + (ICR x direct cost base) + Other In-Kind Costs (if any) = Total Project Costs
--

**Grantees must not charge anything as a direct cost which is identified as an indirect cost in their indirect cost proposal.**

Other In-Kind costs are not direct costs to the grantee, so they are never included in the base for Indirect Costs.

At times, grantees may choose not to include any indirect costs in their budgets; or may agree to take a lower reimbursement of indirect costs. This action must be truly their choice. If there is an approved indirect rate, that full rate should be shown on the budget page. If the indirect costs shown in the Budget table are lower than what they are allowed to charge, the grantee agrees they are contributing those unrecovered costs to the project.

## Grants with Matching

Grantees often use [unrecovered indirect costs](#) to help meet any match required under the contract. (E.g. 40% of total project cost for CWA Section 319 grant projects).

However, indirect costs are eligible for reimbursement without any limitations so long as they are not being used as match. Even if certain direct costs are shown in the grant budget as contributing to the match requirement, the indirect costs of those direct costs may still be reimbursed should the grantee assign those to the reimbursable cost table.