
State Government Committee

HB 1953

Brief Description: Limiting administrative overhead costs of contract administration for state agencies, state offices, and institutions of higher education.

Sponsors: Representatives Kagi, McIntire, Dickerson, Cody, Pflug, Schual-Berke, Anderson and Darneille.

Brief Summary of Bill

- State agencies, including institutions of higher education, are limited to charging an indirect cost rate of no more than 10 percent of total direct costs when contracting with other state agencies, unless otherwise authorized by law.

Hearing Date: 3/4/03

Staff: Marsha Reilly (786-7135).

Background:

Inter-local Cooperation Act

The Inter-local Cooperation Act allows any public agency to enter into agreements with one another for joint or cooperative action. Any powers, privileges, or authority held by a public agency may be exercised jointly with any other public agency having the power, privilege, or authority.

A "public agency" includes any agency, political subdivision, or unit of local government in this state including, but not limited to municipal corporations, quasi municipal corporations, special purpose districts, and local service districts, as well as any state agency, federal agency, Indian tribe recognized by the federal government, and political subdivision of another state. Public hospital districts are included within this definition.

Indirect Costs

Direct costs are costs that can be specifically identified as relating to grant or contract award, for example, employee compensation, cost of materials acquired, or travel expenses incurred specifically to accomplish the terms of the award.

Indirect costs, or overhead, are costs that cannot be directly charged to an award, for example, infrastructure, equipment, depreciation and use, project administration, operations and maintenance, etc. Indirect costs are applied as a percentage of the total direct cost or as a percentage of salaries and/or benefits.

The U.S. Department of Health and Human Services negotiates and approves indirect cost rates. The determination of an indirect cost rate is made by "costing out" all the functions of an agency or educational institution, including administrative costs such as payroll, accounting, and personnel functions, as well as information on facilities, such as number of buildings, total space, etc.

Based on the functions of an agency, approved indirect cost rates will differ. For instance, the State Patrol applies an indirect cost rate of 35 percent of salaries and benefits and the Department of Community, Trade and Economic Development's approved rate is 36 percent of salaries and benefits.

The University of Washington's approved federal indirect cost rate is 51.6 percent of modified direct costs for on-campus projects, and 26 percent of modified total direct costs for off campus projects. Washington State University's approved rates are 26 percent for off-campus and 46.8 percent for on-campus. The difference in on- and off-campus rates is because rent and heat can be directly charged to off-campus contracts. Western Washington University's federally approved indirect cost rate is 56 percent of salaries and benefits and Eastern Washington University's approved rate is 58.1 percent of salaries.

While the federally approved rate is generally applied to all contracts, whether from state or federal sources, some sponsors will mandate the amount of indirect costs that will be reimbursed. For instance, some federal grants from the Department of Education allow only 8 percent of total direct costs. In some instances, the difference in the federally approved rate and the mandated rate may satisfy a requirement for funding matches.

OMB Circulars A-87 and A121 outline cost accounting principles applicable to grants, contracts, and other agreements with state and local governments and federally-recognized Indian tribal governments, and educational institutions. The circulars generally state that federal agencies should not be charged more than any other entity.

Current statute establishes that the full costs a state agency incurs in providing services or furnishing materials for another state agency shall be repaid (39.34.130 RCW). This same principal is established in 43.09.210 RCW, "all services rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value." According to the Office of Financial Management, full costs generally include direct and indirect costs.

The State Administrative and Accounting Manual addresses cost allocation and indirect cost recoveries (chapter 50.20.85) and recognizes that the nature of interagency activity varies greatly and, as such, interagency agreements should include specific language in the text of their agreements to determine and define allowable indirect costs.

Summary of Bill:

Institutions of higher education are explicitly included in the definition of "public agency" for purposes of the Act.

State agencies may not charge other state agencies an administrative overhead cost in excess of 10 percent for any agreement as authorized under the Act, or as otherwise authorized by law or the omnibus Operating Appropriations Act. The limitation does not apply to interagency contracts solely involving specific federal grant monies.

Appropriation: None.

Fiscal Note: Requested on February 26, 2003.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.