# **Module 4: How to Develop a Budget: Indirect Costs**

# Welcome

Welcome to the U.S. Environmental Protection Agency (EPA) Office of Grants and Debarment’s (OGD) How to Develop a Budget course. This module will focus on applying indirect costs associated with EPA financial assistance awards. It is intended for applicants and recipients who are developing budgets for project grants/cooperative agreements and continuing environmental programs (CEP) applications and amendments.

Note: This training applies to EPA financial assistance awards, including recipients of Brownfields Revolving Loan Fund cooperative agreements; however, it is not intended for use on State Clean Water and Drinking Water Revolving Loan Fund capitalization grants.

This is module 4 of 4 in the How to Develop a Budget course:

* General Principles and Considerations
* Direct Costs
* Other Direct Costs
* Indirect Costs

Time needed to complete this module: Approximately 15 minutes.

# What’s in this Module?

This module provides guidance on indirect costs, which are those incurred for a common or joint purpose that benefit more than one cost objective or project.

In this module, we will cover:

* EPA Indirect Cost Requirements
* Calculating and Including Indirect Costs in an Award Budget

# Module Notes

This training serves as a high-level overview of indirect costs. For more detailed instruction, refer to EPA’s Budget Development Guidance (<https://www.epa.gov/grants/rain-2019-g02>).

Statutes, regulations, and official EPA guidance (in that order) take precedence over this training in the event of any conflict.

All characters and organizations featured in this training are intended for demonstrative purposes only and do not represent real scenarios.

# EPA Indirect Cost Requirements

Let’s get started by reviewing the EPA’s indirect cost requirements.

# Budget Requirements and Forms

As discussed in the General Principles and Considerations module, when preparing your budget for an EPA grant application, you may be required to submit the Budget Information for Non-Construction Programs Form (SF-424A).

A supplementary budget narrative must also be submitted to justify the amounts entered for each category of the budget table in the SF-424A. You must explain how the costs associated with each category relate to the implementation of the work plan and the achievement of grant goals.

All items included in your budget table must be supported in the budget narrative.

Note: You must complete the SF-424A form downloaded from the specific [Grants.gov](https://www.grants.gov/) Workspace you created for the opportunity to which you are applying.

To view the SF-424A, visit <https://www.grants.gov/forms/form-items-description/fid/241>.

# Indirect Charges on the SF-424A

This training will cover how to complete Section B, 6. Object Class Category (j. Indirect Charges) in the SF-424A and the respective budget narrative.

# What are Indirect Costs?

Indirect costs are those that are incurred for a common or joint purpose benefiting more than one cost objective. They are allowable, allocable, and reasonable costs that benefit EPA assistance agreements as well as other activities your organization carries out that may or may not be Federally funded.

Indirect costs are costs incurred to facilitate the general operations of your organization. They include, but are not limited to:

* space costs
* utilities
* accounting services
* human resource services

For example, overhead costs, such as a human resource department, that serve your entire organization (including activities not associated with your grant) should be categorized as an indirect cost because the cost is split among multiple projects.

# Indirect Cost Budget Details

In order for indirect costs to be approved by EPA, your budget must include an amount for indirect costs. In addition, you must have one of the following types of current (not expired) indirect cost rates, including indirect cost rates that have been extended by your cognizant agency:

* Provisional
* Final
* Fixed rate with carry-forward
* Predetermined
* 10% de minimis rate
* EPA-approved use of one of the following on an exception basis for EPA agreements:
  + 10% de minimis (even if you have had a rate in the past)
  + Expired fixed rate with carry-forward

Indirect costs incurred during any period of the assistance agreement that are not covered by the provisions above are not allowable costs and must not be drawn down.

## 10% de minimis rate

In accordance with 2 CFR Part 200.414(f) (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E/subject-group-ECFRd93f2a98b1f6455/section-200.414#p-200.414(f)>), any non-federal entity that does not have a current negotiated (including provisional) rate, except for those non-federal entities described in Appendix VII (D)(1)(b) (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#Appendix-VII-to-Part-200>) may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. No documentation is required to justify the 10% de minimis indirect cost rate.

# Negotiating an Indirect Cost Rate

Indirect cost rates for an organization are negotiated with its federal cognizant agency, which is the federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals on behalf of all federal agencies.

Your organization is not required to have an Indirect Cost rate. However, if your budget includes indirect costs, prior to drawing them down or using unrecovered indirect costs as cost share you must:

* Have an approved rate, and
* Have an EPA-approved budget that includes indirect costs

If you do not have an approved Indirect Cost rate, contact your cognizant federal agency to negotiate one. The agency will review all documentation, conduct negotiations as necessary, and approve a rate for your organization. For guidance on identifying your cognizant federal agency, refer to 2 CFR 200.1 (<https://www.ecfr.gov/cgi-bin/text-idx?SID=e034f369247cac51e0af10b5b8c0a98f&mc=true&node=pt2.1.200&rgn=div5#se2.1.200_11>).

If EPA is your cognizant agency, refer to the Indirect Cost Rate Proposal website for more information at <https://www.epa.gov/grants/indirect-cost-rate-proposal-information>.

# Indirect Cost Policy

To use EPA funding for indirect costs, you must comply with EPA's Indirect Cost Policy for Recipients of EPA Assistance Agreements (<https://www.epa.gov/grants/rain-2018-g02>).

The policy aligns EPA’s requirements for indirect costs under EPA assistance agreements with 2 CFR Part 200 (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200>) and provides additional EPA-specific information to ensure consistency and effective management of assistance agreements.

# Indirect Cost Policy Exemptions

State or local governmental departments or agencies that receive up to and including $35,000,000 in federal funding per the department or agency’s fiscal year are exempt from the requirement to submit their indirect cost proposal to their cognizant agency for approval. However, they must still prepare an indirect cost rate proposal in accordance with 2 CFR 200 Appendix VII (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/appendix-Appendix%20VII%20to%20Part%20200>), with documentation maintained and available for audit.

Institutions of Higher Education (IHE) must use the indirect cost rate in place at the time of award for the life of the assistance agreement (unless the rate was provisional at time of award, in which case the rate will change once it becomes final). The term “life of the assistance agreement” refers to each competitive segment of the project.

Additional details and procedures for requesting exceptions from EPA can be found in Indirect Cost Guidance for Recipients of EPA Assistance Agreements (<https://www.epa.gov/sites/default/files/2021-04/documents/indirect-cost-policy-guidance-for-recipients-of-epa-assistance-agreements.pdf>).

# Calculating and Including Indirect Costs in an Award Budget

Now let’s review how indirect costs should be calculated and included in the budget.

# Expressing the Indirect Cost Rate as a Formula

As described in the previous section, indirect cost rates for an organization are negotiated with its federal cognizant agency. The indirect cost rate can be expressed with the formula below:

Indirect Cost Rate = Total Indirect Cost Pool / Approved Direct Cost Base

In this formula, the total indirect cost pool refers to all indirect costs. The approved direct cost base refers to all direct costs.

# Calculation of Indirect Cost Charges

Using your indirect cost rate and total direct costs, you can determine the amount of EPA funding that can be used for indirect charges.

Indirect Cost Rate = Indirect Costs / Direct Costs

OR

Indirect Costs = Indirect Cost Rate \* Direct Costs

Calculate the total indirect charges by multiplying your approved indirect cost rate by your direct costs.

To determine your indirect costs, apply the formula above using your indirect cost rate and your direct costs. Three common bases for direct costs are:

* Personnel Salary Costs, where Indirect Cost Charges = Indirect Rate \* Personnel Salary Costs.
* Personnel Salary Costs and Fringe Benefits, where Indirect Cost Charges = Indirect Rate \* Personnel Salary & Fringe Benefits Costs.
* Modified Total Direct Costs (MTDC), where Indirect Cost Charges = Indirect Rate \* MTDC.

# More about MTDCs

As noted previously, the MTDC is a common base for determining the direct costs to which your indirect rate may be applied.

MTDC includes:

* salaries and wages
* applicable fringe benefits
* materials and supplies
* services
* travel
* subawards (up to an allowance of $25,000 for the life 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
* the portion of each subaward in excess of $25,000

Check with your cognizant federal agency to clarify the distribution procedures for your rate agreement.

# Example of Calculating Indirect Costs

Now that we’ve learned about indirect costs, let’s go through an example of how to apply them when developing a grant budget.

# Example: Indirect Costs

Let’s use a hypothetical EPA assistance agreement as an example. Suppose you are managing an Urban Waters grant that involves water quality sampling in the Wolf River, analysis of the results, and community training to encourage efforts to improve water quality.

Your Total Direct Charges for the grant will be $327,996.

Your budget includes MTDC exclusions such as equipment purchasing costs ($50,250), equipment and laboratory rental costs ($10,500), and participant support costs to pay for training fees for community members ($750).

We’ll assume your Indirect Cost Rate is 40%.

# Example: MTDC Calculation

Let’s determine your MTDC by subtracting all of the MTDC exclusions from your Total Direct Charges.

| Item | Cost |
| --- | --- |
| Total Direct Charges | $327,996 |
| Equipment Costs | -$50,250 |
| Rental Costs | -$10,500 |
| Participant Support Costs | -$750 |
| MTDC | $266,496 |

Your MTDC is $266,496.

# Example: Total Indirect Costs

Then, multiply your MTDC by your indirect cost rate to calculate your total indirect costs. Your MTDC is $266,496 and your indirect cost rate is 40%, so your total indirect costs are:

$266,496 \* 0.40 = $106,598.

# Populating the SF-424A

On your SF-424A form, enter the total indirect cost amount you calculated for this award onto row (j) Indirect Charges.

Then, add your Total Direct Charges (i) to your Indirect Charges (j) to calculate your Total (k).

# Module Summary

Let’s review what you have learned in this module.

# What You Have Learned

In this module, you learned about requirements for including indirect costs in work plans, budgets, and budget narratives for EPA assistance agreements for project grants/cooperative agreements and continuing environmental program grants.

We covered the following topics:

* EPA Indirect Cost Requirements
* Calculating and Including Indirect Costs in an Award Budget

For information on how to identify and apply additional costs for an EPA assistance agreement, check out the other modules in the How to Develop a Budget Course:

* General Principles and Considerations
* Direct Costs
* Other Direct Costs

# Resources

## Forms and Tools

* Budget Information for Non-Construction Programs (SF-424A) (<https://www.grants.gov/forms/form-items-description/fid/241>)
* Grants.gov (<https://www.grants.gov/>)

## EPA Policy and Guidance

* EPA’s Budget Development Guidance Document (<https://www.epa.gov/sites/production/files/2019-05/documents/applicant-budget-development-guidance.pdf>)
* EPA’s Indirect Cost Rate Proposal Information (<https://www.epa.gov/grants/indirect-cost-rate-proposal-information>)
* EPA’s Indirect Cost Policy for Recipients of EPA Assistance Agreements (RAIN-2018-G02) (<https://www.epa.gov/grants/rain-2018-g02>)
* Indirect Cost Guidance for Recipients of EPA Assistance Agreements (<https://www.epa.gov/sites/default/files/2021-04/documents/indirect-cost-policy-guidance-for-recipients-of-epa-assistance-agreements.pdf>)

## Code of Federal Regulations

* Uniform Grant Guidance (UGG): 2 CFR 200 (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#_top>)
* De Minimis Rate: 2 CFR 200.414(f) (<https://www.ecfr.gov/cgi-bin/text-idx?node=se2.1.200_1414&rgn=div8>)
* State and Local Government and Indian Tribe Indirect Cost Proposals: 2 CFR 200 Appendix VII (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#Appendix-VII-to-Part-200>)

# Acronyms/Terms

* A/E: Architecture/ Engineering
* CEP: Continuing Environmental Program
* CERCLA: Comprehensive Environmental Response, Compensation, and Liability Act
* CFR: Code of Federal Regulations
* DBE: Disadvantaged Business Enterprise
* EPA: Environmental Protection Agency
* Fringe Benefit Rate: The percentage that results from dividing the cost of an employee's fringe benefits by the wages paid to the employee for the hours worked.
* FTE: Full Time Equivalent
* GMO: Grants Management Office
* GPI: Grant Policy Issuance
* GS: Grants Specialist
* IHE: Institute of Higher Education
* MTDC: Modified Total Direct Costs
* OGD: Office of Grants and Debarment
* PI: Program Income
* PO: Project Officer
* PPG: Performance Partnership Grant
* Procurement Contract: An agreement to use certain products and services on a project
* RFA: Request for Applications
* RFIP: Request for Initial Proposals
* UGG: Uniform Grant Guidance