



UTAH STATE BOARD OF EDUCATION

INDIRECT COST POOL

PUBLIC EDUCATION
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ISSUE BRIEF

SUMMARY

The indirect cost pool (ICP) at the Utah State Board of Education (USBE) supports administrative, accounting, budgeting, purchasing, information technology, and government liaison functions of the USBE.

As described by the U.S. Department of Education and quoted in USBE's high level review of the USBE indirect cost plan (February 2015),

Indirect costs represent the expenses of doing business that are not readily identified with a particular grant, contract, project function or activity [e.g. heat, light, accounting and personnel], but are necessary for the general operation of the organization and the conduct of activities it performs...indirect cost rates are used to distribute those costs to benefitting revenue sources. (p. 2 of report)

The indirect cost pool at the USBE had been funded by both the Utah State Office of Rehabilitation (USOR) and USBE. The USOR was moved to the Department of Workforce Services (DWS) in the fall of 2016 and as a result USBE has had to adjust the indirect cost pool rate.

DISCUSSION & ANALYSIS

The indirect cost pool contains personnel, travel, and current expenditure costs for the State Superintendent/Associate Superintendents, Human Resources, Support Services, Internal Accounting, Internal Computer Services, Public Information, and Print Services/Mail. The methodology used to calculate the indirect cost pool rate is set by the federal government. The State Board of Education sends the indirect cost pool rate proposal to the Department of Education who then audits it to determine what can and cannot be included in the rate calculation. The total for the indirect cost pool varies slightly from year to year. Also, the calculated rates have a two-year lag meaning that FY 2017 rates were calculated using information from FY 2015.

During the 2016 General Session, the Utah State Office of Rehabilitation, which had been under the State Board of Education, was moved to the Department of Workforce Services. Because it was under the State Board of Education, the USOR paid into USBE's indirect cost pool. While the costs varied year to year, USOR paid about \$1.5 million into the indirect cost pool. Thus, their move to DWS resulted in losing \$1.5 million going toward the indirect cost pool.

The State Board of Education met with the U.S. Department of Education and developed a modified indirect cost pool rate for FY 2017 of 14.5 percent for restricted funds and 25.4 percent for unrestricted funds. However, for FY 2017, H.B. 8, "State Agency Fees and Internal Service Fund Rate Authorization and Appropriations," (2016 General Session), set the indirect cost pool rate at up to 10 percent for restricted funds and up to 22 percent for unrestricted funds which is less than USBE's current approved rate for FY 2017. Therefore, the Legislature may want to consider authorizing an increased rate for FY 2017 so USBE can draw funds in line with the new rate. This change can occur through the adoption of intent language.

The State Board is also requesting approval from the Legislature to increase transfers among line items and programs to fund the indirect cost pool at this increased rate for FY 2017 since the transfers approved for FY 2017 reflect the indirect cost pool rates set in H.B. 8.

Lastly, the subcommittee will have a chance to approve new rates for the indirect cost pool for FY 2018 to be included in the fee bill when we examine the proposed fee schedule for USBE. The State Board has indicated that, for FY 2018, the indirect cost pool rate should be set at up to 18 percent for restricted funds and up to 24 percent for unrestricted funds. With this new indirect cost pool rate, the State Board is requesting an increased appropriation for School Trust of \$66,500 ongoing in interests and dividends to cover this increased rate. This adjustment is not an increase in the operating budget of that section.

RECOMMENDATIONS

The Legislature may wish to consider the following recommendations:

- For FY 2017, include the following intent language: “Notwithstanding the fees in H.B. 8, “State Agency Fees and Internal Service Fund Rate Authorization and Appropriations,” (2016 General Session, lines 7322 & 7325), the Legislature intends that the Utah State Board of Education is authorized to charge an indirect cost pool rate of up to 15 percent for restricted funds and up to 26 percent for unrestricted funds where possible for FY 2017.”
- For FY 2018, set the indirect cost pool rate at up to 18 percent for restricted funds and up to 24 percent for unrestricted funds.
- Beginning in FY 2018, increase the appropriation for School Trust in the State Administrative Office line item by \$66,500 from interest and dividends to cover the increased indirect cost pool rates.