



## Background

Over time, the RCFB has adopted policies establishing the costs that are eligible for reimbursement under its grant programs. Eligible costs fall into two categories: direct project-related costs and administrative costs. Administrative costs include planning, advertising and awarding contracts, postage, public hearings, bill preparation, and other activities directly related to the project. RCFB policy limits administrative costs to a percentage of the project cost, based on project type.

Under current RCFB policy, however, sponsors cannot recoup indirect costs. "Indirect" costs are those that cannot be linked to a particular project and are for common or joint purposes. Examples include general supervision, administration, facilities, utilities, and training; organization insurance; and shared equipment.

The issue is now before the RCFB due to a February 2009 request from the Washington Department of Fish and Wildlife (WDFW). Based on a consultant's recommendation about WDFW's internal billing practices, the department asked the RCFB to revise its policies and reimburse its indirect costs for the upcoming biennium. Other sponsors informally have reported that it can be challenging to maintain their organizational capacity to undertake grant-funded projects.

The RCFB was briefed on the request at its March 2009 meeting. Staff presented two options:

- Option #1: Proceed with evaluating reimbursement of indirect costs
- Option #2: Assess and improve RCO communication and management of current policy

Board members expressed differing views of the issue, and asked staff to do more analysis before they considered a full policy review, as suggested by option #1.

## Analysis

RCO staff conducted preliminary research and analysis that focused on a few key themes: statutory limitations; stakeholder/sponsor input; financial impact of a policy change; and consistency with SRFB policies.

### Statutory Limitations

Staff conferred with other grant-making agencies and conducted its own research, and found no legal<sup>1</sup> limitations on the reimbursement of indirect costs associated with grants from state capital funds.

Nevertheless, staff notes that both RCW 79A.15.060(2) and RCW 79A.15.070(2) specifically prohibit the RCFB from using funds from the Washington Wildlife and Recreation Program (WWRP) to pay for staff or overhead, except as allowed under RCW 79A.15.030(7), which permits the RCFB's use of up to three percent of WWRP allocations for administration of the WWRP. This three percent is the source of funding for a portion of the RCFB and the RCO.

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<sup>1</sup> Revised Code of Washington and the Washington Administrative Code

### Stakeholder/Sponsor Input

Staff surveyed sponsors about indirect costs, including how they establish and use indirect rates, how they recover administrative costs, and whether they would charge such costs to the RCO if allowed to do so.<sup>2</sup> Due to time and financial constraints, staff did the survey online, which precluded establishing a statistically defensible sample. Nevertheless, the RCO received over 100 responses, including state agencies, city and county governments, conservation districts, and non-profit organizations. Nearly all respondents have a currently active project with the RCO.

As might be expected, most sponsors state that they would charge indirect costs to the RCO if allowed. Staff will present more details of the responses at the meeting.

### Financial Impact of a Policy Change

Staff also prepared estimates of the potential financial effect of allowing indirect costs, based in part on the survey responses. Based on the “typical” indirect costs reported by survey respondents, staff concluded that reimbursing indirect charges would result in a potentially significant reduction in on-the-ground activities. Staff will present detailed estimates at the October meeting.

### Salmon Recovery Funding Board policies

Like the RCFB, the Salmon Recovery Funding Board (SRFB) does not reimburse indirect costs for projects. It is important to maintain consistent policies because many sponsors manage both SRFB and RCFB projects, and may even have a project with funding from both RCFB and SRFB.

### **Next Steps**

Although staff recognizes the effect of revenue shortfalls, temporary economic challenges may not justify long-term changes to established policy. For decades, sponsor organizations have successfully managed RCFB-funded grants under the current rules.

Rather, staff suggests that the RCFB and the agency focus their efforts as follows:

1. Communicate current policy internally and externally to reduce sponsor confusion about eligible administrative costs and ineligible indirect costs.
2. Consider ways to make the grant application and implementation processes less labor-intensive for project sponsors, thereby reducing their need to recoup additional costs. For example, the RCO plans to begin a project to institute electronic billing, which should make the process easier and more understandable.
3. If a policy change is a serious consideration, initiate a coordinated discussion between the RCFB and SRFB to identify a consistent policy on indirect charges.

Staff will institute such steps as directed by the RCFB.

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<sup>2</sup> The survey included sponsors of any RCO project, whether funded by the Recreation and Conservation Funding Board or the Salmon Recovery Funding Board.