



INDIRECT COST RATE GUIDANCE HANDBOOK

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INTRODUCTION

This handbook provides information and guidance on the issuance of indirect cost rates by the Texas Education Agency (TEA). The US Department of Education (USDE) authorizes TEA, as the cognizant agency for indirect costs, to establish indirect cost rates for Texas local educational agencies (LEAs).

TEA negotiates, approves, and issues indirect cost rates to the following LEAs in the state: independent school districts (ISDs), educational service centers (ESCs), open-enrollment charter schools (charter schools), and other governmental agencies (OGAs).

INDIRECT COST RATE – GENERAL INFORMATION

TEA's procedure is based on the requirement outlined in Title 2 of the Code of Federal Regulations (CFR) Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (subsequently referred to as the Uniform Guidance) and 34 CFR Parts 75 and 76.

The Uniform Guidance (2 CFR Part 200) establishes the standard that is responsible for the review, negotiation, and approval of indirect cost rate proposals.

Definition of Indirect Cost

Indirect costs (2 CFR 200.56) are costs that have been incurred for common or joint purposes. Indirect costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective.

Indirect cost rate is a method for determining, in a reasonable manner, the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.

Indirect cost rate proposal (2 CFR 200.57) is documentation prepared by a governmental unit or component thereof to substantiate its request for the establishment of an indirect cost rate.

Rate Types

TEA issues two indirect cost rates: the restricted rate and the unrestricted rate.

Unrestricted Rates

Unrestricted rates are applied to grants not subject to the federal supplement, not supplant requirement.

Restricted Rates

Restricted rates are used for grant programs where the supplement, not supplant requirement applies.

Supplement, Not Supplant

The supplement, not supplant requirement means grant funds must be used only to enhance and support existing state or locally funded activities. The grant funds must not be used to replace state or locally funded activities. Most of the federal grants that TEA administers are subject to this requirement, and the restricted indirect cost rate is applied to them. The unrestricted and restricted indirect cost rates for each LEA (including charter schools) in Texas can be found on the [Indirect Cost Rates](#) page of the TEA website.

INDIRECT COST RATE ISSUANCE FOR ISDs/ESCs/OGAs

To recover any indirect costs, LEAs must request and receive a new indirect cost rate for every school year. TEA uses the direct allocation method to determine an indirect cost rate. When calculating the indirect cost rate, TEA uses the three most current years of auditable financial data and a discount rate factor of 10.0 percent.

Indirect Cost Rates for ISDs

ISDs request indirect cost rates each year by completing and submitting the Indirect Cost Rate Proposal (ICRP) Additional Costs Workbook (ACW). Submission of the ICRP ACW serves as an ISD's request for indirect cost rates. Rates will be calculated only for ISDs that submit a completed workbook.

- ICRP ACW is made available via the [Indirect Cost Rates](#) webpage and the secure GFFC Reports and Data Collections application, accessible through [TEAL](#).
- ISDs submit the ICRP ACW requesting indirect cost rates.
- TEA reviews all submitted ICRP ACWs and combines with TSDS-PEIMS financial data.
- TEA provides complete ICRPs to ISDs for review and certification.

- ISDs submit ICRP Certification in GFFC Reports and Data Collections.
- TEA publishes Notification Letters in GFFC Reports and Data Collections, and rates become effective from July 1 of the year the rate is issued through June 30 of the year the rate is due to expire (July 1 through June 30).

Indirect Cost Rates Timeline for ISDs

| Month | Event |
|----------|---|
| November | TEA publishes ICRP Additional Costs Workbook (ACW). The ACW collects the 10% of data TEA needs to calculate an indirect cost rate that is not available via TSDS-PEIMS. |
| January | ICRP ACW due to TEA. |
| April | TEA publishes completed ICRPs that combine both ACW and TSDS-PEIMS data. |
| May | Certified and signed ICRPs due to TEA. |
| July | Indirect cost rates will be effective for a one-year period from July 1 to June 30. A new indirect cost rate must be requested each year. |

Open-Enrollment Charter Schools

For charter schools, the indirect cost rate is based on an average of the indirect cost rates of the resident public school districts reported in TSDS-PEIMS. Because the indirect cost rates are based on the average of the indirect cost rates of the resident public school districts, the indirect cost rates of the charter schools are calculated each year after the ISDs' indirect cost rates have been negotiated, reviewed, and finalized.

TEA issues indirect cost rates to charter schools upon request through the charter schools' submission of the *Request for an Indirect Cost Rate for Charter Schools Survey*. TEA will notify charter schools of the survey and the March deadline to submit the survey requesting to receive indirect cost rates for the upcoming school year.

Indirect Cost Rates Timeline for Charter Schools

| Month | Event |
|----------|---|
| February | TEA publishes online survey to collect data from charter schools on whether or not they are requesting an indirect cost rate for the upcoming July 1 to June 30 period. |
| March | Charter schools submit survey responses. |
| July | Indirect cost rates will be effective for a one-year period from July 1 to June 30. A new indirect cost rate must be requested each year. |

Indirect Cost Rates for ESCs/OGAs

Education service centers (ESCs) and other governmental agencies (OGAs) must request indirect cost rates each year by completing and submitting the Indirect Cost Rate Proposal (ICRP) Workbook.

TEA will not pull TSDS-PEIMS data and prepopulate an ICRP for these entities. Instead, ESCs/OGAs will enter their own financial and additional costs data and submit to TEA. The submission of the ICRP Workbook serves as the ESCs'/OGAs' initial request for indirect cost rates. Rates will be calculated only for ESCs/OGAs that submit a completed ICRP Workbook.

Indirect Cost Rates Timeline for ESCs/OGAs

| Month | Event |
|----------|---|
| November | TEA creates and distributes partially pre-populated indirect cost rate proposals (ICRPs). |
| January | Certified and signed ICRPs due to TEA. |
| July | Indirect cost rates will be effective for a one-year period from July 1 to June 30. A new indirect cost rate must be requested each year. |

OTHER ENTITIES

IHEs, NPOs, and other governmental entities receive their approved indirect cost rate from their cognizant federal agency, the agency from whom they receive the majority of their federal funds. If a grantee does not have a current, approved rate, the grantee must immediately contact its cognizant agency to determine a rate. These grantees should then e-mail a copy of their current indirect cost rate notification letter to compliance@tea.texas.gov. If it is determined that TEA is the cognizant agency, the grantee must immediately contact TEA's Federal Fiscal Compliance and Reporting (FFCR) Division to begin the process of determining a rate.