ALA Grant Funds indirect/overhead rate policy (June 7, 2023)

POLICY:
ALA federal grant budgets must be submitted with the most recent federal indirect rate. When the ALA federal rate is in the proposal process, that rate is considered the most recently negotiated rate until a new, final rate has been determined.

All grant budgets, including proposals to private foundations, corporations and donors, must use the most recent federally negotiated rate (25.10% as of 9-1-2022) as basis for indirect cost calculations on eligible expenses. Grant budgets with non-federal funders may not result in an indirect rate below 18%.

ALA’s current federally negotiated indirect rate and related documentation can be found at https://www.ala.org/support/indirect-cost-negotiation-agreement. The federal indirect rate is negotiated according to the timeline and guidelines set forth by the US Department of Interior Business Office. ALA operates under final and proposed federal indirect rates, according to the stage of negotiation.

The federally negotiated indirect rate is the most accurate reflection of ALA’s expenses critical to the organization as a whole, but not directly tied to the project. This includes expenses such as payroll processing, bookkeeping, and rental of our office space. They are separate from the costs of the grant activities.

PROCESS:
The indirect rate, also called “overhead rate” or “administrative costs” are the costs of doing business. Grant proposal budgets are specific to a particular goal or project delivered under the terms of the grant. Applying a percentage of indirect or overhead costs on the total project budget allows ALA to cover the costs for other functions that support the unit’s ability to carry out the work outlined in the grant proposal. These costs of doing business include things like HR and IT support, paying the office rent and utilities, insurance, accounting team support, and other administrative costs.

ALA’s current negotiated federal indirect rate is 25.10% as of 9/01/2022. The Finance and Accounting Office recently submitted the official request to renegotiate the rate and ALA received confirmation of the new rate which extends through 8/31/2025.

All federal grant application budgets must apply the federally negotiated indirect rate to the subtotal of all eligible expenses. Federal agencies (IMLS, NEH, NSF, etc.) have rules on what this rate can be applied to. Please review and follow their guidelines during the application process. All grant-seeking units should have a copy of the approved indirect rate letter on file to include with your federal grant proposals. If you do not, you can download a copy of the letter from the Finance and Budgeting section of the ALA staff support website.

ALA also recommends that all grant budgets, including proposals to private foundations and donors, should start with the federally negotiated rate on all eligible expenses. Private foundations and donors often have less strict rules about what expenses the rate may be applied to, but please review and follow their guidelines during the application process.
If the potential (non-federal) funder is unable to meet the federal rate, **ALA will allow grant budgets to apply a minimum overhead rate of 18%**. This means all grant budgets must include a minimum 18% overhead rate applied to project budget expenses. All unit managers are responsible for ensuring that grant applications going out from their team abide by this minimum.

Meeting this overhead minimum may require negotiation with some funders, and we encourage you to approach this as an opportunity to educate funders as to why ALA requires this to cover our costs, and to encourage funders to meet our minimum rate. This is the most nuanced component of this work and it is most effective when focused on ALA’s mission, reach and value, than the issue of the overhead rate. If the funder is unable/unwilling to meet ALA’s minimum rate, here are recommended strategies:

- **Before officially submitting a budget, calculate the monetary value equivalent to the 18% indirect rate on your project expenses to determine what the potential shortfall will be; then:**
  - Get creative and include ways to make up for the shortfall in your budget with additional revenue as part of the budget. Ideas could include a mix of the following: include a Library Champions donation for that value; include the purchase of ALA assets like books or membership in the project; build in staff time for other units that you would be consulting for the project, or for units that would normally be covered by the indirect rate (HR, accounting, IT, etc.).
- Reach out to ALA CFO Dina Tsourdinis and/or ALA Development Office Assistant Director, Anne Manly for additional ideas.
- If it is not possible to make these types of changes, immediately schedule a conversation with the unit AED to decide whether it makes sense to pursue the funds. The decision of whether to pursue the grant or contribution must be based on the level of resources and effort needed when the indirect rate is below the minimum of 18%.

**FAQ**

**Q:** I’ve never heard of this. What is an indirect rate?
**A:** Indirect rate, also called overhead rate or administrative costs are the costs of doing business. Grant proposal budgets are specific to a particular goal or project you are delivering. Applying a percentage of indirect or overhead costs on your total project budget allows ALA to cover the costs for other functions that support your ability to carry out the work outlined in your grant proposal. These shared costs include things like HR and IT support, paying the office rent and utilities, insurance, accounting team support, and other administrative costs. Learn more from:

- National Council of Nonprofits
- California Association of Nonprofits
- National Science Foundation
- US Department of the Interior

**Q:** How is ALA’s indirect calculated? Why is the minimum 18% Why did we ask for an increase for the federal rate?
**A:** ALA’s Finance and Accounting Office uses a complicated formula as required by the appropriate government agency, to determine the federal rate request. This formula includes confidential information like staff salaries, plus rent and other administrative costs. The final rate is calculated by dividing ALA’s total indirect costs by the total direct costs.
Q: I already have some grants in the door and/or submitted grant applications and I didn’t apply this indirect rate. What do I do?
A: Unfortunately, we can’t go back in time to change your budget. What your funder has approved and provided you is what you have to work with. It’s okay. **Please apply the ALA overhead rate policy as soon as possible, and all project proposals submitted from September 1, 2023 onwards must use the 18% minimum.**

Q: What are examples of expenses that we can generally apply the indirect rate to?
A: Our Federal indirect agreement has very specific wording on what is ineligible, so spend time reviewing it before preparing your federal grant budget. Most private/corporate/foundation funders will allow you to apply the rate to things like project staff salary and benefits; project supplies; professional services; project-related travel; food and A/V for training workshops; and other expenses of that nature. Some will allow you to apply it to the full project expenses subtotal. Please refer to your funder’s RFP or the program officer assigned to the opportunity to be sure. Unless an expense is explicitly noted by the funder as ineligible, you should apply the overhead to the total project budget.

Q: When I add my project budget subtotal to the value of the indirect rate, my total grant request is over the total amount allowed for this opportunity. What do I do?
A: You will need to take a hard look at your project budget and see if there are any expenses you can reduce to make it work. Can in-person training go remote? Can you reduce the number of participants reached, cut some costs, and still meet the project goals?

Q: How often does ALA renegotiate the federal indirect rate? Does it always increase?
A: Generally, every 3 fiscal years. It increases if our costs increase, and it bears out after using the formula provided by the federal government. The current rate applies through 8/31/2025. Any updates to the federal indirect rate can be found in the Finance and Budgeting section of the ALA staff support website.

Q: Which agency does ALA negotiate its indirect rate with?
A: The U.S. Department of Interior’s Business Center.

Q: What if ALA is in the middle of a negotiation on a new overhead rate and waiting to hear back? What rate should be used in a federal grant application?
A: Federal grant applications allow organizations to flag when the renegotiation process is underway, and a new rate is not yet finalized. For example, in the case of an IMLS proposal, there is a check box for this very situation: "Indirect cost proposal has been submitted to a federal agency but not yet finalized." [https://apply07.grants.gov/apply/forms/readonly/IMLS_Supplementary-V1.0.pdf](https://apply07.grants.gov/apply/forms/readonly/IMLS_Supplementary-V1.0.pdf)

Q: Who at ALA can I talk to about grants? Who should I bring additional questions to?
A: ALA’s Development Office – Anne Manly and Tracie Hall.

Q: The federal proposal I submitted was funded, however it was submitted with the ALA proposed rate of 27.73%, not the final rate of 25.10%. Do I need to do anything?
A: Yes. Immediately inform the relevant federal program officer and submit a revised grant budget, using the correct indirect rate. Also, inform your supervisor and ALA’s CFO, Dina Tsourdinis.