
SENATE COMMITTEE ON EDUCATION

Senator Carol Liu, Chair
2015 - 2016 Regular

Bill No: AB 1064
Author: Roger Hernández
Version: March 26, 2015
Urgency: No
Consultant: Lenin Del Castillo

Hearing Date: July 1, 2015
Fiscal: Yes

Subject: Education finance: indirect cost rates

SUMMARY

This bill removes the January 1, 2016 sunset date that requires the California Department of Education (CDE) and any other state agency to allow an indirect cost rate established by the CDE for state or federal grant programs unless federal or state law requires a lower rate.

BACKGROUND

Existing law requires the CDE and any other state agency to allow an indirect cost rate established by the CDE for state or federal grant programs administered by local educational agencies (LEAs) unless a lower rate is required by state or federal law.

Existing law further defines the following:

- 1) "Indirect cost" to mean "the agencywide, general management cost of the activities for the direction and control of the agency as a whole [which] include, but are not necessarily limited to, administrative activities necessary for the general operation of the agency, such as accounting, budgeting, payroll preparation, personnel services, purchasing, and centralized data processing."
- 2) "Indirect cost rate" to mean the rate established by the CDE for each LEA.

These provisions become inoperative and are repealed as of January 1, 2016, unless extended by statute enacted before that date.

ANALYSIS

This bill repeals the January 1, 2016 sunset date that requires the CDE, or any other state agency, that administers a grant or allocation of federal or state funds to a school district, to allow an indirect cost rate that is not less than the indirect cost rate established by CDE for each district, unless federal or state law requires a lower cost rate.

STAFF COMMENTS

- 1) ***Need for the bill.*** According to the author's office, the CDE determines the indirect cost rate for each school district, county office of education, and other educational agencies. This indirect cost rate is typically less than ten percent, and it covers such general operating costs as accounting, budgeting, personnel services, purchasing,

payroll and data processing. However, local educational agencies (LEAs) cannot cover their operating costs when the indirect rate allowed for certain grants and allocations are less than the California Department of Education (CDE) determined rate. The author's office indicates that if LEAs cannot cover these operating costs, they cannot operate programs that provide important services for students and families without putting the LEA at financial risk.

- 2) **Indirect cost rates.** The United States Department of Education has approved a delegation agreement with the CDE that authorizes the CDE, as the recognized agency to establish indirect cost rates for the state's LEAs. Indirect costs are agencywide general management costs (i.e., activities for the direction and control of the agency as a whole). General management costs consist of administrative activities necessary for the general operation of the agency, such as accounting, budgeting, payroll preparation, personnel services, purchasing, and centralized data processing. Federal and state law often delineate the amount of indirect costs or administration either the state or LEAs can utilize from a grant allocation. For example, under the state After School Education and Safety program, school districts are limited to expending no more than five percent of their grant amount for administration.
- 3) **Fiscal impact.** According to the Assembly Appropriations Committee, there would be no direct state fiscal impact since any potential funding distribution would occur within a program and a set amount of grant funding already dedicated to that program.
- 4) **Related and prior legislation.** AB 2435 (Hernández, Chapter 587, Statutes of 2012) established the requirement for CDE to allow the full indirect cost rate for state or federal programs administered by LEAs.

SUPPORT

Antelope Valley Union School District
Association of California School Administrators
Baldwin Park Unified School District
Downey Unified School District
Los Angeles County Office of Education (sponsor)
Lynwood Unified School District
Palmdale School District
Santa Clara County Office of Education
Small School Districts' Association

OPPOSITION

None received.

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