



MHAA INDIRECT COSTS POLICY

Adopted April 11, 2019 (revised by staff October 2, 2025)

Background

In the 2018 legislative session, the Maryland Legislature passed SB 1045, which allows nonprofits to use 10% of the Modified Total Direct Costs for indirect costs as part of non-capital grant funds used to provide services. Alternatively, if they have a negotiated federal rate, nonprofits can use that rate. This law applies to all state grant funds awarded after October 2018, and nonprofits receiving MHAA grant funds to provide services after that date may choose to use this complex process to include indirect costs in their grant-funded budget. This only applies to a narrowly-defined subset of grant expenditures that directly relate to the provision of services.

As an alternative, with this policy MHAA allows all nonprofits awarded MHAA non-capital grant funds¹ after October 2018 to include a flat 10% line item for indirect costs under grant expenditures.

In accordance with §2-208 of the State Finance and Procurement Article of the Maryland Code, the State's allowable indirect cost rate increased from 10% to 15%, effective as of April 22, 2025. This change ensures compliance with the federal government's Office of Management and Budget (OMB) Uniform Guidance (2 CFR Part 200) regarding indirect costs.

What Are Indirect Costs?

Indirect costs are those operating costs that are not readily identifiable with the specific grant project, but which are incurred for the joint benefit of the grant project and other organizational activities. Indirect costs are frequently referred to as overhead, operating, or administrative costs, and can include rent, utilities, salaries, personnel costs, and professional service fees.

How the Policy Works

All non-capital grants awarded to nonprofits beginning in FY 2020 will have the option of including a line item in their approved grant budget titled "10% Indirect Costs". Addition of this line item will not increase the grant award amount, and if a grantee chooses to add the indirect costs line item, they must still be able to complete the project as proposed. The new 15%

¹ Note that this policy does not apply to management, marketing and project grants awarded to Certified Heritage Area Management Entities, as the management grants already include those organizations' indirect costs. It also does not apply to non-capital grants awarded to government entities, or capital grants.

Indirect Cost rate will apply to new grant agreements signed on or after April 22, 2025. Existing awards prior to April 22, 2025, will continue under their current 10% indirect cost rate as stipulated in the fully executed grant agreement.

The Indirect Costs amount is based on the grant award amount, and not the total project costs. It does not include match, and matching funds cannot be indirect costs, except Grantee salaries directly relating to the project as is already allowed in current MHAA policy.

The Indirect Costs amount must still be matched 1 to 1 with other allowable grant expenditures. Grantee salaries for project work that are included as match cannot also be included in the 10% indirect costs line item.

When reporting on project expenditures, the Grantee will not need to itemize or document the Indirect Costs Line item but must retain records of those expenditures and make them available for audit upon request. This is also the case if the Grantee chooses to use the process set out in SB 1045, as detailed in paragraph ii. below.

If Indirect Costs were not included in the project budget at the start of the grant, and the grant expenditures come in under budget, the Grantee may choose to amend the budget, with approval from MHAA, to include indirect costs at the end of the project.

FY 2020 Grantees who submitted their project budgets prior to the approval of this policy will be given the opportunity to adjust their proposed budgets, if recommended for award, to include indirect costs, as long as it does not increase the grant amount and they can still complete the project as proposed.