

Structuring Indirect Cost Rates After the August 7, 2025 Executive Order

Practical strategies for U.S. local governments competing for discretionary federal grants

Context — What changed and why it matters

On August 7, 2025, the White House issued an Executive Order (EO) on “Improving Oversight of Federal Grantmaking.” Among other directives, it signals agency preference for lower indirect cost (IDC) rates on discretionary grants and directs OMB to revise the Uniform Guidance to limit certain facilities & administration (F&A) costs. While the EO does not immediately change 2 CFR part 200, it will influence how agencies design competitions, evaluate budgets, and set award terms over the next cycles.

Ground rules you still must follow (quick refresher)

- 2 CFR part 200 (Uniform Guidance) still governs allowability, allocability, and consistency.
- Use your negotiated rate agreement (NICRA) with your cognizant agency when required; if you lack a NICRA, you may choose the 15% de minimis of Modified Total Direct Costs (MTDC) unless prohibited by program terms.
- Do not shift unallowable/indirect costs to direct lines to ‘game’ a lower IDC rate. Timekeeping and cost allocation must support any direct charges.
- When an agency caps IDC, apply your approved rate but claim only up to the cap; plan how to cover unrecovered IDC (e.g., local funds or program income).

Below includes some approaches to structure IDC under the EO pressure for lower rates (these must be approved by your auditor and by the funder):

- **Portfolio-tiered rates:** Maintain your approved city/countywide rate for most awards, but offer a strategically reduced rate for specific discretionary competitions where solicitations signal preference for lower IDC. Document that the reduced rate applies only to that award and ensure unrecovered IDC is not shifted to other federal awards.
- **Two-pool model (Admin vs. Program Support):** Split the IDC pool into ‘General Administration’ (finance, HR, legal) and ‘Program Support’ (required monitoring, evaluation coordination). Charge some Program Support elements as direct where clearly and exclusively benefitting the project (with timekeeping), reducing the IDC pool while staying compliant.
- **Revisit the base:** Consider proposing a broader base (if negotiable with the cognizant agency) to lower the rate percentage (pool/base). For example, where appropriate, include more direct cost elements in the base rather than relying on a narrow salaries-and-wages base.

- **Appendix V central service plan tune-up:** Update the city/county central service cost allocation plan (2 CFR 200, App. V) to better align costs with benefiting departments and reduce double-counting in the grant IDC pool.
- **Internal service funds & break-even rates:** Move specific services (IT help desk, printing, fleet) to internal service funds that bill users at break-even rates supported by rate studies. This can shift predictable costs out of IDC—be careful to avoid charging the same cost both via service fees and IDC.
- **MTDC line-item tactics:** Leverage the MTDC exclusion for subawards >\$50K: structure subawards so that only the first \$50K of each subaward is in the IDC base, while keeping required oversight time as direct (with documentation).
- **Direct-charge compliance activities:** When allowed and exclusively benefiting the project, charge required monitoring, data collection, audit components, and mandated evaluation tasks directly with robust timekeeping and narratives.
- **Voluntary reductions with offsets:** Offer a voluntary IDC reduction paired with explicit administrative cost coverage from local funds or program income. Make the offset transparent in your budget narrative to avoid the appearance of cost shifting.
- **Capitalization & depreciation policy review:** Confirm capitalization thresholds and useful lives are reasonable and aligned to industry norms. Right-sizing depreciation schedules can stabilize IDC pools and improve predictability for multi-year grants.

Implementation checklist (use this before your next application)

- ✓ Scan upcoming Notices of Funding Opportunity (NOFOs) for IDC signals (caps, preferences, scoring).
Model 3 budget scenarios: approved NICRA, de minimis (if eligible), and a targeted reduced rate; compute IDC recovered and gap financing needed.
- ✓ Refresh your cost allocation plan and timekeeping guidance; train project leads on when costs may be direct vs. indirect.
- ✓ Pre-clear any internal service fund rate updates with finance and your auditor.
- ✓ Draft standard budget narrative language explaining your IDC approach, voluntary reductions (if any), and how administrative costs will be covered.
- ✓ For capped programs, identify allowable direct lines to house compliance-heavy tasks (evaluation, subrecipient monitoring).

Risks and Red Flags

- Charging the same cost both via internal service rates and IDC (double recovery).
- Reclassifying general administrative costs as direct without exclusive benefit and documentation.

- Applying a voluntary reduced rate broadly rather than on a specific award-by-award basis.
- Ignoring an agency cap in budgeting or failing to plan for unrecovered IDC coverage.
- Inconsistent treatment across programs that undermines your cost policies.

Mini-FAQ for Local Governments

Q1. Can we choose the 15% de minimis to look more competitive? If you do not have a current negotiated rate and meet eligibility, yes. Document the election and apply it consistently to all federal awards until you negotiate a rate.

Q2. Can we offer a lower rate than our NICRA on one competition? Yes, if permitted by the program. Clearly identify it as a voluntary reduction for that award only, and ensure unrecovered IDC is covered by non-federal sources.

Q3. If a program caps IDC at, say, 8%, what happens to our NICRA? You may charge up to the cap. The balance is unrecovered IDC—plan to cover it with non-federal funds; do not shift to direct lines improperly.

Q4. Will the EO force new rates immediately? No. It directs OMB and agencies to take actions. Watch for NOFO language and subsequent OMB/agency guidance updates.

Q5. Are internal service funds allowed? Yes, if rates are based on actual costs, operate at break-even over time, and avoid duplicate recovery through IDC.