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# REP. TERRY MARTIN

ELECTIVE DISTRICT 13  
MOUNTAIN VIEW  
RUSSIAN JACK SPRINGS  
KUMAKA VALLEY  
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DURING SESSION  
POUCH  
STATE CAPITOL BUILDING  
JUNEAU, AK 99811  
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## Alaska House of Representatives

### MEMORANDUM

Date: February 14, 1986

To: Representative Peter Goll, Chairman  
House Community and Regional Affairs Committee

From: Representative Terry Martin *TM*

Re: HB 452

"An Act relating to restricting the use of grant funds."

In order to increase a grantee's accountability for grant funds, HB 452 specifies that no more than 10% of a grant may be used for indirect costs.

Since we make grants for specific purposes, it makes good sense to require that the grantee be able to directly account for the vast majority of funds received. Since indirect costs are a kind of "miscellaneous" category for costs that are difficult to break out, ease of bookkeeping dictates the necessity for an indirect cost category. However, we leave this category open for abuse and reduce grantee accountability if we don't place a limit or "cap" on how much of a grant can be spent on "miscellaneous" expenses.

Here's an example. If you've ever gone to a lawyer, you know that the sound accounting system of a law office traces every phone call or every letter typed back to your account; your lawyer simply makes a notation that so many minutes or hours were spent on your case (e.g., 15 minutes, phone call to defendant, client Joe Blow). This is the type of practice that would reduce the necessity for a large indirect cost, enabling the grantee to trace costs with a minimum of extra bookkeeping. Yet provision is made for those categories that are difficult to break out in an organization receiving funding from more than one source (janitorial services, for example, or the basic monthly service fee for a telephone).

Your support and thoughtful consideration of this measure are greatly appreciated.



STATE OF ALASKA 1986 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

REQUEST  
Bill/Resolution No.: H.B. 452  
Title: An Act Relating to Restricting  
The Use Of Grant Funds

FISCAL DETAIL  
Agency Affected: Department of Administration  
BRU: Administrative Services

Sponsor: Martin  
Requestor: House; C&RA; Finance  
Date of Request: \_\_\_\_\_

Components: Municipal Grants

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
<b>TOTAL</b>	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: Attach a separate page if necessary

Passage of this bill would have no fiscal impact upon the Department of Administration.

Prepared By: Gary Bader *Gary M. Bader*  
Division: Administrative Services

Phone: 465-2277  
Date: January 24, 1986

Approved by Commissioner: Eleanor Andrews *Eleanor Andrews*  
Agency: Department of Administration

Date: \_\_\_\_\_

Distribution (by Agency preparing fiscal note):

Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

Senior Citizen Homeowner Exemption  
From Real Property Taxes  
(FY84)

<u>Boroughs</u>	<u>Population</u>			<u>Assessed Value (\$000)</u>		
	<u>Total</u>	<u>Exemption</u>	<u>%Exempt</u>	<u>Total</u>	<u>Exempt</u>	<u>%Exempt</u>
Anchorage	244,030	2,139	0.88	13,199,355	173,133	1.31
Bristol Bay	1,271	7	0.55	112,215	390	0.35
Fairbanks	69,633	607	0.87	3,627,908	39,658	1.09
Haines	1,847	54	2.92	88,882	2,792	3.14
Juneau	28,941	420	1.45	1,493,919	35,596	2.38
Kenai Peninsula	38,919	522	1.34	3,102,640	37,718	1.21
Ketchikan	14,314	299	2.08	711,341	20,556	2.88
Kodiak Island	13,479	111	0.82	651,444	9,074	1.39
Mat-Su	34,030	464	1.36	1,773,384	38,497	2.17
North Slope	12,359	24	0.19	12,354,883	1,343	0.10
Sitka	8,221	129	1.56	756,351	10,232	1.35
<b>Totals</b>	<b>467,044</b>	<b>4,776</b>	<b>1.02</b>	<b>37,872,322</b>	<b>368,989</b>	<b>.97</b>
<u>Cities</u>						
Cordova	2,520	36	1.42	121,884	2,161	1.77
Craig	907	7	0.77	28,381	383	1.34
Dillingham	2,026	23	1.13	112,645	2,603	2.31
Nenana	547	18	3.29	11,233	421	3.74
Nome	3,732	52	1.39	207,050	2,093	1.01
Pelican	213	3	1.40	9,143	103	1.12
Petersburg	3,137	94	2.99	161,668	7,254	4.48
Skagway	790	25	3.16	63,333	1,550	2.44
Unalaska	1,922	6	0.31	95,670	400	0.41
Valdez	3,687	22	0.59	1,720,125	1,631	0.09
Whittier	273	6	2.19	18,510	144	0.77
Wrangell	2,376	77	3.24	106,435	3,956	3.71
Yakutat	462	11	2.38	17,949	516	2.87
<b>Totals</b>	<b>22,592</b>	<b>380</b>	<b>1.68</b>	<b>2,674,026</b>	<b>23,215</b>	<b>.87</b>



Introduced: 1/13/86  
Referred: Community & Regional  
Affairs and Finance

1 IN THE HOUSE

BY MARTIN

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HOUSE BILL NO. 452

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IN THE LEGISLATURE OF THE STATE OF ALASKA

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FOURTEENTH LEGISLATURE - SECOND SESSION

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A BILL

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For an Act entitled: "An Act relating to restricting the use of grant  
funds."

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BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

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\* Section 1 AS 37.05.321 is amended by adding a new subsection to

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(b) Not more than 10 percent of a grant made under AS 37.05.-

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315 - 37.05.317 may be used to pay for indirect costs. In this sub-

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section, the term "indirect costs" means administrative and operating

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costs that are not directly identifiable with the purpose for which

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the grant was made.

"An Act relating to restricting the use of grant funds."

Analysis

The proposed legislation would apply only to grants made under AS 37.05.315 - 37.05.317 and would allow not more than 10% of such a grant to be used to pay for indirect costs. The Department of Health and Social Services (DHSS) awards grants under several statutory bases only one of which is AS 37.05.316 (AS 37.05.315 and AS 37.05.317 do not apply to DHSS grants).

One general comment in relation to this bill is that, if passed into law, for a number of entities now receiving AS 37.05.316 grants it would either force drastic reduction or permit dramatic increase of indirect rates currently authorized. For example:

- a. The department has historically recognized the federally negotiated indirect cost rate for grants. So, for instance, two large, private, nonprofit, Native human services corporations receive grants under AS 37.05.316 and are authorized their most recently negotiated federal indirect cost rates of 27.5% and 29.9%, respectively of their direct program costs, excluding certain costs such as for equipment, contracts and renovations. Other grantees under AS 37.05.316 receive no indirect costs, because they have no federally negotiated rate.
- b. Capital project grants for health and social services facilities under AS 37.05.316 are allowed no indirect costs but are permitted direct administrative costs for staff and services to support/ manage the project. The language of the bill which reads, "...the term "indirect costs" means administrative and operating costs that are not directly identifiable with the purpose for which the grant was made..." would appear to permit payment of up to an indirect cost rate of 10% over and above the limited administrative costs now being allowed by DHSS as direct costs for capital project grants.

Another general comment applicable to HB 452 is that it would not apply to the majority of operating grants administered by DHSS which are currently governed by 7 AAC 78. Under 7 AAC 78, grantees are authorized indirect costs if they have a federally negotiated rate. If the grantee has a rate that has been authorized by the federal government, the most recent such rate is included in the grant award. If the grantee has not negotiated a rate with the federal government, that grantee is permitted to budget only those costs as direct costs that can be shown as attributable to the program.

The unequal treatment that would be generated by HR 452 would not be conducive to the amicable State grantor versus grantee relationship that is desirable to achieve maximum productivity.

An analysis of FY85 DHSS grants revealed that of the grantees who were allowed indirect costs, the total indirect costs of \$3,800,000 amounted to an average of 13% of the total of about \$29,260,000 granted to such grantees. The average percentage of the total cost of grants that was allowed as indirect costs to municipalities was 9.6% and for private nonprofit agencies was 14.9%. However, many grantees, together awarded a total of about \$18,500,000 for FY85, received no indirect costs.

### Recommendation

The Department of Health and Social Services favors an indirect cost rate schema that would be uniformly applicable and equitable for all State grantees.

An entity whose funding source, exclusive of voluntary contributions, for its operating program(s) includes a federal or State source(s) should be allowed:

- (1) the latest indirect cost rate negotiated with the federal government, or
- (2) if no federally negotiated rate exists, the grantee should be permitted to :
  - a. Budget and charge as direct costs those administrative/management costs that can be shown as attributable to the State grant program; or
  - b. Submit a cost allocation plan on forms furnished by the State to apply for and obtain an indirect cost rate to be established by a central State agency charged with this responsibility.

An entity receiving a capital project grant should not be allowed to budget or charge indirect costs. All administrative/management costs attributable to the capital project should be budgeted and charged as direct costs.

Recommended by: Joanne C. Clark  
 Joanne C. Clark, Director  
 Division of Budget & Finance

Dated: February 17, 1986

Approved by: John R. Pugh  
 John R. Pugh, Commissioner  
 Department of Health &  
 Social Services

# STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : \_\_\_\_\_

**REQUEST**

Bill/Resolution No. : HB 452  
 Title : An Act relating to restricting the use of grant funds.  
 Sponsor : Rep. Martin  
 Requestor : Rep. Goll  
 Date of Request : 2/13/86

**FISCAL DETAIL**

Agency Affected : Department of Health & Soc. Sv  
 BRU : Various  
 Components : \_\_\_\_\_

**EXPENDITURES/REVENUES : (Thousands of Dollars)**

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

<b>CAPITAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
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<b>REVENUE</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
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**FUNDING : (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

**POSITIONS :**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** Attach a separate page if necessary

Prepared by : Joanne C. Clark *Joanne C. Clark* Phone : 465-3082  
 Division : Division of Budget & Finance Date : 2/14/86

Approved by Commissioner : John R. Poy *John R. Poy* Date : 2/14/86  
 Agency : Department of Health & Social Services

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

## FISCAL NOTE ANALYSIS


There will be no additional costs to the Department of Health and Social Services (DHSS) if this bill becomes law. If a grant affected by this change is currently funded allowing less than 10% of the total grant in indirect costs, the increase in indirect costs would be granted at the expense of decreased direct costs with attendant reduction in the program services or construction delivered under the grant. Conversely, if an affected grant is currently funded allowing more than 10% of the total grant in indirect costs, the decrease in indirect costs would be granted as increased direct costs for provision of additional program services or construction delivered under the grant.

*Alaska*  
**MUNICIPAL**  
*League*

TELEPHONE  
(907) 586-1325

105 MUNICIPAL WAY, SUITE 301  
JUNEAU, ALASKA 99801

To: Representative Peter Goll, Chairman  
Members of the House Community and Regional Affairs Committee

From: Scott A. Burgess, Executive Director 

Date: February 14, 1986

Subject: HB 452 - Indirect Costs

I apologize for not being present at your hearing on HB 452 but I was out of town. I am unaware of any abuses by municipalities regarding administrative costs on grants under AS 37.05.315 that would call for such legislation. However, recent grant regulations proposed by OMB and the Department of Administration included such a limit. I will be happy to provide the Committee with the comments on the indirect cost restrictions from the public hearings on the regulations.

The League opposed the proposed grant regulations (resolution attached) and, in general, the League does not support such arbitrary limits which do not allow for variations in complexities and costs of projects or programs funded under AS 37.05.315 - 317.

RESOLUTION OF THE ALASKA MUNICIPAL LEAGUE

RESOLUTION 86-18

A RESOLUTION OPPOSING THE PROPOSED  
GRANT ADMINISTRATION REGULATIONS BY THE  
ALASKA DEPARTMENT OF ADMINISTRATION 2 AAC 95.

WHEREAS, the State of Alaska is proposing regulations dealing with grant administration, and

WHEREAS, the proposed grant regulations would be applicable to all non-profit corporations, State agencies, political subdivisions, Regional Education Attendance Areas (REAAs), Coastal Resources Service Areas (CRSAs), traditional and IRA councils, and for-profit entities and individuals eligible for state grant funds, and

WHEREAS, the proposed grant regulations will impose meaningless, conflicting, costly and impractical regulations on the State government itself and all grant recipients, and

WHEREAS, the State has recently adopted regulations for single audit standards for all State grants, these audit standards require the grant recipients be responsible and accountable, and that the grant funds are expended for and consistent with the overall intent of the grant, and

WHEREAS, there are significant messages given by the State of Alaska by these proposed State grant regulations of major concern to the citizens of Alaska, to wit:

- a. State government would grow in order to effectively administer the details involved in these regulations.
- b. Traditional and IRA councils must offer a waiver of sovereign immunity in order to receive a grant.
- c. The State laws governing employee personnel rules and compensation should apply in all cases where State grant funds are used.
- d. The State would hold grantees liable for actions arising from the administration of State grant funds, even when those projects are administered on behalf of the State.



# RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith  
Signature of Camera Operator

7/25/89  
Date