

## **Cost Allocation Methodology** *adopted June 16, 2016*

### **Overview**

This document summarizes the methods and procedures that the San Mateo County Resource Conservation District (RCD) uses to allocate costs to various programs, grants, contracts and agreements. The Cost Allocation Plan (CAP) is used to generate the organization's billing rates using an indirect cost rate (ICR) as a threshold/guideline for billing rates.

### **Indirect Cost Rate and Billing Rates**

An indirect cost rate is a tool for determining the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.

Costs are allocated as indirect, direct, or unallowable<sup>1</sup> based on relatability to projects. Direct costs are expenses that are specifically related to a project (for example: site visits, lab fees, permits, project management). Indirect costs are expenses that jointly benefit two or more programs or other cost objectives (for example: general administration, rent, internet). Unallowable costs are not permitted (federal regulation 2.CFR.225) to be allocated in a CAP (for example: fundraising, donations made by the RCD, and audits).

The total amount of indirect costs is divided by the total amount of direct costs to calculate the Indirect Cost Rate (ICR). The indirect cost rate multiplier is used to create billing rates for staff.

### **Basic Cost Categories**

All RCD expenses fall into one of three categories: personnel, operating, or program. They are then allocated as indirect, direct or unallowable.

Personnel costs include salaries, health care, retirement, employer paid payroll taxes, and any other employee compensation. Personnel costs are allocated as indirect or direct based on how each employee hour is spent (for example hours to a billable project are direct and hours preparing a grant may not be).

Operating costs are non-personnel expenses such as accounting, communications, discretionary, liability insurance, and professional development. Operating expenses in the CAP are based on the

---

<sup>1</sup> An "unallowable" cost means that federal guidelines do not all the cost to be allocated. It does not mean that it is an unallowable expense for the RCD.

Board approved budget. Operating expenses are allocated as direct, indirect, or unallowable based on the nature of the expense.

Program costs are direct project costs that do not support RCD operating expenses, such as the purchase of equipment for a project or payments to contractors. Expenses within the program cost category are pass-through funds and are thus not included in the ICR calculation.

