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Joint Audit and Evaluation Committee
Joint Committee on Federal Relations

THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

SB127: Indirect Costs

Senate Budget & Taxation Committee
Wednesday, January 22, 2025 11:30 AM

In 2018, I sponsored [SB1045](#), which passed both chambers unanimously. This bill adopted the U.S. Office of Management and Budget's (OMB) 10% minimum allowance for indirect costs for all State-funded grants. "Indirect costs"-- more commonly known as "overhead"-- include budget line items such as rent and accounting. These expenditures are required for any nonprofit (or business!) to operate, yet they are insufficiently acknowledged in government grants. These costs have become even more burdensome in these times of high inflation.

Last year, OMB updated its regulations to increase the indirect cost allowance to a minimum of 15% for federal contracts and grants. [SB127](#) proposes that Maryland's indirect cost rate match the federal government's now and into the future. This common-sense approach would eliminate the need for new legislation every time OMB makes an update.

In FY23, Maryland nonprofit organizations were awarded 4,242 contracts, 446 grants, 132 direct payments, and 5 loans, totaling \$1.7 billion. The indirect cost portion of these awards helps nonprofits do their work, and do it *better*-- secure the space, supervise the staff, pay the bills, evaluate the outcomes.... The OMB-allowed 15% overhead rate still falls *far* below the 25% average overhead of for-profit businesses (and it's [45% in service industries!](#)).

Increasing our indirect cost allowance to align with federal standards would make the State's grant process more effective in supporting our vital network of nonprofit providers. This fair, affordable, and efficient change would encourage more nonprofits to offer their valued services to our communities in partnership with State government.

I urge a favorable report on SB127, a top priority bill for Maryland Nonprofits.