



5060 Campus Delivery

Colorado State University

Fort Collins, Colorado 80523

August 29, 2008

Senator Dan Gibbs, Chair

Interim Committee on Wildfire Issues in the Wildland Urban Interface

Dear Chairman Gibbs:

During the August 19 Interim Committee meeting the Colorado Fire Chiefs Association again brought up as one of their issues the topic of indirect rates. This prompted the request to the Colorado State Forest Service to explain indirect rates and what they are used for.

Indirect costs represent the expenses of doing business that are not readily identified with a particular grant, contract, project function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs. Indirect rates are used to distribute those costs to the party receiving the service.

The Colorado State Forest Service has the full support of Colorado State University as it provides service to fire departments and federal partners. This full support includes physical infrastructure such as electricity, heat, office space, furniture, etc., and also includes professional support of legal services, contracts and agreements, purchasing, business and finance, and payroll. Additionally, CSFS internally provides the staffing and equipment necessary to provide the service of processing invoices for fire suppression submitted by fire departments. The costs associated with doing this business service cannot be readily attributed only to paying fire bills and are therefore captured as indirect costs.

The indirect rate that CSFS uses to recover costs of providing service is a negotiated with the U.S. Department of Health and Human services, the cognizant federal agency directed to establish that rate for Colorado state agencies. The rate negotiation follows

stringent guidelines and audit scrutiny and documents actual costs identified by CSU and accepted by the federal government.

The point here is that the indirect rate that CSFS applies to fire cost reimbursements is developed by and agreed to by the federal agencies that are responsible for those reimbursements. CSFS incurs the same indirect costs when providing service for county jurisdiction fires and therefore applies the indirect rate when requesting reimbursement from counties. For example, this would occur when counties use state or federal resources beyond mutual aid or WERF time periods, CSFS would pay the federal agency and then request reimbursement from the county.

The indirect rate assigned to CSFS is 23%.

By comparison:

<u>Organization</u>	<u>Indirect Cost Rate</u>
Colorado Division of Fire Safety	21%
Colorado DNR	27.5% (Overall rate, varies from 0% for Oil and Gas to 37.04% for the State Land Board)
CDOT	48.75%
Colorado DEM	12.3% (24.9% last year)
University of Nebraska - Lincoln	26%
University of Illinois - Chicago	26%
Minnesota DNR	16.78% (federal rate)
University of California - Berkley	19%
Texas A&M	26%
USFS	18.5% (up to 20%)
BLM	up to 20%

These are all publically available figures.

As you can see, the rate used by CSFS is within the range used by other entities, is consistent with other Colorado agencies, and in fact is in the lower end of the range.

CSFS does NOT charge fire departments for the service of processing fire invoices they submit to us for work they have done on federal fires.

[see previous paper provided to the Interim Committee on August 14. (Attachment A)]

CSFS provides this service in the interest of increased efficiency to the fire community (local, state, and federal partners). The efficiency exists because CSFS carries the weight of establishing and maintaining all the agreements necessary for funds to exchange hands.

If CSFS did not provide the service of paying fire departments for their work on federal lands, each fire department would have to negotiate a separate agreement with each federal agency and individual unit within those agencies in order to receive compensation for firefighting. The federal agencies recognize the administrative costs of dealing with each fire department individually would be far greater than the 23% indirect rate that CSFS applies to reimbursement requests. That is why the federal agencies negotiate and agree with the indirect rate applied to fire reimbursement invoices.

In summary, there is a cost associated with providing fire reimbursement services to fire departments, counties, and federal partners. CSFS recovers some of this cost through an indirect percentage rate charged to the entity responsible for suppressing the wildfire.

As you can see by the examples above, the CSFS rate is consistent with rates charged by others.

Sincerely,

A handwritten signature in black ink, appearing to read 'JJ', is positioned above the typed name.

Jeff Jahnke, Director

Colorado State Forest Service

Attachment A.



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Colorado State University

Fort Collins, Colorado 80523

August 14, 2008

Senator Dan Gibbs, Chair

Interim Committee on Wildfire Issues in the Wildland Urban Interface

Dear Chairman Gibbs:

The Colorado State Forest Service attended the Interim Committee hearings on August 5 and 6.

During the hearings, the topic of 'indirect charges' was raised by members of the committee and by parties presenting testimony to the committee.

The context in which indirect charges was mentioned during the committee meetings concerns the Colorado State Forest Service. It is clear to us that the term and use of indirect charges relative to fire invoicing, compensation, and reimbursement for fire suppression services is misunderstood.

The purpose of this letter is to clarify what indirect charges are, when they are applied, and give some specific examples of what the indirect charges support.

Indirect charges refer to expenses incurred in normal business operations that either can't be or are difficult to attribute to one specific project. Indirect charges or the "indirect rate" are also known as the facilities and administration (F&A) rate, overhead, infrastructure fees, or operations fees. Examples of costs that are generally covered by

indirect charges are utility charges, maintenance charges, office space, and administrative staffing, including payroll, purchasing, and staff further described below.

The Colorado State Forest Service and Colorado State University provide a service to both fire departments and to government entities responsible for wildland fire protection by processing requests for payment for resources used to suppress wildfires. In other words, CSFS pays fire departments for responding to wildfires and then seeks reimbursement from the responsible jurisdictional agencies. This service requires CSFS to maintain agreements with all parties; to review all invoices submitted by fire departments for correctness, accuracy, and compliance with agreements; to communicate with fire departments to correct errors in submitted invoice documentation; to document all transactions through established business and finance protocol; to issue reimbursement checks; to develop and submit all documents required of the responsible agency needed to reimburse CSFS; and to maintain records required for state and federal audits.

The cost of providing fire billing service to fire departments is charged to the agency responsible for the fire. The indirect cost rate has been negotiated between CSU and the cognizant federal agency. It has been agreed to in agreements between the state and the federal agencies.

Colorado State Forest Service does not charge fire departments for processing their requests for reimbursement.

The Colorado State Forest Service does charge the jurisdiction responsible for putting out the wildfire.

Example 1: When a fire department responds to a wildfire on federal land, the fire department will send an invoice for their services to CSFS. CSFS will do all the verification of services rendered and pay the fire department. CSFS will then prepare and submit a request for reimbursement to the responsible federal agency. The request will include the indirect cost rate agreed to in agreement with the federal agency.

Example 2: A county uses state resources, such as single engine air tankers or inmate crews, beyond the time covered by the Wildfire Emergency Response Fund. CSFS will invoice the county for the costs of the resource and add the indirect cost rate to cover the administrative costs incurred in providing the resource.

Some within the fire community have questioned what the indirect cost rate covers. As mentioned above, both CSU and CSFS incur costs in providing fire reimbursement services to fire departments and federal partners. Part of the indirect goes to CSU to cover costs of infrastructure, daily operations, and administrative support in processing checks. Part of the indirect goes to CSFS to support the administrative staff that reviews all documentation, meets all university and federal rules, and submits required

documentation through CSU to get payment to fire departments and also get reimbursement from responsible agencies.

In summary, there is a cost associated with providing fire reimbursement services to fire departments, counties, and federal partners. CSFS recovers some of this cost through an indirect percentage rate charged to the entity responsible for suppressing the wildfire.

Sincerely,

A handwritten signature in black ink, appearing to read "JJ Jahnke". The signature is stylized and cursive.

Jeff Jahnke, Director

Colorado State Forest Service