INTRO: [00:00:04]
You're listening to the Fund the People podcast. I'm your host, Rusty Stahl. Each episode, we serve up nutritious, delicious alternatives to the nonprofit starvation cycle. We're the only show focused 100% on investing in America's nonprofit workforce. So whether you work in social justice, social service or something else, we've got something for you. The guests and ideas you'll get access to here will help you to drive equity, effectiveness and endurance, in the social sector. So let's get cooking.

RUSTY: [00:00:44]
Welcome to the Fund The People podcast and welcome to the third installment of our special series Smashing the Overhead Myth Once and for All. Right now Fund The People is in the midst of our spring fundraising appeal. So I want to take a moment to invite you personally to support the work of this podcast -which is ad free, by the way- and to support all of the education, thought leadership, research and influence work we do at Fund The People. Go to fundthepeople.org to donate 25 bucks, 50 bucks or more. You can even become an annual supporter, which would be amazing. Together, we can smash the overhead myth and we can increase the support for and power of the nonprofit workforce. So thank you for being a part of that, thank you for considering a gift to Fund The People.

My guest today is Katie Tetrault, Vice President of Finance and Grants Management at The Annie E. Casey Foundation. Katie will share the Foundation's major shift from paying 10% on indirect costs all the way up to 25% on "indirect costs". As vice president, Katie manages all accounting, financial and grant making operations at the Foundation. She also oversees compliance preparation of Casey's annual budget and implementation of policy, procedures and staff training related to all these issues. I am so pleased to have The Annie E. Casey

Foundation contributing to this podcast and I really appreciate you making time to be with us today. So, welcome to the show, Katie.

KATIE: Thank you. Thanks for having me, Rusty.

RUSTY: Absolutely. Glad to have you here and thank you for making time, we're glad to have you here as part of our special series Smashing the Overhead Myth Once and for All. And for all those listeners who may not be familiar with your institution, The Annie E. Casey Foundation, would you mind giving a brief introduction to the Foundation for folks?

KATIE: [00:03:09]
I'm happy to. So Casey's mission is dedicated to building a brighter future for kids and their families in the United States. Our key areas of focus are making sure that kids grow up in strong families, that their families have access to economic opportunity and that they grow up in thriving and safe communities. Jim Casey was the founder of UPS (United Parcel Service) and he launched the foundation in his mother's name. In 1948, his mother Annie E. Casey struggled to raise him, Jim Casey, and his three siblings as a young widow. We have about 190 employees in our offices in Baltimore and Atlanta and assets of about 3.5 billion.

RUSTY: All right! Thank you for that. And can you please share a bit about yourself, any background and your career motivation, if you want to share any of that and your current role at the Foundation.

KATIE: Great. I am the Vice President of Finance and Grants Management. I lead a team that design systems processes and training related to our grants process as well as all finance functions like financial reporting, payroll and accounts payable. I've been with the Foundation for 12 years. I have a background in accounting, I have to say that it's not very often that an accountant is asked to be on a podcast and so I'm excited to be here today to talk to you about indirect cost rate policies. And I would just say, it's been incredible to be able to use my skills as an accountant and have an impact on the Foundation's mission.

RUSTY: [00:04:50]
That's great. In the first episode of this season we had on Jan Masaoka who runs the California Association of Nonprofits. And one of the things she said to me was funders tend to focus on the conductor of the orchestra, you know the charismatic executive director, but we need the whole orchestra, like everybody matters in our teams and not everybody has to be a CEO to be a leader or to be needed. So we're happy to have the accountants on the show, and I'm definitely not trained in accounting, so I'm a little out of my league here in this conversation about indirect costs and overhead myth issues, so I'm learning as well as I think our listeners are. So actually, really, really happy to have on this series folks who are actually implementing policy and creating practice.

KATIE: Right, and part of our job is to be able to explain these issues in layman's terms. So just let me know if I use any accounting jargon or otherwise that requires further explanation.

RUSTY: Great. Well, I wanted to offer a full disclosure before we get started that Fund The People has benefited from financial support from The Annie E. Casey Foundation in the past, as did the organization I previously led, EPIP (Emerging Practitioners in Philanthropy) when I was there, and those grants came from The Annie E. Casey Foundation through a funding program focused on nonprofit talent management and leadership development, which I really, really appreciated. And a lot of important, I think, groups were supported through that department. So I wanted to give shout outs to Ralph Smith, Donna Stark, Patrick Corvington, Rafael Lopez and Ashley Stewart who have supported my work, and I think offered important leadership at The Annie E. Casey Foundation and in the sector over the years.

So, you know, since that funding area was so relevant to our work at Fund The People and to this podcast, is there anything you, and I know you're not a program executive there, so I hope this is a fair question, but is there anything you can share about what Casey was doing with that program and what happened to it? Because it is gone now, as far as I know.

KATIE: [00:07:17]
Well, so we do have a leadership development portfolio that exists, that focuses on developing the strongest, most diverse talent, and then equipping leaders to achieve better results for kids and families and communities. And you know that work has certainly evolved over time as has, you know, a lot of our work. But I would highlight one thing that has continued is that the Foundation is currently facilitating its 12th cohort of its Children and Family Fellowship Program. That cohort consists of 15 leaders from across the country who work in public agencies, nonprofit organizations and communities. So we're really proud of that work.

RUSTY: [00:08:04]
That's great. And I will say, you know, Annie E. Casey's work in supporting nonprofit leaders is really important. Beyond, you know, grants that we got, but actually my own career and the bridge between my work at EPIP and at Fund The People, because the first program officer I told that I was leaving EPIP as founding executive director after 10 years, was Rafael Lopez at The Annie E. Casey Foundation, because I knew that the foundation and Raphael would take a supportive stance to that departure and not as some other funders did a kind of defensive stance like “oh, we want you to stay” or “oh, this is going to be a crisis” or something like that. And so Rafael was able to get us hooked up with consulting support paid for directly by the foundation through Compass Point and I think another group, and got me executive transition coaching and some consulting for our board of advisors, as a part of our process. And that was really, really helpful for me and for the organization.

KATIE: [00:09:16]
That's great to hear. And I will say that Rafael before his time at the foundation was part of one of the first cohorts of the Children and Family Fellowship. So he benefited from that as well, yeah.

RUSTY: [00:09:27]

Right, he was one of the fellows, that's right. It's interesting, I hope we come back to the theme, because you mentioned results: results based leadership, results based accountability, that is definitely something that's been a consistent theme and idea at Casey from what I've seen. Part of this whole thing of project support and we want to focus on program, direct program costs and not indirect costs, a lot of funders, I think, think about that as we want results, we want the program results and so, that's how we're going to limit our dollars to these programmatic “direct costs”. So I think it's interesting because Casey has been such an advocate for results and really focusing on results for children and families, that you all have taken a shift in how you think about indirect costs. So that's just some of what's going on in my mind.

KATIE: [00:10:20]
And it is definitely related because we're talking about talent development, developing leaders, that takes time, that takes resources beyond the direct funds that you receive from a project-based grant.

RUSTY: Exactly, takes time and money. So with that as our preface, let's get into our primary focus for this conversation. You're here to share the story of how since about 2019, I think, Annie E. Casey Foundation has transformed the way that you all cover indirect costs in your restricted project and program grants. So, excited to hear about where the foundation was before 2019 on this topic of investing in the indirect costs of grantee organizations and maybe you could even say a little bit, remind folks of what we mean by that, and then what was the conversation like internally then when you were getting started with this journey, internally and with grantees.

KATIE: [00:11:27]
Sure. Well why don't I start with defining indirect costs. Indirect costs are the cost of really your infrastructure. So the team that I lead, financing grants management, your human resources, all the related costs that go along with those people like building utilities, things like that. It takes infrastructure to run a nonprofit organization regardless of how efficient you are. And we need to fully fund the indirect costs of our grantees so that they can be effective organizations. So, I'll just start with that.

Prior to 2019 like many organizations and funders in the field, Casey had a low indirect cost rate cap on project based grants. So what that means is that indirect costs on a grant could not exceed 10% of the direct cost on the project. That was pretty commonplace at the time, that you had a cap of either 10 or 15%, something in that range. And I think the historic thinking was that funders really wanted to make sure that their grant dollars were going directly to the programs they cared most about, but as I stated, it takes more than that to run a nonprofit. So in 2019, how that was the turning point was that there had been some other research in the field, a group of funders had gotten together and worked with Bridgespan, and they had published the data, which they were calling the starvation cycle of not fully funding nonprofits with what you were asking them to do. So at Casey, we read the analysis, we read the article and we knew that we were not fully funding the indirect costs of our grantee and that we needed to take a closer look at this policy and make a change.

RUSTY: That's great. I mean it's not easy to make changes like that in a big foundation that's professionally run and has its various silos internally and its culture. And I'm curious, you know, how you got more information and how you were able to find kind of a direction and begin this journey and even at the beginning, how do you raise this issue? Because it seems maybe people wouldn't even want to hear it internally. I don't know, I've no idea there, but I mean at any big foundation, they might not want to have that conversation.

KATIE: Well, so Casey is very focused on data and the data was clear, and it was not hard to get support that there was a problem. You know, if we're committed to our values and principles of supporting our grantees to reach their full potential and achieve their mission, thus achieving our own mission, it was not a difficult case to make that we needed to consider this. But, as sure you've learned as you've talked to a number of other foundations, the path forward is not clear and when we began the conversations, we did not know where we were going to land or how we were going to get there. Luckily, the private foundation space is very collaborative. None of us are in competition with each other, we're all kind of cheering each other on I would say and building off of what works and what is the best practice. And so that's where we started.

Well, so back up a second, the first thing that we did was we increased our indirect cost rate cap to 15% in 2020 as we knew we were going to go on this journey to make a longer term change. That was kind of step 1. But then I would say step 2 was reaching out to other foundations who had been down a similar path and process to find out how they had, how they were able to make change at their organizations, and that led us to doing a grantee portfolio analysis where you can pull from 990 publicly available data what your grantees are reporting as their indirect costs. We were able to pull that information for all of our grantees for a specific year and use that data to have the conversation.

RUSTY: So the IRS form 990, that most nonprofits have to submit.

KATIE: Yes.

RUSTY: Okay. Did you all do that directly or with that through the BDO FMA?

KATIE: Yes, we engaged BDO FMA, they have experience doing this, they had already done this for a few other foundations and had helped them have the conversation internally. So again, being able to use the knowledge and use what has already worked in the field to have our conversation, certainly helped move the issue forward.

RUSTY: [00:16:38]
So kind of the data and the backup of this larger group or this group of other funders. And did you change from 10 to 15% before the pandemic struck or after, or was that part of a reaction to everything that happened, or that was really totally separate?

KATIE: [00:16:58]

It was separate, but it was simultaneous. So, as I said, the conversation began in the fall of 2019 and we took that first step to the 15% cap in January of 2020, so right as the pandemic was starting, not as part of a response to the pandemic.

RUSTY: Okay. One of the things we talked about in our prep conversation was the focus on racial equity as you went on this learning journey and change journey. So, Annie E. Casey Foundation is very concerned about racial equity, how did that concern come into play in the learning and research process around indirect cost rates?

KATIE: [00:17:44]
The Casey Foundation is concerned about equity in everything that we do. We want all kids to have a brighter future and we know that not everyone is on a level playing field. In the US significant racial disparities exist for kids across the country and so we think about equity related to everything we do, whether its infrastructure, the grantees that we give funding to, the staff that we hire, the policies we Implement. So we knew that equity was something that we wanted to pay attention to when we were considering this policy.

We have for a number of years, I believe it's close to 10 years, collected demographic data on our grantees that we use to report, hold ourselves accountable to funding a diverse group of grantees, and we report to our board of trustees annually the percentage of grants that we have made that go to what we consider to be organizations of color. So that would be organizations that have greater than 50% people of color and then, the chief executive is a person of color. So we were able to, when the grantee portfolio analysis was done, we were able to look at indirect cost rates for all of our grantees, and then also look at indirect cost rates for grantees that we consider to be organizations of color.

RUSTY: So as you proceeded with this journey, what were some of the concerns internally as you set out to establish a new policy?

KATIE: We were concerned first with fully funding our grantees and thinking about equity as we are fully funding our grantees, we were also concerned with the overall financial health of our grantees, we want to set them up for success, you know, we don't want our funding policies to jeopardize their financial health. And then I'd say lastly as the person whose team oversees the grant process, we wanted whatever policy we landed on to be pretty simple. We didn't want it to add a lot of steps to the process and we wanted to keep the process as smooth as possible.

RUSTY: That's great, I'm sure people appreciated that, both internally and in the grantee groups. You know, one of the things that when I spoke with Rodney Christopher in the first episode of this Smashing the Overhead Myth series, we talked a little bit about when there might be conflict between two competing goods, one being financial health for a non-profit like having a reserve fund and then the competing good being the staffing well-being and health. So like adequate compensation and benefits and professional development. So, I'd be curious, as we keep talking about how do you think about, from your vantage point, those two issues… at Fund The People we've been saying, you know, a lot of funders focus on financial health of grantees and programmatic health or strategic health of the grantees, but not the human health. And so we've been advocating that that's really a third pillar that funders ought to be looking at, especially coming out of the pandemic and all of the burnout and isolation and overwork the people are experiencing. So, I know it wasn't in the questions I prepared for you, but as we keep talking, I'd be curious to hear your thoughts on that.

KATIE: I would just agree. I mean, they're all important. I think if you don't have strong financial health, how are you going to have the others? How are you going to have strong staff? How are you going to have a strong programmatic units? I think they're all interrelated and all equally important.

RUSTY: Well, that's a good way of saying it. It's really a puzzle and we need all the pieces to fill out the picture. Thank you for that, that's a great way to think about it. Can I steal that? I'll give you credit, but that's great. Okay, so tell us about what policy you came up with as a result of this process, people want to know, curious minds want to know.

KATIE: So we came up with a tiered policy, the policy provides indirect costs at either 15% 20% or 25% of the direct cost of a project, based on the size of the organization. And the data is really what got us there. When we looked at our grantee portfolio analysis, we saw that grantee budget size and indirect cost rates were inversely related. So smaller organizations tended to have higher indirect costs rates and vice versa. That is consistent with the other data in the field that nonprofits as a whole, there's certain economies of scale that are achieved at larger organizations, and so that is also how equity comes into play here. When we looked at our grantees that we consider to be organizations of color, they tended to be smaller than the overall size or average grantee for Casey and so because of that, the organizations of color also tended to have higher indirect cost rates. And so seeing that data, our team knew that a one-size-fits-all approach would not meet the foundation's equity goals.

RUSTY: Wow, it really gets at an interesting and complex problem about who gets money, right? Like, who gets to grow, which organizations are considered able to grow and deserving of that investment. So…

KATIE: [00:23:38]
I agree. I think that could be a whole other conversation. I think that we've hypothesized that organizations of color don't have access to the same funding as other organizations. But again, that's not something that was researched further as part of this project.

RUSTY: [00:23:55]
Right. So, that's the policy you all came up with and I think that I haven't heard of anyone else that was part of this Real Cost Real Change, which you all weren't, but there were like a dozen groups that were and there are some of which have been changing their policies. And I think you're unique among those in creating the tiered structure. So, it's really, really interesting. So when did the new policy start and what has it been like implementing the new policy for your staff and for grantees and whoever else?

KATIE : [00:24:35]
The new policy started in January of 2022 and overall the implementation has gone really well. We had a communications plan that was in place, both internally and for our grantees, again leveraging on best practices and what other foundations have learned when they have changed their indirect cost rate policy. We made updates to our system to try to make this as seamless as possible. Once a grantee tells us what their budget size is, the indirect costs are already calculated for them in our online platform. So that was our way of keeping it as simple as possible. I would say that I've been pleasantly surprised and excited about the feedback that we have received in the field. Regardless of the policy that other foundations land on, I think this gives them something else to think about. I've had requests to talk to other funders, other funding groups, board of directors and just explaining the issue and how you need to consider it, really in all grant making policies, but particularly in your indirect cost rate policy. I've also had a few foundations, including a foundation that's even larger than us, reach out and tell me that they are implementing a policy based on ours, and based on the data that we've made available and shared with the field. So that's been incredibly exciting to see.

RUSTY: How do you think it's working for the grantees and how will you get feedback to know if further changes are needed?

KATIE: Informally, we've received very positive feedback that grantees appreciate the recognition of what it takes to fund a nonprofit. We also had included grantees in the process of developing a policy we had. Before we landed on the final policy and rolled it out, we had a focus group of grantees, so we were able to get some feedback throughout the process. But thus far the feedback has mostly been informal. Every three years we do a grantee perception survey, which is in an anonymous survey that goes out to all of our grantees for a particular year, and the next time we do that survey we plan to include a question related to, you know, are we fully funding the cost of the project.

RUSTY: [00:27:06]
Great. So that's the Center for Effective Philanthropy research with the grantee perception reports?

KATIE: [00:27:12]
Yes, that's what it is.

RUSTY: [00:27:13]
Fabulous. Well I'm a big fan of that grantee perception report process. It's so great that you're using it. We’ll actually be at the CEP conference this fall doing a session about how funders can respond to burnout and crises in the workforce of their grantees. So, I'm looking forward to hearing from the Center for Effective Philanthropy about what they're learning through their grantee perception reports these days. I think that's a fantastic resource both for funders and nonprofits to have that opportunity to give and get feedback.

So, looping back to what we talked about a little earlier with, you know, financial health and staffing health and program health, how do you think increased foundation support for indirect costs of grantees might help grantee organizations be better positioned to invest in their staff?

KATIE: As I mentioned before, it takes infrastructure to run a nonprofit. No organization, nonprofit or for-profit, can exist without infrastructure costs and if we are not fully funding our fair share of the infrastructure costs, the grantee has undue pressure to make up that funding gap elsewhere. And so if we remove that pressure, remove the need to come up with general support or whatever it is from other sources and we can fund our fair share of the indirect costs we're having a positive impact on the grantees. They're going to, you know, achieve better results, achieve their mission and then it will ultimately end up with Casey also, you know, having greater impact in achieving its mission.

RUSTY: [00:29:01]
Yeah, well I'll just put in another plug here, if I may, you know, I think it would be so amazing if Casey did more with that nonprofit talent management and leadership development, because that would be such a good complement to the way you've addressed organizational wellbeing and financial health, through this new indirect cost policy, you know, because that was also a huge contribution in thought leadership, as you're doing again with this indirect costs. Like people read all the materials and reports that that program produced, it was very influential in the field as well. And thinking about, you know, the nonprofit workforce, folks like Frances Kunreuther and many others wrote great reports that were published by Casey, as well as supporting organizations through that work. So that's my extra plug for that.

KATIE: [00:29:58]
I will let the leadership development team know that you are a big fan of their work.

RUSTY: [00:30:02]
Big fan, big fan, keep building that team. All right, so you mentioned during our prep conversation that you know and we all know there's a big push in the field for multi-year general operating grants. You know, folks like Grantmakers for Effective Organizations (GEO) and other groups have been advocating for that in the field, but that's not how Casey really does its grant making. And, you know, even Rodney Christopher who helped with this Funders for Real Cost Real Change, encourages maximum flexibility within project grants. So could you say a bit more about, you know, why that's not how Annie E. Casey does its grant making? I think people would be interested to better understand that.

KATIE: [00:30:51]
Casey is focused on data, measuring impact and achieving results, that's hard to do when you give general support grants, particularly to organizations who may have a number of different current projects, some of which may not be mission aligned. And so, that's really why our primary focus is project based grants. We do give some general support grants in circumstances. I'll also note that since you brought up Rodney Christopher, he recently blogged about there being a time and a place for project based grants and that when you are doing

project based grants, you really just need to make sure that you are fully funding what you asked the grantees to do, and I think that's why it's even more important for Casey to make this change related to its indirect cost rate policy.

RUSTY: Right, that makes sense. If you're going to do restricted focused program and project funding, at least pay your part of the…

KATIE: Pay for what you're asking for, yeah.

RUSTY: And really, it takes everybody doing that, because if only Casey is stepping up to do that, those grantees still need that similar level of indirect support from their other funders who are funding other projects or other pieces of projects. So, really is an issue of the commons that, you know, all funders need to be stepping up on this front to help fully fund projects and programs and organizations.

KATIE: And again that's why it's been so exciting to see the feedback and the interest that we've received from other funders. Casey is a small piece of the grant making pie in the US and so if we can have an influence on how other funders grant make, that can increase our impact exponentially.

RUSTY: [00:32:39]
So, as we begin to wrap up here, curious in what ways might the foundation's new policy need to be tweaked or reformed in the future, if you have any thoughts on that.

KATIE: [00:32:52]
So I think that's something that we need to continue to monitor, every few years do another grantee portfolio analysis to see what the indirect cost rates are for our grant-making portfolio. And then also monitor feedback that we receive from our grantees, whether it be informal or formally through the Center for Effective Philanthropy’s grantee perception survey around, you know, are we funding the true cost of what it takes to do the work.

RUSTY: [00:33:21]
Great, that sounds really good. Where can listeners read more about all this from Annie E. Casey Foundation?

KATIE: [00:33:28]
So first, I posted a blog to our website www.aecf.org which you can find, it's from early 2022, where I talk about our journey and how we landed where we landed.

RUSTY: [00:33:45]
Great. So we'll put a link to that blog post. So again, that's aecf.org. And the blog post is called The Casey Foundation’s Journey Toward Equitable Grantmaking. We will definitely post a link to that. Are there other materials or, you mentioned that you've made data available to the field

from those, I guess from the 990s or, are there other resources like that that are available from the foundation that people can find?

KATIE: [00:34:13]
So the blog includes the data, the high-level data that was part of the grantee portfolio analysis.

RUSTY: [00:34:21]
All right. Are there ways that listeners can connect with you and the foundation?

KATIE: [00:34:28]
Yes, we have a whole host of information around our portfolios, our focus areas, including our talent and leadership development work, which you can read about on www.aecf.org. And then I am an active member of LinkedIn and so you can find me there. Katie Tetrault. My last name is spelled t-e-t-r-a-u-l-t.

RUSTY: Fantastic. Well, we will definitely put up a link to you on LinkedIn as well, if that's okay, so people can find you. Katie Tetrault, thank you from the Annie E. Casey Foundation, it's a real pleasure to have you and thanks for sharing Annie E. Casey Foundation's learning journey with us.

KATIE: Great, thank you for having me Rusty. I'm happy to be here.

NEXT EPISODE TEASER [00:35:34]
Hope you enjoyed this conversation with Katie Tetrault about The Annie E. Casey Foundation and their learning journey on indirect costs. Tune in for our upcoming episode when I'll sit down with Kenneth Jones, senior vice president and COO of the MacArthur Foundation. We'll talk about MacArthur's journey as part of the Real Cost Real Change collaborative, resulting in major changes in how they support the full costs of grantee organizations. You've got it right, this will be the next installment of our special series Smashing the Overhead Myth Once and for All, and it's only from your friends at the Fund The People podcast. I'll talk to you then.

OUTRO:
Thanks for listening to Fund the People Podcast! Visit fundthepeople.org and click on "Podcast" to find a transcript for this-and other-episodes, all the links discussed in the episode, and more about our guest. If you enjoyed the episode, we'd really appreciate a 5-star rating and a quick review if possible on Apple Podcasts - it helps more people to find the show. Thank you for driving change in our communities. Remember to keep your tank full, take care of yourself, and take care of one another.