

## Facilities and Administrative (F&A) Costs

(Adapted from OSU F&A Costs and MIT F&A Costs)

### Overview of Rate Calculation Process

The total cost of a research project is comprised of two components; direct costs and facilities and administrative (F&A) costs. Direct costs include those that can be identified specifically with a particular sponsored project, or that can be directly assigned to a particular project with a high degree of accuracy. F&A costs are those costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project.

F&A refers to two broad categories of indirect costs: facilities and administration. Each of these categories is made up of sub-categories, or “cost pools”. “Facilities” includes depreciation of building and equipment, interest on debt associated with capital assets, operations and maintenance of physical plant, and library expenses. “Administration” includes general administration and other general expenses of the institution, departmental administration, sponsored projects administration, student administration and services, and all other types of indirect costs not listed under Facilities.

F&A costs are incurred for the benefit of the Institute’s three primary functions (i.e. direct cost objectives): a) Instruction and departmental research, b) Organized research and c) Other institutional activities. Since the benefit associated with each function cannot be precisely measured, the costs are assigned (allocated) according to methods prescribed in federal regulations, primarily Office of Management and Budget (OMB) Circular A-21: Principles for Determining Costs Applicable to Grants, Contracts, and other Agreements with Educational Institutions. The allocation of F&A pools to direct cost objectives is based on statistics such as expenditure dollars, square footage of space occupied, population (i.e. number of faculty, students and staff), and salaries and wages.

In determining the full cost of an instructional activity or a research project, the associated F&A cost should be added to the direct cost. Although F&A cannot be directly assigned, these costs are incurred for infrastructure and administrative support services that are essential to the operation of the Institute and its programs. For example, it would be impossible to teach or to conduct sponsored research without incurring costs for buildings, equipment, utilities, maintenance, libraries, administrative services, etc.

To the extent that F&A costs benefit externally sponsored research activities, these costs should be reimbursed by the sponsor along with the direct project costs. Reimbursement for F&A costs is accomplished through the use of a rate that reflects the average of all F&A costs associated with all sponsored research programs. For example, if the Institute incurs an average of 60 cents in F&A costs for every dollar of “modified” direct research expenditures (see the following paragraph for a description of “modified” cost), the F&A rate would be 60%. This rate is based on historical cost data and other pertinent factors, such as new construction or changes in Federal regulations, and is subject to audit and negotiation with the Federal government. It is the rate that applies to all externally supported research activities.

The F&A rate for sponsored research is the ratio of total allowable indirect (i.e. F&A) cost divided by modified total direct cost (MTDC). Allowable indirect costs include expenditures for functions which, according to A-21, provide a benefit to research, and exclude expenditures that have no benefit to research or are expressly unallowable for reimbursement purposes. MTDC consists of

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total direct costs less certain categories of exclusions (modifiers) as specified in OMB Circular A-21. In addition to being excluded from the calculation of the F&A rate, expenditures for modifiers that are charged to sponsored agreements are not subject to application of the F&A rate as these expenditures are deemed to be non-overhead bearing. Per A-21, standard modifiers include expenditures for equipment, capital expenditures, tuition remission, rental of space, scholarships and fellowships, and the portion of a subcontract in excess of \$25,000.

### Description of Facilities and Administration Cost Pools

General Administration and General Expenses: Included in this category are costs that have been incurred for the general executive and administrative offices of the Institute and other expenses of a general nature which do not relate solely to any major function. Examples include the Offices of the President, Sr. Vice-President and Vice-Presidents, the Office of the Provost, the Controller's Accounting Office, Personnel Office, etc.

Departmental Administration: Costs that have been incurred for administrative and supporting services in departments, interdepartmental laboratories or centers and which provide a benefit to the research projects in these units. Included in this category are Departmental Heads and Institute Professors, Academic Deans and Deans Office expenses, Laboratory Directors and academic department support staff.

Sponsored Programs Administration: Includes costs incurred by a separate organization established primarily to administer sponsored projects. This pool includes the Office of Sponsored Programs, a portion of the Technology Licensing Office, and the Office of Research.

Building Depreciation: The portion of the cost of buildings and capital improvements to buildings and land which are used for research, excluding buildings that have been Federally funded. For most buildings, the original cost is amortized over a fifty year useful life.

Equipment Depreciation: The portion of the cost of equipment used for research, excluding equipment purchased with Federal funds or on non-Federal sponsored agreements. Equipment is depreciated by various useful lives according to the class of asset.

Interest Expenses: This pool includes the cost of interest on debt-financed research facilities that is paid to an external party.

Plant Operations and Maintenance: Expenses that have been incurred for the administration, supervision, operation, maintenance, preservation, and protection of the Institute's physical plant. Normal plant costs include utility, maintenance and custodial costs, ordinary repairs, care of grounds and buildings, the Physical Plant Office, etc. Special plant costs include the cost of renovations to buildings and space changes.

Library: Includes costs incurred for the operation of libraries, including the cost of books and library materials and library administration.

**The University expects inclusion of the appropriate F&A costs in all proposal budgets, unless the sponsor specifically prohibits them, and it expects that F&A costs will be recovered to the maximum extent possible.** Since these are real costs associated with performing research, costs not recovered from the sponsor are extracted from the Departments or Units (typically in the form of "cost-share").

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1. **F&A cost rates** are determined in conjunction with auditors from the U.S. Department of Health and Human Services. There are separate rates for different types of activities, but in each case the rate is calculated and charged as a percentage of modified total direct costs (MTDC). To determine the MTDC base to which the F&A rate will be applied, add all direct costs then subtract equipment, capital expenditures (alterations and renovations), charges for patient care and tuition remission, off-campus space rental costs, scholarships and fellowships, and the portion of each subgrant or subcontract in excess of \$25,000.

When an F&A rate lower than the appropriate university approved rate is used, the rate is applied to all direct costs (i.e., the base to which the F&A rate is applied is total direct costs, *not* modified total direct costs), unless the sponsor specifically excludes certain categories.

## 2. Facilities & Administrative (F&A) Costs on Subcontracts

If a project does not recover F&A costs at the appropriate negotiated rate, the F&A cost base is total direct costs (TDC), which includes the entire subcontract amount, unless the sponsor specifically excludes subcontract costs. In addition, any F&A cost restrictions are passed on to the subcontractor.

If a project recovers F&A costs at the appropriate negotiated rate, only the first \$25,000 of the subcontract is subject to F&A costs. In a multiple-year project, the total subcontract amount across all years is considered in calculating the F&A costs. Thus, if organization X will receive a subcontract for \$40,000 in each year of a four-year project, F&A costs are applied only to the first \$25,000 in year 1. However, if the budget is \$10,000/year, F&A costs would be applied to the entire subcontract amount for years 1 & 2; to \$5,000 in year 3; and not at all in year 4.

## 3. Components of Research and Development F&A Cost Rate at OSU:

<b>Component</b>	
Building Use/Depreciation	4.9%
Equipment Use/Depreciation	4.2%
Interest	2.0%
Operations and Maintenance	13.3%
Library	2.1%
Administration (General, Departmental, and Sponsored Projects)	26.0%
<b>TOTAL</b>	<b>52.5%</b>

Based on the F&A rate  [agreement](#), for projects funded on or after 07/01/09, the rates are:

<b>Activity</b>	<b>Period</b>	<b>On-Campus</b>	<b>Off-Campus*</b>
Research rate	7/1/09 – until renegotiated	52.5%	26%
Instruction	7/1/09 – until renegotiated	52.5%	26%
Other Sponsored Activities	7/1/09 – until renegotiated	36%	26%

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Rates are applied to a Modified Total Direct Cost (MTDC) base i.e., to all costs except equipment (stand alone items with a useful life of a least 1 year and a unit cost of at least \$5,000); alterations and renovations; patient care costs; tuition; rental of off-site facilities; subcontract and subgrant costs in excess of \$25,000.

\*Off-campus rate applies to those projects (a scope of work or activity with a separate budget and accounting) for which 50% or more of the salary and wages are incurred in facilities not owned and controlled by the University and for which rent is allocated as a direct cost to the project.

These rates should be used in all new proposals (unless the sponsor has a different rate). Most awards already in place will continue to be charged the F&A rate at which they were awarded.

**4. Benchmarks:** below is a table listing current F&A rates at the top 9 CVMs in the US along with research expenditures for that year: note a lack of correlation between F&A rates charged and research expenditures. For instance, Cornell charges a high F&A rates and does not have reduced rates for clinical trials yet has the highest volume of research expenditures for all CVMs; likewise, Penn charges the highest rates and ranks 4<sup>th</sup> in research expenditures.

Institution (by rank)	F&A-Research	F&A-Clinical Trial	Research Expend. 2009
Cornell	59.0	NA	59,056,431
Colorado St.	47.0	34.6	56,955,751
UC Davis	48.5	32.5	41,592,321
U Penn	60.0	36.0	32,353,627
NCSU	49.0	35.0	12,647,366
OSU	52.5	36.0 (CVM 26.0)	13,095,397
Tex A&M	46.5	26.0	12,386,478
U Wisconsin	48.5	28.0	19,999,805
Michigan St.	52.0	41.0	19,819,545