

### Facilities and Administrative Costs (Indirect Costs)

Indirect costs are costs paid by agencies that enter into grants or contracts with the University for research work. They are also called overhead charges, but formally are called Facilities and Administrative Costs (or F&A costs).

The most important thing to note about F&A Costs is that they are provided to the University as a **reimbursement** for real costs incurred in maintaining the infrastructure for research. When the university commits hiring a faculty member, in many cases it commits to providing a laboratory and support so that they can compete for grants, train graduate students, and do meaningful research. Some of the costs of providing that commitment include building the lab (and depreciating the costs of construction); providing lights, water, gas, vacuum and distilled water; emptying the trash; keeping a hazardous waste office and disposing of dangerous waste; stocking the library with essential journals for the work; paying the librarian to take care of the journals; providing repairs in the lab; keeping the library working; paying professionals to do accounting, payroll, ordering, travel for the grant activities; providing compliance officers to make sure the work complies with Federal and State Regulations, and so on. Those costs are indirect---they cannot be specifically tied to an individual grant but they are costs created in support of most grant-funded work.

The F & A Cost rates are determined in negotiation with one of two Federal auditing agencies. In OSU's case, the university conducts its negotiations with the U.S. Department of Health and Human Services. The institution does not get to choose with whom the negotiations are conducted. In that negotiation OSU documents the costs it has incurred for supporting research in a one-year period (called the base year) immediately preceding the initiation of negotiations. For OSU, DHHS looks at expenditures in about eight or nine different categories: on-campus research, off-campus research, ship support costs, on-campus training, off-campus training, and others. The important point is that the rate is set looking backwards---what was spent in the base year.

<b>By Agency</b>	<b>% of Total Modified Total Direct Cost</b>	<b>Calculated F&amp;A Rate</b>	<b>Actual F&amp;A Recovery</b>
Total Federal	57%	37.4%	33.2%
Other Universities	9%	45.1%	32.0%
Local Governments	1%	38.3%	36.7%
Cooperative Agreements	1%	49.6%	11.6%
Private Foundations	2%	41.1%	9.9%
Associations and Commerci	12%	45.3%	29.8%
Affiliated Foundations	5%	46.0%	0.0%
State of Oregon	13%	31.9%	17.5%
<b>Total</b>	<b>100%</b>	<b>42.6%</b>	<b>28.3%</b>

However, the negotiated rate is a maximum. Many agencies or organizations do not pay the full F&A recovery rate. The Federal government funds the most research at OSU (as measured by modified total direct costs), but there are many other funding entities. Every couple of years the university reviews what

the F&A recovery would have been if charged at the full negotiated rate vs. what was actually recovered on the grant award. Most non-governmental funding sources (and many governmental agencies) pay less than the negotiated rate. The rate can also vary greatly

between colleges, depending on where the faculty receive funding. The important point is that the F&A rate represents real costs incurred for supporting research. When OSU recovers less than the full negotiated rate, those costs are borne somewhere else in the University’s budget.

When a research dollar is spent, the F&A dollars are also charged to the grant and show up as general revenues to the E&G budget. Right now that revenue totals about \$43M a year<sup>1</sup>. Those revenues are budgeted back out roughly in proportion to the reimbursement categories (some percentages like the Research Equipment Reserve and Building Use Credits are a little higher than the negotiated percentage as a strategic investment).

	FY17 Dollars	Calculated F&A Recovery	Actual F&A Rate
Research Centers	4,394,105	43.7%	32.5%
Agricultural Sciences	7,184,249	43.9%	20.6%
Veterinary Medicine	774,358	46.1%	38.3%
Forestry	1,675,530	43.7%	17.6%
Liberal Arts	426,915	42.9%	31.5%
Science	3,061,841	44.7%	37.5%
Earth, Ocean, Atm. Sci.	8,571,756	43.7%	34.3%
Business	13,559	43.6%	20.5%
Engineering	9,164,291	44.6%	35.7%
Education	61,742	43.5%	20.7%
Public Health	3,480,643	43.2%	25.5%
Pharmacy	948,724	41.4%	29.8%
Others	671,770	38.2%	13.7%
<b>Total</b>	<b>40,429,483</b>	<b>42.6%</b>	<b>28.3%</b>

OSU Budget Unit or Category	FY20 Budget	
	Proposed Distribution	Dollar Amount
Research Equipment Reserve	8.0%	3,508,800
Building Use Credits	4.0%	1,754,400
Colleges and Centers ROH	31.0%	13,596,600
Libraries	6.0%	2,631,600
Information Services	6.0%	2,631,600
Graduate School	1.0%	438,600
Research Administration	8.0%	3,508,800
Finance and Administration	4.0%	1,754,400
University Business Centers	4.0%	1,754,400
University Infrastructure		
Facilities Services	11.0%	4,824,600
Capital Planning	2.0%	877,200
Energy Operations	10.0%	4,386,000
Central Reserves	5.0%	2,193,000
	<b>100.0%</b>	<b>43,860,000</b>

Rate Components	Rate	Capped Rate	Share of Total
<b>Administrative</b>			
General Admin	12.62%	12.30%	26.15%
Departmental Admin	10.17%	9.91%	21.07%
Sponsored Projects Admin	3.89%	3.79%	8.06%
<b>Facilities</b>			
Building	3.24%	3.24%	6.89%
Equipment	1.90%	1.90%	4.04%
Interest	1.37%	1.37%	2.91%
Operations & maintenance	10.51%	10.51%	22.35%
Library	2.71%	2.71%	5.76%
<b>Utility Allowance</b>	1.30%	1.30%	2.76%
<b>Total</b>	<b>47.70%</b>	<b>47.03%</b>	<b>100.00%</b>

The left table shows the components of the negotiated rate (the “capped” column is because the administrative part is not allowed to be larger than 26%). The right table shows where the F&A dollars are budgeted by OSU’s organizational structures. Those units or functions represents costs in support of research. The colored lines show a couple examples of the connections between rate and budget. The match isn’t perfect as the rate is negotiated by accounting categories not organization. But the F&A funds go back to support the service for which they are charged.

<sup>1</sup> This does include F&A recovery from the construction of the three ships funded by NSF and we do expect some decline in total F&A recovery as that project comes to an end.