



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

The most important thing to note about F&A Costs is that they are actually a **reimbursement** to the University for real costs incurred by OSU for maintaining the infrastructure for research. When the university commits to hiring a faculty member, in many cases, it commits to providing a laboratory and support so they can compete for grants, train graduate students, and do meaningful research. Some of the costs associated with that commitment include building the lab (and depreciating the costs of construction); providing electricity, 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 operating; paying professionals to do accounting, payroll, ordering, travel for the grant activities; providing compliance officers to make sure the research work meets Federal and State Regulations, and so on. These costs are indirect---they cannot be specifically associated with 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. For that negotiation, OSU documents the costs incurred for supporting research during the one-year period (called the base year) prior to 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. An important point to note is that the rate is set looking backwards---it is based on what was spent in the base year.

The rate negotiated is a maximum rate. Many agencies or organizations do not pay the full F&A costs (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

By Agency	% of Total Modified Total Direct Cost	Calculated F&A Rate	Actual F&A Rrecovery
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%
Total	100%	42.6%	28.3%

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 costs are also charged to the grant and the *reimbursement* is recorded as general revenue in the E&G budget. Right now, that cost recovery revenue totals about \$40M a year. These 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).

The left table below 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 below shows where the F&A dollars are budgeted by OSU’s organizational structures. These units or functions represent costs in support of research. The colored lines show

examples of the connections between rate and budget. The match is not perfect as the rate is negotiated by accounting categories not by organization. However, the F&A cost recovery funds do go back to support the service for which they were charged.

	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%
Total	40,429,483	42.6%	28.3%

Rate Components	Rate	Capped Rate	Share of Total	Proposed for FY19	
				OSU Budget Unit or Category	Proposed Distribution / Dollar Amount
Administrative					
General Admin	12.62%	12.30%	26.15%	Research Equipment Reserve	8.0% / 3,296,000
				Building Use Credits	4.0% / 1,648,000
Departmental Admin	10.17%	9.91%	21.07%	Colleges and Centers ROH	31.0% / 12,772,000
Sponsored Projects Admin	3.89%	3.79%	8.06%	Libraries	6.0% / 2,472,000
Facilities				Information Services	6.0% / 2,472,000
Building	3.24%	3.24%	6.89%	Graduate School	1.0% / 412,000
Equipment	1.90%	1.90%	4.04%	Research Administration	8.0% / 3,296,000
Interest	1.37%	1.37%	2.91%	Finance and Administration	4.0% / 1,648,000
O&M	10.51%	10.51%	22.35%	University Business Centers	4.0% / 1,648,000
Library	2.71%	2.71%	5.76%	University Infrastructure	
Utility Allowance				Facilities Services	11.0% / 4,532,000
				Capital Planning	2.0% / 824,000
Total	47.70%	47.03%	100.00%	Energy Operations	10.0% / 4,120,000
				Central Reserves	5.0% / 2,060,000
					100.0% / 41,200,000