Facilities and Administrative Costs (Indirect Costs)

Indirect costs are costs paid by agencies that award grants or contracts to the University for research and scholarship work. They are also called overhead or indirect charges, but formally are called Facilities and Administrative Costs (or F&A costs). They are calculated as a percentage of the modified total direct costs (MTDC) of the project. MTDC are direct costs less some excluded categories (capital items, student aid, subcontract awards).

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 support of research work. When the university commits to 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 publish 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; 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 majority of OSU’s direct costs for sponsored research are funded by Federal agencies. The F&A Cost rates are determined in negotiation with one of two Federal agencies. In OSU’s case, the university conducts its negotiations with the U.S. Department of Health and Human Services (DHHS). 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 (the process is defined by the Federal Uniform Guidance document). All expenditures and depreciation costs are assigned to a direct cost category (Instruction and Departmental Research, Organized Research, Other Sponsored Activities, Other Institutional Activities) or indirect cost category for facilities (Building Depreciation, Equipment Depreciation, Operation and Maintenance of Plant, Library) or administrative costs (General Administration, Departmental Administration, Sponsored Project Administration, Student Administration and Services).

A rate for an indirect cost is calculated (for the library for example), by taking the expenditures of the library that are allocated to Organized Research divided by the total Organized Research expenditures. For OSU, DHHS looks at rate calculations 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 rates for those categories range from 7% to 49.2%. OSU’s rate for “full overhead” (on-campus, organized sponsored research) is currently 49.2% of MTDC. The important point is that the rate is set looking backwards ---based on what was spent in the base year. If you want to impact the rate calculation, you have to plan on spending funds before or during the base year (depending on the type of expense).

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1 You can find OSU’s various rates at [https://research.oregonstate.edu/osraa/facilities-administration-information-and-rates](https://research.oregonstate.edu/osraa/facilities-administration-information-and-rates)
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 $48M a year.

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). The distribution of F&A dollars is visible as a column in the budget model.

The left table above shows the components of the negotiated rate (the “capped” column is because the administrative part is not allowed to be larger than 26%). The left table is this distribution as it was in FY19 when the first version of the budget model was set—those will be updated in the budget model revision. The right table shows where the F&A dollars are budgeted by OSU’s organizational structures. 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.

However, the negotiated rate is a maximum and is usually not what OSU recovers. Many agencies or organizations (including some Federal agencies) do not pay the full F&A recovery rate. Every couple of years the university reviews what the F&A recovery has been by unit and what was actually recovered on grant awards as a percent of MTDC. Most non-governmental funding sources (and many governmental agencies) pay less than the negotiated rate. The effective recovery rate can 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.

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2 That maximum calculated rate is also not the actual indirect costs for most activities as not all indirect costs are captured in the rate because of caps and exclusions. Berkeley, for example, estimated their actual indirect cost rate was 70% in FY16 while the negotiated F&A rate was 57%.

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