

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 charges, but formally are called Facilities and Administrative Costs (or F&A costs). They are usually calculated as a percentage of the modified total direct costs (MTDC) of the project. MTDC are direct costs less some excluded categories.

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 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 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.

By Agency	FY20 MTDC Dollars	Percent of total	Effective F&A Rate	Effective F&A Rate FY16
Total Federal	128,403,455	67.4%	22.4%	32.8%
Other Universities	12,946,075	6.8%	34.2%	33.0%
Local Governments	1,774,888	0.9%	25.5%	28.4%
Cooperative Agreements	2,117,148	1.1%	13.0%	12.1%
Private Foundations	3,791,392	2.0%	14.0%	8.5%
Associations and Commercial	15,902,987	8.3%	35.2%	34.3%
Affiliated Foundations	7,684,048	4.0%	0.0%	0.0%
State of Oregon	17,854,122	9.4%	19.1%	21.6%
Total	190,474,115	100.0%	22.8%	29.5%

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 auditing agencies. In OSU's case, the university conducts its negotiations with the U.S. Department of Health and Human Services (DHHS). 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

	FY20 F&A Dollars	Percent of total	Effective F&A Rate	Effective F&A Rate FY16
Research Centers	3,550,118	8.2%	33.1%	33.1%
Agricultural Sciences	7,736,899	17.8%	19.5%	21.6%
Veterinary Medicine	632,882	1.5%	40.0%	32.6%
Forestry	1,620,057	3.7%	17.6%	17.6%
Liberal Arts	379,543	0.9%	29.1%	32.3%
Science	3,459,183	8.0%	39.8%	37.9%
Earth, Ocean, Atm. Sci.	10,732,729	24.7%	15.4%	40.1%
Business	9,184	0.0%	44.5%	17.8%
Engineering	9,607,150	22.1%	37.6%	36.0%
Education	63,397	0.1%	16.0%	35.7%
Public Health	3,298,149	7.6%	25.9%	26.8%
Pharmacy	1,570,942	3.6%	34.9%	30.4%
Others	418,829	1.0%	16.3%	8.0%
Cascades	400,041	0.9%	24.0%	24.0%
Total	43,479,103	100.0%	22.8%	29.5%

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 rates for those categories range from 7% to 49.2%.¹ 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

¹ You can find OSU’s various rates at <https://research.oregonstate.edu/osraa/forms-and-rates/facilities-administration-information-and-rates>



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).

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. 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 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.

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. 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.

				FY22 Budget	
				Proposed	Dollar
Rate Components	Rate	Capped Rate	Share of Total	Distribution	Amount
Administrative					
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%		
Facilities					
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%		
Utility Allowance					
	1.30%	1.30%	2.76%		
Total	47.70%	47.03%	100.00%		

Research Equipment Reserve	8.0%	3,456,000
Building Use Credits	4.0%	1,728,000
Colleges and Centers ROH	31.0%	13,392,000
Libraries	6.0%	2,592,000
Information Services	6.0%	2,592,000
Graduate School	1.0%	432,000
Research Administration	8.0%	3,456,000
Finance and Administration	4.0%	1,728,000
University Business Centers	4.0%	1,728,000
University Infrastructure		
Facilities Services	11.0%	4,752,000
Capital Planning	2.0%	864,000
Energy Operations	10.0%	4,320,000
Central Reserves	5.0%	2,160,000
	100.0%	43,200,000

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 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. Those units or functions all incur 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, including the allocations to Colleges which aligns roughly with the Departmental Administration category.